

### COMPANY RESULTS

#### AEM Holdings (AEM SP)

1Q23: Earnings Missed Expectations; Uncertain Near-term Outlook

**AEM's 1Q23 earnings of S\$15.6m (-62% yoy) was below expectations, meeting only 18% of our full-year estimate, despite the revenue of S\$153m (-42% yoy) being in line at 26% of our full-year estimate. The earnings miss was mainly due to weaker-than-expected net margin. 2023 revenue guidance of S\$500m remains the same but may be revised up or down. Maintain HOLD with a 3% higher target price of S\$2.87 (11.5x 2023F PE).**

#### 1Q23 RESULTS

Year to 31 Dec (S\$m)	1Q23	1Q22	yoy % chg
Revenue	152.6	261.9	(41.7)
Pretax profit	19.0	49.7	(61.7)
Pretax margin (%)	12.5	19.0	(6.5ppt)
Net profit	15.6	40.8	(61.8)
Net margin (%)	10.2	15.6	(5.4ppt)

Source: AEM, UOB Kay Hian

#### RESULTS

- 1Q23 earnings below expectations due to weak net margin.** AEM Holdings' (AEM) 1Q23 earnings of S\$15.6m (-62% yoy) was below expectations, meeting only 18% of our full-year estimate, despite the revenue of S\$153m (-42% yoy) being in line at 26% of our full-year estimate. The earnings miss was mainly due to weaker-than-expected net margin, which fell 5.4ppt yoy to 10.2% in 1Q23. The net margin decline was due to: a) change in product mix as revenue contribution from the high margin consumables segment fell 67% yoy, b) revenue from the services segment (which has lower margin) rising 53% yoy from increased demand from biomedical and oil & gas customers. AEM noted that the exceptionally high revenue in 1Q22 was due to the volume ramp-up of its customer's new platforms which started to taper in 3Q22. The completion of this volume ramp, coupled with the slow-down of the semiconductor industry in general, resulted in the decrease in 1Q23 revenue.
- The latest guidance appears to indicate a more uncertain near-term outlook,** with AEM maintaining its 2023 revenue guidance of S\$500m but indicating that it may be revised up or down as second-half visibility becomes clearer. The "down" word was newly added. On the other hand, AEM highlighted that the future of the semiconductor industry beyond 2023 has never been more promising and it is seeing positive signs across the industry. Inventory levels are decreasing, and inventory corrections are expected to conclude in late-23 or early-24. Technology nodes are continuing to advance as two of the world's most advanced foundries are forecasting new process nodes to be up and generating revenue in 2H23.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	565	870	580	639	705
EBITDA	126	184	113	124	135
Operating profit	112	160	96	107	119
Net profit (rep./act.)	92	128	77	88	98
Net profit (adj.)	92	128	77	88	98
EPS (S\$ cents)	33.5	41.4	24.9	28.4	31.7
PE (x)	10.1	8.1	13.5	11.9	10.6
P/B (x)	2.3	2.1	1.9	1.7	1.5
EV/EBITDA (x)	7.2	4.9	8.0	7.3	6.7
Dividend yield (%)	2.3	3.1	1.9	2.1	2.4
Net margin (%)	16.3	14.7	13.3	13.7	13.9
Net debt/(cash) to equity (%)	(33.5)	3.2	(26.9)	(30.6)	(33.7)
Interest cover (x)	95.3	140.1	43.0	92.3	158.3
ROE (%)	30.0	28.8	15.0	15.2	15.2
Consensus net profit	-	-	87	119	137
UOBKH/Consensus (x)	-	-	0.89	0.74	0.71

Source: AEM, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	S\$3.37
Target Price	S\$2.87
Upside	-14.9%
(Previous TP)	S\$ 2.78)

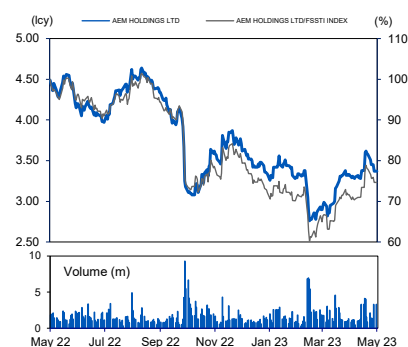
#### COMPANY DESCRIPTION

AEM prides itself on being a global leader in test innovation and provides comprehensive test solutions for the semiconductor and electronics industries, spanning test handlers, testers, consumables and data analytics.

#### STOCK DATA

GICS sector	Semiconductor Equipment			
Bloomberg ticker:	AEM SP			
Shares issued (m):	308.9			
Market cap (S\$m):	1,040.9			
Market cap (US\$m):	780.2			
3-mth avg daily t'over (US\$m):	4.3			
<b>Price Performance (%)</b>				
52-week high/low	S\$ 4.64/S\$ 2.76			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.2	1.5	(7.4)	(24.9)	(1.5)
<b>Major Shareholders</b>	<b>%</b>			
Temasek Hldgs	11.3			
EPF	9.4			
-	-			
FY23 NAV/Share (S\$)	1.76			
FY23 Net Cash/Share (S\$)	0.47			

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Given the expected decline in testing equipment spending this year**, AEM is taking proactive steps to lower operating costs and drive operational efficiency, while doubling down on investments in engineering and R&D in critical areas. AEM's engagement with new customers is progressing as planned. As AEM navigates the short-term headwinds, it is accelerating development of Test 2.0 solutions that will be the key driver of growth in coming years.
- **AEM's visibility remains limited to 2H23, yet there are positive signs across the industry.** Inventory levels are decreasing, and inventory corrections are expected to conclude in late-23 or early-24. Technology nodes are continuing to advance as two of the world's most advanced foundries are forecasting new process nodes to be up and generating revenue in 2H23. This in turn is expected to drive demand for new test capabilities.

### EARNINGS REVISION/RISK

- To account for AEM's weaker-than-expected 1Q23 net margin of 10.2% vs our estimate of 14.8% for 2023, we have reduced our 2023/24/25 net margin forecasts by 1.5%/1.4%/1.6% to 13.3%/13.7%/13.9%. As a result, our earnings estimates are reduced by 10%/9%/10% to S\$77m/S\$88m/S\$98m. The reduction in our 2023 net margin estimate is also to account for the weaker guidance from AEM's major customers due to the increasing macroeconomic headwinds.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a 3% higher target price of S\$2.87 (S\$2.78 previously).** This is based on 11.5x 2023F PE, pegged to 0.5SD above AEM's long-term forward mean PE (previously 10x 2023F PE, based on forward PE mean). The increase in our PE multiple peg is to capture AEM's earnings cycle which is approaching its trough and improvement in earnings quality as AEM is expected to more than double the revenue contributions from its new customers in 2023.

### SHARE PRICE CATALYST

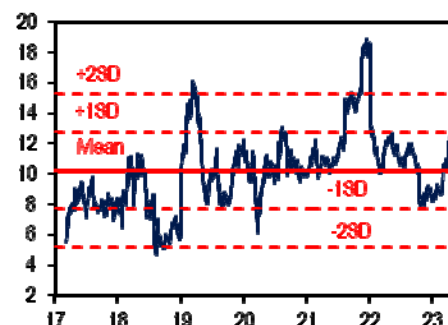
- Positive surprise in future revenue guidance.
- Acquisition of more new customers.

### PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 12-May-23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE	Yield	Net Gearing
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (%)	2023 (%)	(%)
AEM	AEM SP	SGD	3.37	781	13.5	11.9	1.9	1.7	8.0	7.3	15.0	1.9	(26.9)
<b>SGX-listed peers</b>													
UMS	UMSH SP	SGD	0.935	470	8.2	7.1	1.6	1.4	6.2	5.5	20.9	5.3	(5.9)
Frencken	FRKN SP	SGD	0.935	299	8.7	8.3	0.9	0.9	4.9	4.7	11.3	3.5	(4.2)
ISDN	ISDN SP	SGD	0.465	154	7.9	6.7	0.9	0.8	4.7	4.2	12.5	3.2	(6.8)
Grand Venture	GVTL SP	SGD	0.5	127	5.6	4.2	1.3	1.2	6.4	5.2	11.6	1.6	31.1
Avi-Tech	AVI SP	SGD	0.26	33	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(61.5)
<b>Average</b>					<b>7.6</b>	<b>6.6</b>	<b>1.2</b>	<b>1.1</b>	<b>5.5</b>	<b>4.9</b>	<b>14.1</b>	<b>3.4</b>	
<b>Others</b>													
Teradyne	TER US	USD	91.18	14,136	32.9	19.8	5.7	5.4	20.5	14.7	18.6	0.5	(30.2)
Advantest	6857 JP	JPY	12130	17,244	23.1	18.1	5.3	4.6	15.4	12.7	25.8	1.1	(9.4)
Cohu	COHU US	USD	34.26	1,628	17.5	13.9	1.7	1.5	10.4	8.8	9.2	0.0	(30.4)
Hirata	6258 JP	JPY	6880	549	15.0	12.0	1.2	1.1	9.5	8.5	8.8	1.4	19.6
Astronics	ATRO US	USD	15.6	507	n.a.	21.4	n.a.	n.a.	18.0	8.3	n.a.	n.a.	68.6
<b>Average</b>					<b>22.1</b>	<b>17.1</b>	<b>3.5</b>	<b>3.2</b>	<b>14.8</b>	<b>10.6</b>	<b>15.6</b>	<b>0.8</b>	

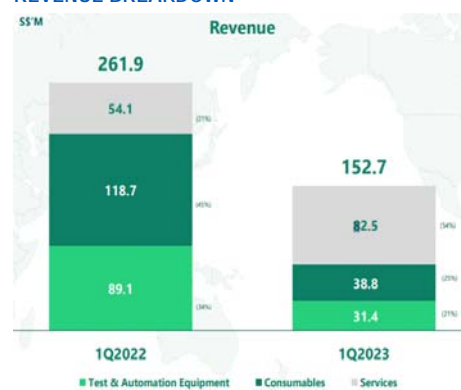
Source: Bloomberg, UOB Kay Hian

### FORWARD PE RANGE



Source: Bloomberg, UOB Kay Hian

### REVENUE BREAKDOWN



Source: AEM, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	870.5	580.3	639.4	704.7
EBITDA	183.8	112.6	124.3	134.8
Deprec. & amort.	23.5	16.9	16.9	15.8
EBIT	160.3	95.7	107.4	119.0
Associate contributions	(0.3)	(0.3)	(0.3)	(0.3)
Net interest income/(expense)	(1.3)	(2.6)	(1.3)	(0.9)
Pre-tax profit	158.7	92.8	105.7	117.9
Tax	(31.4)	(15.8)	(18.0)	(20.0)
Minorities	0.5	0.0	0.0	0.0
Net profit	127.8	77.0	87.8	97.9
Net profit (adj.)	127.8	77.0	87.8	97.9

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	(32.1)	203.6	83.2	88.7
Pre-tax profit	127.3	77.0	87.8	97.9
Tax	31.4	15.8	18.0	20.0
Deprec. & amort.	23.5	16.9	16.9	15.8
Associates	2.8	0.3	0.3	0.3
Working capital changes	(197.6)	106.8	(23.1)	(26.0)
Other operating cashflows	(19.5)	(13.2)	(16.6)	(19.2)
Investing	(38.4)	(19.2)	(18.2)	(18.1)
Capex (growth)	(4.3)	(20.0)	(20.0)	(20.0)
Investments	(12.8)	0.0	0.0	0.0
Proceeds from sale of assets	0.6	0.0	0.0	0.0
Others	(21.9)	0.8	1.8	1.9
Financing	(18.6)	(36.3)	(38.7)	(143.2)
Dividend payments	(36.2)	(19.3)	(21.9)	(24.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	50.0	0.0	0.0	0.0
Loan repayment	(15.4)	(13.7)	(13.7)	(116.0)
Others/interest paid	(17.1)	(3.4)	(3.1)	(2.8)
Net cash inflow (outflow)	(89.1)	148.1	26.2	(72.6)
Beginning cash & cash equivalent	216.2	127.8	275.9	302.1
Changes due to forex impact	0.7	0.0	0.0	0.0
Ending cash & cash equivalent	127.8	275.9	302.1	229.5

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	76.9	70.7	64.5	59.5
Other LT assets	138.1	147.1	156.1	165.1
Cash/ST investment	127.8	275.9	302.1	229.5
Other current assets	462.8	316.6	347.5	382.3
<b>Total assets</b>	<b>805.6</b>	<b>810.3</b>	<b>870.2</b>	<b>836.4</b>
ST debt	13.7	13.7	116.0	0.0
Other current liabilities	154.5	115.2	122.9	131.7
LT debt	129.7	116.0	0.0	0.0
Other LT liabilities	14.3	14.3	14.3	14.3
Shareholders' equity	485.0	542.8	608.6	682.0
Minority interest	8.4	8.4	8.4	8.4
<b>Total liabilities &amp; equity</b>	<b>805.6</b>	<b>810.3</b>	<b>870.2</b>	<b>836.4</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	21.1	19.4	19.4	19.1
Pre-tax margin	18.2	16.0	16.5	16.7
Net margin	14.7	13.3	13.7	13.9
ROA	16.9	9.5	10.4	11.5
ROE	28.8	15.0	15.2	15.2
<b>Growth</b>				
Turnover	53.9	(33.3)	10.2	10.2
EBITDA	45.5	(38.7)	10.4	8.5
Pre-tax profit	42.8	(41.5)	14.0	11.5
Net profit	38.6	(39.7)	14.0	11.5
Net profit (adj.)	38.6	(39.7)	14.0	11.5
EPS	23.7	(39.7)	14.0	11.5
<b>Leverage</b>				
Debt to total capital	22.5	19.0	15.8	0.0
Debt to equity	29.5	23.9	19.1	0.0
Net debt/(cash) to equity	3.2	(26.9)	(30.6)	(33.7)
Interest cover (x)	140.1	43.0	92.3	158.3

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