

UMS Holdings (UMSH SP)

Positive 4Q23E ahead

Brighter outlook - maintain BUY

We expect UMS to report a stronger 4Q23E, with revenue and PATMI of SGD80m and SGD18m, aided by higher YoY margins from the renewed agreement with its key customer. Going forward, we expect orders to pick up gradually with its key customer and accelerate in 2H24E. In addition, it started to ramp up production for its new customer and we expect SGD30-50m of revenue for FY24E. UMS also raised about SGD50m through a 40m share placement at SGD1.29, which was 2.55x oversubscribed and will provide ample cash for expansion. With a more positive outlook, we maintain BUY with a higher TP of SGD1.49, based on a higher 12x FY24E P/E (from 11x) and also accounting for the dilution of the recent new share placement.

Higher margins due to new contract terms

We expect 4Q23E margins continued to pick up due to new contract terms previously agreed with its key customer where lower volumes will lead to higher ASPs for UMS. With the semi-con sector seeing only a gradual recovery amid high inventory levels, we expect higher ASPs to aid UMS in the short term, and especially in 4Q23E (results due on end Feb).

New customer to ramp up in FY24E

UMS struck an agreement in principal with a new customer, who we believe is LAM Research (Nasdaq: LRCX, CP USD673, Not Rated) for a three-year contract with a renewal option. UMS still expects a SGD30m revenue contribution in FY24 and SGD300m top-line contribution pa in the next 3-5 years. We expect potential upside to the SGD30m contribution in FY24E if the semi-con sector picks up in 2H24E.

Better prospects plus attractive 4.3% yield

As its future looks more secure UMS should benefit from a recovery in the semi-con industry in FY24E. Dividends were raised by 20% to SGD1.2 cents for 2Q23 and 3Q23, which is positive for shareholders and we can expect a yield of 4.3% for FY24. We expect FY23 was the bottom for UMS and better years ahead due to the new customer's ramp up.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	271	372	317	364	382
EBITDA	92	120	96	126	137
Core net profit	53	98	62	87	93
Core EPS (cts)	8.0	14.8	8.8	12.4	13.2
Core EPS growth (%)	15.4	85.4	(40.1)	39.8	6.7
Net DPS (cts)	4.4	6.0	5.0	5.6	5.6
Core P/E (x)	19.1	8.0	14.7	10.5	9.9
P/BV (x)	3.7	2.3	2.2	2.0	1.7
Net dividend yield (%)	2.9	5.1	3.8	4.3	4.3
ROAE (%)	20.1	31.9	16.5	19.8	18.5
ROAA (%)	14.2	21.3	12.0	14.8	14.1
EV/EBITDA (x)	11.0	6.5	8.1	6.5	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	60	79	86
MIBG vs. Consensus (%)	-	-	3.8	10.9	7.8

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BUY

Share Price	SGD 1.30
12m Price Target	SGD 1.49 (+19%)
Previous Price Target	SGD 1.44

Company Description

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

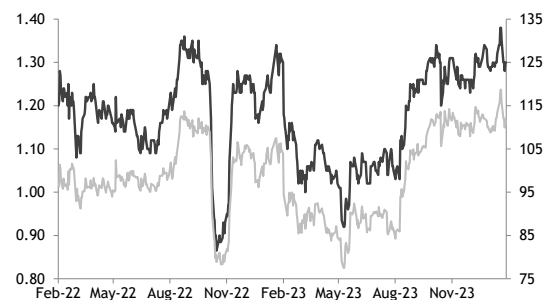
Statistics

52w high/low (SGD)	1.38/0.92
3m avg turnover (USDm)	3.4
Free float (%)	69.2
Issued shares (m)	707
Market capitalisation	SGD918.8M
	USD684M

Major shareholders:

LUONG ANDY	16.3%
GN JONG YUH	4.7%
The Vanguard Group, Inc.	1.8%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(2)	0	(2)
Relative to index (%)	(1)	(3)	4

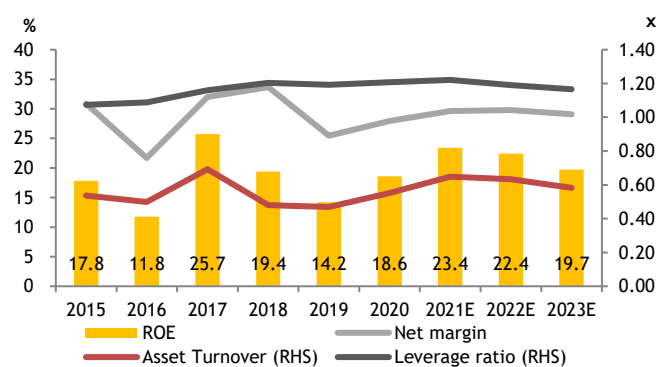
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Precision metals engineering firm - specialises in assembling modules and precision engineering for components for front-end semi-conductor 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-semi-conductor sectors, such as aerospace, which sees tailwinds from outsourcing trends.

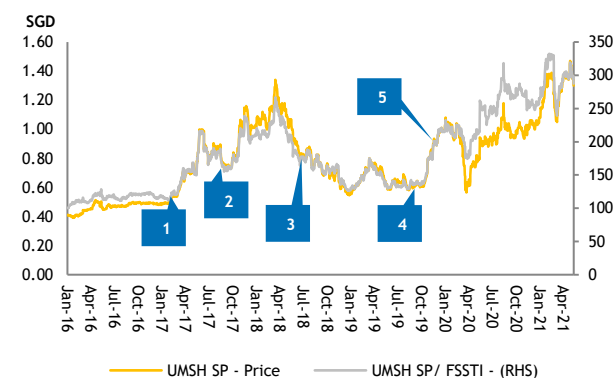
UMS' Du Pont ROE



Source: Company

Price Drivers

Historical share price trend



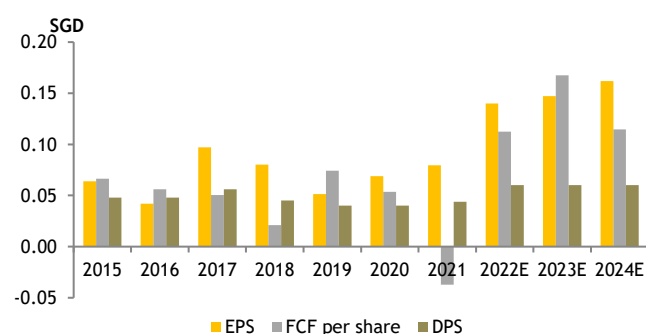
Source: Company, Maybank IBG Research

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. Customer 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 Wafer Fab Equipment demand globally.

Financial Metrics

- UMS has a strong track record of maintaining a net cash balance sheet to tide itself through cycles.
- We expect FCF and balance sheet 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 costs 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.
- Lower-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 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	NA	NA	NA	0.014
	Energy consumption	kWh/unit of sales	0.02	0.01	0.13	0.02
	Water consumption	M2/unit of sales	0.04	0.03	0.0011	0.09
	Recycled waste generated	Metric tonnes	NA	NA	50	50
S	% 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%
	Key operations assessed for risks related to corruption	%	100	100	100	100
G	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 Parameters (Score: 50)	
a)	Is there an ESG policy in place and is there a standalone ESG committee or is it part of the 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)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	15.2	8.1	14.7	10.5	9.9
Core P/E (x)	19.1	8.0	14.7	10.5	9.9
P/BV (x)	3.7	2.3	2.2	2.0	1.7
P/NTA (x)	3.7	2.3	2.2	2.0	1.7
Net dividend yield (%)	2.9	5.1	3.8	4.3	4.3
FCF yield (%)	nm	5.4	13.7	0.3	19.6
EV/EBITDA (x)	11.0	6.5	8.1	6.5	4.8
EV/EBIT (x)	12.7	7.5	10.3	7.9	5.8

INCOME STATEMENT (SGD m)

Revenue	271.2	372.4	316.5	364.0	382.2
EBITDA	92.2	120.0	96.4	126.0	137.1
Depreciation	(12.4)	(15.6)	(20.8)	(21.6)	(22.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	79.8	104.4	75.6	104.4	114.8
Net interest income / (exp)	(0.8)	(0.9)	(0.7)	(0.7)	(0.7)
Associates & JV	0.4	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	79.4	103.5	74.9	103.7	114.1
Income tax	(21.8)	(1.2)	(7.9)	(10.9)	(14.3)
Minorities	(4.5)	(3.8)	(4.6)	(5.5)	(6.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	53.1	98.5	62.5	87.3	93.2
Core net profit	53.1	98.5	62.5	87.3	93.2

BALANCE SHEET (SGD m)

Cash & Short Term Investments	65.4	61.7	202.6	166.2	328.9
Accounts receivable	67.2	78.7	60.1	119.4	69.0
Inventory	87.1	110.7	58.6	123.3	63.7
Property, Plant & Equip (net)	116.7	135.4	129.7	118.0	128.0
Intangible assets	88.6	88.3	88.3	88.3	88.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	11.8	13.5	13.5	13.5	13.5
Total assets	436.8	488.2	552.8	628.8	691.4
ST interest bearing debt	11.6	11.5	11.5	11.5	11.5
Accounts payable	56.1	56.7	41.3	64.0	44.2
LT interest bearing debt	22.7	18.4	18.4	18.4	18.4
Other liabilities	42.0	33.0	32.0	32.0	32.0
Total Liabilities	132.5	119.8	102.7	125.5	105.7
Shareholders Equity	276.3	340.5	417.6	465.3	541.3
Minority Interest	27.9	27.9	32.5	37.9	44.5
Total shareholder equity	304.3	368.4	450.1	503.3	585.8
Total liabilities and equity	436.8	488.2	552.8	628.8	691.4

CASH FLOW (SGD m)

Pretax profit	79.4	103.5	74.9	103.7	114.1
Depreciation & amortisation	12.4	15.6	20.8	21.6	22.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(45.2)	(15.5)	53.5	(101.3)	90.1
Cash taxes paid	1.8	(8.0)	(7.9)	(10.9)	(14.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	48.0	95.6	141.3	13.2	212.2
Capex	(72.8)	(52.8)	(15.0)	(10.0)	(32.3)
Free cash flow	(24.8)	42.9	126.3	3.2	179.9
Dividends paid	(29.3)	(33.4)	(35.3)	(39.6)	(39.6)
Equity raised / (purchased)	0.0	3.1	50.0	0.0	0.0
Change in Debt	14.7	(7.2)	0.0	0.0	0.0
Other invest/financing cash flow	52.9	(3.4)	0.0	0.0	0.0
Effect of exch rate changes	(2.2)	(5.1)	0.0	0.0	0.0
Net cash flow	11.3	(3.1)	141.0	(36.4)	140.3

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.9	37.3	(15.0)	15.0	5.0
EBITDA growth	96.6	30.1	(19.7)	30.8	8.8
EBIT growth	103.5	30.8	(27.6)	38.1	10.0
Pretax growth	64.0	30.4	(27.6)	38.4	10.0
Reported net profit growth	45.6	85.4	(36.6)	39.8	6.7
Core net profit growth	15.4	85.4	(36.6)	39.8	6.7
Profitability ratios (%)					
EBITDA margin	34.0	32.2	30.4	34.6	35.9
EBIT margin	29.4	28.0	23.9	28.7	30.0
Pretax profit margin	29.3	27.8	23.7	28.5	29.8
Payout ratio	55.2	40.6	56.6	45.3	42.5
DuPont analysis					
Net profit margin (%)	19.6	26.4	19.7	24.0	24.4
Revenue/Assets (x)	0.6	0.8	0.6	0.6	0.6
Assets/Equity (x)	1.6	1.4	1.3	1.4	1.3
ROAE (%)	20.1	31.9	16.5	19.8	18.5
ROAA (%)	14.2	21.3	12.0	14.8	14.1
Liquidity & Efficiency					
Cash conversion cycle	143.9	152.4	157.8	167.7	167.7
Days receivable outstanding	60.2	70.5	78.9	88.8	88.8
Days inventory outstanding	198.1	190.7	187.4	187.4	187.4
Days payables outstanding	114.4	108.8	108.5	108.5	108.5
Dividend cover (x)	1.8	2.5	1.8	2.2	2.4
Current ratio (x)	2.5	3.1	5.0	4.7	6.9
Leverage & Expense Analysis					
Asset/Liability (x)	3.3	4.1	5.4	5.0	6.5
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)	106.4	117.2	108.0	149.1	nm
Debt/EBITDA (x)	0.4	0.2	0.3	0.2	0.2
Capex/revenue (%)	26.8	14.2	4.7	2.7	8.5
Net debt/ (net cash)	(31.1)	(31.8)	(172.7)	(136.3)	(299.0)

Source: Company; Maybank IBG Research

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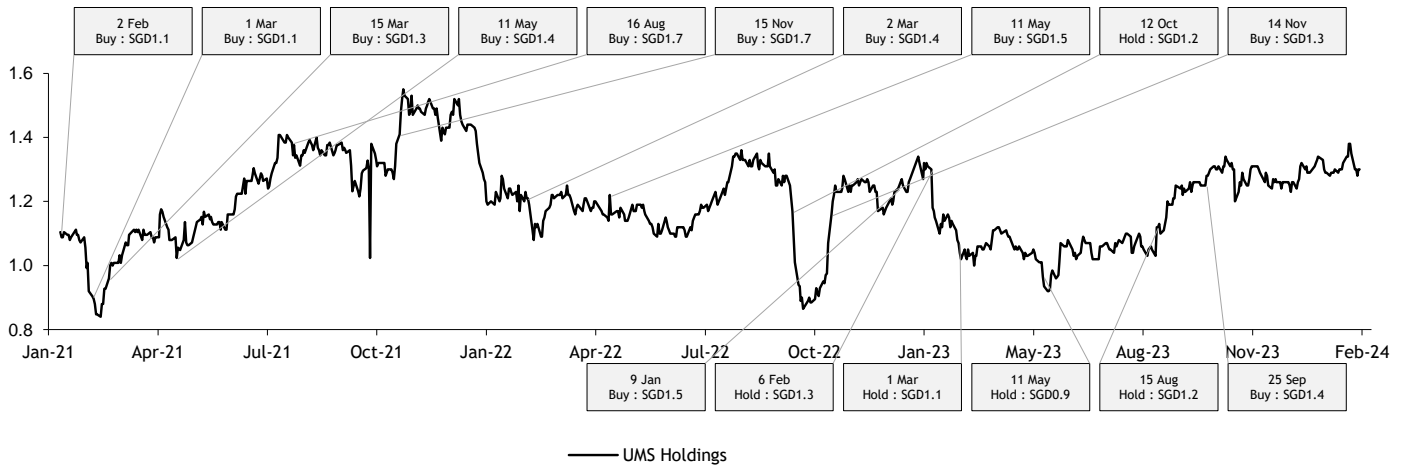
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