

AEM Holdings

(AEM SP/AWX.SI)

Divide and Conquer

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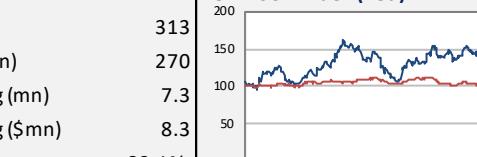
- We initiate with an **OUTPERFORM** and TP of S\$1.34, based on 11x 2020F EPS, a 39% discount to global semiconductor capital equipment manufacturers
- Latest 2019F revenue guidance from management in September is at S\$285 – 305mn, representing a minimum 8.5% YoY increase
- AEM's key customer, while currently facing stiff competition in its primary markets, is still likely to continue spending to stay on top
- AEM's diversification efforts and recurring sales of test handler accessories can support the potential slowdown of its test handler sales
- We anticipate a dip in revenue and profits in 2020, but expect a rebound in 2021 as its major client migrates on to the next technology node
- Our estimates are on the conservative side as we have currently not included the potential upside from AEM's new businesses

Investment Thesis:

Upside surprises. 2019 is generally a difficult year for most semiconductor players, but not AEM. Soft revenue guidance at the beginning of the year was consistently raised as the key customer continued ordering more equipment. We think that the anticipated softness in 2019 may surface in 2020 instead, but 2021 should see a rebound in test handler sales to meet the key customer's shift towards the 7nm chip process.

Diversification efforts bearing fruit. Since 2016, AEM embarked on diversification efforts with 3 acquisitions and a minority stake in a company, and has also developed its own modular test handler for other product markets. These solutions have been well-received, with various key customers coming on-board. We think these solutions can cushion the impact of the potential softening of High Density Modular Test (HDMT) handler sales in 2020.

Forecasts. We expect 2019/20/21F core earnings to move 12.3/-11.0/15.0% YoY to S\$37.3/33.2/38.1 mn. Our key assumption is in the forecast of 57/51/55 test handlers sold and flattish sales from new businesses. We estimate for increasing gross margins due to sales mix towards the higher margin consumables. We look to revise our forecasts when management gives FY2020 guidance, likely in Feb/Mar 2020. Refer to page 6 for our detailed forecast.

Outperform - Initiation	
Price as of 10 Oct 19 (SGD)	1.16
12M TP (\$\$)	1.34
Previous TP (\$\$)	na
Upside (%)	15.5
Performance (Absolute)	
1 Month (%)	4.5
3 Month (%)	13.7
12 Month (%)	46.9
Trading data	
Mkt Cap (\$mn)	313
Issued Shares (mn)	270
Vol - 3M Daily avg (mn)	7.3
Val - 3M Daily avg (\$mn)	8.3
Free Float (%)	83.1%
Perf. vs STI Index (Red)	
	
Major Shareholders	
Standard Life Aberdeen	8.1%
James Toh Ban Leng	7.8%
UBS AG	5.0%
Previous Recommendations	

Financials & Key Operating Statistics					
YE Dec (\$\$mn)	2017A	2018A	2019F	2020F	2021F
Revenue	221.8	262.7	296.3	254.9	301.2
PATMI	32.2	33.5	37.6	33.4	38.5
Core PATMI	32.0	33.2	37.3	33.2	38.1
Core EPS	0.123	0.122	0.137	0.122	0.140
Core EPS grth (%)	0.0	-0.9	12.3	-11.0	15.0
Core P/E (x)	9.4	9.4	8.4	9.4	8.2
DPS (SGCents)	1.2	3.4	3.5	3.1	3.5
Div Yield (%)	1.0	2.9	3.0	2.7	3.0
Net Margin (%)	14.5	12.7	12.7	13.1	12.8
Gearing (%)	-79.7	-65.5	-69.9	-76.1	-78.2
Price / Book (x)	5.2	3.5	2.7	2.2	1.8
ROE (%)	55.7	37.4	31.9	23.4	22.4

Source: Company Data, KGI Research

Valuation & Action: We initiate with an **OUTPERFORM** and TP of S\$1.34 based on 11x 2020F EPS, an upside of 15.5%. Global semiconductor test equipment manufacturers are trading at 18x 2020F EPS. Our peg thus represents a 39% discount, which we believe lends enough margin of safety to our valuations. At its current price multiple of 5.1x EV/TTM EBITDA, we believe AEM may also be an attractive target for an acquisition by larger test equipment manufacturers, given historic purchase multiples and the overall consolidation in the testing space.

To add to the margin of safety, we have not factored in much of the upside from its diversification attempts, which are currently gaining traction from different customers. Applying an 11x P/E to 2021F earnings will yield a 33% upside with a TP of S\$1.54.

Risks: Despite recent diversification efforts, over 80% of AEM's sales is still largely derived from its key customer. And while its revenue mix has stabilized between one-time, big ticket machine sales and consistent sales of parts, kits and spares, AEM is still dependent on these big order wins in order to maintain the revenue stream of maintenance parts.

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Investment Thesis

Bright blue light guides the end of the tunnel

While aggregated manufacturing output and forecasts continue to paint a gloomy picture for the industry, we find these fears to be largely unfounded for AEM, as we observe that 1) management's revenue guidance for FY2019 is now between S\$285mn to 305mn, representing a min. 8.5% YoY increase, 2) the slowdown in semiconductor sales is largely confined to memory players, due to overcapacity in the DRAM and NAND markets, and 3) AEM's major customer increasing spending to maintain market competitiveness.

The latest forecasts from major market data firms have all called for a 7% or more YoY decrease in semiconductor sales from 2018 to 2019. However, ex-memory semiconductor sales are projected to have flat growth, with a rebound in sight for 2020, barring major events. Key drivers of the rebound are discrete semiconductor devices and sensors, which are increasingly used in end-market products such as cars, LED lighting and other Internet-of-Things devices.

Based on channel checks and media reports, we can ascertain that AEM's key customer is Intel, for which AEM claims to be the sole supplier of test handlers. These test handlers require integrated circuits/chips that are designed with the testing process in mind, which requires both the IC design team and the IC test equipment team to work together. As a result of this highly symbiotic partnership, AEM has continued to work with Intel to develop a better test handler to reduce cost-of-test and improve production yields, resulting in a business partnership spanning 15+ years and 4 test handler platforms.

In recent years, Intel faced difficulty in transitioning from 14nm to 10nm microarchitecture, having delayed the production of 10nm chips from 2016 till late 2018. This delay has choked up their supply, resulting in a drastic loss of short-term market share to AMD, their main competitor. Intel has been trying to address this by stretching the lifespan of its 14nm product line-up. The main impact on AEM would be the timing of purchases for its HDMT handler. AEM believes that the spike in HDMT handler purchases in 2017 and 2018 were to compensate for this delay in production timeline.

During Intel's 2Q19 earnings, the CEO disclosed that there are two factories at high volume manufacturing for the 10nm chips, and that factory start-up costs are lower compared to last year. While initial guidance from AEM at the start of FY2019 was that HDMT sales will trickle down this year, recent order wins and revenue guidance seems to indicate otherwise. Going forward, FY2020 may be the year for the ramp-down, but it remains to be seen how much additional 10nm fab capacity Intel will need. We remain positive on the fact that 1) Intel kept to its US\$15.5 bn Capex guidance, a 2% YoY increase, in a year where many other major semiconductor players (mainly in the memory business) have cut their Capex spend, and 2) the Jan 2019 announcement of US\$11 bn investment into Israel for another fab, which will drive demand for back-end testing equipment to meet increased production capacity.

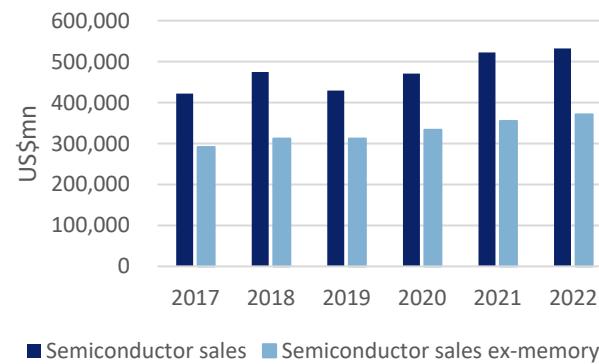
The main pipeline for AEM is strong: Intel plans to shift to 7nm microarchitecture in 2021, and AEM is already doing R&D for it. The shift towards a new microarchitecture will catalyze sales of both HDMT handlers, and new pens, kits, and consumables that are designed for the new chip in mind. We forecast a base case of 57/51/55 test handlers for 2019-21F, with a dip in 2020 to account for the end of 10nm production ramp.

Figure 1: Global semiconductor sales, 2018 and 2019F

Market data service (US\$ bn)	2018	2019F	YoY (%)
WSTS	469	407	-13.3
IDC	474	440	-7.2
Gartner	475	429	-9.6
IDC – semi ex-memory	316	319	1
Gartner – semi ex-memory	312	312	0

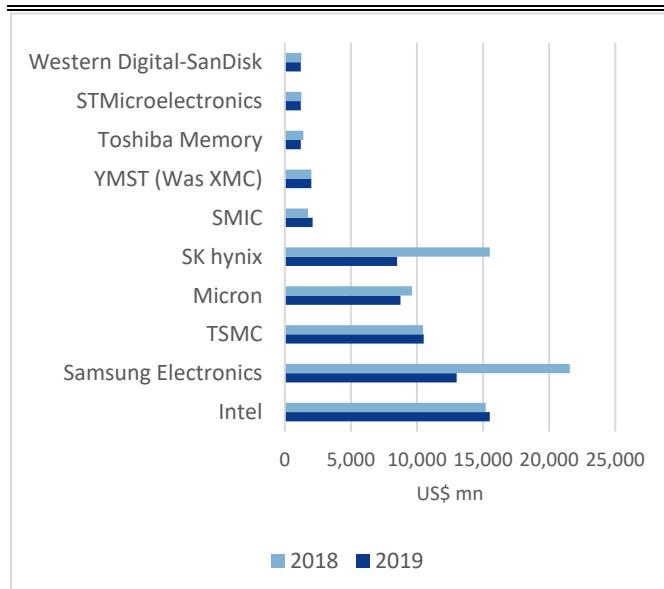
Source: WSTS, IDC, Gartner, KGI Research

Figure 2: Slowdown is mainly confined to memory players



Source: Gartner, KGI Research

Figure 3: Intel is now top of estimated Capex spend in 2019 amongst major semiconductor players



Source: Gartner, KGI Research

A horizontal push to tap more end markets

As part of diversification efforts, AEM has acquired three companies, taken a minor stake in one company and developed AMPS for different test markets.

SLT-i: AMPS – Less machines, more work done

Asynchronous Modular Parallel Smart (AMPS) platform is produced as a separate initiative from AEM's main test handler business with their key customer. By utilizing their expertise for different semiconductor products, AEM plans to disrupt the traditional "3 tests, 3+ machines" set-up in most semiconductor back-end test markets.

Currently, AMPS has seen traction in the memory market, with the first customer purchasing a few systems in 2019. Our understanding is that AEM is currently selling traditional SLT-only handlers to the customer, while eventually looking for an opportunity to promote AMPS as the eventual solution. AEM is confident that the client will order more systems, but we keep a conservative view given the performance of the memory market and await for further guidance from AEM before adjusting our forecast.

TMS: Bring in the 5G

The acquisition of InspiRain was a push into the Radio Frequency (RF) and advanced networking testing market. In 1Q19, AEM illustrated the potential end markets that they could address with the TMS division, which can reach a TAM of US\$ 1bn in 2023. The current range of products under TMS are designed as portable testing solutions for field engineers to perform tests on network cables. With Huawei, the largest telecommunications equipment manufacturer as a customer, TMS can potentially serve as another large revenue generator.

However, we base our estimates on 1Q19 and 2Q19 revenue figures, and will revise our forecast with additional details from AEM.

IRIS Solution – Improving service offering

IRIS Solution represents the only vertical integration amongst the current string of acquisitions by AEM. The company specializes in producing equipment that conduct vision inspection, one of the latter procedures amidst the testing process. These are integrated into the HDMT sold by AEM. Thus, the purchase brings down the cost of production for HDMT.

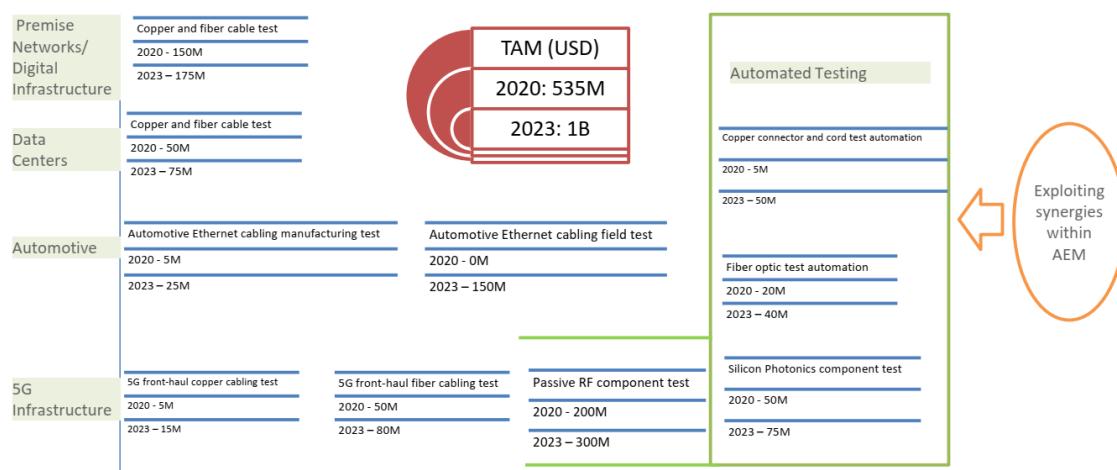
Novoflex – Smartcard business picking up traction

The 21.2% equity stake in Novoflex was the first of these series of diversification moves by AEM, after returning to profitability in 2015. This investment is structured into two arms: Smartflex Technology does assembly & test services for smart card modules in banking; Smartflex Innovation owns the IP and manufacturing capability for SIM cards and smart cards in banking.

In 1Q2019, Novoflex announced that their smartcard solution has been authorized by both Mastercard and Visa be used in ID-1 card constructions by certified card manufacturers. This ID-1 standard covers most payment cards (ATM, credit cards, etc.), and Novoflex has been reaching out to various banks for pilot tests. Subsequently, the business has been turning in a small profit for the past 3 quarters. Given the recurring nature of payment card sales, we think that Novoflex is posed to bring in a steady stream of profits for AEM.

Figure 4: 1Q19 TAM presentation for TMS division

Served Markets By AEM-TMS



Sources
 1. AEM internal research
 2. Technavio market research report "GLOBAL 5G TESTING EQUIPMENT MARKET – 2018 to 2022"

Source: Company Data

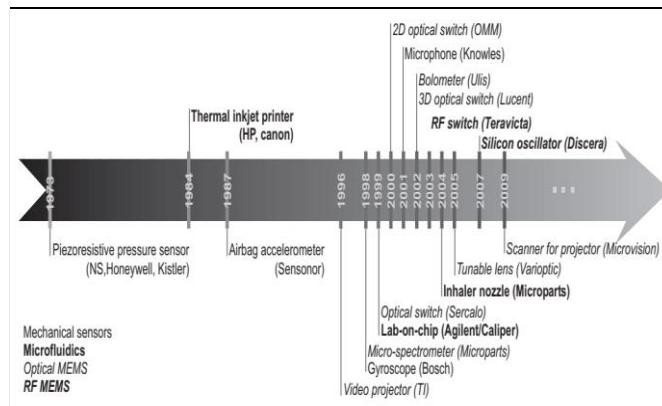
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Afore Oy – Bring in the sensors

The purchase of Afore Oy signals an entry into the MEMS market by AEM. MEMS refers to devices made through micro-fabrication technology, and borrow many processes from the semiconductor chip manufacturing process. Afore Oy currently produces equipment for wafer probing and test handling, two distinct parts of the manufacturing process.

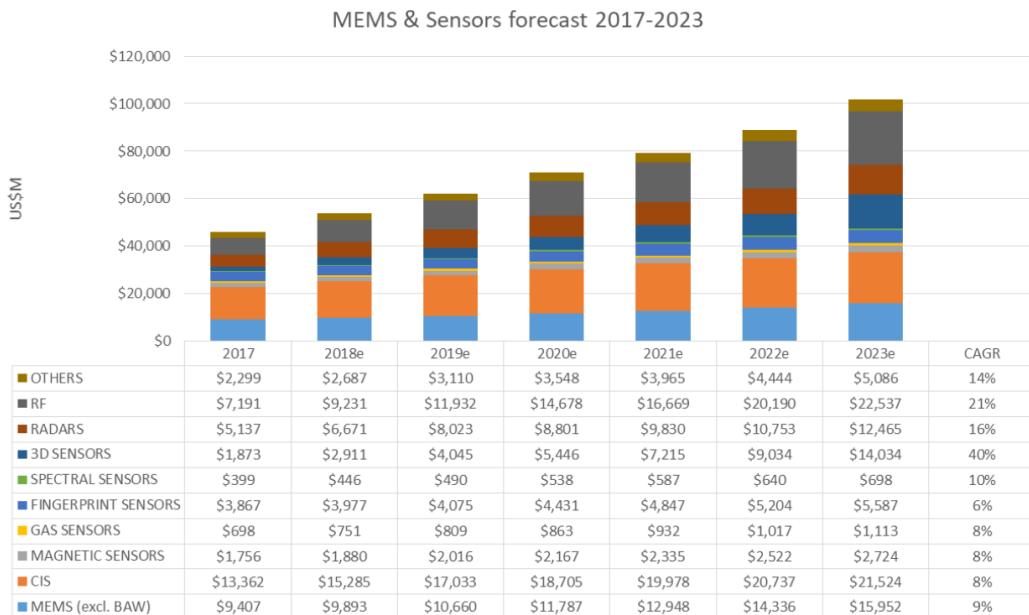
The future of the MEMS market is bright, with a growing number of end-market applications. The first commercial products that appeared on the market were pressure sensors back in 1973. Since then, MEMS were used in products across various industries such as inkjet printers, optical switches in telecommunication devices, different sensors in vehicles, and even as part of certain toys.

Figure 5: Timeline of major MEMS product emergence



Source: A (not so) short Introduction to Micro Electromechanical Systems

Figure 6: MEMS and sensors market forecast at a total of 14% CAGR from 2017 to 2023



Source: SEMICON Europa

The MEMS test handler market is relatively smaller, with management giving a US\$100mn market size estimate back in February 2018. Xcerra, Cohu and Spea were named as the other 3 big competitors in this pond. With the merger of Xcerra and Cohu in October 2018, it might initially appear that AEM has an uphill battle in the MEMS test handler market. However, an August 2019 contract win with a large German sensor supplier for their AIOLOS wafer level test handler proves otherwise. The test equipment business in the MEMS market are generally less scalable than the ones in the integrated circuit market. Nonetheless, we still see this as a potential catalyst for AEM to form another long, beneficial partnership with a different industry heavyweight.

Afore Oy is also participating in cutting edge development with Intel, with the creation of the first ever Cryogenic Wafer Prober, that enables wafer probing at temperatures of a few Kelvin (~ -270 degrees Celsius). We treat this as additional positive development between AEM and Intel, and strengthens AEM's competitive advantage.

Valuation

The share price performance of AEM has been exemplary over the past 5 years, as it transitioned out from its restructuring state and manage to grow its core business significantly. We arrived at our target price of S\$1.34 based on a 2020F P/E of 11x. Our 11x P/E peg, when applied to our 2019/2020F earnings estimates, represents a 53%/39% discount to peers' 2019/2020F P/E. We also think that AEM is well priced for an acquisition by a competitor. We took the following assumptions for our valuation:

Revenues:

ESS business: Our forecast of 57/51/55 test handlers for 2019/20/21F is based off the scenario that 1) there are more HDMT handler sales in 2019 than 2018, 2) There will be sales fall-off in 2020 to account for the end of the 10nm factory ramp-up, and 3) Sales will pick up again in late 2020/early 2021 as the key customer has to either refurbish existing areas or find new areas to house their 7nm testing process, and will use HDMT or an even newer generation of test handlers to ensure maximum yields.

Other businesses: With no historical breakdown on the newly structured business segments, we currently use 1Q19 and 2Q19's revenue disclosures as guidance for the performance of the other businesses, namely SLT-i, MEMS and TMS. Currently, we pencil in S\$4 – 4.8mn for SLT-i, mainly attributed to the first memory customer that purchased AMPS test handlers. We also pencil in S\$6 mn for MEMS and S\$3.3 mn for TMS, taking reference to historic revenue performance, 1Q19 and 2Q19's performance, and also light guidance from our conversations with management. We currently assume zero sales growth as a majority of new business are at pilot testing stages. Thus, we see significant upside potential to our valuation, should AEM convert these opportunities into order wins. We also pencil in a flat S\$60k/year profit from Novoflex, a figure that is likely to increase if the banks deem the smartcard to be suitable for mass market usage.

Operating Statistics:

We expect material margins to improve from 34.0% in 2018 to 35.1% in 2021F as newer, higher margin consumables are introduced and product mix shifts towards consumables. Management has indicated that certain staff are on temporary employment contracts in order to meet production demands. However, we believe that R&D and marketing expenditures are likely to pick up as AEM are looking to promote their new businesses, thus we estimate for increasing staff and SG&A costs across the years.

Our Capex estimate is at S\$4.7/4.1/4.8 mn for FY19/20/21F respectively, roughly a S\$1.3 - 2 mn increase over previous years. This is to account for the recent acquisitions that came with existing PPE such as the factory in Finland, and business development required to expand these newer businesses.

Figure 7: Key assumptions used to derived net income

INCOME ASSUMPTIONS (\$mn)	2017A	2018A	2019F	2020F	2021F
Test handlers sold	52	55	57	51	55
TH ASP	2.12	2.22	2.28	2.08	2.35
ESS total revenue	214.8	256.6	282.6	240.9	286.7
SLT-I total revenue	–	–	4.0	4.4	4.8
MEMS total revenue	–	6.9	6.0	6.0	6.0
TMS total revenue	–	–	3.3	3.3	3.3
Total revenue est.	221.8	262.7	296.3	254.9	301.2
Gross material margin (%)	32.9%	34.0%	34.7%	35.9%	35.1%
(Staff+SGA costs) / revenue (%)	14.4%	16.7%	16.8%	17.0%	17.0%
EBITDA	38.3	41.6	49.4	44.5	50.9
Novoflex's profit contribution	(0.1)	(0.0)	0.1	0.1	0.1
Net Profit	32.2	33.5	37.6	33.4	38.5

Source: KGI Research

Valuation:

Since its return to profitability, AEM's P/E has fluctuated as it achieved significant order wins and received strong investor interest. We think an 11x P/E is an adequate peg, a 53%/39% discount to its peers' 2019/20F P/E of 23.5/18.0x. Applying the 11x P/E peg to our 2021F earnings will give a TP of S\$1.54, a 33% upside from its current share price. We expect to increase our P/E peg when AEM can reduce its concentration risk through successful diversification, and its businesses start to resemble more like its well-established peers.

Figure 8: Peer comparisons for AEM

Company Name	BBG Ticker	Price (local curr.)	Market Cap (\$Mn)	P/E (x)		P/B (x)	3y EPS CAGR (%)	EV/EBITDA (x)	Div Yield (%)	YTD Price Performance (%)	1y Price Performance (%)
				Current	FY19E	FY20F	Current	TTM	FY20F		
AEM HOLDINGS LTD	AEM SP	SGD 1.16	313	8.3	9.4	8.2	3.0	163%	5.1	4.7	2.59
Semiconductor Back-end Testing Equipment Manufacturers (Average)											
TERADYNE INC	TER US	USD 59.88	13987	26.7	23.9	19.3	6.9	-	15.5	14.1	0.60
ADVANTEST CORP	6857 JP	JPY 5030	12780	17.5	27.0	21.4	5.0	63%	12.8	14.9	-
CHROMA ATE INC	2360 TT	TWD 149	2787	33.0	25.9	18.9	4.5	17%	25.8	15.2	-
COHU INC	COHU US	USD 13.74	776	-	-	13.5	1.1	-	-	8.6	1.75
PENTAMASTER CORP BHD	PENT MK	MYR 4.53	707	28.7	24.8	20.6	5.4	44%	14.0	10.6	0.00
<i>Updated on 10 October 2019</i>											

Source: Bloomberg, KGI Research

Additionally, while AEM is not actively looking for suitors, its current EV/TTM EBITDA of 5.1x is an attractive multiple for acquisition by a major competitor. The Automated Test Equipment space has seen greater consolidation as chipmakers and chip testers have increased collaboration for more complex chips, which increases barriers to entry into the business. AEM's key customer relationship and HDMT IP may be useful to the larger players in the industry, whom have made sizeable acquisitions in the past. Our 11x P/E peg implies a 5.8x EV/EBITDA for FY2020, a 50% discount from peers.

Figure 9: Relevant historical transactions in the Automated Test Equipment space

ANNOUNCEMENT DATE	TARGET	ACQUIRER	ANNOUNCED TOTAL VALUE (US\$mn)	EV/TTM EBITDA (x)
14/11/2018	Semiconductor test business, Astronics Corp	Advantest Corp	100.0	-
8/5/2018	Xcerra Corp	Cohu Inc	587.3	7.1
6/12/2010	Verigy Ltd	Advantest Corp	606.7	16.3
2/9/2008	Eagle Test Systems Inc	Teradyne Inc	277.6	5.6
12/12/2007	Nextest Systems Corp	Teradyne Inc	299.0	31.0

Source: Bloomberg, KGI Research

Key Risks

Despite recent diversification efforts, over 80% of AEM's sales is still largely derived from its key customer. And while its revenue mix has stabilized between one-time, big ticket machine sales and consistent sales of parts, kits and spares, AEM is still dependent on these big order wins in order to maintain the revenue stream of maintenance parts.

Additionally, we assume that the key customer is able to stay on track for their product roadmap. A delay in the technology node rollout would push back the order wins for AEM, which will affect revenue visibility and subsequently investor confidence.

In the long run (8-10+ years), the key customer would eventually have a sufficient number of upgraded test handlers, which will heavily reduce the sales count for AEM. Diversification efforts have to deliver sufficient order wins to supplement AEM's income stream.

Company Overview

Founded in 1990 and publicly listed in 2000, AEM began as an automation company, involved in producing capital equipment for the semiconductor manufacturing industry. The created machines support the assembly and testing process of semiconductor devices, which sits near the top of the semiconductor supply chain. AEM also provided specific semiconductor products and services such as plating services for its customers. The company then works with various semiconductor distributors to get their products across to various countries.

Over the years, AEM gradually streamlined its business in order to focus on its key customers and keep up with innovation. Today, AEM's derives most of its revenues from designing, building and selling service parts for machines that test semiconductor chips. The latest generation of these machines are marketed as High-Density Modular Test (HDMT) handlers, and are used by AEM's key customer, one of the world's largest semiconductor chip manufacturer.

Understanding HDMT in the semiconductor manufacturing pipeline

HDMT is a process born from the collaboration between AEM and their key customer, as a long-term solution to combat the rising costs of the traditional semiconductor testing framework. There are two major test procedures through the production process; the wafer probe test (also known as electrical die sorting) before the wafer is cut into smaller dies, and the package test. AEM's HDMT is focused on the package test, which is done after the IC chip has been assembled. The traditional package test procedure is split into 3 major portions: the burn-in test, functional/parametric test, and the system level test. We understand that cost-of-test generally increases from burn-in to functional to system level testing. As a result, the semiconductor industry as a whole does not fully adopt all 3 processes, and the rate of adoption will depend on the level of quality and reliability that the end market expects of the product.

The key advantage of HDMT lies in its ability to perform all 3 tests in this one machine. The machine is able to conduct multiple types of tests simultaneously in its various test sites. Additionally, with the advent of AI and machine learning, the test handler can skip certain test procedures, reducing the time needed to test and thus reducing overall test costs and time to market.

Figure 10: Understanding the Final Test process

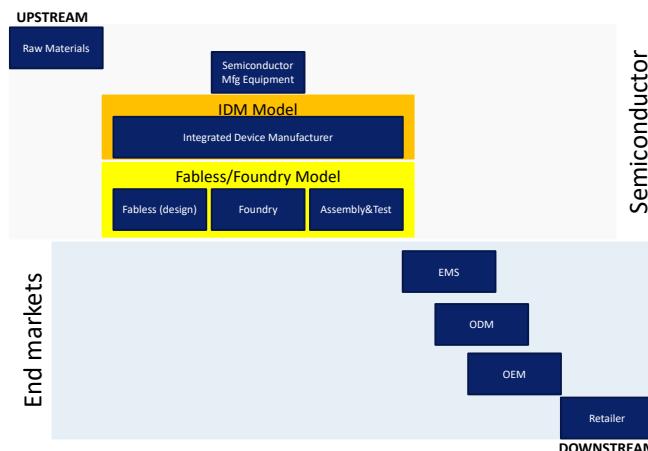
	Burn-in Test	Functional/Parametric /Structural Test	System Level Test
Purpose	Test for durability of IC	Used to test for various functions of the IC	Used to make sure that the IC works in its end product form
Method	- Stressed through extreme conditions such as high temperatures or voltages. - Usually long test time, with single temperature config	- Different test types depending on chip design & application - Usually short test time, with single temperature config	- IC is placed in environment simulating end product and tested - Moderate test time, with multiple temperature config
Usage	~100% across industry	~100% across industry	Seeing increasing usage due to the need for some end-market ICs (automotive/medical, eg.) to last 10-20 years
Cost	Cheapest portion of test	In between the other two	Most expensive portion of test

Source: KGI Research

In recent years, AEM pursued alternative business opportunities, enabled by their prudent cash management practices. In 2016, AEM ventured into the smartcard business with a minor stake in Smartflex Technologies and Smartflex Innovation. AEM also embarked on further horizontal integration by building up testing capabilities in different markets. In 2017, the acquisition of InspiRain Technologies has enabled them to enter the radio frequency and advanced networking testing market. In 2018, AEM continued its string of purchases by acquiring IRIS Solution and Afore Oy. IRIS Solution improves AEM's core product offering of semiconductor testing, while Afore Oy opens up a new market of MEMS testing to AEM.

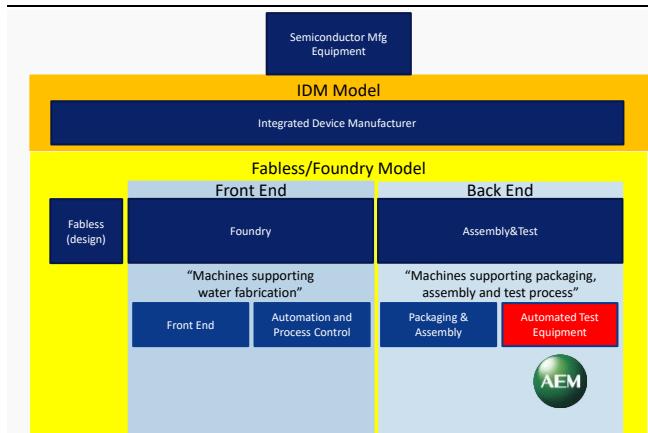
As of 8 October 2019, AEM has 4 manufacturing plants, situated in Singapore, Malaysia, China and Finland.

Figure 11: Electronic equipment supply chain diagram



Source: KGI Research

Figure 12: Current core business of AEM



Source: KGI Research

Financial Forecasts

Figure 13: Forecasted financials (2017A – 2021F)

INCOME STATEMENT (\$\$mn)	2017A	2018A	2019F	2020F	2021F
Revenue	221.6	262.3	295.9	254.6	300.8
Change in inventory	13.5	(7.2)	0.0	0.0	0.0
Cost of sales	(162.1)	(166.1)	(193.2)	(163.2)	(195.2)
Gross Profit	73.0	89.1	102.7	91.4	105.6
D&A expense	(0.7)	(1.9)	(4.4)	(4.8)	(5.3)
Other operating income/(expenses)	0.2	0.4	0.4	0.4	0.4
Staff expenses	(25.3)	(32.5)	(37.9)	(33.1)	(39.1)
Selling, general, admin expenses	(9.6)	(15.3)	(15.8)	(14.2)	(16.0)
Profit from Operations	37.6	39.7	45.0	39.7	45.6
Finance income/(expenses)	0.0	0.3	0.3	0.5	0.7
Share of JV results	(0.1)	(0.0)	0.1	0.1	0.1
Exceptionals/investment income	0.0	0.0	0.0	0.0	0.0
Profit before Tax	37.5	40.0	45.3	40.3	46.4
Income tax	(5.3)	(6.5)	(7.7)	(6.9)	(7.9)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	32.2	33.5	37.6	33.4	38.5
BALANCE SHEET (\$\$mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	46.1	58.9	82.2	108.6	134.2
Trade and other receivables	23.6	22.5	30.5	26.3	31.0
Inventory	35.8	27.4	38.6	32.6	39.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	105.5	108.8	151.4	167.5	204.3
Property, plant and equipment	3.6	5.7	9.3	11.8	15.3
Intangibles	3.4	17.7	17.2	16.8	16.4
Other non-current assets	4.1	4.2	7.4	20.1	18.0
Non-current Assets	11.2	27.7	33.9	48.7	49.6
Total assets	116.7	136.4	185.3	216.2	253.9
Trade and other payables	52.2	33.1	49.6	41.9	50.1
Borrowings (current)	0.0	0.2	0.0	0.0	0.0
Other current liabilities	6.0	10.4	11.4	10.2	12.0
Current Liabilities	58.3	43.7	61.0	52.0	62.0
Borrowings (non-current)	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.6	3.2	6.6	21.4	20.3
Non-current liabilities	0.6	3.3	6.6	21.4	20.3
Shareholders equity	57.8	89.5	117.7	142.8	171.6
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	57.8	89.5	117.7	142.8	171.6
Total Liabilities and Equity	116.7	136.4	185.3	216.2	253.9
CASH FLOW STATEMENT (\$\$mn)	2017A	2018A	2019F	2020F	2021F
Net income before tax	37.5	40.0	45.3	40.3	46.4
Depreciation & Amortisation	0.7	1.9	4.4	4.8	5.3
Other non-cash adjustments	29.0	(6.9)	(6.3)	2.6	(4.2)
Change in Working Capital	(16.4)	4.3	2.2	(1.2)	1.0
Income Tax Paid	(0.3)	(5.2)	(5.8)	(5.1)	(5.9)
Interest Paid	0.0	0.0	0.1	0.0	0.0
CF from operating activities	50.6	34.1	39.9	41.3	42.6
Purchase/Disposal of PPE	(2.0)	(2.9)	(4.7)	(4.1)	(4.8)
Other CFI	(0.4)	(10.4)	0.4	0.5	0.7
CF from investing activities	(2.4)	(13.2)	(4.4)	(3.5)	(4.1)
Dividends Paid	(4.5)	(8.4)	(9.4)	(8.4)	(9.6)
Debt Raised / (Repaid)	0.0	(0.3)	(0.2)	0.0	0.0
Equity Raised / (Bought Back)	(2.0)	(1.2)	0.0	0.0	0.0
Other Cash from Financing	0.0	0.6	(2.7)	(3.0)	(3.2)
CF from financing activities	(6.4)	(9.2)	(12.2)	(11.4)	(12.9)
Net increase in cash & cash equiv.	41.2	11.6	23.3	26.4	25.6
FX effects	6.3	46.1	58.9	82.2	108.6
Beginning Cash	(1.4)	1.2	0.0	0.0	0.0
Ending Cash	46.1	58.9	82.2	108.6	134.2

Source: KGI Research

Key Ratios

Figure 14: Key ratios (2017A – 2021F)

KEY RATIOS	2017A	2018A	2019F	2020F	2021F
Profitability					
Core EPS	0.1231	0.1220	0.1369	0.1219	0.1401
Core EPS Growth (%)	–	-0.9%	12.3%	-11.0%	15.0%
DPS (SGD Cents)	1.2	3.4	3.5	3.1	3.5
Dividend Yield (%)	1.1	3.0	3.0	2.7	3.1
Profitability (%)					
Gross margin	33.0%	34.1%	34.8%	36.0%	35.2%
EBITDA margin	17.3%	15.8%	16.7%	17.4%	16.9%
Net margin	14.5%	12.7%	12.7%	13.1%	12.8%
ROE	55.7%	37.4%	31.9%	23.4%	22.4%
ROA	27.6%	24.5%	20.3%	15.5%	15.2%
Financial Structure					
Interest coverage (x)	1,016.2	993.7	397.9	5,673.2	nm
Total Debt/Equity (%)	0.0	0.3	0.0	0.0	0.0
Net Gearing (%)	-79.7	-65.5	-69.9	-76.1	-78.2
Market Valuation (x)					
Price / Earnings	9.2	9.3	8.2	9.3	8.1
Price / Book	5.1	3.5	2.6	2.2	1.8
Price / Sales	1.3	1.2	1.0	1.2	1.0
EV / EBITDA	6.5	6.0	4.7	4.9	3.7

Source: KGI Research

KGI's Ratings	Rating	Definition
	Outperform (OP)	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.
	Neutral (N)	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.
	Underperform (U)	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
	Not Rated (NR)	The stock is not rated by KGI Securities.
	Restricted (R)	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.

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