# UMS Integration (UMSH SP)

# Bursa listing a positive catalyst

# Maintain BUY with a higher TP of SGD1.59

With its secondary listing on Malaysia's Bursa on 1 Aug, we expect UMS valuations to be lifted to closer to that of its Malaysian peers as they are trading at an average of around 25-35x P/E. We also expect upcoming 1H25E results (due Aug 2025) to improve as revenue from its existing customer should grow slightly YoY. As a result, we maintain our BUY rating with a higher TP of SGD1.59. Our TP is pegged to a higher 20x blended FY25/26E P/E from 15x P/E previously due to its listing in Malaysia.

# Malaysia revenue to kickstart quarterly growth

Revenue from Malaysia surged 287% YoY to SGD9.4m from SGD2.4m, mainly due to the production ramp up of semiconductor components for the new major customer. Management expects to hit a revenue target of SGD1.5m/week by end-2025. It is currently at a SGD0.6-0.65m/week runrate. In addition, orders from its existing customer should increase slightly for FY25. All in all, we expect revenue to improve QoQ from 2Q25 onwards.

# Malaysian listing should boost valuation

We expect the Malaysian secondary listing to boost its valuations as Malaysian peers are trading at a much higher valuation as compared to UMS in Singapore and the quality of UMS' business and its margins are superior to those of many of its Malaysian peers. This should be a positive catalyst for UMS.

# Outlook more positive - valuation likely to be rerated

Earnings likely bottomed in FY24 and should improve in the years ahead, especially as its new major customer is finally commencing production and profitability should start to improve QoQ. Management also declared a SGD0.01/share dividend for 1Q25. Key risks would be the weakening USD and a potential semi-con industry tariff imposed by the US.

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	300	242	271	312	349
EBITDA	86	65	82	101	116
Core net profit	60	41	49	65	78
Core EPS (cts)	8.5	5.7	6.9	9.2	10.9
Core EPS growth (%)	(42.5)	(32.7)	21.0	32.8	19.1
Net DPS (cts)	5.0	5.6	5.6	5.6	5.6
Core P/E (x)	15.8	18.0	21.0	15.8	13.3
P/BV (x)	2.6	1.7	2.4	2.3	2.1
Net dividend yield (%)	3.7	5.4	3.9	3.9	3.9
ROAE (%)	17.1	10.4	11.6	14.8	16.5
ROAA (%)	12.3	8.2	9.6	12.1	13.5
EV/EBITDA (x)	10.8	10.4	10.8	9.3	7.1
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	47	57	69
MIBG vs. Consensus (%)	-	-	3.7	14.2	12.0

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# BUY

Share Price	SGD 1.45
12m Price Target	SGD 1.59 (+14%)
Previous Price Target	SGD 1.19

## **Company Description**

UMS n	nanu	factures	high	precision	components	and
modul	es	found	in	front-end	semicondu	ctor
equipn	nent					

#### Statistics

Statistics	
52w high/low (SGD)	1.45/0.93
3m avg turnover (USDm)	3.8
Free float (%)	69.2
Issued shares (m)	707
Market capitalisation	SGD1.0B
	USD798M
Major shareholders:	
LUONG ANDY	16.3%
GN JONG YUH	4.7%
The Vanguard Group, Inc.	1.8%

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	18	44	19
Relative to index (%)	10	27	(2)
Source: FactSet			

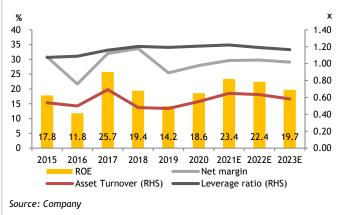




# Value Proposition

- Precision metals engineering firm specialises in assembling modules and precision engineering for components for frontend semi-conductor equipment.
- Has entrenched relationship with key customer Applied Materials (AMAT, CP USD190), a market leader in 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.

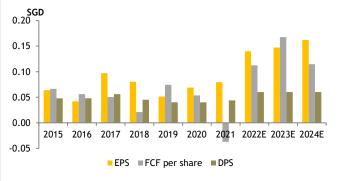
# UMS's Du Pont ROE



# **Financial Metrics**

- UMS has a strong track record of maintaining a net cash balance sheet to tide itself through cycles.
- We expect free cash flow (FCF) and its balance sheet to support dividends over the 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.

# 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.

# 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.

<u>Reling & Score</u> - 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. <u>Score</u> <u>Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>Controversy Score</u> - 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).

# ESG@MAYBANK IBG

	Quantitative parameters (Score: 38)					
	Particulars	Unit	2019	2020	2021	AEM SP (2021)
	Scope 1 GHG emissions	tC02e	NA	NA	NA	15
	Scope 2 GHG emissions	tC02e	NA	NA	NA	8082
	Total	tC02e	NA	NA	NA	8097
	Scope 3 GHG emissions	tC02e	NA	NA	NA	NA
E	Total	tC02e	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
	% of women in workforce	%	NA	NA	NA	35.0%
c	Economic value generated and distributed	SGD'000	33,600	36,500	53,100	89,181
3	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
	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%
G	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? 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.

b) Is the senior management salary linked to fulfilling ESG targets?

Yes. The BSC KPIs include maintaining rigorous corporate governance standards and minimizing risks

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? *No* 

d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? No

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e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

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.

f) Does carbon offset form part of the net zero/carbon neutrality target of the company?

No

			Targ	et	(Score: 66.7)		
Particulars					Targe	et Achieve	
Energy Intensity (KWH/Revenue)					0.1	3 0.13	
Water Intensity (	m2/Revenue)	< than			0.001	2 0.00	
Briefings to prese	ent quarterly a	nd FY resul	lts		100	100	
Carbon neutrality	y/net zero				Ν	1 AI	
Im				Impact			
NA							
Ove				era	all score: 48		
As per our ESG m	natrix, UMS Ho	ldings (UMS	H SP) has an over	all	score of 48.		
ESG score	Weights	Scores	Final Score	1	As per our ESG assessment, UMS has an est	ablished framewor	
Quantitative	50%	38	19		erm targets but nee		
Qualitative	25%	50	13	to make headway in improving its quantitative "E" met qualitative parameters. UMS's overall ESG score is 48,			
Target	25%	67	17		its ESG rating below average in our view (aver	· ·	
-							

Total

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	13.6	20.6	21.0	15.8	13.3
Core P/E (x)	15.8	18.0	21.0	15.8	13.3
P/BV (x)	2.6	1.7	2.4	2.3	2.7
P/NTA (x)	2.6	1.7	2.4	2.3	2.7
Net dividend yield (%)	3.7	5.4	3.9	3.9	3.9
FCF yield (%)	5.4	3.4	12.3	nm	15.4
EV/EBITDA (x)	10.8	10.4	10.8	9.3	7.
EV/EBIT (x)	13.6	15.0	15.6	12.5	9.2
INCOME STATEMENT (SGD m)					
Revenue	299.9	242.1	271.2	311.8	349.3
EBITDA	86.2	65.0	82.4	101.3	116.
Depreciation	(17.9)	(19.8)	(25.4)	(26.1)	(26.8
Amortisation	0.0	0.0	0.0	0.0	0.
EBIT	68.3	45.2	57.0	75.3	89.
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.
Pretax profit	68.5	46.8	56.3	74.6	88.
Income tax	(7.3)	(5.2)	(6.0)	(8.0)	(9.5
Minorities	(7.3)	(5.2)	(6.0)	(0.0) (1.4)	(9.5
Discontinued operations	0.0	(1.0) 0.0	0.0	(1.4)	(1.7
	60.0	40.6	0.0 49.1	65.2	77.
Reported net profit					
Core net profit	60.0	40.6	49.1	65.2	77.
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	67.5	79.9	166.9	120.8	240.
Accounts receivable	56.2	56.7	77.0	76.8	95.
Inventory	110.8	109.2	26.3	126.3	44.
Property, Plant & Equip (net)	152.7	166.0	150.6	134.6	117.
Intangible assets	88.0	87.7	87.7	87.7	87.
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.
Other assets	12.0	9.5	9.5	9.5	9.
Total assets	487.2	509.0	518.1	555.5	595.
ST interest bearing debt	6.8	0.8	0.8	0.8	0.
Accounts payable	49.6	39.6	38.9	49.5	49.
LT interest bearing debt	15.8	0.0	0.0	0.0	0.
Other liabilities	28.0	25.0	24.0	24.0	24.
Total Liabilities	100.2	65.0	63.6	74.3	74.3
Shareholders Equity	359.8	418.2	427.6	453.0	490.
Minority Interest	27.1	25.7	26.8	28.2	29.9
Total shareholder equity	386.9	443.9	454.4	481.2	520.8
Total liabilities and equity	487.2	509.0	518.1	555.5	595. <sup>-</sup>
CASH FLOW (SGD m)					
Pretax profit	68.5	46.8	56.3	74.6	88.
Depreciation & amortisation	17.9	19.8	25.4	26.1	26.
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.
Change in working capital	4.4	(1.4)	61.2	(89.1)	62.
Cash taxes paid	(11.1)	(8.2)	(6.0)	(8.0)	(9.5
Other operating cash flow	0.0	0.0	0.0	0.0	0.
Cash flow from operations	79.7	56.9	136.8	3.6	169.
Capex	(28.7)	(32.3)	(10.0)	(10.0)	(10.0
Free cash flow	51.0	24.6	126.8	(10.0)	159.
Dividends paid	(36.2)	(40.1)	(39.8)	(39.8)	(39.8
Equity raised / (purchased)	0.0	(40.1) 51.6	(39.8)	(39.8)	(39.6
Change in Debt	(7.9)	(23.6)	0.0	0.0	0.0
	(7.7)	(23.0)	0.0	0.0	
•	(2.9)	(0.4)	0 0	0 0	<u>^</u>
Other invest/financing cash flow Effect of exch rate changes	(2.8) 1.6	(0.6) 1.0	0.0 0.0	0.0 0.0	0.0 0.0

Reported net profit growth Core net profit growth

Profitability ratios (%) EBITDA margin EBIT margin Pretax profit margin Payout ratio

DuPont analysis Net profit margin (%) Revenue/Assets (x) Assets/Equity (x) ROAE (%)

FYE 31 Dec Key Ratios Growth ratios (%) Revenue growth EBITDA growth EBIT growth Pretax growth

FY23A	FY24A	FY25E	FY26E	FY27E
(10.5)	((0.2))	10.0	15.0	(0.0
(19.5)	(19.3)	12.0	15.0	12.0
(28.2)	(24.6)	26.6	23.0	14.8
(34.6)	(33.7)	26.0	32.1	19.0
(33.8)	(31.7)	20.4	32.5	19.1
(39.1)	(32.3)	21.0	32.8	19.1
(39.1)	(32.3)	21.0	32.8	19.1
· · ·				
28.7	26.9	30.4	32.5	33.3
22.8	18.7	21.0	24.1	25.6
22.8	19.3	20.8	23.9	25.4
58.9	98.0	81.0	61.0	51.2
20.0	16.8	18.1	20.9	22.2
0.6	0.5	0.5	0.6	0.6
1.4	1.2	1.2	1.2	1.2
17.1	10.4	11.6	14.8	16.5
17.1	10.4	11.0	14.0	10.5

ROAA (%)	12.3	8.2	9.6	12.1	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	5.9	7.0
Leverage & Expense Analysis					
Asset/Liability (x)	4.9	7.8	8.1	7.5	8.0
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	na	na	81.4	107.5	127.9
Debt/EBITDA (x)	0.3	0.0	0.0	0.0	0.0
Capex/revenue (%)	9.6	13.4	3.7	3.2	2.9
Net debt/ (net cash)	(44.9)	(79.2)	(166.2)	(120.0)	(239.2)

Source: Company; Maybank IBG Research

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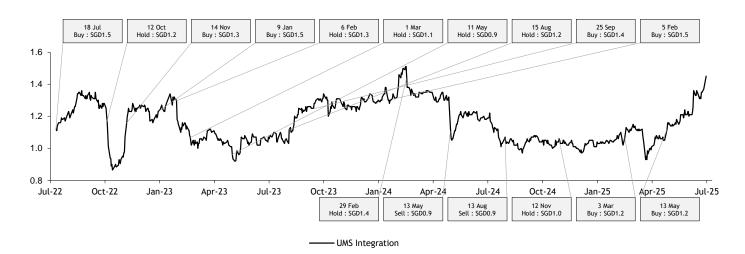
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