

UMS Holdings Limited

4 April 2022

HOLD (Maintained)

BBG	UMSH SP
Market cap	S\$813.5 million
Price (1 April 2022)	S\$1.21
52-week range	S\$1.00 - S\$1.57
Target Price	S\$1.39 (previously S\$1.80)
Shares Outstanding	667 m
Free Float	83.5%
Major Shareholder	Andy Luong 16.4%
P/BV (12/21)	3.1x
Net debt to EBITDA (12/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

Analyst
Lim Shu Rong
limsr@saccapital.com.sg

Result of tax appeal to influence subsequent years' earnings

FY21 revenue of S\$271.2m (+65% yoy) exceeded our estimate by 10% while net profit of S\$53.1m (+46% yoy) came in lower by 21%, due to the surprise tax charge. Its pioneer tax status was revoked when it failed to meet the minimum 80% local labor requirement in Malaysia.

Labour shortage is a headwind. In addition to losing their pioneer status, utilisation rate of equipment is currently below optimal. JEP's consolidation has helped to mitigate impact on its components production volume. Application for employment of foreign workers for manufacturing has opened on 15 Feb and has seen 193,346 applications by 16 March. The manufacturing sector needs ~600,000 workers to bring production back to pre-pandemic level. Improvement in labour supply depends on the speed to bring in workers and process their applications. We expect labor shortage in the factory to fill up in 2H22.

Russia-Ukraine conflict has caused metals' prices to soar. Aluminum has hit a record high price of US\$3849/tonne in early Mar and is since up 58.45% yoy. We could see input costs trend higher. Substitution may take place to protect margins. Applied Materials is fully booked for the year. This affirmed the demand for UMS components and services for the year.

UMS is appealing to reinstate its pioneer status. If their appeal is unsuccessful, UMS will also be subjected to prosperity tax of 33% for the remaining chargeable income in excess of 100m RM. We are factoring in higher tax costs, especially FY22, going forward until we have clarity on the appeal result.

Maintain HOLD at a lower DCF-derived TP of S\$1.39. (WACC: 10.76%) We raise our FY22E topline estimate by 6% but adjusted down our FY22E PATMI by 22% to account for higher tax rate of 27%. We also introduced our FY23E estimates. There is upside to TP if UMS's appeal to Malaysia tax authorities is successful.

Key Financials

Year ended 31 Dec	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue (S\$m)	131.9	164.4	271.2	298.3	328.4
EBIT (S\$m)	36.1	39.3	79.8	85.0	96.1
Profit/(loss) attributable to owners (S\$m)	33.6	36.3	53.1	56.6	69.5
Basic EPS (S cents)	6.26	6.83	7.96	8.5	10.4
Dividend per share (S cents)	4.0	3.5	5.0	5.1	6.3
Net cash / (debt) (S\$m)	20.0	32.8	29.4	52.4	71.6
Valuation					
EBIT margin (%)	27.4	23.9	29.4	28.5	29.3
ROIC (%)	15.5	20.8	21.0	24.1	28.3
EV/EBITDA (x)	19.6	16.6	8.5	7.6	6.6
P/E (x)	19.5	17.8	15.3	14.4	11.7
Dividend yield (%)	3.3	2.9	4.1	4.2	5.1

Income Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Revenue	131.9	164.4	271.2	298.3	328.4
Cost of sales	(62.1)	(76.9)	(128.1)	(141.7)	(154.3)
Gross profit	69.8	87.6	143.1	156.6	174.0
Employee benefits expense	(15.9)	(19.4)	(35.3)	(38.8)	(42.7)
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	-	-
Profit before tax	35.5	38.9	79.4	84.2	95.4
Income tax expense	(2.2)	(2.6)	(21.8)	(22.8)	(20.0)
Profit for the year	33.2	36.3	57.6	61.4	75.4
Profit to owners	33.6	36.3	53.1	56.6	69.5
Minority Interests	(0.3)	0.0	4.5	4.8	5.9

Ratios

	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Profitability (%)					
Gross margin	52.9	53.3	52.8	52.5	53.0
Pretax margin	26.9	23.7	29.3	28.2	29.0
Liquidity (x)					
Current ratio	3.3	2.8	2.5	3.2	3.5
Quick ratio	1.7	1.7	1.5	2.3	2.5
Interest coverage ratio	37.8	66.1	85.4	91.0	102.9
Net Debt to Equity (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	19.5	17.8	15.3	14.4	11.7
P/B	3.3	3.2	2.9	2.7	2.5
EV/EBITDA	19.6	16.6	8.5	7.6	6.6
Cash Conversion Cycle					
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

S\$'m	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Cash and bank balances	34.4	53.8	65.1	117.2	139.3
Trade receivables and other current assets	22.1	23.5	67.2	49.9	54.9
Inventories	51.7	53.9	87.1	69.2	75.3
Other assets	-	-	0.3	0.3	0.3
Total current assets	108.2	131.2	219.7	236.5	269.8
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
Total non-current assets	179.0	178.3	217.1	211.5	215.4
Total assets	287.2	309.5	436.8	448.0	485.2
Bank Borrowings	9.3	15.7	11.6	11.6	11.6
Trade and other payables	18.8	25.4	56.1	39.9	43.5
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
Total current liabilities	32.5	46.2	89.4	73.3	76.8
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
Total non-current liabilities	9.8	10.4	43.1	43.1	43.1
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	176.1	203.8
Total Equity	244.9	252.9	304.3	331.7	365.3
Total Liabilities and Equity	287.2	309.5	436.8	448.0	485.2

Cash Flows Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Profit/(Loss) before tax	35.5	38.9	79.4	84.2	95.4
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)	19.1	(7.6)
Share of profit of Associate	(2.6)	(0.1)	(0.4)	-	-
Income tax	(2.3)	(2.1)	(4.5)	(22.8)	(20.0)
Net generated from operating activities	56.4	45.0	66.1	96.9	84.6
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)	-	-
Net Cash used in investing activities	(7.2)	(13.0)	(20.9)	(9.8)	(19.8)
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)	(34.0)	(41.7)
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)	-	-
Net Cash used in financing activities	(30.7)	(23.0)	(33.5)	(35.0)	(42.7)
Net (decrease)/increase in cash and cash equivalents	15.8	15.8	11.7	52.1	22.1
Net effect of exchange rate changes	(0.3)	(1.0)	(0.4)	-	-
Cash and cash equivalents at the end of the year	34.4	53.8	65.1	117.2	139.3

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.