

Singapore

ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 0

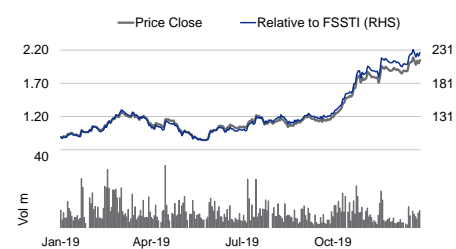
Current price:	S\$2.05
Target price:	S\$2.38
Previous target:	S\$2.12
Up/downside:	16.0%
CGS-CIMB / Consensus:	13.0%

Reuters:	AEM.SI
Bloomberg:	AEM SP
Market cap:	US\$409.4m
	S\$553.0m
Average daily turnover:	US\$9.17m
	S\$12.58m
Current shares o/s:	269.7m
Free float:	83.1%

*Source: Bloomberg

Key changes in this note

- FY20F core EPS raised by 14.8%.
- FY21F core EPS raised by 78.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.3	78.3	130.3
Relative (%)	5.2	73.2	127.5

Major shareholders	% held
Standard Life Aberdeen	8.1
James Toh Ban Leng	7.8
UBS AG	4.9

Analyst(s)

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AEM Holdings Ltd

Add on another record year

- AEM announced FY20 revenue guidance of between S\$330m and S\$350m.
- Orders received for delivery in FY20 of S\$245m.
- Raising FY20-21 revenue forecasts on strong demand. Maintain Add with a higher TP based on P/BV.

Record FY20 in the making

On 8 Jan 2020, AEM released its FY20 guidance. Orders received for delivery in FY20 were guided to be S\$245m. As a comparison, on 31 Dec 2018, AEM released its guidance for orders received to be delivered in FY19 of S\$110m. For FY20, AEM is guiding for revenue to be between S\$330m and S\$350m, which is a new record high for AEM.

New decade, new opportunities

Going into the new decade, connectivity driven by the proliferation of 5G technology will bring new product opportunities for chip makers. 5G, artificial intelligence and changing packaging formats will drive the need for more testing as well as system level testing. With the 30 Dec announcement of the acquisition of Mu-Test (unlisted) by AEM, we think the group has further strengthened its ability to help potential customers manage testing costs and time to market for their products. Users of the traditional automated testing approach of one test handler to one tester will have the option of exploring an asynchronous modular approach where one test handler is able to manage many low-cost, customised testers to perform various test parameters at the same time.

Not forgetting to invest in human capital

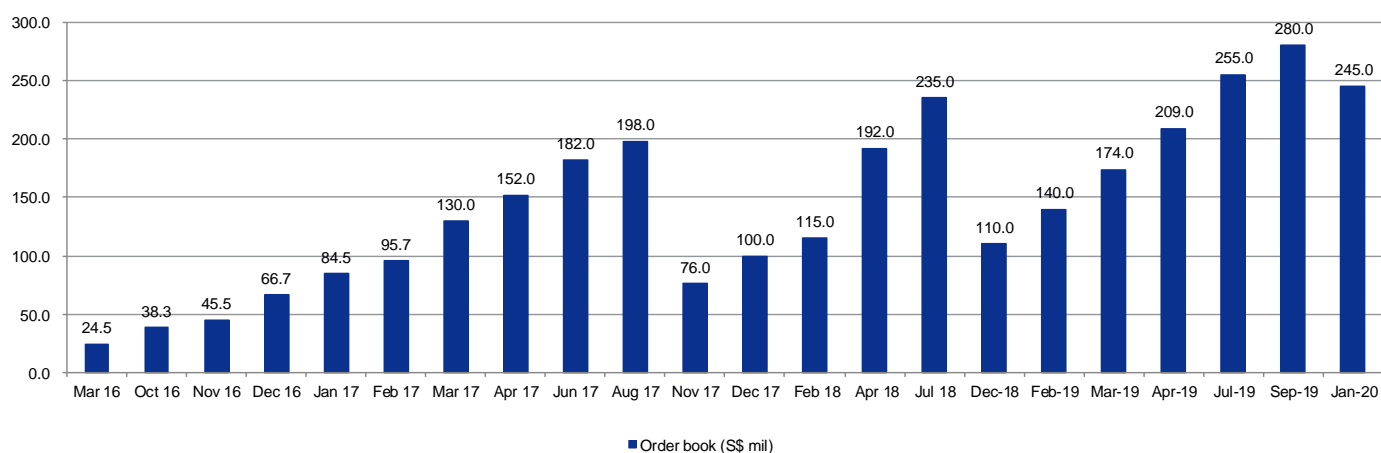
On the human capital front, AEM also made a few major hires in 2019. In particular, on 12 Nov 2019, AEM appointed industry veteran Mr. Chandran Nair as its Group President starting 1 Jan 2020. This new role supports AEM's growth globally with its customers and new business units. As Group President, Mr. Nair will lead the global sales, marketing, and R&D teams. Mr. Nair has immense experience in semiconductor testing and automation and started his career at National Instruments, playing a leadership role in the successful commercialisation of its PXI platform.

Higher TP driven by better revenue expectation

We expect AEM's 4Q19 net profit to be in the region of S\$8.8m (+100% yoy, -36% qoq). Given its revenue guidance for FY20, we lift our revenue forecasts for FY20 and FY21 and raise our TP to S\$2.38 (based on ROE-g/COE-g derived P/BV multiple of 3.88x). FY20-21F EPS raised due to higher revenue assumption. Potential re-rating catalysts include further order wins from its major customer. Key downside risks are order pullback or a slowdown at its major customer. Taking a longer-term view, AEM has executed on its plan to diversify its customer base via M&A to grow its capabilities and offerings and human capital. Though not without competition and challenges, AEM's game plan increases the probability of new customer wins in the future.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (S\$m)	221.9	263.0	313.9	367.7	346.0
Net Profit (S\$m)	30.33	32.55	44.80	56.53	53.76
Core EPS (S\$)	0.12	0.12	0.17	0.21	0.20
Core EPS Growth	556%	6%	35%	26%	(5%)
FD Core P/E (x)	17.49	16.42	12.35	9.78	10.29
Price To Sales (x)	2.42	2.10	1.76	1.50	1.60
DPS (S\$)	0.030	0.034	0.042	0.052	0.050
Dividend Yield	1.46%	1.66%	2.03%	2.56%	2.43%
EV/EBITDA (x)	12.93	11.67	7.60	5.54	5.18
P/FCFE (x)	11.23	26.51	10.64	9.73	9.78
Net Gearing	(79.7%)	(65.2%)	(80.8%)	(85.7%)	(89.8%)
P/BV (x)	9.29	6.16	4.49	3.34	2.69
ROE	69.3%	45.0%	42.1%	39.2%	29.0%
% Change In Core EPS Estimates			0.0%	14.8%	78.0%
CGS-CIMB/Consensus EPS (x)			1.01	1.18	1.14

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Order book trend


SOURCES: COMPANY REPORTS

Figure 2: Earnings revisions

(S\$m)	2019F			2020F			2021F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	313.9	313.9	0.0	344.2	367.7	6.8	273.2	346.0	26.6
Gross material margin (%)	37.2	37.2	0.0	37.4	37.4	0.0	39.0	39.0	0.0
Operating EBITDA	59.2	59.2	0.0	64.6	73.4	13.6	41.8	70.1	68.0
Net profit	44.8	44.8	0.0	49.2	56.5	14.8	30.2	53.8	78.0
Core EPS (S\$)	0.2	0.2	0.0	0.2	0.2	14.8	0.1	0.2	78.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Changes to revenue assumptions

	2019F			2020F			2021F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
TH Units sold assumption	55.0	55.0	0.0%	60.0	65.0	8.3%	35.0	50.0	42.9%
Average selling price assumed (S\$m)	2.85	2.85	0.0%	2.71	2.71	0.0%	2.71	2.71	0.0%
Equipment revenue (S\$m)	156.8	156.8	0.0%	162.5	176.0	8.3%	94.8	135.4	42.9%
Consumable revenue assumption (S\$ m)	137.2	151.2	10.2%	135.5	185.5	36.9%	150.5	204.4	35.8%
Initial set of consumables	110.0	110.0	0.0%	120.0	130.0	8.3%	70.0	100.0	42.9%
Re-ordering of consumables	32.6	32.6	0.0%	45.5	45.5	0.0%	92.2	94.4	2.4%
Legacy consumables revenue	8.6	8.6	0.0%	10.0	10.0	0.0%	10.0	10.0	0.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: P/BV derived Target Price for AEM

Risk-free rate	1.75%	
Return on market	10.00%	
Equity risk premium	8.25%	
Beta	0.943	
Cost of equity (COE)	9.53%	
Average ROE over FY20-21F (ROE)	34.07%	A
Terminal growth rate (g)	1.00%	B
ROE-g	33.07%	
COE-g	8.53%	
Theoretical P/BV (x)	3.88	A/B
FY20F BVPS (S\$)	0.614	
Target price (S\$)	2.38	
FY20F core EPS (S\$)	0.210	
Implied FY20F P/E (x)	11.35	
Sector average FY20F P/E (x)	18.60	
Discount to sector average P/E (x)	-38.99%	
Last price (S\$)	2.05	
Share price upside	16.04%	
FY20 DPS (S\$)	0.0524	
Dividend yield	2.56%	
Total return	18.60%	
Recommendation	Add	

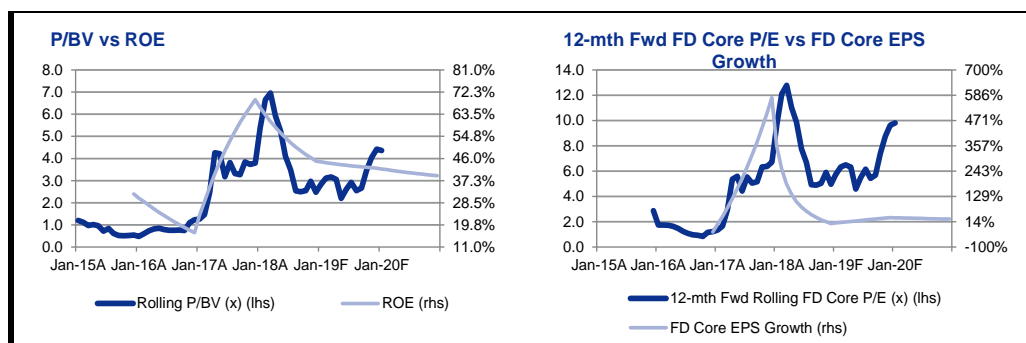
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Peer Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY19F	P/E (x) CY20F	3-year EPS CAGR (%)	P/BV (x) CY19F	Recurring ROE (%) CY19F	Dividend Yield (%) CY19F
AEM Holdings Ltd	AEM SP	ADD	2.05	2.38	409.4	12.3	9.8	17.4%	4.49	41.6%	2.0%
UMS Holdings Ltd	UMSH SP	Hold	1.02	0.79	405.0	15.8	14.4	-1.6%	2.24	14.6%	3.4%
Cohu Inc	COHU US	NR	23.40	NA	965.6	167.1	22.8	na	na	na	na
Simple average excluding AEM						91.5	18.6	na	2.24	14.6%	3.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	221.9	263.0	313.9	367.7	346.0
Gross Profit	73.3	89.8	116.8	137.5	134.9
Operating EBITDA	37.7	41.9	59.2	73.4	70.1
Depreciation And Amortisation	(0.7)	(1.9)	(6.2)	(6.3)	(6.4)
Operating EBIT	37.0	40.0	53.0	67.1	63.7
Financial Income/(Expense)	(0.0)	(0.0)	(0.2)	(0.2)	(0.2)
Pretax Income/(Loss) from Assoc.	(0.1)	(0.0)	0.2	0.2	0.2
Non-Operating Income/(Expense)	(1.2)	(0.9)	1.0	1.0	1.0
Profit Before Tax (pre-EI)	35.8	39.7	55.6	69.7	66.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	35.7	39.0	54.0	68.1	64.8
Taxation	(5.3)	(6.5)	(9.2)	(11.6)	(11.0)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax	30.3	32.6	44.8	56.5	53.8
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0	0.0
Net Profit	30.3	32.6	44.8	56.5	53.8
Recurring Net Profit	30.4	33.1	44.8	56.5	53.8
Fully Diluted Recurring Net Profit	30.4	33.1	44.8	56.5	53.8

Cash Flow

(\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	37.68	41.92	59.15	73.39	70.14
Cash Flow from Inv. & Assoc.	3.00	4.00	0.00	0.00	0.00
Change In Working Capital	10.22	(5.11)	(4.19)	(5.43)	3.15
(Incr)/Decr in Total Provisions	(3.99)	(4.99)	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.70	1.87	6.20	6.30	6.40
Other Operating Cashflow	2.40	0.70	3.00	(3.10)	(6.40)
Net Interest (Paid)/Received	0.04	0.26	(0.18)	(0.18)	(0.18)
Tax Paid	(0.27)	(5.12)	(6.48)	(9.18)	(11.58)
Cashflow From Operations	49.76	33.53	57.52	61.81	61.54
Capex	(2.53)	(4.71)	(5.00)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	0.20	(8.02)	0.00	0.00	0.00
Cash Flow From Investing	(2.34)	(12.72)	(5.00)	(5.00)	(5.00)
Debt Raised/(repaid)	(0.08)	(0.28)	(0.48)	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.71	0.00	0.00	0.00
Shares Repurchased	(1.96)	(1.18)	0.00	0.00	0.00
Dividends Paid	(4.47)	(8.42)	(11.20)	(14.13)	(13.44)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.11	(0.04)	(0.18)	(0.18)	(0.18)
Cash Flow From Financing	(6.40)	(9.21)	(11.85)	(14.31)	(13.61)
Total Cash Generated	41.03	11.60	40.67	42.50	42.92
Free Cashflow To Equity	47.35	20.53	52.04	56.81	56.54
Free Cashflow To Firm	47.47	20.85	52.69	56.98	56.71

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	46.1	59.0	99.7	142.1	185.0
Total Debtors	23.6	21.7	25.8	30.2	28.4
Inventories	35.8	28.2	32.4	37.8	34.7
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	105.5	108.9	157.9	210.2	248.1
Fixed Assets	3.6	5.6	4.4	3.1	1.7
Total Investments	4.1	4.2	4.1	4.3	4.5
Intangible Assets	3.4	16.8	16.8	16.8	16.8
Total Other Non-Current Assets	0.0	0.1	0.1	0.1	0.1
Total Non-current Assets	11.2	26.6	25.4	24.3	23.1
Short-term Debt	0.0	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	52.2	36.6	51.6	60.4	56.9
Other Current Liabilities	6.0	7.8	7.8	7.8	7.8
Total Current Liabilities	58.3	44.6	59.6	68.4	64.8
Total Long-term Debt	0.0	0.5	0.0	0.0	0.0
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	0.0	0.5	0.0	0.0	0.0
Total Provisions	0.6	1.0	0.6	0.6	0.6
Total Liabilities	58.9	46.0	60.1	69.0	65.4
Shareholders' Equity	57.8	89.5	123.1	165.5	205.8
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	57.8	89.5	123.1	165.5	205.8

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	215%	19%	19%	17%	(6%)
Operating EBITDA Growth	411%	11%	41%	24%	(4%)
Operating EBITDA Margin	17.0%	15.9%	18.8%	20.0%	20.3%
Net Cash Per Share (S\$)	0.18	0.22	0.37	0.53	0.69
BVPS (S\$)	0.22	0.33	0.46	0.61	0.76
Gross Interest Cover	1,002	1,019	312	393	373
Effective Tax Rate	15.0%	16.6%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	26.3%	27.6%	24.1%	24.3%	24.3%
Accounts Receivables Days	34.00	31.38	27.60	27.88	30.94
Inventory Days	65.39	67.45	56.12	55.85	62.72
Accounts Payables Days	84.7	93.6	81.7	89.1	101.4
ROIC (%)	187%	500%	195%	341%	329%
ROCE (%)	83.5%	54.5%	50.7%	47.3%	35.0%
Return On Average Assets	37.0%	26.4%	29.2%	27.9%	22.0%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP Change (% , Main Product)	-21.5%	-5.0%	-5.0%	-5.0%	0.0%
Unit sales growth (% , main prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	0.0%	0.0%	0.0%	0.0%	0.0%
Unit sales grth (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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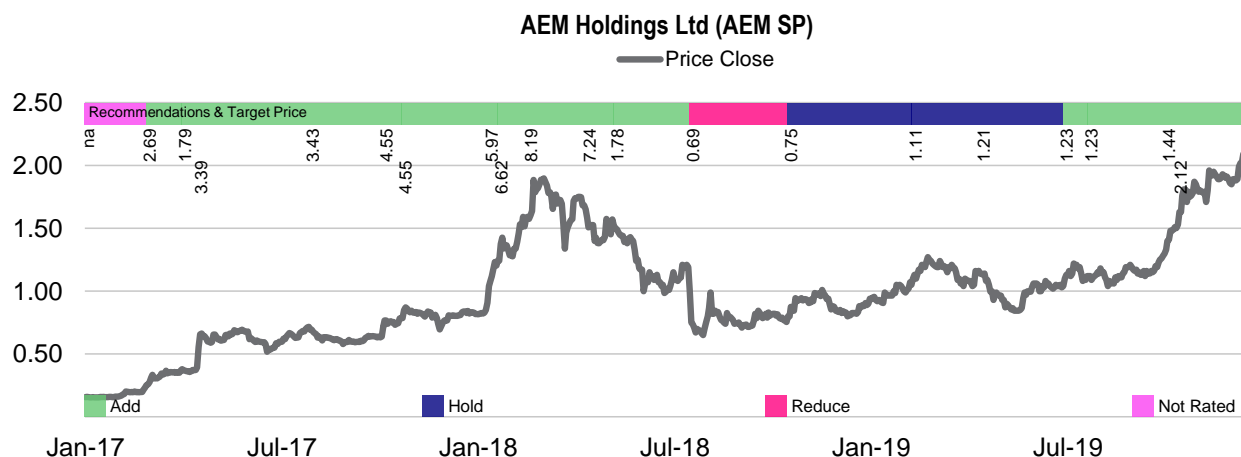
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Add	61.4%	0.0%
Hold	25.2%	0.0%
Reduce	13.4%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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