

COMPANY RESULTS

UMS Holdings (UMSH SP)

1H22: Above Expectations; Benefited From Solid Semiconductor Demand Worldwide

1H22 earnings of S\$40m (+23% yoy) are above our expectations, forming 65% of our 2022F estimate as UMS continues to benefit from solid semiconductor demand worldwide. UMS's order forecasts remain strong as its key customer expects increased sales despite ongoing supply chain challenges. We raised our 2022 and 2023 EPS by 27% and 35%. Maintain BUY with a 3%-lower target price of S\$1.40 (reduce PE peg to mean of 11x 2023F, from 2SD of 15.5x 2022F).

1H22 RESULTS

Year to 31 Dec (S\$m)	1H22	1H21	% chg yoy
Revenue	171	116	+47
Gross profit	88	61	+44
Gross margin (%)	51.6	52.3	(0.7ppt)
PATMI	40	32	23
Net margin (%)	23.1	27.7	(4.6ppt)

Source: UMS Holdings, UOB Kay Hian

RESULTS

- 1H22 earnings benefited from solid semiconductor worldwide.** UMS Holdings' (UMS) 1H22 earnings of S\$40m (+23% yoy) are above our expectations, forming 65% of our full-year estimate as UMS continues to benefit from the solid semiconductor demand worldwide and favourable tailwinds in the recovering aerospace sector.
- Robust revenue growth across all sectors.** For 1H22, semiconductor sales increased 41% to S\$149m, while aerospace revenue more than doubled by 139% to about \$7m. Sales in the "others" category jumped by 89% to S\$15m. Semiconductor Integrated System sales grew 20% to S\$62m. Component sales also shot up 62% to S\$87m. All of UMS's key geographies experienced growth. Malaysia and the "others" market reported the strongest growth, clocking in triple-digit sales increases. Revenue in Malaysia grew 131% and revenue in the "others" market vaulted 175% in 1HF22. Sales in Singapore went up by 47%, while revenue in Taiwan and the US increased by 18% each.
- UMS's orders forecasts remain strong** as its key customer expects increased sales despite the impact of ongoing supply chain challenges in FY22. Its key customer also announced that the accelerating of technology inflections will enable it to outgrow the semiconductor market in the years ahead. This strong customer forecast is good news for UMS's growth momentum in the coming months. According to SEMI, global sales of total semiconductor manufacturing equipment by original equipment manufacturers are forecast to grow 14.7% in 2022 and 2.8% in 2023.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	164	271	347	365	383
EBITDA	54	92	111	126	132
Operating profit	46	80	100	113	119
Net profit (rep./act.)	36	53	79	84	89
Net profit (adj.)	36	53	79	84	89
EPS (S\$ cents)	6.8	8.0	11.9	12.6	13.4
PE (x)	18.2	15.6	10.4	9.8	9.3
P/B (x)	2.6	3.0	2.5	2.2	1.9
EV/EBITDA (x)	15.0	8.8	7.3	6.4	6.1
Dividend yield (%)	3.2	4.0	4.0	4.0	4.0
Net margin (%)	22.2	19.6	22.9	23.1	23.3
Net debt/(cash) to equity (%)	(13.6)	(11.1)	(14.0)	(26.1)	(33.9)
Interest cover (x)	135.8	123.0	n.a.	n.a.	n.a.
ROE (%)	14.7	20.1	26.3	23.9	22.0
Consensus net profit	-	-	72	78	71
UOBKH/Consensus (x)	-	-	1.10	1.08	1.26

Source: UMS Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.24
Target Price	S\$1.40
Upside	+12.9%
(Previous TP)	S\$1.45)

COMPANY DESCRIPTION

UMS provides high precision components and complex electromechanical assembly and final testing for semiconductor equipment manufacturers.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	UMSH SP
Shares issued (m):	666.8
Market cap (S\$m):	826.8
Market cap (US\$m):	600.8
3-mth avg daily t'over (US\$m):	2.6

Price Performance (%)

52-week high/low	S\$ 1.55/S\$ 1.08			
1mth	3mth	6mth	1yr	YTD
13.8	6.9	0.0	(11.4)	(18.4)

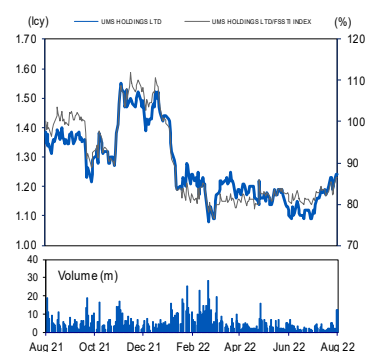
Major Shareholders

Andy Luong (Founder)	16.4%
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FY22 NAV/Share (S\$) 0.49

FY22 Net Cash/Share (S\$) 0.07

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Expansion to continue despite near-term challenges and softened forecasts by some global chipmakers.** While the bullish SEMI forecast provides new oomph to the sustained semiconductor boom, near-term challenges such as supply disruptions and rising inflation persist. Some global chipmakers have softened their forecasts and scaled down their capex plans in view of the expected global economic slowdown. The Group, however, will carry on with its expansion plans with its new Penang factory scheduled for completion by end-22. This will increase current production capacity substantially and position the Group well to take on new orders from potential new customers which are expanding in South-east Asia. Ongoing engagements with prospective customers are progressing well.
- **There are bright sparks in the labour landscape in Malaysia** as the Malaysian authorities have announced the easing of the 80-20 employment policy by two years and are opening up new sources for foreign worker recruitment. The Group has intensified its hiring progress since getting its quota approval to hire more foreign workers. Efforts to recruit local talent will persist. Although some challenges remain, the easing of foreign worker restrictions will help alleviate the tight labour situation in Penang.

EARNINGS REVISION/RISK

- We raise our 2022/23/24 earnings estimates by 27%/35%/32%, after raising our revenue forecasts by 19%/11%/4% to account for the stronger-than-expected 1H22 results and positive outlook from UMS's key customer. Also, we raise our gross margin assumption to 50.0%/52.0%/52.0%, up from 51.0%/50.0%/49.1%, to account for better operating leverage from a higher revenue base.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 3%-lower target price of S\$1.40 (from S\$1.45)**, after lowering our PE peg to 11x based on mean PE, down from 15.5x, +2SD of historical average. This is to account for the late-cycle of the semiconductor industry, which is typically followed by a subsequent slowdown/decline in industry earnings. Also, we roll over our valuation base year to 2023F from 2022F.

SHARE PRICE CATALYST

- Higher-than-expected factory utilisation rates.
- Return of orders for aircraft components to benefit recently-acquired subsidiary JEP Holdings.
- Better-than-expected cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 15 Aug 22 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE	Yield	Net Gearing
					2022 (x)	2023 (x)	2022 (x)	2023 (x)	2022 (x)	2023 (x)	2022 (%)	2022 (%)	(%)
UMS	UMSH SP	SGD	1.24	601	10.4	9.8	2.5	2.2	7.3	6.4	26.3	4.0	(8.9)
AEM	AEM SP	SGD	4.62	1,038	12.1	10.2	2.9	2.4	8.5	7.3	26.7	2.1	(17.6)
Venture	VMS SP	SGD	18.19	3,846	15.1	14.2	1.9	1.8	10.5	9.9	12.6	4.4	(25.1)
Frencken	FRKN SP	SGD	1.19	369	9.0	7.5	1.2	1.1	4.8	4.2	14.3	3.3	(18.0)
Singapore average					12.1	10.6	2.0	1.8	7.9	7.1	17.9	3.3	(20.2)
Kulicke & Soffa	KLIC US	USD	50.1	2,909	6.9	12.6	n.a.	n.a.	4.4	9.1	39.7	n.a.	(58.3)
Applied Materials	AMAT US	USD	110.38	96,025	14.8	13.3	8.2	7.3	12.1	11.4	54.2	0.9	16.7
Lam Research	LRCX US	USD	518.59	71,034	15.8	14.0	11.3	8.7	12.7	11.7	74.8	1.2	21.5
KLA Corp	KLAC US	USD	381.2	54,056	17.3	15.6	38.6	23.5	14.3	12.8	139.0	1.1	290.6
Teradyne	TER US	USD	104.34	16,359	26.6	21.0	7.8	7.2	16.7	14.7	26.8	0.4	(32.4)
Global average					16.3	15.3	16.5	11.7	12.0	12.0	66.9	0.9	47.6

Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	271.2	347.2	364.5	382.7
EBITDA	92.2	111.1	125.7	132.4
Deprec. & amort.	12.4	10.9	12.9	13.3
EBIT	79.8	100.2	112.8	119.1
Associate contributions	0.4	0.0	0.0	0.0
Net interest income/(expense)	(0.8)	0.9	1.3	1.4
Pre-tax profit	79.4	101.1	114.1	120.5
Tax	(21.8)	(17.2)	(25.4)	(26.8)
Minorities	(4.5)	(4.5)	(4.5)	(4.5)
Net profit	53.1	79.4	84.3	89.2
Net profit (adj.)	53.1	79.4	84.3	89.2

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	66.1	57.9	110.6	101.0
Pre-tax profit	79.4	101.1	114.1	120.5
Tax	1.8	(23.6)	(17.2)	(23.7)
Deprec. & amort.	12.4	10.9	12.9	13.3
Working capital changes	(39.3)	(30.4)	0.8	(9.1)
Non-cash items	11.8	0.0	0.0	0.0
Investing	(20.9)	(9.7)	(20.0)	(15.0)
Capex (growth)	(10.0)	(10.0)	(20.0)	(15.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(11.0)	0.3	0.0	0.0
Financing	(33.5)	(22.0)	(32.4)	(27.8)
Dividend payments	(21.5)	(30.8)	(33.4)	(33.4)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	14.7	7.8	(0.3)	4.2
Others/interest paid	(26.7)	0.9	1.3	1.4
Net cash inflow (outflow)	11.7	26.2	58.2	58.2
Beginning cash & cash equivalent	53.8	65.1	88.0	140.4
Changes due to forex impact	(0.4)	(3.3)	(5.7)	(5.8)
Ending cash & cash equivalent	65.1	88.0	140.4	192.8

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	116.7	115.8	122.9	124.6
Other LT assets	100.4	100.3	100.3	100.3
Cash/ST investment	65.1	88.0	140.4	192.8
Other current assets	154.6	185.1	191.1	207.5
Total assets	436.8	489.2	554.8	625.2
ST debt	11.6	19.4	19.1	23.3
Other current liabilities	77.8	73.3	86.5	93.8
LT debt	22.7	22.7	22.7	22.7
Other LT liabilities	20.4	18.7	20.5	23.7
Shareholders' equity	276.3	327.1	378.0	433.8
Minority interest	27.9	27.9	27.9	27.9
Total liabilities & equity	436.8	489.2	554.8	625.2

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	34.0	32.0	34.5	34.6
Pre-tax margin	29.3	29.1	31.3	31.5
Net margin	19.6	22.9	23.1	23.3
ROA	14.2	17.2	16.1	15.1
ROE	20.1	26.3	23.9	22.0
Growth				
Turnover	64.9	28.0	5.0	5.0
EBITDA	71.0	20.4	13.2	5.3
Pre-tax profit	104.1	27.3	12.9	5.6
Net profit	45.6	49.6	6.1	5.9
Net profit (adj.)	45.6	49.6	6.1	5.9
EPS	17.0	49.6	6.1	5.9
Leverage				
Debt to total capital	10.1	10.6	9.3	9.1
Debt to equity	12.4	12.9	11.1	10.6
Net debt/(cash) to equity	(11.1)	(14.0)	(26.1)	(33.9)
Interest cover (x)	123.0	n.a.	n.a.	n.a.