



UMS Holdings

(UMSH SP/UMSH.SI)

Strong momentum

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- **UMS reported 2Q20 results** with sales up 34.5% YoY (1H20: 28.4%). While gross margins were weaker, lower employee expenses led to another quarter with above average profit margin of 28.7% (1H20: 29.7%).
- **Key customer with bullish announcement.** Applied Materials reported their own 3Q FY20 results, with improved revenue guidance into the next quarter. UMS management echoed the sentiment for investors to expect 2H20 to be stronger than 1H20.
- We adjust revenue and profitability forecasts upwards, in line with the improved outlook commentary from both UMS and the key customer. We roll forward valuations to be based on FY21F. Our new TP is S\$1.17, an 8.3% upside. **Maintain NEUTRAL.**

UMS reported 2Q20 results, with 2Q20 sales of S\$40.3mn, up 34.5% YoY (1H20: S\$75.2mn, +28.4% YoY). Gross margins reached a low of 50.8% (1H20: 51.9%), as product mix is skewed towards Integrated Systems sales, which contribute lower margins than Component Sales. However, lower Employee and Other expenses led to strong profitability margins. Contributions from JEP Holdings has also offset weakness in Kalf Engineering.

Key customer Applied Materials (AMAT) reported 3Q FY20 results roughly half a day after UMS, beating analyst estimates. AMAT has also returned to the practice of giving quarterly guidance, and gave 4Q FY20 sales forecast of USD 4.6bn, +4.6% QoQ and +29.1% YoY. 4Q FY20 Semiconductor Systems forecast is at USD 3.025bn, +3.7% QoQ and +33.1% YoY, while Applied Global Services forecast is at USD 1.07bn, +3.5% QoQ and +9.5% YoY.

A key topic on AMAT's earnings call was the disclosure of AMAT's deposition sales in 2019 – around US\$ 5.2 bn, and roughly an 8% market share gain, according to VLSI. Our channel checks suggest that AMAT's market share is around 44% of the deposition market in 2019, and with possibility of further gains given the company's bullishness. It is likely that AMAT will hold 50%+ market share after the Kokusai Electric acquisition is complete.

UMS management echoed the sentiment for strength in the semiconductor division, with expectations for 2H20 results to be stronger than 1H20. Utilisation rates are 60-80% for both Integrated Systems and Component Sales division, and there are considerations for capacity expansion in the latter half of the year. However, mgmt. expects weakness in subsidiary and associate businesses, given COVID induced industry headwinds, and the impact will appear on the books soon, in 2H20.

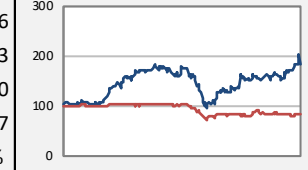
Neutral (Maintain)

Price as of 14 Aug 20 (SGI)	1.08	Performance (Absolute)	
12M TP (\$)	1.17	1 Month (%)	18.7
Previous TP (\$)	0.89	3 Month (%)	30.3
Upside (%)	8.3	12 Month (%)	94.3

Trading data

Mkt Cap (\$mn)	576
Issued Shares (mn)	533
Vol - 3M Daily avg (mn)	10.0
Val - 3M Daily avg (\$mn)	9.7
Free Float (%)	79.1%

Perf. vs STI Index (Red)



Major Shareholders

Luong Andy	20.8%
Dimensional Fund Advisi	1.6%
eQ Rahastoyhtio Oy	0.6%

Previous Recommendations

22-Jul-20	N S\$0.89
14-May-20	UP S\$0.74
4-May-20	UP S\$0.67

Financials & Key Operating Statistics

YE Dec (\$m)	2018A	2019A	2020F	2021F	2022F
Revenue	127.9	131.9	160.2	172.7	182.6
PATMI	43.1	33.6	44.4	48.5	51.7
Core PATMI	40.0	33.6	41.5	45.3	48.3
Core EPS	0.07	0.06	0.08	0.08	0.09
Core EPSgrth (%)	-24.2	-15.9	23.3	9.3	6.5
Core P/E (x)	7.6	16.4	10.6	0.0	0.0
DPS (SGCents)	4.5	4.0	5.0	5.0	5.0
Div Yield (%)	4.2	3.7	4.6	4.6	4.6
Net Margin (%)	33.3	25.2	27.5	27.9	28.1
Gearing (%)	9.2	5.0	4.7	4.5	4.2
Price / Book (x)	2.5	2.4	2.2	2.1	1.9
ROE (%)	18.5	13.6	17.0	17.3	17.1

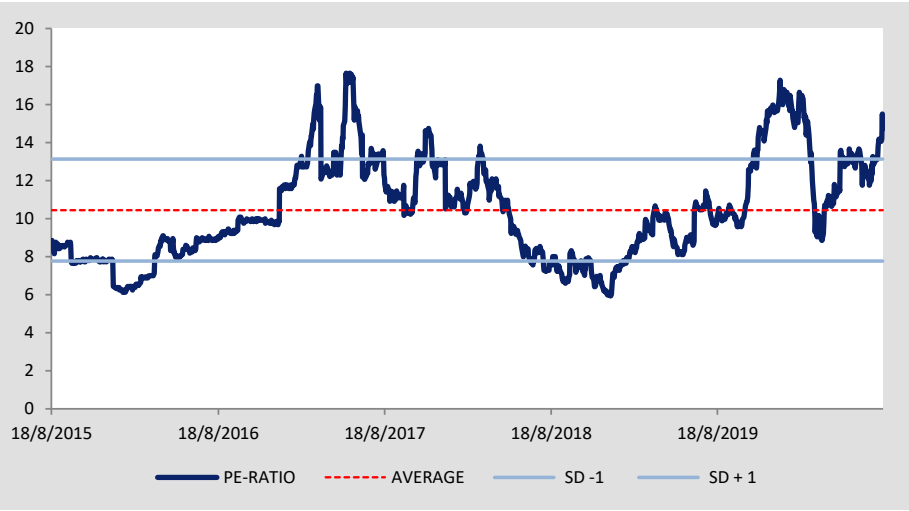
Source: Company Data, KGI Research

Forecasts: We raise FY20F and FY21F revenue forecasts – we increase AMAT's market share assumption to 44%, and assume deposition market grows at 10%/8% for FY20/21F, in line with AMAT's comments of "double digit growth". We expect gross margins to stay around 53% as AMAT's Semiconductor Systems division is expected to see better QoQ growth than Applied Global Services division, indicating better sales for UMS's lower margin Integrated Systems division than the Component Sales division. PATMI margins for FY20/21F are now 27.7/28.1%. We raise Dividend Per Share estimate to 5.0 Sct, implying ~4.6% dividend yield based on Friday's close price.

Valuation & Action: We raise our PE peg to 13x from 12x, which is +1 S.D., as semiconductor tailwinds continue to drive positive re-rating for the industry. We roll forward valuations to be based on FY21F earnings, and have a new Target Price of S\$1.17.

Risks: US-China trade tensions.

Figure 1: UMS now trades at close to 15x historic P/E.



Source: Bloomberg, KGI Research.

Figure 2: Applied Materials reports strong 3Q FY20 results and expects a better 4Q FY20.

Q3F20 Segment Results | Double-digit Y/Y revenue growth in all segments

SEMICONDUCTOR SYSTEMS

Quarter	Revenue (\$M)	Non-GAAP Operating Margin (%)
Q3F19	2,273	28%
Q4F19	2,302	28%
Q1F20	2,814	33%
Q2F20	2,567	31%
Q3F20	2,916	34%

- Revenue up 18% on a TTM basis (Q4F19-Q3F20 vs. Q4F18-Q3F19)
- Since 2015 launch, cumulatively shipped >5K Sym3*Y etch chambers
- Significant traction for new optical and e-beam systems

APPLIED GLOBAL SERVICES

Quarter	Revenue (\$M)	Non-GAAP Operating Margin (%)
Q3F19	931	28%
Q4F19	977	28%
Q1F20	987	28%
Q2F20	1,018	26%
Q3F20	1,034	27%

- 60% of services and spares revenue from subscription-like long-term agreements

DISPLAY & ADJACENT MARKETS

Quarter	Revenue (\$M)	Non-GAAP Operating Margin (%)
Q3F19	339	13%
Q4F19	457	22%
Q1F20	332	12%
Q2F20	565	21%
Q3F20	425	21%

- Encouraging signs in high end of market: 8K screen demand, adoption of OLED in TVs
- Optimistic about long-term opportunities to address inflections, expand served addressable market

* For reconciliation of GAAP to non-GAAP results, see appendix of this presentation and non-GAAP reconciliation on the investor relations page at www.appliedmaterials.com
TTM is trailing twelve months
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Business Outlook

FOURTH QUARTER Fiscal 2020	OUTLOOK	Total Revenue	~\$4.6 billion ± \$0.2 billion
		Non-GAAP EPS	~\$1.17 ± \$0.06
SEGMENT REVENUE		Semiconductor Systems	~\$3.025 billion
		Applied Global Services	~\$1.07 billion
		Display and Adjacent Markets	~\$475 million
OTHER		Non-GAAP Gross Margin	~45.7%
		Non-GAAP Operating Expense	~\$820 million

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Source: Company data, KGI Research

Financials

YE 31 Dec

INCOME STATEMENT (\$\$m)	2018A	2019A	2020F	2021F	2022F
Revenue	127.9	131.9	160.2	172.7	182.6
Cost of sales	(50.9)	(62.1)	(75.3)	(80.5)	(84.7)
Gross Profit	77.0	69.8	84.9	92.2	97.9
D&A expense	(5.7)	(6.9)	(8.0)	(8.6)	(9.1)
Selling, general, admin expenses	(28.3)	(26.8)	(32.0)	(34.5)	(36.5)
Profit from Operations	43.0	36.2	44.9	49.0	52.2
Finance income/(expenses)	(0.4)	(0.6)	(0.2)	(0.2)	(0.2)
Share of JV results	0.5	2.6	2.7	2.9	3.1
Other operating income/(expenses)	2.4	(2.7)	0.0	0.0	0.0
Profit before Tax	45.5	35.5	47.3	51.7	55.1
Income tax	(2.9)	(2.2)	(3.3)	(3.6)	(3.9)
Non-controlling interests	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)
PATMI	43.1	33.6	44.4	48.5	51.7
BALANCE SHEET (\$\$m)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	18.9	34.4	37.0	54.3	77.6
Trade and other receivables	15.1	22.1	26.8	28.9	30.6
Inventory	70.4	51.7	66.9	71.5	75.3
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	104.5	108.2	130.8	154.7	183.5
Property, plant and equipment	53.4	52.3	47.5	42.3	36.8
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
Non-current Assets	170.5	179.0	174.2	169.0	163.6
Total assets	275.0	287.2	305.0	323.8	347.0
Trade and other payables	14.1	18.8	22.1	22.5	24.4
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
Current Liabilities	38.1	32.5	35.8	36.2	38.2
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
Non-current liabilities	6.4	9.8	9.8	9.8	9.8
Shareholders equity	230.5	244.9	259.4	277.7	299.0
Non-controlling interests	1.9	1.6	1.6	1.6	1.6
Total Equity	232.4	246.5	261.0	279.4	300.7
Total Liabilities and Equity	275.0	287.2	305.0	323.8	347.0
CASH FLOW STATEMENT (\$\$m)	2018A	2019A	2020F	2021F	2022F
Net income before tax	45.5	35.5	47.3	51.7	55.1
Depreciation & Amortisation	5.4	4.3	5.7	6.9	8.0
Other non-cash adjustments	(1.3)	3.3	(0.1)	(0.9)	(1.8)
Change in Working Capital	(7.5)	12.9	(16.6)	(6.2)	(3.6)
Income Tax Paid	(3.6)	(2.3)	(3.3)	(3.6)	(3.9)
Interest Paid	0.0	0.0	0.0	0.0	0.0
CF from operating activities	38.7	53.6	32.9	47.8	53.9
Purchase/Disposal of PPE	(15.7)	(0.2)	(3.2)	(3.5)	(3.7)
Other CFI	(33.2)	(7.0)	0.0	0.0	0.0
CF from investing activities	(48.8)	(7.2)	(3.2)	(3.5)	(3.7)
Dividends Paid	(29.5)	(18.8)	(26.8)	(26.8)	(26.8)
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)
CF from financing activities	(30.5)	(30.7)	(27.1)	(27.1)	(27.1)
Net increase in cash & cash equiv.	(40.6)	15.8	2.7	17.3	23.2
FX effects	(0.0)	(0.3)	0.0	0.0	0.0
Beginning Cash	59.6	18.9	34.4	37.0	54.3
Ending Cash	18.9	34.4	37.0	54.3	77.6
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
Profitability					
Core EPS	0.07	0.06	0.08	0.08	0.09
Core EPS Growth (%)	-	(15.9)	23.5	9.4	6.6
DPS (SGD Cents)	4.50	4.00	5.00	5.00	5.00
Dividend Yield (%)	4.2	3.7	4.6	4.6	4.6
Profitability					
Gross margin	60.2%	52.9%	53.0%	53.4%	53.6%
EBITDA margin	38.1%	32.6%	33.0%	33.4%	33.6%
Net margin	33.3%	25.2%	27.5%	27.9%	28.1%
ROE	18.5%	13.6%	17.0%	17.3%	17.1%
ROA	15.5%	11.6%	14.4%	14.9%	14.8%
Financial Structure (x)					
Interest coverage	70.4	37.5	186.9	204.3	217.6
Total Debt/Equity (%)	9.2	5.0	4.7	4.5	4.2
Market Valuation (x)					
Price / Earnings	13.6	17.4	13.2	12.0	11.3
Price / Book	2.5	2.4	2.2	2.1	1.9
Price / Sales	4.5	4.4	3.6	3.4	3.2
EV / EBITDA	12.1	13.0	10.6	9.4	8.4

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Rating	Definition
Outperform (OP)	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.
Neutral (N)	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.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
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