

UMS Holdings (UMSH SP)

Strong underlying momentum

BUY

Share Price SGD 1.21
 12m Price Target SGD 1.42 (+22%)
 Previous Price Target SGD 1.71

Strong momentum dragged by tax issues

4Q21 PATMI of SGD5.7m (+351% YoY, -63% QoQ) fell short of our and consensus' estimates, due to larger-than-expected tax expense on a provision made as UMS did not meet criteria for tax incentives. We cut FY22-23E PATMI by 7-17% to factor in higher effective tax rates and, as such, our TP falls 17% to SGD1.42 (15x FY22E P/E). As order momentum is strong, and the tax development appears priced-in, we retain BUY. We think the 5% FY22E yield should provide support.

Robust sales outlook

4Q21 revenue rose 98% YoY and 29% QoQ to SGD87.3m. The sequential recovery was because UMS was able to have full worker capacity vs. some restrictions in 3Q21 as a result of Covid-19. GPM fell slightly to 52.1% (-1.4ppt YoY) still remains at healthy levels. Current order outlook remains strong and UMS expects 2022 to be bullish based on AMAT's outlook.

Should recover pioneer status

The higher tax expense (SGD15m, +651% QoQ, or effective 4Q21 tax rate of 68%) was due to a provision made as UMS did not meet local worker percentage criteria to qualify for tax incentives under the pioneer status scheme in Malaysia. This was due to difficulty hiring local workers at the height of Covid-19 lockdowns. While we expect UMS to recover its pioneer status, this is currently not reflected in our effective tax assumptions (new: 20%, old: 14%). If not for the provision, FY21 PATMI would have been in line or even slightly ahead of our/ consensus' estimates. Resolution of the current tax issue may be a catalyst.

Swing factors

We think our forecasts are conservative as i) our FY22E revenue does not impute sequential quarterly growth potential (which customer AMAT currently expects); and ii) our FY23-24E does not factor in potential contributions from new customer(s) (new plant expected to be ready late-2022). A residual risk, in our view, is if UMS is subject to prosperity tax in Malaysia should it not regain pioneer status. As AMAT expects growth to persist into 2023 (i.e. upswing still in play), we believe our 15x target FY22E P/E is still a fair objective.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	164	271	350	384	333
EBITDA	47	92	108	125	106
Core net profit	46	53	63	79	62
Core EPS (cts)	6.9	8.0	9.5	11.9	9.4
Core EPS growth (%)	37.9	15.4	18.7	25.4	(21.1)
Net DPS (cts)	4.0	4.4	6.0	6.0	6.0
Core P/E (x)	12.5	19.1	12.8	10.2	12.9
P/BV (x)	2.3	3.7	2.7	2.4	2.2
Net dividend yield (%)	4.6	2.9	5.0	5.0	5.0
ROAE (%)	14.7	20.1	21.9	24.8	17.8
ROAA (%)	15.4	14.2	14.2	16.3	12.2
EV/EBITDA (x)	11.6	11.0	7.5	6.0	6.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	74	82	na
MKE vs. Consensus (%)	-	-	(14.7)	(3.7)	na

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Company Description

UMS manufactures high precision components and modules found in front-end semiconductor equipment

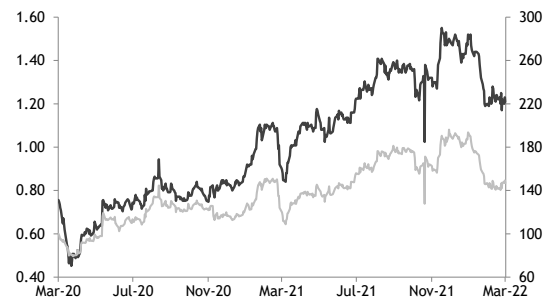
Statistics

52w high/low (SGD)	1.55/0.84
3m avg turnover (USDm)	6.9
Free float (%)	69.2
Issued shares (m)	671
Market capitalisation	SGD811.4M USD598M

Major shareholders:

LUONG ANDY	16.3%
GN JONG YUH	2.6%
Dimensional Fund Advisors LP	1.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(19)	35
Relative to index (%)	(0)	(23)	22

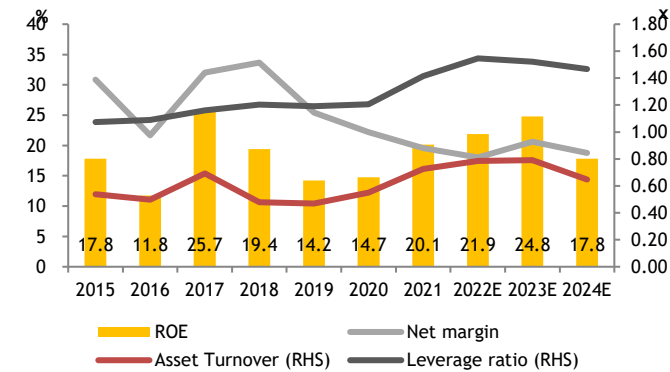
Source: FactSet

ESG@MAYBANK IBG
 Tear Sheet Insert

Value Proposition

- Precision metals engineering firm - specialises in assembling modules and precision engineering for components for front-end semiconductor equipment.
- Has entrenched relationship with key customer Applied Materials, a market leader for wafer fab equipment.
- Through subsidiary JEP, UMS is expanding precision metals engineering to non-semiconductor sectors such as aerospace, which sees tailwinds from outsourcing trends.

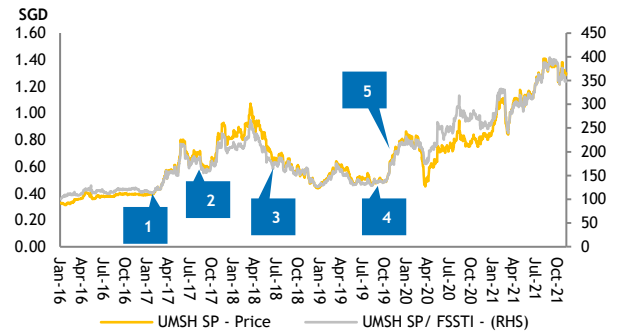
UMS Du Pont ROE



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



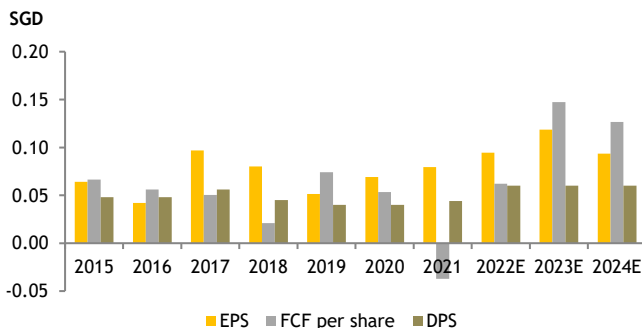
Source: Company, Maybank IBG Research

1. Endura contract renewed for three years (2020 expiry)
2. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
3. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
4. AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
5. AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.

Financial Metrics

- Core EPS growth of 45%/15% in FY21/22E, driven by sustained investments from logic and foundry end-customers, and recovery from memory end-customers.
- UMS has a strong track record of maintaining a net cash balance sheet to tide through cycles.
- We forecast capex to be near depreciation levels. FCF and balance sheet are expected to support dividends over forecast period.

EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Stronger than expected revenue momentum following capacity expansion in FY22E
- Better-than-expected contributions from Kalf Engineering, Starke and JEP.
- Better-than-expected cost control, which in turn supports margins.

Downside

- Higher than expected labour costs, or if UMS faces difficulties expanding workforce to cope with strong order momentum
- Weaker-than-expected margins due to negative operating leverage if volume falls.
- Lower-than-expected dividends may spook yield investors. UMS has a quarterly dividend policy and a track record of strong cash flow generation.

Risk Rating & Score ¹	Not Rated
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- Based on stakeholders’ feedback, governance, economic performance, product compliance and customer privacy and satisfaction are the most important factors to both UMS and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees’ wellbeing and equal opportunities; ii) governance: conflicts of interest; and iii) environmental: fines for non-compliance of environmental laws and regulations.
- In 2020, UMS did not incur any significant fines related to environmental laws, and there were no reported incidences of discrimination, whistleblowing, bribery or corruption.
- Human capital is a key input in driving UMS’ capabilities vs. competitors. UMS believes in talent management to nurture employees, provide equal opportunities, and recognise and reward achievements to boost retention.

Material E issues

- UMS’ environmental exposure is through energy, water and inputs. In 2019, UMS did not incur any significant fines for non-compliance with environmental laws and regulations.
- For its manufacturing process, UMS’ target for energy intensity is ≤ 0.13 KWH/revenue. In 2019/20, UMS’ performance was 0.178/0.1558 respectively.
- UMS has taken steps to control water flow in its special process lines, and have switched to NEWater from PUB water. It has a water intensity target of ≤ 0.0012 m3/revenue. In 2019 and 2020, UMS’ performance was 0.0014.
- Hazardous waste largely consists of chemicals and oily water removed from production processes. These are disposed of in compliance with regulations. Where possible, all retrieved metal chip and scraps, as well as packaging are recycled.
- Most delivery trucks are in compliance with EURO V standard.

Material S issues

- UMS’ workforce is 518 strong across Singapore and Malaysia as at end-2020. UMS is an equal-opportunity employer and values talent retention. Outstanding employees are rewarded for achievements.
- UMS adopts a localisation strategy for overseas operations to ensure on-the-ground teams have a good grasp of local socio-political and cultural sensitivities. In 2019, locals accounted for 38% of employees based in Malaysia and 75% of managerial positions. 25% of managerial employees are female.
- In 2020, there were no reports of discrimination or exploitative labour practices.

Key G metrics and issues

- The board has five directors, of which one is the founder, executive chairman and CEO (Andy Luong), and three are independent, non-executive (60%). One is an executive director who is also UMS’ financial controller (Stanley Loh).
- The audit, nominating, and remuneration committees are chaired by independent directors.
- Workshops on business ethics, anti-bribery compliance and enterprise risk management are held to educate employees on good corporate governance. Guidance is also provided for common ethical issues such as conflicts of interest and confidential information.
- In 2020, UMS did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.
- In 2020, key management personnel accounted for 23% (FY19: 32%)
In 2012, UMS adopted a policy to declare dividends every quarter. The form and frequency depends on UMS’ economic performance and financial position, as well as current and future needs.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Forecast changes

	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	349.8	318.8	9.7	384.0	348.0	10.3
Gross profit (SGDm)	182.2	166.1	9.7	200.8	182.0	10.3
EBITDA (SGDm)	108.3	105.5	2.7	125.1	116.3	7.5
Core net profit (SGDm)	63.1	76.2	-17.2	79.1	85.0	-6.9
EPS (SGD)	0.095	0.114	-17.2	0.119	0.127	-6.9
			Chg (ppt)			Chg (ppt)
Gross margin	52.1%	52.1%	0.0	52.3%	52.3%	0.0
Staff cost as % of sales	14.0%	14.0%	0.0	14.0%	14.0%	0.0

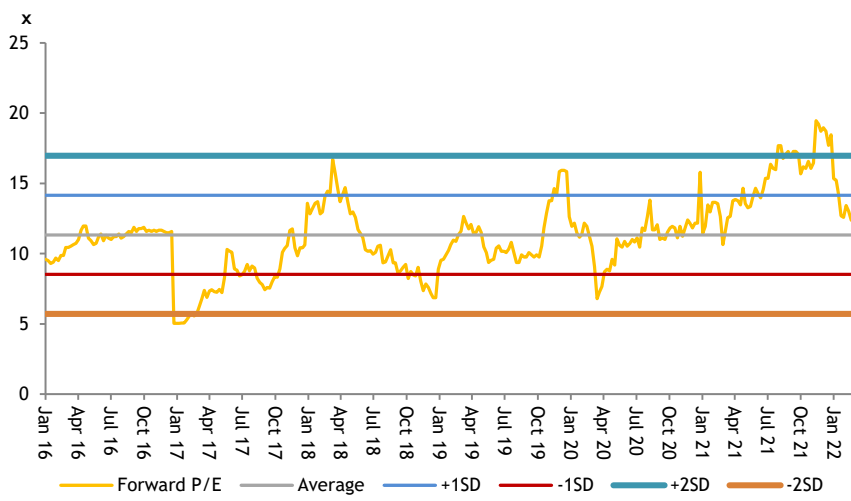
Source: Maybank IBG Research

Fig 2: 4Q21 summary

FYE Dec	4Q21	4Q20	3Q21	YoY Chg	QoQ Chg	FYE	FYA vs. FYE
	(SGD m)	(SGD m)	(SGD m)	(%)	(%)	SGDm	
Revenue	87.3	44.1	67.6	97.9	29.1	253.2	107
COGS	(41.8)	(20.5)	(30.8)	103.7	35.6	(121.5)	105
Gross profit	45.4	23.6	36.7	92.8	23.7	131.6	109
Staff costs	(11.3)	(5.9)	(10.6)	90.6	6.5	(29.1)	121
Other (charges)/ credits	(2.4)	(3.1)	0.6	nm	-477.0	3.0	40
Other expenses	(4.8)	(9.7)	(4.8)	-50.0	0.6	(15.0)	112
EBIT	22.6	2.9	18.3	692.9	23.3	80.6	99
EBITDA	26.9	4.9	21.9	452.1	22.5	90.5	102
Interest Inc	0.0	0.0	0.0	nm	nm	0.0	nm
Interest Exp	(0.2)	(0.1)	(0.2)	56.2	-10.5	(0.7)	107
Associates Income	0.0	(2.1)	0.0	-100.0	nm	0.4	100
Exceptional Items	0.0	9.5	0.0	-100.0	nm	0.0	0
Pretax Profit	22.4	0.6	18.1	3354.3	23.8	80.2	99
Taxation	(15.2)	0.4	(2.0)	-3970.7	651.1	(10.6)	206
Net profit	7.2	1.0	16.1	593.4	-55.1	69.6	83
Minority Interest	1.5	(0.2)	0.9	nm	65.0	3.0	149
PATMI	5.7	1.3	15.1	351.3	-62.5	66.6	80
Core PATMI	5.7	10.8	15.1	-47.3	-62.5	66.7	80
					Change (ppt)		
Gross margin	52.1%	53.5%	54.4%	-1.4	-2.3		
EBIT margin	25.9%	6.5%	27.1%	19.4	-1.2		
Net margin	6.5%	24.5%	22.4%	-17.9	-15.9		

Source: Maybank IBG Research

Fig 3: Forward P/E band



Source: FactSet, Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	13.7	15.2	12.8	10.2	12.9
Core P/E (x)	12.5	19.1	12.8	10.2	12.9
P/BV (x)	2.3	3.7	2.7	2.4	2.2
P/NTA (x)	2.3	3.7	2.7	2.4	2.2
Net dividend yield (%)	4.6	2.9	5.0	5.0	5.0
FCF yield (%)	7.8	nm	5.1	12.2	10.5
EV/EBITDA (x)	11.6	11.0	7.5	6.0	6.7
EV/EBIT (x)	13.9	12.7	9.1	7.2	8.4
INCOME STATEMENT (SGD m)					
Revenue	164.4	271.2	349.8	384.0	332.5
EBITDA	46.9	92.2	108.3	125.1	106.4
Depreciation	(7.7)	(12.4)	(19.4)	(20.5)	(21.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	39.2	79.8	88.9	104.6	84.9
Net interest income / (exp)	(0.4)	(0.8)	(0.7)	(0.7)	(0.7)
Associates & JV	0.1	0.4	0.0	0.0	0.0
Exceptionals	9.5	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	48.4	79.4	88.2	103.9	84.2
Income tax	(2.6)	(21.8)	(17.6)	(20.8)	(16.8)
Minorities	0.2	(4.5)	(7.5)	(4.0)	(5.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.5	53.1	63.1	79.1	62.4
Core net profit	46.0	53.1	63.1	79.1	62.4
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	53.8	65.4	66.9	125.0	169.4
Accounts receivable	23.5	67.2	76.6	91.7	72.2
Inventory	53.9	87.1	97.4	93.3	71.9
Property, Plant & Equip (net)	56.3	116.7	112.3	106.8	95.4
Intangible assets	80.1	88.6	88.6	88.6	88.6
Investment in Associates & JVs	35.4	0.0	0.0	0.0	0.0
Other assets	6.6	11.8	11.8	11.8	11.8
Total assets	309.5	436.8	453.6	517.2	509.2
ST interest bearing debt	15.7	11.6	11.6	11.6	11.6
Accounts payable	25.4	56.1	44.9	65.5	30.1
LT interest bearing debt	3.8	22.7	22.7	22.7	22.7
Other liabilities	12.0	42.0	40.0	40.0	40.0
Total Liabilities	56.6	132.5	118.7	139.3	103.9
Shareholders Equity	251.3	276.3	299.4	338.5	360.9
Minority Interest	1.7	27.9	35.4	39.4	44.4
Total shareholder equity	252.9	304.3	334.8	377.9	405.3
Total liabilities and equity	309.5	436.8	453.6	517.2	509.2
CASH FLOW (SGD m)					
Pretax profit	48.4	79.4	88.2	103.9	84.2
Depreciation & amortisation	7.7	12.4	19.4	20.5	21.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	3.0	(45.2)	(33.5)	9.6	5.5
Cash taxes paid	(2.1)	1.8	(17.6)	(20.8)	(16.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	56.9	48.0	56.5	113.2	94.3
Capex	(11.7)	(72.8)	(15.0)	(15.0)	(10.0)
Free cash flow	45.2	(24.8)	41.5	98.2	84.3
Dividends paid	(26.7)	(29.3)	(40.0)	(40.0)	(40.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	6.6	14.7	0.0	0.0	0.0
Other invest/financing cash flow	4.0	52.9	0.3	0.0	0.0
Effect of exch rate changes	(9.7)	(2.2)	0.0	0.0	0.0
Net cash flow	19.4	11.3	1.8	58.1	44.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.7	64.9	29.0	9.8	(13.4)
EBITDA growth	16.1	96.6	17.4	15.5	(15.0)
EBIT growth	17.0	103.5	11.4	17.6	(18.8)
Pretax growth	40.5	64.0	11.1	17.8	(18.9)
Reported net profit growth	12.0	45.6	18.7	25.4	(21.1)
Core net profit growth	37.1	15.4	18.7	25.4	(21.1)
Profitability ratios (%)					
EBITDA margin	28.5	34.0	31.0	32.6	32.0
EBIT margin	23.8	29.4	25.4	27.2	25.5
Pretax profit margin	29.4	29.3	25.2	27.1	25.3
Payout ratio	73.1	55.2	63.4	50.6	64.1
DuPont analysis					
Net profit margin (%)	22.2	19.6	18.0	20.6	18.8
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.7
Assets/Equity (x)	1.2	1.6	1.5	1.5	1.4
ROAE (%)	14.7	20.1	21.9	24.8	17.8
ROAA (%)	15.4	14.2	14.2	16.3	12.2
Liquidity & Efficiency					
Cash conversion cycle	194.1	143.9	163.7	157.8	167.7
Days receivable outstanding	49.9	60.2	74.0	78.9	88.8
Days inventory outstanding	247.5	198.1	198.2	187.4	187.4
Days payables outstanding	103.3	114.4	108.5	108.5	108.5
Dividend cover (x)	1.4	1.8	1.6	2.0	1.6
Current ratio (x)	2.8	2.5	3.2	3.2	5.1
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.3	3.8	3.7	4.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	98.7	106.4	127.0	149.4	121.3
Debt/EBITDA (x)	0.4	0.4	0.3	0.3	0.3
Capex/revenue (%)	7.1	26.8	4.3	3.9	3.0
Net debt/ (net cash)	(34.2)	(31.1)	(32.6)	(90.7)	(135.1)

Source: Company; Maybank

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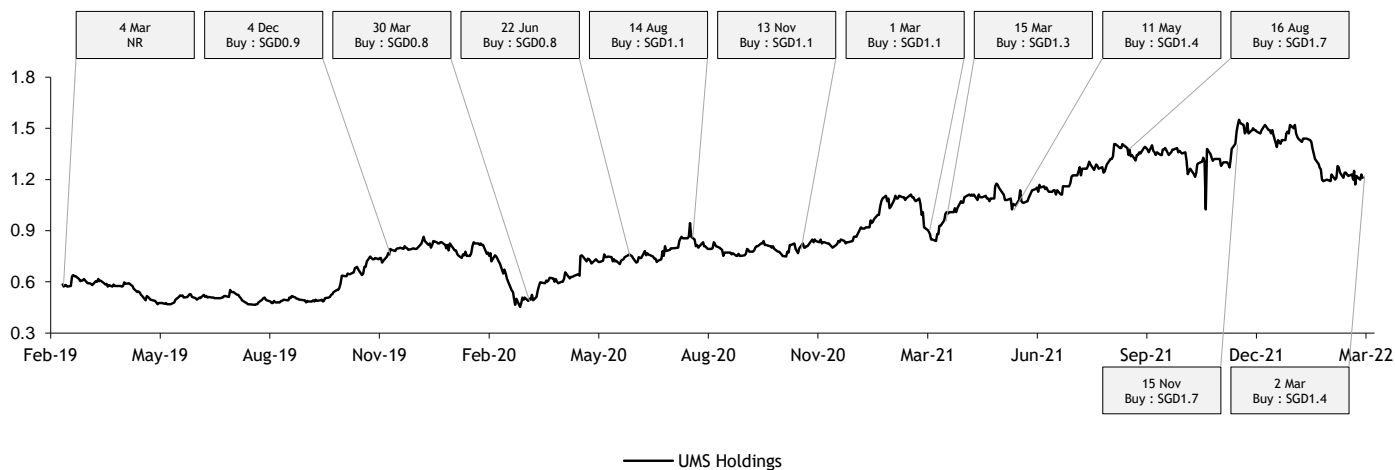
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