

## AEM Holdings (AEM SP)

# FY19 sales guidance a relief, but expect volatility

### Positive sales guidance; Maintain BUY

Amid an expected slowdown of HDMT test handlers (TH) sales, 4Q18 PATMI fell 55% YoY on the back of a 33% drop in revenue. Still, FY18 PATMI of SGD33.5m (+6.4%) met our expectation (Consensus N.M.). We raise FY19 EPS by 8% and leave FY20 unchanged after factoring in AEM's FY19 sales guidance that exceeded our expectation. ROE-g/COE-g TP is raised by 2% to SGD1.24, now based on 2.8x average FY19-20E P/B, from 2.9x previously. Stronger-than-expected order wins are a key catalyst.

### Slowing HDMT handlers sales anticipated

Management had already flagged the slowdown in HDMT TH sales in prior quarters. For FY19E, AEM continues to expect a lower level of HDMT TH sales compared to FY18. We still see a potential recovery of HDMT TH sales in FY20E due to: i) completion of capacity expansion for a key customer in Israel; and ii) launch of new chips and/or chip platforms.

### Still on the conservative side of revenue guidance

Our updated revenue forecast of SGD193m is on the conservative end of the guidance range of SGD180-210m to factor in risks like order delays/cancellations. Upside potential to our estimate could arise from further evidence of continued strong order wins (SGD140m of order wins YTD to be largely delivered within 9M19 vs. SGD115m as at Jan-18).

### Building the runway for FY20E

The first solutions for Huawei (Inspirain customer) and the memory customer (AMPS solution) will be delivered in 2019. In 2020, AEM continues to expect production ramp ups for its key customer (USD235b market cap chipmaker), Huawei and the memory customer. We remain positive on the shares and reiterate BUY with 18% upside to our TP over the next 12 months. Going forward, as management has tipped that quarterly earnings could be lumpy, we expect share price volatility. Any resultant share price weakness would provide an even more attractive entry point, assuming other material factors are unchanged.

FYE Dec (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	222	262	191	266	228
EBITDA	38	42	24	51	40
Core net profit	31	33	18	40	31
Core FDEPS (cts)	11.9	12.3	6.8	14.9	11.6
Core FDEPS growth(%)	554.4	3.4	(44.2)	118.1	(22.1)
Net DPS (cts)	3.0	3.4	1.7	3.7	2.9
Core FD P/E (x)	7.1	6.7	15.4	7.0	9.0
P/BV (x)	3.8	2.5	2.8	2.1	1.8
Net dividend yield (%)	3.6	4.1	1.6	3.5	2.7
ROAE (%)	71.5	45.5	19.1	34.0	21.6
ROAA (%)	38.2	26.6	13.6	24.8	16.3
EV/EBITDA (x)	4.6	4.0	9.2	4.0	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	20	34	22
MKE vs. Consensus (%)	-	-	(7.9)	16.9	40.0

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# BUY

Share Price	SGD 1.05
12m Price Target	SGD 1.24 (+18%)
Previous Price Target	SGD 1.21

### Company Description

AEM manufactures equipment used in the semiconductor back-end process

### Statistics

52w high/low (SGD)	1.90/0.65
3m avg turnover (USDm)	6.4
Free float (%)	80.5
Issued shares (m)	273
Market capitalisation	SGD287.0M
	USD213M

### Major shareholders:

Aberdeen Standard Investments (Asia) Ltd	7.1%
TOH BAN LENG JAMES	5.1%
Orion Phoenix	4.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	14	14	(34)
Relative to index (%)	12	7	(29)

Source: FactSet

## Earnings revisions

Fig 1: MKE forecast revisions for AEM

	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	191.5	162.9	17.6	266.2	265.6	0.2
Gross profit (SGDm)	67.6	63.2	7.0	96.0	100.3	-4.4
EBIT (SGDm)	22.2	21.0	5.8	48.5	49.0	-0.9
EBITDA (SGDm)	24.2	21.8	10.9	50.6	49.0	3.3
Core net profit (SGDm)	18.5	17.0	8.4	40.3	39.7	1.5
EPS (SGD)	0.07	0.06	7.5	0.15	0.15	0.7
			Chg (ppt)			Chg (ppt)
Gross material margin	35.3%	38.8%	-3.5	36.1%	37.8%	-1.7
Staff cost as % of sales	19.0%	21.6%	-2.6	15.0%	16.7%	-1.7

Source: Maybank Kim Eng

We raise EPS for FY19 by 8%, and left FY20 largely unchanged, after factoring in:

i) AEM's FY19E revenue guidance of SGD180-210m, which is above our previous estimate of SGD163m; and ii) lowered gross material margins (gross margin ex-direct staff costs), to reflect management's expectations that sales mix in FY19 will still be roughly equally split between lower-margin equipment and higher-margin consumables.

Our revised ROE-g/COE-g TP of SGD1.24 is based on 2.8x average FY19-20E P/B, in turn based on FY19-20E average ROE of 26.4%, COE of 10.6% and LTG of 2%. We have used the average of FY19-20E to arrive at our TP as we believe this will capture the expected earnings recovery in FY20E. We believe stronger-than-expected orders present upside potential to our earnings estimates, as we have not factored in the contributions of Huawei and the hybrid solutions project that AEM is ramping up production for its key customer in 2020. Conversely, we see downside risks to earnings from limited FY20E visibility.

Final FY18 DPS of SGD1.9cts was announced, bringing full-year DPS to SGD3.4cts (+13% YoY). However, as AEM has a 25% pay-out ratio policy, FY19E dividends might fall.

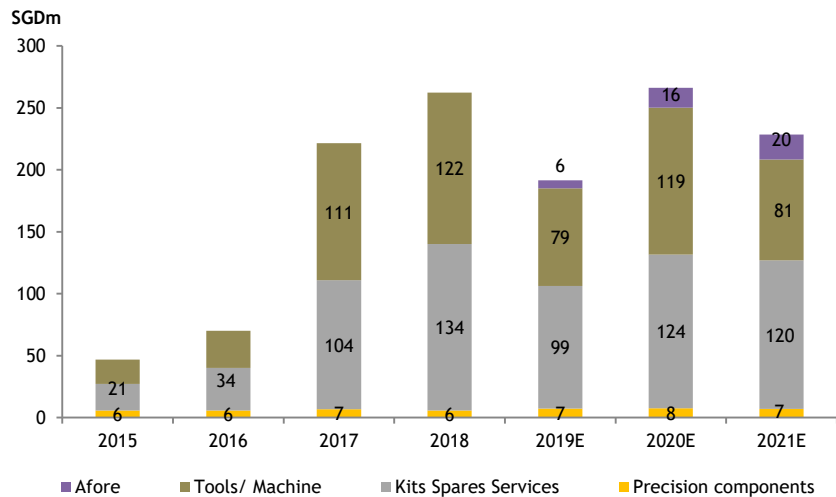
Fig 2: 4Q18 results summary

FYE Dec	4Q18 (SGD m)	4Q17 (SGD m)	3Q18 (SGD m)	YoY Chg (%)	QoQ Chg (%)	FYE SGDm	FY18 as % of FYE
Revenue	39.3	59.0	84.7	-33.4	-53.5	255.2	103
COGS	(23.1)	(37.3)	(58.3)	-38.0	-60.4	(161.9)	108
Gross profit	16.2	21.8	26.4	-25.5	-38.4	93.4	93
Staff costs	(7.3)	(8.0)	(8.7)	-8.5	-16.6	(38.3)	85
Other op. income	0.3	0.1	0.1	180.0	83.4	2.0	33
Other op. expenses	(4.8)	(3.1)	(3.9)	52.0	21.4	(15.0)	102
EBIT	4.5	10.8	13.9	-58.7	-67.8	42.1	95
EBITDA	4.8	11.0	14.7	-56.4	-67.4	42.9	98
Interest inc	0.0	0.0	0.0	nm	nm	0.0	nm
Interest exp	(0.0)	(0.0)	(0.0)	80.0	260.0	(0.0)	254
Associates income	0.2	(0.2)	(0.1)	-262.3	-369.2	0.0	-83
Exceptional items	0.0	0.0	0.0	nm	nm	0.0	nm
Pretax profit	4.7	10.6	13.8	-55.9	-65.9	42.1	95
Taxation	(0.3)	(0.9)	(2.4)	-67.7	-87.6	(7.6)	85
Net profit	4.4	9.7	11.4	-54.8	-61.4	34.5	97
Minority interest	0.0	0.0	0.0	nm	nm	0.0	nm
PATMI	4.4	9.7	11.4	-54.8	-61.4	34.5	97
Core PATMI	4.4	9.7	11.4	-54.8	-61.4	34.5	97
EPS (SGDcts)	1.62	3.70	4.19	-56.2	-61.3	0.13	96
					Change (ppt)		
Gross margin	41.3%	36.9%	31.1%	4.4	10.1		
EBIT margin	11.3%	18.3%	16.4%	-6.9	-5.0		
Core net margin	11.2%	16.4%	13.5%	-5.3	-2.3		

**Note:** AEM achieved SGD40m in FY18 PBT, or 95% of our forecast. AEM's operational PBT of SGD42.6m was arrived at after adjusting for SGD2.6m of non-operating expenses.

Source: Company, Maybank Kim Eng

Fig 3: Revenue by product types

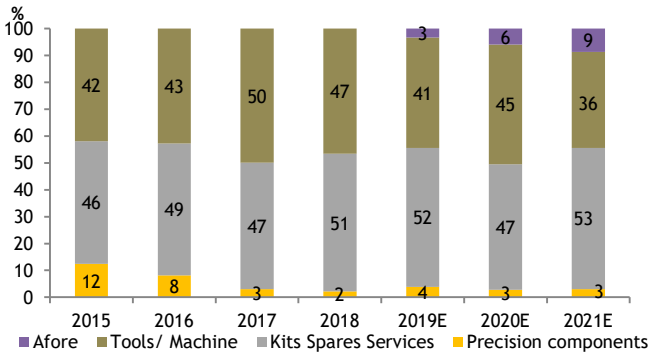


Source: Company, Maybank Kim Eng

## Value Proposition

- Back-end test-equipment manufacturer that has co-developed the HDMT handler for a market-leading chipmaker with a market cap of USD235b.
- Leading-edge HDMT technology has helped its core customer achieve 2x savings in chip-testing costs.
- AEM provides strong synergies like field-service capabilities and manufacturing scale for the high-tech companies that it acquires.
- High single-customer and product risks.

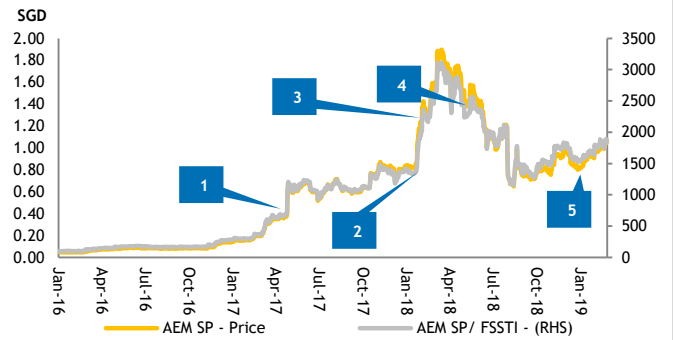
### Revenue by segment



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



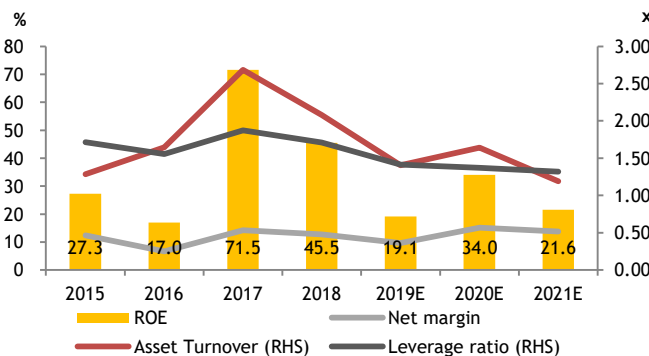
Source: Company, FactSet, Maybank Kim Eng

1. Announced favourable 1Q17 net profit as HDMT handlers delivery pick up momentum. There were also insider purchases.
2. Announced 2018 guidance for SGD255m in revenue and SGD42m PBT.
3. Announced accretive acquisition of Afore, Finnish-based MEMS test-solutions provider.
4. Novo Tellus distributes AEM shares in-specie to investors; Core customer announces 10nm delay.
5. AEM's core customer denies rumours from tech-blog SemiAccurate that its 10nm process is cancelled.

## Financial Metrics

- We expect 2019E EPS to fall 45% as the drop in HDMT equipment sales may not be adequately cushioned by an expected rise in consumables sales.
- AEM is not a capex intensive company. Improved cash-flow from 2016 levels has allowed AEM to pursue highly synergistic acquisitions.
- Training a batch of engineers during pre-production ramp up could take 5-6 months. During such time, staff costs could be elevated and profitability could temporarily decline.
- Adopted 25% dividend payout ratio policy in 2017.

### EPS, FCF per share and DPS forecasts



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Revenue expansion from securing new customers, or wallet expansion/ increased orders from existing customers.
- Synergistic and accretive acquisitions.
- Positive customer-related news flow that could catalyse improved orders for AEM, such as capacity expansion or launch of new chips.

### Downside

- Order cancellation, delays, and earnings misses.
- Emerging technology from rivals that could erode AEM's competitive position with customer(s).
- Erosion in the competitive advantages of the core customer, as a result of company specific or industry related developments.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	4.5	9.2	15.5	7.1	9.1
Core P/E (x)	6.9	6.7	15.5	7.1	9.1
Core FD P/E (x)	7.1	6.7	15.4	7.0	9.0
P/BV (x)	3.8	2.5	2.8	2.1	1.8
P/NTA (x)	3.8	2.5	2.8	2.1	1.8
Net dividend yield (%)	3.6	4.1	1.6	3.5	2.7
FCF yield (%)	21.5	12.3	3.0	10.2	7.1
EV/EBITDA (x)	4.6	4.0	9.2	4.0	4.8
EV/EBIT (x)	4.6	4.1	10.0	4.2	5.1

**INCOME STATEMENT (SGD m)**

Revenue	221.6	262.3	191.5	266.2	228.5
Gross profit	72.3	87.2	67.6	96.0	90.9
EBITDA	37.7	41.9	24.2	50.6	40.0
Depreciation	(0.7)	(1.9)	(2.0)	(2.1)	(2.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	37.0	40.0	22.2	48.5	37.8
Net interest income / (exp)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Associates & JV	(0.1)	(0.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	36.8	40.0	22.2	48.5	37.8
Income tax	(5.3)	(6.5)	(3.8)	(8.2)	(6.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	31.5	33.5	18.5	40.3	31.4
Core net profit	31.5	33.5	18.5	40.3	31.4

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	46.1	58.9	62.7	81.8	93.8
Accounts receivable	23.6	21.7	20.3	38.0	37.1
Inventory	35.8	28.2	22.7	36.1	31.7
Property, Plant & Equip (net)	3.6	5.6	9.8	10.9	11.8
Intangible assets	3.4	16.8	16.8	16.8	16.8
Investment in Associates & JVs	4.1	4.2	4.2	4.2	4.2
Other assets	0.0	0.2	0.2	0.2	0.2
<b>Total assets</b>	<b>116.7</b>	<b>135.5</b>	<b>136.8</b>	<b>188.0</b>	<b>195.6</b>
ST interest bearing debt	0.0	0.2	0.2	0.2	0.0
Accounts payable	52.2	36.6	24.5	45.5	29.9
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	7.0	9.0	9.0	9.0	9.0
<b>Total Liabilities</b>	<b>58.9</b>	<b>46.0</b>	<b>33.4</b>	<b>54.4</b>	<b>38.6</b>
Shareholders Equity	57.8	89.5	103.4	133.6	157.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>57.8</b>	<b>89.5</b>	<b>103.4</b>	<b>133.6</b>	<b>157.1</b>
<b>Total liabilities and equity</b>	<b>116.7</b>	<b>135.5</b>	<b>136.8</b>	<b>188.0</b>	<b>195.6</b>

**CASH FLOW (SGD m)**

Pretax profit	36.8	40.0	22.2	48.5	37.8
Depreciation & amortisation	0.7	1.9	2.0	2.1	2.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	11.5	(6.2)	(5.7)	(10.1)	(10.3)
Cash taxes paid	(0.2)	(4.2)	(3.8)	(8.2)	(6.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	49.0	31.5	14.7	32.2	23.2
Capex	(2.1)	(3.9)	(6.2)	(3.1)	(3.1)
Free cash flow	46.9	27.6	8.5	29.1	20.1
Dividends paid	(3.6)	(8.4)	(4.6)	(10.1)	(7.8)
Equity raised / (purchased)	0.0	6.0	0.0	0.0	0.0
Change in Debt	(0.1)	0.3	0.0	0.0	(0.3)
Other invest/financing cash flow	(2.6)	(1.7)	0.0	0.0	0.0
Effect of exch rate changes	(0.8)	(11.0)	0.0	0.0	0.0
Net cash flow	39.8	12.8	3.9	19.0	12.1

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	216.0	18.4	(27.0)	39.0	(14.2)
EBITDA growth	411.7	11.3	(42.2)	109.0	(21.0)
EBIT growth	465.0	8.3	(44.5)	118.2	(22.1)
Pretax growth	515.8	8.5	(44.3)	118.1	(22.1)
Reported net profit growth	576.2	6.4	(44.9)	118.1	(22.1)
Core net profit growth	560.7	6.4	(44.9)	118.1	(22.1)
<b>Profitability ratios (%)</b>					
EBITDA margin	17.0	16.0	12.6	19.0	17.5
EBIT margin	16.7	15.3	11.6	18.2	16.5
Pretax profit margin	16.6	15.2	11.6	18.2	16.5
Payout ratio	24.8	27.6	25.0	25.0	25.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.2	12.8	9.6	15.1	13.7
Revenue/Assets (x)	1.9	1.9	1.4	1.4	1.2
Assets/Equity (x)	2.0	1.5	1.3	1.4	1.2
ROAE (%)	71.5	45.5	19.1	34.0	21.6
ROAA (%)	38.2	26.6	13.6	24.8	16.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	14.6	5.5	24.7	27.6	49.3
Days receivable outstanding	33.6	31.0	39.5	39.5	59.2
Days inventory outstanding	64.2	65.8	74.0	62.1	88.8
Days payables outstanding	83.1	91.3	88.8	74.0	98.6
Dividend cover (x)	4.0	3.6	4.0	4.0	4.0
Current ratio (x)	1.8	2.4	3.3	2.9	4.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.9	4.1	3.5	5.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.9	1.5	3.2	1.2	1.3
Net debt/ (net cash)	(46.1)	(58.6)	(62.5)	(81.5)	(93.8)

Source: Company; Maybank

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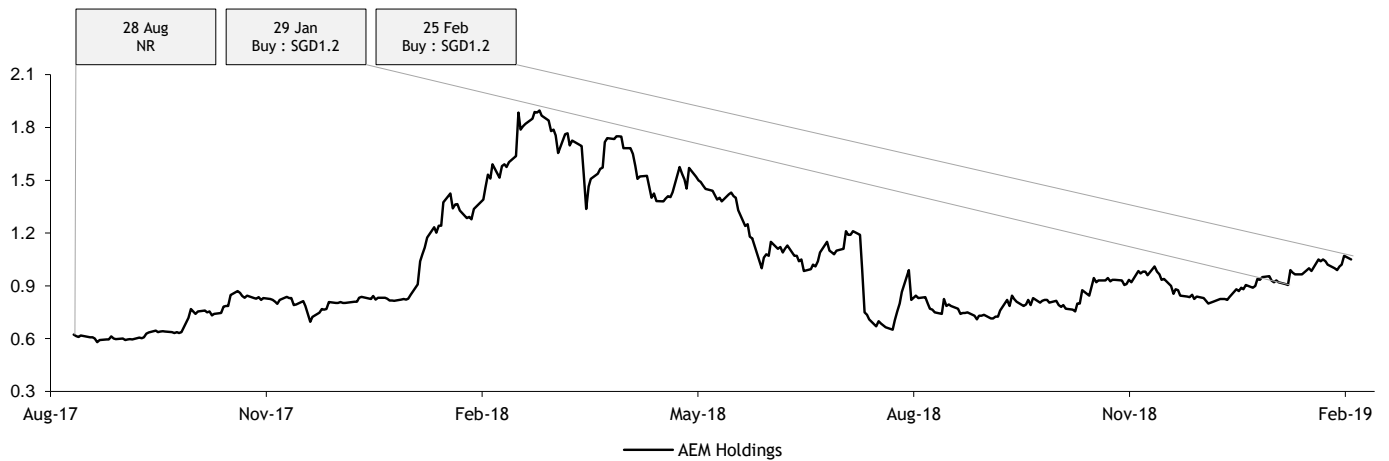
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