

# UMS Holdings (UMSH SP)

## Outlook still muted

### 2Q24 disappoints; trim TP to SGD0.85 from SGD0.88

UMS's 2Q24 PATMI of SGD9.3m was below our and consensus estimates (weaker both QoQ and YoY). Management revealed that market share with its key customer remains at 50-60% and it doesn't expect 2H24 to pick up substantially. UMS is also facing hurdles obtaining qualification from its new customer, causing ramp-up of orders to be slower than expected. It is also suffering labour shortages and other issues. However, this is normal for any new product/customer, and we don't expect these issues to be resolved until 2025. As a result, maintain SELL as earnings in the near term are likely to remain weak, and we lower our FY24/25E PATMI by 4.6% and 4.2%, reducing our TP from SGD0.88 to SGD0.85, based on 14x FY24E P/E.

### 2Q24 weaker QoQ and YoY

2Q24 revenue declined 25% YoY to SGD56m, while PATMI fell 20% YoY to SGD9.3m which was also weaker QoQ. This was due to lower revenue from integrated systems, which fell 39% YoY as demand from its key customer dropped. Aerospace revenue rose 5% YoY as the aerospace segment continued to recover.

### Hurdles in obtaining qualification from new customer

UMS USD30m revenue contribution from its new customer in FY24 remains a challenging feat due to qualifying issues with its new customer which is normal for a new product/new customer. They are also facing a lack of qualified labour issue and are still in the midst of hiring the right talent and labour. As it has started production for its new customer, management expects an uptick in order flow in the coming months however we only expect a potential ramp up in these orders to be delayed into 2025.

### Outlook remains muted.

While we expected a weak 2Q24, outlook remains muted despite a slightly potential strong 2H24E. 2Q24 dividends were also reduced to SGD1 cent from SGD1.2 cent. Dual listing in Malaysia is also slated to only be completed in 1H25 with no new shares being issued. As a result, we maintain SELL on UMS with a muted outlook.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	372	300	240	276	317
EBITDA	120	86	73	87	103
Core net profit	98	60	42	54	68
Core EPS (cts)	14.8	8.5	6.0	7.7	9.6
Core EPS growth (%)	85.4	(42.5)	(29.6)	28.1	25.4
Net DPS (cts)	6.0	5.0	5.6	5.6	5.6
Core P/E (x)	8.0	15.8	17.9	14.0	11.2
P/BV (x)	2.3	2.6	1.8	1.8	1.7
Net dividend yield (%)	5.1	3.7	5.2	5.2	5.2
ROAE (%)	31.9	17.1	10.9	12.9	15.4
ROAA (%)	21.3	12.3	8.5	10.1	12.0
EV/EBITDA (x)	6.5	10.8	8.4	7.7	5.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	46	55	56
MIBG vs. Consensus (%)	-	-	(8.8)	(1.1)	20.9

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# SELL

Share Price	SGD 1.07
12m Price Target	SGD 0.85 (-16%)
Previous Price Target	SGD 0.88

### Company Description

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

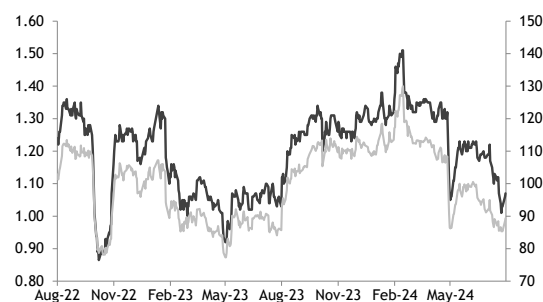
### Statistics

52w high/low (SGD)	1.51/1.01
3m avg turnover (USDm)	4.3
Free float (%)	69.2
Issued shares (m)	707
Market capitalisation	SGD756.3M USD571M

### 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 (%)	(9)	(4)	2
Relative to index (%)	(2)	(2)	4

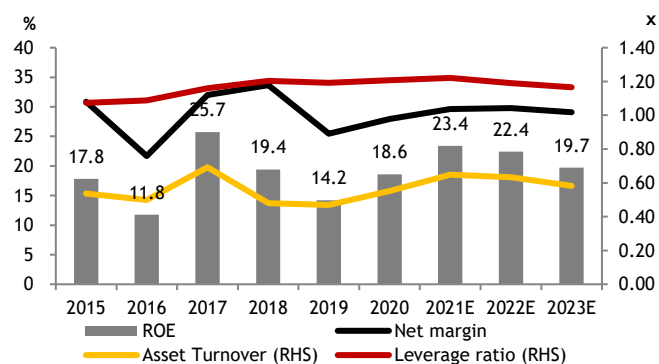
Source: FactSet

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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 semi-conductor equipment.
- Has entrenched relationship with key customer Applied Materials (AMAT, CP USD139), 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's Du Pont ROE

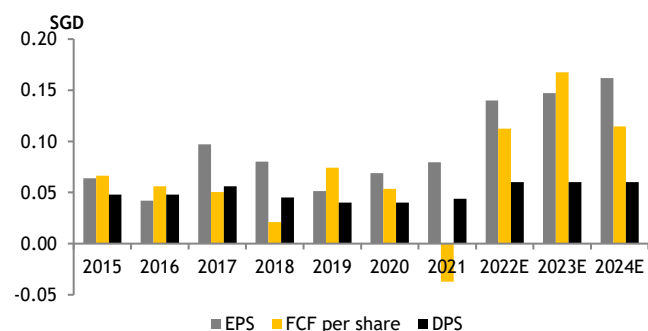


Source: Company

## 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.

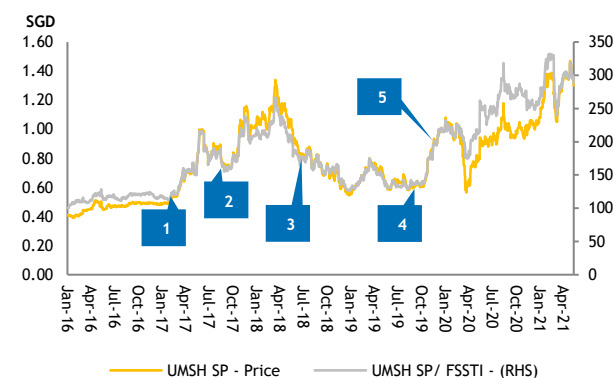
### EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

## 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.

## 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 <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	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’s 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>8097</b>
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>8097</b>
	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
<b>Impact</b>		
NA		
<b>Overall score: 48</b>		
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
<b>Total</b>			<b>48</b>

As per our ESG assessment, UMS has an established framework, internal policies, and tangible medium/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)

**Fig 1: Changes in our forecasts**

	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	239.9	263.9	-9.1	275.9	303.5	-9.1	317.3	349.0	-9.1
Gross profit (SGDm)	126.6	132.0	-4.1	145.5	151.8	-4.1	167.4	174.5	-4.1
EBIT (SGDm)	49.6	51.9	-4.4	63.2	65.8	-4.0	78.9	81.9	-3.7
EBITDA (SGDm)	72.6	74.9	-3.0	86.9	89.5	-2.9	103.4	106.4	-2.8
Core net profit (SGDm)	42.2	44.2	-4.6	54.1	56.4	-4.2	67.8	70.5	-3.8
EPS (SGD)	0.060	0.063	-4.6	0.077	0.080	-4.2	0.096	0.100	-3.8
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margins	52.8%	50.0%	2.8	52.8%	50.0%	2.8	52.8%	50.0%	2.8
Net Margins	17.6%	16.8%	0.8	19.6%	18.6%	1.0	21.4%	20.2%	1.2

Source: Maybank IBG Research

**Fig 2: 2Q24 results**

FYE Dec	2Q24	1Q24	2Q23	YoY Chg	QoQ Chg	FYE	As a % of FYE
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	(%)
Revenue	56.0	54.0	74.4	-24.8	3.6	263.9	21.2
Gross Profit	29.9	28.7	34.4	-13.2	4.0	132.0	22.6
Net Profit	9.3	9.8	11.6	-19.8	-5.1	44.2	21.0
EBITDA margin	80.4%	30.0%	25.3%	55.1	50.4		
GP Margin	53.4%	53.2%	46.3%	7.1	0.2		
Net margin	16.6%	18.2%	15.6%	1.0	-1.5		

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	8.1	13.6	17.9	14.0	11.2
Core P/E (x)	8.0	15.8	17.9	14.0	11.2
P/BV (x)	2.3	2.6	1.8	1.8	1.7
P/NTA (x)	2.3	2.6	1.8	1.8	1.7
Net dividend yield (%)	5.1	3.7	5.2	5.2	5.2
FCF yield (%)	5.4	5.4	16.1	nm	19.5
EV/EBITDA (x)	6.5	10.8	8.4	7.7	5.5
EV/EBIT (x)	7.5	13.6	12.3	10.6	7.2
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	372.4	299.9	239.9	275.9	317.3
EBITDA	120.0	86.2	72.6	86.9	103.4
Depreciation	(15.6)	(17.9)	(23.0)	(23.7)	(24.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	104.4	68.3	49.6	63.2	78.9
Net interest income / (exp)	(0.9)	0.2	(0.7)	(0.7)	(0.7)
Associates & JV	0.0	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	103.5	68.5	48.9	62.5	78.2
Income tax	(1.2)	(7.3)	(5.2)	(6.7)	(8.4)
Minorities	(3.8)	(1.2)	(1.4)	(1.7)	(2.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	98.5	60.0	42.2	54.1	67.8
Core net profit	98.5	60.0	42.2	54.1	67.8
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	61.7	67.5	199.3	137.4	245.1
Accounts receivable	78.7	56.2	62.1	74.0	82.5
Inventory	110.7	110.8	7.3	128.5	27.6
Property, Plant & Equip (net)	135.4	152.7	139.7	125.9	111.5
Intangible assets	88.3	88.0	88.0	88.0	88.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	13.5	12.0	12.0	12.0	12.0
<b>Total assets</b>	<b>488.2</b>	<b>487.2</b>	<b>508.3</b>	<b>565.8</b>	<b>566.7</b>
ST interest bearing debt	11.5	6.8	6.8	6.8	6.8
Accounts payable	56.7	49.6	18.7	59.9	30.5
LT interest bearing debt	18.4	15.8	15.8	15.8	15.8
Other liabilities	33.0	28.0	26.0	26.0	26.0
<b>Total Liabilities</b>	<b>119.8</b>	<b>100.2</b>	<b>67.3</b>	<b>108.6</b>	<b>79.1</b>
Shareholders Equity	340.5	359.8	412.5	427.0	455.2
Minority Interest	27.9	27.1	28.5	30.3	32.3
<b>Total shareholder equity</b>	<b>368.4</b>	<b>386.9</b>	<b>441.0</b>	<b>457.2</b>	<b>487.5</b>
<b>Total liabilities and equity</b>	<b>488.2</b>	<b>487.2</b>	<b>508.3</b>	<b>565.8</b>	<b>566.7</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	103.5	68.5	48.9	62.5	78.2
Depreciation & amortisation	15.6	17.9	23.0	23.7	24.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(15.5)	4.4	64.8	(91.9)	62.9
Cash taxes paid	(8.0)	(11.1)	(5.2)	(6.7)	(8.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	95.6	79.7	131.5	(12.3)	157.2
Capex	(52.8)	(28.7)	(10.0)	(10.0)	(10.0)
Free cash flow	42.9	51.0	121.5	(22.3)	147.2
Dividends paid	(33.4)	(36.2)	(39.6)	(39.6)	(39.6)
Equity raised / (purchased)	3.1	0.0	50.0	0.0	0.0
Change in Debt	(7.2)	(7.9)	0.0	0.0	0.0
Other invest/financing cash flow	(3.4)	(2.8)	0.0	0.0	0.0
Effect of exch rate changes	(5.1)	1.6	0.0	0.0	0.0
Net cash flow	(3.1)	5.7	131.9	(61.9)	107.7

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	37.3	(19.5)	(20.0)	15.0	15.0
EBITDA growth	30.1	(28.2)	(15.8)	19.7	18.9
EBIT growth	30.8	(34.6)	(27.4)	27.4	24.9
Pretax growth	30.4	(33.8)	(28.7)	27.8	25.2
Reported net profit growth	85.4	(39.1)	(29.6)	28.1	25.4
Core net profit growth	85.4	(39.1)	(29.6)	28.1	25.4
<b>Profitability ratios (%)</b>					
EBITDA margin	32.2	28.7	30.3	31.5	32.6
EBIT margin	28.0	22.8	20.7	22.9	24.9
Pretax profit margin	27.8	22.8	20.4	22.6	24.7
Payout ratio	40.6	58.9	93.8	73.2	58.4
<b>DuPont analysis</b>					
Net profit margin (%)	26.4	20.0	17.6	19.6	21.4
Revenue/Assets (x)	0.8	0.6	0.5	0.5	0.6
Assets/Equity (x)	1.4	1.4	1.2	1.3	1.2
ROAE (%)	31.9	17.1	10.9	12.9	15.4
ROAA (%)	21.3	12.3	8.5	10.1	12.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	152.4	219.4	167.7	167.7	167.7
Days receivable outstanding	70.5	81.0	88.8	88.8	88.8
Days inventory outstanding	190.7	266.4	187.4	187.4	187.4
Days payables outstanding	108.8	128.0	108.5	108.5	108.5
Dividend cover (x)	2.5	1.7	1.1	1.4	1.7
Current ratio (x)	3.1	3.6	8.1	4.6	7.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.1	4.9	7.5	5.2	7.2
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)	117.2	na	70.8	90.3	112.8
Debt/EBITDA (x)	0.2	0.3	0.3	0.3	0.2
Capex/revenue (%)	14.2	9.6	4.2	3.6	3.2
Net debt/ (net cash)	(31.8)	(44.9)	(176.8)	(114.9)	(222.5)

Source: Company; Maybank IBG Research

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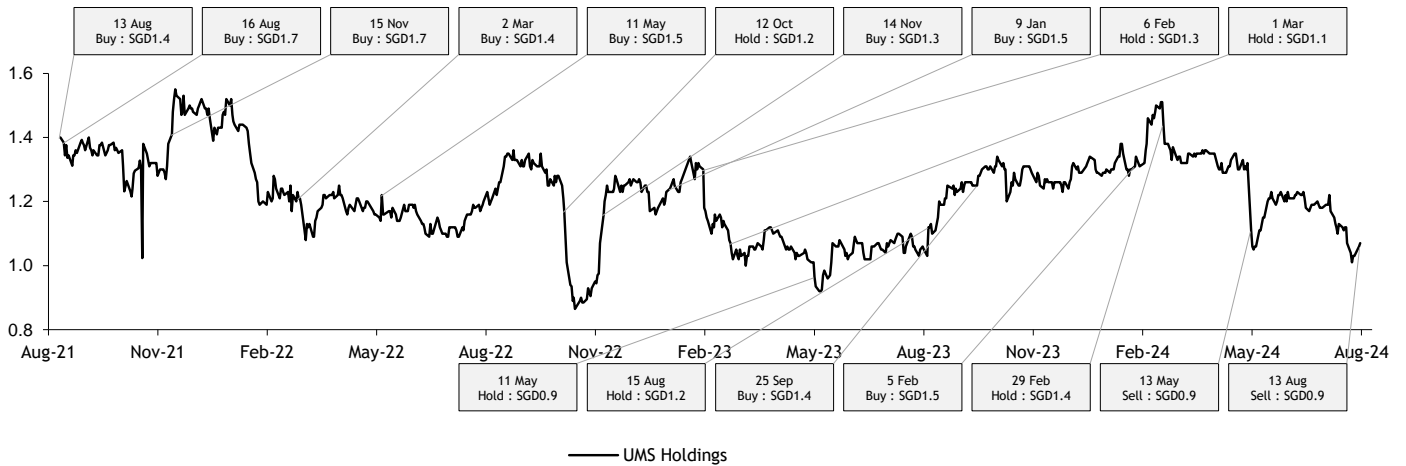
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