

Singapore Semicon Equipment

Plenty to look forward to

POSITIVE *[Unchanged]*

Sector fundamentals appear attractive

We believe the recent correction in Singapore semicon equipment stocks provides a good opportunity to accumulate on dips. On the WFE front, SEMI have raised 2021-22 outlook, which we believe is corroborated by the outlook of the companies we cover, their customers and end-customers. AEM is our top pick due to i) new products and customer(s) in FY22 propelling a new earnings cycle, and ii) easier base-effects beginning 4Q21E.

Positive WFE dynamics

In its 3Q21 update, SEMI raised its 2021 wafer fab equipment (WFE) forecast to c.USD90b (+44% YoY) from USD81.7b in the prior update. SEMI now expects 2022 WFE to be just below USD100b (+8% YoY). TSMC is also reportedly going to expand 7nm and 28nm fabs, which may push WFE estimates higher, according to Digitimes' sources. We believe these developments are beneficial to UMS and Frencken. Separately, we also see Frencken as a beneficiary of ASML's growth expectations this decade. ASML expects system sales to grow at a 17.4%/ 14.8%/ 11.8% CAGR in 2020-25 in the high/mid/low-end scenarios (see Fig. 3), and also said that it is building enough capacity for demand scenarios that go beyond the high end of its forecasts.

Still confident in AEM's 2022 story

Intel's upcoming Sapphire Rapids and Alder Lake are its first mainstream heterogeneously packaged Xeon Scalable and client CPUs respectively, which we believe requires greater reliance on system level test and other test requirements compared to monolithic predecessors. Sapphire Rapids is expected to enter production in 1Q22 and mass produced in 2Q22, which we believe ties in well with the expected ramp of AEM's new generation of products that began in late 3Q21 through 2022. Intel's Ponte Vecchio GPU is also another product that will likely require significant burn-in and system level test requirements due to the nature of its packaging (3D-stack as well as tiles coming from both Intel and TSMC).

Valuation and risk

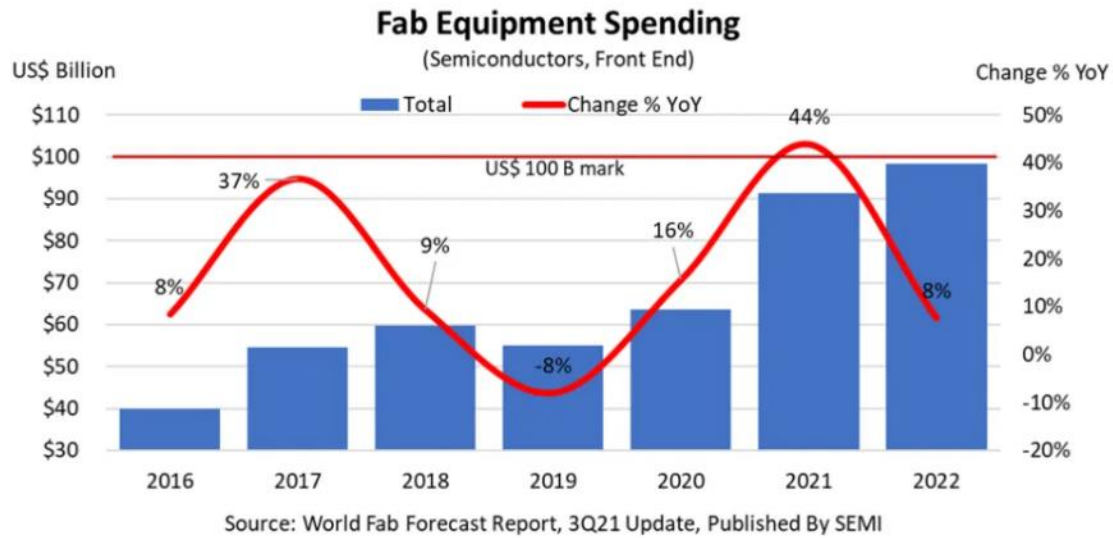
Following the recent correction, UMS and AEM are trading at c.11x FY22E P/E, which we believe is attractive since FY22E is expected to be a growth year. We believe the key risks to watch out for in 3Q/4Q reporting include i) margin erosion (if costs are inadequately passed through); ii) Covid-19 related production and/or supply chain disruptions.

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Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							21E	22E	21E	22E	21E	22E
AEM Holdings	AEM SP	793	Buy	3.94	5.77	48	14.6	10.8	3.3	2.7	1.7	2.3
Frencken Group	FRKN SP	678	Buy	2.16	2.63	24	14.8	12.7	2.4	2.2	2.0	2.4
UMS Holdings	UMSH SP	624	Buy	1.58	2.10	36	12.6	11.3	2.8	2.4	2.5	2.5

Fig 1: SEMI WFE forecast

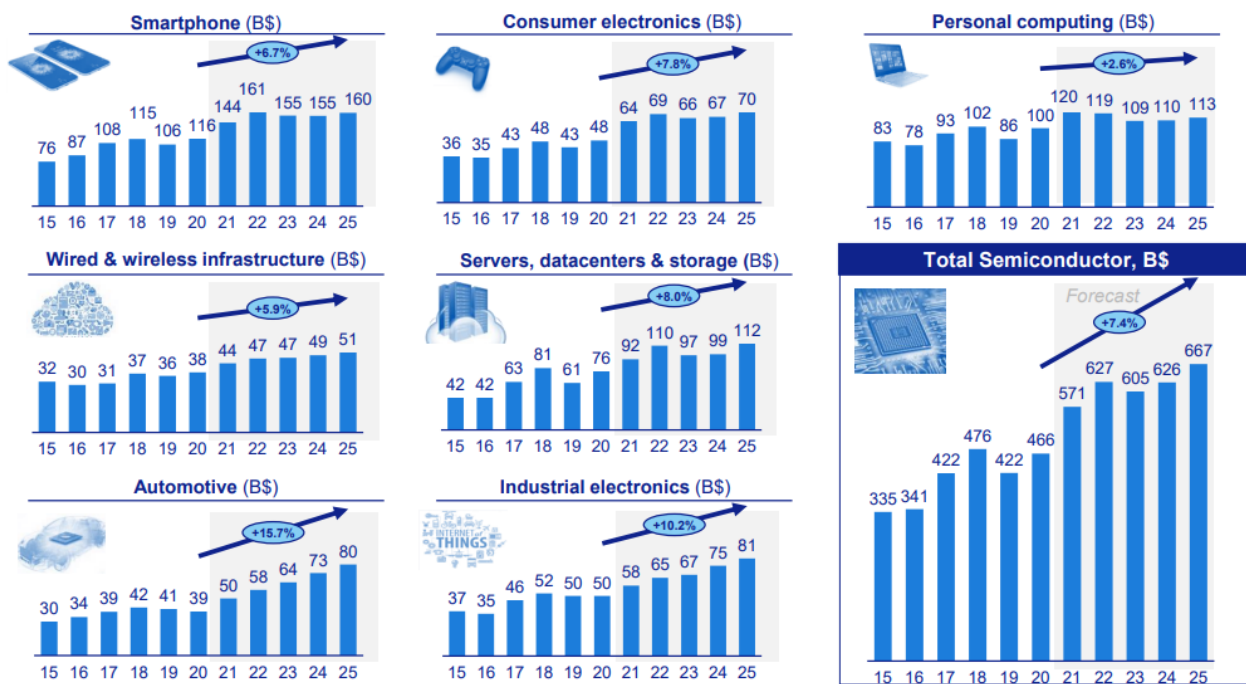


Source: SEMI

Fig 2: Semiconductor revenue growth by end-markets

Semi end markets expected to grow 7% longer-term

ASML

Slide 9
29 Sept. 2021

Source: ASML, Gartner

Fig 3: ASML's updated financial model

ASML updated financial model

ASML

 Slide 18
29 Sept. 2021

	2020 (Actuals)	2025 (CMD 2018 Ranges)	2025 (Low - High market)
Total sales	14.0B€	~15 - 24B€	~24.0 - 30.0B€
Installed base Management	3.7B€	~5 - 6B€	~6.0 - 7.0B€
System sales	10.3B€	~10 - 18B€	~18.0 - 23.0B€
Gross margin	48.6%	>>50%	~54 - 56%
R&D	16%	~13%	~3.4 - 3.7B€
SG&A	4%	~4%	~1.0B€
CapEx	7%	~3%	~1.0B€
Cash Conversion Cycle	228 days	<200 days	<200 days
Effective Tax Rate*	14%	~14%	~16%

* Based on 2021 tax legislation

Public

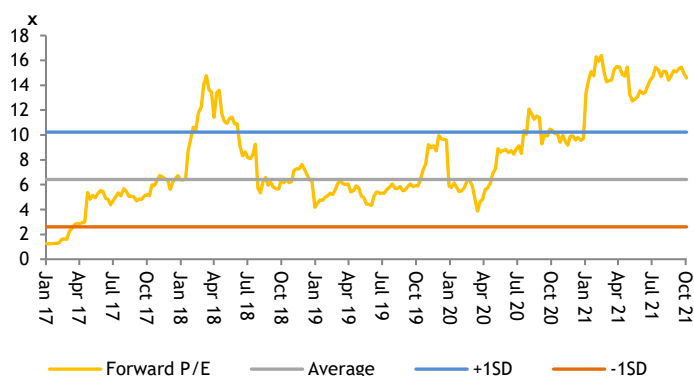
Source: ASML

Fig 4: Sapphire Rapids is Intel's first mainstream heterogeneous packaged Xeon Scalable CPU.



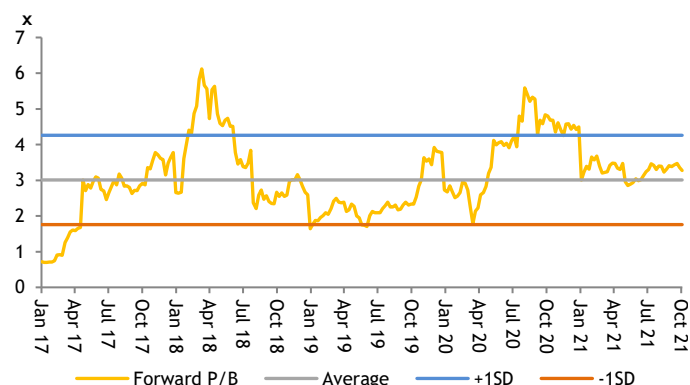
Source: Intel

Fig 5: AEM FY1 P/E



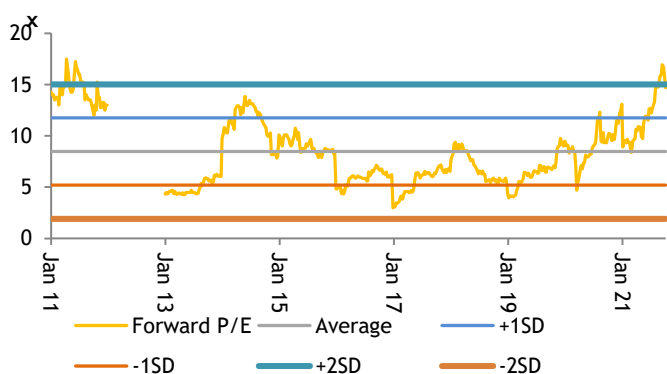
Source: Company, FactSet, Maybank Kim Eng

Fig 6: AEM FY1 P/B



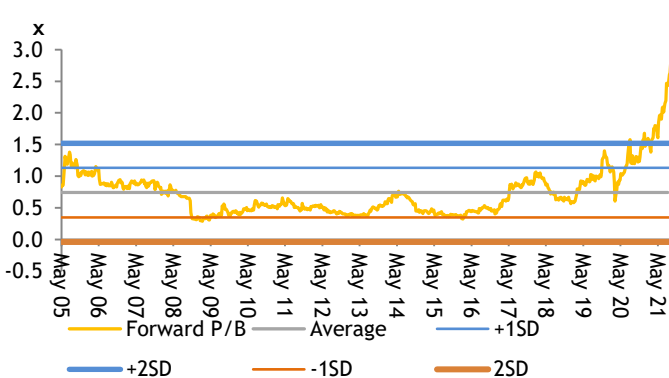
Source: Company, FactSet, Maybank Kim Eng

Fig 7: Frencken FY1 P/E



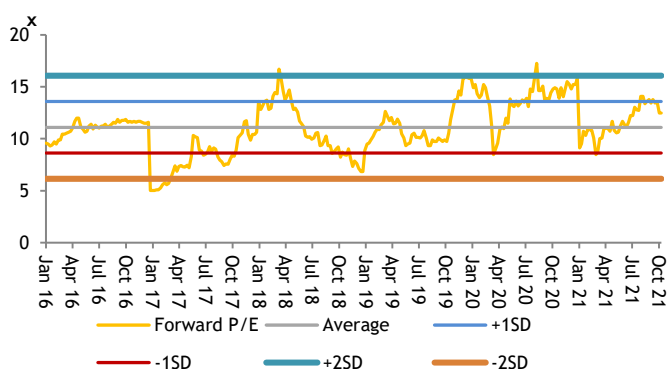
Source: Company, FactSet, Maybank Kim Eng

Fig 8: Frencken FY1 P/B



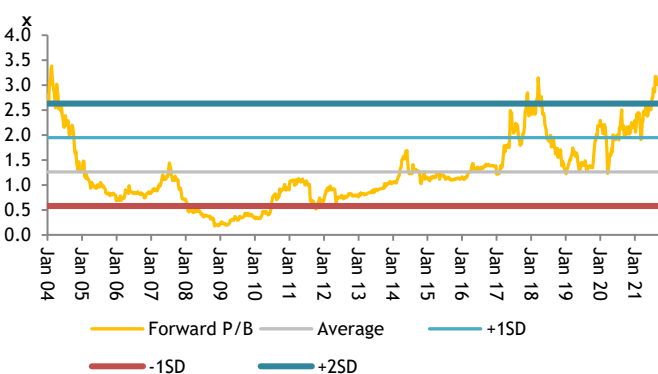
Source: Company, FactSet, Maybank Kim Eng

Fig 9: UMS FY1 P/E



Source: Company, FactSet, Maybank Kim Eng

Fig 10: UMS FY1 P/B



Source: Company, FactSet, Maybank Kim Eng

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HOLD	Return is expected to be between 0% to 10% in the next 12 months (including dividends)
SELL	Return is expected to be below 0% in the next 12 months (including dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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