

UMS Holdings (UMSH SP)

Resilient profitability

Strong 1Q22 on better-than-expected margins

1Q22 PATMI of SGD19.4m (+26% YoY) was ahead of our and consensus estimates, accounting for 31%/27% of respective FY22E. To our positive surprise, margin erosion was more benign than expected despite the inflationary environment. As such, we raise FY22E PATMI by 13%. Growth was primarily driven by strong demand and the robust outlook for semiconductor equipment. Our TP rises by 6% to SGD1.50 (14x FY22E P/E, from 15x previously). BUY.

Broad-based strength drives 1Q22 revenue growth

1Q22 sales rose 71% YoY SGD84.7m, driven by semiconductor (+57%) and "others" (+193%). "Others" segment was contributed by Starke (materials distribution), Kalf Engineering (water disinfection), and JEP's tooling distribution business, Industrades. Gross material margin was relatively healthy at 51.4% (-1.7ppt YoY, -0.7ppt QoQ) as UMS was able to pass on a certain amount of costs amid a strong semiconductor equipment demand backdrop with tight supply capacity.

Operational updates

The new plant in Penang remains on-track for completion by the end of this year. Hiring is also progressing as planned despite a tight labour market in Penang. For the Malaysian subsidiary that did not enjoy preferential tax rates as it did not meet local worker employment criteria in 4Q21, management updated that this criteria has now been fulfilled, and discussions to resolve tax issues with Malaysian are ongoing.

Outlook and risks

Outlook remains robust. SEMI expects global WFE spend to reach USD107b (+18% YoY) in 2022 and prospects remain robust for 2023. Key customer Applied Materials spots a similar tone in outlook. Supply side risks include inflation, as well as labour and/or raw materials shortages. If the US decides to ban exports of advanced semiconductor equipment to Chinese firms, UMS might be impacted in the near term. Our target P/E is reduced to 14x from 15x to consider such risk. We currently do not anticipate this to have a long-term impact on UMS as we expect structural demand for chips to persist, and that capacity will likely shift towards non-Chinese firms over time.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	164	271	353	387	335
EBITDA	47	92	116	130	111
Core net profit	46	53	71	81	64
Core EPS (cts)	6.9	8.0	10.7	12.1	9.6
Core EPS growth (%)	37.9	15.4	34.2	13.5	(20.7)
Net DPS (cts)	4.0	4.4	6.0	6.0	6.0
Core P/E (x)	12.5	19.1	10.7	9.4	11.8
P/BV (x)	2.3	3.7	2.5	2.2	2.0
Net dividend yield (%)	4.6	2.9	5.3	5.3	5.3
ROAE (%)	14.7	20.1	24.4	24.7	17.8
ROAA (%)	15.4	14.2	15.9	16.3	12.1
EV/EBITDA (x)	11.6	11.0	6.6	5.4	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	67	75	68
MKE vs. Consensus (%)	-	-	6.4	7.8	(5.5)

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BUY

Share Price	SGD 1.14
12m Price Target	SGD 1.50 (+37%)
Previous Price Target	SGD 1.42

Company Description

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

Statistics

52w high/low (SGD)	1.55/1.02
3m avg turnover (USDm)	6.1
Free float (%)	69.2
Issued shares (m)	671
Market capitalisation	SGD764.4M
	USD550M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(10)	5
Relative to index (%)	(3)	(6)	2

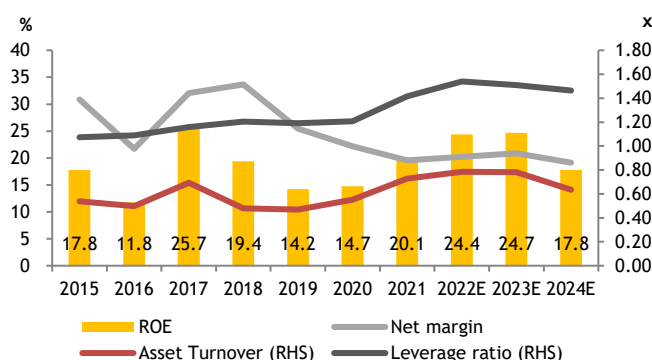
Source: FactSet

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



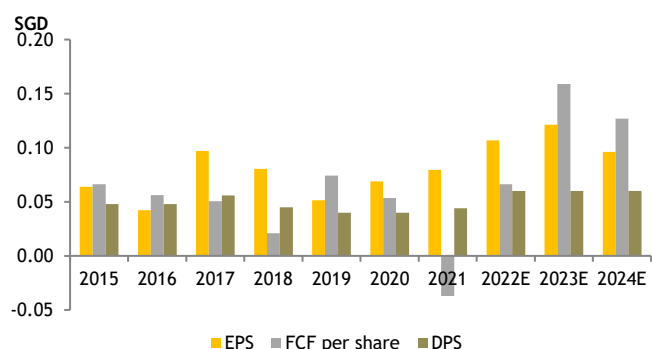
Source: Company, Maybank IBG Research

- Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
- 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
- AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
- AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.
- UMS rallied through much of 2020-21 on the back of strong WFE demand globally

Financial Metrics

- Core EPS growth of 34%/15% in FY21/22E, driven by sustained investments from chipmakers globally.
- UMS has a strong track record of maintaining a net cash balance sheet to tide through cycles.
- 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.

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Risk Rating & Score ¹	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 2021, 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 2020/21, UMS' performance was 0.1558/0.1306 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 2020/21, UMS' performance were 0.0014/0.0011 respectively.
- 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 592 strong across Singapore and Malaysia as at end-2021. 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 2021, locals accounted for 46% of employees based in Malaysia and 50% of managerial positions. 25% of managerial employees are female.
- In 2021, 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 2021, UMS did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.
- In 2021, key management personnel accounted for 31% (FY20: 21%).
- 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)	352.9	349.8	0.9	387.2	384.0	0.8
Gross profit (SGDm)	181.7	182.2	-0.3	202.5	200.8	0.8
EBIT (SGDm)	97.3	88.9	9.4	110.8	104.6	6.0
EBITDA (SGDm)	115.6	108.3	6.8	130.2	125.1	4.1
Core net profit (SGDm)	71.3	63.1	13.0	80.9	79.1	2.2
EPS (SGD)	0.107	0.095	13.0	0.121	0.119	2.2
			Chg (ppt)			Chg (ppt)
Gross margin	51.5%	52.1%	-0.6	52.3%	52.3%	0.0
Staff cost as % of sales	12.5%	14.0%	-1.5	13.0%	14.0%	-1.0

Source: Maybank IBG Research

Fig 2: 1Q22 summary

FYE Dec	1Q22	1Q21	4Q21	YoY Chg	QoQ Chg	FYE	1Q22 as a % of FY22E
	(SGD m)	(SGD m)	(SGD m)	(%)	(%)	SGDm	
Revenue	84.7	49.6	87.3	70.8	-2.9	349.8	24
COGS	(41.2)	(23.3)	(41.8)	77.0	-1.5	(167.5)	25
Gross profit	43.6	26.3	45.4	65.4	-4.1	182.2	24
Staff costs	(10.2)	(5.7)	(11.3)	80.5	-9.5	(49.0)	21
Other (charges)/ credits	0.8	0.7	(2.4)	nm	-133.0	(5.0)	-16
Other expenses	(4.8)	(2.9)	(4.8)	66.7	-0.4	(20.0)	24
EBIT	25.6	16.7	22.6	53.8	13.4	88.9	29
EBITDA	29.3	18.4	26.9	58.9	9.0	108.3	27
Interest Inc	0.0	0.0	0.0	nm	nm	0.0	nm
Interest Exp	(0.2)	(0.1)	(0.2)	80.5	3.7	(0.7)	32
Associates Income	0.0	0.3	0.0	-100.0	nm	0.0	nm
Exceptional Items	0.0	0.0	0.0	nm	nm	0.0	nm
Pretax Profit	25.4	16.8	22.4	51.2	13.5	88.2	29
Taxation	(4.7)	(1.7)	(15.2)	170.3	-68.9	(17.6)	27
Net profit	20.7	15.1	7.2	37.4	186.9	70.6	29
Minority Interest	1.3	(0.3)	1.5	nm	-13.6	7.5	18
PATMI	19.4	15.4	5.7	26.0	240.7	63.1	31
Core PATMI	19.4	15.4	5.7	26.0	240.7	63.1	31
					Change (ppt)		
Gross margin	51.4%	53.1%	52.1%	-1.7	-0.7		
EBIT margin	30.3%	33.6%	25.9%	-3.3	4.4		
Net margin	22.9%	31.0%	6.5%	-8.1	16.3		

Source: Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	13.7	15.2	10.7	9.4	11.8
Core P/E (x)	12.5	19.1	10.7	9.4	11.8
P/BV (x)	2.3	3.7	2.5	2.2	2.0
P/NTA (x)	2.3	3.7	2.5	2.2	2.0
Net dividend yield (%)	4.6	2.9	5.3	5.3	5.3
FCF yield (%)	7.8	nm	5.8	13.9	11.1
EV/EBITDA (x)	11.6	11.0	6.6	5.4	6.0
EV/EBIT (x)	13.9	12.7	7.8	6.3	7.3

INCOME STATEMENT (SGD m)

Revenue	164.4	271.2	352.9	387.2	335.4
EBITDA	46.9	92.2	115.6	130.2	110.8
Depreciation	(7.7)	(12.4)	(18.3)	(19.4)	(20.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	39.2	79.8	97.3	110.8	90.6
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	96.6	110.1	89.9
Income tax	(2.6)	(21.8)	(19.3)	(22.0)	(17.1)
Minorities	0.2	(4.5)	(6.0)	(7.2)	(8.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.5	53.1	71.3	80.9	64.1
Core net profit	46.0	53.1	71.3	80.9	64.1

BALANCE SHEET (SGD m)

Cash & Short Term Investments	53.8	65.4	69.5	135.5	180.2
Accounts receivable	23.5	67.2	77.8	91.9	73.5
Inventory	53.9	87.1	101.4	90.9	75.6
Property, Plant & Equip (net)	56.3	116.7	113.3	109.0	98.7
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	462.4	527.7	528.4
ST interest bearing debt	15.7	11.6	11.6	11.6	11.6
Accounts payable	25.4	56.1	47.1	64.3	32.2
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	120.9	138.1	106.0
Shareholders Equity	251.3	276.3	307.6	348.5	372.6
Minority Interest	1.7	27.9	33.9	41.1	49.8
Total shareholder equity	252.9	304.3	341.5	389.6	422.4
Total liabilities and equity	309.5	436.8	462.4	527.7	528.4

CASH FLOW (SGD m)

Pretax profit	48.4	79.4	96.6	110.1	89.9
Depreciation & amortisation	7.7	12.4	18.3	19.4	20.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	3.0	(45.2)	(36.5)	13.6	1.6
Cash taxes paid	(2.1)	1.8	(19.3)	(22.0)	(17.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	56.9	48.0	59.1	121.0	94.7
Capex	(11.7)	(72.8)	(15.0)	(15.0)	(10.0)
Free cash flow	45.2	(24.8)	44.1	106.0	84.7
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	4.4	66.0	44.6

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.7	64.9	30.1	9.7	(13.4)
EBITDA growth	16.1	96.6	25.4	12.6	(14.9)
EBIT growth	17.0	103.5	21.9	13.9	(18.3)
Pretax growth	40.5	64.0	21.7	14.0	(18.4)
Reported net profit growth	12.0	45.6	34.2	13.5	(20.7)
Core net profit growth	37.1	15.4	34.2	13.5	(20.7)
Profitability ratios (%)					
EBITDA margin	28.5	34.0	32.8	33.6	33.0
EBIT margin	23.8	29.4	27.6	28.6	27.0
Pretax profit margin	29.4	29.3	27.4	28.4	26.8
Payout ratio	73.1	55.2	56.1	49.5	62.4
DuPont analysis					
Net profit margin (%)	22.2	19.6	20.2	20.9	19.1
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.6
Assets/Equity (x)	1.2	1.6	1.5	1.5	1.4
ROAE (%)	14.7	20.1	24.4	24.7	17.8
ROAA (%)	15.4	14.2	15.9	16.3	12.1
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	1.8	2.0	1.6
Current ratio (x)	2.8	2.5	3.2	3.4	5.2
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.3	3.8	3.8	5.0
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	139.0	nm	129.4
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)	(35.2)	(101.2)	(145.9)

Source: Company; Maybank IBG Research

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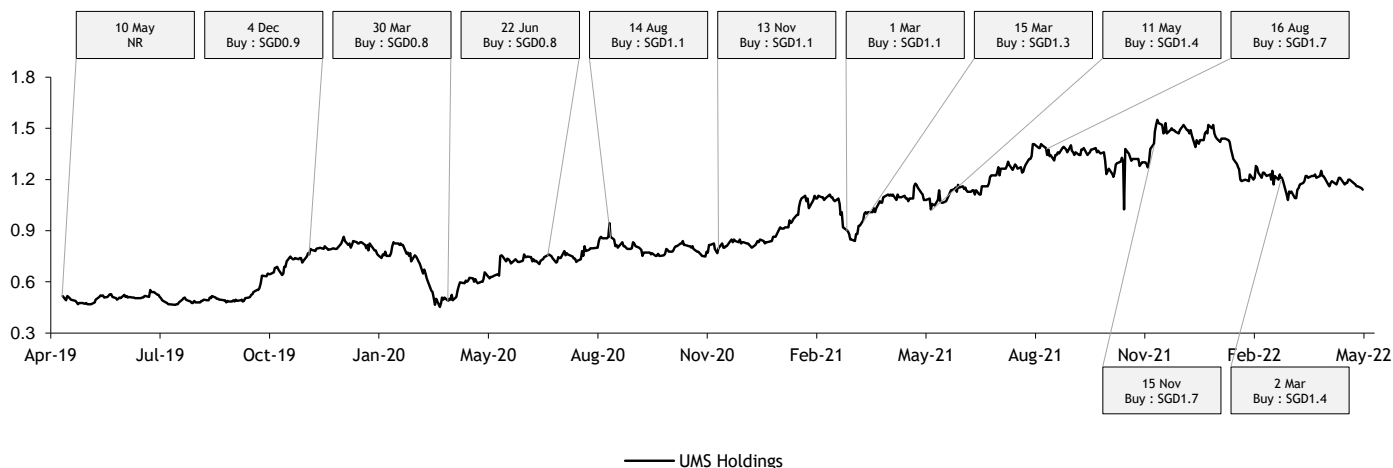
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