

AEM Holdings (AEM SP)

Kicking off a new cycle

Raised FY21E guidance; top pick for SG tech

3Q21 PATMI of SGD23.3m (-4.3% YoY, +42.7% QoQ) was ahead of our expectation but in line with consensus. The sequential recovery was driven the volume ramp of new generations of equipment for Intel. We raise our FY21E EPS by 5% to factor in the increased FY21E revenue guidance, but keep FY22-23E largely unchanged pending FY22E guidance in early 2022. Maintain TP of SGD5.77 (16x FY22E P/E). AEM is our top pick for Singapore tech as we see many quality tailwinds and the least supply side risks. BUY.

Volume ramp of new generations of equipment

Revenue fell 9.7% YoY but was up 30.5% QoQ. The sequential growth was from the volume ramp of new generation of equipment for Intel (we believe these to be High Density Burn-in, or HDBI; and HDMx System Test, or HST). This ramp will continue in 4Q21 through FY22E. This is in turn driven by robust demand growth for mission critical chips as well as the increased adoption of advanced heterogeneous chips (which we believe refers primarily to Intel's Sapphire Rapids and Alder Lake products). FY21E revenue guidance was raised to SGD525-550m from SGD460-520m.

Several tailwinds driving FY22E upcycle

We see several tailwinds in FY22E and beyond, incl. i) front-end capex leading to back-end expansion (e.g. AEM may benefit from Intel's cUSD1.6b [expansion plans](#) in Costa Rica and Penang); ii) meaningful revenue from 10 out of top 20 semiconductor companies globally in 2H22 (incl. from a large memory IDM). Following the SGD103m placement to Temasek, we believe M&A may also be accretive to earnings. Intel's node migration to Intel 4 (products planned for 2023) may also spur greater testing needs, which could benefit AEM.

No expected shipment delays

Management is mindful of supply side challenges, but they presently do not expect these to cause shipment delays. AEM's supply chain team overcomes these challenges by planning with suppliers and distribution channels ahead of time, as well as in certain instances design alternate parts. Another risk to bear in mind is margin pressure as input costs rise, as we believe costs may not be fully passed along to customers.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	323	519	539	672	761
EBITDA	70	122	109	145	170
Core net profit	53	98	82	112	132
Core FDEPS (cts)	19.4	35.1	26.3	36.1	42.4
Core FDEPS growth(%)	58.3	80.9	(25.1)	37.1	17.6
Net DPS (cts)	5.1	9.0	7.1	9.1	10.7
Core FD P/E (x)	10.4	9.8	16.6	12.1	10.3
P/BV (x)	4.1	4.5	3.6	2.9	2.4
Net dividend yield (%)	2.5	2.6	1.6	2.1	2.4
ROAE (%)	47.3	56.4	28.0	27.0	26.0
ROAA (%)	29.1	34.6	18.3	18.3	18.2
EV/EBITDA (x)	6.3	6.7	10.3	7.6	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	85	112	121
MKE vs. Consensus (%)	-	-	(3.5)	0.7	9.3

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BUY

Share Price	SGD 4.38
12m Price Target	SGD 5.77 (+34%)
Previous Price Target	SGD 5.77

Company Description

AEM manufactures equipment used in the semiconductor back-end process

Statistics

52w high/low (SGD)	4.62/3.24
3m avg turnover (USDm)	6.0
Free float (%)	76.9
Issued shares (m)	273
Market capitalisation	SGD1.2B USD886M

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma	8.9%
Aberdeen Standard Investments (Asia) Ltd	6.0%
Employees Provident Fund	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	7	27
Relative to index (%)	7	6	7

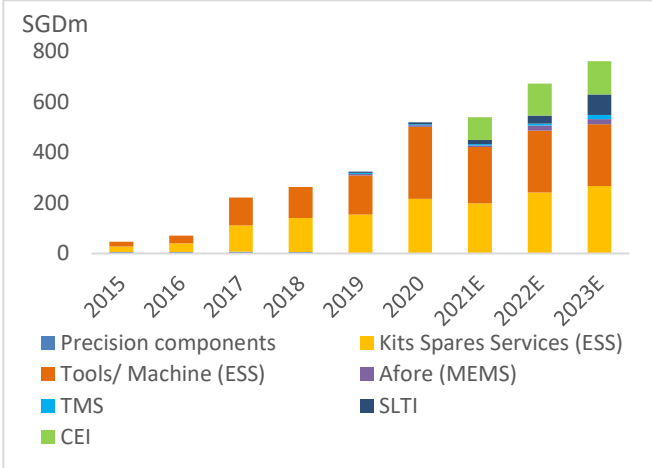
Source: FactSet

ESG@MKE
Tear Sheet Insert

Value Proposition

- Back-end test-equipment manufacturer that has co-developed the HDMT handler for Intel.
- Leading-edge HDMT technology has helped its core customer achieve 2x savings in chip-testing costs.
- AEM provides strong synergies like field-service capabilities and manufacturing scale for the high-tech companies that it acquires.
- High single-customer and product risks.

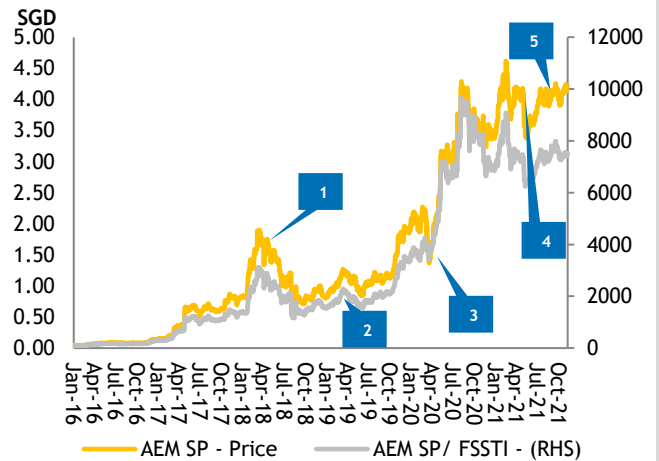
Share of new revenue sources progressively growing



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



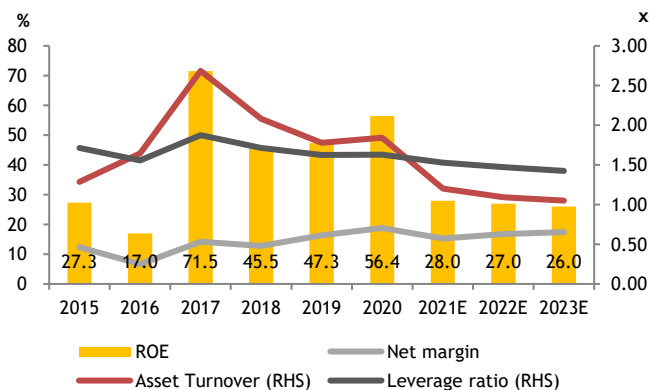
Source: Company, FactSet, Maybank Kim Eng

1. Novo Tellus distributes AEM shares in-specie to investors; Core customer announces 10nm delay.
2. AEM's core customer denies rumours from tech-blog SemiAccurate that its 10nm process was cancelled.
3. Through 2020, AEM announced several positive guidance revisions, catalysing rallies
4. Announced FY21 revenue guidance of SGD460-520m, which the market perceived as a disappointment.
5. Announced placement to Temasek.

Financial Metrics

- Over time, we expect increasing contributions from non-Intel revenue sources.
- AEM is not a capex-intensive company. Improved cash-flow from 2016 levels has allowed AEM to pursue highly synergistic acquisitions.
- Training a batch of engineers during pre-production ramp up could take 5-6 months. During such time, staff costs could be elevated and profitability could temporarily decline.
- Adopted 25% dividend payout ratio policy in 2017.

DuPont ROE



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Revenue expansion from securing new customers or wallet expansion/increased orders from existing customers.
- Synergistic and accretive acquisitions.
- Positive customer-related news flow that could catalyse improved orders for AEM, such as capacity expansion or launch of new chips.

Downside

- Order cancellation, delays and earnings misses.
- Emerging technology from rivals that could erode AEM's competitive position with customer(s).
- Erosion in the competitive advantages of the core customer as a result of company specific or industry related developments.

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Risk Rating & Score ¹	23.1 (Medium)
Score Momentum ²	NA
Last Updated	11 November 2020
Controversy Score ³ (Updated: 9 Feb 2019)	0 - No Reported Incident

Business Model & Industry Issues

- As an equipment maker, AEM is inherently exposed to environmental, workplace safety, and socio-economic risks. AEM has had zero incidences of environmental non-compliance, as well as zero substantiated cases of corruption and legal compliance issues in 2020.
- From an environmental and social perspective, AEM screens all of its suppliers. AEM constantly strives to be more efficient with electricity usage, and ensures employees are well trained and remunerated fairly.
- AEM is recognised for good transparency with shareholders, while still being able to balance business requirements (e.g. respecting non-disclosure agreements).
- AEM has several new products in the pipeline and it is engaging customers for more. In our view, this is the key for economic sustainability, as well as for development of its own employees.

Material E issues

- AEM's environmental exposure is through energy, water and inputs (fabricated parts and electronics).
- AEM adheres to all National Environment Agency laws and regulations and has not had incidences of environmental non-compliance over the past 10 years.
- Emissions intensity ratio improved to 0.007588 MT/SGD'000 in 2020 (FY19: 0.010349)
- AEM screens suppliers for negative environmental and social impacts, including pollutions, biodiversity loss, global warming, incidences of child labour, breaches of customer privacy, and more. All eight key fabrication suppliers and 23 key standard part suppliers were found to have no negative environmental or social impacts.

Material S issues

- AEM values talent retention. One approach is through wages. In Malaysia, where around a-third of production takes place, AEM's entry wage for production workers have been higher than the minimum wage at least since 2017, to retain employees. Entry wages are also higher than minimum wages in the US and China.
- Workforce diversity. AEM is an equal-opportunities employer. Management are hired from local communities and consists of various nationalities. 86% of management are local across AEM's footprint globally.
- Workplace safety. AEM trains its employees on health and safety work practices. In 2018, there was 1 minor injury.
- In 2020, average training per employee was 8.6 hours, or 5016 hours in total, to equip staff with skills across technical, project management and software domains.
- Females comprise 22 of the total work force, and 19-25% of new hires since 2017. Turnover rate per month was 0.9% a month, exceeding target of 1.5%. FY21 target is 1.25% a month. Turnover range was 1.1-2.1% in FY17-19.

Key G metrics and issues

- The board has seven directors, of which one is the executive chairman, four are independent directors (57%), and two are non-independent, non-executive. All the directors are male.
- The audit & risk management, remuneration, and nominating committees are chaired by independent directors. The strategy committee, which works with management on long-term strategic planning, is chaired by the executive chairman.
- Key management compensation (comprising the Board and senior management) accounted for 13% of staff costs in 2020 (2019:17%).
- In 2019, AEM won "Most Transparent Company Award, Technology" and was runner up for the "Singapore Corporate Governance Award" by SIAS. AEM regularly updates on its sales guidance and orders received and it's active in engaging with the investment community.
- Zero substantiated cases of corruption or legal compliance issues in 2020. There was one case of whistleblowing in 2020, but upon investigation, it was concluded to be unsubstantiated.

AEM was granted two patents in 2019, and the staff involved were rewarded. AEM views its considerable engineering development revenue as a positive sign of customer satisfaction and relationship.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Forecast changes

	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	538.5	518.0	4.0	671.7	669.8	0.3	760.8	756.6	0.6
Gross profit (SGDm)	204.6	196.8	4.0	262.0	261.2	0.3	300.5	298.9	0.6
EBIT (SGDm)	96.6	91.9	5.1	133.2	133.3	0.0	157.5	157.4	0.0
EBITDA (SGDm)	105.3	100.5	4.7	141.6	141.2	0.3	166.8	165.8	0.6
Core net profit (SGDm)	82.0	78.1	5.0	112.4	112.5	0.0	132.2	132.1	0.0
EPS (SGD)	0.28	0.27	5.0	0.36	0.36	0.0	0.43	0.43	0.0
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	38.0%	38.0%	0.0	39.0%	39.0%	0.0	39.5%	39.5%	0.0
Staff cost as % of sales	15.0%	15.0%	0.0	15.0%	15.0%	0.0	15.0%	15.0%	0.0

Source: Maybank Kim Eng

Fig 2: 3Q21 performance summary

	3Q21	3Q20	2Q21	YoY Chg	QoQ Chg	FYE	9M21 as a % of FY21E
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	(%)
Revenue	146.2	161.8	112.0	-9.7	30.5	538.5	63%
PBT	27.8	29.9	19.6	-7.0	42.0	98.9	64%
Net profit	23.3	24.3	16.3	-4.3	42.7	82.0	65%
PBT margin	19.0%	18.5%	17.5%	0.5	1.5		
Net margin	15.9%	15.0%	14.6%	0.9	1.4		

Source: Company, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	6.2	8.4	15.4	12.0	10.2
Core P/E (x)	10.3	9.7	15.4	12.0	10.2
Core FD P/E (x)	10.4	9.8	16.6	12.1	10.3
P/BV (x)	4.1	4.5	3.6	2.9	2.4
P/NTA (x)	4.1	4.5	3.6	2.9	2.4
Net dividend yield (%)	2.5	2.6	1.6	2.1	2.4
FCF yield (%)	11.1	8.2	nm	9.9	8.6
EV/EBITDA (x)	6.3	6.7	10.3	7.6	6.0
EV/EBIT (x)	6.9	7.2	11.6	8.3	6.5
INCOME STATEMENT (SGD m)					
Revenue	323.1	519.0	538.5	671.7	760.8
EBITDA	69.5	121.6	108.9	145.2	170.4
Depreciation	(4.4)	(6.1)	(8.7)	(8.4)	(9.3)
Amortisation	(1.5)	(2.3)	(3.6)	(3.6)	(3.6)
EBIT	63.6	113.2	96.6	133.2	157.5
Net interest income / (exp)	(0.2)	0.4	0.8	0.8	0.8
Associates & JV	0.5	0.2	1.5	1.5	1.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	63.9	113.8	98.9	135.5	159.3
Income tax	(11.0)	(16.2)	(16.8)	(23.0)	(27.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	52.9	97.6	82.0	112.4	132.2
Core net profit	52.9	97.6	82.0	112.4	132.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	107.7	134.8	217.6	319.7	399.2
Accounts receivable	28.0	47.6	70.5	76.8	90.0
Inventory	57.5	79.7	130.7	127.5	150.0
Property, Plant & Equip (net)	6.4	8.1	28.5	28.1	26.8
Intangible assets	19.0	56.2	95.4	95.4	95.4
Investment in Associates & JVs	4.6	4.7	11.0	12.5	13.5
Other assets	4.9	4.5	7.1	7.1	7.1
Total assets	228.0	335.5	560.8	667.0	781.9
ST interest bearing debt	0.0	0.0	7.0	7.0	7.0
Accounts payable	73.1	83.7	90.1	111.9	127.7
LT interest bearing debt	0.0	0.0	60.5	60.5	60.5
Other liabilities	20.0	40.0	29.0	29.0	29.0
Total Liabilities	93.6	124.1	186.1	207.9	223.7
Shareholders Equity	134.3	211.4	374.7	459.0	558.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	134.3	211.4	374.7	459.0	558.2
Total liabilities and equity	228.0	335.5	560.8	667.0	781.9
CASH FLOW (SGD m)					
Pretax profit	63.9	113.8	98.9	135.5	159.3
Depreciation & amortisation	5.9	8.4	12.3	12.0	12.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	2.3	(27.2)	(77.6)	18.7	(19.9)
Cash taxes paid	(5.8)	(8.8)	(12.2)	(23.0)	(27.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	65.8	86.0	19.9	141.7	124.2
Capex	(5.1)	(7.9)	(29.0)	(8.0)	(8.0)
Free cash flow	60.7	78.1	(9.1)	133.7	116.2
Dividends paid	(10.5)	(22.2)	(21.9)	(28.1)	(33.0)
Equity raised / (purchased)	0.0	4.9	103.1	0.0	0.0
Change in Debt	(0.3)	0.0	67.4	0.1	0.0
Other invest/financing cash flow	(1.3)	(34.7)	(56.7)	(3.6)	(3.6)
Effect of exch rate changes	0.2	0.0	0.0	0.0	0.0
Net cash flow	48.9	26.1	82.9	102.0	79.5

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	23.2	60.6	3.8	24.7	13.3
EBITDA growth	65.8	74.9	(10.5)	33.4	17.3
EBIT growth	58.8	77.9	(14.6)	37.9	18.2
Pretax growth	59.9	78.1	(13.1)	37.1	17.6
Reported net profit growth	58.1	84.3	(15.9)	37.1	17.6
Core net profit growth	58.1	84.3	(15.9)	37.1	17.6
Profitability ratios (%)					
EBITDA margin	21.5	23.4	20.2	21.6	22.4
EBIT margin	19.7	21.8	17.9	19.8	20.7
Pretax profit margin	19.8	21.9	18.4	20.2	20.9
Payout ratio	26.0	25.4	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	16.4	18.8	15.2	16.7	17.4
Revenue/Assets (x)	1.4	1.5	1.0	1.0	1.0
Assets/Equity (x)	1.7	1.6	1.5	1.5	1.4
ROAE (%)	47.3	56.4	28.0	27.0	26.0
ROAA (%)	29.1	34.6	18.3	18.3	18.2
Liquidity & Efficiency					
Cash conversion cycle	5.2	15.0	59.2	64.1	54.2
Days receivable outstanding	27.7	26.2	39.5	39.5	39.5
Days inventory outstanding	80.2	78.3	113.4	113.4	108.5
Days payables outstanding	102.7	89.5	93.7	88.8	93.7
Dividend cover (x)	3.8	3.9	4.0	4.0	4.0
Current ratio (x)	2.2	2.4	3.7	3.9	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.7	3.0	3.2	3.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.6	0.5	0.4
Capex/revenue (%)	1.6	1.5	5.4	1.2	1.1
Net debt/ (net cash)	(107.7)	(134.8)	(150.2)	(252.2)	(331.7)

Source: Company; Maybank

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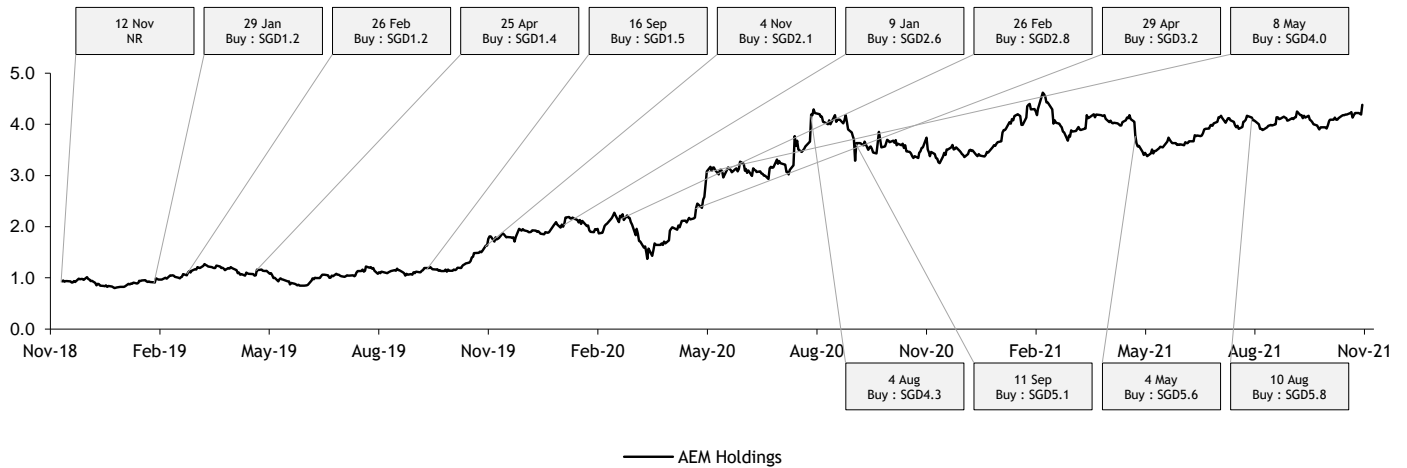
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