

### INITIATE COVERAGE

## AEM Holdings (AEM SP)

Strong And Sustained Rebound In Orders To Drive Share Price Gains

We expect aggressive capex by Intel and the set-up of the new Intel Foundry Services business to lead to sustained demand for consumables for older machines, while new fabs will lead to more orders for test equipment. We have not factored in new customers from whom AEM expects more meaningful contributions from 2022 onwards, while the acquisition of component manufacturer CEI Limited will drive meaningful cost savings. Initiate coverage with BUY and target price of S\$5.60.

### INITIATE COVERAGE

- **System-in-Package design shift to revolutionise semiconductor manufacturing.** Key customer Intel Corporation's (Intel) March IDM 2.0 strategy is a major bet that future demand and profitability lie in the packaging of modular dies (or chips), known as "tiles", which can squeeze more compute within a single package. Driving towards that goal, Intel intends to build new fabrication plants (fabs) for these new "tiled" chips, and is expected to outsource the production of certain modules. Existing capacity has also been earmarked for the foundry services market.
- **Sustained demand for AEM's total portfolio.** Intel's decision to maintain old fabs and build new ones means that AEM will enjoy: a) steady demand for its consumables and services, b) recurring but cyclical demand for equipment upgrades at Intel's old fabs, and c) demand for new equipment to test the new "tiled" chip products. That said, AEM provides mainly backend test equipment, where demand typically comes 6-9 months following the installation of front-end equipment at the new fabs. Additionally, management expects engagements with 10 of the top 20 global semiconductor companies to result in meaningful revenue contributions in 2H22 and beyond.
- **Acquisition of CEI to lead to cost savings.** We further estimate AEM to generate meaningful cost savings at the gross level of S\$5.6m-9.0m a year, by in-sourcing some of its production activities to CEI Limited (CEI). At the entity level, CEI is expected to also contribute S\$4.0m a year of incremental net profit to the overall group. We believe our estimates are conservative as we have not factored in further upside from capacity expansion in CEI's box-build business.
- **Initiate coverage with BUY.** We value the company at S\$5.60/share, implying 15.6x 2022F earnings. Our valuation is at a premium to the Singapore peer average forward PE of 10.1x. More direct competitors listed in the US and Japan trade at an average of 18.8x forward earnings.

Click [here](#) for Blue Top dated 29 Apr 22

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	519.0	565.5	719.9	809.7	834.0
EBITDA	121.6	126.3	148.4	173.5	178.4
Operating profit	113.2	111.8	136.3	161.4	166.3
Net profit (rep./act.)	97.6	92.2	111.6	133.1	137.9
Net profit (adj.)	97.6	92.2	111.6	133.1	137.9
EPS (S\$ cents)	35.49	31.77	35.8	42.7	44.3
PE (x)	13.5	14.3	13.3	11.1	10.8
P/B (x)	6.2	3.3	3.2	2.6	2.2
EV/EBITDA (x)	10.03	9.79	9.0	7.7	7.5
Dividend yield (%)	2.12	3.07	1.8	2.1	2.2
Net margin (%)	18.8	16.3	15.5	16.4	16.5
Net debt/(cash) to equity (%)	(58.4)	(33.5)	(28.8)	(37.7)	(47.1)
Interest cover (x)	n.a.	95.3	62.1	103.2	241.4
ROE (%)	n.a.	30.0	25.6	25.6	22.2
Consensus net profit	97.6	92.0	122.8	140.3	164.7
UOBKH/Consensus (x)			0.91	0.95	0.84

Source: AEM, Bloomberg, UOB Kay Hian

### BUY

Share Price	S\$4.76
Target Price	S\$5.60
Upside	+17.7%

### 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):	309.2
Market cap (S\$m):	1,471.9
Market cap (US\$m):	1,062.3
3-mth avg daily t'over (US\$m):	9.3

### Price Performance (%)

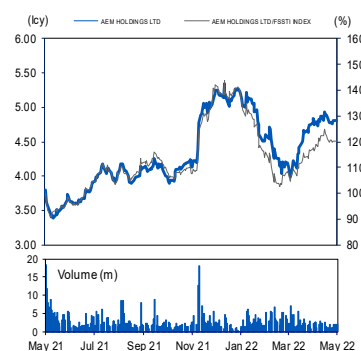
52-week high/low S\$3.38 – S\$5.35

1mth	3mth	6mth	1yr	YTD
1.9	3.7	13.6	15.5	(9.5)

### Major Shareholders

	%
Temasek Holdings	16.07
Standard Life Aberdeen plc	6.57
James Toh Ban Leng	5.04
FY22 NAV/Share (S\$)	1.50
FY22 Net Cash/Share (S\$)	0.46

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **Expect revenue of S\$720m in 2022 vs S\$566m in 2021.** AEM reported revenue of S\$373.2m for 2H21, driven by the volume ramp-up for new-generation SLT handlers as well as burn-in testers, and the consolidation of CEI which was acquired in 1H21. We believe 2H21 is the inflection point for test handlers to contribute more meaningfully to AEM going forward. Assuming flat consumables and services sales, we expect 2022 full-year revenue to come in at S\$720m – at the top end of the range guided by AEM.
- **Target 19.8% pre-tax margin in 2023 from integration synergies.** In 2019 and 2020, AEM's cost of raw materials as a percentage of revenue averaged 60%. For 2022 and 2023, we assumed flat cost of raw materials (excluding CEI's cost of sales). We next assumed about 10% of these costs, or S\$49m-54m of works, would be handed over to CEI and lead to cost savings based on CEI's projected gross margin of 22% across the forecast horizon. This led us to derive cost savings of S\$10.8m in 2022 and S\$11.8m in 2023. Based on these assumptions, we derived a group-level pre-tax margin of 18.7% and 19.8% for 2022 and 2023 respectively.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- **Initiate coverage with BUY and target price of S\$5.60.** The target price is pegged to 2022F earnings of 15.6x, or +2SD to its historical five-year range, supported by a forward ROE of 25.6%. This compares to the Singapore peer average forward PE of 10.1x and forward ROE of 20.6%. The valuation peg is supported by the positive outlook for AEM from 2022 onwards and the anticipated cyclical upturn of AEM's business.

### SHARE PRICE CATALYST

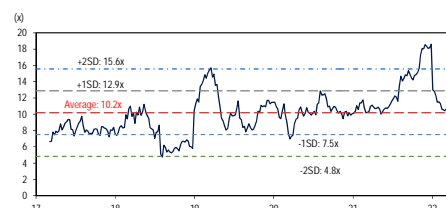
- Higher-than-expected revenue growth rates.
- Better-than-expected cost management.
- Earlier-than-expected integration synergies with CEI.

### PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 28 Apr 22 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Yield 2022F (%)	ROE 2022F (%)
					2021 (x)	2022F (x)	2023F (x)	Curr (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)		
AEM Holdings	AEM SP	S\$	4.76	1,090	15.0	13.3	11.1	3.3	3.2	2.6	14.3	13.4	11.2	1.8	25.6
UMS Holdings	UMSH SP	S\$	1.20	593	15.1	11.0	10.2	2.9	2.5	2.2	7.8	7.6	6.5	3.8	24.5
Frencken Group	FRKN SP	S\$	1.43	452	10.4	9.2	8.0	1.6	1.4	1.3	5.2	4.6	3.8	2.9	16.7
ISDN Holdings	ISDN SP	S\$	0.585	190	10.0	8.5	7.5	1.3	1.2	1.0	5.1	n.a.	n.a.	2.5	14.4
Grand Venture	GVTL SP	S\$	1.00	251	17.0	8.7	7.4	2.9	0.5	0.5	1.8	23.1	23.0	0.5	14.7
Avi-Tech Electronics	AVI SP	S\$	0.34	43	16.7	11.3	11.3	1.1	1.1	1.1	3.5	n.a.	n.a.	2.2	9.3
Singapore average					13.8	9.7	8.9	2.0	1.3	1.2	4.7	11.8	11.1	2.4	15.9
Teradyne	TER US	US\$	106.32	17,181	19.4	21.7	16.0	6.9	7.3	6.4	14.3	14.6	11.6	0.4	31.4
Advantest Corp	6857 JP	¥	8990	13,960	20.0	15.8	15.1	5.8	4.8	4.1	10.8	10.3	9.6	1.3	34.2
Cohu Inc.	COHU US	US\$	25.48	1,237	10.7	9.3	7.9	1.4	n.a.	n.a.	5.2	n.a.	n.a.	n.a.	13.7
Hirata Corp	6258 JP	¥	4800	402	11.3	13.9	11.5	0.9	0.9	0.9	8.7	7.8	7.1	1.4	6.9
Astronics Corp	ATRO US	US\$	10.00	320	n.a.	n.a.	15.9	1.2	n.a.	n.a.	16.4	16.5	6.2	n.a.	n.a.
Global average					15.3	15.2	13.3	3.3	4.3	3.8	11.1	12.3	8.6	1.0	21.5

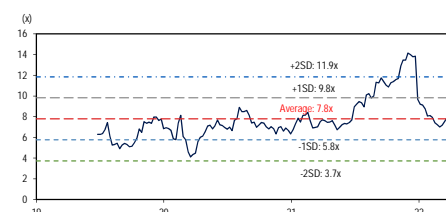
Source: UOB Kay Hian, Bloomberg

### HISTORICAL PE RANGE



Source: AEM, UOB Kay Hian

### HISTORICAL EV/EBITDA RANGE



Source: AEM, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (S\$m)	2021	2022F	2023F	2024F
Net turnover	565.5	719.9	809.7	834.0
EBITDA	126.3	148.4	173.5	178.4
Deprec. & amort.	14.5	12.1	12.1	12.1
EBIT	111.8	136.3	161.4	166.3
Associate contributions	0.6	0.6	0.6	0.6
Net interest income/(expense)	(1.3)	(2.4)	(1.7)	(0.7)
<b>Pre-tax profit</b>	<b>111.1</b>	<b>134.5</b>	<b>160.4</b>	<b>166.2</b>
Tax	(19.1)	(22.9)	(27.3)	(28.2)
Minorities	0.1	0.0	0.0	0.0
<b>Net profit</b>	<b>92.2</b>	<b>111.6</b>	<b>133.1</b>	<b>137.9</b>
Net profit (adj.)	92.2	111.6	133.1	137.9

### BALANCE SHEET

Year to 31 Dec (S\$m)	2021	2022F	2023F	2024F
Fixed assets	43.9	46.9	45.0	43.0
Other LT assets	116.5	112.0	107.4	102.9
Cash/ST investment	216.2	196.4	255.3	337.3
Other current assets	333.9	344.2	384.3	395.8
<b>Total assets</b>	<b>710.5</b>	<b>699.5</b>	<b>792.1</b>	<b>879.1</b>
ST debt	20.5	20.5	20.5	19.8
Other current liabilities	216.1	157.5	170.7	174.8
LT debt	60.8	40.3	19.8	0.0
Other LT liabilities	10.6	10.6	10.6	10.6
Shareholders' equity	402.5	470.7	570.5	673.9
<b>Total liabilities &amp; equity</b>	<b>710.5</b>	<b>699.5</b>	<b>792.1</b>	<b>879.1</b>

### CASH FLOW

Year to 31 Dec (S\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>52.1</b>	<b>56.6</b>	<b>119.4</b>	<b>142.7</b>
Pre-tax profit	92.1	111.6	133.1	137.9
Tax	19.1	22.9	27.3	28.2
Deprec. & amort.	14.5	12.1	12.1	12.1
Associates	(1.3)	(0.6)	(0.6)	(0.6)
Working capital changes	(55.1)	(69.0)	(26.9)	(7.4)
Other operating cashflows	(17.2)	(20.5)	(25.6)	(27.5)
<b>Investing</b>	<b>(85.2)</b>	<b>(9.4)</b>	<b>(4.4)</b>	<b>(4.2)</b>
Capex (growth)	(4.3)	(10.0)	(5.0)	(5.0)
Investments	(2.6)	0.0	0.0	0.0
Proceeds from sale of assets	1.9	0.0	0.0	0.0
Others	(80.2)	0.6	0.6	0.8
<b>Financing</b>	<b>113.4</b>	<b>(67.0)</b>	<b>(56.0)</b>	<b>(56.5)</b>
Dividend payments	(18.6)	(43.5)	(33.3)	(34.5)
Issue of shares	103.1	0.0	0.0	0.0
Proceeds from borrowings	57.1	0.0	0.0	0.0
Loan repayment	(0.5)	(20.5)	(20.5)	(20.5)
Others/interest paid	(27.8)	(3.0)	(2.3)	(1.5)
<b>Net cash inflow (outflow)</b>	<b>80.3</b>	<b>(19.8)</b>	<b>59.0</b>	<b>82.0</b>
Beginning cash & cash equivalent	134.8	216.2	196.4	255.3
Changes due to forex impact	1.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>216.2</b>	<b>196.4</b>	<b>255.3</b>	<b>337.3</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	22.3	20.6	21.4	21.4
Pre-tax margin	19.7	18.7	19.8	19.9
Net margin	16.3	15.5	16.4	16.5
ROA	17.6	15.8	17.8	16.5
ROE	30.0	25.6	25.6	22.2
<b>Growth</b>				
Turnover	9.0	27.3	12.5	3.0
EBITDA	3.9	17.5	17.0	2.8
Pre-tax profit	(2.3)	21.0	19.2	3.6
Net profit	(5.5)	21.0	19.2	3.6
Net profit (adj.)	(5.5)	21.0	19.2	3.6
EPS	(7.5)	7.1	19.2	3.6
<b>Leverage</b>				
Debt to total capital	16.8	11.4	6.6	2.8
Debt to equity	20.2	12.9	7.1	2.9
Net debt/(cash) to equity	(33.5)	(28.8)	(37.7)	(47.1)
Interest cover (x)	95.3	62.1	103.2	241.4

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