Singapore Industry Focus

SG Semiconductor

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Apr 2026

More than meets the AI

- AI and memory tailwinds accelerating, broadening the semiconductor upcycle
- Valuation catch-up remains in play despite recent outperformance
- Preference order: UMS > AEM > Frencken, based on growth and risk-reward
- Maintain BUY across all three, with higher TPs: UMS (TP SGD 2.92, earnings + 9-11%), AEM leads (TP SGD 8.90, earnings +42-56%), Frencken's TP raised to SGD 3.22 with earnings unchanged

AI and memory tailwinds accelerating. The semiconductor upcycle is accelerating and broadening, as AI and memory demand drive higher industry forecasts, stronger growth visibility, and rising leadership from second-order beneficiaries. Amongst global semicconductor stocks, memory has led consensus' revenue revisions since the start of the year, with equipment makers recording the next strongest revisions – as they are seen as potential beneficiaries of ongoing memory- and AI-led tailwinds.

Valuation catch-up remains in play. Despite strong outperformance since our 20-Mar update, we see further upside for Singapore tech stocks, supported by 1) FY25 results reaffirming the uptrend and 2) uptick in investor interest and daily average traded value amid ongoing geopolitical volatility. Valuations remain compelling versus global peers, with AEM and UMS still trading at attractive relative discounts despite the recent rally.

Preference order: UMS > AEM > Frencken on risk-reward. UMS leads with strong customer-driven momentum and advanced-packaging leverage, with 9–11% earnings upgrades and a higher TP of SGD2.92. AEM is the purest AI/HPC play, with additional exposure to secular growth areas such as memory and hyperscalers, and saw the largest earnings uplift (42–56%), supporting the biggest TP raise to SGD8.90, though execution risk remains elevated given the early order ramp. Frencken offers a more diversified exposure with higher TP of SGD3.22, but earnings unchanged, and is our least preferred given lower semiconductor exposure (~50% of revenue) and more muted earnings growth despite trading at the lowest PE.

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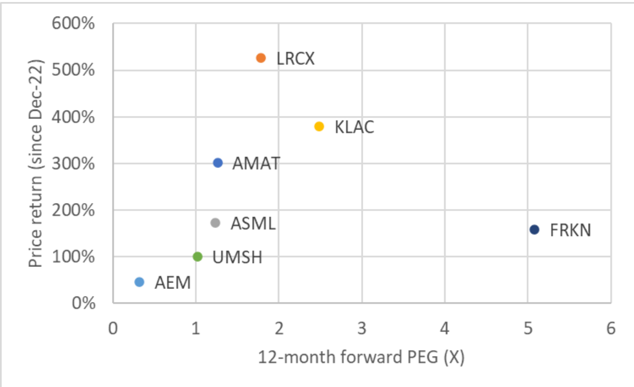
STOCKS

	Price LCY	Mkt Cap USDmn	12-mth Target Price LCY	Performance (%) 3 mth	12 mth	Rating
UMS Integration	2.15	1,499	2.92	65.4	148.8	BUY
AEM Holdings	6.75	1,668	8.90	261.0	453.3	BUY
Frencken	2.63	883	3.22	67.5	150.5	BUY

Source: DBS, S&P Cap IQ Pro
Closing price as of 27 Apr 2026

Scope for valuation catch-up remains, even after recent re-rating



Source: DBS, VisibleAlpha. Data as of 21 April 2026

sa: JS, PY, CS

AI and memory tailwinds accelerating

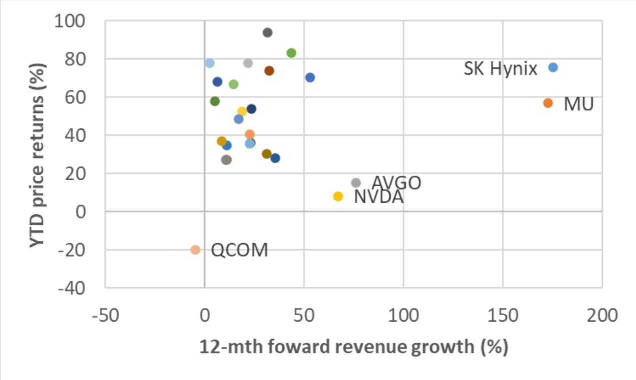
Semiconductor upcycle strengthening and broadening across the value chain. The thesis for the semiconductor upcycle not only remains firmly intact but continues to surprise on the upside. In a single quarter, Gartner has revised its global semiconductor revenue forecast to hit USD1.3trn this year, from USD1trn in earlier forecasts, citing AI and memory tailwinds. The positive spillover effect is broadening across the entire value chain, as reflected in 1) global semiconductor companies expected to average c.20% y/y revenue growth over the coming year, and 2) YTD outperformance of second-order stocks versus key AI and memory bellwethers.

Gartner – Changes to global semiconductor revenues forecast

USD in billions	2025	2026F	2027F
Sep-25	773	910	994
Delta in forecast	+20 (2.6%)	+142 (16%)	+ 191 (19%)
Dec-25 (previous)	793	1,052	1,185
Mar-26 (latest)	805	1,320	1,555
Delta in forecast	+12 (1.5%)	+268 (25%)	+369 (31%)
y/y growth	22.4%	63.9%	17.8%

Source: DBS, Gartner

Global semiconductor stocks – 12-mth forward revenue growth vs YTD returns



Source: DBS, S&P Capital IQ, VisibleAlpha. Data as of 21 April 2026

Upward revisions to equipment makers. Analysts have also turned more positive, as reflected in upward revisions to revenue since the start of 2026. While the memory segment unquestionably saw the sharpest revisions on the back of AI-led shortage, we note that equipment makers (both front- and back-end) were next – suggesting market optimism as potential beneficiaries of the dual memory- and AI-led tailwinds.

Changes to revenue forecasts over the next 6 quarters (% terms, vs. end-25)

Stock	Segment	Q+1	Q+2	Q+3	Q+4	Q+5	Q+6
Micron	Memory	64.0	77.9	85.0	87.1	91.4	94.0
SK Hynix	Memory	60.0	96.6	107.7	117.7	110.4	112.6
Kulicke & Soffa	BE Equipment	22.6	26.8	23.4	25.7	24.0	22.7
BESI	BE Equipment	11.1	8.8	7.3	7.7	8.7	5.3
Teradyne	BE Equipment	27.6	27.4	(3.5)	(10.8)	7.9	18.6
Advantest	BE Equipment	17.1	16.9	14.7	31.8	20.3	12.4
ASM Pacific	BE Equipment	5.4	4.0	3.5	5.4	7.1	7.1
Applied Materials	FE Equipment	10.0	12.9	11.5	11.4	14.7	17.5
Lam Research	FE Equipment	8.4	10.6	13.6	17.4	19.0	21.9
ASML	FE Equipment	8.6	16.9	16.6	17.4	19.4	22.8
KLA Corp	FE Equipment	3.2	5.3	8.0	12.0	13.7	14.6
Tokyo Electron	FE Equipment	9.0	4.9	0.6	0.2	8.0	10.0
TSMC	AI/DC	14.4	9.6	9.4	17.1	17.9	17.6
NVIDIA	AI/DC	10.1	10.4	9.7	10.6	15.4	16.3
Broadcom	AI/DC	8.5	7.8	10.3	13.9	19.4	21.4
Marvell	AI/DC	5.2	8.2	10.1	11.3	13.1	15.0
AMD	AI/DC	5.9	4.9	0.8	6.5	8.6	7.6
Analog Devices	Analog	9.3	8.5	8.8	7.9	8.2	7.9
TEXAS INSTRUMENTS	Analog	2.6	2.8	2.6	3.2	3.2	3.4
ON SEMI	MCU	(1.1)	(1.8)	(0.5)	2.1	1.3	1.0
Infineon	MCU	0.9	1.4	1.0	2.1	3.8	3.8
Renesas	MCU	9.8	8.1	6.3	5.3	6.3	5.1
STMicro	MCU	5.4	5.1	3.8	3.5	2.6	2.8
GlobalFoundries	Foundry	1.9	1.0	1.4	1.7	1.3	1.6
QUALCOMM	Consumer	(5.4)	(5.6)	(6.0)	(5.6)	(4.7)	(4.7)
INTEL	Consumer	(0.8)	0.8	1.3	2.1	2.6	3.7

Source: DBS, VisibleAlpha. Data as of 21 April 2026. Note: Green/Red denotes a sharper positive/negative revision to forecast

Valuation of front-end vs backend semiconductor equipment companies

Company	CY26 PE	CY27 PE	CY28 PE	EPS Growth (CY25-27)
Applied Materials, Inc.	33.4x	26.7x	24.7x	25%
ASML Holding N.V.	39.0x	30.0x	25.4x	31%
KLA Corporation	44.9x	35.9x	33.9x	24%
Lam Research Corporation	37.8x	29.0x	24.7x	36%
Tokyo Electron Limited	32.9x	28.1x	24.4x	20%
Front-end peer average	38.6x	30.8x	27.1x	27%
Teradyne, Inc.	62.7x	46.6x	34.9x	58%
Cohu, Inc.	86.2x	37.4x	23.4x	NA
Advantest Corporation	46.0x	41.7x	35.7x	34%
Chroma ATE Inc.	52.9x	40.5x	32.5x	31%
Back-end peer average	62.0x	41.6x	31.6x	52%
Average	48.4x	35.1x	28.8x	32%

Source: DBS, S&P Capital IQ

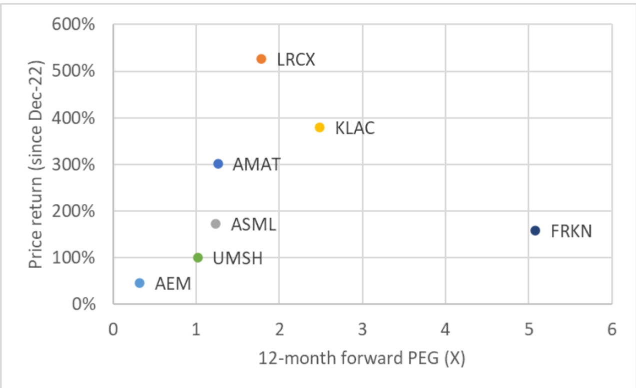
Valuation catch-up with more room to run. We still see legs to our positive view on Singapore tech stocks, even after a strong outperformance since our last update (20-Mar). With the overall uptrend/outlook reaffirmed in the latest FY25 results, local tech stocks have performed well, attracting strong investor interest, amid the unfolding Middle East conflict. Even with the recent run-up, there remains a substantial valuation gap to global peers, alongside more attractive relative valuations for **AEM Holdings** and **UMS Integration**.

SG tech has outperformed in both returns and investor interest

	FSTAS*	FRKN	AEM	UMSH
Price returns				
01-Jan to 19-Mar	6.1%	47.1%	119.8%	37.3%
20-Mar to 20-Apr	1.3%	20.2%	30.7%	21.8%
YTD	7.5%	76.8%	187.2%	67.3%
Average daily turnover (in millions)				
01-Jan to 19-Mar	1,972	13.2	14.6	15.3
20-Mar to 20-Apr	2,022	20.0	30.5	25.5
YTD	1,986	15.2	19.1	18.2

*Source: DBS, Bloomberg *Returns proxied by FTSE ST All Share Index; daily turnover proxied by VALSP Index (total value of shares traded on SGX)*

Scope for valuation catch-up remains, even after recent re-rating



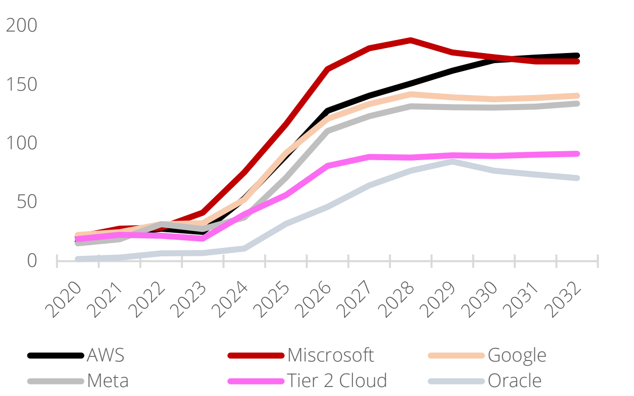
Source: DBS, VisibleAlpha. Data as of 21 April 2026

Key Sector Drivers

1) AI/HPC is still the main capex engine for semis

AI capex cycle remains structurally elevated. AI infrastructure demand continues to drive structurally higher system intensity, with AI servers requiring several-fold higher memory content, particularly high-bandwidth memory, than traditional enterprise systems. At the same time, hyperscalers are scaling investments aggressively. After the sharp surge in 2024–2025, hyperscaler capex is projected to grow at a c.8% CAGR over 2025–2032, sustaining a structurally higher investment cycle. This prolonged capex expansion reinforces demand across the broader semiconductor ecosystem, supporting the long-term investment case for companies exposed to the AI compute supply chain.

Capex for hyperscaler remains high

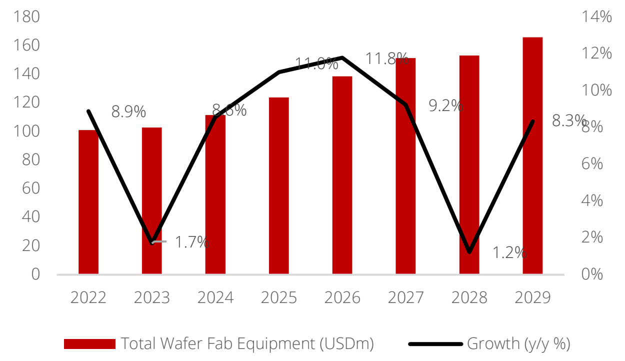


Source: Bloomberg Intelligence hyperscaler index; DBS

2) Broad-based WFE growth remains intact across the full equipment chain

WFE growth sustained by AI demand and rising chip complexity. WFE (wafer fab equipment) spending continues to grow as chipmakers expand capacity to support AI-driven demand and increasingly complex semiconductor designs. Advanced nodes, high-bandwidth memory and new chip architectures require more processing steps and higher tool intensity, sustaining a multi-year equipment investment cycle despite normal industry fluctuations. Among the top five players in the WFE market - ASML (2025 market share: 22.2%), Applied Materials (17.0%), Lam Research (13.2%), Tokyo Electron (10.4%), and KLA (8.1%), our Singapore picks, UMS and Frencken, have direct exposure to the top three industry leaders.

Total Wafer Fab Equipment (USD bn)



Source: Gartner; DBS

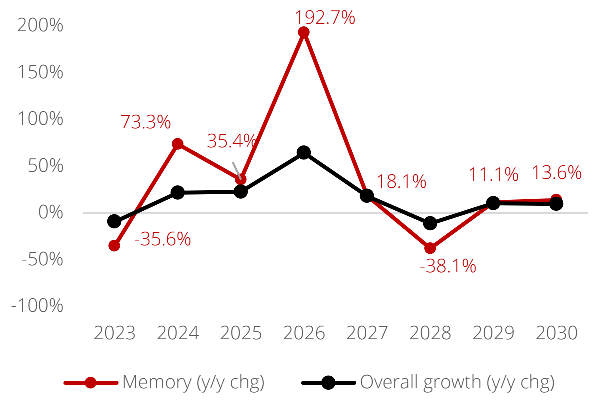
From recovery to structural growth in the backend cycle. Backend equipment makers and OSATs are entering a multi-year growth phase, supported by AI-driven packaging intensity and rising semiconductor complexity, with 2026 likely marking the transition from cyclical recovery to structural expansion. Demand is being propelled by advanced packaging technologies, such as chiplets, high-bandwidth memory (HBM) integration and heterogeneous integration, which require significantly more assembly, bonding and testing per device. Structurally, the continued shift toward outsourcing by fabless companies, alongside the growing complexity of AI and automotive semiconductors, is expected to sustain steady mid- to high-single-digit growth in OSAT and backend equipment demand during the remainder of the decade.

These trends are expected to benefit AEM, particularly following its recent partnership with ASE, the leading player in the OSAT space. UMS is also well positioned to benefit as its key customers deepen their investments in advanced packaging.

3) Memory anchors the semiconductor upcycle

Memory supercycle drives broad-based semiconductor upside. The memory supercycle is lifting the entire semiconductor value chain, as AI-driven demand raises memory content per system and supports sustained investment in capacity and advanced technologies. With memory's industry share expanding from 27% in 2025 to a projected 48% in 2026 and pricing strengthening, the outlook remains positive into 2026–2027, benefiting not only memory producers but also equipment, packaging and testing players across the ecosystem.

Memory growth to significantly outpace industry in 2026



Source: Gartner, DBS

Structural tailwinds warrant re-rating across Singapore semiconductor enablers

Structural growth factors now outweighing near-term cyclical volatility. Against a backdrop of strengthening industry fundamentals, including the ongoing memory supercycle, sustained AI-driven capex, continued WFE expansion and the structural shift toward advanced packaging, the outlook for semiconductor enablers is turning increasingly constructive. These multi-year demand drivers are lifting utilisation, supporting order visibility and reinforcing margin expansion as scale improves, with structural growth factors now outweighing near-term cyclical volatility.

In this context, we see a compelling case for UMS, AEM and Frencken to re-rate further, as their close alignment with leading-edge customers, advanced packaging programmes and AI/HPC infrastructure build-outs positions them to capture rising content intensity and benefit from the next leg of the semiconductor upcycle.

Stock Picks

UMS (BUY, TP: SGD2.92)

Maintain BUY with higher TP of SGD2.92; earnings raised by 9-11%. We have increased our FY26F/27F earnings forecasts by 9%/11%, supported by strengthening order momentum from its two key customers against a backdrop of a prolonged structural semiconductor upcycle driven by sustained AI demand. With an expected higher contribution from the component segment, which typically commands higher margins vs the integrated systems division, we have also lifted our net margin assumption to 18.7%/19.6% for FY26F/27F, vs our previous assumption of 18.0% and 18.5% respectively. Our higher TP of SGD2.92 is pegged to 35x PE (previously 30x), broadly in line with global peers, on FY27F earnings, rolling forward from FY26F.

See link for details: UMS -Growth momentum set to accelerate

AEM (BUY, TP: SGD8.90)

Maintain BUY with higher TP SGD8.90, earnings raised by 42-56%. Our TP is based on 42x FY27 earnings (vs 32x FY27 earnings previously), in line with global peers given multiple tailwinds in AI, new customers, and margin expansion. We have raised our FY26-27 topline estimates by 5-9%, reflecting a structurally elevated AI capex cycle, the growing role of CPUs which have driven upward revisions to consensus forecasts for Intel (+12-19% from FY27-29 revenue), as well as contributions from ASE. We have raised AEM's earnings by 42-56% as the higher revenue base flows through to the bottom line, alongside lower assumed legal fees from the ongoing case, margin improvement from a more favourable product mix, and operating leverage.

See link for details: AEM - Chips are in the right place

Frencken (BUY, TP: SGD3.22)

Maintain BUY with higher TP of SGD3.22 (previously SGD2.50). No change in earnings projection. We maintain our earnings forecasts, with revenue growth of 2.1% in FY26F and a stronger 10.9% in FY27F, translating into earnings growth of 5.0% and 11.8%, respectively. Our target price is raised to SGD3.22 (previously SGD 2.50), driven by a higher valuation peg of 30x PE (from 26x), reflecting a c.15% discount to peers given its c.50% exposure to semiconductor exposure, and a shift in our valuation base to FY27F earnings. We believe the ongoing sector re-rating is well supported by intact structural growth drivers and improving medium-term growth visibility.

See link for details: Frencken - Visibility improving, growth broadening

Comparison across the 3 picks

<table>
<tr><th colspan="3">UMS</th><th colspan="3">AEM</th><th colspan="3">Frencken</th></tr>
<tr><td colspan="9">Revenue/Earnings drivers</td></tr>
<tr><td colspan="3">• Expanding wallet share with AMAT via new product line
• Potentially doubling of orders y/y for 2nd customer
• Participation in next-gen advanced packaging
• Margin improvement from operating leverage and product mix</td><td colspan="3">• Strong uplift in contributions from new customers (Fabless AI, memory, OSAT)
• Contributions from Intel could benefit from inference/agentic AI
• Margin expansion and operating leverage given shift in customer mix and growing revenue base
• Well poised to benefit from structurally elevated capex cycle</td><td colspan="3">• Accelerating adoption of EUV; inventory replenishment for DUV
• Improving order visibility for front end equipment demand, backend the next structural growth driver
• Non-semiconductor segments positioned for gradual recovery and FY26 inflection
• Margins improvement from operating leverage and continued growth in its Asian Mechatronics operations</td></tr>
<tr><td colspan="9">Catalysts for further share price upside</td></tr>
<tr><td colspan="3">• Faster than expected order momentum
• Strong earnings driving a global equipment stock rally
• Further re-rating of semiconductor stocks
• More supportive policies/measures to further enhance market activity</td><td colspan="3">• Deeper wallet share expansion
• Further strengthening of the AEM–ASE partnership
• Upward revision to FY26 guidance
• Further re-rating of semiconductor stocks
• More supportive policies/measures to further enhance market activity</td><td colspan="3">• Deeper wallet share expansion
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• Strong earnings driving a global equipment stock rally
• Further re-rating of semiconductor stocks
• More supportive policies/measures to further enhance market activity</td></tr>
<tr><td colspan="9">Key risks to our view</td></tr>
<tr><td colspan="3">• Slower than expected order momentum from both key customers
• Execution risk in scaling capacity, particularly if the anticipated production ramp is delayed
• Softening semiconductor demand
• Further export controls/tariffs related risks</td><td colspan="3">• Lower than expected orders from new customers if AI capex momentum slows or if semiconductor demand softens
• Order lumpiness may affect the timing of orders and revenue recognition
• Dependent on third-party contract manufacturers to scale capacity with order demand
• Further export controls/tariffs related risks</td><td colspan="3">• Margins may face temporary pressure during the initial phase of the move to the new Singapore factory in 2027
• Cost hurdles could delay adoption rate for lithography machine.
• Non-semiconductor segment recovery could be slower than expected.
• Further export controls/tariffs related risks</td></tr>
<tr><td colspan="3">Valuation comparison</td><td colspan="3"></td><td colspan="3"></td></tr>
<tr><td>@SGD2.15</td><td>FY26F</td><td>FY27F</td><td>@SGD6.81</td><td>FY26F</td><td>FY27F</td><td>@SGD2.63</td><td>FY26F</td><td>FY27F</td></tr>
<tr><td>PE</td><td>32.3x</td><td>25.8x</td><td>PE</td><td>44.4x</td><td>32.0x</td><td>PE</td><td>27.4x</td><td>24.5x</td></tr>
<tr><td>Earnings growth</td><td>42%</td><td>25%</td><td>Earnings growth</td><td>183%</td><td>45%</td><td>Earnings growth</td><td>5%</td><td>12%</td></tr>
<tr><td>PEG</td><td>0.8x</td><td>1.0x</td><td>PEG</td><td>0.24</td><td>0.82</td><td>PEG</td><td>5.5x</td><td>2.0x</td></tr>
<tr><td>Earnings revision</td><td>+9%</td><td>+11%</td><td>Earnings revision</td><td>+42%</td><td>+56%</td><td>Earnings revision</td><td>No change</td><td>No change</td></tr>
<tr><td colspan="3">TP valuation peg: 35x on FY27F earnings</td><td colspan="3">TP valuation peg: 42x on FY27F earnings</td><td colspan="3">TP valuation peg: 30x on FY27F earnings</td></tr>
</table>

See link for details: UMS	See link for details: AEM	See link for details: Frencken

Source: DBS

Conclusion

Our pecking order is UMS > AEM > Frencken. We prefer UMS for its strong growth momentum, underpinned by two key customers and rising leverage to advanced packaging as AI- and memory-driven technologies gain adoption. AEM is the most direct beneficiary of the AI/HPC upcycle, with additional exposure to secular growth areas such as memory and hyperscalers. From an execution risk perspective, we view UMS as having lower risk than AEM, as the key risk related to its second semiconductor customer should ease over time. In contrast, AEM faces higher near-term execution risk as order momentum in its core secular growth areas, such as AI, memory, and hyperscalers, remains at an early stage of ramp-up, making visibility less certain.

Frencken offers a diversified and more resilient way to participate in the semiconductor upcycle, with potential upside from its non-semiconductor segments as they gradually recover. However, it remains our least preferred proxy for this uptrend given its lower semiconductor exposure (c.50% of revenue) and relatively muted projected earnings growth of 5% y/y in FY26F and 12% in FY27F, both trailing UMS and AEM, despite trading at the lowest PE among the three.

Prefer UMS for customer-ramp and advanced packaging exposure

We like UMS for its clear growth momentum driven by its two key customers, alongside increasing leverage to advanced packaging and an expanding wallet share as next-generation packaging technologies gain adoption across AI and memory applications. Though execution risk remains, particularly with the second semiconductor customer, however, we believe this risk is increasingly manageable given the customer has been onboarded for 2–3 years, during which key operational teething issues are likely to have been identified and resolved. The group's underutilised capacity in Penang provides meaningful headroom to support customer ramps without the need for near-term heavy capex, enabling UMS to capture incremental demand efficiently. In addition, its growing participation across multiple product lines and programmes offers upside optionality as customer orders accelerate, supporting a gradual recovery in utilisation and margin expansion over the next few years.

Favour AEM for direct AI/HPC which led earnings growth

We favour AEM as the most direct beneficiary of the AI/HPC cycle due to its strong exposure to test solutions for high-performance compute and server chips, where rising processor complexity and thermal demands are structurally increasing testing intensity. AEM is well positioned to deliver the strongest near-term earnings momentum and operating leverage as AI-related and new customer contributions scale. We forecast FY26F earnings to more than double off a small base vs FY25, followed by a further 40% growth in FY27F, driven by a broadening customer base spanning IDMs, fabless AI players, memory manufacturers, hyperscalers, and OSATs, each benefiting from distinct AI-driven tailwinds.

Like Frencken for diversified exposure with cyclical upside

We favour Frencken as a diversified and resilient way to participate in the semiconductor upcycle, with additional upside from its non-semiconductor segments, which are positioned for a gradual recovery and a potential inflection into FY26. The group's balanced exposure across semiconductor, analytical life sciences, medical, industrial automation, and automotive end-markets provides earnings stability through the cycle, while preserving upside as global demand normalises. This is further supported by leverage to a recovery in its European operations and longer-term efficiency and margin gains from its new Singapore facility, positioning Frencken to benefit from both cyclical recovery and operational improvements.

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DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are DBS unless otherwise specified.

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