

SECTOR UPDATE

Tech Manufacturers – Singapore

1H24 Review: Crucial To Be Selective; Top BUYs: FRKN, VMS; Top SELL: AEM

Two-thirds of the tech manufacturing stocks under our coverage reported weaker-than-expected 1H24 earnings, except for Frencken and Aztech, due to weak customer demand (AEM, Nanofilm, Venture) and slow ramp-up of new plant (UMS). Our top picks are Frencken and Venture given their positive outlook for sequential earnings growth, especially for Frencken which is seeing strong orders from ASML. We also have BUY calls on Valuetronics and Aztech, and SELL ratings on AEM, Nanofilm and UMS. Upgrade the sector to OVERWEIGHT.

WHAT'S NEW

- **Two-thirds of tech manufacturing stocks missed our 1H24 earnings estimates.** All the tech companies under our coverage have just released their results and it has not been a good season, with two-third of the stocks missing our earnings estimates. This was mainly due to weak customer demand (AEM, Nanofilm, Venture) and slow ramp-up of new plant (UMS). On the other hand, Frencken and Aztech met our expectations due to robust customer demand.
- **Earnings misses were due to weak customer demand: expect further downside especially for AEM given its weak guidance and challenging outlook for Intel.** A key takeaway from the 1H24 results season is that each tech manufacturing company is going through their own earnings cycle and facing challenges due to issues with their major customers, especially for AEM and Nanofilm which reported losses in 1H24. For AEM, we note that its performance was impacted by Intel's weak PC demand and inability to gain traction in the AI-related sector, which has impacted its financial performance and results guidance. Recent negative developments from Intel such as management departure and delay in completion of new plants suggest more problems ahead. For Nanofilm, it has it is encountering weak demand for its industrial equipment business unit due to a soft market for capex spending. On the other hand, UMS did not fare too badly despite the earnings miss, reporting a decent 2Q23 earnings of S\$9.3m (-20% yoy/-5% qoq), as it is overcoming the issue of reduced market share from its existing customer AMAT as well as slower-than-expected ramp-up of new customer, Lam Research.
- **Given the huge disparity in financial performance, it is crucial to be selective: Frencken and Venture are our top BUY picks.** We like Frencken because its outlook has turned more bullish with expectation of better revenue in 2H24 vs 1H24, mainly driven by the semiconductor segment. In addition, in 2Q24, Frencken encountered delays in shipments for some sizeable ASML orders which will be recognised in 3Q24, indicating a strong qoq earnings growth. Margins are also expected to increase due to higher utilisation. Lastly, Frencken still has ample capacity to take on more orders. On the other hand, Venture has maintained its expectation that its revenue will be stronger in 2H24 compared with 1H24, and Venture remains proactive in pursuing multiple initiatives to further improve its performance in 2H24. These include the onboarding of new customers, new product introduction activities and supporting customers with geopolitical risk mitigation strategies.

PEER COMPARISON

Company	Ticker	Rec	Price @ 27 Aug 24 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE 2023 (x)	PE 2024 (x)	PE 2025 (x)	P/B 2024 (x)	P/B 2025 (x)	EV/EBITDA 2024 (x)	EV/EBITDA 2025 (x)	ROE 2024 (%)	Yield 2024 (%)
Top BUYs															
Aztech Global	AZTECH SP	BUY	0.945	1.25	32.3	559	7.3	6.8	6.3	1.9	1.6	3.5	3.2	29.2	9.0
Frencken	FRKN SP	BUY	1.33	1.74	30.8	436	17.5	13.0	11.9	1.3	1.2	7.3	6.9	10.4	2.3
Valuetronics	VALUE SP	BUY	0.60	0.78	30.0	189	9.3	8.7	8.2	1.0	1.0	1.1	1.1	11.7	7.2
Venture Corp	VMS SP	BUY	14.07	16.17	14.9	3,128	15.2	15.4	14.8	1.4	1.4	9.0	8.7	9.3	5.3
Top SELLs															
AEM	AEM SP	SELL	1.31	1.04	(20.6)	314	n.a.	42.2	16.4	0.9	0.8	13.7	8.9	2.1	0.6
Nanofilm Tech	NANO SP	SELL	0.745	0.50	(32.9)	372	155.2	46.8	23.9	1.2	1.2	11.8	8.9	2.7	0.4
UMS	UMSH SP	SELL	1.05	0.90	(14.3)	572	11.7	17.4	15.7	1.8	1.8	9.8	9.0	11.1	5.3

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

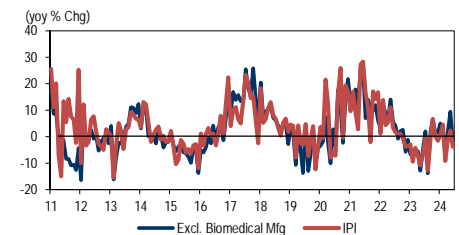
(Upgraded)

STOCKS UNDER COVERAGE

Company	Rec	Share Price (\$)	Target Price (\$)	UOBKH 2024 Estimated Earnings (\$m)
BUYs				
Frencken	BUY	1.33	1.74	44 (+35% yoy)
Venture	BUY	14.07	16.17	267 (-1% yoy)
Valuetronics	BUY	0.60	0.78	HK\$170m* (+6% yoy)
Aztech Global	BUY	0.945	1.25	108 (+8% yoy)
SELLs				
AEM	SELL	1.31	1.04	10 (vs 1m loss in 2023)
Nanofilm	SELL	0.745	0.50	10 (vs 3m profit in 2023)
UMS	SELL	1.05	0.90	43 (-29% yoy)

Source: UOB Kay Hian
* FY25 Jun year end

SINGAPORE INDUSTRIAL PRODUCTION



Source: CEIC

PURCHASING MANAGER INDEX



Source: CEIC

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ACTION

- **Upgrade to OVERWEIGHT but be very selective.** We recommend investors to be very selective in the tech manufacturing sector as there could be huge disparities in the financial performances of different stocks. Our top picks are Frencken and Venture given their positive outlook for sequential earnings growth, especially Frencken which is seeing strong orders from ASML. We also have BUY call on Valuetronics and Aztech, while we have SELL ratings on AEM, Nanofilm and UMS.

Frencken Group (FRKN SP/BUY/Target: S\$1.74)

- **Outlook appears more bullish with expectation of better revenue in 2H24 vs 1H24 and strong qoq earnings growth in 3Q23.** This will be mainly driven by the semiconductor segment while the other segments are expected to be stable. Its outlooks for its key business segments for 1H24 vs 2H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical life sciences: stable revenue, d) industrial automation: decreasing revenue, and e) automotive: stable revenue. In addition, in 2Q24, Frencken encountered delays in shipments of some sizeable ASML orders which will be recognised in 3Q24, indicating a strong qoq earnings growth. Margins are expected to increase due to higher utilisation. Also, Frencken still has ample capacity to take on more orders.
- **Maintain BUY with target price of S\$1.74, pegged to 17.0x 2024F PE,** based on 2SD above mean PE. The +2SD in our PE multiple peg is to capture: a) the recovery of the semiconductor cycle, which is exhibiting multiple positive indications, and b) an improvement in earnings quality.

Venture Corp (VMS SP/BUY/Target: S\$16.17)

- **Expect 2H24 revenue to improve hoh.** Venture maintains its expectation that 2H24 revenue will be stronger hoh. For 1H24, Venture delivered on its target of sequential revenue growth from 1Q24 to 2Q24. To recap, Venture was still coming off the high base quarter in 1Q23 where it recorded earnings of S\$74m, before normalising in 2Q-4Q23 with earnings of S\$63m-67m. Venture remains proactive in pursuing multiple initiatives to further improve its performance in 2H24. These include the onboarding of new customers, new product introduction activities and supporting customers with geopolitical risk mitigation strategies. Venture continues to invest in expanding its capabilities in targeted technology domains.
- **Maintain BUY with target price of S\$16.17,** pegged to 0.5SD above its long-term mean PE of 17x 2025F earnings. Currently, Venture offers a decent dividend yield of c.5.4%.

Valuetronics (VALUE SP/BUY/Target: S\$0.78)

- **Good results backed by encouraging outlook from four new customers.** Valuetronic's FY24 net profit of HK\$160m (+30% yoy) was in line with our expectations. FY24 gross profit grew 1% yoy as margins expanded from its rebalanced customer portfolio, offsetting the decline in revenue on the back of lower material costs, improved supply chain visibility and lower labour costs. The outlook is encouraging with four new customers contributing their first full-year revenue in FY25 along with other potential new customers. Amid geopolitical uncertainties, Valuetronics' newly constructed Vietnam campus strategically positions it to meet changing customer needs.
- **Maintain BUY with PE-based target price of S\$0.78,** pegged to 10.8x FY25F PE. This is based on 1SD above Valuetronics' historical PE mean. Valuetronics has a strong cash balance of HK\$1.1b that is equivalent to around 80% of its market cap. It is currently trading at only 2x FY24 ex-cash PE and offers an attractive FY25 dividend yield of around 7%.

Aztech Global (AZTECH SP/BUY/Target: S\$1.25)

- **Good results and a decent orderbook.** Aztech's 2Q24 earnings of S\$31m (+4% yoy; +94% qoq) is in line with our expectation. IoT devices continued to be the main growth driver, leading to an 8% yoy revenue growth. Orderbook remained healthy at S\$304m as at 30 Jul 24, of which the majority is planned for completion in 2024. Aztech remains focused on growing its competencies, with improved R&D and production capabilities and new products in the pipeline.
- **Maintain BUY with a target price of S\$1.25**, pegged to 9x 2024F EPS. This is based on 0.5SD above Aztech's long-term mean PE.

AEM Holdings (AEM SP/SELL/Target: S\$1.04)

- **Weak earnings and disappointing revenue guidance.** AEM reported very weak 1H24 earnings of only S\$0.8m (-96% yoy) vs our expectation of S\$6m. 2Q24 earnings was a loss of S\$1.5m, which was mainly due to a S\$2.3m loss on sale of an associate and lower operating leverage. Also, its revenue guidance of S\$160m-180m for 2H24 is way below our expectation of S\$275m. We have reduced our 2024-26 EPS by 41-52%. Although new customers' orders are expected to be in the triple-digit millions in 2025 and will boost AEM's revenue notably, we believe the net margin contribution will not be very appealing given the lack of operating leverage as seen in the major ramp-up and front-loading of orders from its single largest customer in 2020 and 2021.
- **Maintain SELL with target price of S\$1.04.** This is based on 13x 2025F PE, based on 0.5SD above the historical mean of AEM

Nanofilm Technologies (NANO SP/SELL/Target: S\$0.50)

- **1H24 earnings miss and unexciting recovery.** Nanofilm's S\$4m loss in 1H24 (-51% yoy) missed our estimate of S\$7m due to higher-than-expected admin expenses. Revenue of S\$83m (+13% yoy) in 1H24 was in line, at 42% of our full-year estimate, led by the AMBU segment which grew 20% yoy. Nano expects 2024 revenue and earnings to be higher yoy. However, as 2023 is a very low base year with only S\$3m earnings, we believe that 2024 earnings are likely to remain unexciting at S\$9m based on our estimate, which is unlikely to support its current rich valuation of 23x 2025F PE. We have reduced our 2024-26 earnings forecasts by 32-55%.
- **Maintain SELL with a target price of S\$0.50.** We value Nanofilm based on 16x 2025F EPS, pegged to -1SD to its long-term forward mean.

UMS Holdings (UMSH SP/SELL/Target: S\$0.90)

- **Earnings below expectations and expect slow ramp-up of new customer.** 2Q24 earnings of S\$9m (-20% yoy/-5% qoq) came in below expectations, with 1H24 accounting for only 42% of our full-year estimate. This was mainly due to the absence of forex gain in 2Q24 vs a S\$1.4m gain in 1Q24. Revenue fell 26% yoy due to weaker global chip demand. UMS expects market uncertainties to persist and only foresees marginal earnings improvement in 2H24. The ramp-up of its new customer is slower than expected due to labour constraint and execution issues as the operation teams at both ends are new. As a result, the previous revenue expectation of US\$30m from the new customer could be hard to achieve.
- **Maintain SELL with target price of S\$0.90**, based on a PE-based valuation of 15x 2024F EPS. This is pegged to 1SD above UMS' historical mean PE.

SECTOR CATALYSTS

- Increasing capex spending by upstream global tech manufacturers.
- Better-than-expected 3Q24 sales and earnings. Improved guidance for 2H23.

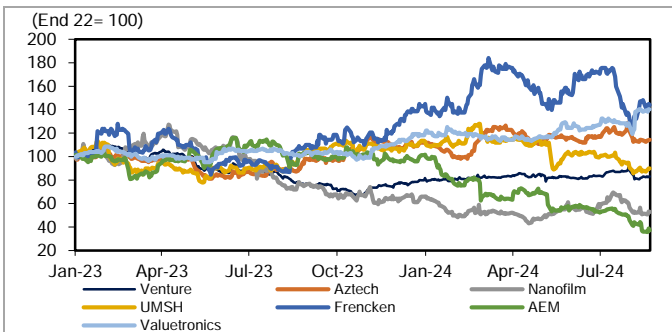
ASSUMPTION CHANGES

- No changes to our forecasts.

RISKS

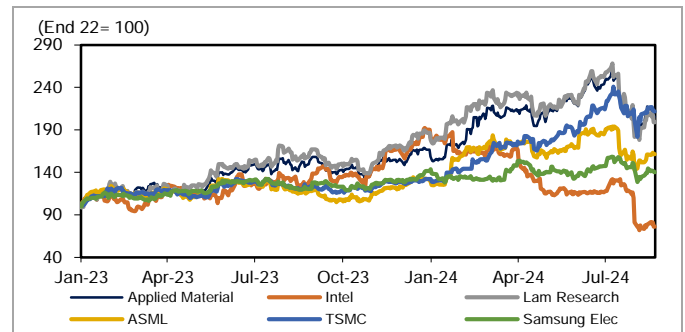
- Reduced demand for electronic goods as a result of a global recession.
- Escalation of geopolitical tension and trade conflict between the US and China.

RELATIVE SHARE PRICE COMPARISON OF SINGAPORE TECH STOCKS



Source: Bloomberg, UOB Kay Hian

RELATIVE SHARE PRICE COMPARISON OF GLOBAL SEMICONDUCTOR STOCKS



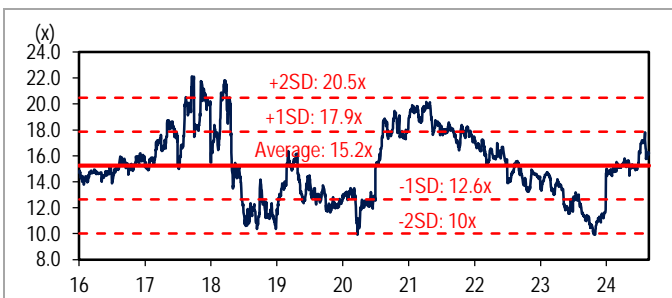
Source: Bloomberg, UOB Kay Hian

PEER COMPARISON TABLE OF GLOBAL SEMICONDUCTOR PLAYERS

Company	Ticker	Trading Curr (lcy)	Price @ 26 Aug 24 (lcy)	Market Cap (US\$m)	PE			P/B		EV/EBITDA		ROE	Yield
					2023 (x)	2024 (x)	2025 (x)	2024 (x)	2025 (x)	2024 (x)	2025 (x)	2024 (%)	2024 (%)
Applied Material	AMAT US	USD	196.23	161,773	24.0	23.0	20.1	8.5	7.5	19.2	16.5	40.1	0.7
Intel	INTC US	USD	20.13	86,076	50.3	80.2	18.7	0.8	0.7	11.0	6.9	1.0	2.0
Lam Research	LRCX US	USD	818.91	107,061	24.6	28.1	22.9	12.8	10.5	23.0	19.0	45.7	1.0
ASML	ASML NA	EUR	797.00	355,793	40.0	43.4	26.9	19.9	16.4	34.2	21.8	48.7	0.8
TSMC	2330 TT	TWD	950.00	771,375	29.4	22.6	17.8	5.8	4.7	12.6	10.1	27.6	1.5
Samsung Elec	005930 KS	KRW	76100	340,944	35.7	12.8	9.1	1.3	1.2	4.4	3.4	10.5	1.9
Average					34.0	35.0	19.2	8.2	6.8	17.4	13.0	28.9	1.3

Source: Bloomberg, UOB Kay Hian

VENTURE CORP HISTORICAL PE BAND



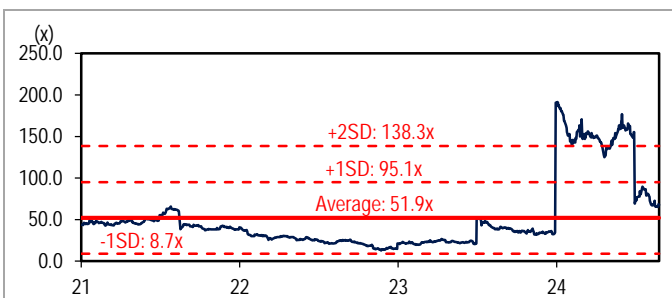
Source: Bloomberg, UOB Kay Hian

AZTECH GLOBAL HISTORICAL PE BAND



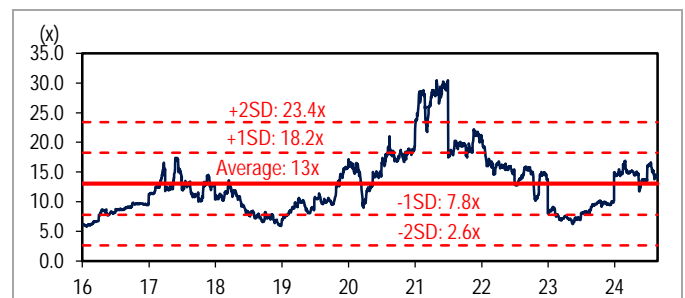
Source: Bloomberg, UOB Kay Hian

NANOFILM TECHNOLOGIES HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

UMS HOLDINGS HISTORICAL PE BAND



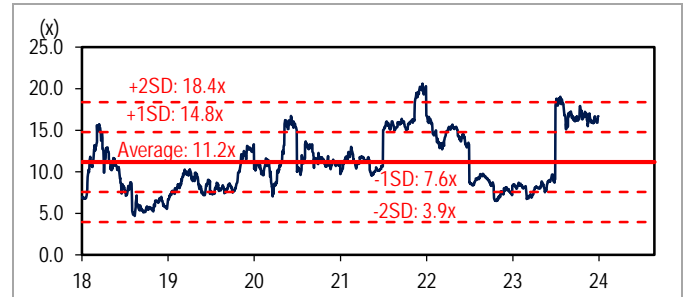
Source: Bloomberg, UOB Kay Hian

FRENCKEN GROUP HISTORICAL PE BAND



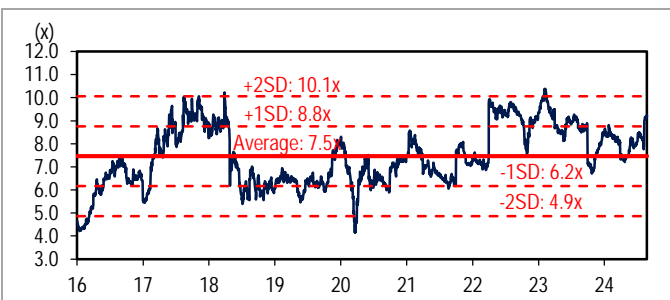
Source: Bloomberg, UOB Kay Hian

AEM HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

VALUETRONICS HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

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