



# AEM Holdings Ltd

(AEM SP/AWX.SI)

## Billion Dollar Round Table

Tan Jiunn Chyuan (Kenny) / 65 6202 1196 / kenny.tan@kgi.com

- **AEM reported 1H20 results** with S\$273.7mn sales (+83% YoY) and S\$55.3mn PATMI (+148% YoY).
- **AEM revised sales guidance upwards by another S\$30mn**, putting the FY20F goal post at S\$460 - 480mn. The company also affirmed that FY21 will see a ramp-up of next gen test handlers.
- **AEM confirmed doubts over key customer's business decisions.** We think short/medium term expectations are rock solid, while long term doubts about process leadership remain.
- **Maintain OUTPERFORM with new TP of S\$4.60.** We revise up sales estimate in line with AEM's upward revision.

**1H20 results in line.** Based on 1H20 results, 2Q20 implied revenue is at S\$130mn, -11% QoQ but +32% YoY, with 14.7% profit margin, in line with our overall net margin estimate. AEM stuck to their 25% dividend payout policy and will be giving 5.0 Scts for 1H20 interim dividend, 250% more than 1H19's 2.0 Scts.

AEM also proved us wrong with yet another sales guidance increase to S\$ 460 – 480mn. Given key customer Intel's cut to Capex guidance, AEM will now take > 2% of wallet spend. AEM has also confirmed that FY21F will see a production ramp-up of the newest generation test handler. Given the specialised use case of the new test handler, we think the sale count would remain much less than HDMT.

**Outsourcing not an issue.** Since Intel has indicated a willingness to outsource and use external manufacturing such as TSMC's fabs, a key question we had coming into the earnings call was whether AEM's testers would still be in use for these outsourced chips. Good news were delivered, as Intel is currently using and highly likely to continue using their own package and test facilities, which means AEM's equipment demand should remain unaffected by this development. However, long term risks remain with regards to whether Intel can finally catch up and deliver its 10nm product line-up, and whether Intel can reduce the process leadership gap by being true to their word and producing 7nm process node chips in 2022. Additional delays will chalk up greater uncertainty for AEM's long term prospects.

### OUTPERFORM - Maintain

Price as of 3 Aug 20 (SGD)	3.66	<b>Performance (Absolute)</b>	
12M TP (S\$)	4.60	1 Month (%)	32.9
Previous TP (S\$)	4.24	3 Month (%)	50.9
Upside (%)	25.7	12 Month (%)	279.0
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (S\$m)	1,152		
Issued Shares (mn)	274		
Vol - 3M Daily avg (mn)	7.5		
Val - 3M Daily avg (\$mn)	23.6		
Free Float (%)	88.1%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
James Toh Ban Leng	6.8%	23-Jul-20	OP S\$4.24
Standard Life Aberdeen	5.0%	14-May-20	OP S\$3.61
Morgan Stanley	5.0%	2-Mar-20	OP S\$2.60

### Financials & Key Operating Statistics

YE Dec (S\$m)	2018A	2019A	2020F	2021F	2022F
Revenue	262.7	323.3	474.0	497.2	503.5
PATMI	33.5	52.8	89.6	91.6	93.5
Core PATMI	33.2	52.6	86.5	91.2	93.1
Core EPS	0.122	0.195	0.320	0.338	0.345
Core EPS grth (%)	-0.9	59.7	64.3	5.5	2.1
Core P/E (x)	29.7	18.7	11.0	10.8	10.6
DPS (SGCents)	3.4	5.1	8.3	8.5	8.7
Div Yield (%)	0.9	1.4	2.3	2.3	2.4
Net Margin (%)	12.7	16.3	18.9	18.4	18.6
Gearing (%)		net cash	net cash	net cash	net cash
Price / Book (x)	11.1	7.4	4.8	3.5	2.7
ROE (%)	45.5	47.1	52.3	37.3	29.0

Source: Company Data, KGI Research

**Forecasts:** We adjust test handler sales estimate, and thus revenue, to match AEM's new guidance. We revise down SGA and Capex costs to match AEM's 1H20 results more closely. Our FY20F profit margin forecast is increased from 18.6% to 18.9%, which implies 17+% margins for 2H20. Our new FY20F sales forecast is S\$474mn, +6.5% from prior forecast, and new FY20F earnings forecast is S\$89.6mn, +8.4% from prior forecast.

**Valuation & Action: Maintain OUTPERFORM, with increased Target Price of S\$4.60.** We maintain our 14x peg, established 1.5 weeks earlier.

**Risks:** Possibility of key customer at peak Capex, long-term competitiveness of key customer, US-China trade tensions, competitors' R&D weakening AEM's market position.

**Figure 1: AEM peer comparison table**

Company Name	BBG Ticker	Price (local curr.)	Market Cap (S\$ Mn)	P/E (x)			P/B (x)		3y EPS CAGR (%)	EV/EBITDA (x)		Div Yield (%)	YTD Price Performance (%)	1y Price Performance (%)	1mth Price Performance (%)
				Current	FY20F	FY21F	Current	TTM		FY20F					
AEM HOLDINGS LTD	AEM SP	SGD 3.66	1141	13.7	11.0	10.8	6.5	163%	15.0	7.2	2.30	105.9	221.1	29.3	
<b>Semiconductor Back-end Testing Equipment Manufacturers (Average)</b>				<b>30.7</b>	<b>30.9</b>	<b>21.2</b>	<b>5.5</b>		<b>20.2</b>	<b>15.0</b>	<b>0.5</b>	<b>15.2</b>	<b>49.2</b>	<b>7.5</b>	
TERADYNE INC	TER US	USD 88.96	20609	25.8	23.6	22.3	8.6	-	16.2	15.3	0.42	32.4	68.8	5.4	
ADVANTEST CORP	6857 JP	JPY 5610	14442	21.3	22.8	17.8	4.7	63%	14.6	11.5	-	-9.4	30.5	1.2	
CHROMA ATE INC	2360 TT	TWD 168	3289	34.2	27.0	18.4	5.1	17%	26.1	16.3	-	15.5	20.4	-0.3	
COHU INC	COHU US	USD 18.83	1089	-	41.0	14.7	1.7	-	-	11.8	0.95	-16.9	27.3	27.3	
PENTAMASTER CORP BHD	PENT MK	MYR 4.57	1087	41.6	40.3	32.7	7.4	44%	23.9	20.2	0.21	54.6	99.1	4.1	

*Updated on 03 August 2020*
*Source: Bloomberg, KGI Research*

**Financial Forecasts**

YE 31 Dec

<b>INCOME STATEMENT (\$\$mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Core Revenue</b>	<b>262.3</b>	<b>323.1</b>	<b>470.2</b>	<b>496.7</b>	<b>503.0</b>
Change in inventory	(7.2)	18.6	0.0	0.0	0.0
Cost of sales	(166.1)	(210.9)	(277.4)	(293.1)	(296.8)
<b>Gross Profit</b>	<b>89.1</b>	<b>130.8</b>	<b>192.8</b>	<b>203.6</b>	<b>206.2</b>
D&A expense	(1.9)	(6.1)	(7.6)	(7.8)	(7.5)
Staff expenses	(32.5)	(47.4)	(64.9)	(69.5)	(70.4)
Selling, general, admin expenses	(15.3)	(14.5)	(17.5)	(18.4)	(18.6)
Other operating income/(expenses)	0.4	0.2	3.8	0.5	0.5
<b>Profit from Operations</b>	<b>39.4</b>	<b>62.7</b>	<b>102.8</b>	<b>107.9</b>	<b>109.7</b>
Finance income/(expenses)	0.3	0.4	0.9	1.3	1.9
Share of JV results	(0.0)	0.5	0.5	0.6	0.6
Exceptionals/Investment income	0.0	0.0	0.0	0.0	0.0
<b>Profit before Tax</b>	<b>39.6</b>	<b>63.6</b>	<b>104.2</b>	<b>109.9</b>	<b>112.2</b>
Income tax	(6.5)	(11.0)	(18.3)	(18.8)	(19.2)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
<b>PATMI</b>	<b>33.1</b>	<b>52.6</b>	<b>85.8</b>	<b>91.1</b>	<b>93.0</b>
<b>BALANCE SHEET (\$\$mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Cash and cash equivalents	58.9	107.7	165.8	238.8	314.3
Trade and other receivables	22.5	32.8	48.5	51.2	51.9
Inventory	27.4	57.5	55.5	58.6	59.4
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>108.8</b>	<b>198.0</b>	<b>269.8</b>	<b>348.7</b>	<b>425.6</b>
Property, plant and equipment	5.7	6.3	8.2	9.8	11.4
Intangibles	17.7	16.9	15.5	14.4	13.7
Other non-current assets	4.2	6.8	22.4	22.3	22.3
<b>Non-current Assets</b>	<b>27.7</b>	<b>30.0</b>	<b>46.1</b>	<b>46.5</b>	<b>47.4</b>
<b>Total assets</b>	<b>136.4</b>	<b>228.0</b>	<b>315.8</b>	<b>395.2</b>	<b>472.9</b>
Trade and other payables	33.1	73.1	71.2	75.2	76.1
Borrowings (current)	0.2	0.0	0.0	0.0	0.0
Other current liabilities	10.4	18.1	15.4	15.6	15.6
<b>Current Liabilities</b>	<b>43.7</b>	<b>91.3</b>	<b>86.5</b>	<b>90.7</b>	<b>91.7</b>
Borrowings (non-current)	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	3.2	2.4	21.3	21.0	20.6
<b>Non-current liabilities</b>	<b>3.3</b>	<b>2.4</b>	<b>21.3</b>	<b>21.0</b>	<b>20.6</b>
Shareholders equity	89.5	134.3	208.0	283.7	360.9
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>89.5</b>	<b>134.3</b>	<b>208.0</b>	<b>283.7</b>	<b>360.9</b>
<b>Total Liabilities and Equity</b>	<b>136.4</b>	<b>228.0</b>	<b>315.9</b>	<b>395.4</b>	<b>473.2</b>
<b>CASH FLOW STATEMENT (\$\$mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Net income before tax	40.0	63.7	107.9	110.4	112.7
Depreciation & Amortisation	1.9	6.1	7.6	7.8	7.5
Other non-cash adjustments	(6.9)	8.7	(25.6)	1.9	3.8
Change in Working Capital	4.3	(4.4)	15.4	1.6	0.4
Income Tax Paid	(5.2)	(6.6)	(18.3)	(18.8)	(19.2)
Interest Paid	0.0	0.2	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>34.1</b>	<b>67.7</b>	<b>86.9</b>	<b>102.8</b>	<b>105.2</b>
Purchase/Disposal of PPE	(2.9)	(2.4)	(4.2)	(5.0)	(5.0)
Other CFI	(10.4)	(0.4)	0.9	1.3	1.9
<b>CF from investing activities</b>	<b>(13.2)</b>	<b>(2.8)</b>	<b>(3.4)</b>	<b>(3.6)</b>	<b>(3.1)</b>
Dividends Paid	(8.4)	(10.5)	(22.4)	(22.9)	(23.4)
Debt Raised / (Repaid)	(0.3)	(0.2)	0.0	0.0	0.0
Equity Raised / (Bought Back)	(1.2)	(1.7)	0.0	0.0	0.0
Other Cash from Financing	0.6	(2.8)	(3.0)	(3.2)	(3.2)
<b>CF from financing activities</b>	<b>(9.2)</b>	<b>(15.2)</b>	<b>(25.4)</b>	<b>(26.2)</b>	<b>(26.6)</b>
Net increase in cash & cash equiv.	11.6	49.7	58.1	73.1	75.5
FX effects	1.2	(0.9)	0.0	0.0	0.0
Beginning Cash	46.1	58.9	107.7	165.8	238.8
<b>Ending Cash</b>	<b>58.9</b>	<b>107.7</b>	<b>165.8</b>	<b>238.8</b>	<b>314.3</b>
<b>KEY RATIOS</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Profitability</b>					
Core EPS	0.1220	0.1949	0.3202	0.3377	0.3449
Core EPS Growth (%)	-0.9%	59.7%	64.3%	5.5%	2.1%
DPS (SGD Cents)	3.4	5.1	8.3	8.5	8.7
Dividend Yield (%)	0.9	1.4	2.3	2.3	2.4
<b>Profitability (%)</b>					
Gross margin	34.1%	40.5%	41.5%	41.1%	41.1%
EBITDA margin	15.8%	21.3%	24.1%	23.4%	23.4%
Net margin	12.7%	16.3%	18.9%	18.4%	18.6%
ROE	45.5%	47.1%	52.3%	37.3%	29.0%
ROA	26.5%	29.0%	28.4%	25.8%	21.5%
<b>Financial Structure</b>					
Interest coverage (x)	993.7	393.2	nm	nm	nm
Total Debt/Equity (%)	0.3	0.0	0.0	0.0	0.0
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash
<b>Market Valuation (x)</b>					
Price / Earnings	29.7	18.7	11.0	10.8	10.6
Price / Book	11.1	7.4	4.8	3.5	2.7
Price / Sales	3.8	3.1	2.1	2.0	2.0
EV / EBITDA	22.5	12.8	7.2	6.4	5.7

**KGI's Ratings**

Rating	Definition
<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
<b>Restricted (R)</b>	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

**Disclaimer**

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.