

# UMS Holdings

(UMS= SP/558.SI)

## A confidence signal amidst uncertain times

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- **Good momentum carried on from 4Q19 despite COVID-19.** UMS managed to beat street expectations on 1Q20 results, with a 53% YoY increase in 1QFY2020 profit and 22% YoY increase in 1QFY2020 revenue.
- **Surprise interim dividend increase to 1.0 Sct.** UMS's decision to increase interim dividend back to historic levels of 1.0 Sct came in as a surprise, amidst trying times. Management also sees a return to 6.0 Scts annual dividend as a possibility. We think 4.5 Scts is a more reasonable outlook.
- **Outlook fairly intact till 4Q20.** Given order book visibility, sales and production momentum is likely to continue to 3Q20, but any further upside could be questionable.
- **Maintain UNDERPERFORM with increased TP of S\$0.74.** Demand stability should see UMS relatively unscathed for most of 2020. While near-term outlook is good, we remain cautious of long-term headwinds, as Semi Capex spend is not fully immune to COVID-19.

**Holding up in 1Q20...** UMS's 1Q20 sales of S\$34.9mn form up 27% of our FY20 sales forecast, and is up 22% YoY. Results could have been better if not for the Movement Control Order in Malaysia, which limited production capacity in UMS's largest production facility. Strong S\$10.7mn 1Q20 profit was partially aided by FX gains from USD appreciation.

**And 2Q20, and 3Q20, but maybe not 4Q20.** On the analyst call, management was fairly confident of replicating 1Q20's results for the next 1 to 2 quarters, as they have sufficient order visibility. This is in spite of the prolonged MCO, in which UMS only returned to full production capacity on 29 April, almost a full month into 2Q20. We think order pushbacks, which management acknowledged as a possibility, could be a strong contributing factor towards production and sales in the later quarters. However, management warned of weak results from 4Q20 onwards. We find this likely due to Capex prudence that will be exercised by major semiconductor names, especially in the memory segment.

Figure 1: Capital spending by segment (2020 Gartner forecasts)

(US\$million)	2018	2019	2020
Logic	40,649	47,712	45,086
Memory	53,854	45,064	34,943
DRAM	18,447	18,098	13,703
NAND	32,217	24,081	18,435
Legacy Memory	404	382	329
Emerging Memory	2,786	2,503	2,475
Others (Opto, Power Discrete, Compound)	8,550	6,609	5,624
<b>Total</b>	<b>103,053</b>	<b>99,385</b>	<b>85,652</b>

Source: Gartner, KGI Research

**Going on defence.** Management's comments on the dividend increment was that, given the lack of spending needs by UMS, the company was willing to give back more. We think this

Underperform (Maintain)			
Price as of 13 May 20 (SG)	0.94	<b>Performance (Absolute)</b>	
12M TP (\$)	0.74	1 Month (%)	27.0
Previous TP (\$)	0.67	3 Month (%)	-21.3
Upside (%)	(21.8)	12 Month (%)	56.2
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	501		
Issued Shares (mn)	533		
Vol - 3M Daily avg (mn)	7.5		
Val - 3M Daily avg (\$mn)	5.8		
Free Float (%)	79.1%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Luong Andy	20.8%	4-May-20	UP S\$0.67
Dimensional Fund Adviser	1.6%		
eQ Rahastoyhtio Oy	0.6%		

Financials & Key Operating Statistics					
YE Dec (\$m)	2018A	2019A	2020F	2021F	2022F
Revenue	127.9	131.9	135.1	141.4	152.3
PATMI	42.2	32.9	35.9	38.0	41.4
Core PATMI	39.1	33.0	33.5	35.4	38.7
Core EPS	0.07	0.06	0.06	0.07	0.07
Core EPS grth (%)	-24.5	-15.8	1.6	5.9	9.0
Core P/E (x)	7.8	16.8	13.1	0.0	0.0
DPS (SGCents)	4.5	4.0	4.5	4.5	4.5
Div Yield (%)	4.8	4.3	4.8	4.8	4.8
Net Margin (%)	33.0	24.9	26.5	26.9	27.2
Gearing (%)	9.1	5.0	4.7	4.5	4.2
Price / Book (x)	2.2	2.1	1.9	1.8	1.7
ROE (%)	18.3	13.4	13.7	13.7	14.0

Source: Company Data, KGI Research

signals a reduction of Capex spend, likely cut from associates and subsidiaries, given the impending business slowdown. While management flirted with the idea of a return to 6.0 Scts dividend, which was done back in 2014 – 2017, we find the proposal to be unlikely, as this would take up a substantial portion of UMS's existing cash holdings and potentially force unnecessary borrowings. We see a return to 4.5 Scts to be more feasible.

**Forecasts.** We increase our semiconductor segment sales forecast and gross margins, while trimming our Capex forecast. Our FY20F sales estimate is now S\$135mn, with S\$35.9mn of profit. This is an increase from S\$129mn sales and S\$33mn profit in our previous forecast. Our dividend forecast is now 4.5 Scts, leading to an implied dividend yield of 4.8%, based on yesterday's close price of S\$0.94.

**Valuation & Action:** At 11x FY20E PE, our new TP is S\$0.74. We maintain UNDERPERFORM given Wednesday's price spike.

**Risks:** Key customer concentration risk, weakening competitive advantage, weak demand during and after COVID-19 crisis, continued de-globalisation (especially from US-China trade tension).

**Financial Forecasts**
**Figure : Forecasted financials (2018A – 2022F)**

YE 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>INCOME STATEMENT (S\$m)</b>					
Revenue	127.9	131.9	135.1	141.4	152.3
Cost of sales	(50.9)	(62.1)	(63.0)	(65.5)	(70.1)
<b>Gross Profit</b>	<b>77.0</b>	<b>69.8</b>	<b>72.2</b>	<b>75.9</b>	<b>82.3</b>
D&A expense	(5.7)	(6.9)	(6.8)	(7.1)	(7.6)
Selling, general, admin expenses	(28.3)	(26.8)	(28.4)	(29.7)	(32.0)
<b>Profit from Operations</b>	<b>43.0</b>	<b>36.2</b>	<b>37.0</b>	<b>39.2</b>	<b>42.6</b>
Finance income/(expenses)	(0.4)	(0.6)	(0.2)	(0.2)	(0.2)
Share of JV results	0.5	2.6	2.2	2.3	2.5
Other operating income/(expenses)	2.4	(2.7)	0.0	0.0	0.0
<b>Profit before Tax</b>	<b>45.5</b>	<b>35.5</b>	<b>39.0</b>	<b>41.3</b>	<b>45.0</b>
Income tax	(2.9)	(2.2)	(2.7)	(2.9)	(3.1)
Non-controlling interests	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)
<b>PATMI</b>	<b>42.2</b>	<b>32.9</b>	<b>35.9</b>	<b>38.0</b>	<b>41.4</b>
<b>BALANCE SHEET (S\$m)</b>					
Cash and cash equivalents	18.9	34.4	49.5	67.4	86.4
Trade and other receivables	15.1	22.1	22.6	23.7	25.5
Inventory	70.4	51.7	56.0	58.2	62.3
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Current Assets</b>	<b>104.5</b>	<b>108.2</b>	<b>128.0</b>	<b>149.2</b>	<b>174.2</b>
Property, plant and equipment	53.4	52.3	48.3	44.0	39.4
Intangibles	82.2	81.2	81.2	81.2	81.2
Other non-current assets	117.1	126.7	126.7	126.7	126.7
<b>Non-current Assets</b>	<b>170.5</b>	<b>179.0</b>	<b>175.0</b>	<b>170.7</b>	<b>166.2</b>
<b>Total assets</b>	<b>275.0</b>	<b>287.2</b>	<b>303.0</b>	<b>319.9</b>	<b>340.4</b>
Trade and other payables	14.1	18.8	18.4	18.3	20.2
Borrowings (current)	21.7	10.7	10.7	10.7	10.7
Other current liabilities	2.3	3.0	3.0	3.0	3.0
<b>Current Liabilities</b>	<b>38.1</b>	<b>32.5</b>	<b>32.2</b>	<b>32.1</b>	<b>33.9</b>
Borrowings (non-current)	3.4	3.6	3.6	3.6	3.6
Other non-current liabilities	3.0	6.2	6.2	6.2	6.2
<b>Non-current liabilities</b>	<b>6.4</b>	<b>9.8</b>	<b>9.8</b>	<b>9.8</b>	<b>9.8</b>
Shareholders equity	230.5	244.9	261.0	278.1	296.6
Non-controlling interests	1.9	1.6	1.6	1.6	1.6
<b>Total Equity</b>	<b>232.4</b>	<b>246.5</b>	<b>262.6</b>	<b>279.7</b>	<b>298.2</b>
<b>Total Liabilities and Equity</b>	<b>275.0</b>	<b>287.2</b>	<b>303.0</b>	<b>319.9</b>	<b>340.4</b>
<b>CASH FLOW STATEMENT (S\$m)</b>					
Net income before tax	45.5	35.5	39.0	41.3	45.0
Depreciation & Amortisation	5.4	4.3	5.7	6.9	6.8
Other non-cash adjustments	(1.3)	3.3	(0.9)	(1.9)	(1.4)
Change in Working Capital	(7.5)	12.9	(5.1)	(3.4)	(4.0)
Income Tax Paid	(3.6)	(2.3)	(2.7)	(2.9)	(3.1)
Interest Paid	0.0	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>38.7</b>	<b>53.6</b>	<b>36.0</b>	<b>39.9</b>	<b>43.1</b>
Purchase/Disposal of PPE	(15.7)	(0.2)	(2.7)	(2.8)	(3.0)
Other CFI	(33.2)	(7.0)	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(48.8)</b>	<b>(7.2)</b>	<b>(2.7)</b>	<b>(2.8)</b>	<b>(3.0)</b>
Dividends Paid	(29.5)	(18.8)	(17.9)	(19.0)	(20.7)
Debt Raised / (Repaid)	(0.3)	(10.9)	0.0	0.0	0.0
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(0.6)	(0.9)	(0.2)	(0.2)	(0.2)
<b>CF from financing activities</b>	<b>(30.5)</b>	<b>(30.7)</b>	<b>(18.2)</b>	<b>(19.2)</b>	<b>(20.9)</b>
Net increase in cash & cash equiv.	(40.6)	15.8	15.1	17.9	19.1
FX effects	(0.0)	(0.3)	0.0	0.0	0.0
Beginning Cash	59.6	18.9	34.4	49.5	67.4
<b>Ending Cash</b>	<b>18.9</b>	<b>34.4</b>	<b>49.5</b>	<b>67.4</b>	<b>86.4</b>

Source: KGI Research

## Key Ratios

**Figure 3: Key ratios (2018A – 2022F)**

<b>KEY RATIOS</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Profitability</b>					
Core EPS	0.07	0.06	0.06	0.07	0.07
Core EPS Growth (%)	–	(15.8)	1.6	5.9	9.0
DPS (SGD Cents)	4.50	4.00	4.50	4.50	4.50
Dividend Yield (%)	4.8	4.3	4.8	4.8	4.8
<b>Profitability</b>					
Gross margin	60.2%	52.9%	53.4%	53.7%	54.0%
EBITDA margin	38.1%	32.6%	32.4%	32.7%	33.0%
Net margin	33.0%	24.9%	26.5%	26.9%	27.2%
ROE	18.3%	13.4%	13.7%	13.7%	14.0%
ROA	15.4%	11.4%	11.8%	11.9%	12.2%
<b>Financial Structure (x)</b>					
Interest coverage	70.4	37.5	154.3	163.2	177.7
Total Debt/Equity (%)	9.2	5.0	4.8	4.5	4.2
<b>Market Valuation (x)</b>					
Price / Earnings	11.9	15.3	14.1	13.3	12.2
Price / Book	2.2	2.1	1.9	1.8	1.7
Price / Sales	3.9	3.8	3.7	3.6	3.3
EV / EBITDA	10.5	11.3	10.8	9.8	8.6

Source: KGI Research

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<b>Rating</b>	<b>Definition</b>
<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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