

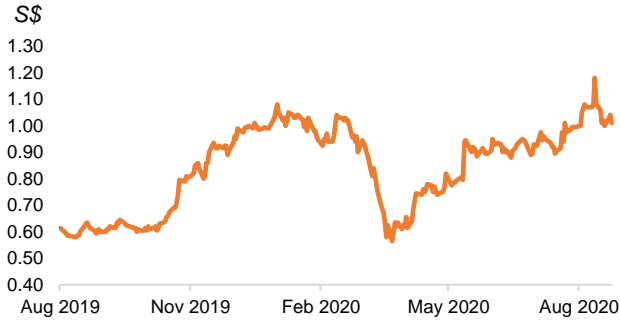
UMS Holdings Limited

Date: 26 August 2020

Non-Rated

UMS Holdings (558.SI)

Price: S\$1.01 (as at 25 August 2020)



Share price	1M	3M	6M	1Y
UMS Holdings Limited	+3.6%	+14.1%	+4.7%	+64.2%
Straits Times Index	-2.8%	+0.1%	-18.6%	-18.2%

Market Capitalisation	S\$538.8 million
Current Price	S\$1.01
Shares Outstanding	533.4 million
Free Float	79.5%
Major Shareholder	Luong Andy 20.4%
Recommendation of other brokers	2 Buy 2 Hold

Source: Company data, Bloomberg, SAC Capital

Analyst

Lim Li Jun Tracy +65 6232 3239
tlim@saccapital.com.sg

Analyst

Lam Wang Kwan +65 6232 3237
lamwk@saccapital.com.sg

Riding on Strong Sector Growth

Unfazed by COVID-19, 1HFY20 NPAT rose 47%. 1HFY20 revenue increased 28% yoy to S\$75.2 million, due to robust performance in both semiconductor and others segments. Revenue increased in all the Group's key markets except Malaysia, due to movement control order. Net profit rose by a larger 47% yoy to S\$22.3 million, with strong operating leverage and higher share of profit from associate JEP Holdings.

Growth to continue into 2HFY20. We expect continuous performance in 2HFY20 due to: 1) Industry-wide semiconductor growth due to strong customer demand; and 2) positive contributions from associate.

Healthy cash flow. The Group generated S\$20.2 million positive net cash from operating activities and S\$19.3 million free cash flow in 1HFY2020. Net cash improved to S\$41.3 million at 30 June 2020 as compared to S\$25.0 million as at 31 December 2019. A higher cash holdings enables the Group to have more buffer.

Investment in associate bearing fruit. 39%-owned JEP Holdings raised contributions by 38%, or from S\$0.8 million to S\$0.9 million. Despite a 5.2% decline in revenue, JEP's net profit rose 38.1% to S\$4.61 million in 1HFY20 due to higher government grants. Although the outlook for aviation is highly uncertain, JEP's semiconductor equipment manufacturing capability is a good fit with that of UMS.

Strong tailwind for the semiconductor industry. According to estimates from SEMI, the global industry association, global sales of semiconductor equipment manufacturing is projected to post a double-digit growth in 2020. Asia will be the key power house for semiconductor expansion and is forecast to lead the pack in capital spending in 2020.

Key Risks: Customer concentration risk and supply chain uncertainty during pandemic

Key Financials

Year ended 31 Dec	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A
Revenue (S\$'000)	111,090	104,204	162,498	127,939	131,912
% Growth	1.2%	-6.2%	55.9%	-21.3%	3.1%
Profit/(loss) before tax (S\$'000)	36,765	24,737	55,238	45,506	35,455
Profit/(loss) before tax margin	33.1%	23.7%	34.0%	35.6%	26.9%
Profit/(loss) attributable to owners (S\$'000)	34,299	22,591	52,037	43,071	33,556
EPS (Singapore cents)	7.99	5.26	9.70	8.03	6.26
P/E (x)	15.7	23.8	10.4	12.5	16.1
P/B (x)	2.8	2.8	2.5	2.3	2.2
Net Debt/Equity (%)	Net cash	Net cash	Net cash	4.0%	Net cash

Singapore Financial Reporting Standards (International) ("SFRS(I)") SFRS 16 has been implemented in FY2019.

Investment Highlights

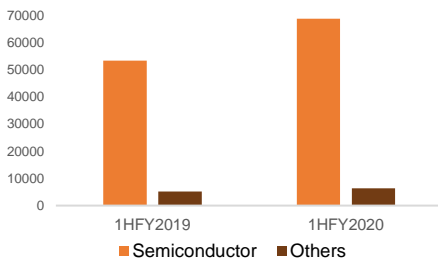
UMS' 1HFY20 NPAT increased 47% on higher revenue

Revenue for 1HFY2020 grew 28% yoy to S\$75.2 million due to overall 29% and 21% improvements in the Semiconductor and Others segments respectively. Revenue rose in all of the Group's key markets, except Malaysia where operations were affected by the movement control order. Singapore sales soared 44% due to higher Semiconductor Integrated System demand while US, Taiwan and Others rose by 4%, 11% and 89% respectively. This translates to a 47% increase in NPAT to S\$22.3 million in 1HFY2020.

The robust performance also came on the back of higher revenue and a 38% jump in share of profit to S\$0.9 million for associate JEP Holdings. JEP's aviation parts and equipment production suffered from demand decline in the aviation sector, but this was somewhat mitigated by the semiconductor equipment production and government job support grant. UMS has been raising its stake in JEP, now at 39%.

Freight charges for the Group increased by 102% in 1HFY2020 to \$0.40 million, due to higher material purchases and freight rates during the period. Net profit margin of the Group increased from 25.2% in 1HFY2019 to 29.7% in 1HFY2020.

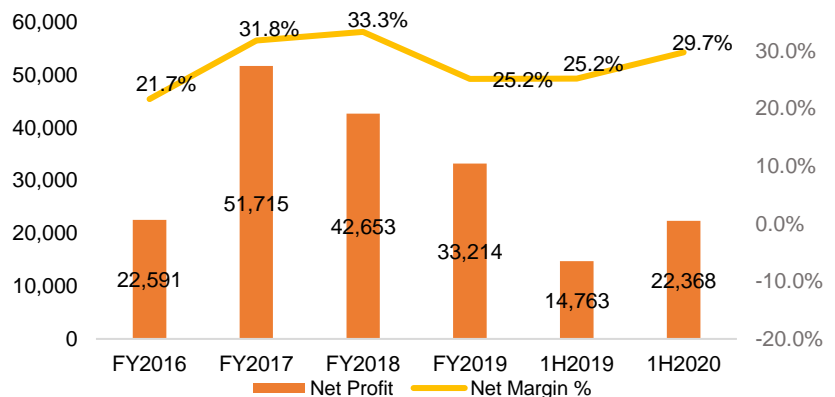
Revenue Segments (in S\$'000)



Source: Company Data, SAC Capital

Business Overview:

UMS Holdings' core business is the provision of manufacturing and engineering services to semiconductor equipment manufacturers. The company works closely with its clients to provide fully integrated solutions for factory automation, as well as to develop new processes and technology. In recent years, UMS Holdings has branched out into aerospace component manufacturing, which taps on its precision engineering expertise, and water and chemical engineering solutions.



Source: Company Data, SAC Capital

Foothold in the global supply chain

UMS retains its position as a supplier to Applied Materials, a market leader in semiconductor equipment manufacturing with a market share of approximately 20%. UMS also focuses on producing equipment for the wafer manufacturing stage in the upstream integrated circuit manufacturing process. Silicon wafers are the basic building blocks of ICs. The sector is resilient in the face of advancement and changes in IC design or manufacturing processes which are further downstream.

According to Bloomberg consensus estimates, Applied Materials' FY2020E expected revenue growth is 17.4%, and net profit 31.7%. Sales is expected to rise through the fiscal year 2020 ending Oct, benefitting from solid demand for foundry and logic-chip, with ongoing shift to next-generation technologies such as 5- and 3-nanometer chips for 5G and data centres.

COVID-19 on the semiconductor industry

Growth in the semiconductor industry is expected to continue into 2HFY20 in spite of the continued uncertainty in the global economy. According to SEMI's mid-year forecast, global sales of semiconductor equipment manufacturing is projected to increase by 6% to US\$63.2 billion in 2020 from US\$59.6 billion in 2019. SEMI added that the increase in sales will rise to US\$70 billion in 2021, locking in a double-digit growth of 17.4%. Growth will be driven by memory spending and investment in leading-edge technologies and China. Foundry and logic spending growth will account for about 50% of total wafer fabrication equipment spending in 2020 and 2021. Asia will be the key power house for semiconductor expansion and is forecast to lead the pack in capital spending in 2020. Furthermore, both DRAM and NAND spending in 2020 will surpass 2019 levels and expected to grow by over 20% in 2021. These strong growth figures augur well for the Group which is a beneficiary of the vibrant chip equipment manufacturing market.

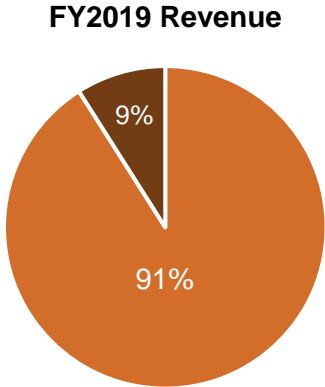
COVID-19 is changing the way we work and communication globally, and accelerating the migration to digitalisation. The change in behaviour is likely to last post-COVID, and high dependence on technology will drive semiconductor demand. According to McKinsey, growth in semiconductor sales is expected to be accelerated by a shift towards Artificial Intelligence, 5G Technology, semiconductors that enable servers, connectivity, and cloud usage as online collaboration grows. Other sectors that will fuel demand growth are contactless solutions, automated-delivery solutions, digital work processes and the Internet of Things, especially in traditional sectors, such as healthcare, government, and defense.

Business Segments

With extensive experience in precision engineering and manufacturing, UMS Holdings provides manufacturing and engineering solutions primarily to the Semiconductor equipment manufacturing industry.

The Group's business can be categorised into 2 main business segments, **Semiconductor** and **Others**.

Semiconductor segment



■ Semiconductor ■ Others

Source: Company Data, SAC Capital



5-axis CNC Machining, Vertical Turning Lathe



Anodising, Passivation, Brazing & Welding, Plating



Masking, Polishing, Bead-blasting, Chemical Stripping, Inspection & QC

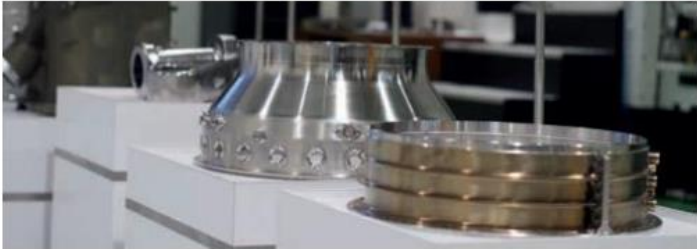


Full system integration and validation testing



Direct engagement with customers' product development teams to achieve quality outcomes efficiently.

Others segment



Manufacturing and engineering services for highly specialised and customised products including engine casings for passenger airliners.



Chemical engineering solutions, including the manufacture of on-site chlorine and sodium hypochlorite generation systems. These help clients reduce dependency on suppliers and lower safety risks from transport and transfer of these chemicals.



Reverse Osmosis water treatment systems



Metal products supply and fabrication

Income Statement

\$'000	Fiscal Year Ended 31 Dec				
	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A
Revenue	111,090	104,204	162,498	127,939	131,912
Cost of sales	(44,182)	(47,815)	(73,567)	(50,920)	(62,082)
Gross profit	66,908	56,389	88,931	77,019	69,830
Employee benefits expense	(13,517)	(11,549)	(16,593)	(16,616)	(15,905)
Depreciation expense	(7,425)	(5,434)	(4,321)	(5,671)	(6,874)
Other expenses	(11,838)	(10,053)	(12,322)	(11,707)	(10,884)
Other income/ (charges)	2,509	(4,713)	(414)	2,357	(2,653)
Finance income	128	148	389	210	331
Finance expense	0	(3)	(390)	(611)	(964)
Impairment loss on investment in associate	0	(48)	(42)	0	0
Share of profit of associate	0	0	0	525	2,574
Profit/(Loss) before tax	36,765	24,737	55,238	45,506	35,455
Income tax (expense) / benefit	(2,466)	(2,146)	(3,523)	(2,853)	(2,241)
Profit/(Loss) for the year	34,299	22,591	51,715	42,653	33,214
Profit/(Loss) attributable to owners of company	34,299	22,591	52,037	43,071	33,556
Minority Interests	-	-	(322)	(418)	(342)
EPS:					
-Basic (SG cents)	7.99	5.26	9.70	8.03	6.26
-Diluted (SG cents)	7.99	5.26	9.70	8.03	6.26

Balance Sheet

(\$'000)	Fiscal Year Ended 31 Dec				
	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A
Cash and bank balances	38,933	42,620	59,571	18,926	34,364
Trade receivables and other current assets	12,420	20,944	23,431	15,149	22,072
Inventories	37,361	31,725	49,633	70,438	51,746
Total current assets	88,714	95,289	132,635	104,513	108,182
PPE	34,807	31,704	38,782	53,368	52,307
Right-of-use assets	0	0	0	0	4,237
Investment property	2,411	2,284	2,240	2,100	1,832
Investment in associates	0	0	0	29,501	39,397
Loan to associate	0	828	3,296	3,345	0
Goodwill	81,683	80,083	82,201	82,201	81,211
Deferred tax assets	-	-	-	-	47
Total non-current assets	118,901	114,899	126,519	170,515	179,031
Total assets	207,615	210,188	259,154	275,028	287,213
Bank Borrowings	-	249	19,001	20,295	9,334
Trade and other payables	9,760	16,563	18,077	14,123	18,760
Loan from related parties	-	-	-	1,403	1,403
Lease liability	-	-	-	-	262
Income tax payable	1,975	2,210	3,285	2,316	2,754
Total current liabilities	11,735	19,022	40,363	38,137	32,513
Loan from related parties	-	-	3,158	3,419	3,626
Deferred tax liabilities	972	1,243	1,427	2,606	2,127
Long-term provision	443	433	405	405	405
Lease liability	-	-	-	-	3,656
Total non-current liabilities	1,415	1,676	4,990	6,430	9,814
Share Capital	136,623	136,623	136,623	136,623	136,623
Reserves	(9,146)	(10,963)	(10,560)	(10,683)	(10,823)
Retained earnings	66,988	63,830	89,045	102,612	117,465
Non-controlling interest	-	-	(1,307)	1,909	1,621
Total Equity	194,465	189,490	213,801	230,461	244,886
Total Liabilities and Equity	207,615	210,188	259,154	275,028	287,213

Ratios

	Fiscal Year Ended 31 Dec				
	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
Profitability (%)					
Gross profit/(loss) margin	60.2%	54.1%	54.7%	60.2%	52.9%
Profit/(loss) before tax margin	33.1%	23.7%	34.0%	35.6%	26.9%
Liquidity (x)					
Current ratio	7.6	5.0	3.3	2.7	3.3
Quick ratio	3.3	2.2	1.5	0.5	1.1
Interest coverage ratio	n.m.	8246.7	142.6	75.5	37.8
Net Debt to Equity	Net Cash	Net Cash	Net Cash	4.0%	Net Cash
Valuation (x)					
P/S	4.8	5.2	3.3	4.2	4.1
P/E	15.7	23.8	10.4	12.5	16.1
Core P/E at target price	n.m.	n.m.	n.m.	n.m.	n.m.
P/B	2.8	2.8	2.5	2.3	2.2
P/NTA	4.8	4.9	4.1	3.6	3.3
Cash Conversion Cycle					
Trade receivable days	41	73	53	43	61
Inventory days	309	242	246	505	304
Trade payable days	81	126	90	101	110
CCC days	269	189	209	447	255

Cash Flows Statement

(\$'000)	Fiscal Year Ended 31 Dec				
	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A
Profit/(Loss) before tax	36,765	24,737	55,238	45,506	35,455
Depreciation expense	7,425	5,434	4,321	5,671	6,874
Changes in working capital	(4,927)	534	(17,589)	(7,451)	12,923
Others	(725)	5,841	63	(1,490)	689
Income tax	(2,766)	(2,677)	(2,060)	(3,566)	(2,339)
Net generated from operating activities	35,772	33,869	39,973	38,670	53,602
Purchase of PPE	(4,478)	(2,625)	(10,564)	(15,685)	(2,207)
Others	138	(796)	(1,217)	(33,143)	(4,985)
Net Cash used in investing activities	(4,340)	(3,421)	(11,781)	(48,828)	(7,192)
Proceeds from bank borrowings	-	1,249	25,766	48,320	41,700
Repayment of bank borrowings	-	(1,000)	(7,014)	(47,254)	(52,639)
Dividends paid	(25,749)	(25,749)	(26,822)	(29,504)	(18,775)
Others	247	(3)	(390)	(2,014)	(943)
Net Cash used in financing activities	(25,502)	(25,503)	(8,460)	(30,452)	(30,657)
Net (decrease)/increase in cash and cash equivalents	5,930	4,945	19,732	(40,610)	
Net effect of exchange rate changes on the balances of cash and cash equivalents held in foreign currencies	(540)	(1,258)	(2,781)	(35)	
Cash and cash equivalents at the end of the year	38,933	42,620	59,571	18,926	

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	Date of Business Relation
Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.