

UMS Holdings (UMSH SP)

1H23E secured, U/G to BUY

BUY

[Prior:HOLD]

Share Price SGD 1.07
 12m Price Target SGD 1.34 (+30%)
 Previous Price Target SGD 1.20

Record 3Q22 and 9M22

UMS reported a record 3Q22, with both revenue and PATMI exceeding consensus and our estimates (9M22 PATMI at 88% of FY22E revenue). Management's 6-month outlook remains robust with a large order backlog from its key customer. It said that the slightly lower forecast given by its key customer recently is unlikely to significantly impact its performance. As a result, we expect a strong 4Q22E and a better FY23E and raise our PATMI estimates by 13.4% for FY22E and 13.8% for FY23E, resulting in a higher TP of SGD1.34 (from SGD1.20) pegged to a lower 8.0x (from 8.5x) FY23E P/E. We upgrade to BUY from HOLD due to the more secure outlook.

Strong semi-con sales and aerospace rebound

UMS reported a stellar 3Q22, with both revenue and PATMI rising by 48% and 181% YoY to SGD100m and SGD42.5m, respectively, driven by strong integrated system sales which more than doubled to SGD44.7m from SGD22.0m in 3Q21. Component sales revenue was up 18% YoY to SGD44.7m while aerospace rose 23% to SGD3.8m YoY.

Expansion plans on track

Construction of the new 300,000 sqft Penang factory is on schedule for completion by end-2022 and UMS aims to ramp up production from the middle of 2023. Management says it is in active discussion with a potential new semi-con customer who it hopes will absorb the plant's entire output. If successful, this would help UMS diversify away from its single-largest customer which currently generates more than 80% of its revenue.

1H23E order book largely secured - UG to BUY

With the next 6 months orders remaining strong and the potential gain of a new customer, we feel more positive on UMS's outlook despite the current challenges facing the semi-con space. As UMS's valuation remains attractive at 6.4x FY23E P/E, we upgrade to BUY but pegged to a lower 8.0x P/E down from an 8.5x valuation to be conservative due to challenging macro sector outlook.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	164	271	372	407	448
EBITDA	47	92	144	153	168
Core net profit	46	53	106	112	123
Core EPS (cts)	6.9	8.0	15.9	16.8	18.4
Core EPS growth (%)	37.9	15.4	99.4	5.5	9.9
Net DPS (cts)	4.0	4.4	6.0	6.0	6.0
Core P/E (x)	12.5	19.1	6.7	6.4	5.8
P/BV (x)	2.3	3.7	2.1	1.7	1.4
Net dividend yield (%)	4.6	2.9	5.6	5.6	5.6
ROAE (%)	14.7	20.1	34.2	29.6	27.0
ROAA (%)	15.4	14.2	22.8	20.5	19.3
EV/EBITDA (x)	11.6	11.0	4.7	3.9	3.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	94	88	100
MKE vs. Consensus (%)	-	-	13.1	27.2	23.0

Company Description

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

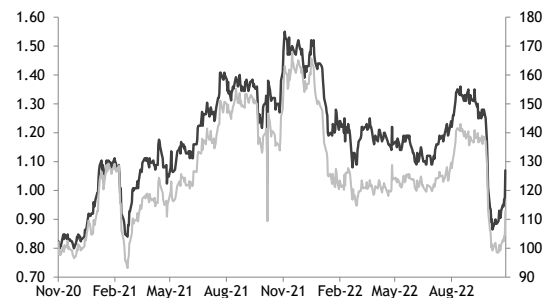
Statistics

52w high/low (SGD)	1.55/0.87
3m avg turnover (USDm)	5.2
Free float (%)	69.2
Issued shares (m)	671
Market capitalisation	SGD717.5M USD522M

Major shareholders:

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

Price Performance



— UMS Holdings - (LHS, SGD) — UMS Holdings / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(12)	(11)	(18)
Relative to index (%)	(15)	(9)	(18)

Source: FactSet

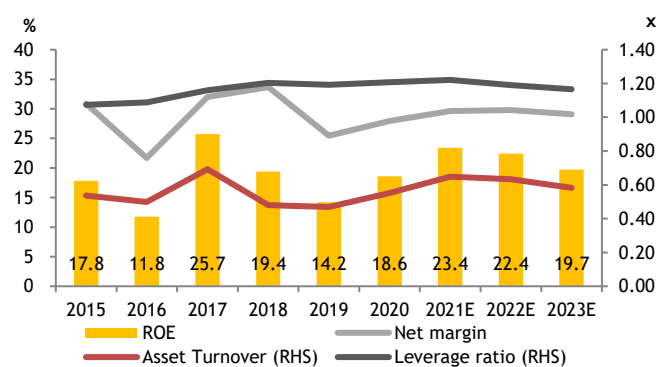
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 Tear Sheet Insert

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.

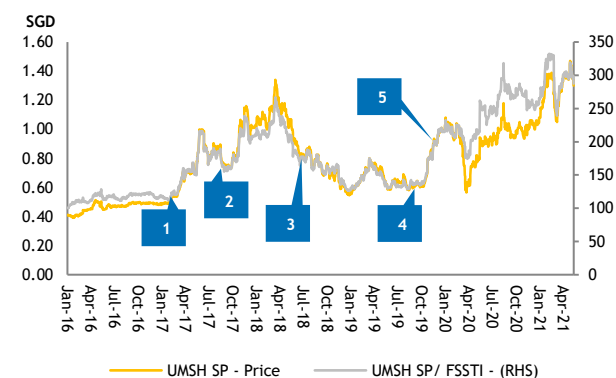
UMS Du Pont ROE



Source: Company

Price Drivers

Historical share price trend



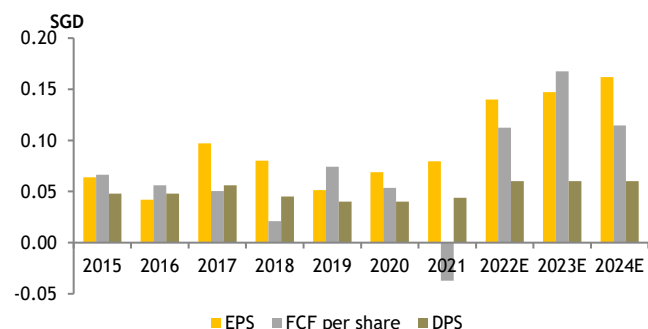
Source: Company, Maybank IBG Research

1. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
2. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
3. AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
4. AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.
5. 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
Controversy Score ³	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.

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.

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.

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).

Quantitative parameters (Score: 38)						
	Particulars	Unit	2019	2020	2021	AEM SP (2021)
E	Scope 1 GHG emissions	tCO2e	NA	NA	NA	15
	Scope 2 GHG emissions	tCO2e	NA	NA	NA	8082
	Total	tCO2e	NA	NA	NA	8097
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	Total	tCO2e	NA	NA	NA	8097
	GHG intensity (Scope 1 and 2)	KgCO2e/emp kWh/unit of sales	NA	NA	NA	0.014
	Energy consumption	M2/unit of sales	0.02	0.01	0.13	0.02
	Water consumption	Metric tonnes	0.04	0.03	0.0011	0.09
S	Recycled waste generated	tonnes	NA	NA	50	50
	% of women in workforce	%	NA	NA	NA	35.0%
	Economic value generated and distributed	SGD'000	33,600	36,500	53,100	89,181
	New employees hired by gender (women)	%	NA	NA	NA	34.0%
	Total training hours	%	NA	NA	NA	71%
G	Key operations assessed for risks related to corruption	%	100	100	100	100
	MD/CEO salary as % of reported net profit	%	5.95%	7.52%	13.39%	0.04%
	Board salary as % of reported net profit	%	2.89%	2.63%	1.84%	0.05%
	Independent directors on the Board	%	60%	60%	60%	57%
	Female directors on the Board	%	20%	20%	20%	14%

Qualitative Paramaters (Score: 50)	
a)	is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>Yes, the UMS board, supported by the Risk Advisory Committee and Safety Subcommittee, looks at sustainability issues as part of its strategic formulation, determines the material Environmental, Social and Governance factors, and oversees the management and monitoring of these factors.</i>
b)	is the senior management salary linked to fulfilling ESG targets? <i>Yes. The BSC KPIs include maintaining rigorous corporate governance standards and minimizing risks</i>
c)	Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>No</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>No</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>In every office, in every manufacturing process, efforts to reduce energy consumption are being practiced and are producing results. UMS works only with government-licensed waste collection vendors to ensure that disposal processes are in compliance with government regulation. Most of its delivery trucks are in compliance with the EURO V standard, which helps to reduce the emission of CO2 and other gases.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>No</i>

Target (Score: 66.7)		
Particulars	Target	Achieved
Energy Intensity (KWH/Revenue)	0.13	0.1306
Water Intensity (m2/Revenue) < than	0.0012	0.0011
Briefings to present quarterly and FY results	100%	100%
Carbon neutrality/net zero	NA	NA
Impact		
NA		
Overall score: 48		
As per our ESG matrix, UMS Holdings (UMSH SP) has an overall score of 48.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	38	19
Qualitative	25%	50	13
Target	25%	67	17
Total			48

As per our ESG assessment, UMSH SP has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics as well as qualitative parameters. UMS's overall ESG score is 48, which makes its ESG rating below average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: 3Q22 results

	3Q22	3Q21	2Q22	YoY Chg	QoQ Chg	FYE % of FY22E	
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	(%)
Revenue	100.1	67.6	86.6	48.1	15.6	348.0	29%
PBT	32.0	18.1	26.9	76.8	18.9	112.4	28%
NPAT	43.9	16.1	21.3	173.1	106.4	93.4	47%
PBT margin	32.0%	26.8%	31.1%	5.2	0.9		
Net margin	43.8%	23.8%	24.6%	20.1	19.3		

Source: Maybank IBG Research

Fig 2: Changes in estimates

	FY22E			FY23E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	371.6	348.0	6.8	407.1	381.4	6.8	447.9	419.5	6.8
Gross profit (SGDm)	206.6	190.5	8.5	221.9	204.1	8.7	241.8	222.3	8.8
EBIT (SGDm)	125.7	112.4	11.9	133.6	119.1	12.2	147.6	131.6	12.1
EBITDA (SGDm)	144.1	130.7	10.2	153.0	138.4	10.5	167.9	151.9	10.5
Core net profit (SGDm)	105.9	93.4	13.4	111.7	98.2	13.8	122.8	107.9	13.8
EPS (SGD)	0.159	0.140	13.4	0.168	0.147	13.8	0.184	0.162	13.8
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	53.0%	53.0%	0.0	54.5%	53.5%	1.0	54.0%	53.0%	1.0
Staff cost as % of sales	12.0%	12.0%	0.0	12.5%	12.5%	0.0	12.5%	12.5%	0.0

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	13.7	15.2	6.7	6.4	5.8
Core P/E (x)	12.5	19.1	6.7	6.4	5.8
P/BV (x)	2.3	3.7	2.1	1.7	1.4
P/NTA (x)	2.3	3.7	2.1	1.7	1.4
Net dividend yield (%)	4.6	2.9	5.6	5.6	5.6
FCF yield (%)	7.8	nm	10.4	19.2	10.7
EV/EBITDA (x)	11.6	11.0	4.7	3.9	3.4
EV/EBIT (x)	13.9	12.7	5.4	4.4	3.8
INCOME STATEMENT (SGD m)					
Revenue	164.4	271.2	371.6	407.1	447.9
EBITDA	46.9	92.2	144.1	153.0	167.9
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	125.7	133.6	147.6
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	125.0	132.9	146.9
Income tax	(2.6)	(21.8)	(13.1)	(14.0)	(15.4)
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	105.9	111.7	122.8
Core net profit	46.0	53.1	105.9	111.7	122.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	53.8	65.4	99.5	196.6	233.1
Accounts receivable	23.5	67.2	85.5	92.9	127.9
Inventory	53.9	87.1	94.5	98.4	116.1
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	493.3	597.3	676.2
ST interest bearing debt	15.7	11.6	11.6	11.6	11.6
Accounts payable	25.4	56.1	43.3	68.4	55.8
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	117.1	142.2	129.6
Shareholders Equity	251.3	276.3	342.2	414.0	496.8
Minority Interest	1.7	27.9	33.9	41.1	49.8
Total shareholder equity	252.9	304.3	376.2	455.1	546.6
Total liabilities and equity	309.5	436.8	493.3	597.3	676.2
CASH FLOW (SGD m)					
Pretax profit	48.4	79.4	125.0	132.9	146.9
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)	(41.1)	13.8	(65.2)
Cash taxes paid	(2.1)	1.8	(13.1)	(14.0)	(15.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	56.9	48.0	89.1	152.1	86.5
Capex	(11.7)	(72.8)	(15.0)	(15.0)	(10.0)
Free cash flow	45.2	(24.8)	74.1	137.1	76.5
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	34.4	97.1	36.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.7	64.9	37.0	9.6	10.0
EBITDA growth	16.1	96.6	56.2	6.2	9.7
EBIT growth	17.0	103.5	57.6	6.2	10.5
Pretax growth	40.5	64.0	57.5	6.3	10.6
Reported net profit growth	12.0	45.6	99.4	5.5	9.9
Core net profit growth	37.1	15.4	99.4	5.5	9.9
Profitability ratios (%)					
EBITDA margin	28.5	34.0	38.8	37.6	37.5
EBIT margin	23.8	29.4	33.8	32.8	33.0
Pretax profit margin	29.4	29.3	33.7	32.6	32.8
Payout ratio	73.1	55.2	37.8	35.8	32.6
DuPont analysis					
Net profit margin (%)	22.2	19.6	28.5	27.4	27.4
Revenue/Assets (x)	0.5	0.6	0.8	0.7	0.7
Assets/Equity (x)	1.2	1.6	1.4	1.4	1.4
ROAE (%)	14.7	20.1	34.2	29.6	27.0
ROAA (%)	15.4	14.2	22.8	20.5	19.3
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	2.6	2.8	3.1
Current ratio (x)	2.8	2.5	3.8	3.9	5.5
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.3	4.2	4.2	5.2
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	nm	nm	nm
Debt/EBITDA (x)	0.4	0.4	0.2	0.2	0.2
Capex/revenue (%)	7.1	26.8	4.0	3.7	2.2
Net debt/ (net cash)	(34.2)	(31.1)	(65.2)	(162.3)	(198.8)

Source: Company; Maybank IBG Research

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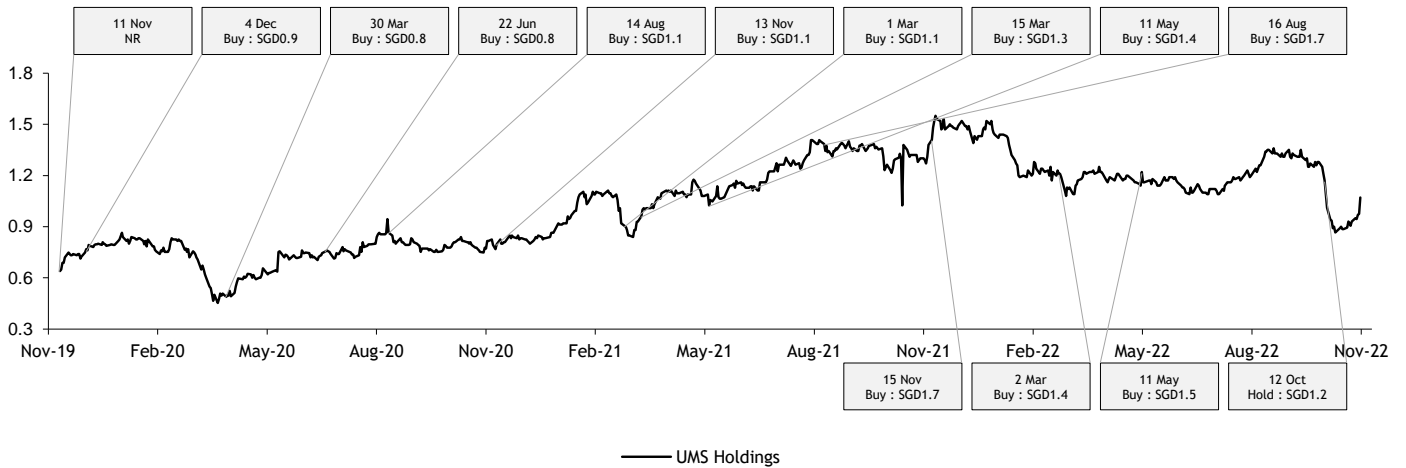
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