

COMPANY UPDATE

UMS Holdings (UMSH SP)

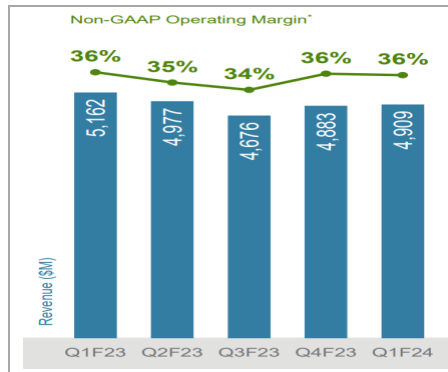
Revenue Recovery And Positive Outlook Of Key Customer; Raise Target Price By 19%

We expect UMS to report S\$16m in 4Q23 earnings (+0% yoy/+7%qoq), its first qoq earnings recovery since the semiconductor industry went into a downcycle in 1Q23. In AMAT's 1QFY24 results, its semiconductor segment recorded its second consecutive qoq revenue growth since it started declining three quarters ago. AMAT also sees improving market dynamics in the semiconductor industry. These trends bode well for UMS. Maintain BUY with a 19% higher target price of S\$1.85.

WHAT'S NEW

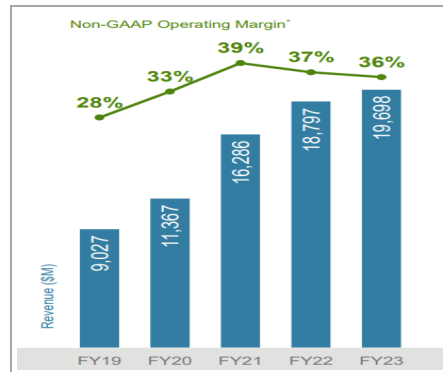
- Key customer reported positive trends in the latest 1QFY24 results. UMS Holdings' (UMS) key customer, Applied Materials (AMAT), reported its 1QFY24 results in Feb 24, with its semiconductor segment recording its second consecutive qoq revenue growth since it started declining three quarters ago. In addition, operating margin for the segment also increased by 2ppt qoq to 36% from the low in 2QFY23. The two figures below show the recovery in quarterly revenue and steady annual revenue growth of the semiconductor systems segment for AMAT.

NON-GAAP OPERATING MARGIN - QUARTERLY



Source: AMAT

NON-GAAP OPERATING MARGIN - YEARLY



Source: AMAT

- AMAT is seeing improvement across the semiconductor industry. In its latest outlook statement, AMAT is hearing that the overall market dynamics are improving. There is re-acceleration of capital investment by cloud companies, fab utilisation is increasing across all device types and memory inventory levels are normalising. In 2024, AMAT expects to be a leading-edge foundry.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	271	372	320	378	408
EBITDA	92	120	90	114	124
Operating profit	80	104	70	89	98
Net profit (rep./act.)	53	98	60	77	85
Net profit (adj.)	53	98	60	77	85
EPS (S\$ cents)	7.9	14.7	8.9	10.9	12.0
PE (x)	18.1	9.8	16.1	13.2	12.0
P/B (x)	3.5	2.8	2.6	2.3	2.1
EV/EBITDA (x)	9.8	7.5	10.0	7.9	7.3
Dividend yield (%)	3.5	3.5	3.8	3.9	3.9
Net margin (%)	19.7	26.4	18.7	20.5	20.9
Net debt/(cash) to equity (%)	(11.1)	(9.3)	(21.0)	(32.6)	(38.7)
Interest cover (x)	123.2	134.7	n.a.	n.a.	n.a.
ROE (%)	20.2	31.9	17.0	18.9	17.9
Consensus net profit	-	-	61	81	94
UOBKH/Consensus (x)	-	-	0.99	0.96	0.91

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.44
Target Price	S\$1.85
Upside	+28.5%
(Previous TP)	S\$1.65)

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):	710.5
Market cap (S\$m):	1,023.2
Market cap (US\$m):	760.6
3-mth avg daily t'over (US\$m):	3.6

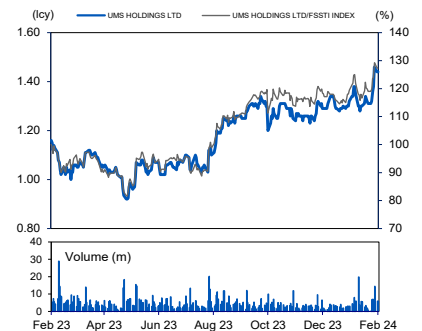
Price Performance (%)

52-week high/low	S\$ 1.46/S\$ 0.905
1mth	9.1
3mth	15.2
6mth	30.9
1yr	26.3
YTD	7.5

Major Shareholders

Andy Luong (Founder)	15.9
FY24 NAV/Share (S\$)	0.64
FY24 Net Cash/Share (S\$)	0.21

PRICE CHART



Source: Bloomberg

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- **AMAT's latest positive outlook is consistent with UMS's buoyant outlook.** In its latest outlook statement, UMS expects its performance in the coming months to be supported by the sanguine guidance of some major semiconductor equipment makers expecting to deliver sustainable outperformance going forward.

STOCK IMPACT

- **Strong demand from the recent share placement.** In Jan 24, UMS completed a new share placement exercise in which 40m shares were 2.55x covered, with participation from global and regional institutional investors. This has increased UMS' share base by around 6% to 710.5m shares.
- **SEMI expects global fab equipment spending to recover in 2024.** According to Semiconductor Equipment and Materials International (SEMI), a 2024 rebound is expected 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. SEMI also predicts fab equipment spending to recover to US\$97b (rising 15.5% yoy) and total foundry capacity (including foundry/integrated device manufacturers) to increase 7% in 2024. Investments into fab construction projects which hit a historical high in 2023 are expected to continue at a higher level in 2024.
- **UMS has secured an in-principle agreement with its new customer for a new renewable three-year contract.** This new customer contract win will boost UMS's buoyant outlook as its new Penang facilities were already completed in Sep 23. The production ramp-up will enable it to take on new orders from its new customer which is estimated to reach at least US\$30m in 2024.

EARNINGS REVISION/RISK

- We maintain our financial forecasts but factored in the EPS dilution of around 6% from the issuance of 40m new shares in the recent placement exercise.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 19% higher target price of S\$1.85**, based on a PE-based valuation of 17x 2024F EPS (13.5x based on +0.5SD previously). This is pegged at 1.5SD above UMS' historical mean PE. The reason for pegging our PE-based valuation multiple to above mean is to reflect the improving semiconductor industry outlook and improvement in UMS' earnings quality from new contributions of its new customer.
- We have also factored in the EPS dilution of around 6% from issuance of 40m new shares in the recent placement exercise.

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Ticker	Trading Curr (Icy)	Price @ 19 Feb 24 (Icy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2024 (%)	Yield 2024 (%)
					2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)		
AEM	AEM SP	SGD	2.78	638	n.a.	13.6	1.8	1.6	56.7	9.6	12.5	1.8
Venture	VMS SP	SGD	13.88	2,995	15.0	14.4	1.4	1.4	9.1	8.9	9.6	5.4
Frencken	FRKN SP	SGD	1.45	460	24.1	14.9	1.5	1.4	11.8	8.5	9.9	2.0
Singapore average					19.6	14.3	1.6	1.5	25.9	9.0	10.7	3.1
Kulicke & Soffa	KLIC US	USD	50.36	2,837	49.9	28.5	2.4	n.a.	27.5	22.7	8.1	n.a.
Applied Materials	AMAT US	USD	199.57	166,055	24.5	24.3	10.2	9.0	19.8	20.5	38.7	0.7
Lam Research	LRCX US	USD	926.03	121,405	27.8	31.8	15.0	14.5	21.6	25.6	44.7	0.8
KLA Corp	KLAC US	USD	661.35	89,437	27.2	28.7	31.0	28.9	20.7	22.5	99.6	0.9
Teradyne	TER US	USD	102.24	15,630	35.1	35.0	6.2	6.9	24.1	22.6	18.4	0.5
Global average					32.9	29.7	13.0	14.8	22.8	22.8	41.9	0.7
UMS	UMSH SP	SGD	1.44	761	16.1	13.2	2.6	2.3	10.0	7.9	18.9	3.9

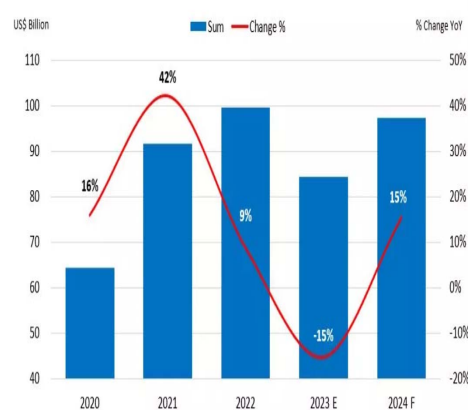
Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

FAB EQUIPMENT SPENDING (FRONT END)



Source: World Fab Forecast Report 3Q23 update, SEMI

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	372.4	320.3	377.9	408.1
EBITDA	120.0	90.1	113.9	124.4
Deprec. & amort.	15.6	20.4	24.7	26.6
EBIT	104.4	69.7	89.2	97.8
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.9)	1.1	1.1	1.2
Pre-tax profit	103.5	70.8	90.3	99.0
Tax	(1.2)	(7.1)	(9.0)	(9.9)
Minorities	(3.8)	(3.8)	(3.8)	(3.8)
Net profit	98.5	59.9	77.4	85.3
Net profit (adj.)	98.5	59.9	77.4	85.3

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	95.3	104.8	84.8	110.0
Pre-tax profit	103.2	70.8	90.3	99.0
Tax	(8.5)	(10.2)	(6.3)	(10.4)
Deprec. & amort.	15.6	20.4	24.7	26.6
Working capital changes	(36.0)	22.0	(24.8)	(7.0)
Non-cash items	21.1	1.8	0.9	1.8
Investing	(56.2)	(19.0)	(20.0)	(20.0)
Capex (growth)	(38.5)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(17.6)	1.0	0.0	0.0
Financing	(37.6)	(30.6)	16.7	(38.6)
Dividend payments	(30.8)	(36.2)	(39.0)	(39.8)
Issue of shares	0.0	0.0	50.0	0.0
Loan repayment	(4.4)	4.6	4.6	(0.0)
Others/interest paid	(2.4)	1.1	1.1	1.2
Net cash inflow (outflow)	1.6	55.2	81.5	51.4
Beginning cash & cash equivalent	65.1	61.5	111.0	186.7
Changes due to forex impact	(5.1)	(5.7)	(5.8)	(5.8)
Ending cash & cash equivalent	61.5	111.0	186.7	232.2

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	135.4	135.0	130.3	123.8
Other LT assets	100.8	100.7	100.7	100.7
Cash/ST investment	61.7	111.0	186.7	232.2
Other current assets	190.3	157.1	192.7	204.3
Total assets	488.2	503.8	610.4	661.0
ST debt	11.5	16.1	20.7	20.7
Other current liabilities	69.5	59.1	67.8	72.3
LT debt	18.4	18.4	18.4	18.4
Other LT liabilities	20.4	17.4	22.3	21.9
Shareholders' equity	340.4	364.9	453.3	498.9
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	488.1	503.8	610.4	660.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	32.2	28.1	30.1	30.5
Pre-tax margin	27.8	22.1	23.9	24.3
Net margin	26.4	18.7	20.5	20.9
ROA	21.3	12.1	13.9	13.4
ROE	31.9	17.0	18.9	17.9
Growth				
Turnover	37.3	(14.0)	18.0	8.0
EBITDA	29.9	(24.9)	26.4	9.2
Pre-tax profit	30.0	(31.6)	27.6	9.7
Net profit	84.7	(39.2)	29.3	10.2
Net profit (adj.)	84.7	(39.2)	29.3	10.2
EPS	84.7	(39.2)	22.0	10.2
Leverage				
Debt to total capital	7.5	8.1	7.5	6.9
Debt to equity	8.8	9.5	8.6	7.8
Net debt/(cash) to equity	(9.3)	(21.0)	(32.6)	(38.7)
Interest cover (x)	134.7	n.a.	n.a.	n.a.

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