

COMPANY UPDATE

UMS Holdings (UMSH SP)

2021 To Mark Record Year

UMS' upcoming 4Q21 results should reflect a production normalisation following the COVID-19-related disruption at the Penang factory in 2Q and 3Q. Our revised 4Q21 estimated net profit of S\$16.6m looks achievable, supported by healthy orders and deliveries at key client Applied Materials. The demand-supply imbalance from new technology innovations portends a bright outlook for 2022-23, implying attractive valuations. Maintain BUY with a slightly higher target price of S\$1.80.

WHAT'S NEW

- Expect to close 2021 at a record.** We are anticipating a record year in 2021 for UMS Holdings (UMS) since its founding in 2005. Following a COVID-19-disrupted 2Q and 3Q, normalised Penang factory operations in 4Q21 has led us to an upward revision of our revenue and net profit estimates of S\$55.9m and S\$14.5m to S\$64.0m (+45.1% yoy) and S\$16.6m (+54.1% yoy) respectively. This implies 2021 revenue and net profit of S\$248.0m (+50.8% yoy) and S\$64.0m (+47.1% yoy). If achieved, this will mark the first in corporate history for revenue to hit above the S\$200m mark (2010-20 average of S\$124m, ranging between S\$110m and S\$164m), and the highest profit it has ever achieved (2017: S\$52.0m). The positive operating leverage also translates to solid free cash flow for UMS, which could bring about an upside surprise in dividends. We deem current valuation of 10.5x/9.5x 2022/23F PE to be attractive, supported by a 4.9% yield.
- Positive for UMS as TSMC continues to ramp up capex in 2022.** In mid-Jan 22, Taiwan Semiconductor Manufacturing Company (TSMC), the largest contract chipmaker globally and one of the largest customers (18% of 2020 revenue) for Applied Materials (AMAT), revealed plans to hike 2022 capex by US\$10-14b (+33-46% yoy) to US\$40-44b. The largest chunk (70-80%) is earmarked for new fabrication plants and capacity expansion of latest and upcoming nodes (2nm and 3nm class). This implies a sustained increase in orders for AMAT's Endura platform, which is used across all of TSMC's factories for metallisation during the chip making process. To recap, UMS holds the lion's share among three subcontractors globally that manufactures the wafer transfer module in the platform.
- Upstream manufacturers facing supply chain delays highlight demand-supply imbalance.** On 26 January, wafer fabrication equipment manufacturer Lam Research (LRCX US) reported a miss on sales estimates for its 2QFYJun 22 results due to supply chain-related delays. Our view is that it strongly reflects the tight capacity situation at manufacturing subcontractors including UMS, which are already witnessing elevated utilisation levels.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	131.9	164.4	248.0	267.8	299.9
EBITDA	33.2	56.7	79.5	95.3	104.6
Operating profit	26.3	49.0	71.3	86.6	95.4
Net profit (rep./act.)	24.7	38.9	63.6	77.4	85.3
Net profit (adj.)	24.7	38.9	63.6	77.4	85.3
EPS (S\$ cents)	4.6	7.3	9.5	11.6	12.8
PE (x)	26.0	16.5	12.6	10.4	9.4
P/B (x)	2.6	2.6	2.7	2.4	2.1
EV/EBITDA (x)	21.6	12.6	9.0	7.5	6.9
Dividend yield (%)	3.3	3.3	5.0	5.0	5.0
Net margin (%)	18.7	23.7	25.7	28.9	28.4
Net debt/(cash) to equity (%)	(8.8)	(13.6)	(20.4)	(25.1)	(33.7)
Interest cover (x)	52.5	142.9	n.a.	n.a.	n.a.
ROE (%)	10.5	15.7	23.3	24.4	23.7
Consensus net profit	-	-	63.6	74.1	78.6
UOBKH/Consensus (x)	-	-	1.00	1.04	1.09

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.21
Target Price	S\$1.80
Upside	+48.8%
(Previous TP)	S\$1.66

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):	800.1
Market cap (US\$m):	594.8
3-mth avg daily t'over (US\$m):	6.5

Price Performance (%)

52-week high/low	S\$ 1.55/S\$ 0.84			
1mth	3mth	6mth	1yr	YTD
(16.7)	(7.7)	(14.8)	8.7	(21.1)

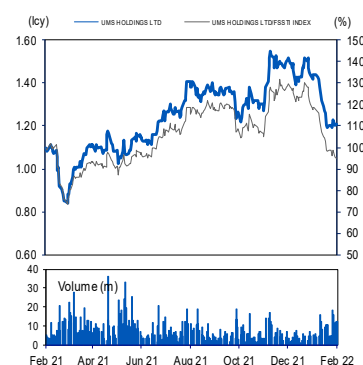
Major Shareholders

Andy Luong (Founder)	18.1
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FY22 NAV/Share (S\$) 0.51

FY22 Net Cash/Share (S\$) 0.13

PRICE CHART



Source: Bloomberg

ANALYST(S)

Clement Ho
 clementho@uobkayhian.com
 +65 6590 6630

STOCK IMPACT

- Semiconductor secular growth is here to stay.** Demand for semiconductor chips is growing due to the increasing automobile electronic content, new generation of 5G smartphones and infrastructure, the proliferation of IoT, as well as the increased need for data centres and accelerated personal computer growth due to pandemic-driven home-based work, education, and entertainment. Supply, on the other hand, has been slow to match demand as subcontractors have adopted a wait-and-see approach since the start of the pandemic for signals on demand to wane.
- New capacity coming on stream in 3Q22 may prove timely.** Our view is for factory utilisation levels at the downstream semiconductor manufacturers, including UMS, to stay elevated in 2022-23. Specifically for UMS, the order backlog for AMAT's Semi Systems segment has risen consecutively in all four quarters of 2021, providing revenue visibility for UMS into 2022-23. To take advantage of the secular growth, UMS' new site in Penang, situated adjacent to and of similar size to the current factory, is expected to be ready in 3Q22, and we expect full production to come on-stream from 2023 onwards.
- Solid FCF generation.** Along with the strong operating leverage that will catapult earnings trajectory, free cash flow (FCF) generation is expected to remain strong. Our estimates suggest a rising FCF of S\$45.6m and S\$60.2m for 2021 and 2022 respectively, and S\$84.1m in 2023. This will improve net cash per share from 6.4 S cents in 2020 to an estimated 9.1 S cents in 2021, 12.7 S cents in 2022 and 19.3 S cents in 2023.

EARNINGS REVISION/RISK

- We have tweaked our 4Q21 revenue from S\$55.9m to S\$64.0m, which resulted in a higher net profit of S\$16.6m from S\$14.5m.
- Due to a higher base, our 2022 revenue growth estimate of 8% translated to an uplift in net profit from S\$73.0m to S\$77.7m (+21.5%).
- 2021 and 2022 DPS estimates have also been lifted from 4.0 S cents to 6.0 S cents. This translates to a payout ratio of 50.3% and 51.5% for 2021 and 2022.

VALUATION/RECOMMENDATION

- Maintain BUY with a slightly raised target price of S\$1.80 (from S\$1.66).** This is pegged to 2022F PE of 15.5x, or +2SD above its historical five-year average. We have stuck to our valuation peg despite higher-than-expected interest rates, as 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

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

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 8 Feb 22 (lcy)	Market Cap (US\$m)	PE			P/B			EV/EBITDA			Yield 2021 (%)	ROE 2021 (%)
					2020 (x)	2021F (x)	2022F (x)	Curr (x)	2021F (x)	2022F (x)	2020 (x)	2021F (x)	2022F (x)		
UMS	UMSH SP	S\$	1.21	603	18.9	12.7	10.5	2.7	2.6	2.8	19.6	16.6	9.5	4.9	21.6
AEM Holdings	AEM SP	S\$	4.54	1,041	17.5	16.4	11.4	5.2	3.6	2.9	12.2	10.5	7.0	1.1	28.7
Venture Corporation	VMS SP	S\$	18.09	3,894	17.1	17.0	15.7	2.0	1.9	1.9	11.1	10.7	9.8	4.1	11.8
Frencken Group	FRKN SP	S\$	1.75	554	13.5	12.3	10.5	2.1	2.0	1.7	7.2	6.9	5.9	1.7	16.8
Singapore average					17.3	16.7	13.5	3.6	2.8	2.4	11.7	10.6	8.4	2.6	20.2
Kulicke & Soffa Industries	KLIC US	US\$	49.77	3,101	7.0	7.7	8.5	2.6	n.a.	n.a.	4.7	n.a.	n.a.	1.4	31.6
Applied Materials	AMAT US	US\$	136.13	120,882	20.2	16.7	15.4	9.9	8.7	7.9	13.4	13.1	12.1	0.7	54.4
Lam Research	LRCX US	US\$	571.37	79,706	17.8	17.3	14.7	12.4	11.4	10.9	13.9	13.9	11.6	1.1	74.3
KLA Corporation	KLAC US	US\$	375.60	56,609	20.3	18.3	15.6	14.0	12.8	9.6	14.2	14.1	12.1	1.1	78.5
Teradyne	TER US	US\$	114.23	18,620	20.7	23.3	17.0	7.2	7.0	5.9	15.0	15.6	12.6	0.4	30.6
Global average					17.2	16.7	14.2	9.2	10.0	8.6	12.2	14.2	12.1	0.9	53.9

Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (S\$m)	2020	2021F	2022F	2023F
Net turnover	164.4	248.0	267.8	299.9
EBITDA	56.7	79.5	95.3	104.6
Deprec. & amort.	7.7	8.1	8.6	9.1
EBIT	49.0	71.3	86.6	95.4
Associate contributions	0.1	0.0	0.0	0.0
Net interest income/(expense)	(0.4)	0.5	0.7	0.9
Pre-tax profit	41.7	71.9	87.4	96.3
Tax	(2.6)	(8.1)	(9.8)	(10.8)
Minorities	(0.2)	(0.2)	(0.2)	(0.2)
Net profit	38.9	63.6	77.4	85.3
Net profit (adj.)	38.9	63.6	77.4	85.3

CASH FLOW

Year to 31 Dec (S\$m)	2020	2021F	2022F	2023F
Operating	56.4	53.6	75.2	92.1
Pre-tax profit	38.9	71.9	87.4	96.3
Tax	(2.1)	1.3	(7.6)	(9.2)
Deprec. & amort.	7.7	8.1	8.6	9.1
Working capital changes	3.6	(27.8)	(13.2)	(4.1)
Non-cash items	8.3	0.0	0.0	0.0
Investing	(13.0)	(8.0)	(15.0)	(8.0)
Capex (growth)	(11.6)	(8.0)	(15.0)	(8.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(1.4)	0.0	0.0	0.0
Financing	(23.0)	(15.6)	(33.9)	(38.9)
Dividend payments	(29.5)	(21.5)	(36.1)	(40.1)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	6.6	5.3	1.5	0.3
Others/interest paid	(0.1)	0.5	0.7	0.9
Net cash inflow (outflow)	20.4	29.9	26.3	45.3
Beginning cash & cash equivalent	34.4	53.8	85.3	111.1
Changes due to forex impact	(1.0)	1.6	(0.6)	(0.7)
Ending cash & cash equivalent	53.8	85.3	111.1	155.7

BALANCE SHEET

Year to 31 Dec (S\$m)	2020	2021F	2022F	2023F
Fixed assets	56.3	56.2	62.6	61.4
Other LT assets	122.0	121.9	121.9	121.9
Cash/ST investment	53.8	85.3	111.1	155.7
Other current assets	77.4	112.3	132.4	141.8
Total assets	309.5	375.7	428.0	480.8
ST debt	15.7	21.0	22.5	22.8
Other current liabilities	30.5	44.4	51.6	57.7
LT debt	3.8	3.8	3.8	3.8
Other LT liabilities	6.6	9.1	11.0	11.8
Shareholders' equity	251.3	295.7	337.3	382.9
Minority interest	1.7	1.7	1.7	1.7
Total liabilities & equity	309.5	375.7	428.0	480.8

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	34.5	32.0	35.6	34.9
Pre-tax margin	25.4	29.0	32.6	32.1
Net margin	23.7	25.7	28.9	28.4
ROA	13.0	18.6	19.3	18.8
ROE	15.7	23.3	24.4	23.7
Growth				
Turnover	24.7	50.8	8.0	12.0
EBITDA	70.7	40.1	19.9	9.8
Pre-tax profit	52.7	72.4	21.6	10.2
Net profit	57.4	63.5	21.6	10.3
Net profit (adj.)	57.4	63.5	21.6	10.3
EPS	57.4	31.4	21.6	10.3
Leverage				
Debt to total capital	7.2	7.7	7.2	6.5
Debt to equity	7.8	8.4	7.8	7.0
Net debt/(cash) to equity	(13.6)	(20.4)	(25.1)	(33.7)
Interest cover (x)	142.9	n.a.	n.a.	n.a.

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