

UMS Holdings Limited

19 August 2021

HOLD
(Maintained)

Price: S\$1.72 (as at 18 August 2021)

Target Price: S\$1.80 (+4.7%)

BBG	UMSH SP
Market cap	S\$917.5 million
Price (18 August 2021)	S\$1.720
52-week range	S\$0.925 – S\$1.780
Target Price	S\$1.800
Shares Outstanding	533.4 million
Free Float	83.5%
Major Shareholder	Andy Luong 16.4%
P/BV (06/21)	3.1x
Net debt to EBITDA (12/20)	Net cash

Source: Company data, Bloomberg, SAC Capital

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Demand still going strong

UMS' 1HFY21 revenue was 47.1% of our FY21E forecast, as consolidation of JEP's results only began in 2Q, and partially also affected by Malaysia's MCO which restricted number of workers in the facility. 1H PATMI were, however, 72.9% of our forecasts, with higher-than-expected profitability, along with the i) waiver of a S\$3.8m debt and interest, and ii) forex gain booked of S\$0.5m, offset by a S\$2.0m loss on JEP acquisition.

1H revenue rose 54.8% yoy from S\$75.2m to S\$116.4m. Semiconductor segment rose 52.8% yoy from S\$68.9m to S\$105.3m, making up 90.5% of revenue, as both integrated system and component sales increased, driven by high capex from global wafer fabs. PATMI rose 1.45x to S\$32.3m.

JEP consolidation. In June, the Group completed the mandatory offer for JEP, which ended with a 71.39% ownership by UMS. JEP's 1H revenue was S\$29.5m. Aerospace prospects are still rocky for now, but this may change with the potential reopening of borders. At the moment, JEP is able to take on some of the orders, adding to UMS' supply capacity.

Proposed 1 for 4 bonus issue. UMS is proposing a bonus issue on the basis of 1 bonus share for every 4 existing shares to increase their trading liquidity and broaden their shareholder base and investor pool.

Maintain HOLD and increase fair value to S\$1.80 (from S\$1.46). Our target price is based on a FY21E P/E of 18.1x. We maintained our FY21E revenue but adjusted our FY21 PATMI estimates (+51.8%) to account for the strong set of results in 2Q, higher ownership stake in JEP and higher-than-expected profitability of the consolidated contribution. We also introduced our FY22E estimates, which reflect a 14.3%/10.2% yoy increase in revenue/profit respectively on the continued growth of the semiconductor segment and a better outlook on the aerospace segment next year. Our target price implies a 4.7% upside to the last traded price.

Key Risks: Customer concentration, supply chain disruption

Key Financials

Year ended 31 Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue (S\$m)	127.9	131.9	164.4	247.0	282.4
EBIT (S\$m)	45.9	36.1	39.3	77.4	84.4
Profit/(loss) attributable to owners (S\$m)	43.1	33.6	36.3	66.3	73.0
Basic EPS (S cents)	8.03	6.26	6.83	12.36	13.62
Dividend per share (S cents)	5.50	3.50	5.00	4.95	5.77
Net cash / (debt) (S\$m)	-6.2	20.0	32.8	33.6	63.6
Valuation					
EBIT margin (%)	35.9	27.4	23.9	31.4	29.9
ROIC (%)	61.0	53.2	42.4	50.2	56.3
EV/EBITDA (x)	20.6	25.4	23.3	11.8	10.9
P/E (x)	21.3	27.3	25.3	13.8	12.6
Dividend yield (%)	3.2	2.0	2.9	2.9	3.4

Investment Highlights

Strong demand continues

UMS' 1H FY21 revenue was 47.1% of our FY21E forecast, as consolidation of JEP's results only began in 2Q, and partially also affected by Malaysia's MCO which restricted number of workers in the facility. 1H PATMI were, however, 72.9% of our forecasts, with higher-than-expected profitability, along with the i) waiver of a S\$3.8m debt and interest payable to CEO Mr. Andy Luong, extended by entities controlled by him to Kalf Engineering, and ii) forex gain booked of S\$0.5m, offset by a S\$2.0m loss on acquisition of JEP.

UMS reported 1H revenue rising 54.8% yoy from S\$75.2m to S\$116.4m. Semiconductor segment rose 52.8% yoy from S\$68.9m to S\$105.3m, making up 90.5% of revenue, as both Integrated System and component sales increased, driven by high capex from global wafer fabs. PATMI rose 1.45x to S\$32.3m.

Gross margin for 2Q21 edged up to 51.7%, higher than the 50.8% in 2Q20. Margin was down slightly compared to the 53.1% recorded in 1Q, due to the dilutive effect of consolidation of operations from JEP.

AMAT had seen strong QoQ growth previously this year (Q1: +10.0%, Q2: +8.1%). Based on consensus estimates, AMAT's upcoming Q3 result release is expected to reflect a 6.5% QoQ growth (or 35.3% yoy), trickling down to strong expected sales for UMS. Along with JEP's consolidation, we expect further HoH improvement in 2H.

JEP consolidation

In April, UMS acquired 13.10% of JEP Holdings. In June, the Group completed the mandatory offer for JEP, which ended with a 71.39% ownership by UMS. JEP's 1H revenue was S\$29.5m (quarterly results undisclosed). Aerospace prospects are still rocky for now, but this may change with the potential reopening of borders. At the moment, JEP is able to take on some of the orders, adding to UMS' supply capacity.

Proposed 1 for 4 bonus issue

UMS is proposing a bonus issue on the basis of 1 bonus share for every 4 existing shares to increase their trading liquidity and broaden their shareholder base and investor pool.

Investment Highlights

Maintain HOLD and increase fair value to S\$1.80

We maintained a HOLD rating on UMS and increase fair value to S\$1.80 (from S\$1.46) using P/E valuation. Our target price is based on a FY21E P/E of 18.1x, in line with the Singapore sector average P/E of 18.1x, and accounting for the effects of the proposed 1 for 4 bonus issue.

We maintained our FY21E revenue but adjusted our FY21 PATMI estimates (+51.8%) to account for the strong set of results in 2Q, higher ownership stake in JEP and higher-than-expected profitability of the consolidated contribution. We also introduced our FY22E estimates, which reflect a 14.3%/10.2% yoy increase in revenue/profit respectively on the continued growth of the semiconductor segment and a better outlook on the aerospace segment next year. Our target price implies a 4.7% upside to the last traded price.

TICKER	Market Cap (SGD mil)	P/E (as at 18 Aug 2021)
AEM HOLDINGS LTD	1,102.94	15.06
UMS HOLDINGS LTD	917.50	19.72
FRENCKEN GROUP LTD	947.95	17.16
MICRO-MECHANICS HOLDINGS LTD	437.95	25.44
ISDN HOLDINGS LTD	366.94	27.60
GRAND VENTURE TECHNOLOGY	291.68	16.45
INNOTEK LTD	193.34	11.05
AVI-TECH ELECTRONICS LTD	68.42	19.61
ASTI HOLDINGS LTD	21.14	10.84
SECTOR AVERAGE	483.09	18.10

Source: Company Data, SAC Capital

Income Statement

	Fiscal Year Ended 31 Dec				
S\$'m	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue	127.9	131.9	164.4	247.0	282.4
Cost of sales	(50.9)	(62.1)	(76.9)	(117.8)	(135.6)
Gross profit	77.0	69.8	87.6	129.2	146.8
Employee benefits expense	(16.6)	(15.9)	(19.4)	(29.4)	(32.5)
Depreciation expense	(5.7)	(6.9)	(7.7)	(11.4)	(13.0)
Other expenses	(11.7)	(10.9)	(11.5)	(16.1)	(16.9)
Other income/ (charges)	2.4	(2.7)	(9.8)	5.0	-
Finance income	0.2	0.3	0.2	0.1	0.2
Finance expense	(0.6)	(1.0)	(0.6)	(2.1)	(1.5)
Share of profit of associate	0.5	2.6	0.1	-	-
Profit before tax	45.5	35.5	38.9	75.4	83.1
Income tax expense	(2.9)	(2.2)	(2.6)	(9.0)	(9.9)
Profit for the year	42.7	33.2	36.3	66.5	73.2
Profit to owners	43.1	33.6	36.3	66.3	73.0
Minority Interests	(0.4)	(0.3)	0.0	0.2	0.2
EPS:					
-Basic and diluted (SG cents)	8.03	6.26	6.83	12.36	13.62

Balance Sheet

	Fiscal Year Ended 31 Dec				
S\$'m	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Cash and bank balances	18.9	34.4	53.8	68.7	88.5
Trade receivables and other current assets	15.1	22.1	23.5	48.4	53.2
Inventories	70.4	51.7	53.9	69.1	76.0
Total current assets	104.5	108.2	131.2	186.1	217.7
PPE	53.4	52.3	56.3	121.8	122.5
Right-of-use assets	-	4.2	4.8	10.5	13.0
Investment property	2.1	1.8	1.7	1.7	1.6
Goodwill	82.2	81.2	80.1	88.8	88.8
Intangible assets	170.5	179.0	178.3	222.8	226.0
Total non-current assets	275.0	287.2	309.5	408.9	443.7
Total assets	20.3	9.3	15.7	10.5	7.3
Bank Borrowings	14.1	18.8	25.4	36.8	37.5
Trade and other payables	1.4	1.4	1.4	1.4	1.4
Loan from related parties	-	0.3	0.3	1.4	1.3
Lease liability	38.1	32.5	46.2	59.0	57.4
Total current liabilities	3.4	3.6	3.8	0.0	0.0
Loan from related parties	-	-	-	23.2	16.2
Bank borrowings	0.0	3.7	4.3	13.7	12.0
Lease liability	6.4	9.8	10.4	46.0	37.3
Total non-current liabilities	136.6	136.6	136.6	136.6	136.6
Share Capital	-	-	(1.9)	(2.0)	(2.0)
Treasury Shares	(10.7)	(10.8)	(10.7)	(11.2)	(11.2)
Reserves	102.6	117.5	127.3	153.1	195.6
Retained earnings	230.5	244.9	252.9	303.9	349.0
Total Equity	275.0	287.2	309.5	408.9	443.7
Total Liabilities and Equity	18.9	34.4	53.8	68.7	88.5

Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Profitability (%)					
Gross profit/(loss) margin	60.2	52.9	53.3	52.3	52.0
Profit/(loss) before tax margin	35.6	26.9	23.7	30.5	29.4
Liquidity (x)					
Current ratio	2.7	3.3	2.8	3.2	3.8
Quick ratio	0.9	1.7	1.7	2.0	2.5
Interest coverage ratio	75.5	37.8	66.1	36.1	56.2
Net Debt to Equity (%)	2.7	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/E	21.3	27.3	25.3	13.8	12.6
P/B	4.0	3.7	3.6	3.0	2.6
EV/EBITDA	20.6	25.4	23.3	11.8	10.9
Cash Conversion Cycle					
Trade receivable days	43	61	52	71	69
Inventory days	505	304	256	214	205
Trade payable days	101	110	120	114	101
CCC days	447	255	188	172	172

Cash Flows Statement

	Fiscal Year Ended 31 Dec				
S\$'m	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Profit/(Loss) before tax	45.5	35.5	38.9	75.4	83.1
Depreciation expense	5.7	6.9	7.7	11.4	13.0
Allowance for inventories obsolescence	(0.0)	1.6	1.0	1.8	1.1
Interest income	(0.2)	(0.3)	(0.2)	(0.1)	(0.2)
Interest expense	0.6	1.0	0.6	2.1	1.5
Changes in working capital	(7.5)	12.9	1.3	(2.6)	(11.0)
Share of profit of Associate	(0.5)	(2.6)	1.8	-	-
Income tax	(3.6)	(2.3)	(2.1)	(9.0)	(9.9)
Net generated from operating activities	53.6	56.4	45.0	57.6	77.6
Purchase of PPE	(15.7)	(2.2)	(11.6)	(9.9)	(13.7)
Proceeds from disposal of PPE	0.0	2.0	0.2	1.7	0.0
Investment in Associate	(29.0)	(7.3)	(1.8)	-	-
Net cash outflow from acquisition of subsidiary	(4.4)	0.0	0.0	(10.2)	0.0
Net Cash used in investing activities	(48.8)	(7.2)	(13.0)	(16.3)	(13.5)
Proceeds from bank borrowings	48.3	42.2	16.9	28.4	17.9
Repayment of bank borrowings	(47.3)	(53.2)	(10.7)	(25.2)	(27.7)
Dividends paid	(29.5)	(18.8)	(26.7)	(26.4)	(30.8)
Interest paid	(0.3)	(0.5)	(0.1)	(2.1)	(1.5)
Repayment on lease liability	-	(0.5)	(0.5)	(2.2)	(2.6)
Net Cash used in financing activities	(28.8)	(30.7)	(23.0)	(26.4)	(44.3)
Net (decrease)/increase in cash and cash equivalents	(40.6)	15.8	15.8	14.9	19.9
Net effect of exchange rate changes	(0.0)	(0.3)	(1.0)	0.0	0.0
Cash and cash equivalents at the end of the year	18.9	34.4	53.8	68.7	88.5

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