

UMS Holdings Limited

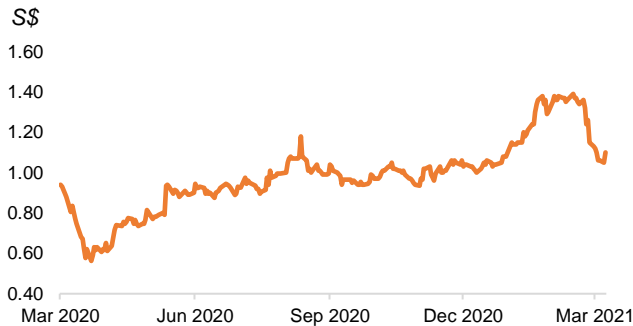
Date: 10 March 2021

BUY
(Maintained)

Target Price: S\$1.38
(+25.5%)

UMS Holdings (558.SI)

Price: S\$1.10 (as at 9 March 2020)



| Share price | 1M | 3M | 6M | 1Y |
|----------------------|--------|-------|--------|--------|
| UMS Holdings Limited | -19.7% | +7.8% | +11.7% | +36.5% |
| Straits Times Index | +5.9% | +9.3% | +24.4% | +11.7% |

| | |
|--|--|
| Market Capitalisation | S\$586.8 million |
| Current Price | S\$1.10 |
| Shares Outstanding | 533.4 million |
| Free Float | 79.5% |
| Major Shareholder | Luong Andy 20.4% |
| Recommendation of other brokers | 2 Buy 1 Outperform 1 Add 1 Overweight |

Source: Company data, Bloomberg, SAC Capital

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Growth trajectory to continue in 2021

Accelerated demand drove FY2020's topline. FY2020's revenue rose 24.7% yoy to S\$164.4m, underpinned by a strong 26.8% growth in the semiconductor segment. Net profit, however, was dragged down by S\$1.1m goodwill impairment at 51%-owned Kalf, and S\$5.9m writedown in the value of 40.7%-owned JEP. Excluding these, net profit would be S\$43.0m, 30.0% higher yoy.

Gross margin improved by 0.4% ppt to 53.3% in FY2020. We expect continued growth of the semiconductor segment with strong systems and component sales stemming from higher chip demand.

Strong semiconductor demand to persist. The World Semiconductor Trade Statistics projected that chip sales will rise by 8.4% to hit US\$461bn in 2021. This is in line with SEMI's forecasts for semiconductor manufacturing equipment sales to reach US\$71.9bn in 2021 and US\$76.1bn in 2022, 3% and 4% higher yoy respectively. The chip industry is currently facing a shortage, so much so that US President Biden has signed an executive order to address the issue. The world's largest chip foundry, TSMC has set a capex budget of US\$25bn to US\$28bn for 2021, up from US\$17.2bn in 2020.

Foothold in the supply chain. UMS' major customer is Applied Materials, a market leader in semiconductor equipment manufacturing with a market share of approximately 15%. TSMC, in turn, is a major customer of Applied Materials. Applied Materials' Q1FY21 revenue grew by 24% to US\$5.2bn. According to Bloomberg consensus estimates, Applied Materials' is expected to grow revenue by 26.1% and net profit by 44.6% in FY2021E.

Maintain BUY at a higher target price of S\$1.38. Our target price is based on a FY21E P/E of 16.9x, in line with the Singapore sector average P/E. We expect the semiconductor growth to continue in 2021, with the adoption of technologies leading to increased demand for advanced chipsets in automotive, medical and consumer electronics. Our target price implies a 25.5% upside to the last traded price.

Key Risks: Customer concentration, supply chain disruption, FX risk

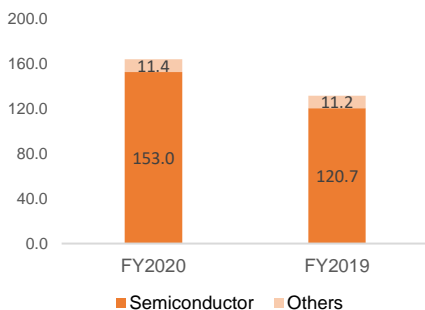
Key Financials

| Year ended 31 Dec | FY2017A | FY2018A | FY2019A | FY2020A | FY2021E |
|---|----------|---------|----------|----------|----------|
| Revenue (S\$'000) | 162,498 | 127,939 | 131,912 | 164,438 | 173,696 |
| % Growth | 55.9% | -21.3% | 3.1% | 24.7% | 5.6% |
| Gross margin | 54.7% | 60.2% | 52.9% | 53.3% | 53.2% |
| Profit/(loss) before tax (S\$'000) | 55,238 | 45,506 | 35,455 | 38,894 | 47,298 |
| Profit/(loss) before tax margin | 34.0% | 35.6% | 26.9% | 23.7% | 27.2% |
| Profit/(loss) attributable to owners (S\$'000) | 52,037 | 43,071 | 33,556 | 36,293 | 43,645 |
| EPS (Singapore cents) | 9.70 | 8.03 | 6.26 | 6.83 | 8.14 |
| P/E (x) | 11.3 | 13.6 | 17.5 | 16.2 | 13.4 |
| P/B (x) | 2.7 | 2.5 | 2.4 | 2.3 | 2.2 |
| Net Debt/Equity (%) | Net Cash | 2.7% | Net Cash | Net Cash | Net Cash |

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

Investment Highlights

Revenue Segments (in S\$ mil)



Source: Company Data, SAC Capital

Accelerated demand drove FY2020's topline

FY2020's revenue increased 24.7% yoy from S\$131.9 million to S\$164.4 million, underpinned by strong demand in the semiconductor segment, which surged 26.8% while the Others segment increased 1.8%. Net profit rose by 9.3% from S\$33.6 million to S\$36.5 million in FY2020. Gross margin improved slightly to 53.3% in FY2020, from 52.9% in FY2019. Net profit margin, however, fell 3.2 ppt from 25.4% to 22.2% due to the impairment charge.

The Group took a S\$1.1 million impairment of goodwill in 51%-owned Kalf and S\$5.9 million impairment charge for its investment in 40.7% associate JEP. JEP produces precision machining parts for OEMs that operate in the aviation sector, which accounts for 58.4% of its revenue. It also manufactures equipment and engages in trading. Hit hard by Covid-19, JEP's revenue fell 17.6% to S\$73.3 million. It took a S\$6.3 million impairment loss on intangibles that decimated net profit to S\$0.2 million, without which net profit would be flat at about S\$6.5m.

Excluding the above, UMS' net profit would be S\$43.0 million, 30.0% higher yoy.

We expect continued growth of the semiconductor segment, driven by strong systems and component sales stemming from higher chip demand.

Semiconductor demand growth to sustain in 2021

Covid-19 has accelerated the demand for the semiconductor industry, with higher demand from gaming, communications, IT infrastructures, data centers and healthcare electronics. The strong forecasted demand puts UMS in a good position to capitalise on the growth opportunities arising from the chip equipment manufacturing market and the acceleration of digital innovations.

The World Semiconductor Trade Statistics ("WSTS") forecasted that chip sales will accelerate, growing to 8.4% to hit US\$461 billion in 2021. This is in line with SEMI's forecasts that semiconductor manufacturing equipment growth will continue, to reach US\$71.9 billion in 2021 and US\$76.1 billion in 2022, or a growth of 3% and 4% yoy respectively. According to Global Market Insights, the adoption of technologies such as artificial intelligence (AI), Internet of Things in fabrication and the constant use of advance chipsets in automotive and consumer electronics, will drive the demand for semiconductor manufacturing. This demand will boost support for the semiconductor manufacturing equipment market and is projected to reach over US\$80 billion by 2026.

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.

Investment Highlights

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 15%. UMS also focuses on producing equipment for wafer manufacturing 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. In light of the recent global chip shortage, Applied Materials is expected to benefit with higher manufacturing equipment sales.

In Q1FY21 ending January 2021, Applied Materials' revenue grew to US\$5.2 billion, marking a 24.0% yoy increase. According to Bloomberg consensus estimates, Applied Materials' FY2021E expected revenue growth is 26.1%, and net profit 44.6%. Sales is expected to rise through the fiscal year 2021, 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. Digital transformation of companies and the accelerating economy are multi-year growth drivers for the semiconductor industry.

Maintain BUY Rating at a higher target price of S\$1.38

We maintain a BUY rating on UMS and increase fair value to S\$1.38 (from S\$1.26) using P/E valuation. Our target price is based on a FY21E P/E of 16.9x, in line with the Singapore sector average P/E of 16.9x. We expect the semiconductor growth to continue in 2021, with the adoption of technologies leading to increased demand for advanced chipsets in automotive and consumer electronics. However, we lower our earnings estimates slightly with the possible further impairment loss from JEP with the weakness of the aviation sector. Our target price implies a 25.5% upside to the last traded price.

| TICKER | Market Cap (USD mil) | P/E (as at 9 Mar 2021) |
|------------------------------|----------------------|------------------------|
| AEM HOLDINGS LTD | 773.8 | 10.6 |
| UMS HOLDINGS LTD | 436.2 | 16.1 |
| FRENCKEN GROUP LTD | 400.0 | 12.6 |
| MICRO-MECHANICS HOLDINGS LTD | 314.2 | 25.0 |
| ISDN HOLDINGS LTD | 194.2 | 23.2 |
| INNOTEK LTD | 121.0 | 11.5 |
| GRAND VENTURE TECHNOLOGY | 86.2 | 22.2 |
| AVI-TECH ELECTRONICS LTD | 51.5 | 17.2 |
| ASTI HOLDINGS LTD | 16.7 | 13.5 |
| SECTOR AVERAGE | 266.0 | 16.9 |

Source: Company Data, SAC Capital

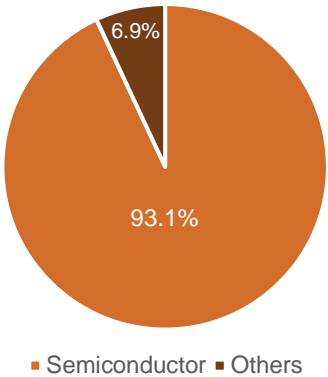
Business Segments

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

FY2020 Revenue



Source: Company Data, SAC Capital



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



Anodising, Passivation, Brazing & Welding, Plating



5-axis CNC Machining, Vertical Turning Lathe



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



Full system integration and validation testing



New business models, supply chain strategy & management

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, as well as water and chemical engineering solutions.

Business Segments

Others segment



Manufacturing and engineering services for highly specialized and customized products including engine casings for passenger airlines.



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



Reverse Osmosis water treatment systems



Metal products supply and fabrication

Income Statement

| | Fiscal Year Ended 31 Dec | | | | |
|--|--------------------------|----------------|----------------|----------------|----------------|
| \$'000 | FY2017A | FY2018A | FY2019A | FY2020A | FY2021E |
| Revenue | 162,498 | 127,939 | 131,912 | 164,438 | 173,696 |
| Cost of sales | (73,567) | (50,920) | (62,082) | (76,854) | (81,290) |
| Gross profit | 88,931 | 77,019 | 69,830 | 87,584 | 92,406 |
| Employee benefits expense | (16,593) | (16,616) | (15,905) | (19,362) | (23,304) |
| Depreciation expense | (4,321) | (5,671) | (6,874) | (7,701) | (8,480) |
| Other expenses | (12,322) | (11,707) | (10,884) | (11,500) | (12,066) |
| Other income/(charges) | (414) | 2,357 | (2,653) | (9,819) | (173) |
| Finance income | 389 | 210 | 331 | 200 | 109 |
| Finance expense | (390) | (611) | (964) | (597) | (1,012) |
| Share of profit of associate | - | 525 | 2,574 | 89 | (183) |
| Profit/(Loss) before tax | 55,238 | 45,506 | 35,455 | 38,894 | 47,298 |
| Income tax (expense) / benefit | (3,523) | (2,853) | (2,241) | (2,601) | (3,653) |
| Profit/(Loss) for the year | 51,715 | 42,653 | 33,214 | 36,293 | 43,645 |
| Profit/(Loss) attributable to owners of company | 52,037 | 43,071 | 33,556 | 36,293 | 43,645 |
| Minority Interests | (322) | (418) | (342) | (178) | - |
| EPS: | | | | | |
| -Basic (SG cents) | 9.70 | 8.03 | 6.26 | 6.83 | 8.14 |
| -Diluted (SG cents) | 9.70 | 8.03 | 6.26 | 6.83 | 8.14 |

Balance Sheet

| | Fiscal Year Ended 31 Dec | | | | |
|--|--------------------------|----------------|----------------|----------------|----------------|
| (\$'000) | FY2017A | FY2018A | FY2019A | FY2020A | FY2021E |
| Cash and bank balances | 59,571 | 18,926 | 34,364 | 53,787 | 64,760 |
| Trade receivables and other current assets | 23,431 | 15,149 | 22,072 | 23,477 | 24,799 |
| Inventories | 49,633 | 70,438 | 51,746 | 53,938 | 55,809 |
| Total current assets | 132,635 | 104,513 | 108,182 | 131,202 | 145,367 |
| PPE | 38,782 | 53,368 | 52,307 | 56,318 | 59,889 |
| Right-of-use assets | - | - | 4,237 | 4,755 | 4,755 |
| Investment property | 2,240 | 2,100 | 1,832 | 1,748 | 1,748 |
| Investment in associates | - | 29,501 | 39,397 | 35,360 | 35,555 |
| Loan to associate | 3,296 | 3,345 | - | 0 | 0 |
| Goodwill | 82,201 | 82,201 | 81,211 | 80,083 | 80,083 |
| Deferred tax assets | - | - | 47 | 71 | 71 |
| Total non-current assets | 126,519 | 170,515 | 179,031 | 178,335 | 182,101 |
| Total assets | 259,154 | 275,028 | 287,213 | 309,537 | 327,469 |
| Bank Borrowings | 19,001 | 20,295 | 9,334 | 15,710 | 18,591 |
| Trade and other payables | 18,077 | 14,123 | 18,760 | 25,356 | 20,661 |
| Loan from related parties | - | 1,403 | 1,403 | 1,403 | 1,403 |
| Lease liability | - | - | 262 | 259 | 184 |
| Income tax payable | 3,285 | 2,316 | 2,754 | 3,456 | 3,653 |
| Total current liabilities | 40,363 | 38,137 | 32,513 | 46,184 | 44,492 |
| Loan from related parties | 3,158 | 3,419 | 3,626 | 3,835 | 3,835 |
| Deferred tax liabilities | 1,427 | 2,606 | 2,127 | 1,908 | 1,908 |
| Long-term provision | 405 | 405 | 405 | 405 | 405 |
| Lease liability | - | - | 3,656 | 4,256 | 4,239 |
| Total non-current liabilities | 4,990 | 6,430 | 9,814 | 10,404 | 10,387 |
| Share Capital | 136,623 | 136,623 | 136,623 | 136,623 | 136,623 |
| Treasury Shares | - | - | - | (1,919) | (1,919) |
| Reserves | (10,560) | (10,683) | (10,823) | (10,683) | (10,683) |
| Retained earnings | 89,045 | 102,612 | 117,465 | 127,265 | 146,906 |
| Non-controlling interest | (1,307) | 1,909 | 1,621 | 1,663 | 1,663 |
| Total Equity | 213,801 | 230,461 | 244,886 | 252,949 | 272,590 |
| Total Liabilities and Equity | 259,154 | 275,028 | 287,213 | 309,537 | 327,469 |

Ratios

| | Fiscal Year Ended 31 Dec | | | | |
|---|--------------------------|---------|----------|----------|----------|
| | FY2017A | FY2018A | FY2019A | FY2020A | FY2021E |
| <i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i> | | | | | |
| Profitability (%) | | | | | |
| Gross profit/(loss) margin | 54.7% | 60.2% | 52.9% | 53.3% | 53.2% |
| Profit/(loss) before tax margin | 34.0% | 35.6% | 26.9% | 23.7% | 27.2% |
| Liquidity (x) | | | | | |
| Current ratio | 3.3 | 2.7 | 3.3 | 2.8 | 3.3 |
| Quick ratio | 2.1 | 0.9 | 1.7 | 1.7 | 1.6 |
| Interest coverage ratio | 142.6 | 75.5 | 37.8 | 66.1 | 66.1 |
| Net Debt to Equity (%) | Net Cash | 2.7% | Net Cash | Net Cash | Net Cash |
| Valuation (x) | | | | | |
| P/S | 3.6 | 4.6 | 4.4 | 3.6 | 3.4 |
| P/E | 11.3 | 13.6 | 17.5 | 16.2 | 13.4 |
| Core P/E at target price | 14.1 | 17.1 | 21.9 | 20.3 | 16.9 |
| P/B | 2.7 | 2.5 | 2.4 | 2.3 | 2.2 |
| P/NTA | 4.5 | 4.0 | 3.6 | 3.4 | 3.0 |
| Cash Conversion Cycle | | | | | |
| Trade receivable days | 53 | 43 | 61 | 52 | 52 |
| Inventory days | 246 | 505 | 304 | 256 | 251 |
| Trade payable days | 90 | 101 | 110 | 120 | 93 |
| CCC days | 209 | 447 | 255 | 188 | 210 |

Cash Flows Statement

| | Fiscal Year Ended 31 Dec | | | | |
|---|--------------------------|-----------------|-----------------|-----------------|-----------------|
| (\$'000) | FY2017A | FY2018A | FY2019A | FY2020A | FY2021E |
| Profit/(Loss) before tax | 55,238 | 45,506 | 35,455 | 38,894 | 47,298 |
| Depreciation expense | 4,321 | 5,671 | 6,874 | 7,701 | 8,480 |
| Allowance for inventories obsolescence | (910) | (34) | 1,611 | 972 | 1,166 |
| Interest income | (361) | (210) | (331) | (200) | (109) |
| Interest expense | 390 | 611 | 964 | 597 | 1,012 |
| Changes in working capital | (17,589) | (7,451) | 12,923 | 1,309 | (7,888) |
| Share of profit of Associate | - | (525) | (2,574) | 1,758 | 1,934 |
| Others | 944 | (1,622) | 1,019 | (3,956) | 8,769 |
| Income tax | (2,060) | (3,566) | (2,339) | (2,123) | (3,653) |
| Net generated from operating activities | 39,973 | 38,380 | 53,602 | 44,952 | 57,009 |
| Purchase of PPE | (10,564) | (15,685) | (2,207) | (11,588) | (12,051) |
| Proceeds from PPE disposal | 1,901 | 21 | 2,021 | 241 | 1,046 |
| Investment in Associate | (42) | (28,976) | (7,322) | (1,774) | (2,129) |
| Net cash outflow from acquisition of subsidiary | (866) | (4,386) | 28 | - | - |
| Others | (2,210) | 198 | 288 | 134 | 109 |
| Net Cash used in investing activities | (11,781) | (48,828) | (7,192) | (12,987) | (13,025) |
| Proceeds from bank borrowings | 25,766 | 48,320 | 41,700 | 16,904 | 14,881 |
| Repayment of bank borrowings | (7,014) | (47,254) | (52,639) | (10,700) | (12,000) |
| Dividends paid | (26,822) | (29,504) | (18,775) | (26,671) | (24,004) |
| Interest paid | (390) | (321) | (480) | (106) | (1,012) |
| Treasury share purchase | - | - | - | (1,919) | - |
| Repayment of loan from related parties | - | (1,403) | - | - | - |
| Repayment on lease liability | - | - | (463) | (512) | (300) |
| Net Cash used in financing activities | (8,460) | (30,162) | (30,657) | (23,004) | (22,435) |
| Net (decrease)/increase in cash and cash equivalents | 19,732 | (40,610) | 15,753 | 15,753 | 10,973 |
| Net effect of exchange rate | (2,781) | (35) | (315) | (970) | - |
| Cash and cash equivalents at the end of the year | 59,571 | 18,926 | 34,364 | 53,787 | 64,760 |

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| Party | Quantum of position |
|-------|---------------------|
| Nil | Nil |

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| Nature of Business Relation | Date of Business Relation |
|-----------------------------|---------------------------|
| Nil | Nil |

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| Analyst name | Quantum of position |
|--------------|---------------------|
| Nil | Nil |

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