

Singapore Company Update

UMS Holdings

Bloomberg: UMSH SP | Reuters: UMSH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Mar 2022

BUY

Last Traded Price (2 Mar 2022): S\$1.21 (STI : 3,244.40)
Price Target 12-mth: S\$1.70 (40% upside) (Prev S\$1.80)

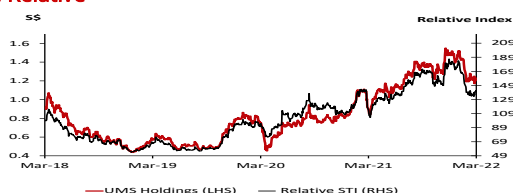
Analyst

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What's New

- Robust set of FY21 results; pretax profit 7% above our forecast
- Bottom line skewed by higher tax provision, on absence of tax incentives
- Outlook positive; expect strong order momentum to sustain in 2022
- Maintain BUY with a lower TP of S\$1.70, to account for the higher tax rate assumptions

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	164	271	323	359
EBITDA	47.0	92.6	103	113
Pre-tax Profit	38.9	79.4	90.1	100
Net Profit	36.5	53.1	67.0	74.7
Net Pft (Pre Ex.)	36.5	53.1	67.0	74.7
Net Pft Gth (Pre-ex) (%)	8.7	45.6	26.1	11.6
EPS (S cts)	5.44	7.92	9.99	11.1
EPS Pre Ex. (S cts)	5.44	7.92	9.99	11.1
EPS Gth Pre Ex (%)	9	46	26	12
Diluted EPS (S cts)	5.44	7.92	9.99	11.1
Net DPS (S cts)	3.50	5.00	3.50	3.50
BV Per Share (S cts)	37.5	41.2	47.7	55.3
PE (X)	22.2	15.3	12.1	10.9
PE Pre Ex. (X)	22.2	15.3	12.1	10.9
P/Cash Flow (X)	14.4	12.3	10.7	9.7
EV/EBITDA (X)	16.6	8.7	7.6	6.5
Net Div Yield (%)	2.9	4.1	2.9	2.9
P/Book Value (X)	3.2	2.9	2.5	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.7	20.1	22.5	21.6
Earnings Rev (%):			(5)	(5)
Consensus EPS (S cts):			11.4	12.3
Other Broker Recs:		B: 6	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Strong results marred by tax provisions

Investment Thesis:

Higher tax provisions due to failure to comply with requirements for tax incentives skewed bottom line. UMS Holdings (UMS) reported a strong set of FY21 results but a one-off tax provision due to the failure to comply with the requirements to enjoy the pioneer tax incentive for one of the plants in Malaysia, affected the bottom line. While this issue is still ongoing and pending discussion with the authorities, we have taken a conservative view to raise the tax rate for FY22F and FY23F to 19% from 12% previously. Thus, though we have increased our revenue projection for FY22F and FY23F by 9% and 10%, respectively, on the back of the robust demand outlook, we cut net profit estimates by 5% each year. Overall, we still remain positive on the semiconductor industry and earnings growth prospects.

Recent data points reinforce our positive industry view. SEMI expects continued double-digit growth of semiconductor manufacturing equipment sales to carry on till 2022. US semiconductor equipment billings remain strong and marked their 27th consecutive monthly increase in December 2021 (+46% y-o-y). World Semiconductor Trade Statistics (WSTS) and IC Insights are also predicting growth in 2022.

Valuation:

Maintain BUY with a lower TP of S\$1.70, pegged to a peak valuation multiple of 17x. Our TP is reduced to S\$1.70 (from S\$1.80), still pegged to its peak valuation multiple of 17x (recorded in 2018), on FY22F earnings. This is in line with the methodology for other pure semiconductor plays in our coverage. Maintain BUY.

Where we differ:

We are more bullish and expect UMS to benefit from the positive developments in the semiconductor industry. Hence, we pegged our TP to a peak valuation multiple of 17x.

Key Risks to Our View:

Key client risk. Historically, c.90% of UMS's average revenue has been from AMAT. Disruptions to the relationship or weakness in AMAT's end demand could significantly weigh on UMS's performance.

At A Glance

Issued Capital (m shrs)	667
Mkt. Cap (S\$m/US\$m)	807 / 594
Major Shareholders (%)	
Andy Luong	16.4
Free Float (%)	83.6
3m Avg. Daily Val (US\$m)	6.8

GIC Industry: Information Technology / Semiconductors & Semiconductor Equipment



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WHAT'S NEW

Robust set of FY21 results but bottom line affected by higher tax

Results Review

Robust results with strong growth from all segments. FY21 net profit surged 46% y-o-y to S\$53.1m on record revenue of S\$271.2m (+65% y-o-y). The strong performance was driven by the sustained acceleration of global chip demand as well as the increasing capex of semiconductor fabs worldwide. JEP Holdings, which UMS acquired last year, was also able to support UMS's strong order flows with its readily available manufacturing facilities in Singapore. This helps to alleviate the production challenges faced by UMS due to the sporadic lockdowns last year.

A final DPS of 2Scts was declared, vs. 1Sct in FY20, bringing total DPS to 5Scts (4.5Scts in FY20). This works out to a dividend payout ratio of 63% (64% in FY20).

Higher contribution from higher margin component division. In terms of segmental breakdown, semiconductor integrated system sales grew 34% y-o-y to S\$104.2m, while the component sales division surged 84% to S\$138.5m. The higher margin component division now accounts for 57% of the total revenue from the semiconductor segment, vs. 51% in FY20. Overall, the semiconductor segment accounts for 89% of the total revenue for the group. Others, which include the aerospace division, contributed the balance 11%.

Slight easing of gross margin. The gross margin of 52.8% in FY21 was slightly lower than the 53.3% in FY20.

Pretax profit was 7% higher than our forecast but the bottom line was skewed by higher tax provisions, on the absence of tax incentives. The pretax profit of S\$79.4m for FY21 is 7% higher than our forecast. However, a higher tax provision affected the bottom line. Tax expenses in FY21 jumped 739% to S\$21.8m due to higher profits as well as higher tax provisions for the group's Malaysian entities which did not benefit from pioneer incentives enjoyed previously.

Higher tax provisions. The pioneer tax incentives for one of its Malaysian companies had expired during the year, while the other Malaysian subsidiary was unable to comply with the stipulated local employee criteria (due to the ongoing labour crunch in Penang) to achieve the pioneer tax incentive. In 4Q21, the group booked in tax expenses of S\$15.2m, mainly due to unprecedented one-

off tax provisions for its Malaysian subsidiaries, which did not benefit from earlier pioneer tax incentives.

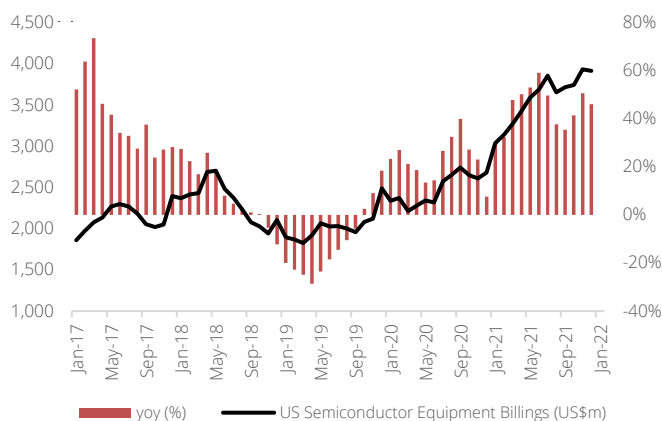
Still pending discussion with the authorities; could take a few more months. UMS is still in discussion with the authorities in Malaysia and a waiver has not been approved yet. This could take a few months. UMS is quite optimistic that the issue can be resolved, as such drastic action may deter other investors from investing in Penang. This issue can also be resolved by increasing the wages for the workers to attract more locals to join, though this could lead to higher costs and hence lower margins for the group.

Tax provisions sufficient; not likely to increase. The S\$15.2m taxation booked in 4Q21, which includes provisions and tax, should be sufficient, as this has already assumed a worst-case scenario. Assuming UMS cannot enjoy the pioneer tax incentives, the overall tax rate for the group could increase to 17% to 24%, vs. the current low teens (11% to 13%).

Outlook

Outlook positive; expect strong order momentum to sustain in 2022. The group's order forecasts remain strong, as its key customer has recently given positive guidance for FY2022. The strong momentum for its semiconductor systems continue to increase and it expects this strength to sustain into 2022.

Semiconductor billings (US\$m) – charging higher



Source: CEIC, SEMI, DBS Bank

The US three-month semiconductor equipment billings increased 46% y-o-y in December 2021. This is the 27th consecutive y-o-y increase and we remain confident of the structural uptrend driven by 5G, IoT, EV, AI, and the exacerbation by the COVID-19 pandemic.

World Semiconductor Trade Statistics (WSTS) predicted that the global semiconductor market will grow by 8.8% in 2022 while IC Insights has also given a bullish outlook, expecting total semiconductor sales to grow 11% in 2022 to reach another record high.

Key customer AMAT to benefit from positive industry outlook, which bodes well for UMS. The positive industry outlook should benefit key customer AMAT, whereby UMS is a key manufacturer of AMAT's Endura system. The market consensus is expecting an earnings growth of 26%/14% y-o-y in FY October 2022/2023 for AMAT, after a strong growth of 63% in FY21. In the latest 1Q22 results release, AMAT remains positive on the outlook for 2022, as long-term secular trends continue to drive the market structurally higher and AMAT's products put the group in a great position to capture a higher portion of the market share.

Doubling of capex in FY22 paves way for strong demand. UMS expects to increase its production capacity by doubling its capex in FY2022. The group's new Penang factory is scheduled for completion by end-2022. This will substantially increase the current production capacity and position the group to take on new orders from potential new customers that are expanding in South-East Asia.

Earnings and Recommendation

5% cut in earnings to account for higher tax rate. Maintain BUY with a lower TP of S\$1.70. We have increased FY22F/FY23F revenue by 10%/9% on the back of the strong order momentum. Pretax is raised by 11%/10% accordingly. On the back of the reinstatement of the pioneer tax incentive for one of its Malaysian plants pending, we have adopted a more conservative stance to assume a worst-case scenario of the company not getting the approval. The overall tax rate for FY22F/23F is increased to 19% from 12% previously, after taking into consideration both the Singapore tax rate of 17% and Malaysian rate of about 24%. The overall tax rate could be lower, as the group can enjoy some tax incentives from investments. Overall, our net profit estimates are reduced by 5% each for FY22F and 23F. Despite the higher tax rate assumptions, earnings for FY22F are still expected to grow 26% and another 12% in FY23F. Our TP of S\$1.70 (previously S\$1.80) is still pegged to its peak valuation multiple of 17x (recorded in 2018). Maintain BUY.

Company Background

UMS Holdings (UMSH SP) is an integrated original equipment manufacturer (OEM) for front-end semiconductor equipment, providing both component manufacturing and sub-assembly services, primarily to its key client Applied Materials (AMAT).

UMS Holdings

Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2020	3Q2021	4Q2021	% chg y-o-y	% chg q-o-q
Revenue	44.1	67.6	87.3	97.9	29.1
Cost of Goods Sold	(20.5)	(30.8)	(41.8)	103.7	35.6
Gross Profit	23.6	36.7	45.4	92.8	23.7
Other Oper. (Exp)/Inc	(11.0)	(19.1)	(20.4)	85.3	7.3
Operating Profit	12.5	17.7	25.0	99.3	41.4
Other Non Opg (Exp)/Inc	(9.7)	0.64	(2.4)	75.2	(477.0)
Associates & JV Inc	(2.1)	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.1)	(0.2)	(0.2)	(56.2)	10.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	0.65	18.1	22.4	3,354.3	23.8
Tax	0.39	(2.0)	(15.2)	nm	651.1
Minority Interest	0.22	(0.9)	(1.5)	nm	65.0
Net Profit	1.26	15.1	5.69	351.3	(62.5)
Net profit bef Except.	1.26	15.1	5.69	351.3	(62.5)
EBITDA	2.80	21.1	26.9	859.0	27.3
Margins (%)					
Gross Margins	53.5	54.4	52.1		
Opg Profit Margins	28.5	26.2	28.7		
Net Profit Margins	2.9	22.4	6.5		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

UMS Holdings

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross Profit (\$ m)	69.8	87.6	143	168	187
Revenue Growth (%)	3.11	24.7	64.9	19.1	11.1
Operating Profit Margin	27.4	29.8	29.0	28.0	28.0
Effective Tax Rate (%)	6.32	6.69	27.5	19.0	19.0
Capex (\$ m)	0.19	11.3	20.0	20.0	12.0

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Components	61.9	77.6	139	166	183
Semiconductor	58.8	75.5	104	120	132
Others	11.2	11.3	28.5	37.1	44.5
Total	132	164	271	323	359

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	132	164	271	323	359
Cost of Goods Sold	(62.1)	(76.9)	(128)	(155)	(172)
Gross Profit	69.8	87.6	143	168	187
Other Opng (Exp)/Inc	(33.7)	(38.6)	(64.5)	(77.5)	(86.2)
Operating Profit	36.2	49.0	78.6	90.5	101
Other Non Opg (Exp)/Inc	(2.7)	(9.8)	1.19	0.0	0.0
Associates & JV Inc	2.57	0.09	0.36	0.36	0.36
Net Interest (Exp)/Inc	(0.6)	(0.4)	(0.8)	(0.8)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	35.5	38.9	79.4	90.1	100
Tax	(2.2)	(2.6)	(21.8)	(17.1)	(19.0)
Minority Interest	0.34	0.18	(4.5)	(6.0)	(6.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	33.6	36.5	53.1	67.0	74.7
Net Profit before Except.	33.6	36.5	53.1	67.0	74.7
EBITDA	43.0	47.0	92.6	103	113
Growth					
Revenue Gth (%)	3.1	24.7	64.9	19.1	11.1
EBITDA Gth (%)	(16.7)	9.4	97.0	11.5	9.8
Opg Profit Gth (%)	(15.9)	35.5	60.3	15.1	11.1
Net Profit Gth (Pre-ex) (%)	(22.1)	8.7	45.6	26.1	11.6
Margins & Ratio					
Gross Margins (%)	52.9	53.3	52.8	52.0	52.0
Opg Profit Margin (%)	27.4	29.8	29.0	28.0	28.0
Net Profit Margin (%)	25.4	22.2	19.6	20.7	20.8
ROAE (%)	14.2	14.7	20.1	22.5	21.6
ROA (%)	11.9	12.2	14.2	14.8	14.9
ROCE (%)	12.6	13.3	16.4	17.3	16.9
Div Payout Ratio (%)	79.9	64.3	63.1	35.0	31.4
Net Interest Cover (x)	57.1	123.5	104.8	120.6	134.1

Source: Company, DBS Bank

UMS Holdings

Quarterly Income Statement (\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Revenue	44.1	49.6	66.8	67.6	87.3
Cost of Goods Sold	(20.5)	(23.3)	(32.2)	(30.8)	(41.8)
Gross Profit	23.6	26.3	34.6	36.7	45.4
Other Oper. (Exp)/Inc	(11.0)	(9.7)	(12.4)	(19.1)	(20.4)
Operating Profit	12.5	16.7	22.2	17.7	25.0
Other Non Opg (Exp)/Inc	(9.7)	0.0	0.0	0.64	(2.4)
Associates & JV Inc	(2.1)	0.26	0.10	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	0.65	16.8	22.1	18.1	22.4
Tax	0.39	(1.7)	(2.9)	(2.0)	(15.2)
Minority Interest	0.22	0.31	(2.3)	(0.9)	(1.5)
Net Profit	1.26	15.4	16.9	15.1	5.69
Net profit bef Except.	1.26	15.4	16.9	15.1	5.69
EBITDA	2.80	18.7	25.1	21.1	26.9

Growth

Revenue Gth (%)	(2.3)	12.5	34.6	1.2	29.1
EBITDA Gth (%)	(82.4)	567.1	34.1	(15.8)	27.3
Opg Profit Gth (%)	(15.9)	32.9	33.1	(20.3)	41.4
Net Profit Gth (Pre-ex) (%)	(90.3)	1,119.8	10.0	(10.4)	(62.5)

Margins

Gross Margins (%)	53.5	53.1	51.8	54.4	52.1
Opg Profit Margins (%)	28.5	33.6	33.2	26.2	28.7
Net Profit Margins (%)	2.9	31.0	25.3	22.4	6.5

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	52.3	56.3	117	124	124
Invts in Associates & JVs	39.4	35.4	0.0	0.36	0.72
Other LT Assets	87.3	86.7	100	100	100
Cash & ST Invts	34.4	53.8	65.1	97.1	145
Inventory	51.7	53.9	87.1	85.4	94.9
Debtors	22.1	23.5	67.2	62.0	68.9
Other Current Assets	0.0	0.0	0.32	0.32	0.32
Total Assets	287	310	437	470	534
ST Debt	9.33	15.7	11.6	11.6	11.6
Creditor	18.8	25.4	56.1	41.6	46.3
Other Current Liab	4.42	5.12	21.7	19.7	21.6
LT Debt	0.0	6.10	22.7	22.7	22.7
Other LT Liabilities	9.81	4.31	20.4	20.4	20.4
Shareholder's Equity	243	251	276	320	371
Minority Interests	1.62	1.66	27.9	33.9	40.3
Total Cap. & Liab.	287	310	437	470	534
Non-Cash Wkg. Capital	50.6	46.9	76.8	86.3	96.2
Net Cash/(Debt)	25.0	32.0	30.8	62.8	111
Debtors Turn (avg days)	51.5	50.6	61.0	72.9	66.5
Creditors Turn (avg days)	108.7	116.4	128.4	125.0	100.3
Inventory Turn (avg days)	403.9	278.9	222.5	220.6	205.6
Asset Turnover (x)	0.5	0.6	0.7	0.7	0.7
Current Ratio (x)	3.3	2.8	2.5	3.4	3.9
Quick Ratio (x)	1.7	1.7	1.5	2.2	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	2.0	52.0	58.3	58.3	35.0
Z-Score (X)	9.0	8.8	8.5	8.5	8.5

Source: Company, DBS Bank

UMS Holdings

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	35.5	38.9	79.4	90.1	100
Dep. & Amort.	6.87	7.70	12.4	12.4	12.4
Tax Paid	(2.3)	(2.1)	(4.5)	(19.2)	(17.1)
Assoc. & JV Inc/(loss)	(2.6)	(0.1)	(0.4)	(0.4)	(0.4)
Chg in Wkg. Cap.	12.9	1.31	(7.6)	(7.5)	(11.8)
Other Operating CF	3.28	10.7	(13.4)	0.0	0.0
Net Operating CF	53.6	56.4	66.1	75.5	83.3
Capital Exp. (net)	(0.2)	(11.3)	(20.0)	(20.0)	(12.0)
Other Invt. (net)	0.0	(0.1)	(0.1)	0.0	0.0
Invt. in Assoc. & JV	(7.3)	(1.8)	(0.7)	0.0	0.0
Div from Assoc & JV	0.0	0.20	0.0	0.0	0.0
Other Investing CF	0.29	0.0	(0.1)	0.0	0.0
Net Investing CF	(7.2)	(13.0)	(20.9)	(20.0)	(12.0)
Div Paid	(18.8)	(26.7)	(22.7)	(23.5)	(23.5)
Chg in Gross Debt	(10.9)	6.10	(8.6)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(0.9)	(2.4)	(2.2)	0.0	0.0
Net Financing CF	(30.7)	(23.0)	(33.5)	(23.5)	(23.5)
Currency Adjustments	(0.3)	(1.0)	(0.4)	0.0	0.0
Chg in Cash	15.4	19.4	11.3	32.0	47.9
Opg CFPS (S cts)	6.07	8.21	11.0	12.4	14.2
Free CFPS (S cts)	7.97	6.72	6.87	8.28	10.6

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 May 21	1.02	1.47	BUY
2:	03 Sep 21	1.36	1.73	BUY
3:	15 Nov 21	1.41	1.80	BUY

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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