

# UMS Holdings Limited

22 August 2022

## BUY

<b>BBG</b>	UMSH SP
<b>Market cap</b>	S\$753.5 million
<b>Price (19 Aug 2022)</b>	S\$1.26
<b>52-week range</b>	S\$1.05 - S\$1.57
<b>Target Price</b>	S\$1.75 (previously S\$1.55)
<b>Shares Outstanding</b>	667 m
<b>Free Float</b>	83.5%
<b>Major Shareholder</b>	Andy Luong 16.4%
<b>P/BV (06/22)</b>	2.8x
<b>Net debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

### Analyst

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## Strong 1H, 2H to be better

UMS delivered record 1H results. 1H topline (S\$171m) and bottomline (S\$40m) came in at 46% and 57% of our estimates. Revenue growth of 40% were driven by sustained demand for both its semiconductor integrated systems and components, consolidation of JEP's results and contributions from its subsidiaries. Net profit increased 34% yoy, slightly impacted by rising material and operational costs which brought down pretax margin from 33% to 31%. Nevertheless, margin has since normalised as gross and pre-tax margin has stabilised (2Q: 52%/31% vs 1Q: 51%/30%). The Group has stocked up on its inventory which insulates it from fluctuation in input materials' prices. Manpower costs are unlikely to increase further as shortage of workers eases. Manpower constraint is previously the limiting factor to production output. We can expect this issue to progressively improve as UMS can now recruit more foreign workers following the deferment of 80 (local):20 (foreign) employment policy to end 2024 in Malaysia. Indonesia has also lifted its ban of its workers' entry into Malaysia.

Qoq growth of its semicon sales still intact as 2Q grew 7%. We can expect a stronger 2H as UMS's key customer has maintained an upbeat order forecast with an expected ~2% qoq growth in its 4Q. Despite lowering of CAPEX plans from some chipmakers, semicon equipment makers such as ASML and Lams research are still showing optimistic numbers in terms of net bookings and upcoming quarter sales guidance. As such, macro outlook is still in favour of UMS.

Plans to onboard new customer is in good progress. The new Penang plant is set to finish construction by end FY2022. Contribution from this front-end semicon customer is a key growth driver for the Group in FY23. It will also help to cushion the impact of customer concentration in a slowing market environment.

Maintain BUY at higher TP of S\$1.75 (COE: 13.5%). In accordance to higher expected output from robust order forecast, we raise our FY22E revenue forecast marginally to S\$371.6m (+1%). Going forward, US' US\$52b commitment under the CHIPS Act will support spending from chipmakers to install capacity in the US. This will lend support to demand for front end semicon equipment. We lower FY22E/FY23E effective tax rate to align with 1H22's ~20%.

## Key Financials

Year ended 31 Dec	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue (S\$m)	132	164	271	372	394
EBIT (S\$m)	36	39	80	117	125
Profit/(loss) attributable to owners (S\$m)	34	36	53	86	92
Basic EPS (S cents)	6	7	8	13	14
Dividend per share (S cents)	4	4	5	8	8
Net cash / (debt) (S\$m)	20	33	29	29	73
<b>Valuation</b>					
EBIT margin (%)	27	24	29	31	32
ROIC (%)	16	21	21	29	31
EV/EBITDA (x)	20	17	9	6	5
P/E (x)	20	18	16	10	9
Dividend yield (%)	3	3	4	6	7

## Income Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
<b>Revenue</b>	<b>132</b>	<b>164</b>	<b>271</b>	<b>372</b>	<b>394</b>
Cost of sales	(62)	(77)	(128)	(178)	(185)
<b>Gross profit</b>	<b>70</b>	<b>88</b>	<b>143</b>	<b>193</b>	<b>209</b>
Employee benefits expense	(16)	(20)	(35)	(44)	(47)
Depreciation expense	(7.0)	(8.0)	(12)	(15)	(16)
Other expenses	(11)	(12)	(17)	(21)	(23)
Other income/ (charges)	(3)	(10)	1	3	3
Net finance expense	(1)	(0)	(1)	(1)	(1)
Share of profit of associate	3	0	0	0	0
<b>Profit before tax</b>	<b>36</b>	<b>39</b>	<b>79</b>	<b>116</b>	<b>125</b>
Income tax expense	(2)	(3)	(22)	(23)	(25)
<b>Profit for the year</b>	<b>33</b>	<b>36</b>	<b>58</b>	<b>93</b>	<b>100</b>
<b>Profit to owners</b>	<b>34</b>	<b>36</b>	<b>53</b>	<b>86</b>	<b>92</b>
<b>Minority Interests</b>	<b>(0)</b>	<b>0</b>	<b>5</b>	<b>7</b>	<b>8</b>

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
<b>Profitability (%)</b>					
Gross margin	53	53	53	52	53
Pretax margin	27	24	29	31	32
<b>Liquidity (x)</b>					
Current ratio	3.3	2.8	2.5	2.5	2.9
Quick ratio	1.7	1.7	1.5	1.4	1.8
Interest coverage ratio	38	66	85	125	134
Net Debt to Equity (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	20	18	16	10	9
P/B	4	3	3	3	2
EV/EBITDA	20	17	9	6	5
<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

S\$'m	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
Cash and bank balances	34	54	65	65	109
Trade receivables and other current assets	22	24	67	92	98
Inventories	52	54	87	121	126
Other assets	-	-	0	0	0
<b>Total current assets</b>	<b>108</b>	<b>131</b>	<b>220</b>	<b>279</b>	<b>333</b>
PPE	52	56	117	122	117
Right-of-use assets	4	5	10	9	8
Investment property	2	2	2	1	1
Intangible assets	81	80	89	88	88
Deferred tax assets	0	0	0	0	0
<b>Total non-current assets</b>	<b>179</b>	<b>178</b>	<b>217</b>	<b>221</b>	<b>215</b>
<b>Total assets</b>	<b>287</b>	<b>310</b>	<b>437</b>	<b>500</b>	<b>548</b>
Bank Borrowings	9	16	12	12	12
Trade and other payables	19	25	56	78	81
Loan from related parties	1	1	1	1	1
Lease liability	0	0	1	1	1
Income tax payable	3	4	19	19	19
<b>Total current liabilities</b>	<b>33</b>	<b>46</b>	<b>89</b>	<b>111</b>	<b>114</b>
Loan from related parties	4	4	-	-	-
Bank borrowings	-	-	23	23	23
Lease liability	4	4	10	10	10
Provisions	0	0	0	0	0
Deferred tax liabilities	2	2	10	10	10
<b>Total non-current liabilities</b>	<b>10</b>	<b>10</b>	<b>43</b>	<b>43</b>	<b>43</b>
Share Capital	137	137	137	137	137
Treasury Shares	-	(2)	(2)	(2)	(2)
Reserves	(11)	(11)	(12)	(12)	(12)
Retained earnings	118	127	153	188	224
NCI	2	2	28	35	43
<b>Total Equity</b>	<b>245</b>	<b>253</b>	<b>304</b>	<b>346</b>	<b>390</b>
<b>Total Liabilities and Equity</b>	<b>287</b>	<b>310</b>	<b>437</b>	<b>500</b>	<b>548</b>

## Cash Flow Statement

S\$'m	Fiscal Year Ended 31 Dec				
	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E
<b>Profit/(Loss) before tax</b>	<b>36</b>	<b>39</b>	<b>79</b>	<b>116</b>	<b>125</b>
Depreciation expense	7	8	12	15	16
Allowance for inventories obsolescence	2	1	(2)	-	-
Interest income	(0)	(0)	(0)	(0)	(0)
Interest expense	1	1	1	1	1
Others	4	9	4	0	0
Changes in working capital	13	1	(23)	(37)	(7)
Share of profit of Associate	(3)	(0)	(0)	-	-
Income tax	(2)	(2)	(5)	(23)	(25)
<b>Net generated from operating activities</b>	<b>56</b>	<b>45</b>	<b>66</b>	<b>72</b>	<b>110</b>
Purchase of PPE	(2)	(12)	(10)	(20)	(10)
Proceeds from disposal of PPE	2	0	0	-	-
Investment in Associate	(7)	(2)	0	-	-
Net cash outflow from acquisition of subsidiary	0	0	(10)	-	-
Others	0	0	(1)	0	0
<b>Net Cash used in investing activities</b>	<b>(7)</b>	<b>(13)</b>	<b>(21)</b>	<b>(20)</b>	<b>(10)</b>
Proceeds from bank borrowings	42	17	25	-	-
Repayment of bank borrowings	(53)	(11)	(34)	-	-
Dividends paid	(19)	(27)	(23)	(52)	(55)
Interest paid	(1)	(0)	(1)	(1)	(1)
Repayment on lease liability	(1)	(1)	(2)	-	-
Others	0	(2)	(0)	-	-
<b>Net Cash used in financing activities</b>	<b>(31)</b>	<b>(23)</b>	<b>(34)</b>	<b>(52)</b>	<b>(56)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>18</b>	<b>20</b>	<b>12</b>	<b>0</b>	<b>44</b>
Net effect of exchange rate changes	(0)	(1)	(0)	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>34</b>	<b>54</b>	<b>65</b>	<b>65</b>	<b>109</b>

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