

# UMS Holdings Limited

26 May 2022

## BUY

<b>BBG</b>	UMSH SP
<b>Market cap</b>	S\$753.5 million
<b>Price (25 May 2022)</b>	S\$1.13
<b>52-week range</b>	S\$1.05 - S\$1.57
<b>Target Price</b>	S\$1.55 (previously S\$1.39)
<b>Shares Outstanding</b>	667 m
<b>Free Float</b>	83.5%
<b>Major Shareholder</b>	Andy Luong 16.4%
<b>P/BV (12/21)</b>	2.7x
<b>Net debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

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## Navigating well in a challenging environment

UMS's 1Q results exceeded our expectations as revenue and net profit formed 28%/34% of our estimates. Revenue rose 71% yoy to S\$84.7m and net profit increased 26% yoy from higher semiconductor sales, consolidation of JEP's results, and larger contributions from other subsidiaries (Starke and Kalf). JEP's earnings were consolidated from 2Q21. The smaller growth in net profit was due to a higher effective tax rate of 18.6%, as the company assumed higher tax payout if their appeal is not granted.

**Gross margin stabilised at ~51% and can be maintained despite an inflationary environment.** The Group can generally pass on to consumers the hike in prices of commodities used to produce component parts. As UMS sources from a list of vendors approved by AMAT, any cost increase can also be passed through. Despite shortages in certain parts, UMS contractually is allowed to ship the incomplete sets of integrated system. The missing parts will be delivered directly to AMAT once made available. To work around supply chain bottlenecks, AMAT is merging system modules onsite at foundries. As such, delivery of systems from UMS's end is unlikely to stall. UMS's contract with AMAT is due this year. Management is optimistic that the contract will be renewed. Given that the main challenge AMAT faces is securing parts, we believe current supply chain dynamic works in UMS' favour.

Production output continues to be capped by the Group's labour resources. Tight labour market has seen companies in the industry paying wages exceeding the recent minimum wage of RM1500. The Group is expected to incur higher labor costs to attract skilled workers. The impact of labor constraint is mitigated as UMS capitalise more on JEP's production capacity.

**Upgrade to BUY at higher TP of S\$1.55.** We revise FY22E revenue upward by 24% to take into account robust sales and higher contribution from its subsidiary, Kalf, with 2 more projects expected to be completed by FY22. Net profit estimate increased 23% accordingly. There are upside risks if the Group is successful in its pioneer tax appeal to Malaysian authorities and onboarding of new customers which would significantly reduce reliance on AMAT. We raised our DCF-derived TP by 12% to S\$1.55 (COE: 12.1%).

## Key Financials

Year ended 31 Dec	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue (S\$m)	131.9	164.4	271.2	369.2	394.0
EBIT (S\$m)	36.1	39.3	79.8	107.5	118.4
Profit/(loss) attributable to owners (S\$m)	33.6	36.3	53.1	69.8	85.1
Basic EPS (S cents)	6.26	6.83	7.96	10.47	12.77
Dividend per share (S cents)	4.0	3.5	5.0	6.3	7.7
Net cash / (debt) (S\$m)	20.0	32.8	29.4	32.6	61.8
<b>Valuation</b>					
EBIT margin (%)	27.4	23.9	29.4	29.1	30.1
ROIC (%)	15.5	20.8	21.0	24.4	28.6
EV/EBITDA (x)	18.2	15.4	7.8	5.9	5.1
P/E (x)	18.1	16.5	14.2	10.8	8.9
Dividend yield (%)	3.5	3.1	4.4	5.6	6.8

## Income Statement

	Fiscal Year Ended 31 Dec				
S\$'m	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
<b>Revenue</b>	<b>131.9</b>	<b>164.4</b>	<b>271.2</b>	<b>369.2</b>	<b>394.0</b>
Cost of sales	(62.1)	(76.9)	(128.1)	(177.2)	(185.2)
<b>Gross profit</b>	<b>69.8</b>	<b>87.6</b>	<b>143.1</b>	<b>192.0</b>	<b>208.8</b>
Employee benefits expense	(15.9)	(19.4)	(35.3)	(51.7)	(55.2)
Depreciation expense	(6.9)	(7.7)	(12.4)	(15.4)	(15.9)
Other expenses	(10.9)	(11.5)	(16.8)	(18.5)	(20.3)
Other income/ (charges)	(2.7)	(9.8)	1.2	1.0	1.0
Finance income	0.3	0.2	0.2	0.2	0.2
Finance expense	(1.0)	(0.6)	(0.9)	(0.9)	(0.9)
Share of profit of associate	2.6	0.1	0.4	-	-
<b>Profit before tax</b>	<b>35.5</b>	<b>38.9</b>	<b>79.4</b>	<b>106.7</b>	<b>117.7</b>
Income tax expense	(2.2)	(2.6)	(21.8)	(31.0)	(25.4)
<b>Profit for the year</b>	<b>33.2</b>	<b>36.3</b>	<b>57.6</b>	<b>75.7</b>	<b>92.3</b>
<b>Profit to owners</b>	<b>33.6</b>	<b>36.3</b>	<b>53.1</b>	<b>69.8</b>	<b>85.1</b>
Minority Interests	(0.3)	0.0	4.5	5.9	7.2

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
<b>Profitability (%)</b>					
Gross margin	52.9	53.3	52.8	52.0	53.0
Pretax margin	26.9	23.7	29.3	28.9	29.9
<b>Liquidity (x)</b>					
Current ratio	3.3	2.8	2.5	2.5	2.8
Quick ratio	1.7	1.7	1.5	1.4	1.7
Interest coverage ratio	37.8	66.1	85.4	115.0	126.8
Net Debt to Equity (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	18.1	16.5	14.2	10.8	8.9
P/B	3.1	3.0	2.7	2.5	2.2
EV/EBITDA	18.2	15.4	7.8	5.9	5.1
<b>Cash Conversion Cycle</b>					
Trade receivable days	61	52	90	90	90
Inventory days	304	256	248	248	248
Trade payable days	110	120	160	160	160
CCC days	255	188	179	179	179

## Balance Sheet

	Fiscal Year Ended 31 Dec				
S\$'m	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Cash and bank balances	34.4	53.8	65.1	68.3	97.5
Trade receivables and other current assets	22.1	23.5	67.2	91.4	97.6
Inventories	51.7	53.9	87.1	120.5	125.9
Other assets	-	-	0.3	0.3	0.3
<b>Total current assets</b>	<b>108.2</b>	<b>131.2</b>	<b>219.7</b>	<b>280.5</b>	<b>321.3</b>
PPE	52.3	56.3	116.7	112.3	117.4
Right-of-use assets	4.2	4.8	10.1	9.3	8.4
Investment property	1.8	1.7	1.7	1.5	1.3
Intangible assets	81.2	80.1	88.6	88.3	88.1
Deferred tax assets	0.0	0.1	0.1	0.1	0.1
<b>Total non-current assets</b>	<b>179.0</b>	<b>178.3</b>	<b>217.1</b>	<b>211.5</b>	<b>215.4</b>
<b>Total assets</b>	<b>287.2</b>	<b>309.5</b>	<b>436.8</b>	<b>492.0</b>	<b>536.6</b>
Bank Borrowings	9.3	15.7	11.6	11.6	11.6
Trade and other payables	18.8	25.4	56.1	77.6	81.0
Loan from related parties	1.4	1.4	1.4	1.4	1.4
Lease liability	0.3	0.3	1.2	1.2	1.2
Income tax payable	2.8	3.5	19.2	19.2	19.2
<b>Total current liabilities</b>	<b>32.5</b>	<b>46.2</b>	<b>89.4</b>	<b>110.9</b>	<b>114.4</b>
Loan from related parties	3.6	3.8	-	-	-
Bank borrowings	-	-	22.7	22.7	22.7
Lease liability	3.7	4.3	10.2	10.2	10.2
Provisions	0.4	0.4	0.4	0.4	0.4
Deferred tax liabilities	2.1	1.9	9.8	9.8	9.8
<b>Total non-current liabilities</b>	<b>9.8</b>	<b>10.4</b>	<b>43.1</b>	<b>43.1</b>	<b>43.1</b>
Share Capital	136.6	136.6	136.6	136.6	136.6
Treasury Shares	-	(1.9)	(2.1)	(2.1)	(2.1)
Reserves	(10.8)	(10.7)	(11.7)	(11.7)	(11.7)
Retained earnings	117.5	127.3	153.4	181.3	215.3
NCI	1.6	1.7	27.9	33.8	41.0
<b>Total Equity</b>	<b>244.9</b>	<b>252.9</b>	<b>304.3</b>	<b>338.0</b>	<b>379.2</b>
<b>Total Liabilities and Equity</b>	<b>287.2</b>	<b>309.5</b>	<b>436.8</b>	<b>492.0</b>	<b>536.6</b>

## Cash Flows Statement

	Fiscal Year Ended 31 Dec				
S\$'m	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
<b>Profit/(Loss) before tax</b>	<b>35.5</b>	<b>38.9</b>	<b>79.4</b>	<b>106.7</b>	<b>117.7</b>
Depreciation expense	6.9	7.7	12.4	15.4	15.9
Allowance for inventories obsolescence	1.6	1.0	(2.3)	-	-
Interest income	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Interest expense	1.0	0.6	0.9	0.9	0.9
Others	3.7	9.3	4.1	0.2	0.2
Changes in working capital	12.9	1.3	(23.4)	(36.2)	(8.1)
Share of profit of Associate	(2.6)	(0.1)	(0.4)	-	-
Income tax	(2.3)	(2.1)	(4.5)	(31.0)	(25.4)
<b>Net generated from operating activities</b>	<b>56.4</b>	<b>45.0</b>	<b>66.1</b>	<b>55.9</b>	<b>101.1</b>
Purchase of PPE	(2.2)	(11.6)	(10.0)	(10.0)	(20.0)
Proceeds from disposal of PPE	2.0	0.2	0.2	-	-
Investment in Associate	(7.3)	(1.8)	0	-	-
Net cash outflow from acquisition of subsidiary	0.0	0.0	(10.2)	-	-
Others	0.3	0.2	(0.9)	0.2	0.2
<b>Net Cash used in investing activities</b>	<b>(7.2)</b>	<b>(13.0)</b>	<b>(20.9)</b>	<b>(9.8)</b>	<b>(19.8)</b>
Proceeds from bank borrowings	42.2	16.9	25.0	-	-
Repayment of bank borrowings	(53.2)	(10.7)	(33.6)	-	-
Dividends paid	(18.8)	(26.7)	(22.7)	(41.9)	(51.1)
Interest paid	(0.5)	(0.1)	(0.5)	(0.9)	(0.9)
Repayment on lease liability	(0.5)	(0.5)	(1.5)	-	-
Others	0.1	(1.9)	(0.1)	-	-
<b>Net Cash used in financing activities</b>	<b>(30.7)</b>	<b>(23.0)</b>	<b>(33.5)</b>	<b>(42.9)</b>	<b>(52.1)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>15.8</b>	<b>15.8</b>	<b>11.7</b>	<b>3.2</b>	<b>29.2</b>
Net effect of exchange rate changes	(0.3)	(1.0)	(0.4)	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>34.4</b>	<b>53.8</b>	<b>65.1</b>	<b>68.3</b>	<b>97.5</b>

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