UMS Holdings Limited

13 May 2021

HOLD
(Downgrade)

Price: S$1.32 (as at 12 May 2021)

Target Price: S$1.46 (+10.6%)

BBG	UMSH SP
Market cap	S$704.1 million
Price (12 May 2021)	S$1.320
52-week range	S$0.781 – S$1.490
Target Price	S$1.460
Shares Outstanding	533.4 million
Free Float	79.5%
Major Shareholder	Andy Luong 20.4%

P/BV (03/21)	2.5x
Net debt to EBITDA (03/21)	Net cash

Source: Company data, Bloomberg, SAC Capital

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Good start to the year

High demand continues in 1QFY21. UMS posted a record quarter in 1QFY21 as revenue increased 42.3% yoy from S$34.9 million to S$49.6 million. This was mainly due to higher integrated system and component sales tied to the strong global demand. The semiconductor segment surged 47.3% to S$46.7 million, whereas the Others segment decreased 9.1% to S$2.9 million with lower revenue from Starke Singapore.

Net profit rose by 43.6% from S$10.7 million to S$15.4 million in 1QFY21. Gross margin is stable at 53.1% (from 53.3% in 1QFY20).

JEP Holdings became a subsidiary. The Group had made an offer in April to acquire JEP Holdings, increasing their stake from 40.7% previously during our update to 57.88% (as at 11 May), making JEP a subsidiary. Management guided that they took into account the future of the aviation sector and believe the future recovery will put them in a position to take on more orders. Previously-associate JEP contributed S$0.3 million to the Group's 1QFY21 profit, down 70% from the S$0.9 million contribution last year.

Order book of AMAT expected to remain strong. UMS' major customer Applied Materials' revenue is expected to grow 4.8% qoq and 2.1% qoq in Q2 and Q3 respectively. Consensus estimates for Q3 net income is at US$1.43bn.

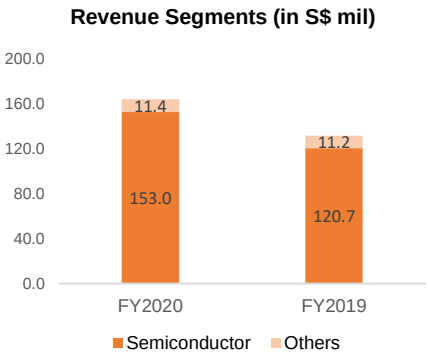
Downgrade to HOLD despite increasing our target price to S$1.46. Our target price is based on a FY21E P/E of 17.6x, in line with the Singapore sector average P/E. We adjusted our estimates to account for subsidiary JEP's financials (FY21E revenue: +42.2%, PATMI: +1.4%). We believe JEP's growth will still be muted in Q2 in light of the ongoing hit in the aviation sector. We expect the semiconductor segment will lead growth with sustained demand for advanced chipsets. Despite that, we believe some of the positives had been priced in. Our target price implies a 10.9% 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$'m)	162.5	127.9	131.9	164.4	247.0
EBIT (S$'m)	55.2	45.9	36.1	39.3	50.5
Net profit (S$'m)	52.0	43.1	33.6	36.3	44.3
Basic EPS (S cents)	9.70	8.03	6.26	6.83	8.26
Dividend per share (S cents)	6.00	5.50	3.50	5.00	4.50
Net cash / (debt) (S$'m)	37.4	(6.2)	20.0	32.8	40.1
Valuation					
EBIT margin (%)	34.0%	35.9%	27.4%	23.9%	20.5%
ROE (%)	67.1%	57.2%	49.9%	39.6%	30.3%
EV/EBITDA (x)	10.9	13.4	15.5	13.8	9.9
P/E (x)	13.5	16.3	21.0	19.4	15.9
Dividend yield (%)	4.7	4.3	2.7	3.9	3.5

Investment Highlights



Source: Company Data, SAC Capital

High demand continues in 1QFY21

UMS posted a record quarter in 1QFY21 as revenue increased 42.3% yoy from S$34.9 million to S$49.6 million. This was mainly due to higher integrated system and component sales tied to the strong global demand. The semiconductor segment surged 47.3% to S$46.7 million, whereas the Others segment decreased 9.1% to S$2.9 million with lower revenue from Starke Singapore.

Net profit rose by 43.6% from S$10.7 million to S$15.4 million in 1QFY21. Gross margin is stable at 53.1% (from 53.3% in 1QFY20).

We expect continued growth of the semiconductor segment, driven by strong systems and component sales stemming from higher chip demand. TSMC has set a capex budget of US$25bn to US$28bn for 2021, up from US$17.2bn in 2020. Intel also announced a US$20bn investment to build two new fabs.

JEP Holdings became a subsidiary

The Group had made an offer in April to acquire JEP Holdings, increasing their stake from 40.7% previously during our update to 57.88% (as at 11 May), making JEP a subsidiary. Management guided that they took into account the future of the aviation sector and believe the future recovery will put them in a position to take on more orders.

Previously-associate JEP contributed S$0.3 million to the Group's 1QFY21 profit, down 70% from the S$0.9 million contribution last year. JEP produces precision machining parts for OEMs that operate in the aviation sector, which accounts for 58.8% of its FY2020 revenue. It also manufactures equipment and engages in trading.

Order book of Applied Materials expected to remain strong

Applied Materials is expected to continue to benefit from higher manufacturing equipment sales with the global chip shortage. Applied Materials' revenue is expected to grow 4.8% qoq and 2.1% qoq in Q2 and Q3 respectively. Consensus estimates for Q3 (ending 31 July 2021) net income is at US$1.43bn.

We continue to believe sales will 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.

Investment Highlights

Downgrade to HOLD despite increasing our target price to S$1.46

We downgrade to a HOLD rating on UMS and increase fair value to S$1.46 (from S$1.38) using P/E valuation. Our target price is based on a FY21E P/E of 17.6x, in line with the Singapore sector average P/E of 17.6x.

We adjusted our estimates to account for subsidiary JEP's financials (FY21E revenue: +42.2%, PATMI: +1.4%). We believe JEP's growth will still be muted in Q2 in light of the ongoing hit in the aviation sector. We expect the semiconductor segment will lead growth with sustained demand for advanced chipsets. Despite that, we believe some of the positives had been priced in. Our target price implies a 10.9% upside to the last traded price.

TICKER	Market Cap (USD mil)	P/E (as at 12 May 2021)
AEM HOLDINGS LTD	728.7	9.7
UMS HOLDINGS LTD	530.0	17.1
FRENCKEN GROUP LTD	456.4	14.2
MICRO-MECHANICS HOLDINGS LTD	326.5	25.2
ISDN HOLDINGS LTD	198.3	17.2
GRAND VENTURE TECHNOLOGY	155.4	30.3
INNOTEK LTD	151.6	14.4
AVI-TECH ELECTRONICS LTD	50.2	16.6
ASTI HOLDINGS LTD	17.5	13.9
SECTOR AVERAGE	**290.5**	**17.6**

Source: Company Data, SAC Capital

Income Statement

	Fiscal Year Ended 31 Dec				
$'000	FY2017A	FY2018A	FY2019A	FY2020A	FY2021E
Revenue	**162,498**	**127,939**	**131,912**	**164,438**	**246,980**
Cost of sales	(73,567)	(50,920)	(62,082)	(76,854)	(143,682)
Gross profit	**88,931**	**77,019**	**69,830**	**87,584**	**103,298**
Employee benefits expense	(16,593)	(16,616)	(15,905)	(19,362)	(25,254)
Depreciation expense	(4,321)	(5,671)	(6,874)	(7,701)	(13,861)
Other expenses	(12,322)	(11,707)	(10,884)	(11,500)	(18,684)
Other income/(charges)	(414)	2,357	(2,653)	(9,819)	5,026
Finance income	389	210	331	200	131
Finance expense	(390)	(611)	(964)	(597)	(2,146)
Share of profit of associate	-	525	2,574	89	-
Profit/(Loss) before tax	**55,238**	**45,506**	**35,455**	**38,894**	**48,511**
Income tax (expense) / benefit	(3,523)	(2,853)	(2,241)	(2,601)	(3,835)
Profit/(Loss) for the year	**51,715**	**42,653**	**33,214**	**36,293**	**44,676**
Profit/(Loss) attributable to owners of company	**52,037**	**43,071**	**33,556**	**36,293**	**44,263**
Minority Interests	(322)	(418)	(342)	(178)	412
EPS:					
-Basic and diluted (SG cents)	9.70	8.03	6.26	6.83	8.26

Ratios

	Fiscal Year Ended 31 Dec				
	FY2017A	FY2018A	FY2019A	FY2020A	FY2021E
Adoption of SFRS 16 Leases increased lease liability in FY2019					
Profitability (%)					
Gross profit/(loss) margin	54.7%	60.2%	52.9%	53.3%	41.8%
Profit/(loss) before tax margin	34.0%	35.6%	26.9%	23.7%	19.6%
Liquidity (x)					
Current ratio	3.3	2.7	3.3	2.8	3.2
Quick ratio	2.1	0.9	1.7	1.7	1.9
Interest coverage ratio	142.6	75.5	37.8	66.1	23.5
Net Debt to Equity (%)	Net Cash	2.7%	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	4.3	5.5	5.3	4.3	2.9
P/E	13.5	16.3	21.0	19.4	15.9
Core P/E at target price	15.0	18.1	23.2	21.5	17.6
P/B	3.3	3.1	2.9	2.8	2.5
P/NTA	5.4	4.7	4.3	4.1	3.5
Cash Conversion Cycle					
Trade receivable days	53	43	61	52	60
Inventory days	246	505	304	256	176
Trade payable days	90	101	110	120	72
CCC days	209	447	255	188	163

Balance Sheet

	Fiscal Year Ended 31 Dec				
(S$'000)	FY2017A	FY2018A	FY2019A	FY2020A	FY2021E
Cash and bank balances	59,571	18,926	34,364	53,787	66,269
Trade receivables and other current assets	23,431	15,149	22,072	23,477	40,297
Inventories	49,633	70,438	51,746	53,938	69,102
Total current assets	**132,635**	**104,513**	**108,182**	**131,202**	**175,668**
PPE	38,782	53,368	52,307	56,318	110,725
Right-of-use assets	-	-	4,237	4,755	4,755
Investment property	2,240	2,100	1,832	1,748	1,748
Goodwill	82,201	82,201	81,211	80,083	80,083
Intangible assets	-	-	-	-	11,292
Total non-current assets	**126,519**	**170,515**	**179,031**	**178,335**	**208,676**
Total assets	**259,154**	**275,028**	**287,213**	**309,537**	**384,344**
Bank Borrowings	19,001	20,295	9,334	15,710	20,964
Trade and other payables	18,077	14,123	18,760	25,356	28,271
Loan from related parties	-	1,403	1,403	1,403	1,403
Lease liability	-	-	262	259	1,429
Total current liabilities	**40,363**	**38,137**	**32,513**	**46,184**	**55,721**
Loan from related parties	3,158	3,419	3,626	3,835	3,835
Bank borrowings	-	-	-	-	25,786
Lease liability	-	-	3,656	4,256	4,239
Total non-current liabilities	**4,990**	**6,430**	**9,814**	**10,404**	**45,740**
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	153,074
Total Equity	**213,801**	**230,461**	**244,886**	**252,949**	**282,883**
Total Liabilities and Equity	**259,154**	**275,028**	**287,213**	**309,537**	**384,344**

Cash Flows Statement

	Fiscal Year Ended 31 Dec				
(S$'000)	FY2017A	FY2018A	FY2019A	FY2020A	FY2021E
Profit/(Loss) before tax	**55,238**	**45,506**	**35,455**	**38,894**	**48,511**
Depreciation expense	4,321	5,671	6,874	7,701	14,543
Allowance for inventories obsolescence	(910)	(34)	1,611	972	1,793
Interest income	(361)	(210)	(331)	(200)	(131)
Interest expense	390	611	964	597	2,146
Changes in working capital	(17,589)	(7,451)	12,923	1,309	(11,189)
Share of profit of Associate	-	(525)	(2,574)	1,758	-
Income tax	(2,060)	(3,566)	(2,339)	(2,123)	(3,835)
Net generated from operating activities	**39,973**	**38,380**	**53,602**	**44,952**	**57,307**
Purchase of PPE	(10,564)	(15,685)	(2,207)	(11,588)	(14,202)
Proceeds from PPE disposal	1,901	21	2,021	241	1,709
Investment in Associate	(42)	(28,976)	(7,322)	(1,774)	-
Net cash outflow from acquisition of subsidiary	(866)	(4,386)	28	-	(16,558)
Net Cash used in investing activities	**(11,781)**	**(48,828)**	**(7,192)**	**(12,987)**	**(28,942)**
Proceeds from bank borrowings	25,766	48,320	41,700	16,904	19,881
Repayment of bank borrowings	(7,014)	(47,254)	(52,639)	(10,700)	(16,784)
Dividends paid	(26,822)	(29,504)	(18,775)	(26,671)	(24,004)
Interest paid	(390)	(321)	(480)	(106)	(2,146)
Proceeds from other loans	-	-	-	-	1,806
Repayment of other loans	-	-	-	-	(4,962)
Repayment on lease liability	-	-	(463)	(512)	(2,751)
Net Cash used in financing activities	**(8,460)**	**(30,162)**	**(30,657)**	**(23,004)**	**(27,826)**
Net (decrease)/increase in cash and cash equivalents	**19,732**	**(40,610)**	**15,753**	**15,753**	**539**
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**	**66,269**

*Financial figures have not been adjusted to Singapore Financial Reporting Standards (International) ("**SFRS(I)**") and may not be comparable to the latest company financials*

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Analyst name	Quantum of position
Nil	Nil

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