

COMPANY RESULTS

UMS Holdings (UMSH SP)

4Q21: Tax Shocker Resulted In A Miss

4Q21 missed expectations after net profit of S\$5.7m (-31.4% yoy, -62.5% qoq) was hit by an unprecedented tax bill as the Malaysian subsidiary did not qualify for the Pioneer Status. Nevertheless, revenue marked a quarterly and annual record from sustained growth in the global semiconductor industry. The outlook remains bright with clear revenue visibility stemming from UMS' key client's orderbook. Maintain BUY with a lower target price of S\$1.45, after incorporating higher costs and taxes in 2022-24.

4Q21 RESULTS

Year to 31 Dec (S\$m)	4Q21	4Q20	% chg	2021	2020	% chg
Revenue	87.3	44.1	+97.9	271.2	164.4	64.9
Gross profit	45.4	23.6	+92.8	143.1	87.6	63.4
Gross margin (%)	52.1	53.5	(1.4ppt)	52.8	53.3	(0.5pppts)
Net profit	5.7	8.3 [#]	(31.4)	53.1	43.5 [#]	22.1
Net margin (%)	6.5	18.8 [#]	(12.3ppt)	19.6	26.5 [#]	(6.9pppts)

[#]Adjusted for one-off impairment
Source: UMS Holdings, UOB Kay Hian

RESULTS

- 4Q21 hit by unprecedented taxes.** UMS Holdings' (UMS) 4Q21 net profit of S\$5.7m (-31.4% yoy) was dragged by a tax shock of S\$15.2m, consisting of an unexpected S\$7.6m, incurred after the company was not granted Pioneer Status for an incentive at the Malaysian subsidiary. 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. UMS is still working with the Malaysian Investment Development Authority to review the situation. While 2021 net profit gained 22.1% to S\$53.1m, it was insufficient to meet our estimates.
- Record revenue marked in 4Q21 and 2021.** Nevertheless, 4Q21 and 2021 revenue marked a quarterly and annual record in corporate history since its founding in 2005. This was achieved on the back of sustained strong growth in the global semiconductor industry and from the consolidation of JEP Holdings. Segmentally for 2021, component sales leapt 84% to S\$138.5m while integrated systems sales grew 34% to S\$104.2m.
- Gross profitability stable, dividend raised.** 4Q21 gross material margin held relatively stable yoy at 52.1% (4Q20: 53.5%, 3Q21: 54.4%), helped by good cost management from the Group's 70% ownership in aluminium alloy products manufacturer, Starke Pte Ltd. Additionally, UMS raised its final DPS to 2 S cent (4Q20: 1 S cent), bringing full-year payout to 5 S cent (2020: 4 S cent).

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	57.9	91.0	90.6	98.2	105.5
Operating profit	50.2	78.6	79.7	85.3	92.2
Net profit (rep./act.)	40.1	60.9	71.3	71.7	77.2
Net profit (adj.)	40.1	60.9	71.3	71.7	77.2
EPS (S\$ cents)	7.5	9.1	10.7	10.7	11.6
PE (x)	16.5	13.5	11.5	11.4	10.6
P/B (x)	2.6	3.0	2.6	2.4	2.2
EV/EBITDA (x)	13.9	8.8	8.9	8.2	7.6
Dividend yield (%)	3.3	4.1	4.1	4.1	4.1
Net margin (%)	24.4	22.4	24.4	21.9	21.0
Net debt/(cash) to equity (%)	(13.6)	(11.1)	(13.8)	(19.3)	(23.1)
Interest cover (x)	145.9	121.4	n.a.	n.a.	n.a.
ROE (%)	16.2	23.1	24.3	22.1	21.6
Consensus net profit	-	-	75.0	81.1	-
UOBKH/Consensus (x)	-	-	0.95	0.88	-

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.21
Target Price	S\$1.45
Upside	+19.8%
(Previous TP)	S\$ 1.80)

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):	820.1
Market cap (US\$m):	605.1
3-mth avg daily t'over (US\$m):	6.9

Price Performance (%)

52-week high/low	S\$ 1.55/S\$ 0.84			
1mth	3mth	6mth	1yr	YTD
2.5	(17.4)	(11.1)	36.1	(19.1)

Major Shareholders

Andy Luong (Founder)	18.1
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FY22 NAV/Share (S\$) 0.46

FY22 Net Cash/Share (S\$) 0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Factory utilisation rate to stay high in 2022-23.** 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 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 the later part of 2023.
- Solid FCF generation.** Positive operating leverage is expected to lift forward earnings, and free cash flow (FCF) generation is anticipated to remain strong. In 4Q21, UMS achieved net operating cashflow of S\$21.1m (3Q21: S\$16.1m) and free cash flow of S\$17.8m. (3Q21: S\$13.0m), which brought 2021 net operating cashflow to S\$66.1m and free cash flow to S\$56.1m. Our estimates suggest a continued increase in FCF in 2022 and 2023 to S\$44.8m and S\$60.5m respectively, and S\$59.1m in 2024.

EARNINGS REVISION/RISK

- In tandem with expectations for a full ramp-up of production at the new site in Penang, we have adjusted our 2024 revenue growth assumption from 2% to 12%.
- Assumptions for labour cost inflation are increased in view of the tight environment in Malaysia from 2% per year to 12% per year. The cost component now constitutes 13.5% of revenue, from 6.9-8.1% previously.
- Additionally, a higher tax rate of 17.1% is incorporated for 2022, and 22.3% for both 2023 and 2024 (from 11.2% previously), taking a view that there will not be any further incentives from the Pioneer Status in Malaysia going forward.
- Accordingly, net profit estimates have reduced by 20%, 27% and 22% to S\$62.2m, S\$62.4m and S\$67.8m for 2022-24 respectively.

VALUATION/RECOMMENDATION

- Maintain BUY with lower target price of S\$1.45 (from S\$1.80)**, after lowering our earnings estimates. The target price remains pegged to 15.5x 2022F earnings, or +2SD above its historical five-year average.

SHARE PRICE CATALYST

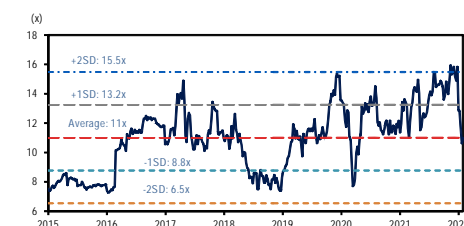
- Higher-than-expected factory utilisation rates.
- Return of orders for aircraft components to benefit recently-acquired subsidiary JEP Holdings.
- Better-than-expected cost management.

PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr	Price @ 2 Mar 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\$	1.21	598	15.2	12.9	12.9	2.9	2.6	2.4	8.4	8.4	7.6	4.1	20.1
AEM Holdings	AEM SP	S\$	4.17	956	13.3	10.5	9.2	3.2	2.6	2.2	7.9	6.6	5.0	2.4	27.5
Venture Corporation	VMS SP	S\$	17.18	3,698	16.0	14.5	13.6	1.8	1.8	1.7	9.7	12.1	10.9	4.4	12.4
Frencken Group	FRKN SP	S\$	1.62	512	11.8	10.0	9.0	1.8	1.6	1.4	5.9	5.7	4.9	2.5	16.8
Singapore average					14.6	12.5	11.4	2.5	2.2	1.9	8.8	9.4	7.9	3.4	19.9
Kulicke & Soffa Industries	KLIC US	US\$	50.97	3,175	7.1	8.0	8.7	2.6	n.a.	n.a.	4.8	n.a.	n.a.	1.3	31.6
Applied Materials	AMAT US	US\$	129.61	114,497	17.7	15.9	13.8	9.6	8.5	7.1	12.9	12.6	11.3	0.7	54.6
Lam Research	LRCX US	US\$	540.57	75,410	16.8	16.3	13.9	11.7	10.8	10.3	13.2	13.1	11.0	1.1	73.7
KLA Corporation	KLAC US	US\$	336.79	50,759	18.2	16.4	14.0	12.5	11.5	8.6	12.8	12.7	10.9	1.2	78.5
Teradyne	TER US	US\$	114.56	18,606	20.8	23.4	17.0	7.2	7.1	6.0	15.0	15.6	12.6	0.4	30.6
Global average					16.1	16.0	13.5	8.8	9.4	8.0	11.7	13.5	11.4	1.0	53.8

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	91.0	90.6	98.2	105.5
Deprec. & amort.	12.4	10.9	12.9	13.3
EBIT	78.6	79.7	85.3	92.2
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	78.2	80.6	86.5	93.6
Tax	(21.8)	(13.8)	(19.3)	(20.8)
Minorities	4.5	4.5	4.5	4.5
Net profit	60.9	71.3	71.7	77.2
Net profit (adj.)	60.9	71.3	71.7	77.2

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	66.1	54.8	80.5	74.1
Pre-tax profit	79.4	80.6	86.5	93.6
Tax	1.8	(24.3)	(13.1)	(17.2)
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	22.1	27.1	29.9
Beginning cash & cash equivalent	53.8	65.1	83.8	105.2
Changes due to forex impact	(0.4)	(3.3)	(5.7)	(5.8)
Ending cash & cash equivalent	65.1	83.8	105.2	129.3

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	83.8	105.2	129.3
Other current assets	154.6	156.1	172.0	199.2
Total assets	436.8	456.1	500.4	553.4
ST debt	11.6	18.4	17.2	20.1
Other current liabilities	77.8	61.2	74.7	85.7
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	339.4	374.3
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	436.8	456.1	500.4	553.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	33.6	30.9	29.9	28.7
Pre-tax margin	28.8	27.5	26.4	25.5
Net margin	22.4	24.4	21.9	21.0
ROA	16.3	16.0	15.0	14.6
ROE	23.1	24.3	22.1	21.6
Growth				
Turnover	64.9	8.0	12.0	12.0
EBITDA	57.2	(0.5)	8.4	7.5
Pre-tax profit	82.4	3.1	7.3	8.1
Net profit	51.8	17.2	0.6	7.6
Net profit (adj.)	51.8	17.2	0.6	7.6
EPS	22.0	17.2	0.6	7.6
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)	(13.8)	(19.3)	(23.1)
Interest cover (x)	121.4	n.a.	n.a.	n.a.

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