May 7, 2020

Technology

Singapore

AEM Holdings (AEM SP)

Revenue guidance raised

BUY

Share Price	SGD 2.58
12m Price Target	SGD 4.04 (+59%)
Previous Price Target	*SGD 3.18*

Resilient order momentum; maintain BUY

AEM has raised FY20E revenue guidance to SGD430-445m from SGD360-380m in Feb-20, affirming our view that demand trends are intact. Accordingly, we raise our FY20-22E EPS by 17-23% and our ROE-g/COE-g TP to SGD4.04, based on 4.8x blended FY20-21E P/B (prev: 4.1x). Further positive guidance revisions should be a catalyst, while key risk to FY20E earnings is unforeseen production delays in 2H20. Maintain BUY.

Highly achievable guidance

Current order book for FY20 delivery is SGD416m (Feb-20: SGD338m; Jan-20: 245m), or more than 90% of full year guidance. Barring unforeseen production delays in 2H20, this guidance appears highly achievable. In our view, a possible but unlikely scenario could be government mandated factory shutdowns in 2H20, in the event of a worse than expected spread of Covid-19 in Singapore and/ or Malaysia, where AEM's production and supply chain are predominantly located.

Reinforces the view of demand resilience

The current update reinforces the view that in the short term, orders and requirements for handlers and consumables with Intel remains strong. As such, we see any delays in FY20E deliveries as just a deferral to FY21E. Over a longer horizon, we see Intel's CPU to XPU strategy (see "Better than expected guidance", 9-Jan-20) as a key driver of AEM's growth as an increased variety, complexity and volume of chips imply that the structural need for effective and cost-efficient testing remains intact, and may continue to result in expanding wallet size over time.

Risks

In "Demand trends intact" (29-Apr-20), we highlighted that we may have underappreciated how technology and structural factors (e.g. increasingly complex chips result in longer test times) are more dominant demand drivers for AEM's products than cyclical factors. Still, we remain wary of cyclical risks given a highly uncertain economic outlook over FY20-21. As such, we provide a sensitivity analysis of a range of FY21E earnings outcomes towards fair value. For this exercise, we hold FY20E earnings constant.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	262	323	438	453	450
EBITDA	42	70	103	111	109
Core net profit	33	53	80	86	85
Core FDEPS (cts)	12.3	19.4	29.7	31.9	31.3
Core FDEPS growth(%)	3.4	58.3	53.2	7.3	(1.8)
Net DPS (cts)	3.4	5.1	7.4	8.0	7.8
Core FD P/E (x)	6.7	10.4	8.7	8.1	8.2
P/BV (x)	2.5	4.1	3.6	2.7	2.2
Net dividend yield (%)	4.1	2.5	2.9	3.1	3.0
ROAE (%)	45.5	47.3	48.8	38.0	29.1
ROAA (%)	26.6	29.1	31.7	28.0	22.8
EV/EBITDA (x)	4.0	6.3	5.3	4.4	3.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	31	31	na
MKE vs. Consensus (%)	-	-	161.9	180.6	na

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Company Description

AEM manufactures equipment used in the semiconductor back-end process

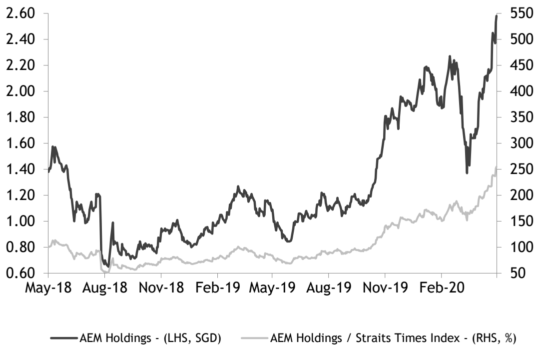
Statistics

52w high/low (SGD)	2.58/0.85
3m avg turnover (USDm)	15.2
Free float (%)	76.9
Issued shares (m)	273
Market capitalisation	SGD705.1M
	USD497M

Major shareholders:

Toh Ban Leng James	7.6%
Aberdeen Standard Investments (Asia) Ltd	7.4%
Morgan Stanley	6.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	34	38	137
Relative to index (%)	33	69	203

Source: FactSet

Co. Reg No: 198700034E MICA (P) : 099/03/2012

Fig 1: Forecast revisions

	FY20E			FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	437.9	381.2	14.9	452.8	396.1	14.3	450.5	413.6	8.9
Gross profit (SGDm)	176.0	153.2	14.9	182.0	158.0	15.2	179.7	163.4	10.0
EBIT (SGDm)	96.9	79.1	22.5	104.0	84.4	23.2	102.1	87.0	17.3
EBITDA (SGDm)	101.5	83.7	21.3	109.1	89.5	21.8	107.5	92.5	16.3
Core net profit (SGDm)	80.3	65.5	22.6	86.1	69.9	23.2	84.6	72.1	17.3
EPS (SGD)	0.30	0.24	22.6	0.32	0.26	23.2	0.31	0.27	17.3
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	40.2%	40.2%	0.0	40.2%	39.9%	0.3	39.9%	39.5%	0.4
Staff cost as % of sales	12.8%	13.4%	-0.6	12.7%	13.4%	-0.7	12.6%	13.4%	-0.8

Source: Maybank Kim Eng

Fig 2: Sensitivity analysis of FY21E earnings outcomes on current fair value

Increase/ decrease in FY21E vs. current forecast	Implied YoY	ROE-g/COE-g fair value (SGD)	Drivers/ assumptions
50%	61%	5.12	Tailwinds much stronger than headwinds.
40%	50%	4.90	E.g. tailwinds:
30%	39%	4.68	- Our under-appreciation of the level of increased testing needs as a result of new Intel chips in 2021.
20%	29%	4.47	
10%	18%	4.25	- Faster/ stronger than expected wallet size expansion.
			- Resilient than expected economic outlook, and/or Intel gaining better than expected share in new products.
0%	7%	4.04	Tailwinds and headwinds about balanced, e.g. growth from new products offsetting our modelled assumption of some high base effects from HDMT in FY20E
-10%	-3%	3.82	Headwinds much stronger than tailwinds
-20%	-14%	3.60	E.g. headwinds:
-30%	-25%	3.39	- Protracted economic slump coinciding with the "digestion" phase of server chip inventory cycle, implying increased risk of idle test capacity at Intel, in our view.
-40%	-36%	3.17	
-50%	-46%	2.95	- Delay in introduction of 7nm chips, and/or other new chips with complex packaging
			- Following 2020 capacity addition, risks that Intel is oversupplying market demand at a time when supply chain faces destocking risks.

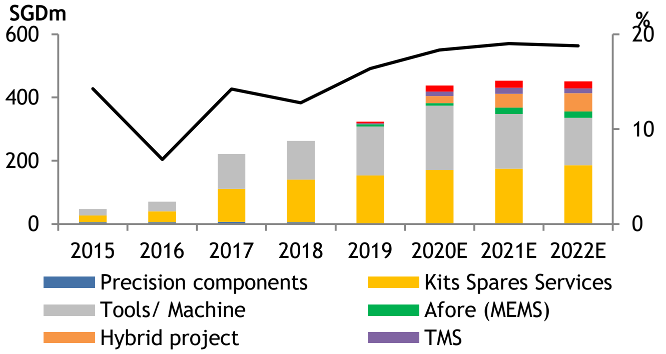
Source: Maybank Kim Eng

Our ROE-g/COE-g is based on 4.8x blended FY20-21E P/B (prev: 4.1x), in turn based on average FY20-21E ROE of 43.4% and blended FY20-21E BVPS of SGD0.84. Our TP implies 13.6x FY20E P/E.

Value Proposition

- Back-end test-equipment manufacturer that has co-developed the HDMT handler for a market-leading chipmaker with a market cap of USD250b.
- 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.

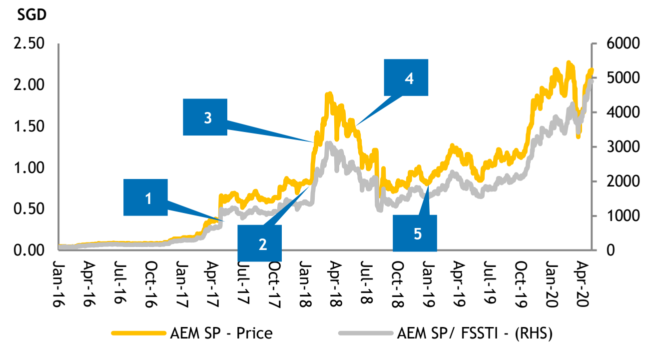
Share of new revenue sources progressively growing



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



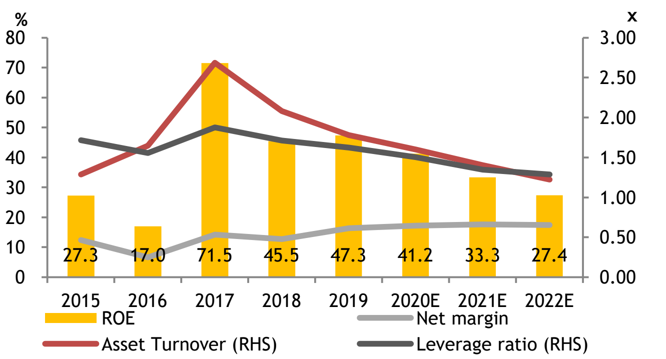
Source: Company, FactSet, Maybank Kim Eng

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 was cancelled.

Financial Metrics

- We expect 53% earnings growth in 2020E, driven by sustained sales to Intel and contributions from new initiatives and customers.
- 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.

DuPont ROE



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.

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FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	9.2	6.2	8.7	8.1	8.2
Core P/E (x)	6.7	10.3	8.7	8.1	8.2
Core FD P/E (x)	6.7	10.4	8.7	8.1	8.2
P/BV (x)	2.5	4.1	3.6	2.7	2.2
P/NTA (x)	2.5	4.1	3.6	2.7	2.2
Net dividend yield (%)	4.1	2.5	2.9	3.1	3.0
FCF yield (%)	12.2	11.2	8.9	12.3	11.7
EV/EBITDA (x)	4.0	6.3	5.3	4.4	3.9
EV/EBIT (x)	4.1	6.9	5.7	4.7	4.2
INCOME STATEMENT (SGD m)					
Revenue	262.3	323.1	437.9	452.8	450.5
Gross profit	89.1	130.8	176.0	182.0	179.7
EBITDA	41.9	69.5	103.0	110.5	109.0
Depreciation	(1.9)	(4.4)	(4.6)	(5.1)	(5.4)
Amortisation	0.0	(1.5)	(1.5)	(1.5)	(1.5)
EBIT	40.0	63.6	96.9	104.0	102.1
Net interest income /(exp)	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Associates & JV	(0.0)	0.5	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	40.0	63.9	96.7	103.8	101.9
Income tax	(6.5)	(11.0)	(16.4)	(17.6)	(17.3)
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	33.5	52.9	80.3	86.1	84.6
Core net profit	33.5	52.9	80.3	86.1	84.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	58.8	107.7	148.1	210.5	269.6
Accounts receivable	21.7	28.0	39.2	30.3	38.9
Inventory	28.2	57.5	57.3	61.4	64.7
Property, Plant & Equip (net)	5.7	6.3	5.7	5.6	5.2
Intangible assets	16.8	16.9	16.9	16.9	16.9
Investment in Associates & JVs	4.2	4.6	4.6	4.6	4.6
Other assets	0.2	7.1	7.1	7.1	7.1
Total assets	**135.5**	**228.0**	**278.9**	**336.3**	**406.9**
ST interest bearing debt	0.2	0.0	0.0	0.0	0.0
Accounts payable	36.6	73.1	70.4	63.2	70.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	9.0	20.0	14.0	14.0	14.0
Total Liabilities	**46.0**	**93.6**	**84.3**	**77.1**	**84.3**
Shareholders Equity	89.5	134.3	194.5	259.2	322.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**89.5**	**134.3**	**194.5**	**259.2**	**322.6**
Total liabilities and equity	**135.5**	**228.0**	**278.9**	**336.3**	**406.9**
CASH FLOW (SGD m)					
Pretax profit	40.0	63.9	96.7	103.8	101.9
Depreciation & amortisation	1.9	5.9	6.1	6.5	6.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(6.2)	2.3	(20.4)	(2.3)	(4.7)
Cash taxes paid	(4.2)	(5.8)	(16.4)	(17.6)	(17.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	31.5	65.8	66.0	90.4	86.7
Capex	(4.0)	(5.0)	(4.0)	(5.0)	(5.0)
Free cash flow	27.5	60.9	62.0	85.4	81.7
Dividends paid	(8.4)	(10.5)	(20.1)	(21.5)	(21.1)
Equity raised / (purchased)	6.0	0.0	0.0	0.0	0.0
Change in Debt	0.3	(0.3)	0.0	0.0	0.0
Other invest/financing cash flow	(1.7)	(1.4)	(1.5)	(1.5)	(1.5)
Effect of exch rate changes	(11.0)	0.2	0.0	0.0	0.0
Net cash flow	12.7	48.9	40.4	62.4	59.1

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.4	23.2	35.5	3.4	(0.5)
EBITDA growth	11.3	65.8	48.2	7.3	(1.4)
EBIT growth	8.3	58.8	52.3	7.3	(1.8)
Pretax growth	8.5	59.9	51.3	7.3	(1.8)
Reported net profit growth	6.4	58.1	51.6	7.3	(1.8)
Core net profit growth	6.4	58.1	51.6	7.3	(1.8)
Profitability ratios (%)					
EBITDA margin	16.0	21.5	23.5	24.4	24.2
EBIT margin	15.3	19.7	22.1	23.0	22.7
Pretax profit margin	15.2	19.8	22.1	22.9	22.6
Payout ratio	27.6	26.0	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	12.8	16.4	18.3	19.0	18.8
Revenue/Assets (x)	1.9	1.4	1.6	1.3	1.1
Assets/Equity (x)	1.5	1.7	1.4	1.3	1.3
ROAE (%)	45.5	47.3	48.8	38.0	29.1
ROAA (%)	26.6	29.1	31.7	28.0	22.8
Liquidity & Efficiency					
Cash conversion cycle	5.2	5.2	7.9	17.8	22.7
Days receivable outstanding	31.0	27.7	27.6	27.6	27.6
Days inventory outstanding	66.5	80.2	78.9	78.9	83.8
Days payables outstanding	92.3	102.7	98.6	88.8	88.8
Dividend cover (x)	3.6	3.8	4.0	4.0	4.0
Current ratio (x)	2.4	2.2	3.0	4.1	4.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.4	3.3	4.4	4.8
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 (%)	1.5	1.5	0.9	1.1	1.1
Net debt/ (net cash)	(58.5)	(107.7)	(148.1)	(210.5)	(269.6)

Source: Company; Maybank

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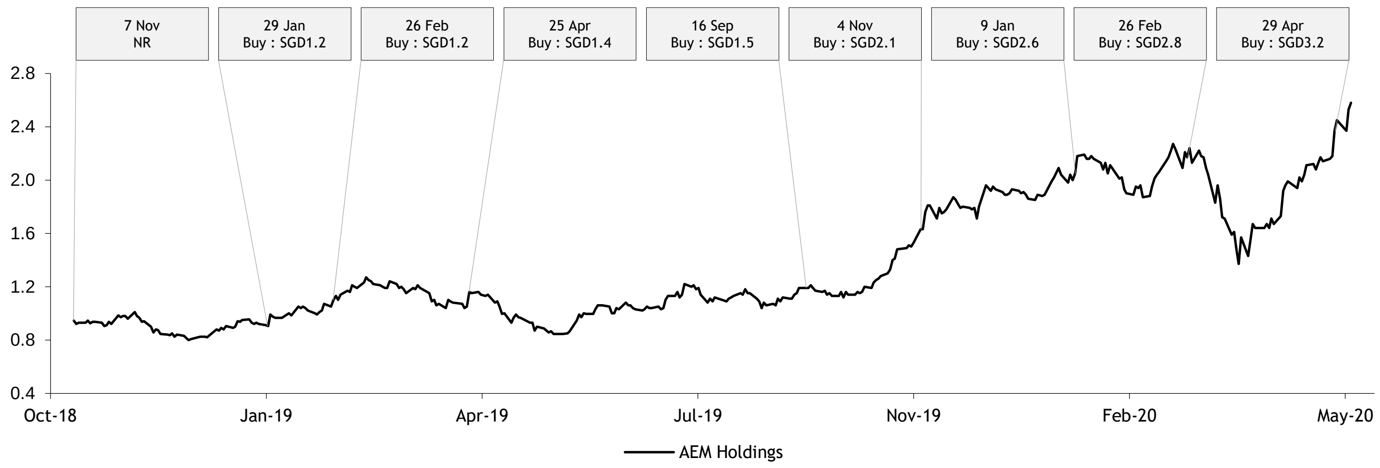

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