



UMS Holdings

(UMSH SP/UMSH.SI)

Another record quarter

Tan Jiunn Chyuan (Kenny) / 65 6202 1196 / kenny.tan@kqi.com

- **UMS reported 1Q21 results** with sales up 42% YoY and PATMI up 44% YoY. Sales were roughly in line with our expectations while profit surpassed our expectations due to operating leverage.
- **Taking JEP under the wing.** UMS now has majority control of JEP Holdings, and will look to increase their stake through the mandatory cash offer. Management does not expect the need for debt financing to purchase the remaining shares.
- **Maintain OUTPERFORM with raised TP of S\$1.51.** Recent market momentum has been bearish for tech and semiconductor stocks, creating opportunities for accumulation. Investors can collect a 3.1% yield dividend in the meantime.

UMS reported 1Q21 results, with sales at S\$49.6mn, up 42% YoY. Gross margins moderated to 53.1% despite a product mix favouring higher margin component sales, Q1 sales represent about 25% of our FY21 estimate. Q1 PATMI of S\$15.4mn is 44% higher YoY and is 29% of our FY21F estimate. Management noted that the 30% net profit margin was achieved through operating leverage, as the rise in sales outpaced the rise in operating expenses. Interim dividend of 1.0 Sct is also in line with our FY21 forecast of 4.0 Sct.

The semiconductor bull cycle is underway, with fab equipment spending expected to register 16% growth in 2021 and 12% in 2022 following 16% growth in 2020, according to SEMI. Key customer Applied Materials (AMAT) has also recently provided a 4-year target of their financial performance, where their Semi systems business is expected to grow at 13% CAGR, while the AGS division is expected to grow at 10% CAGR. We note that while the Kokusai Electric acquisition has fallen through, UMS did not see any opportunity to work with the Japanese company, given the stickiness of Japanese supply chains.

UMS has also acquired JEP Holdings co-founder Zee Hoong Huay's shares, bringing UMS's ownership of JEP to around 53.8% and triggering a mandatory cash offer. The offer price of S\$0.20 is improved from the prior S\$0.15/share takeover attempt in 2019, and will cost UMS up to S\$38.2mn, in which management expects the financing to largely be done through cash.

Despite Malaysia's return to lockdown status, UMS does not expect disruption to its manufacturing activities at the moment, as economic activity did not face any restrictions akin to last year's lockdown.

Outperform (Maintain)		Performance (Absolute)	
Price as of 11 May 21 (S\$)	1.28	1 Month (%)	-7.3
12M TP (\$)	1.51	3 Month (%)	1.5
Previous TP (\$)	1.43	12 Month (%)	68.7
Upside (%)	18.2		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	683		
Issued Shares (mn)	533		
Vol - 3M Daily avg (mn)	7.9		
Val - 3M Daily avg (\$mn)	10.1		
Free Float (%)	99.7%		
Major Shareholders		Previous Recommendations	
Luong Andy	20.4%	18-Mar-21	OP S\$1.43
Samsung Life Insurance	1.7%	18-Nov-20	OP S\$1.22
		5-Oct-20	OP S\$1.17

Financials & Key Operating Statistics					
YE Dec (S\$m)	2019A	2020A	2021F	2022F	2023F
Revenue	131.9	164.4	195.5	210.7	211.2
PATMI	33.6	36.5	54.0	58.3	58.7
Core PATMI	33.6	46.9	52.6	56.8	57.2
Core EPS	0.06	0.09	0.10	0.11	0.11
Core EPS grth (%)	-15.9	40.9	12.3	8.0	0.6
Core P/E (x)	16.4	11.7	13.0	12.0	12.0
DPS (SGCents)	4.0	3.5	4.0	4.0	4.0
Div Yield (%)	3.1	2.7	3.1	3.1	3.1
Net Margin (%)	25.2	22.1	27.5	27.6	27.7
Gearing (%)	5.0	6.8	6.2	5.5	5.1
Price / Book (x)	2.8	2.7	2.4	2.1	1.9
ROE (%)	13.6	14.3	18.9	18.2	16.4

Source: Company Data, KGI Research

Forecasts: We kept our S\$195.5mn FY21F sales forecast. We trim gross margin forecasts by 20 bps across the board given the rising cost of basic materials as well as price competition from the component sales division, while reducing depreciation and SG&A estimates. We maintain JEP's contributions at an associate level and will look to integrate the financial statements after the mandatory cash offer is settled. Our tax rate estimate is maintained at 12% after 1Q21 tax rate of ~10.4% is prior to the expiry of pioneer tax concessions for the component sales division, which implies higher tax rates for subsequent quarters.

Valuation & Action: We keep our 15x P/E rating and maintain our Outperform call with a S\$1.51 target price. Catalysts include AMAT's Fiscal 2Q results release on 20th May, where an improved outlook bodes further positivity for UMS.

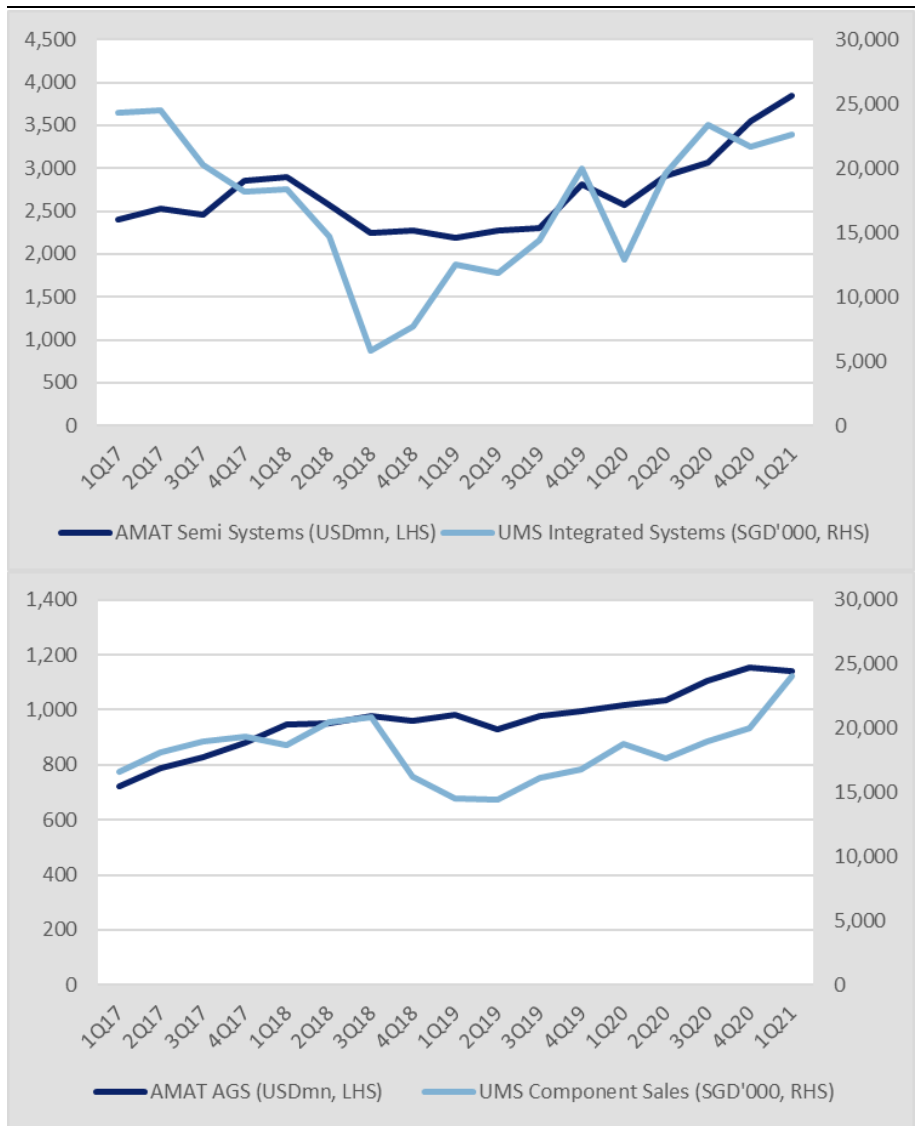
Risks: Full lockdown in Malaysia disrupting operations, higher than expected tax rates, US-China trade tensions leading to reduced China Semi Capex, prolonged aerospace downcycle leading to further weakness at associates.

Figure 1: 1Q21 vs FY21F estimate

Values in SGD '000	FY21F	1Q21	% of estimate	Variance
Revenue	195,499	49,611	25.4%	
Cost of sales	-91,103	-23,272	25.5%	
Gross Profit	104,396	26,339	25.2%	
Operating expenses	-47,311	-10,336	21.8%	
Profit from Operations	57,086	16,003	28.0%	
Other income/(losses)	618	802	129.8%	
Profit before Tax	57,704	16,805	29.1%	
Net profit	50,779	15,057	29.7%	
Gross Margin	53.4%	53.1%		-0.3%
PBT Margin	29.5%	33.9%		4.4%
Net Profit Margin	26.0%	30.4%		4.4%
EPS (in Scents)	9.54	2.88	30.2%	

Source: Company data, KGI Research.

Figure 2: Component sales contribute the bulk of sales growth in recent quarters



Source: Company data, KGI Research

Note: We benchmark 1Q results of UMS to fiscal 2Q results of AMAT, which is between February to April

Figure 3: Updated new FY21 forecast

Values in SGD '000	New FY21F	Old FY21F	Variance
Revenue	195,499	195,499	0.0%
Cost of sales	-91,494	-91,103	0.4%
Gross Profit	104,005	104,396	-0.4%
Operating expenses	-43,499	-47,311	-8.1%
Profit from Operations	60,507	57,086	6.0%
Other income/(losses)	686	618	11.1%
Profit before Tax	61,193	57,704	6.0%
Net profit	53,850	50,779	6.0%
<i>Gross Margin</i>	<i>53.2%</i>	<i>53.4%</i>	<i>-0.2%</i>
<i>PBT Margin</i>	<i>31.3%</i>	<i>29.5%</i>	<i>1.8%</i>
<i>Net Profit Margin</i>	<i>27.5%</i>	<i>26.0%</i>	<i>1.6%</i>
EPS (in Scents)	10.12	9.54	6.0%

Source: KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (\$m)	2019A	2020A	2021F	2022F	2023F
Revenue	131.9	164.4	195.5	210.7	211.2
Cost of sales	(62.1)	(76.9)	(91.5)	(98.2)	(98.4)
Gross Profit	69.8	87.6	104.0	112.5	112.8
D&A expense	(6.9)	(7.7)	(8.1)	(9.1)	(8.9)
Selling, general, admin expenses	(26.8)	(30.9)	(35.4)	(38.1)	(38.2)
Profit from Operations	36.2	49.0	60.5	65.3	65.7
Finance income/(expenses)	(0.6)	(0.4)	(0.5)	(0.5)	(0.5)
Share of JV results	2.6	0.1	1.2	1.3	1.3
Other operating income/(expenses)	(2.7)	(9.8)	0.0	0.0	0.0
Profit before Tax	35.5	38.9	61.2	66.1	66.5
Income tax	(2.2)	(2.6)	(7.3)	(7.9)	(8.0)
Non-controlling interests	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
PATMI	33.6	36.5	54.0	58.3	58.7
BALANCE SHEET (\$m)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	34.4	53.8	63.3	96.0	134.2
Trade and other receivables	22.1	23.5	30.3	32.7	32.7
Inventory	51.7	53.9	70.2	75.4	75.5
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	108.2	131.2	163.8	204.0	242.4
Property, plant and equipment	52.3	56.3	56.0	53.3	50.8
Intangibles	81.2	80.1	80.1	80.1	80.1
Other non-current assets	126.7	122.0	122.0	122.0	122.0
Non-current Assets	179.0	178.3	178.0	175.3	172.8
Total assets	287.2	309.5	341.9	379.3	415.2
Trade and other payables	18.8	25.4	26.4	28.4	28.4
Borrowings (current)	10.7	17.1	17.1	17.1	17.1
Other current liabilities	3.0	3.7	3.7	3.7	3.7
Current Liabilities	32.5	46.2	47.3	49.2	49.2
Borrowings (non-current)	3.6	3.8	3.8	3.8	3.8
Other non-current liabilities	6.2	6.6	6.6	6.6	6.6
Non-current liabilities	9.8	10.4	10.4	10.4	10.4
Shareholders equity	244.9	252.9	284.2	319.7	355.6
Non-controlling interests	1.6	1.7	1.7	1.7	1.7
Total Equity	246.5	254.6	285.9	321.4	357.2
Total Liabilities and Equity	287.2	309.5	341.9	379.3	415.2
CASH FLOW STATEMENT (\$m)	2019A	2020A	2021F	2022F	2023F
Net income before tax	35.5	38.9	61.2	66.1	66.5
Depreciation & Amortisation	6.9	7.7	8.1	9.1	8.9
Other non-cash adjustments	0.7	10.6	(0.7)	(0.8)	(0.8)
Change in Working Capital	12.9	1.3	(22.1)	(5.5)	(0.2)
Income Tax Paid	(2.3)	(2.1)	(7.3)	(7.9)	(8.0)
Interest Paid	0.0	0.0	0.0	0.0	0.0
CF from operating activities	53.6	56.4	39.2	60.9	66.4
Purchase/Disposal of PPE	(0.2)	(11.4)	(7.8)	(6.3)	(6.3)
Other CFI	(7.0)	(1.6)	0.0	0.0	0.0
CF from investing activities	(7.2)	(13.0)	(7.8)	(6.3)	(6.3)
Dividends Paid	(18.8)	(26.7)	(21.4)	(21.4)	(21.4)
Debt Raised / (Repaid)	(10.9)	6.2	0.0	0.0	0.0
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(0.9)	(2.5)	(0.5)	(0.5)	(0.5)
CF from financing activities	(30.7)	(23.0)	(21.9)	(21.9)	(21.9)
Net increase in cash & cash equiv.	15.8	20.4	9.5	32.7	38.2
FX effects	(0.3)	(1.0)	0.0	0.0	0.0
Beginning Cash	18.9	34.4	53.8	63.3	96.0
Ending Cash	34.4	53.8	63.3	96.0	134.2
KEY RATIOS	2019A	2020A	2021F	2022F	2023F
Profitability					
Core EPS	0.06	0.09	0.10	0.11	0.11
Core EPS Growth (%)	(15.9)	40.9	12.3	8.0	0.6
DPS (SGD Cents)	4.00	3.50	4.00	4.00	4.00
Dividend Yield (%)	3.1	2.7	3.1	3.1	3.1
Profitability					
Gross margin	52.9%	53.3%	53.2%	53.4%	53.4%
EBITDA margin	32.6%	34.5%	35.1%	35.3%	35.3%
Net margin	25.2%	22.1%	27.5%	27.6%	27.7%
ROE	13.6%	14.3%	18.9%	18.2%	16.4%
ROA	11.6%	11.7%	15.8%	15.3%	14.1%
Market Valuation (x)					
Price / Earnings	20.7	18.8	13.0	11.8	11.7
Price / Book	2.8	2.7	2.4	2.1	1.9
Price / Sales	5.2	4.1	3.5	3.2	3.2
EV / EBITDA	15.5	11.4	9.4	8.2	7.7

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