

AEM Holdings (AEM SP)

Good signs

Favourable industry signs; maintain BUY

A tech industry publication says that AEM's key customer is stepping up orders for EUV equipment. This suggests the customer's 7nm chips are on track for 2021, as EUV is a critical enabler for this node. Aside, semiconductor players like Qualcomm are increasingly aware of the benefits of SLT and may become potential AEM customers. We see EPS upside for AEM for FY20-21E, from: i) frontloading of some equipment to 2020; and ii) contributions from its hybrid project and Huawei. Maintain BUY and ROE-g/COE-g TP of SGD1.50 (3.2x blended FY19-20E P/BV).

Customer stepping up preparations for 7nm chips

In Sep 2019, AEM's key customer reiterated its optimism on the launch of 7nm chips in 2021. A *Digitimes*' report dated 20 Sep 2019 corroborated this, suggesting that this customer has been stepping up orders for EUV equipment since Aug 2019. EUV requires an order lead time of 18 months, according to manufacturer ASML (ASML NA, Not Rated). As AEM has seen increased equipment orders at its customer's new nodes, we think some 2021 orders may be front-loaded to 2020 (link to [scenario analysis](#)). HDMT equipment's order lead time is around five months.

Industry waking up to the need for SLT

Separately, Qualcomm (QCOM US, Not Rated) is hiring system-level test engineers. This comes shortly after its Mar 2019 announcement that it may introduce high-volume SLT "in the future". Qualcomm apparently believes that test costs can be optimised if: i) enough content can be shifted from functional tests to SLT; and ii) if the SLT approach is massively parallel. AEM's AMPS accommodates both functional and system-level tests and is also massively parallel.

AMPS' value proposition vs peers'

AEM believes that the most effective way of lowering testing costs is by reducing or potentially eliminating functional tests in the long run. This contrasts with its competitors' approach, which currently positions SLT as an "additive" process to functional tests - so that their SLT offerings do not cannibalise presently-lucrative traditional businesses. A risk to our forecasts is any severe drop in demand for AEM's key customer's chips while strong FY20E guidance could be a catalyst.

FYE Dec (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	222	262	289	222	236
EBITDA	38	42	48	36	43
Core net profit	31	33	38	28	33
Core FDEPS (cts)	11.9	12.3	14.1	10.4	12.4
Core FDEPS growth(%)	554.4	3.4	15.0	(26.1)	18.9
Net DPS (cts)	3.0	3.4	3.5	2.6	3.1
Core FD P/E (x)	7.1	6.7	8.2	11.1	9.4
P/BV (x)	3.8	2.5	2.7	2.3	1.9
Net dividend yield (%)	3.6	4.1	3.0	2.2	2.7
ROAE (%)	71.5	45.5	36.7	21.9	22.1
ROAA (%)	38.2	26.6	25.0	16.4	17.1
EV/EBITDA (x)	4.6	4.0	5.0	6.1	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	36	31	31
MKE vs. Consensus (%)	-	-	5.0	(8.2)	9.0

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BUY

Share Price	SGD 1.16
12m Price Target	SGD 1.50 (+29%)
Previous Price Target	SGD 1.50

Company Description

AEM manufactures equipment used in the semiconductor back-end process

Statistics

52w high/low (SGD)	1.27/0.76
3m avg turnover (USDm)	6.0
Free float (%)	76.9
Issued shares (m)	273
Market capitalisation	SGD317.0M USD229M

Major shareholders:

Toh Ban Leng James	7.8%
Aberdeen Standard Investments (Asia) Ltd	6.9%
UBS AG	4.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	9	7	41
Relative to index (%)	9	16	48

Source: FactSet

Terminology

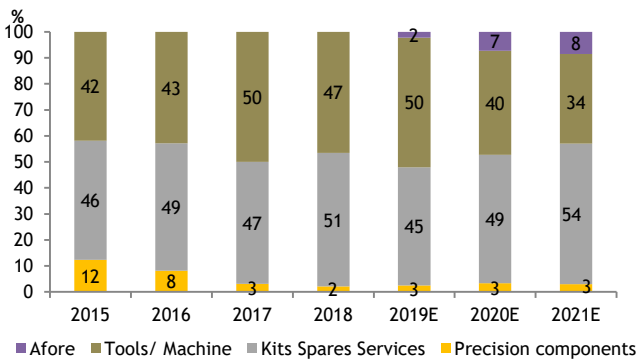
SLT - system level test

EUV - extreme ultraviolet lithography

Value Proposition

- Back-end test-equipment manufacturer that has co-developed the HDMT handler for a market-leading chipmaker with a market cap of USD230b.
- 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.

Revenue by segment

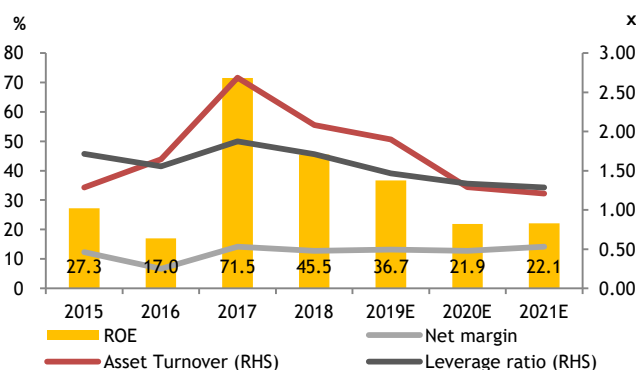


Source: Company, Maybank Kim Eng

Financial Metrics

- Although our current FY20E earnings imply a 26% decline, we see potential for FY20E upside as contributions from several projects have not been factored in. ([Link to scenario analysis](#))
- 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.

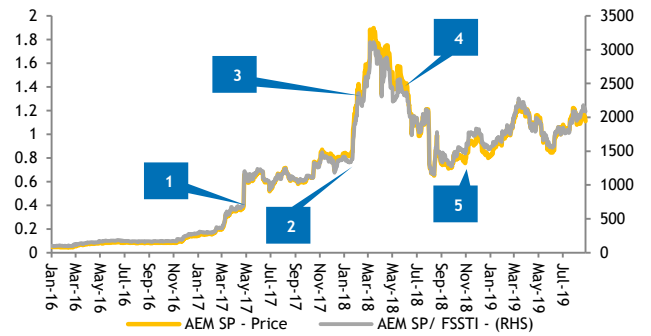
DuPont ROE



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank Kim Eng

1. Announced favourable 1Q17 net profit as HDMT handlers delivery pick up momentum. There were also insider purchases.
2. Announced 2018 guidance for SGD255m in revenue and SGD42m PBT.
3. Announced accretive acquisition of Afore, Finnish-based MEMS test-solutions provider.
4. Novo Tellus distributes AEM shares in-specie to investors; Core customer announces 10nm delay.
5. AEM's core customer denies rumours from tech-blog SemiAccurate that its 10nm process was cancelled.

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.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	4.5	9.2	8.3	11.2	9.4
Core P/E (x)	6.9	6.7	8.3	11.2	9.4
Core FD P/E (x)	7.1	6.7	8.2	11.1	9.4
P/BV (x)	3.8	2.5	2.7	2.3	1.9
P/NTA (x)	3.8	2.5	2.7	2.3	1.9
Net dividend yield (%)	3.6	4.1	3.0	2.2	2.7
FCF yield (%)	21.5	12.3	8.1	8.5	7.7
EV/EBITDA (x)	4.6	4.0	5.0	6.1	4.8
EV/EBIT (x)	4.6	4.1	5.2	6.5	5.1

INCOME STATEMENT (SGD m)

Revenue	221.6	262.3	288.7	221.6	236.1
Gross profit	72.3	87.2	98.0	81.6	94.8
EBITDA	37.7	41.9	47.8	36.0	42.5
Depreciation	(0.7)	(1.9)	(2.0)	(2.1)	(2.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	37.0	40.0	45.9	33.9	40.3
Net interest income / (exp)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Associates & JV	(0.1)	(0.0)	0.0	0.0	0.0
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	36.8	40.0	45.9	33.9	40.3
Income tax	(5.3)	(6.5)	(7.8)	(5.8)	(6.9)
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	31.5	33.5	38.1	28.1	33.5
Core net profit	31.5	33.5	38.1	28.1	33.5

BALANCE SHEET (SGD m)

Cash & Short Term Investments	46.1	58.9	75.0	94.7	110.3
Accounts receivable	23.6	21.7	25.8	22.8	31.6
Inventory	35.8	28.2	36.6	24.8	41.0
Property, Plant & Equip (net)	3.6	5.6	10.2	11.1	12.1
Intangible assets	3.4	16.8	16.8	16.8	16.8
Investment in Associates & JVs	4.1	4.2	4.2	4.2	4.2
Other assets	0.0	0.2	0.2	0.2	0.2
Total assets	116.7	135.5	168.8	174.6	216.1
ST interest bearing debt	0.0	0.2	0.2	0.2	0.0
Accounts payable	52.2	36.6	41.8	26.5	43.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	7.0	9.0	9.0	9.0	9.0
Total Liabilities	58.9	46.0	50.7	35.5	51.8
Shareholders Equity	57.8	89.5	118.1	139.2	164.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	57.8	89.5	118.1	139.2	164.3
Total liabilities and equity	116.7	135.5	168.8	174.6	216.1

CASH FLOW (SGD m)

Pretax profit	36.8	40.0	45.9	33.9	40.3
Depreciation & amortisation	0.7	1.9	2.0	2.1	2.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	11.5	(6.2)	(7.8)	(0.5)	(8.3)
Cash taxes paid	(0.2)	(4.2)	(7.8)	(5.8)	(6.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	49.0	31.5	32.2	29.7	27.3
Capex	(2.1)	(3.9)	(6.6)	(2.9)	(3.1)
Free cash flow	46.9	27.6	25.6	26.8	24.2
Dividends paid	(3.6)	(8.4)	(9.5)	(7.0)	(8.4)
Equity raised / (purchased)	0.0	6.0	0.0	0.0	0.0
Change in Debt	(0.1)	0.3	0.0	0.0	(0.3)
Other invest/financing cash flow	(2.6)	(1.7)	0.0	0.0	0.0
Effect of exch rate changes	(0.8)	(11.0)	0.0	0.0	0.0
Net cash flow	39.8	12.8	16.1	19.7	15.6

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	216.0	18.4	10.1	(23.2)	6.5
EBITDA growth	411.7	11.3	14.1	(24.8)	18.1
EBIT growth	465.0	8.3	14.6	(26.1)	18.9
Pretax growth	515.8	8.5	14.8	(26.1)	18.9
Reported net profit growth	576.2	6.4	13.7	(26.1)	18.9
Core net profit growth	560.7	6.4	13.7	(26.1)	18.9
Profitability ratios (%)					
EBITDA margin	17.0	16.0	16.6	16.2	18.0
EBIT margin	16.7	15.3	15.9	15.3	17.1
Pretax profit margin	16.6	15.2	15.9	15.3	17.1
Payout ratio	24.8	27.6	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	14.2	12.8	13.2	12.7	14.2
Revenue/Assets (x)	1.9	1.9	1.7	1.3	1.1
Assets/Equity (x)	2.0	1.5	1.4	1.3	1.3
ROAE (%)	71.5	45.5	36.7	21.9	22.1
ROAA (%)	38.2	26.6	25.0	16.4	17.1
Liquidity & Efficiency					
Cash conversion cycle	14.6	5.5	16.8	30.6	36.5
Days receivable outstanding	33.6	31.0	29.6	39.5	41.4
Days inventory outstanding	64.2	65.8	61.2	78.9	83.8
Days payables outstanding	83.1	91.3	74.0	87.8	88.8
Dividend cover (x)	4.0	3.6	4.0	4.0	4.0
Current ratio (x)	1.8	2.4	2.8	4.2	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.9	3.3	4.9	4.2
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	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.9	1.5	2.3	1.3	1.3
Net debt/ (net cash)	(46.1)	(58.6)	(74.7)	(94.5)	(110.3)

Source: Company; Maybank

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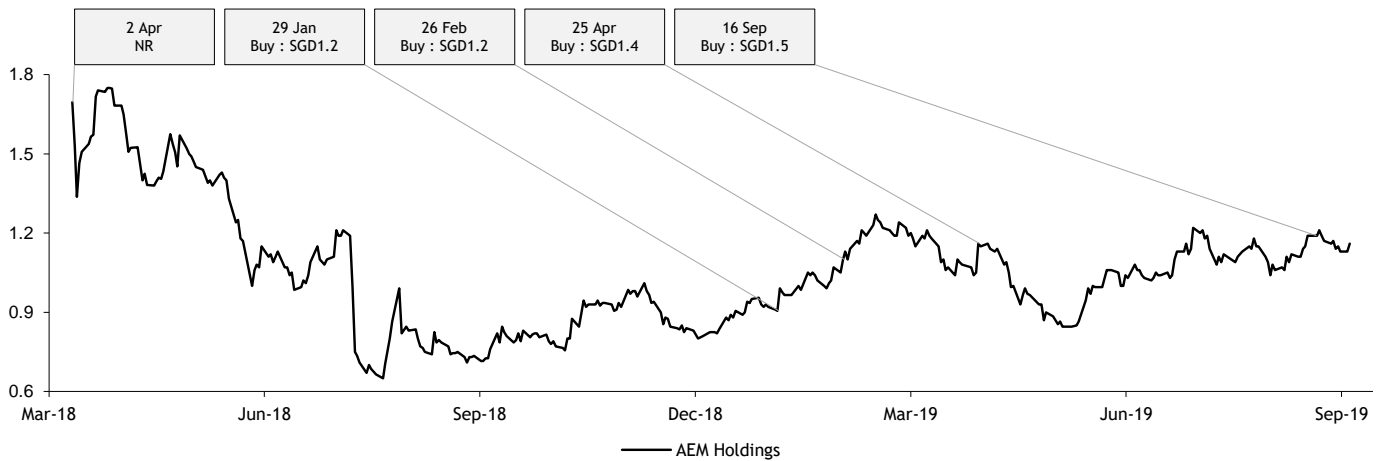
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