

COMPANY RESULTS

UMS Holdings (UMSH SP)

3Q23: Results In Line With Expectations; Outlook Remains Buoyant

3Q23 earnings of S\$15m (-64% yoy/+32% qoq) were in line with expectations, with 9M23 earnings of S\$44m (-46% yoy) forming 73% of our full-year estimate. UMS benefitted from improved material margins which grew 0.7ppt yoy due to higher USD/SGD exchange rates and renewal of its integrated system contract with its key customer. UMS has a buoyant outlook, supported by sanguine guidance of key semiconductor equipment makers. Maintain BUY and target price of S\$1.56.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	% chg yoy	2Q23	% chg qoq
Revenue	71.3	100.1	(29)	74.4	(4)
Gross profit	36.5	50.6	(28)	34.4	6
Gross margin (%)	51.2	50.5	0.7ppt	46.2	5.0ppt
PATMI	15.3	42.5	(64)	11.6	32
Net margin (%)	21.6	42.5	(20.9ppt)	15.6	6.0ppt

Source: UMS Holdings, UOB Kay Hian

RESULTS

- **3Q23 earnings in line with expectations, margins expanded due to forex and new contract terms.** UMS Holdings (UMS) reported 3Q23 earnings of S\$15m (-64% yoy/+32% qoq), with 9M23 earnings of S\$44m (-46% yoy) being in line, forming 73% of our full-year estimate. UMS benefitted from improved material margins which grew to 51.2% in 3Q22 from 50.5%, mainly due to higher USD/SGD exchange rates and better margins arising from the renewal of its integrated system contract with its key customer.
- **Revenue continued to show signs of stabilisation in 3Q23**, falling 29% yoy but only declining 4% qoq. Revenue in the semiconductor segment fell 30% yoy due to slower global semiconductor demand while revenue in the others segment plunged 55% mainly due to the weaker material and tooling distribution business affected by the general business slowdown. The decline in semiconductor revenue was due to a 34% drop in component sales (from S\$45m in 3Q22 to S\$30m in 3Q23) and 25% yoy decline in Semiconductor Integrated System sales from S\$45m in 2Q22 to S\$33m in 3Q23. All the key geographical markets posted lower sales in 2023. Revenue in Singapore fell 28% yoy. US sales decreased 12% due to lower component sales for new equipment. Revenue in Taiwan declined 37% as a result of lower component sales.
- **Outlook remains buoyant.** UMS expects its performance in the coming months to be supported by the sanguine guidance of some major semiconductor equipment makers expecting to deliver sustainable outperformance going forward.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	271	372	320	378	408
EBITDA	92	120	90	114	124
Operating profit	80	104	70	89	98
Net profit (rep./act.)	53	98	60	77	85
Net profit (adj.)	53	98	60	77	85
EPS (S\$ cents)	7.9	14.7	8.9	11.5	12.7
PE (x)	15.9	8.6	14.1	10.9	9.9
P/B (x)	3.1	2.5	2.3	2.1	1.9
EV/EBITDA (x)	8.6	6.6	8.8	7.0	6.4
Dividend yield (%)	4.0	4.0	4.3	4.4	4.4
Net margin (%)	19.7	26.4	18.7	20.5	20.9
Net debt/(cash) to equity (%)	(11.1)	(9.3)	(21.0)	(24.5)	(32.4)
Interest cover (x)	123.2	134.7	n.a.	n.a.	n.a.
ROE (%)	20.2	31.9	17.0	20.1	19.9
Consensus net profit	-	-	62	81	87
UOBKH/Consensus (x)	-	-	0.96	0.96	0.98

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.26
Target Price	S\$1.56
Upside	+23.8%

COMPANY DESCRIPTION

UMS provides high precision components and complex electromechanical assembly and final testing for semiconductor equipment manufacturers.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	UMSH SP
Shares issued (m):	670.5
Market cap (S\$m):	844.9
Market cap (US\$m):	621.1
3-mth avg daily t'over (US\$m):	4.2

Price Performance (%)

52-week high/low	S\$ 1.34/S\$ 0.920			
1mth	3mth	6mth	1yr	YTD
3.7	21.7	0.0	(9.7)	(5.1)

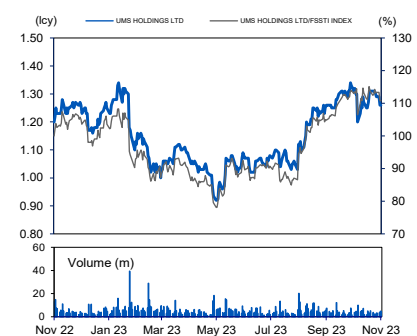
Major Shareholders

Andy Luong (Founder)	15.9%
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FY23 NAV/Share (S\$) 0.54

FY23 Net Cash/Share (S\$) 0.11

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- SEMI expects global fab equipment spending to recover in 2024.** According to Semiconductor Equipment and Materials International (SEMI), a 2024 rebound is expected to continue through 2026, with wafer shipments setting new highs as silicon demand increases to support artificial intelligence (AI), high-performance computing (HPC), 5G, automotive and industrial applications. SEMI also predicts fab equipment spending to recover to US\$97b (rising 15.5% yoy) and total foundry capacity (including foundry/integrated device manufacturer) to increase 7% in 2024. Investments into fab construction projects which hit a historical high in 2023 are expected to continue at a higher level in 2024.
- UMS has secured an in-principle agreement with its new customer** for a new renewable three-year contract. This new customer contract win will boost UMS's buoyant outlook as its new Penang facilities will be ready for volume production by Sep 23. The production ramp-up will enable it to take on new orders from its new customer which is estimated to reach at least US\$30m next year.

EARNINGS REVISION/RISK

- We maintain our financial forecasts.

VALUATION/RECOMMENDATION

- Maintain BUY with and target price of S\$1.56**, based on a PE-based valuation of 13.5x 2024F EPS. This is pegged at 0.5SD above UMS' historical mean PE. The reason for pegging our PE-based valuation multiple to above mean is to reflect the improving semiconductor industry outlook and potential increase in UMS' earnings quality from new contributions from its new customer.

SHARE PRICE CATALYST

- Higher-than-expected factory utilisation rates.
- Return of orders for aircraft components to benefit recently-acquired subsidiary JEP Holdings.
- Better-than-expected cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 14 Nov 23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE (%)	Yield (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)		
AEM	AEM SP	SGD	3.19	724	71.8	13.0	2.0	1.8	26.0	9.4	2.8	0.3
Venture	VMS SP	SGD	12.69	2,709	13.7	13.1	1.3	1.3	8.1	7.9	9.4	5.9
Frencken	FRKN SP	SGD	1.06	333	17.7	10.9	1.1	1.0	8.7	6.3	6.5	1.7
Singapore average					34.4	12.3	1.5	1.4	14.3	7.9	6.2	2.7
Kulicke & Soffa	KLIC US	USD	44.89	2,535	25.9	22.4	n.a.	n.a.	16.3	12.3	8.6	n.a.
Applied Materials	AMAT US	USD	149.74	125,263	18.9	19.1	7.9	7.5	15.3	15.8	46.3	0.8
Lam Research	LRCX US	USD	673.43	88,753	20.2	23.9	10.9	11.0	15.8	19.1	62.3	1.0
KLA Corp	KLAC US	USD	528.25	71,806	21.8	22.4	24.7	23.3	16.7	17.7	156.8	1.0
Teradyne	TER US	USD	86.62	13,242	30.2	23.3	5.4	5.0	18.7	16.0	18.6	0.5
Global average					23.4	22.2	12.3	11.7	16.6	16.2	58.5	0.8
UMS	UMSH SP	SGD	1.26	621	14.1	10.9	2.3	2.1	8.8	7.0	17.0	4.3

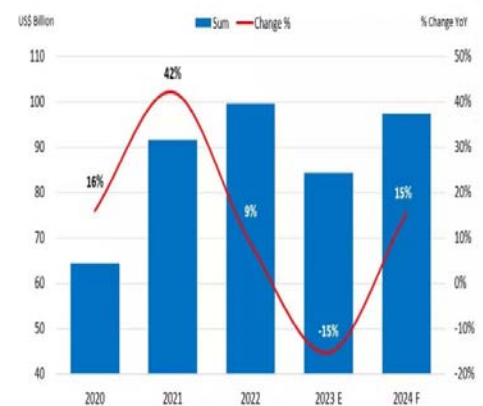
Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

FAB EQUIPMENT SPENDING (FRONT END)



Source: World Fab Forecast Report 3Q23 update, SEMI

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	372.4	320.3	377.9	408.1
EBITDA	120.0	90.1	113.9	124.4
Deprec. & amort.	15.6	20.4	24.7	26.6
EBIT	104.4	69.7	89.2	97.8
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.9)	1.1	1.1	1.2
Pre-tax profit	103.5	70.8	90.3	99.0
Tax	(1.2)	(7.1)	(9.0)	(9.9)
Minorities	(3.8)	(3.8)	(3.8)	(3.8)
Net profit	98.5	59.9	77.4	85.3
Net profit (adj.)	98.5	59.9	77.4	85.3

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	135.4	135.0	130.3	123.8
Other LT assets	100.8	100.7	100.7	100.7
Cash/ST investment	61.7	111.0	135.9	183.9
Other current assets	190.3	157.1	192.7	204.3
Total assets	488.2	503.8	559.6	612.7
ST debt	11.5	16.1	18.5	18.8
Other current liabilities	69.5	59.1	67.8	72.3
LT debt	18.4	18.4	18.4	18.4
Other LT liabilities	20.4	17.4	22.3	21.9
Shareholders' equity	340.4	364.9	404.8	452.5
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	488.1	503.8	559.6	611.8

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	95.3	104.8	84.8	110.0
Pre-tax profit	103.2	70.8	90.3	99.0
Tax	(8.5)	(10.2)	(6.3)	(10.4)
Deprec. & amort.	15.6	20.4	24.7	26.6
Working capital changes	(36.0)	22.0	(24.8)	(7.0)
Non-cash items	21.1	1.8	0.9	1.8
Investing	(56.2)	(19.0)	(20.0)	(20.0)
Capex (growth)	(38.5)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(17.6)	1.0	0.0	0.0
Financing	(37.6)	(30.6)	(34.1)	(36.1)
Dividend payments	(30.8)	(36.2)	(37.6)	(37.6)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(4.4)	4.6	2.4	0.3
Others/interest paid	(2.4)	1.1	1.1	1.2
Net cash inflow (outflow)	1.6	55.2	30.7	53.9
Beginning cash & cash equivalent	65.1	61.5	111.0	135.9
Changes due to forex impact	(5.1)	(5.7)	(5.8)	(5.8)
Ending cash & cash equivalent	61.5	111.0	135.9	183.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	32.2	28.1	30.1	30.5
Pre-tax margin	27.8	22.1	23.9	24.2
Net margin	26.4	18.7	20.5	20.9
ROA	21.3	12.1	14.6	14.5
ROE	31.9	17.0	20.1	19.9
Growth				
Turnover	37.3	(14.0)	18.0	8.0
EBITDA	29.9	(24.9)	26.4	9.2
Pre-tax profit	30.0	(31.6)	27.6	9.6
Net profit	84.7	(39.2)	29.3	10.1
Net profit (adj.)	84.7	(39.2)	29.3	10.1
EPS	84.7	(39.2)	29.3	10.1
Leverage				
Debt to total capital	7.5	8.1	7.8	7.2
Debt to equity	8.8	9.5	9.1	8.2
Net debt/(cash) to equity	(9.3)	(21.0)	(24.5)	(32.4)
Interest cover (x)	134.7	n.a.	n.a.	n.a.

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