

COMPANY RESULTS

AEM Holdings (AEM SP)

1H23: Earnings Miss Forecasts, But Major Negative News Priced In; Upgrade To BUY

AEM's 1H23 earnings of S\$19.7m (-76% yoy) are below expectation, meeting only 26% of our full-year estimate, due to weaker-than-expected net margin. Revenue fell 49% yoy due to weakness in the semiconductor industry. AEM has revised down its 2023 revenue guidance by about 5%. We believe the major negative news has been priced in and the focus could be on the industry's recovery and new customers in the medium term. Raise target price by 27% to S\$3.65 (12.8x 2024F PE). Upgrade to BUY.

1H23 RESULTS

Year to 31 Dec (S\$m)	1H23	1H22	yoy % chg
Revenue	275.2	540.5	(49.1)
Pretax profit	23.9	102.0	(76.6)
Pretax margin	8.7%	18.9%	(10.2ppt)
Net profit	19.7	83.1	(76.2)
Net margin	7.2%	15.4%	(8.2ppt)

Source: AEM, UOB Kay Hian

RESULTS

- 1H23 earnings below expectations due to weaker-than-expected net margin and revenue.** AEM Holdings' (AEM) 1H23 earnings of S\$19.7m (-49% yoy) was below expectation, accounting for only 26% of our full-year estimate. The earnings miss was mainly due weaker-than-expected net margin, which fell 8.2ppt yoy to 7.2% in 1H23. The net margin decline was due to: a) higher-than-expected selling, general & admin expenses which fell only 21% vs a 50% decline in gross profit, which is attributable to high legal fees and higher depreciation; b) a change in product mix as revenue contribution from the high-margin consumables segment fell 65% yoy; and c) revenue from the services segment, which has lower margins, rose 33% yoy due to increased demand from bio medicals and oil & gas related customers.
- Two major negative news priced in.** With the settlement of arbitration worth US\$20m with Advantest and reduced revenue guidance by around 5%, we believe there should not be any major negative news in the near term. Also, AEM's one-week share price correction of about 16% should have priced in these negative news.
- The 49% yoy revenue decline in 1H23 was due to the weaker state of the semiconductor industry.** There was a surplus of inventory, which led to low test equipment utilisation and constrained test equipment capex budgets at the leading device manufacturers. This impacted device manufacturers' next-generation device release schedules, which has seen a pushout in their need for next-generation test equipment to 2024 and beyond.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	565	870	487	631	695
EBITDA	126	184	25	125	135
Operating profit	112	160	8	109	120
Net profit (rep./act.)	92	128	1	88	97
Net profit (adj.)	92	128	1	88	97
EPS (S\$ cents)	33.5	41.4	0.3	28.5	31.5
PE (x)	9.3	7.5	1,218.2	10.9	9.9
P/B (x)	2.1	2.0	2.0	1.7	1.5
EV/EBITDA (x)	7.4	5.1	38.3	7.5	6.9
Dividend yield (%)	2.4	3.3	0.0	2.3	2.5
Net margin (%)	16.3	14.7	0.2	14.0	14.0
Net debt/(cash) to equity (%)	(33.5)	3.2	(6.5)	1.1	(1.2)
Interest cover (x)	95.3	140.1	3.9	60.3	65.1
ROE (%)	30.0	28.8	0.2	17.0	16.5
Consensus net profit	-	-	69	112	133
UOBKH/Consensus (x)	-	-	0.01	0.79	0.73

Source: AEM, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$3.11
Target Price	S\$3.65
Upside	+17.5%
(Previous TP)	S\$2.87

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):	960.6
Market cap (US\$m):	709.5
3-mth avg daily t'over (US\$m):	5.2

Price Performance (%)

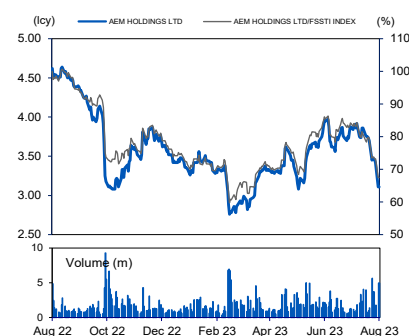
52-week high/low	S\$ 4.64/S\$ 2.76			
1mth	3mth	6mth	1yr	YTD
(19.8)	(7.7)	(5.8)	(29.0)	(9.1)

Major Shareholders

Temasek Hldgs	11.3
EPF	10.1

FY23 NAV/Share (S\$)	1.57
FY23 Net Cash/Share (S\$)	0.10

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **2023 revenue guidance reduced by around 5% to S\$460m-490m.** AEM has revised its revenue guidance for 2023 from a target of S\$500m to S\$460m-490m on the back of reduced test capital equipment utilisation levels across the industry and delays in current customer device release schedules.
- **AEM's Test 2.0 paradigm is at the forefront of test solutions for next-generation advanced logic devices,** including high-performance compute, given the group's unmatched capability in thermal and Device Under Test (DUT) power. Although the recent semiconductor industry slowdown has resulted in a short-term reduction in demand for new test capability and capacity, it has provided test development groups the breathing room to plan and devise their test strategies for the AI-fuelled boom that will help drive the industry to a trillion dollars.
- **AEM believes it is well-positioned to take advantage of the semiconductor volume growth** that is expected to return to the semiconductor industry in 2024. Inventory digestion is expected to continue throughout 2023. As the semiconductor world embraces chiplet technologies that bring computing and high bandwidth memory blocks closer and even stacked on top of each other, the need to test and assure performance over the lifetime of those ICs have become more complex and costly. The need to rethink how chiplets are tested is now acute and represents a market inflection. AEM's disruptive solutions have been at the core of its customer engagements for the past several years. At AEM, this is called Test 2.0.

EARNINGS REVISION/RISK

- To account for AEM's reduced revenue guidance, we have reduced our 2023 revenue estimate by 16% to S\$487m. The major contribution to our earnings cut for 2023 is the inclusion of S\$27m arbitration settlement cost which we have factored into 3Q23 earnings. As a result, our earnings estimate for 2023 are reduced by 99% to S\$1m, from S\$77m previously.
- We kept our 2024 and 2025 financial estimates unchanged.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a 27% higher target price of S\$3.65.** This is based on 12.8x 2024F PE, pegged to 0.5SD above AEM's historical mean PE. This is to account for the potential recovery in the semiconductor industry in 2024 and better earnings quality from increasing contributions of more new customers. We have rolled over our valuation base year to 2024.

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 14-Aug-23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2023 (%)	Yield 2023 (%)	Net Gearing (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)			
AEM	AEM SP	SGD	3.11	709	n.a.	2.0	1.8	1.6	38.3	6.8	0.2	0.0	(6.5)
SGX-listed peers													
UMS	UMSH SP	SGD	1.03	510	10.0	9.1	1.8	1.7	7.4	6.8	19.2	4.9	(5.9)
Frencken	FRKN SP	SGD	0.82	259	13.7	9.9	0.9	0.8	6.2	5.0	6.5	2.2	(4.2)
ISDN	ISDN SP	SGD	0.375	122	11.4	9.6	0.8	0.8	5.6	5.1	7.1	2.1	(6.8)
Grand Venture	GVTL SP	SGD	0.6	150	0.2	0.1	1.6	1.5	9.1	6.4	5.8	0.7	31.1
Avi-Tech	AVI SP	SGD	0.28	35	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(61.5)
Average					8.8	7.2	1.3	1.2	7.1	5.8	9.6	2.5	
Others													
Teradyne	TER US	USD	101.73	15,668	35.8	22.5	6.5	6.0	23.2	16.2	18.5	0.4	(28.5)
Advantest	6857 JP	JPY	17780	23,502	37.7	26.2	8.0	6.9	25.2	18.9	21.6	0.8	(1.9)
Cohu	COHU US	USD	37.27	1,774	21.8	15.3	1.9	1.7	11.3	8.9	8.8	0.0	(32.3)
Hirata	6258 JP	JPY	7580	563	16.7	13.8	1.2	1.2	11.4	9.8	7.7	1.3	36.5
Astronics	ATRO US	USD	16.96	552	n.a.	22.0	n.a.	n.a.	15.9	8.8	n.a.	n.a.	88.9
Average					28.0	20.0	4.4	3.9	17.4	12.5	14.2	0.6	

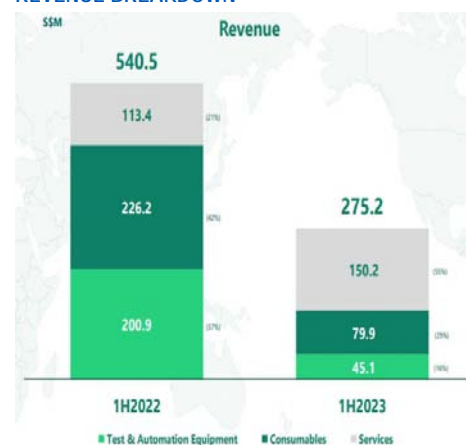
Source: Bloomberg, UOB Kay Hian

HISTORICAL 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	487.0	631.1	695.1
EBITDA	183.8	24.5	125.5	135.3
Deprec. & amort.	23.5	16.9	16.9	15.8
EBIT	160.3	7.6	108.6	119.6
Associate contributions	(0.3)	(0.3)	(0.3)	(0.3)
Net interest income/(expense)	(1.3)	(6.3)	(2.1)	(2.1)
Pre-tax profit	158.7	0.9	106.2	117.2
Tax	(31.4)	(0.2)	(18.1)	(19.9)
Minorities	0.5	0.0	0.0	0.0
Net profit	127.8	0.8	88.1	97.3
Net profit (adj.)	127.8	0.8	88.1	97.3

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	167.1	196.9	226.3
Cash/ST investment	127.8	161.1	110.1	7.7
Other current assets	462.8	341.2	440.7	484.2
Total assets	805.6	740.1	812.2	777.8
ST debt	13.7	13.7	116.0	0.0
Other current liabilities	154.5	102.1	121.8	130.4
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	485.6	551.7	624.7
Minority interest	8.4	8.4	8.4	8.4
Total liabilities & equity	805.6	740.1	812.2	777.8

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	(32.1)	93.5	26.8	80.0
Pre-tax profit	127.3	0.8	88.1	97.3
Tax	31.4	0.2	18.1	19.9
Deprec. & amort.	23.5	16.9	16.9	15.8
Associates	2.8	0.3	0.3	0.3
Working capital changes	(197.6)	69.2	(80.6)	(35.4)
Other operating cashflows	(19.5)	6.2	(16.0)	(17.8)
Investing	(38.4)	(39.2)	(39.0)	(39.3)
Capex (growth)	(4.3)	(40.0)	(40.0)	(40.0)
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	1.0	0.7
Financing	(18.6)	(21.0)	(38.8)	(143.1)
Dividend payments	(36.2)	(0.2)	(22.0)	(24.3)
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)	(7.2)	(3.1)	(2.8)
Net cash inflow (outflow)	(89.1)	33.3	(51.0)	(102.4)
Beginning cash & cash equivalent	216.2	127.8	161.1	110.1
Changes due to forex impact	0.7	0.0	0.0	0.0
Ending cash & cash equivalent	127.8	161.1	110.1	7.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	21.1	5.0	19.9	19.5
Pre-tax margin	18.2	0.2	16.8	16.9
Net margin	14.7	0.2	14.0	14.0
ROA	16.9	0.1	11.4	12.2
ROE	28.8	0.2	17.0	16.5
Growth				
Turnover	53.9	(44.0)	29.6	10.1
EBITDA	45.5	(86.7)	412.1	7.9
Pre-tax profit	42.8	(99.4)	11,081.5	10.4
Net profit	38.6	(99.4)	11,081.5	10.4
Net profit (adj.)	38.6	(99.4)	11,081.5	10.4
EPS	23.7	(99.4)	11,081.5	10.4
Leverage				
Debt to total capital	22.5	20.8	17.2	0.0
Debt to equity	29.5	26.7	21.0	0.0
Net debt/(cash) to equity	3.2	(6.5)	1.1	(1.2)
Interest cover (x)	140.1	3.9	60.3	65.1

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