

Singapore Company Update

AEM Holdings Ltd

Bloomberg: AEM SP | Reuters: AEM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Nov 2021

DBS is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY

Last Traded Price (24 Nov 2021): S\$4.95 (STI : 3,227.15)
Price Target 12-mth: S\$6.04 (22% upside) (Prev S\$4.98)

Analyst

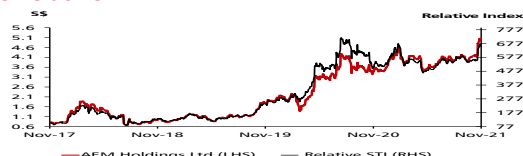
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What's New

- Higher PE peg of 15.0x to reflect our belief of a higher re-rating of the stock
- Higher revenues in FY22-23F on the back of significant investments from its key customer
- Next generation of handlers to be a key driver of growth in FY22F
- Maintain BUY with a higher TP of S\$6.04

Price Relative



Forecasts and Valuation

| FY Dec (\$m) | 2020A | 2021F | 2022F | 2023F |
|--------------------------|-------|--------|-------|-------|
| Revenue | 519 | 549 | 777 | 855 |
| EBITDA | 122 | 117 | 161 | 178 |
| Pre-tax Profit | 114 | 100.0 | 146 | 162 |
| Net Profit | 97.6 | 85.0 | 124 | 137 |
| Net Pft (Pre Ex.) | 97.6 | 85.0 | 124 | 137 |
| Net Pft Gth (Pre-ex) (%) | 85.0 | (12.9) | 45.7 | 11.0 |
| EPS (S cts) | 35.4 | 27.6 | 40.2 | 44.7 |
| EPS Pre Ex. (S cts) | 35.4 | 27.6 | 40.2 | 44.7 |
| EPS Gth Pre Ex (%) | 81 | (22) | 46 | 11 |
| Diluted EPS (S cts) | 35.4 | 27.6 | 40.2 | 44.7 |
| Net DPS (S cts) | 8.98 | 6.90 | 10.1 | 11.2 |
| BV Per Share (S cts) | 76.7 | 125 | 155 | 188 |
| PE (X) | 14.0 | 17.9 | 12.3 | 11.1 |
| PE Pre Ex. (X) | 14.0 | 17.9 | 12.3 | 11.1 |
| P/Cash Flow (X) | 15.8 | 15.1 | 10.7 | 9.9 |
| EV/EBITDA (X) | 10.1 | 11.0 | 7.3 | 6.0 |
| Net Div Yield (%) | 1.8 | 1.4 | 2.0 | 2.3 |
| P/Book Value (X) | 6.5 | 4.0 | 3.2 | 2.6 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 56.4 | 28.6 | 28.8 | 26.0 |
| Earnings Rev (%): | | 0 | 11 | 16 |
| Consensus EPS (S cts): | | 27.7 | 36.3 | 41.0 |
| Other Broker Recs: | | B: 4 | S: 0 | H: 0 |

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Poised to re-rate higher

Investment Thesis:

Poised to re-rate higher on strong industry momentum.

AEM's share price has a strong positive correlation with the US semiconductor equipment billings, which is one of the indicators of the industry's strength. Despite 25 consecutive monthly (y-o-y) increases, preliminary estimates for October indicate a 41.3% y-o-y rise. We believe AEM is in a strategic position to benefit from its key customer and industry uptrend, and could re-rate higher.

Key customer's capex indicates a strong outlook for AEM.

Intel, AEM's key customer, believes that the semiconductor industry could double its market size to US\$1tr by 2030. It is ready to commit significant investments to ensure that it is at the forefront and we believe that this will translate into higher revenues for AEM in FY22-23F.

Near-term key catalyst – ramp-up of next generation of handlers to its key customer. In the semiconductor industry, investments in the back-end typically lag the front-end by several quarters. After procuring front-end equipment, AEM's key customer has begun to ramp up its next generation of test handlers and we believe that this will be one of the key drivers of AEM's growth in FY22F.

Valuation:

Maintain BUY with a higher TP of S\$6.04. We are raising our TP as we lift our FY22F PE peg to 15.0x and increase FY22F earnings by 11%. Our higher PE peg is at a c.12% discount to peers.

Where we differ:

We are more optimistic on revenue and earnings growth.

Key Risks to Our View:

Single-customer concentration risk, geopolitical events, protraction of the COVID-19 pandemic, and FX risk.

At A Glance

| | |
|-------------------------------------------------------------------------|---------------|
| Issued Capital (m shrs) | 310 |
| Mkt. Cap (S\$m/US\$m) | 1,533 / 1,123 |
| Major Shareholders (%) | |
| Venezio Investments Pte Ltd | 8.7 |
| Aberdeen PLC | 5.1 |
| Employees Provident Fund | 5.0 |
| Free Float (%) | 89.9 |
| 3m Avg. Daily Val (US\$m) | 8.5 |
| GIC Industry : Information Technology / Technology Hardware & Equipment | |



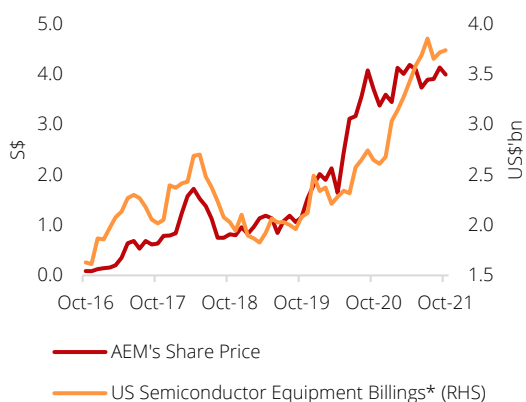
Watchlist the stock on Insights Direct to receive prompt updates

WHAT'S NEW

Onward to new highs

What's New? – SEMI's preliminary estimates show continued strong industry growth in October. Since our last note on 11 November 2021, following its 3Q21 Business Update, AEM's share price has risen quickly and has been consolidating near our TP of S\$4.98 for slightly over a week now. On 22 November, SEMI released its preliminary estimate of the US-based semiconductor equipment manufacturers' billings for October 2021, and it recorded a 41.3% y-o-y increase to US\$3.74bn. The 3-month US semiconductor equipment billings is an indicator of the industry's momentum and has been a strong share price driver (r-square of 0.74).

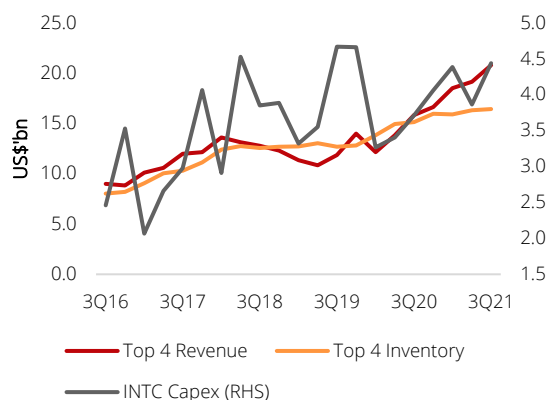
US semiconductor equipment billings is a strong driver of AEM's share price



Source: Bloomberg Finance L.P., SEMI, CEIC, DBS Bank
*US-based semiconductor equipment manufacturers

Front-end semiconductor equipment companies reap the benefits from the significant investments in the industry. COVID-19 has accelerated the world's digitalisation (flexible working arrangements, increased telecommuting, and e-commerce) and the semiconductor shortage has highlighted how much we have underestimated demand and investment. The top three semiconductor manufacturing companies (Intel, Samsung, and TSMC) have increased their capex and plan to significantly increase their production capacity in the next few years. For Intel, AEM's key customer, we are beginning to see its spending flow through to its front-end equipment suppliers. Intel's top four front-end equipment suppliers have seen their aggregated revenue surge by 75% from pre-COVID levels.

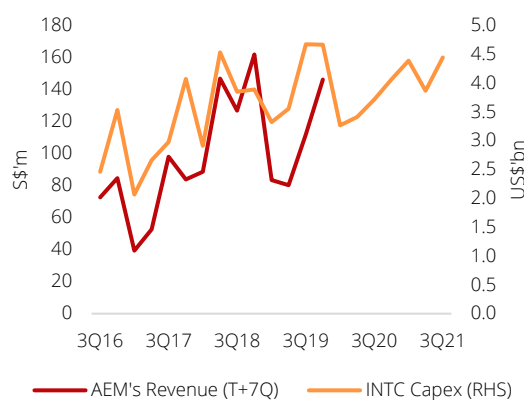
Intel's top 4 suppliers* benefit from its spending



Source: Bloomberg Finance L.P., DBS Bank
*AMAT, Tokyo Electron, ASML, and Lam Research

Spending to flow through to AEM (back-end equipment supplier). In the semiconductor industry, investments in front-end equipment typically lead the back-end by several quarters. Based on our analysis, AEM's revenue has historically lagged Intel's capex by about seven quarters. With its ongoing ramp-up of its next generation of System Level Testing handlers and new highly differentiated tools for the high-performance computing segment, we believe that this will be one of the key drivers of AEM's growth in FY22F.

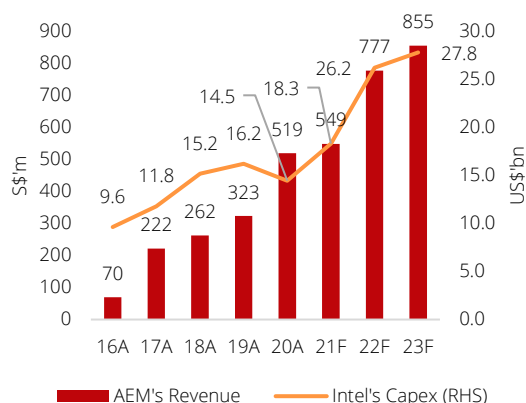
AEM's revenue lags Intel's capex by c.7 quarters



Source: Bloomberg Finance L.P., DBS Bank

Its key customer is expecting significant investment commitments in the next few years. Intel's CEO believes that the semiconductor industry could double its market size to US\$1tr by 2030, driven by AI, pervasive connectivity, cloud-to-edge infrastructure, and ubiquitous computing. It intends to be a part of the growth and is ready to commit significant investments to ensure that it is at the forefront. Intel is forecasting a 2022 capex of US\$25-28bn with potential for further growth in subsequent years. We remain optimistic that this will translate into higher revenues for AEM in FY22-23F.

Intel's planned capex indicates a strong outlook for AEM



Source: Bloomberg Finance L.P., DBS Bank

AEM's strategy – Bolting on complementary technology.

AEM aims to be the leading solutions provider in the paradigm shift in the Assembly and Testing space, which it terms "SLT+". To remain at the forefront, management has been and is continuing to focus on acquisitions that will complement its suite of offerings. Since 2017, it has embarked on seven acquisitions and partnerships of various scale. In addition to its existing handler solutions, it now offers a full suite of application-specific test solutions across MEMS, wafer sort, packaged ICs, and RF interconnects with enhanced delivery capabilities.

AEM's acquisitions since 2017

| Date | Acquired/ Partnered | Technology Offering |
|--------|---------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Sep'17 | InspiRain | Test solutions such as Vector Network Analyzer and a handheld network cable tester |
| Mar'18 | Afore Oy | Wafer-level MEMS testing and handling solutions |
| Mar'18 | IRIS Solution | R&D and integration of advanced machine vision solutions used in test handlers |
| Mar'20 | Mu-TEST | Application-specific ATE instrumentation and capabilities |
| Jul'20 | DB Design | Expanded AEM's offerings to include the automation fixture and device kit markets |
| End-20 | Lattice Innovation | Complement AEM's extensive knowhow in active thermal controls |
| Mar'21 | CEI Limited | Contribute to AEM's vertical integration with a higher level of control over quality and agility along the entire supply chain |

Source: Company, DBS Bank

Endorsement from Temasek. Earlier in August, AEM announced a private placement worth S\$103.1m to Temasek. The infusion of new capital into AEM will drive the company forward to expand its product line and pursue M&A opportunities. More importantly, this signifies the confidence that Temasek has in AEM as a long-term investment.

Other developments to look out for – Securing of new customers could be 5-10% of FY22F revenue. AEM has also made significant progress on its technical engagements with 10 out of the top 20 semiconductor companies. It has started receiving initial orders and expects to report meaningful revenue contribution from these engagements in 2H22 and beyond. In addition, it has also been selected as the SLT solution provider for one of the industry's leading memory integrated device manufacturers. Our conservative guesstimated ballpark figure of these contributions is in the 5-10% range.

Earnings and Recommendation

Raise FY22/23F earnings by 11/16%. We raise our FY22/23F revenue forecasts by 9% each on the back of expected higher spending from its key customer and additional revenue streams from new customers. Our net adjustments to FY22/23F EBIT margins are 0.3/1.2ppts as we factor in an improvement in margins due to economies of scale from the larger revenue base.

Maintain BUY with a higher TP of S\$6.04 (previously S\$4.98). We are raising our FY22F PE peg to 15.0x (c.+2 SD) (previously 13.7x) to reflect the semiconductor industry's strong momentum and positive developments

in the company. Our PE peg of 15.0x represents a c.12% discount to its peer-average of 17.0x. We lift our TP to S\$6.04 on the back of higher FY22F PE peg and earnings.

Company Background

AEM is a solutions provider for the back-end testing of the semiconductor manufacturing process. It works closely with its key customer, Intel, to design, engineer, and manufacture the test handlers. AEM then provides field support and post-sales replacements.

Peer Comparison Table

| Bloomberg Ticker | Company Name | Market Data | | Financial Data | | | Valuation | | | | | |
|-------------------------|--------------|------------------|---------------------|----------------|--------------|--------------|---------------|-----------------|-----------------|--------------|--------------|--------------|
| | | Primary Exchange | Market Cap (\$\$'m) | Sales (\$\$'m) | Net Profit | Net Profit | Debt (\$\$'m) | EV/EBITDA FY21F | EV/EBITDA FY22F | TTM | P/E FY21F | P/E FY22F |
| AEM SP Equity | AEM Holdings | Singapore | 1,533 | 519.0 | 97.6 | 18.8% | 11.3 | 11.0x | 7.3x | 19.1x | 17.9x | 12.3x |
| TER US Equity | Teradyne | Nasdaq | 33,641 | 4,305.1 | 1,081.5 | 25.1% | 624.7 | 17.5x | 16.3x | 28.6x | 25.6x | 23.6x |
| 6857 JP Equity | Advantest | Tokyo | 23,890 | 4,030.1 | 899.2 | 22.3% | 144.0 | 15.1x | 13.2x | 24.6x | 23.5x | 20.4x |
| 522 HK Equity | ASM Pacific | Hong Kong | 5,878 | 2,614.0 | 288.3 | 11.0% | 807.7 | 7.4x | 7.8x | 22.4x | 11.4x | 12.4x |
| COHU US Equity | Cohu | Nasdaq | 2,358 | 877.5 | -19.0 | -2.2% | 466.9 | 7.6x | 7.7x | N/A | 11.7x | 12.0x |
| Average | | | 13,460 | 2,469.1 | 469.5 | 15.0% | 410.9 | 11.7x | 10.4x | 23.7x | 18.0x | 16.1x |
| Average (ex-AEM) | | | 16,442 | 2,956.7 | 562.5 | 14.1% | 510.8 | 11.9x | 11.2x | 25.2x | 18.1x | 17.1x |

Source: Bloomberg Finance L.P., DBS Bank

Historical PE and PB Band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (\$m)

| FY Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|-----------------------------|-------------|-------------|--------------|------------|------------|
| Revenue | 323 | 519 | 549 | 777 | 855 |
| Cost of Goods Sold | (192) | (315) | (346) | (498) | (541) |
| Gross Profit | 131 | 203 | 202 | 279 | 315 |
| Other Opng (Exp)/Inc | (67.9) | (90.3) | (101) | (134) | (155) |
| Operating Profit | 62.9 | 113 | 101 | 145 | 160 |
| Other Non Opng (Exp)/Inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Associates & JV Inc | 0.46 | 0.20 | 0.0 | 0.0 | 0.0 |
| Net Interest (Exp)/Inc | 0.36 | 0.45 | (1.3) | 1.13 | 1.75 |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax Profit | 63.7 | 114 | 100.0 | 146 | 162 |
| Tax | (11.0) | (16.2) | (15.0) | (21.9) | (24.3) |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Preference Dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit | 52.8 | 97.6 | 85.0 | 124 | 137 |
| Net Profit before Except. | 52.8 | 97.6 | 85.0 | 124 | 137 |
| EBITDA | 69.5 | 122 | 117 | 161 | 178 |
| Growth | | | | | |
| Revenue Gth (%) | 23.2 | 60.6 | 5.7 | 41.6 | 10.1 |
| EBITDA Gth (%) | 67.0 | 75.3 | (3.8) | 37.8 | 10.2 |
| Opg Profit Gth (%) | 58.3 | 79.8 | (10.5) | 42.7 | 10.7 |
| Net Profit Gth (Pre-ex) (%) | 57.5 | 85.0 | (12.9) | 45.7 | 11.0 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 40.5 | 39.2 | 36.8 | 35.9 | 36.8 |
| Opg Profit Margin (%) | 19.5 | 21.8 | 18.5 | 18.6 | 18.7 |
| Net Profit Margin (%) | 16.3 | 18.8 | 15.5 | 15.9 | 16.1 |
| ROAE (%) | 47.1 | 56.4 | 28.6 | 28.8 | 26.0 |
| ROA (%) | 29.0 | 34.6 | 19.4 | 20.4 | 18.7 |
| ROCE (%) | 46.3 | 54.4 | 26.6 | 27.7 | 25.4 |
| Div Payout Ratio (%) | 26.4 | 25.4 | 25.0 | 25.0 | 25.0 |
| Net Interest Cover (x) | NM | NM | 75.9 | NM | NM |

Source: Company, DBS Bank

AEM Holdings Ltd

Balance Sheet (\$m)

| FY Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|-------------------------------|------------|------------|------------|------------|------------|
| Net Fixed Assets | 8.44 | 17.6 | 19.4 | 17.3 | 14.4 |
| Invts in Associates & JVs | 4.57 | 4.68 | 6.11 | 6.11 | 6.11 |
| Other LT Assets | 17.0 | 46.8 | 80.7 | 73.9 | 66.8 |
| Cash & ST Invts | 108 | 135 | 245 | 348 | 459 |
| Inventory | 57.5 | 79.7 | 112 | 140 | 149 |
| Debtors | 28.0 | 47.6 | 71.5 | 83.9 | 89.7 |
| Other Current Assets | 4.86 | 4.36 | 5.69 | 5.69 | 5.69 |
| Total Assets | 228 | 336 | 540 | 675 | 791 |
| ST Debt | 0.0 | 0.0 | 4.00 | 4.00 | 4.00 |
| Creditor | 71.6 | 83.7 | 106 | 143 | 154 |
| Other Current Liab | 19.7 | 28.0 | 29.3 | 34.6 | 37.1 |
| LT Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT Liabilities | 2.35 | 12.4 | 16.5 | 16.5 | 16.5 |
| Shareholder's Equity | 134 | 211 | 384 | 477 | 580 |
| Minority Interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Cap. & Liab. | 228 | 336 | 540 | 675 | 791 |
| Non-Cash Wkg. Capital | (1.0) | 20.0 | 53.5 | 51.6 | 53.8 |
| Net Cash/(Debt) | 108 | 135 | 241 | 344 | 455 |
| Debtors Turn (avg days) | 25.9 | 26.6 | 39.6 | 36.5 | 37.0 |
| Creditors Turn (avg days) | 102.5 | 92.3 | 104.7 | 94.6 | 103.8 |
| Inventory Turn (avg days) | 83.2 | 81.5 | 105.6 | 95.5 | 101.1 |
| Asset Turnover (x) | 1.8 | 1.8 | 1.3 | 1.3 | 1.2 |
| Current Ratio (x) | 2.2 | 2.4 | 3.1 | 3.2 | 3.6 |
| Quick Ratio (x) | 1.5 | 1.6 | 2.3 | 2.4 | 2.8 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH | CASH |
| Net Debt/Equity ex MI (X) | CASH | CASH | CASH | CASH | CASH |
| Capex to Debt (%) | N/A | N/A | 1,966.5 | 199.9 | 199.9 |

Source: Company, DBS Bank

Cash Flow Statement (\$m)

| FY Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Pre-Tax Profit | 63.7 | 114 | 100.0 | 146 | 162 |
| Dep. & Amort. | 6.08 | 8.42 | 15.8 | 16.9 | 17.9 |
| Tax Paid | (6.7) | (9.8) | (17.9) | (16.5) | (21.9) |
| Assoc. & JV Inc/(loss) | (0.5) | (0.2) | 0.0 | 0.0 | 0.0 |
| Chg in Wkg.Cap. | (2.2) | (29.2) | 3.25 | (3.5) | (4.6) |
| Other Operating CF | 7.18 | 3.33 | 0.0 | 0.0 | 0.0 |
| Net Operating CF | 67.7 | 86.3 | 101 | 143 | 153 |
| Capital Exp.(net) | (3.3) | (30.4) | (78.7) | (8.0) | (8.0) |
| Other Invs.(net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Invs in Assoc. & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Div from Assoc & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing CF | 0.52 | 0.67 | 0.0 | 0.0 | 0.0 |
| Net Investing CF | (2.8) | (29.8) | (78.7) | (8.0) | (8.0) |
| Div Paid | (10.5) | (22.2) | (21.3) | (31.0) | (34.4) |
| Chg in Gross Debt | (0.2) | (0.6) | 0.0 | 0.0 | 0.0 |
| Capital Issues | 0.0 | 0.0 | 109 | 0.0 | 0.0 |
| Other Financing CF | (4.5) | (3.1) | 0.0 | 0.0 | 0.0 |
| Net Financing CF | (15.2) | (25.9) | 87.3 | (31.0) | (34.4) |
| Currency Adjustments | (0.9) | (3.5) | 0.0 | 0.0 | 0.0 |
| Chg in Cash | 48.8 | 27.1 | 110 | 104 | 111 |
| Opg CFPS (S cts) | 25.9 | 41.9 | 31.8 | 47.5 | 51.3 |
| Free CFPS (S cts) | 23.9 | 20.3 | 7.32 | 43.7 | 47.2 |

Acquisition of CEI Limited

Issuance of new shares to acquire CEI Limited and the private placement to Temasek

Source: Company, DBS Bank

Target Price & Ratings History



| S.No. | Date of Report | Closing Price | 12-mth Target Price | Rating |
|-------|----------------|---------------|---------------------|--------|
| 1: | 12 Jan 21 | 3.84 | 5.16 | BUY |
| 2: | 02 Mar 21 | 3.97 | 5.36 | BUY |
| 3: | 05 May 21 | 3.63 | 4.73 | BUY |
| 4: | 10 Aug 21 | 4.13 | 4.98 | BUY |

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Wei Le CHUNG

Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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