



CHINA
DEVELOPMENT
FINANCIAL

AEM Holdings Ltd

(AEM SP/AWX.SI)

Share price takes five from the \$5 mark

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- **AEM's 1Q21 results were weaker than expected.** 1Q21 sales of S\$80mn and PBT of S\$16mn is -45% and -64% on a year-on-year basis.
- **FY21 to come in ~35% below our estimate.** FY21 sales guidance of S\$490mn at the midpoint includes the ~S\$120mn contribution from CEI. Implied core sales of S\$370mn is more than 30% below our estimates.
- **Maintain OUTPERFORM with lower TP of S\$4.36.** While long term prospects remain bright, there is limited near-term upside from the current share price, based on available information. We expect catalysts in 2H21 where orders could possibly come in at a higher than expected volume.

1Q21 sales drop was larger than expected. Tools & Machines' sales are back near 1Q19's levels, where HDMT sales fall-off was larger than what we had expected. For reference, we had 30/53/45 HDMT sales pencilled in for FY19/20/21F respectively. 1Q21 profit margin at 16.6% was partially diluted by CEI's single digit profit margins. However, without CEI, AEM's profit margin was at 17.6%, from lost economies of scale.

AEM's provision of FY21 sales guidance of S\$460-520mn implies a peak in 2020. Management expects CEI's contribution to be similar to last year, thus AEM's core sales is expected to be S\$320-400mn, around 65% of our FY21 estimate.

With the peaks come the troughs. The short term may look bleak for AEM as high-volume manufacturing for the next generation test handler is expected to come in 2H21. AEM has continued its acquisition spree in the meantime, with the ATECO acquisition to enhance their offering for the memory IC market. We expect the move to help open up opportunities to the likes of Samsung and SK Hynix, though we view Micron as the partner of highest likelihood, given their proximity to AEM's current bases of operation.

Outperform (Maintain)		Performance (Absolute)	
Price as of 4 May 21 (SGD)	3.79	1 Month (%)	-9.5
12M TP (S\$)	4.36	3 Month (%)	-7.5
Previous TP (S\$)	5.05	12 Month (%)	63.5
Upside (%)	15.1		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (S\$m)	1,065		
Issued Shares (mn)	281		
Vol - 3M Daily avg (mn)	4.4		
Val - 3M Daily avg (\$mn)	18.0		
Free Float (%)	87.4%		
Major Shareholders		Previous Recommendations	
James Toh Ban Leng	5.1%	12-Mar-21	OP S\$5.05
Standard Life Aberdeen	5.1%	5-Nov-20	OP S\$5.26
UBS AG	4.9%	5-Oct-20	OP S\$4.78

Financials & Key Operating Statistics					
YE Dec (S\$m)	2019A	2020A	2021F	2022F	2023F
Revenue	323.3	522.3	392.9	510.8	485.2
PATMI	52.8	97.6	69.4	91.8	87.3
Core PATMI	52.6	94.7	69.0	91.4	86.9
Core EPS	0.195	0.344	0.251	0.333	0.316
Core EPS grth (%)	59.7	76.8	-27.1	32.4	-5.0
Core P/E (x)	19.4	10.7	15.1	11.4	12.0
DPS (SGCents)	5.1	9.0	6.3	8.4	7.9
Div Yield (%)	1.3	2.4	1.7	2.2	2.1
Net Margin (%)	16.3	18.7	17.7	18.0	18.0
Gearing (%)	net cash net cash net cash net cash net cash				
Price / Book (x)	7.6	4.9	3.9	3.1	2.6
ROE (%)	47.1	56.4	29.1	30.5	23.5

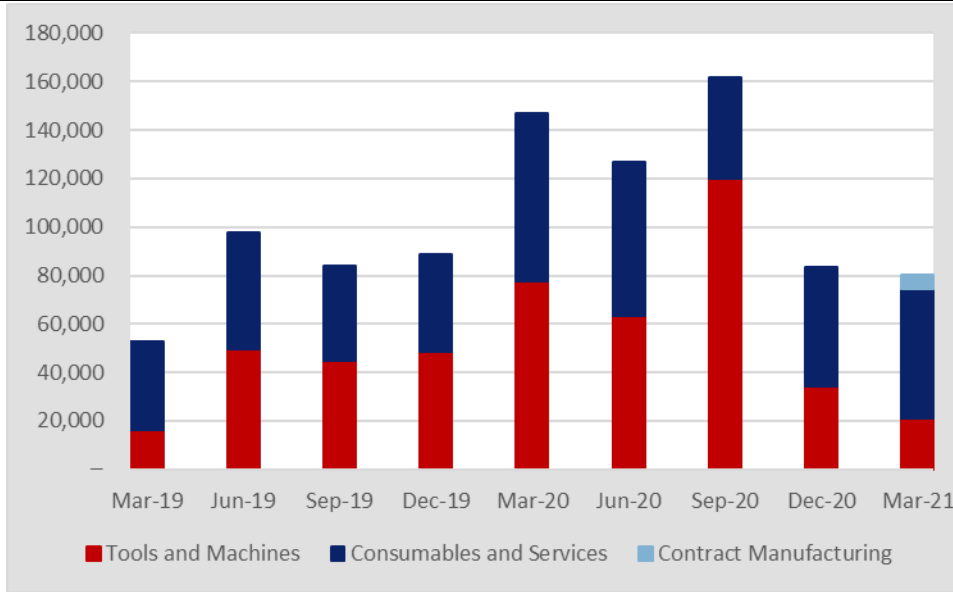
Source: Company Data, KGI Research

Forecasts: We trim AEM's FY21 core revenue contribution to around S\$392mn, after moderating HDMT forecasts to around 2019's level of production, while reducing next gen test handler forecasts. Total test handler sales estimates are trimmed from 82 to 64. Our forecasts continue to exclude CEI's numbers, which we will look to integrate at a later date.

Valuation & Action: Maintain OUTPERFORM, with reduced 12M Target Price of S\$4.36. We maintain 14x P/E peg, but take a 50-50 blended diluted EPS between FY21 and FY22 for AEM's core business, while including CEI's S\$6mn of profit as part of the valuation.

Risks: Weak order book, long-term competitiveness of key customer, US-China trade tensions. AEM's size may also be a disadvantage in competing for so many major customers' attention at the same time.

Figure 1: AEM's 1Q21 machine production is back to March 2019's levels



Source: Company, KGI Research.

Financial Forecasts

YE 31 Dec

INCOME STATEMENT (\$\$mn)	2019A	2020A	2021F	2022F	2023F
Core Revenue	323.1	519.0	392.5	510.2	484.7
Change in inventory	18.6	10.5	0.0	0.0	0.0
Cost of sales	(210.9)	(325.9)	(239.4)	(311.8)	(296.6)
Gross Profit	130.8	203.5	153.1	198.5	188.1
D&A expense	(6.1)	(8.4)	(8.1)	(8.3)	(7.8)
Staff expenses	(47.4)	(67.5)	(51.0)	(66.3)	(63.0)
Selling, general, admin expenses	(14.5)	(17.7)	(12.2)	(15.7)	(15.0)
Other operating income/(expenses)	0.2	3.4	0.4	0.5	0.5
Profit from Operations	62.7	109.8	81.7	108.1	102.2
Finance income/(expenses)	0.4	0.4	0.9	1.4	1.8
Share of JV results	0.5	0.2	0.5	0.6	0.6
Exceptionals/Investment income	0.0	0.0	0.0	0.0	0.0
Profit before Tax	63.6	110.4	83.2	110.2	104.7
Income tax	(11.0)	(16.2)	(14.2)	(18.8)	(17.9)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	52.6	94.2	69.0	91.3	86.8
BALANCE SHEET (\$\$mn)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	107.7	134.8	202.9	263.6	328.2
Trade and other receivables	32.8	51.9	39.2	51.0	48.5
Inventory	57.5	79.7	47.9	62.4	59.3
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	198.0	266.4	290.0	376.9	436.0
Property, plant and equipment	6.3	8.1	10.0	12.1	13.4
Intangibles	16.9	46.6	44.6	42.9	41.5
Other non-current assets	6.8	14.4	14.1	27.8	30.6
Non-current Assets	30.0	69.1	68.6	82.7	85.6
Total assets	228.0	335.5	358.6	459.7	521.6
Trade and other payables	76.8	86.5	64.6	84.2	80.1
Borrowings (current)	0.0	5.0	0.0	0.0	0.0
Other current liabilities	14.5	20.2	17.9	17.9	17.9
Current Liabilities	91.3	111.7	82.5	102.0	97.9
Borrowings (non-current)	0.0	6.3	0.0	0.0	0.0
Other non-current liabilities	2.4	6.1	10.6	20.6	18.6
Non-current liabilities	2.4	12.4	10.6	20.6	18.6
Shareholders equity	134.3	211.4	265.5	337.0	405.0
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	134.3	211.4	265.5	337.0	405.0
Total Liabilities and Equity	228.0	335.5	358.6	459.7	521.6
CASH FLOW STATEMENT (\$\$mn)	2019A	2020A	2021F	2022F	2023F
Net income before tax	63.7	113.8	83.6	110.7	105.2
Depreciation & Amortisation	3.3	4.4	8.1	8.3	7.8
Other non-cash adjustments	(19.8)	(38.2)	37.5	(12.1)	2.9
Change in Working Capital	(4.4)	21.2	(18.4)	6.4	(1.4)
Income Tax Paid	(6.6)	(9.8)	(14.2)	(18.8)	(17.9)
Interest Paid	0.2	0.0	0.0	0.0	0.0
CF from operating activities	36.4	91.3	96.5	94.4	96.6
Purchase/Disposal of PPE	(2.4)	(3.2)	(3.9)	(4.1)	(3.9)
Other CFI	(0.4)	(26.5)	0.9	1.4	1.8
CF from investing activities	(2.8)	(29.8)	(3.0)	(2.7)	(2.0)
Dividends Paid	(10.5)	(22.2)	(17.3)	(23.0)	(21.8)
Debt Raised / (Repaid)	(0.2)	0.4	0.0	0.0	0.0
Equity Raised / (Bought Back)	(1.7)	(2.9)	0.0	0.0	0.0
Other Cash from Financing	(2.8)	(1.2)	(4.6)	(4.6)	(4.6)
CF from financing activities	(15.2)	(25.9)	(21.9)	(27.6)	(26.4)
Net increase in cash & cash equiv.	49.7	30.6	71.6	64.2	68.2
FX effects	(0.9)	(3.5)	(3.5)	(3.5)	(3.5)
Beginning Cash	58.9	107.7	134.8	202.9	263.6
Ending Cash	107.7	134.8	202.9	263.6	328.2
KEY RATIOS	2019A	2020A	2021F	2022F	2023F
Profitability					
Core EPS	0.1949	0.3445	0.2511	0.3325	0.3160
Core EPS Growth (%)	59.7%	76.8%	-27.1%	32.4%	-5.0%
DPS (SGD Cents)	5.1	9.0	6.3	8.4	7.9
Dividend Yield (%)	1.3	2.4	1.7	2.2	2.1
Profitability (%)					
Gross margin	40.5%	39.6%	39.1%	39.0%	38.9%
EBITDA margin	21.3%	23.3%	23.0%	22.9%	22.8%
Net margin	16.3%	18.7%	17.7%	18.0%	18.0%
ROE	47.1%	56.4%	29.1%	30.5%	23.5%
ROA	29.0%	34.6%	20.0%	22.4%	17.8%
Financial Structure					
Interest coverage (x)	393.2	505.2	nm	nm	nm
Total Debt/Equity (%)	0.0	5.3	0.0	0.0	0.0
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash
Market Valuation (x)					
Price / Earnings	19.4	10.7	15.0	11.3	11.9
Price / Book	7.6	4.9	3.9	3.1	2.6
Price / Sales	3.2	2.0	2.7	2.0	2.1
EV / EBITDA	13.3	7.6	9.3	6.7	6.5

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