

UMS Integration (UMSH SP)

Earnings bottoms; U/G to BUY

QoQ improvement likely; raising TP to SGD1.16

U/G to BUY from HOLD as its outlook is improving. UMS's FY24 PATMI of SGD40.6m was slightly below our and consensus estimates. UMS is still facing labour shortages, causing ramp-up of orders to remain challenging. It's expecting SGD30m of additional orders in FY25E from its new customer and we expect execution to improve as the learning curve was mostly completed in FY24. We lower our FY24/25E PATMI by 9.2% and 7.9%, and roll forward our TP valuation to 14x blended FY25/26E, which results in a higher TP of SGD1.16 from SGD1.03. Management expects QoQ improvement hence we think earnings have bottomed.

Expects margin improvement

UMS has gone through a huge learning curve while ramping up for its new customer in FY24 and has also incurred additional costs in doing so. Going forward, we expect execution to improve and UMS should be able to do so with higher margins. We expect net margin to improve by 1-1.5ppt from FY24. Its key customer's orders should remain stable for FY25E, hence revenue uplift should come from its new customer.

New customer revenue to more than double

Its new customer's revenue contribution was about SGD20m for FY24. Management expects this figure to more than double as it continues to ramp up on new product initiatives and existing products from its new customer. We expect revenue contribution of around SGD50m for FY25E.

Earnings bottoms and outlook improving

Earnings have likely bottomed and should improve in the years ahead, especially as its new major customer is finally commencing production. The China+1 thematic, UMS's dual-listing in Malaysia and the ramp up of its new major customer could be catalysts going forward. As a result, we upgrade UMS from HOLD to BUY.

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	300	242	271	312	359
EBITDA	86	65	82	98	116
Core net profit	60	41	49	62	78
Core EPS (cts)	8.5	5.7	6.9	8.8	11.0
Core EPS growth (%)	(42.5)	(32.7)	21.0	27.1	24.7
Net DPS (cts)	5.0	5.6	5.6	5.6	5.6
Core P/E (x)	15.8	18.0	14.8	11.6	9.3
P/BV (x)	2.6	1.7	1.7	1.6	1.5
Net dividend yield (%)	3.7	5.4	5.5	5.5	5.5
ROAE (%)	17.1	10.4	11.6	14.2	16.6
ROAA (%)	12.3	8.2	9.6	11.6	13.5
EV/EBITDA (x)	10.8	10.4	7.1	6.5	4.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	48	na	na
MIBG vs. Consensus (%)	-	-	2.7	na	na

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BUY

[Prior:HOLD]

Share Price	SGD 1.02
12m Price Target	SGD 1.16 (+18%)
Previous Price Target	SGD 1.03

Company Description

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

Statistics

52w high/low (SGD)	1.38/0.97
3m avg turnover (USDm)	1.4
Free float (%)	69.2
Issued shares (m)	707
Market capitalisation	SGD720.9M
	USD534M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(1)	(29)
Relative to index (%)	(4)	(5)	(43)

Source: FactSet

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Tear Sheet Insert

Fig 1: Changes in our forecasts

	FY25E			FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	271.2	275.9	-1.7	311.8	317.3	-1.7	358.6	358.6	0.0
Gross profit (SGDm)	141.0	145.5	-3.1	162.2	167.4	-3.1	186.5	186.5	0.0
EBIT (SGDm)	57.0	63.2	-9.8	72.2	78.9	-8.6	89.7	89.7	0.0
EBITDA (SGDm)	82.4	86.9	-5.3	98.2	103.4	-5.0	116.5	116.5	0.0
Core net profit (SGDm)	49.1	54.1	-9.2	62.4	67.8	-7.9	77.8	77.8	0.0
EPS (SGD)	0.069	0.077	-9.6	0.088	0.096	-8.4	0.110	0.110	0.0
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margins	52.0%	52.8%	-0.7	52.0%	52.8%	-0.7	52.0%	52.0%	0.0
Net Margins	18.1%	19.6%	-1.5	20.0%	21.4%	-1.3	21.7%	21.7%	0.0

Source: Maybank IBG Research

Fig 2: FY24 results summary

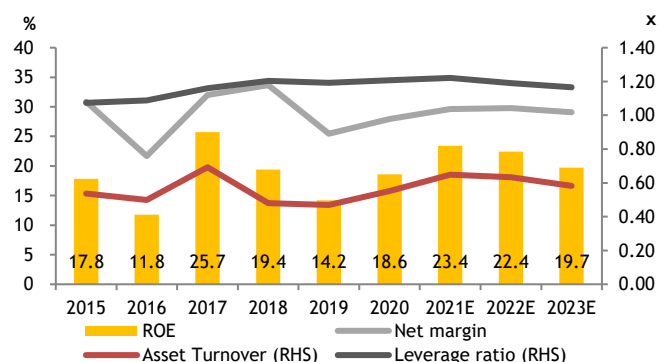
	FY24	FY23	YoY increase
Revenue (SGDm)	242.1	299.9	-19%
Core net profit (SGDm)	40.6	60.0	-32%

Source: Maybank IBG Research

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 USD158), 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

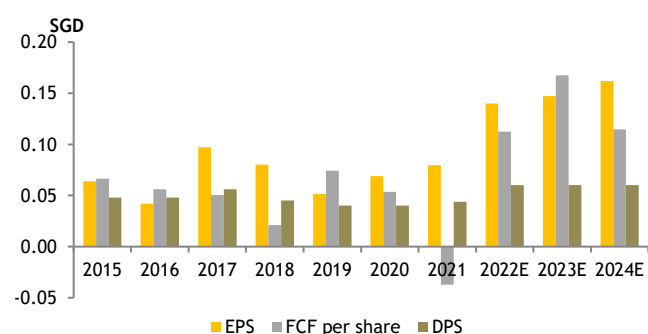


Source: Company

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.

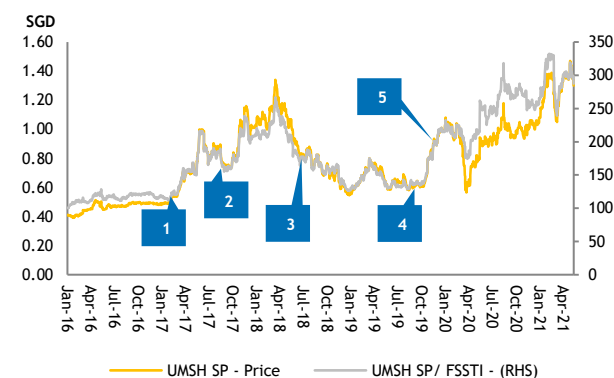
EPS, FCF per share and DPS



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 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’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.

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).

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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
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, 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)

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	13.6	20.6	14.8	11.6	9.3
Core P/E (x)	15.8	18.0	14.8	11.6	9.3
P/BV (x)	2.6	1.7	1.7	1.6	1.5
P/NTA (x)	2.6	1.7	1.7	1.6	1.5
Net dividend yield (%)	3.7	5.4	5.5	5.5	5.5
FCF yield (%)	5.4	3.4	17.5	nm	21.2
EV/EBITDA (x)	10.8	10.4	7.1	6.5	4.5
EV/EBIT (x)	13.6	15.0	10.3	8.8	5.9

INCOME STATEMENT (SGD m)

Revenue	299.9	242.1	271.2	311.8	358.6
EBITDA	86.2	65.0	82.4	98.2	116.5
Depreciation	(17.9)	(19.8)	(25.4)	(26.1)	(26.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	68.3	45.2	57.0	72.2	89.7
Net interest income / (exp)	0.2	1.5	(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	68.5	46.8	56.3	71.5	89.0
Income tax	(7.3)	(5.2)	(6.0)	(7.6)	(9.5)
Minorities	(1.2)	(1.0)	(1.2)	(1.4)	(1.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	60.0	40.6	49.1	62.4	77.8
Core net profit	60.0	40.6	49.1	62.4	77.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	67.5	79.9	166.9	116.6	230.6
Accounts receivable	56.2	56.7	77.0	76.8	100.1
Inventory	110.8	109.2	26.3	129.5	49.7
Property, Plant & Equip (net)	152.7	166.0	150.6	134.6	117.8
Intangible assets	88.0	87.7	87.7	87.7	87.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	12.0	9.5	9.5	9.5	9.5
Total assets	487.2	509.0	518.1	554.6	595.3
ST interest bearing debt	6.8	0.8	0.8	0.8	0.8
Accounts payable	49.6	39.6	38.9	51.4	52.4
LT interest bearing debt	15.8	0.0	0.0	0.0	0.0
Other liabilities	28.0	25.0	24.0	24.0	24.0
Total Liabilities	100.2	65.0	63.6	76.2	77.2
Shareholders Equity	359.8	418.2	427.6	450.2	488.2
Minority Interest	27.1	25.7	26.8	28.2	29.9
Total shareholder equity	386.9	443.9	454.4	478.4	518.2
Total liabilities and equity	487.2	509.0	518.1	554.6	595.3

CASH FLOW (SGD m)

Pretax profit	68.5	46.8	56.3	71.5	89.0
Depreciation & amortisation	17.9	19.8	25.4	26.1	26.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	4.4	(1.4)	61.2	(90.4)	57.5
Cash taxes paid	(11.1)	(8.2)	(6.0)	(7.6)	(9.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	79.7	56.9	136.8	(0.5)	163.8
Capex	(28.7)	(32.3)	(10.0)	(10.0)	(10.0)
Free cash flow	51.0	24.6	126.8	(10.5)	153.8
Dividends paid	(36.2)	(40.1)	(39.8)	(39.8)	(39.8)
Equity raised / (purchased)	0.0	51.6	0.0	0.0	0.0
Change in Debt	(7.9)	(23.6)	0.0	0.0	0.0
Other invest/financing cash flow	(2.8)	(0.6)	0.0	0.0	0.0
Effect of exch rate changes	1.6	1.0	0.0	0.0	0.0
Net cash flow	5.7	12.9	87.0	(50.3)	114.0

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.5)	(19.3)	12.0	15.0	15.0
EBITDA growth	(28.2)	(24.6)	26.6	19.3	18.6
EBIT growth	(34.6)	(33.7)	26.0	26.6	24.3
Pretax growth	(33.8)	(31.7)	20.4	26.9	24.6
Reported net profit growth	(39.1)	(32.3)	21.0	27.1	24.7
Core net profit growth	(39.1)	(32.3)	21.0	27.1	24.7
Profitability ratios (%)					
EBITDA margin	28.7	26.9	30.4	31.5	32.5
EBIT margin	22.8	18.7	21.0	23.1	25.0
Pretax profit margin	22.8	19.3	20.8	22.9	24.8
Payout ratio	58.9	98.0	81.0	63.7	51.1
DuPont analysis					
Net profit margin (%)	20.0	16.8	18.1	20.0	21.7
Revenue/Assets (x)	0.6	0.5	0.5	0.6	0.6
Assets/Equity (x)	1.4	1.2	1.2	1.2	1.2
ROAE (%)	17.1	10.4	11.6	14.2	16.6
ROAA (%)	12.3	8.2	9.6	11.6	13.5
Liquidity & Efficiency					
Cash conversion cycle	219.4	282.5	167.7	167.7	167.7
Days receivable outstanding	81.0	84.0	88.8	88.8	88.8
Days inventory outstanding	266.4	334.0	187.4	187.4	187.4
Days payables outstanding	128.0	135.5	108.5	108.5	108.5
Dividend cover (x)	1.7	1.0	1.2	1.6	2.0
Current ratio (x)	3.6	5.4	6.1	5.7	6.6
Leverage & Expense Analysis					
Asset/Liability (x)	4.9	7.8	8.1	7.3	7.7
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)	na	na	81.4	103.1	128.1
Debt/EBITDA (x)	0.3	0.0	0.0	0.0	0.0
Capex/revenue (%)	9.6	13.4	3.7	3.2	2.8
Net debt/ (net cash)	(44.9)	(79.2)	(166.2)	(115.8)	(229.8)

Source: Company; Maybank IBG Research

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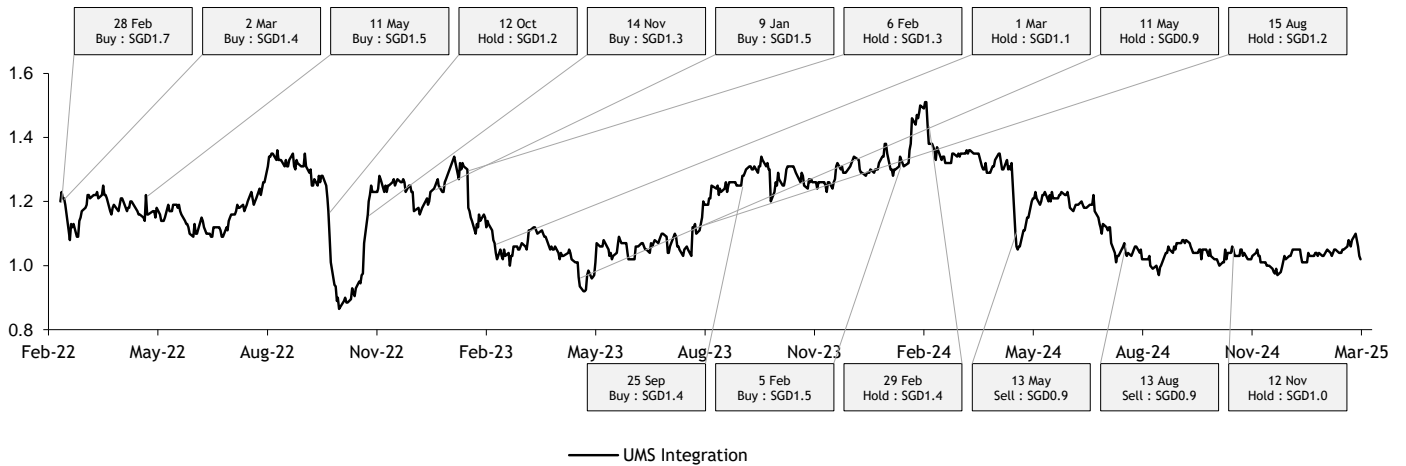
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