

COMPANY RESULTS

UMS Holdings (UMSH SP)

1Q22: Continued Strength In Semiconductor Demand

1Q22 net profit of S\$19.4m (+26% yoy, +240% qoq) was led by continued strength in semiconductor demand, as well as consolidation of sales from JEP. First interim DPS of 1 S cent was maintained. The roadmap remains bright with clear revenue visibility stemming from UMS' key client's orderbook and positive outlook, while signs of a revival in the aerospace industry are starting to show. Maintain BUY with target price of S\$1.45.

1Q22 RESULTS

Year to 31 Dec (S\$m)	1Q22	1Q21	% chg yoy	4Q21	% chg qoq
Revenue	84.7	49.6	+70.8	87.3	(2.9)
Gross profit	43.6	26.3	+65.4	45.4	(4.1)
Gross margin (%)	51.4	53.1	(1.7ppt)	52.1	(0.7ppts)
Net profit	19.4	15.4	+26.0	13.3 [#]	45.4
Net margin (%)	22.9	31.0	(8.1ppt)	15.3 [#]	+7.6ppts

[#]Adjusted for tax provisions

Source: UMS Holdings, UOB Kay Hian

RESULTS

- Strength in 1Q22.** UMS Holdings' (UMS) 1Q22 net profit of S\$19.4m (+26.0% yoy, +45.4% qoq) was strong, constituting 31% of our full-year target. This came on the back of a strong showing in revenue of S\$84.7m (+70.8% yoy, -2.9% qoq), which was mainly driven by sustained strong growth in the global semiconductor industry, as well as the consolidation of JEP Holdings. Segmentally, semiconductor sales jumped 57% yoy to S\$73.3m, while aerospace and others account for the remaining S\$11.4m (1Q21: S\$2.9m).
- Gross profitability relatively stable, first interim DPS maintained.** 1Q22 gross material margin held relatively stable at 51.4% (1Q21: 53.1%, 4Q21: 52.1%), owing to UMS' ability to manage its raw materials cost through 70%-owned materials manufacturer, Starke Pte Ltd. Cash flow generation was healthy with operating cash flow at S\$24.7m (1Q21: S\$15.6m) and free cash flow at S\$18.7m (1Q21: S\$14.8m), bolstering the group's net cash balance to S\$47.0m (1Q21: S\$30.8m). UMS kept its first interim DPS at 1 S cent.
- New plant on schedule for completion in 3Q22.** UMS' new site in Penang, Malaysia, will add 300,000 sf, or 60%, to the current capacity of 500,000 sf. Construction is expected to be completed in 3Q22, and we expect full production to come on-stream in 4Q23. Management cited that the shortage of skilled labour will be a challenging issue to tackle, which we have accounted for in our earlier estimates.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	164.4	271.2	292.9	328.1	367.4
EBITDA	53.9	92.2	90.4	97.9	105.0
Operating profit	46.2	79.8	79.6	85.0	91.7
Net profit (rep./act.)	36.5	53.1	62.3	62.6	67.9
Net profit (adj.)	36.5	53.1	62.3	62.6	67.9
EPS (S\$ cents)	6.8	8.0	9.3	9.4	10.2
PE (x)	16.8	14.3	12.2	12.2	11.2
P/B (x)	2.4	2.8	2.5	2.2	2.0
EV/EBITDA (x)	13.8	8.1	8.2	7.6	7.1
Dividend yield (%)	3.5	4.4	4.4	4.4	4.4
Net margin (%)	22.2	19.6	21.3	19.1	18.5
Net debt/(cash) to equity (%)	(13.6)	(11.1)	(13.7)	(19.2)	(23.0)
Interest cover (x)	135.8	123.0	n.a.	n.a.	n.a.
ROE (%)	14.7	20.1	21.3	19.3	19.0
Consensus net profit	-	-	74.0	79.7	73.7
UOBKH/Consensus (x)	-	-	0.84	0.79	0.92

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.14
Target Price	S\$1.45
Upside	+26.9%

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):	666.8
Market cap (S\$m):	760.1
Market cap (US\$m):	553.1
3-mth avg daily t'over (US\$m):	6.0

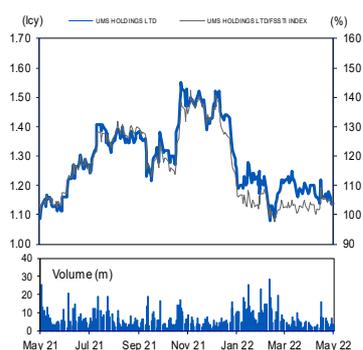
Price Performance (%)

52-week high/low	S\$ 1.55/S\$1.08			
1mth	3mth	6mth	1yr	YTD
(5.0)	(2.6)	(23.0)	6.3	(25.0)

Major Shareholders

Andy Luong (Founder)	16.4%
FY22 NAV/Share (S\$)	0.46
FY22 Net Cash/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Factory utilisation rate to stay high in 2022-23.** Our channel checks suggest that factory utilisation levels at the downstream semiconductor manufacturers, including UMS, will stay elevated in 2022-23. Specifically for UMS, the order backlog for AMAT's Semi Systems segment is still showing sustained growth over the past four consecutive quarters, providing revenue visibility for UMS into 2023.
- **Working on tax issue in Malaysia.** In 4Q21, UMS' net profit was dragged by a tax shock of S\$15.2m, consisting of an unexpected S\$7.6m provision incurred after the company was not granted Pioneer Status for an incentive at the Malaysian subsidiary. Management has since engaged a tax consultant hoping to arrive on common ground with the Malaysian authorities, in a bid to claw back some of the provisions. Our understanding on the unprecedented tax bill is that UMS met all but one criterion under the scheme – it was unable to hire a minimum percentage of the local workforce in Penang due to the tight labour market. In our estimated financials, we have taken the view that there will be no tax write-backs and that tax incentives for the Malaysian subsidiaries had expired in 2021.

EARNINGS REVISION/RISK

- No changes.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of S\$1.45**, pegged to 15.4x 2022F earnings, or +2SD above its historical five-year average. We believe UMS could trade at a premium over peers due to its timely new capacity expansion to drive earnings growth above the industry average.

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 25 May 22 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Yield 2022F (%)	ROE 2022F (%)
					2021 (x)	2022F (x)	2023F (x)	Curr (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2023F (x)		
UMS	UMSH SP	S\$	1.14	564	14.3	12.2	12.2	2.8	2.5	2.2	7.9	7.9	7.1	4.4	20.1
AEM Holdings	AEM SP	S\$	4.28	980	13.6	11.2	9.5	3.3	2.7	2.2	7.5	7.4	5.8	2.3	26.6
Venture Corporation	VMS SP	S\$	16.99	3,658	15.8	14.1	13.2	1.8	1.7	1.6	9.3	10.9	9.8	4.4	12.6
Frencken Group	FRKN SP	S\$	1.15	364	8.4	8.6	7.5	1.3	1.2	1.1	4.3	4.0	3.1	3.6	14.3
Singapore average					14.7	12.7	11.4	2.6	2.2	1.9	8.4	9.2	7.8	3.4	19.6
Kulicke & Soffa Industries	KLIC US	US\$	47.49	2,808	6.0	6.5	7.5	2.5	n.a.	n.a.	3.9	n.a.	n.a.	1.4	40.6
Applied Materials	AMAT US	US\$	106.59	94,161	14.1	14.2	12.1	8.1	7.9	6.7	11.7	11.7	10.2	1.0	54.2
Lam Research	LRCX US	US\$	470.97	65,331	14.7	14.9	12.3	10.8	11.2	8.6	12.1	11.9	9.8	1.3	72.6
KLA Corporation	KLAC US	US\$	330.09	49,261	16.7	15.8	13.7	12.1	11.8	9.4	12.1	12.1	10.8	1.3	82.7
Teradyne	TER US	US\$	99.19	15,891	18.1	20.4	15.3	6.5	6.8	5.9	13.2	13.5	10.9	0.4	32.8
Global average					13.9	14.4	12.2	8.0	9.4	7.7	10.6	12.3	10.4	1.1	56.6

Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	271.2	292.9	328.1	367.4
EBITDA	92.2	90.4	97.9	105.0
Deprec. & amort.	12.4	10.9	12.9	13.3
EBIT	79.8	79.6	85.0	91.7
Associate contributions	0.4	0.0	0.0	0.0
Net interest income/(expense)	(0.8)	0.9	1.3	1.3
Pre-tax profit	79.4	80.5	86.2	93.0
Tax	(21.8)	(13.7)	(19.2)	(20.7)
Minorities	(4.5)	(4.5)	(4.5)	(4.5)
Net profit	53.1	62.3	62.6	67.9
Net profit (adj.)	53.1	62.3	62.6	67.9

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	66.1	54.6	80.3	73.6
Pre-tax profit	79.4	80.5	86.2	93.0
Tax	1.8	(24.3)	(13.0)	(17.1)
Deprec. & amort.	12.4	10.9	12.9	13.3
Working capital changes	(39.3)	(12.4)	(5.8)	(15.6)
Non-cash items	11.8	0.0	0.0	0.0
Investing	(20.9)	(9.7)	(20.0)	(15.0)
Capex (growth)	(10.0)	(10.0)	(20.0)	(15.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(11.0)	0.3	0.0	0.0
Financing	(33.5)	(23.0)	(33.4)	(29.1)
Dividend payments	(21.5)	(30.8)	(33.4)	(33.4)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	14.7	6.8	(1.3)	2.9
Others/interest paid	(26.7)	0.9	1.3	1.3
Net cash inflow (outflow)	11.7	21.9	26.9	29.5
Beginning cash & cash equivalent	53.8	65.1	83.7	104.8
Changes due to forex impact	(0.4)	(3.3)	(5.7)	(5.8)
Ending cash & cash equivalent	65.1	83.7	104.8	128.5

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	116.7	115.8	122.9	124.6
Other LT assets	100.4	100.3	100.3	100.3
Cash/ST investment	65.1	83.7	104.8	128.5
Other current assets	154.6	156.1	172.0	199.2
Total assets	436.8	456.0	500.1	552.6
ST debt	11.6	18.4	17.2	20.0
Other current liabilities	77.8	61.1	74.6	85.6
LT debt	22.7	22.7	22.7	22.7
Other LT liabilities	20.4	15.8	18.5	22.7
Shareholders' equity	276.3	310.0	339.2	373.6
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	436.8	456.0	500.1	552.6

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	34.0	30.9	29.8	28.6
Pre-tax margin	29.3	27.5	26.3	25.3
Net margin	19.6	21.3	19.1	18.5
ROA	14.2	14.0	13.1	12.9
ROE	20.1	21.3	19.3	19.0
Growth				
Turnover	64.9	8.0	12.0	12.0
EBITDA	71.0	(1.9)	8.2	7.3
Pre-tax profit	104.1	1.4	7.1	7.9
Net profit	45.6	17.4	0.4	8.4
Net profit (adj.)	45.6	17.4	0.4	8.4
EPS	17.0	17.4	0.4	8.4
Leverage				
Debt to total capital	10.1	10.8	9.8	9.6
Debt to equity	12.4	13.3	11.7	11.4
Net debt/(cash) to equity	(11.1)	(13.7)	(19.2)	(23.0)
Interest cover (x)	123.0	n.a.	n.a.	n.a.

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