



UMS Holdings

(UMSH SP/UMSH.SI)

Market leader rallies the troops

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- **UMS reported 4Q20 results** with sales up 9% YoY (FY20: 25%). FY20 gross margins are up by ~40bps to 53.3%, while profits missed estimates due to goodwill impairments on Kalf Engineering and JEP Holdings.
- **Extend the lead.** Key customer continues raising guidance, with expectations of taking market share from other players. We think UMS may be in store for another year of strong revenue growth, based off the key customer's comments.
- **Maintain OUTPERFORM with raised TP of S\$1.43.** We see further upside from a recovery in associate contributions, better than expected margins and additional news on expansion initiatives.

UMS reported 4Q20 results on 25 February 2021, with 4Q20 sales at S\$44.1mn, up 9% YoY (FY20: S\$164.4mn, +24.7% YoY). Gross margins moderated to 53.3%, up 40bps vs FY19. The semiconductor business slightly outperformed our expectations while the non-semiconductor business underperformed, with goodwill impairment on Kalf Engineering as well as JEP Holdings. Excluding one-off losses, FY20 profit would have been S\$46mn, slightly above our estimate.

Wafer Fab Equipment growth forecasts in 2021 range from +4% (SEMI) to +12% (VLSI). Meanwhile, key customer Applied Materials (AMAT) has continued providing forward forecasts that are above consensus estimates, leading to further consensus upgrades. Semi systems' 2QFY21 forecast of US\$3.85bn is now the highest ever in the company's history, and AMAT's CEO expects "to again grow faster than the market for the year as a whole". Upgraded consensus sales estimates for AMAT is now +26% for FY21 (ending October 2021) with Physical Vapor Deposition (PVD) products to lead the company's growth, with management expecting over 40% YoY growth in 2021.

We are increasingly bullish on the semiconductor capital equipment industry as news on chip shortages continue to surface. UMS management's decision to cut dividend is in line with the increasing possibility of a new customer win, which will lead to further Capex spend and improved revenue diversification. However, earnings growth might be capped from the expiry of the Malaysia pioneer tax status that UMS has benefitted from since 2010.

Outperform (Maintain)

Price as of 18 Mar 21 (S\$)	1.26	Performance (Absolute)	
12M TP (\$)	1.43	1 Month (%)	-7.4
Previous TP (\$)	1.22	3 Month (%)	21.2
Upside (%)	13.2	12 Month (%)	109.0
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	667		
Issued Shares (mn)	534		
Vol - 3M Daily avg (mn)	8.2		
Val - 3M Daily avg (\$mn)	10.0		
Free Float (%)	79.5%		
Major Shareholders		Previous Recommendations	
Luong Andy	20.8%	18-Nov-20	OP S\$1.22
Dimensional Fund Advisor	1.6%	5-Oct-20	OP S\$1.17
eQ Rahastoyhtio Oy	0.6%	17-Aug-20	N 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	51.0	56.3	56.6
Core PATMI	33.6	46.9	49.6	54.8	55.1
Core EPS	0.06	0.09	0.09	0.10	0.10
Core EPS grth (%)	-15.9	40.9	5.9	10.4	0.6
Core P/E (x)	16.4	11.7	13.6	12.3	12.2
DPS (SGCents)	4.0	3.5	4.0	4.0	4.0
Div Yield (%)	4.0	3.5	4.0	4.0	4.0
Net Margin (%)	25.2	22.1	26.0	26.6	26.7
Gearing (%)	5.0	6.8	6.4	5.8	5.3
Price / Book (x)	2.8	2.7	2.5	2.2	2.0
ROE (%)	13.6	14.3	18.7	18.3	16.6

Source: Company Data, KGI Research

Forecasts: We simplify FY21 semiconductor sales growth to +15/+20/+25% YoY for the bear/base/bull case, while moderating non-semiconductor sales growth to 4% YoY. Base case sales growth is now 19%/8% for FY21/22. We maintain dividend forecast at 4.0 Sct/share despite the cut to 3.5 Sct in FY20. We increase tax rate forecast as UMS may be unable to renew its pioneer tax-free status, which expires late 2020/early 2021.

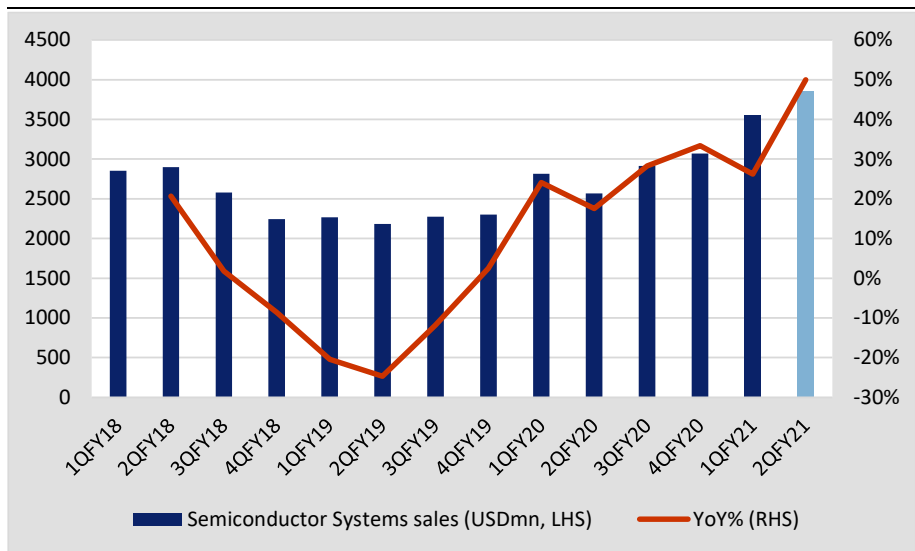
Valuation & Action: We increase PE peg to 15x, slightly above +1 S.D. of UMS's 5 year trailing P/E, which we see as justifiable given that AMAT is trading at +2 S.D. Our valuation scenario now gives S\$1.37-1.48 TP, with S\$1.43 as the base case. We see additional upside from better than expected associate contributions, improved margins, and further clarity on UMS's expansion initiatives. Maintain OUTPERFORM rating.

Risks: 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: FY20 vs FY20 estimate

Values in SGD '000	FY20F	FY20	% of estimate	Variance
Revenue	165,360	164,438	99.4%	
Cost of sales	-77,719	-76,854	98.9%	
Gross Profit	87,641	87,584	99.9%	
Operating expenses	-41,340	-38,563	93.3%	
Profit from Operations	46,301	49,021	105.9%	
Other income/(losses)	0	-9,819	N/A	
Profit before Tax	48,824	38,894	79.7%	
Net profit	45,407	36,293	79.9%	
Gross Margin	53.0%	53.3%		0.3%
PBT Margin	29.5%	23.7%		-5.9%
Net Profit Margin	27.5%	22.1%		-5.4%
EPS (in Sents)	8.54	6.83	80.0%	

Source: Company data, KGI Research.

Figure 2: Key customer AMAT's quarterly semiconductor systems sales, 50% YoY growth estimate


Source: Company data, KGI Research

Figure 3: Updated 3 case scenario forecasts

		2021	2022	2023
Revenue (SGD mn)	Bull	203.2	218.9	219.4
	Base	195.5	210.7	211.2
	Bear	187.8	202.4	202.9
EBITDA (SGD mn)	Bull	69.1	74.9	75.0
	Base	45.8	52.3	52.3
	Bear	63.9	69.2	69.4
PATMI (SGD mn)	Bull	52.8	58.3	58.6
	Base	50.8	56.1	56.4
	Bear	48.8	53.9	54.2
Implied share price (SGD)	Bull	1.48	1.64	1.65
	Base	1.43	1.58	1.58
	Bear	1.37	1.51	1.52

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)	(91.1)	(97.7)	(98.0)
Gross Profit	69.8	87.6	104.4	112.9	113.2
D&A expense	(6.9)	(7.7)	(9.4)	(9.1)	(8.9)
Selling, general, admin expenses	(26.8)	(30.9)	(37.9)	(40.9)	(41.0)
Profit from Operations	36.2	49.0	57.1	63.0	63.3
Finance income/(expenses)	(0.6)	(0.4)	(0.5)	(0.5)	(0.5)
Share of JV results	2.6	0.1	1.1	1.2	1.3
Other operating income/(expenses)	(2.7)	(9.8)	0.0	0.0	0.0
Profit before Tax	35.5	38.9	57.7	63.7	64.1
Income tax	(2.2)	(2.6)	(6.9)	(7.6)	(7.7)
Non-controlling interests	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
PATMI	33.6	36.5	51.0	56.3	56.6
BALANCE SHEET (\$m)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	34.4	53.8	61.8	92.4	128.6
Trade and other receivables	22.1	23.5	30.3	32.7	32.7
Inventory	51.7	53.9	69.9	75.0	75.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	108.2	131.2	162.0	200.1	236.5
Property, plant and equipment	52.3	56.3	54.8	52.0	49.5
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	176.8	174.0	171.5
Total assets	287.2	309.5	338.8	374.2	408.0
Trade and other payables	18.8	25.4	26.3	28.2	28.3
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	47.1	49.1	49.1
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	281.2	314.7	348.5
Non-controlling interests	1.6	1.7	1.7	1.7	1.7
Total Equity	246.5	254.6	282.9	316.4	350.1
Total Liabilities and Equity	287.2	309.5	338.8	374.2	408.0
CASH FLOW STATEMENT (\$m)	2019A	2020A	2021F	2022F	2023F
Net income before tax	35.5	38.9	57.7	63.7	64.1
Depreciation & Amortisation	6.9	7.7	9.4	9.1	8.9
Other non-cash adjustments	0.7	10.6	(0.6)	(0.7)	(0.7)
Change in Working Capital	12.9	1.3	(21.9)	(5.5)	(0.2)
Income Tax Paid	(2.3)	(2.1)	(6.9)	(7.6)	(7.7)
Interest Paid	0.0	0.0	0.0	0.0	0.0
CF from operating activities	53.6	56.4	37.7	58.9	64.3
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	8.0	30.7	36.1
FX effects	(0.3)	(1.0)	0.0	0.0	0.0
Beginning Cash	18.9	34.4	53.8	61.8	92.4
Ending Cash	34.4	53.8	61.8	92.4	128.6
KEY RATIOS	2019A	2020A	2021F	2022F	2023F
Profitability					
Core EPS	0.06	0.09	0.09	0.10	0.10
Core EPS Growth (%)	(15.9)	40.9	5.9	10.4	0.6
DPS (SGD Cents)	4.00	3.50	4.00	4.00	4.00
Dividend Yield (%)	3.2	2.8	3.2	3.2	3.2
Profitability					
Gross margin	52.9%	53.3%	53.4%	53.6%	53.6%
EBITDA margin	32.6%	34.5%	34.0%	34.2%	34.2%
Net margin	25.2%	22.1%	26.0%	26.6%	26.7%
ROE	13.6%	14.3%	18.1%	17.8%	16.2%
ROA	11.6%	11.7%	15.0%	15.0%	13.8%
Market Valuation (x)					
Price / Earnings	20.3	18.5	13.6	12.0	11.9
Price / Book	2.8	2.7	2.4	2.1	1.9
Price / Sales	5.1	4.1	3.4	3.2	3.2
EV / EBITDA	15.3	11.2	9.5	8.4	7.9

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