

COMPANY UPDATE

UMS Holdings (UMSH SP)

Well-positioned For Semiconductor Industry Recovery And Boost From New Customer

UMS's key customer AMAT has recently raised earnings guidance significantly for the coming quarter due to improving demand for chips. Together with its new customer, which is actively seeking new production capacity in Malaysia based on our channel check, UMS is in a good position to benefit from the semiconductor industry recovery. We raise our 2024 earnings by 17% and target price by 26% to S\$1.56. Maintain BUY.

WHAT'S NEW

- **Key customer's better-than-expected guidance indicates improving demand for chips and should benefit UMS.** UMS Holdings (UMS) is well-positioned to benefit from an improving outlook of its key customer Applied Materials (AMAT). In Aug 23, AMAT reported earnings that beat analyst estimates, and also guided for earnings in the coming quarter to be around 10% higher than analyst estimates. This is mainly due to improving demand from AI-related chips and increasing orders from customers in China who are looking to increase purchases of equipment that are capable of older manufacturing processes. AMAT also highlighted that over the past few years, it has focused its strategy and investments on key technologies to accelerate the Internet of Things and AI era, enabling AMAT to consistently deliver strong results.
- **Channel check indicates that UMS' new customer is actively seeking to expand in Malaysia and is expected to contribute meaningfully from 2024 onwards.** Our recent channel check suggests that UMS' new customer (Customer L) is seeking more production capacity from several local semiconductor-related manufacturers to support its expansion/relocation of its Malaysian operation. UMS estimates that this new customer should contribute at least US\$30m in 2024, which will make up a meaningful 11% contribution to our 2024 forecasted revenue. For the longer term, UMS targets to grow Customer L's contribution to be around the level of its existing largest customer.
- **SEMI expects global fab equipment spending to recover in 2023.** In the 12 Sep 23 quarterly World Fab Forecast Report by Semiconductor Equipment and Materials International (SEMI), global fab equipment spending for front-end facilities in 2023 is expected to decline 15% yoy before rebounding 15% yoy in 2024. Next year's fab equipment spending recovery will be partly driven by the end of the semiconductor inventory correction in 2023 and strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments. The 2023 decline in equipment investment is proving shallower than expected, while the rebound in 2024 should be better than expected. The trend suggests the semiconductor industry is turning the corner on the downturn and on a path back to robust growth, fuelled by healthy chip demand.

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	75	84
UOBKH/Consensus (x)	-	-	0.96	1.03	1.02

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.26
Target Price	S\$1.56
Upside	+23.8%
(Previous TP)	S\$1.24

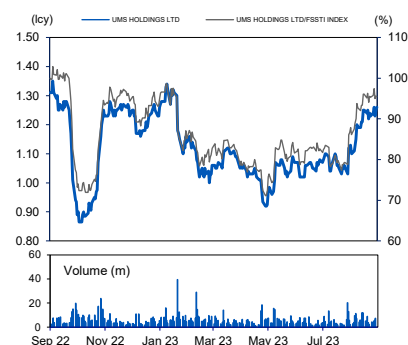
COMPANY DESCRIPTION

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):	620.1			
3-mth avg daily t'over (US\$m):	3.9			
Price Performance (%)				
52-week high/low	S\$ 1.35/S\$ 0.865			
1mth	3mth	6mth	1yr	YTD
12.5	16.7	22.3	(5.3)	6.8
Major Shareholders				
Andy Luong (Founder)	15.9			
-	-			
-	-			
FY23 NAV/Share (S\$)	0.54			
FY23 Net Cash/Share (S\$)	0.11			

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Global semiconductor industry is increasing capacity by 5% in 2023 after an 8% rise in 2022; capacity growth is expected to continue in 2024.** Taiwan is expected to retain the global lead in fab equipment spending in 2024 with US\$23b in investments (+4% yoy). Korea is projected to rank second in spending, with an estimated US\$22b in investments in 2024 (+41% yoy), reflecting a memory sector recovery. With export controls expected to limit China's spending in leading-edge technologies and foreign investment, the region is forecast to place third in equipment spending worldwide in 2024 at US\$20b, a decline from 2023. Despite the constraints, Chinese foundry suppliers are expected to continue investments in mature process nodes.
- Near-term conditions for the semiconductor industry may remain cloudy, but mid- to longer-term prospects are expected to brighten.** Moving into 3Q23, there are signs that demand may stabilise. UMS' customer has shared it expects to outperform the industry this year and UMS has successfully renewed its Integrated System contract.
- AI- related and automotive chips are expected to drive double-digit growth of spending in fab equipment spending in the next three years.** Global 300mm fab equipment spending for front-end facilities next year is expected to begin a growth streak to hit a US\$119b record high in 2026, following a decline in 2023, according to SEMI. Strong demand for high-performance computing, automotive applications and improved demand for memory will fuel double-digit growth of spending in equipment investments over the three-year period. After the projected 18% drop to US\$74b this year, global 300mm fab equipment spending is forecast to rise 12% to US\$82b in 2024, 24% to US\$101.9b in 2025 and 17% to US\$118.8b in 2026.

EARNINGS REVISION/RISK

- We raise our 2024/25 earnings estimates by 17%/14%, after raising our revenue estimates by 4%/3% to factor in the potential recovery in the semiconductor industry from AMAT's improved guidance.** We also raise our gross margin assumption by 1.5% to 48.5% to account for better operating leverage from improved revenue.

VALUATION/RECOMMENDATION

- Maintain BUY with a 26% higher target price of S\$1.56 (from S\$1.24),** based on a PE-based valuation of 13.5x 2024F EPS. This is pegged at 0.5SD above UMS' historical mean PE, up from the average of 12.5x previously. The reason for raising our PE-based valuation multiple from below 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

- Better-than-expected factory utilisation rates and cost management, dividend surprise.**

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 15 Sep 23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2023 (%)	Yield 2023 (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)		
AEM	AEM SP	SGD	3.42	775	n.a.	12.0	2.2	1.9	45.5	8.9	0.2	0.0
Venture	VMS SP	SGD	13.13	2,803	13.6	13.1	1.3	1.3	8.1	7.9	9.8	5.7
Frencken	FRKN SP	SGD	1.12	351	18.7	13.5	1.2	1.1	9.2	7.3	6.5	1.6
Singapore average					16.1	12.9	1.6	1.4	20.9	8.0	5.5	2.4
Kulicke & Soffa	KLIC US	USD	48.10	2,716	27.8	24.0	n.a.	n.a.	18.1	13.5	8.6	n.a.
Applied Materials	AMAT US	USD	144.57	120,938	18.3	18.4	7.7	7.4	14.8	15.1	46.6	0.8
Lam Research	LRCX US	USD	656.43	86,985	19.7	23.8	10.7	11.1	15.5	19.1	62.3	1.1
KLA Corp	KLAC US	USD	479.9	65,612	19.8	21.2	22.5	18.0	15.4	17.1	156.8	1.1
Teradyne	TER US	USD	97.96	15,087	34.5	21.5	6.3	5.9	22.3	15.6	18.5	0.5
Global average					24.0	21.8	11.8	10.6	17.2	16.1	58.6	0.8
UMS	UMSH SP	SGD	1.26	620	14.1	10.9	2.3	2.1	8.8	7.0	17.0	4.3

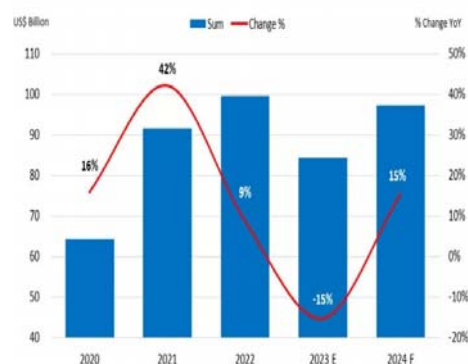
Source: Bloomberg, UOB Kay Hian

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

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

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

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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