

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

14 Nov 2023

BUY

Last Traded Price (10 Nov 2023): S\$1.29 (STI: 3,106.68)

Price Target 12-mth: S\$1.55 (20% upside) (Prev S\$1.51)

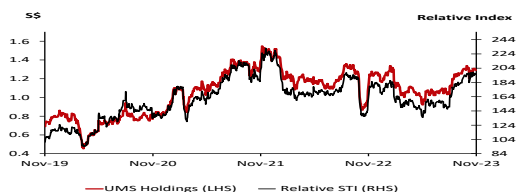
Analyst

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What's New

- 2H23 recovery intact, with strong performance q-o-q
- 3Q23 margins improved, partly due to the renewal of its contract with key customer
- Semiconductor industry recovery intact; upcycle to continue through 2026
- Earnings revised down by 12%/5% for FY23F/24F on weaker 9M23 results; maintain BUY with higher TP of S\$1.55 on improving outlook

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023F	2024F	2025F
Revenue	372	301	354	378
EBITDA	120	92.6	115	124
Pre-tax Profit	103	75.8	98.2	107
Net Profit	98.2	60.3	80.0	87.6
Net Pft (Pre Ex.)	98.2	60.3	80.0	87.6
Net Pft Gth (Pre-ex) (%)	84.9	(38.6)	32.8	9.4
EPS (S cts)	14.6	8.99	11.9	13.1
EPS Pre Ex. (S cts)	14.6	8.99	11.9	13.1
EPS Gth Pre Ex (%)	85	(39)	33	9
Diluted EPS (S cts)	14.6	8.99	11.9	13.1
Net DPS (S cts)	5.00	5.00	5.00	5.00
BV Per Share (S cts)	50.8	54.8	61.7	69.8
PE (X)	8.8	14.4	10.8	9.9
PE Pre Ex. (X)	8.8	14.4	10.8	9.9
P/Cash Flow (X)	9.1	8.3	10.1	8.5
EV/EBITDA (X)	7.2	8.9	7.0	6.1
Net Div Yield (%)	3.9	3.9	3.9	3.9
P/Book Value (X)	2.5	2.4	2.1	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	31.8	17.0	20.5	19.9
Earnings Rev (%):		(12)	(5)	-
Consensus EPS (S cts):		9.2	12.3	13.0
Other Broker Recs:		B: 4	S: 0	H: 0

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

2H23 recovery intact; stronger 2024 expected

Investment Thesis

Riding on longer term growth trend for the semiconductor industry. UMS is an integrated original equipment manufacturer (OEM) for front-end semiconductor equipment, providing both component manufacturing and sub-assembly services, primarily servicing key clients such as Applied Materials (AMAT). UMS is riding on the long-term growth trend for the semiconductor industry, driven by industry-wide structural change.

2H23 recovery intact; stronger 2024 expected. The quarterly decline of revenue improved to 4.2% in 3Q23 (from a decline of 7.9% in 2Q23 and 20% in 1Q23). 3Q23 earnings also registered a strong gain of 32% q-o-q, indicating that the expected 2H23 recovery is intact. The semiconductor industry is projected to see a strong recovery in 2024, with Gartner predicting a revenue growth of 20.4% y-o-y, after a projected 12.3% drop in 2023. SEMI expects the 2024 rebound to continue through to 2026, with wafer shipments setting new highs.

Beneficiary of trade diversification; completion of new plant in 2023.

With its main production facilities in Malaysia, UMS is a key beneficiary of the trade diversification trend. On the back of the China-US trade tensions, which have worsened with the further tightening by the US on exports to China, more companies are looking to diversify their manufacturing footprints. The completion of the new plant in Penang offers new growth opportunities.

BUY; TP raised to S\$1.55 (previously S\$1.51), pegged to a higher PE of 13x, near the +1SD level from its four-year average, and up from 12x as we expect outlook to improve. UMS remains our top pick in the sector.

Key Risks

Historically, c.90% of UMS's revenue on average has been attributed to Applied Materials (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)	671
Mkt. Cap (S\$m/US\$m)	865 / 636
Major Shareholders (%)	
Andy Luong	15.9
Free Float (%)	84.1
3m Avg. Daily Val (US\$m)	4.2
GIC Industry : Information Technology / Semiconductors & Semiconductor Equipment	

2H23 recovery intact with strong q-o-q performance in 3Q23

Though 3Q23 results were below expectations, it was still a strong performance and 2H23 recovery remains intact. UMS reported a 3Q23 revenue of S\$71.3m, down 28.8% y-o-y. The quarterly decline in revenue narrowed to 4.2%, from a decline of 7.9% in 2Q23 and 20% in 1Q23. The weaker performance was due to lower sales in both its semiconductor integrated system sales and component sales. System sales fell 25% y-o-y to S\$33.3m, while revenue from component sales dropped 34% y-o-y to S\$29.7m. This was partially lifted by a better performance from its aerospace business, which saw revenue jumping 35% y-o-y to S\$5.2m, buoyed by the sustained recovery of the global aerospace industry.

3Q23 net profit plunged 64% y-o-y to S\$15.3, partly due to the tax writeback in 3Q22. However, on a q-o-q basis, it was up 32%, indicating that 2H23 recovery is intact. On a 9M23 basis, revenue of S\$226.4m fell 17% y-o-y, while net profit was down 46% to S\$44.3m. Overall, 3Q23/9M23 net profit accounted for 23%/65% of our forecast, below expectations.

An interim DPS of 1.2sct (similar to 2Q23 but higher than the 1Sct in 3Q22) was declared.

Improving margins, partly due to the renewal of its contract with its key customer. 3Q23 gross margin improved to 51.2% from 46.3% in 2Q23 and 50.5% in 3Q22, mainly due to higher USD/SGD exchange rates and better margins arising from the renewal of its integrated system contract with its key customer. Net margin improved to 21.5% from 15.6% in 2Q23.

Completion of new plant offers new growth opportunities. With the completion of its new production facilities in Penang, the group is well poised to ride on the trade diversification trend on the back of the geopolitical uncertainties and the need to build a

resilient supply chain. The new plant has a floor area of about 300,000 sq ft, vs c. 500,000 sq ft for the entire exiting group.

Semiconductor industry recovery intact; upcycle to continue through 2026. Global semiconductor shipments in Aug '23 showed further improvement from the low in Feb '23. 1) The y-o-y decline of 6.8% was lower than Jul's 11.8% drop, and 2) it recorded the sixth straight month of m-o-m growth. According to Gartner, semiconductor revenue is expected to dip 12.3% y-o-y in 2023 after a flat 2022, and recover with a strong gain of 20.4% in 2024. SEMI expects a 2024 rebound to continue through 2026 with wafer shipments setting new highs as silicon demand increases to support artificial intelligence (AI), high-performance computing (HPC), 5G, automotive, and industrial applications.

Earnings revised down by 12%/5% for FY23F/24F on weaker-than-expected 9M23 results. We have reduced earnings for FY23F/FY24F by 12%/5% given the weaker-than-expected 9M23 results. Despite this, we continue to expect 2H23 recovery to be on track. We project a 4Q23 net profit of S\$16m, a slight improvement from the S\$15.1m in 3Q23. Our target price is raised slightly to S\$1.55 (previously S\$1.51) pegged to a higher PE of 13x, near the +1SD level from its four-year average, up from 12x as we expect outlook to improve. Maintain BUY. UMS remains our top pick in the sector.

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	3Q2022	2Q2023	3Q2023	% chg y-o-y	% chg q-o-q
Revenue	100	74.4	71.3	(28.8)	(4.2)
Cost of Goods Sold	(49.6)	(39.9)	(34.8)	(29.8)	(12.9)
Gross Profit	50.5	34.4	36.5	(27.8)	5.9
Other Oper. (Exp)/Inc	(20.6)	(20.7)	(19.2)	(7.1)	(7.2)
Operating Profit	29.9	13.8	17.3	(42.1)	25.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	2.12	0.05	0.19	(90.9)	312.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	32.0	13.8	17.5	(45.3)	26.5
Tax	11.9	(1.6)	(2.1)	(117.3)	31.6
Minority Interest	(1.4)	(0.6)	(0.1)	94.1	(86.9)
Net Profit	42.5	11.6	15.3	(63.9)	32.0
Net profit bef Except.	42.5	11.6	15.3	(63.9)	32.0
EBITDA	33.8	18.7	22.2	(34.4)	18.2
Margins (%)					
Gross Margins	50.5	46.3	51.2		
Opg Profit Margins	29.8	18.5	24.3		
Net Profit Margins	42.5	15.6	21.5		

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	2021A	2022A	2023F	2024F	2025F
Gross Profit (\$ m)	143	186	150	177	189
Revenue Growth (%)	64.9	37.3	(19.3)	17.7	6.76
Operating Profit Margin	29.0	28.5	25.5	28.0	28.5
Effective Tax Rate (%)	27.5	1.20	12.0	12.0	12.0
Capex (\$ m)	20.0	52.8	30.0	20.0	20.0

Segmental Breakdown

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (\$m)					
Components	139	170	136	157	164
Semiconductor	104	153	130	156	164
Others	28.5	49.4	34.6	41.5	49.8
Total	271	372	301	354	378

Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	271	372	301	354	378
Cost of Goods Sold	(128)	(187)	(150)	(177)	(189)
Gross Profit	143	186	150	177	189
Other Opng (Exp)/Inc	(64.5)	(79.6)	(73.7)	(77.9)	(81.2)
Operating Profit	78.6	106	76.7	99.1	108
Other Non Opng (Exp)/Inc	1.19	(2.0)	0.0	0.0	0.0
Associates & JV Inc	0.36	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	79.4	103	75.8	98.2	107
Tax	(21.8)	(1.2)	(9.1)	(11.8)	(12.8)
Minority Interest	(4.5)	(3.8)	(6.4)	(6.4)	(6.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	53.1	98.2	60.3	80.0	87.6
Net Profit before Except.	53.1	98.2	60.3	80.0	87.6
EBITDA	92.6	120	92.6	115	124
Growth					
Revenue Gth (%)	64.9	37.3	(19.3)	17.7	6.8
EBITDA Gth (%)	97.0	29.6	(22.9)	24.2	7.5
Opg Profit Gth (%)	60.3	35.0	(27.8)	29.3	8.7
Net Profit Gth (Pre-ex) (%)	45.6	84.9	(38.6)	32.8	9.4
Margins & Ratio					
Gross Margins (%)	52.8	49.9	50.0	50.0	50.0
Opg Profit Margin (%)	29.0	28.5	25.5	28.0	28.5
Net Profit Margin (%)	19.6	26.4	20.1	22.6	23.2
ROAE (%)	20.1	31.8	17.0	20.5	19.9
ROA (%)	14.2	21.2	12.1	14.8	14.5
ROCE (%)	16.4	25.0	13.6	16.5	16.2
Div Payout Ratio (%)	63.1	34.2	55.6	41.9	38.3
Net Interest Cover (x)	104.8	119.1	86.0	111.2	120.9

Source: Company, DBS Bank

UMS Holdings

Quarterly Income Statement (\$\$m)

FY Dec	3Q2022	4Q2022	1Q2023	2Q2023	3Q2023
Revenue	100	101	80.8	74.4	71.3
Cost of Goods Sold	(49.6)	(54.1)	(40.2)	(39.9)	(34.8)
Gross Profit	50.5	46.9	40.5	34.4	36.5
Other Oper. (Exp)/Inc	(20.6)	(27.8)	(20.5)	(20.7)	(19.2)
Operating Profit	29.9	19.2	20.0	13.8	17.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	2.12	(0.2)	(0.1)	0.05	0.19
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	32.0	18.9	19.9	13.8	17.5
Tax	11.9	(2.8)	(2.3)	(1.6)	(2.1)
Minority Interest	(1.4)	0.0	(0.3)	(0.6)	(0.1)
Net Profit	42.5	16.1	17.4	11.6	15.3
Net profit bef Except.	42.5	16.1	17.4	11.6	15.3
EBITDA	33.8	23.5	24.7	18.7	22.2

Growth

Revenue Gth (%)	15.6	0.9	(20.0)	(7.9)	(4.2)
EBITDA Gth (%)	9.2	(30.3)	4.8	(23.9)	18.2
Opg Profit Gth (%)	10.2	(35.9)	4.7	(31.3)	25.6
Net Profit Gth (Pre-ex) (%)	110.6	(62.0)	7.5	(33.1)	32.0

Margins

Gross Margins (%)	50.5	46.5	50.2	46.3	51.2
Opg Profit Margins (%)	29.8	19.0	24.8	18.5	24.3
Net Profit Margins (%)	42.5	16.0	21.5	15.6	21.5

Balance Sheet (\$\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	117	135	150	154	159
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	100	101	100	100	99.9
Cash & ST Invts	65.1	61.7	103	135	184
Inventory	87.1	111	79.6	93.8	100
Debtors	67.2	78.7	74.1	87.3	93.2
Other Current Assets	0.32	0.97	0.97	0.97	0.97
Total Assets	437	488	508	572	637
ST Debt	11.6	11.5	11.5	11.5	11.5
Creditor	56.1	56.7	45.3	53.3	56.9
Other Current Liab	21.7	12.8	10.8	13.5	14.5
LT Debt	22.7	18.4	18.4	18.4	18.4
Other LT Liabilities	20.4	20.4	20.4	20.4	20.4
Shareholder's Equity	276	340	367	414	468
Minority Interests	27.9	27.9	34.3	40.7	47.1
Total Cap. & Liab.	437	488	508	572	637
Non-Cash Wkg. Capital	76.8	121	98.7	115	123
Net Cash/(Debt)	30.8	31.8	73.0	105	154
Debtors Turn (avg days)	61.0	71.5	92.8	83.2	87.2
Creditors Turn (avg days)	128.4	120.6	138.6	111.8	116.3
Inventory Turn (avg days)	222.5	211.4	258.4	196.5	204.5
Asset Turnover (x)	0.7	0.8	0.6	0.7	0.6
Current Ratio (x)	2.5	3.1	3.8	4.0	4.6
Quick Ratio (x)	1.5	1.7	2.6	2.8	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	58.3	176.4	100.3	66.9	66.9

Source: Company, DBS Bank

UMS Holdings

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	79.4	103	75.8	98.2	107
Dep. & Amort.	12.4	15.9	15.9	15.9	15.9
Tax Paid	(4.5)	(8.0)	(11.1)	(9.1)	(11.8)
Assoc. & JV Inc/(loss)	(0.4)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(7.6)	(21.5)	24.1	(19.2)	(8.6)
Other Operating CF	(13.4)	5.67	0.0	0.0	0.0
Net Operating CF	66.1	95.3	105	85.8	102
Capital Exp.(net)	(20.0)	(52.8)	(30.0)	(20.0)	(20.0)
Other Invt.(net)	(0.1)	(1.3)	0.0	0.0	0.0
Invt in Assoc. & JV	(0.7)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.1)	(2.1)	0.0	0.0	0.0
Net Investing CF	(20.9)	(56.2)	(30.0)	(20.0)	(20.0)
Div Paid	(22.7)	(33.4)	(33.5)	(33.5)	(33.5)
Chg in Gross Debt	(8.6)	(4.4)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(2.2)	0.28	0.0	0.0	0.0
Net Financing CF	(33.5)	(37.5)	(33.5)	(33.5)	(33.5)
Currency Adjustments	(0.4)	(5.1)	0.0	0.0	0.0
Chg in Cash	11.3	(3.4)	41.2	32.3	48.8
Opg CFPS (S cts)	11.0	17.4	12.0	15.7	16.5
Free CFPS (S cts)	6.87	6.35	11.1	9.81	12.3

Source: Company, DBS Bank

Target Price & Ratings 12-mth 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:	15 Nov 22	1.20	1.42	BUY
2:	01 Mar 23	1.07	1.53	BUY
3:	11 May 23	0.97	1.20	BUY
4:	29 Sep 23	1.30	1.51	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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Sources for all charts and tables are DBS Bank unless otherwise specified.

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