

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

15 Nov 2024

BUY

Last Traded Price (13 Nov 2024): SGD1.42 (STI : 3,720.34)
 Price Target 12-mth: SGD1.72 (21% upside) (Prev SGD1.67)

Analysts

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What's New

- 3Q24 revenue in line, while earnings took a hit due to exceptionals and lower operating leverage
- FY24-FY25 earnings tweaked lower by 11%/7% to account for exceptionals/pull in of sales into FY24
- We see an improved 4Q24 performance with FY25 earnings growth intact despite revenue shifts
- Maintain BUY with higher TP of SGD1.72

Price Relative



Forecasts and Valuation

FY Dec (SGDmn)	2023A	2024F	2025F	2026F
Revenue	481	375	405	487
EBITDA	65.5	48.6	69.1	87.7
Pre-tax Profit	7.59	7.38	32.2	48.3
Net Profit	(1.2)	4.80	26.7	40.1
Net Pft (Pre Ex.)	25.5	10.8	26.7	40.1
Net Pft Gth (Pre-ex) (%)	(79.9)	(57.7)	147.6	50.0
EPS (S cts)	(0.4)	1.54	8.59	12.9
EPS Pre Ex. (S cts)	8.21	3.47	8.59	12.9
EPS Gth Pre Ex (%)	(80)	(58)	148	50
Diluted EPS (S cts)	(0.4)	1.54	8.59	12.9
Net DPS (S cts)	0.0	0.0	2.15	3.22
BV Per Share (S cts)	150	152	158	168
PE (X)	nm	92.2	16.5	11.0
PE Pre Ex. (X)	17.3	40.9	16.5	11.0
P/Cash Flow (X)	10.8	320.1	2.7	3.4
EV/EBITDA (X)	7.2	10.1	5.0	2.9
Net Div Yield (%)	0.0	0.0	1.5	2.3
P/Book Value (X)	0.9	0.9	0.9	0.8
Net Debt/Equity (X)	0.1	0.1	CASH	CASH
ROAE (%)	(0.2)	1.0	5.5	7.9
Earnings Rev (%):		(11)	(7)	(0)
Consensus EPS (S cts):		3.0	10.1	12.3
Other Broker Recs:		B: 1	S: 2	H: 3

Source of all data on this page: Company, DBS, Bloomberg

Reaffirming our non-consensus BUY

Investment Thesis:

Retains technological superiority in system-level testing. AEM is a pioneer in providing SLT (system-level test) solutions and is around one generation ahead of its competitors. Given its technological superiority, we believe AEM is well positioned to ride on the growing SLT market that has benefitted from the increased complexity of chips and higher test coverage requirements, alongside the need for advanced heterogeneous packaging.

New technology drives growth in test spend, leading to higher demand for AEM's offerings in the long term. Notwithstanding near-term volatility, the semiconductor industry is well poised for growth, owing to the push towards digitalisation. McKinsey projects that the semiconductor industry will become a trillion-dollar industry by 2030. Industry megatrends such as artificial intelligence (AI), 5G, and Internet of Things (IoT) will pave the way for growth in test spend, due to higher test volumes and test times. Longer test times would also increase the requirement for AEM's consumables due to wear and tear.

At the cusp of a multi-year rollout for new customers. In the past few years, AEM announced several customer wins. As at 1H24, AEM was still mainly in the lab verification tool phase but will see a shift into production in 2H24. We believe that AEM is near an inflexion point and foresee its customer diversification strategy yielding more significant returns starting from 1Q25 onwards.

Maintain BUY with higher TP of SGD1.72 (vs. SGD1.67 previously).

Our TP is pegged to 20x FY25F earnings, which is at -0.5SD of the historical mean (vs. previous peg of 18x). Despite changes in revenue recognition timing, the upward revision in 2H24 revenue guidance highlights the strong sales potential driven by long-dated purchase orders (POs). Additionally, AEM's strong traction with new customers further boosts our confidence, prompting us to raise the PE peg. The share price is up 16% post our upgrade to BUY (7 Nov 24) and we see further room for upside. Valuations are still undemanding at 16x revised FY25 estimates, still below -0.5SD of the historical mean.

Key Risks

Slower ramp at new customers, key customer weakness

At A Glance

Issued Capital (mn shrs)	313
Mkt. Cap (SGDmn/USDmn)	44,449 / 329
Major Shareholders (%)	
Venezio Investments	12.5
Employees Provident	7.4
abrdn plc	6.9
Free Float (%)	73.2
3m Avg. Daily Val (USDmn)	3.2

GIC Industry: Information Technology / Semiconductors & Semiconductor Equipment



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WHAT'S NEW

Still on course for earnings turnaround in FY25 despite timing shifts

3Q24 revenue in line with our estimates, while earnings took a hit due to exceptionals and lower operating leverage. AEM reported 3Q24 revenue of SGD74.2mn (-6.5% q/q, -33.6% y/y), accounting for 21% of our full-year estimates, in line, as we are expecting a stronger fourth quarter. Test cell solutions (TCS), which makes up 46.7% of 3Q24 group revenue, declined 16.6% q/q owing to lower engineering services for the key customer, while contract manufacturing, which accounts for 50.8% of group revenue, grew 5.3% q/q on improving inventory conditions within the industrial market. While product mix within contract manufacturing was more favourable, 3Q24 revenue mix was weighted towards lower margin contract manufacturing, which now makes up 51% of revenue vs. 45% in 2Q24, which we believe could have exerted some pressure on gross margins. Despite the change in product mix and lower operating leverage, PBT excluding exceptionals stands at SGD0.9mn, implying PBT margin excluding exceptionals of 1.2%, up 0.1ppt q/q due to cost discipline. Regarding the balance sheet, cash declined by 40.4% q/q to SGD47mn to support new product ramp-up, likely for new customers.

2H24 revenue guidance revised upward by 18% due to a pull in of revenue under non-cancellable POs by key customer. AEM has revised its 2H24 revenue guidance from SGD160-180mn to SGD190-210mn (+18% based on midpoint) due to an earlier-than-expected drawdown of the long-dated POs.

4Q24 set for a strong finish to the year. Assuming AEM delivers around the midpoint of its 2H24 revenue guidance, revenue for the fourth quarter would be around SGD127mn (+35% y/y, +72%q/q). This exceptional performance would be due to a pull in system sales from FY25 to 4Q24 under the non-cancellable non-dated POs. Given our expectations of higher operating leverage, we believe that net margins will trend around the 3.4% that AEM delivered in 2Q23 given the similar top-line levels.

FY25 earnings growth still on the horizon, despite revenue shifts between FY24-FY25. The SGD20mn order which was initially due for recognition in 4Q24 will now be booked in FY25, while there has been a pull forward of >SGD30mn in revenue from Intel into 4Q24 from FY25.

Summary of changes to our estimates

FY24	Revenue revised upwards by +8% to SGD375mn, with >SGD30mn pull in from Intel more than offsetting the push out of SGD20mn in initial orders for new customers. We revise up our estimates for Intel's contribution by 35%/SGD48mn to SGD186mn while reducing our new customer revenue to SGD45mn (vs. SGD 65mn previously). FY24 earnings revised downward by 11%, mainly to account for exceptionals such as fx and restructuring losses and loss on disposal.
FY25	We adjust revenues lower by 6%, as the pushout of SGD20mn in orders into 1Q25 cannot fully offset the pull in of revenues into FY24. We previously projected a 40% y/y drop in Intel base revenues due to cost control measures. This falls in the right direction of management's guidance for Intel revenue in FY25 to be roughly half of FY24 revenues but requires some tweaks in terms of magnitude. We now expect Intel to deliver SGD104mn in FY25, c.30%/SGD47mn less than our prior forecasts, and -44% y/y, while increasing our estimates for new business revenue to SGD150mn (+SGD20mn vs. previous projections and more than double y/y). Earnings tweaked by -7%, in line with lower top lines.

Source: DBS

FY25 earnings turnaround still intact despite puts and takes.

AEM remains on track for new business revenue to more than double, crossing into triple-digit millions by FY25. Barring further exceptionals, we believe that we are past the earnings trough as Intel's contributions remain supported by the non-cancellable POs, while new customer contributions gain momentum.

Maintain BUY with higher TP of SGD1.72. Our TP is pegged to 20x FY25F earnings, which is at -0.5SD of the historical mean (vs. previous peg of 18x). Despite changes in revenue recognition timing, the upward revision in 2H24 revenue guidance highlights the strong sales potential via POs, and AEM's strong traction with new customers further boosts our confidence, prompting us to raise the PE peg. The share price is up 16% post our upgrade to BUY (7 Nov 24) and we see further room for upside. Valuations

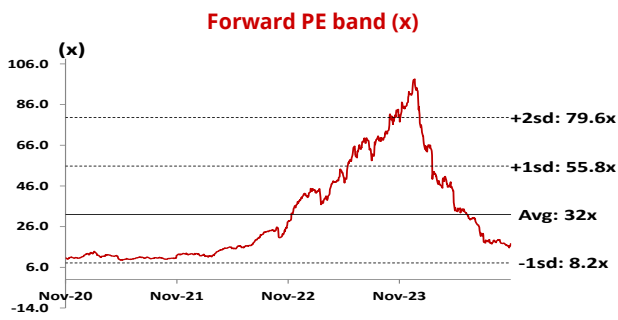
AEM Holdings Ltd

are still undemanding at 16.5x revised FY25 estimates, still below -0.5SD of the historical mean.

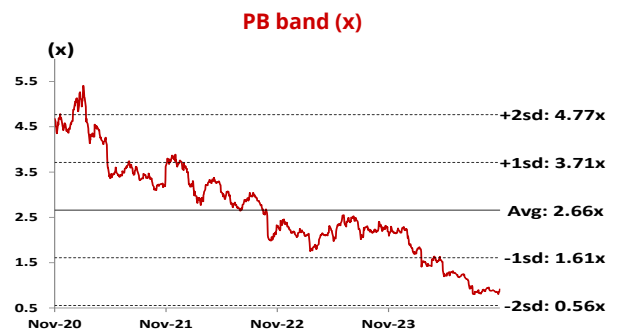
Company Background

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.

Historical PE and PB band



Source: Bloomberg, DBS estimates



Source: Bloomberg, DBS estimates

AEM Holdings Ltd

Income Statement (SGDmn)

FY Dec	2022A	2023A	2024F	2025F	2026F
Revenue	870	481	375	405	487
Cost of Goods Sold	(597)	(352)	(281)	(296)	(351)
Gross Profit	274	129	93.8	109	136
Other Opng (Exp)/Inc	(113)	(88.8)	(74.6)	(72.5)	(84.7)
Operating Profit	160	40.5	19.1	36.8	51.7
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.3)	(0.6)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.3)	(5.5)	(5.8)	(4.6)	(3.4)
Exceptional Gain/(Loss)	0.0	(26.7)	(6.0)	0.0	0.0
Pre-tax Profit	159	7.59	7.38	32.2	48.3
Tax	(31.4)	(8.8)	(2.6)	(5.5)	(8.2)
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	127	(1.2)	4.80	26.7	40.1
Net Profit before Except.	127	25.5	10.8	26.7	40.1
EBITDA	184	65.5	48.6	69.1	87.7
Growth					
Revenue Gth (%)	53.9	(44.7)	(22.1)	8.0	20.2
EBITDA Gth (%)	46.4	(64.3)	(25.9)	42.3	26.9
Opg Profit Gth (%)	43.3	(74.8)	(52.7)	92.5	40.4
Net Profit Gth (Pre-ex) (%)	38.2	(79.9)	(57.7)	147.6	50.0
Margins & Ratio					
Gross Margins (%)	31.4	26.9	25.0	27.0	28.0
Opg Profit Margin (%)	18.4	8.4	5.1	9.1	10.6
Net Profit Margin (%)	14.6	(0.2)	1.3	6.6	8.2
ROAE (%)	28.7	(0.2)	1.0	5.5	7.9
ROA (%)	16.8	(0.2)	0.7	3.8	5.4
ROCE (%)	22.0	3.2	0.8	3.5	5.6
Div Payout Ratio (%)	25.0	N/A	0.0	25.0	25.0
Net Interest Cover (x)	122.2	7.3	3.3	8.0	15.1

Source: Company, DBS

AEM Holdings Ltd

Balance Sheet (SGDmn)

FY Dec	2022A	2023A	2024F	2025F	2026F
Net Fixed Assets	40.1	40.3	33.5	24.0	15.9
Invt in Associates & JVs	15.2	8.82	8.82	8.82	8.82
Other LT Assets	160	168	163	158	152
Cash	128	102	85.2	227	325
ST Investments	0.0	0.0	0.0	0.0	0.0
Inventory	368	329	320	223	168
Debtors	92.9	60.1	92.5	72.1	86.7
Net Intangibles Assets	116	125	121	116	110
Other Current Assets	2.15	1.58	1.58	1.58	1.58
Total Assets	806	709	704	715	758
ST Debt	13.7	83.9	83.9	83.9	83.9
Creditor	119	74.8	69.4	56.7	67.3
Other Current Liab	35.6	18.9	15.0	17.9	20.7
LT Debt	130	42.5	42.5	42.5	42.5
Other LT Liabilities	14.3	14.5	14.5	14.5	14.5
Shareholder's Equity	485	467	472	492	522
Minority Interests	8.40	6.93	6.93	6.93	6.93
Total Cap. & Liab.	806	709	704	715	758
Non-Cash Wkg. Capital	308	297	330	222	169
Net Cash/(Debt)	(15.5)	(24.5)	(41.1)	101	198
Debtors Turn (avg days)	46.3	58.0	74.2	74.2	59.5
Creditors Turn (avg days)	95.5	108.4	104.5	87.4	71.9
Inventory Turn (avg days)	182.3	389.5	469.9	376.0	226.7
Asset Turnover (x)	1.1	0.6	0.5	0.6	0.7
Current Ratio (x)	3.5	2.8	3.0	3.3	3.4
Quick Ratio (x)	1.3	0.9	1.1	1.9	2.4
Net Debt/Equity (X)	0.0	0.1	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	0.1	0.1	CASH	CASH
Capex to Debt (%)	24.9	20.5	14.2	14.2	17.4

Source: Company, DBS

AEM Holdings Ltd

Cash Flow Statement (SGDmn)

FY Dec	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	159	7.59	7.38	32.2	48.3
Dep. & Amort.	23.5	25.7	29.4	32.3	36.0
Tax Paid	(21.6)	(28.9)	(6.4)	(2.6)	(5.5)
Assoc. & JV Inc/(loss)	0.28	0.64	0.0	0.0	0.0
Chg in Wkg.Cap.	(198)	31.9	(29.1)	105	50.6
Other Operating CF	5.30	3.85	0.0	0.0	0.0
Net Operating CF	(32.1)	40.8	1.38	167	129
Capital Exp.(net)	(35.6)	(25.9)	(18.0)	(18.0)	(22.0)
Other Invs.(net)	(1.6)	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	5.12	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(1.2)	0.55	0.0	0.0	0.0
Net Investing CF	(38.4)	(20.2)	(18.0)	(18.0)	(22.0)
Div Paid	(36.2)	(11.1)	0.0	(6.7)	(10.0)
Chg in Gross Debt	34.7	(16.0)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(17.1)	(20.4)	0.0	0.0	0.0
Net Financing CF	(18.6)	(47.4)	0.0	(6.7)	(10.0)
Currency Adjustments	0.74	0.91	0.0	0.0	0.0
Chg in Cash	(88.4)	(25.9)	(16.6)	142	97.4
Opg CFPS (S cts)	53.8	2.88	9.78	19.9	25.3
Free CFPS (S cts)	(21.9)	4.80	(5.3)	47.8	34.5

Source: Company, DBS

Target Price & Ratings 12-mth History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Nov 23	3.16	2.97	HOLD
2:	01 Mar 24	2.22	2.24	HOLD
3:	10 May 24	1.95	1.95	HOLD
4:	15 Aug 24	1.24	1.34	HOLD
5:	07 Nov 24	1.22	1.67	BUY
6:	14 Nov 24	1.42	1.72	BUY

Source: DBS

Analyst: Amanda Tan

Lee Keng LING

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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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