



UMS Holdings

(UMSH SP/558.SI)

Any bullets left in this chamber?

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- We initiate with an **UNDERPERFORM** and TP of S\$0.67, based on 11x 2020F EPS.
- Semiconductor capital equipment spending may hit a roadblock this year with COVID-19, with various downgrades across market research firms. We think UMS may be on the short end of the stick.
- Recent diversification efforts into aerospace sector will also face substantial structural headwinds, as the crisis has severely affected the airlines industry.
- Trade war undercurrents are still present, forming another dormant, yet highly impactful risk factor.

Investment Thesis:

Muddy outlook. Semiconductor capital equipment sales were expected to produce a single digit growth rebound this year, after a cyclical contraction in 2019. Deposition equipment sales were expected to fair worse than the fab industry, even prior to COVID-19 crisis. We think this could shape out to be a second weak year for deposition equipment, despite initial strong forecasts from UMS's key customer. As competition in the deposition space heats up, we think UMS could face stronger headwinds than what the market currently anticipates.

Furthermore, we think the current damage to the airlines industry will have an outsized impact on SME suppliers, such as UMS's associates JEP and All Star Fortress.

Lastly, we think trade tensions, which have largely been out of investors' radar in the current climate, have resurfaced with recent export controls imposed on China by US. In the event the trade war picks up again, we think UMS's key business will be moderately impacted.

Forecasts. We have a bull, base and bear scenario, based on how the deposition market develops and whether UMS's key customer can gain (or lose) market share over the next few years. Our base case sales are -2.6%/+7.9%/+7.7% for FY2020/2021/2022F, leading to a -1.1%/+15.2%/+15.7% YoY change in EPS.

Underperform (Initiation)		Performance (Absolute)	
Price as of 30 Apr 20 (SGI)	0.82	1 Month (%)	31.2
12M TP (\$)	0.67	3 Month (%)	-21.4
Previous TP (\$)	na	12 Month (%)	18.0
Upside (%)	(18.7)		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	437		
Issued Shares (mn)	533		
Vol - 3M Daily avg (mn)	6.6		
Val - 3M Daily avg (\$mn)	5.3		
Free Float (%)	79.1%		
Major Shareholders		Previous Recommendations	
Luong Andy	20.8%		
Dimensional Fund Adviser	1.6%		
eQRahastoyhtio Oy	0.6%		

Financials & Key Operating Statistics					
YE Dec (\$m)	2018A	2019A	2020F	2021F	2022F
Revenue	127.9	131.9	128.5	138.7	149.4
PATMI	42.7	33.2	32.9	37.9	43.8
Core PATMI	39.6	33.3	30.8	35.4	40.9
Core EPS	0.07	0.06	0.06	0.07	0.08
Core EPS grth (%)	-24.5	-15.8	-7.6	15.1	15.6
Core P/E (x)	7.7	16.6	14.3	0.0	0.0
DPS (SGCents)	5.5	3.5	3.0	3.5	4.0
Div Yield (%)	6.7	4.3	3.7	4.3	4.9
Net Margin (%)	33.0	24.9	25.3	27.0	29.0
Gearing (%)	9.1	5.0	4.8	4.5	4.2
Price / Book (x)	1.9	1.8	1.7	1.6	1.5
ROE (%)	18.3	13.4	12.5	13.6	14.7

Source: Company Data, KGI Research

Valuation & Action: We apply an 11x PE peg to our base case scenario 2020F earnings to get a Target Price of S\$0.67, a 19% downside from Friday's close price. Applying 11x PE to our bull and bear case scenario yields S\$0.76 and S\$0.60 respectively. We think current market prices and price multiples imply optimism for UMS's business, perhaps guided by key customer AMAT's initial positive guidance for 2020, or a willingness to overlook current extraordinary circumstances for future earnings. We thus initiate with an UNDERPERFORM.

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).

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Investment Thesis

Muddy Outlook

Semiconductor capital spending tends to follow a 2-year downcycle, followed by a multi-year spending upcycle with substantial sales growth, leading to overall growth in the SemiCap industry over the years. While initial estimates of 2019 Capex were in the double digit negative territory, the latest updates from market data providers indicate that the decline in 2019 is less than expected, with strong Capex spending by Intel and Semi foundries.

The picture for 2020 is less clear, with mixed forecasts. While SEMI remains bullish on Semi Capex, with a +3% yoy forecast for 2020 on fab equipment spend (which represents a majority of Semi Capital Equipment spend), Gartner is fairly bearish on SemiCap spending, with their latest forecast of 2020 SemiCap spending at -13.8% yoy.

Additionally, the market for deposition equipment leads the sales downtrend, with -19% yoy sales in 2019, followed by another estimated -5% yoy sales in 2020. Given that the -5% forecast was made in December 2019, we think there could be further downside given the developments of COVID-19 since.

Moreover, while the overall growth of deposition equipment sales has benefited all deposition players over the years, we note that Applied Materials (AMAT), the market leader in deposition equipment, has been losing market share to Lam Research (LRCX) and other deposition players like Tokyo Electron and Aixtron. While we lack updated 2019/2020 data, we think AMAT remains the market leader with ~40% market share, and will likely stay as the market leader upon the acquisition of Kokusai Electric, which will bolster their deposition equipment capabilities. However, we do not expect near-term synergies to spill over to UMS, as the increase in AMAT's product range from the acquisition will likely not have a sizeable effect on Endura's sales in the near term.

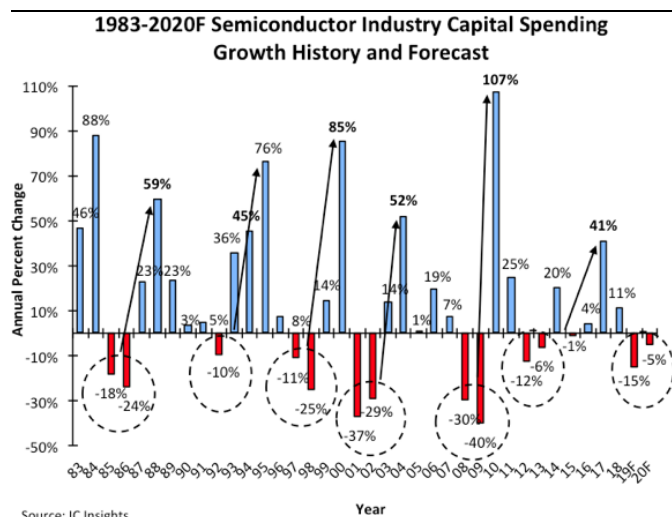
Clipped Wings

We are also fairly bearish on the long-term prospects of the aerospace sector, given the current damage to the airlines industry from COVID-19. We expect substantial spending cuts from airlines, with delays to new aircraft builds and any form of capital spending, other than essential maintenance work. We can expect JEP's aerospace customers to cut down on future orders, while delaying or potentially cancelling current orders. We think JEP's O&G division will also see further headwinds in the current economic environment.

Trade tensions still ongoing

Meanwhile, trade tensions still remain, with US recently tightening export control restrictions to China, which includes the semiconductor industry. Given AMAT's 30% revenue exposure to China and China being one of the biggest sources of growth in the industry, we see any additional legislation to create further instability in UMS's main business.

Figure 1: Semi Capex spend has had fairly consistent 2-year downcycles since 1985



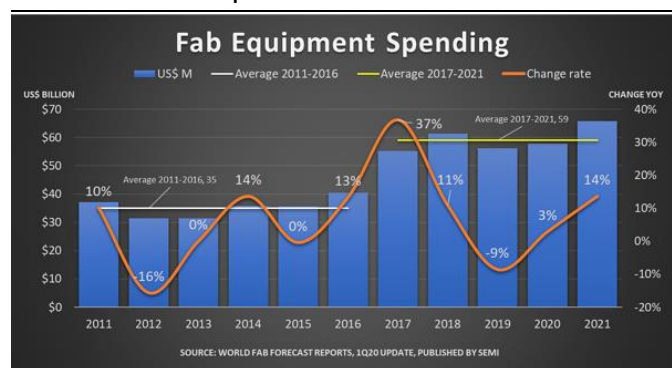
Source: IC Insights
Source: IC Insights, June 2019

Figure 2: Semi Capex 2019 downcycle not as bad as initially projected

Market Research Firm	2019 yoy %	2020 yoy %
Gartner 2Q19 forecast	-19%	-2%
Gartner 1Q20 forecast	-4%	-14%
SEMI Jul19 update	-18%	+12%
SEMI Apr20 update	-7%	N.A.

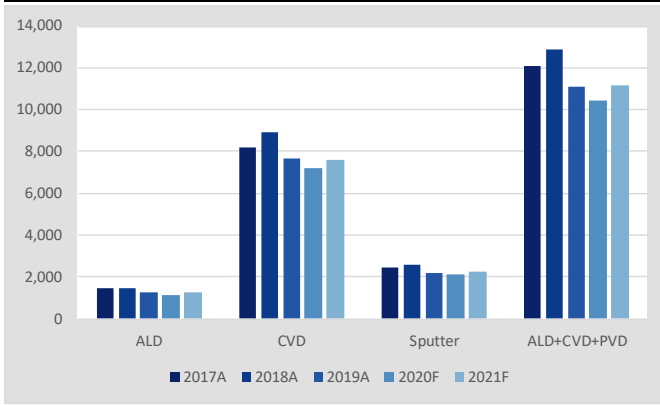
Source: Gartner, SEMI

Figure 3: SEMI estimates that Fab equipment spend not expected to continue downtrend despite COVID-19 crisis



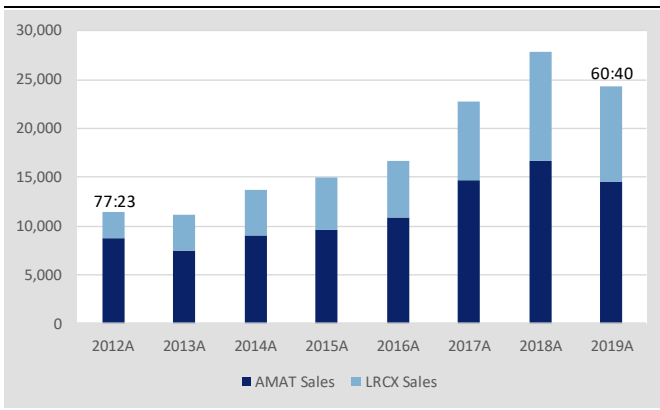
Source: SEMI, March 2020

Figure 4: Deposition sales to dip further in 2020 before 2021 rebound



Source: Gartner, December 2019. Figures in USDmn

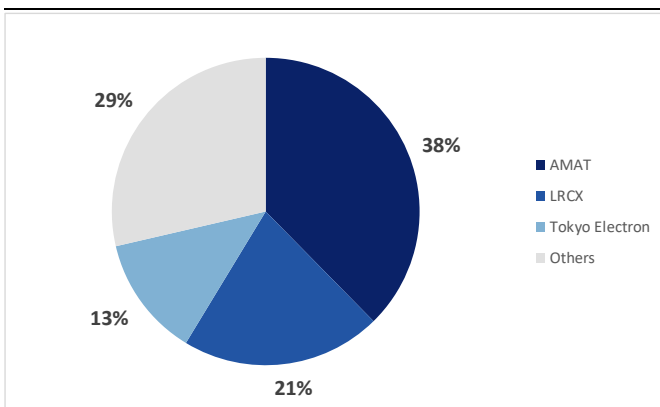
Figure 5: AMAT losing market share to LRCX over the years



Source: Company filings. Figures in USD mn

Note: AMAT's Fiscal Year ends October while LRCX's Fiscal Year ends June

Figure 6: Deposition market share in 2018; AMAT still leader despite losing market share



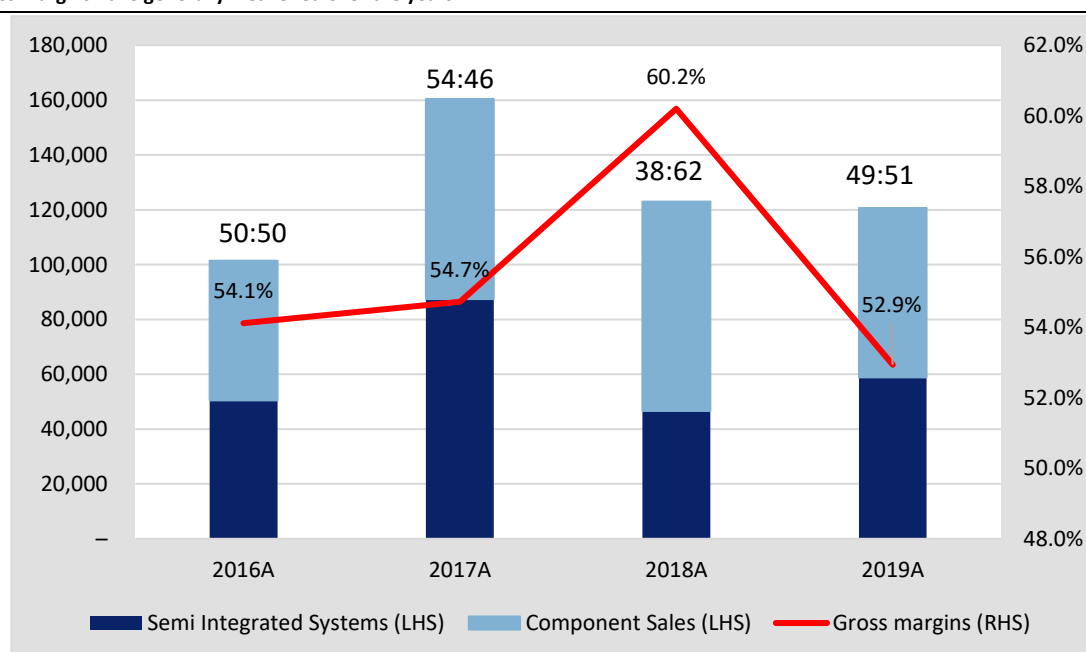
Source: Gartner

Valuation

Revenue:

Semiconductor business: We provide 3 potential scenarios to illustrate the revenue range of UMS’s main business, which hinges upon the growth of the deposition market, and also whether AMAT can maintain market share against deposition competitors. We base all estimates on the assumption that UMS accounts for 1.8% of AMAT’s deposition sales, and AMAT to account for 90% of UMS’s semiconductor segment revenue. We think this is a fair estimate as 1) From prior disclosures, UMS accounts for between 0.9% to 1.5% of AMAT’s semiconductor systems sales, 2) Deposition accounts for about half of AMAT’s semiconductor system sales, which means UMS accounts for around 1.8% to 3% of AMAT’s deposition sales, and 3) assuming that AMAT still accounts for 90% of UMS’s semiconductor segment revenue, UMS’s wallet share from AMAT’s deposition sales has fallen from ~2.3% in 2017 to ~1.85% in 2019. 4) We think the recent contract renewal is unlikely to improve terms for UMS, with the possibility of pricing pressure on UMS given the competitive environment, leading to lower margins and thus lower wallet share. A comparison between 2016’s and 2019’s product mix and gross margins could be indicative of such, though it is likely that the bulk of the ~1.2% margin erosion is due to the growth of non-semiconductor businesses. We also pencil in optimistic growth figures for 2022, as part of a continued SemiCap upcycle.

Figure 7: Gross margins have generally weakened over the years



Source: Company data, KGI Research

Figure 8: Summary of the three scenarios

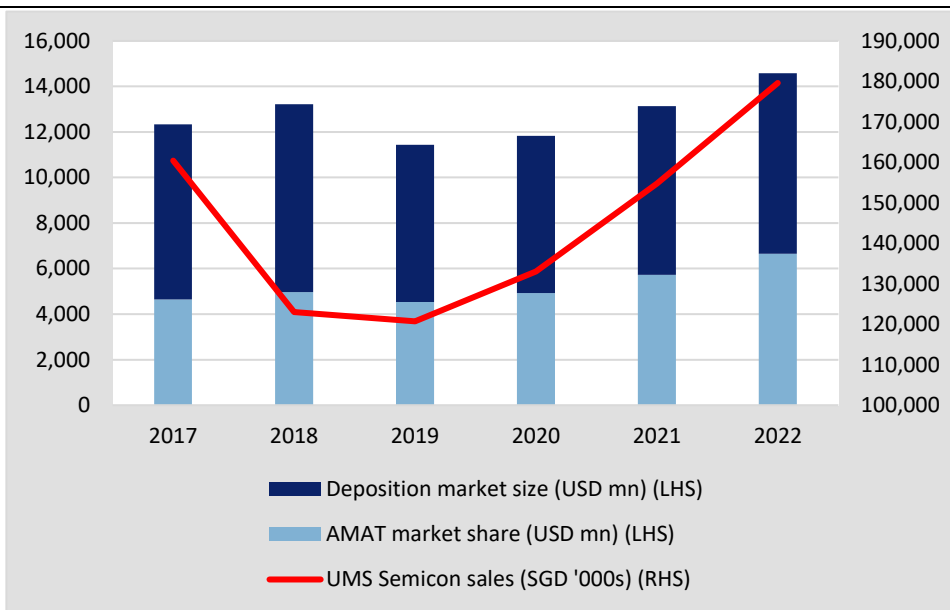
		2018	2019	2020	2021	2022
Deposition market growth	Bull	-	-	3.5%	11.0%	10.0%
	Base	-	-	0.0%	8.0%	10.0%
	Bear	-	-	-6.0%	9.0%	10.0%
AMAT market share %	Bull	38%	40%	42%	44%	44%
	Base	38%	38%	38%	38%	38%
	Bear	38%	37%	36%	35%	35%
UMS Sales from AMAT (% of AMAT deposition sales)	Bull	1.65%	1.78%	1.80%	1.80%	1.80%
	Base	1.65%	1.87%	1.80%	1.80%	1.80%
	Bear	1.65%	1.92%	1.80%	1.80%	1.80%

Source: KGI Research

Bull Case: Deposition market grows, AMAT takes back market share.

Case 1 assumes a best case scenario where SemiCap is able to circumvent traditional 2-year downcycles, growing 3.5% in 2020 despite COVID-19 crisis, and further growing another 11% in 2021, akin to a spending rebound in Semi Fab equipment. This scenario is in line with SEMI’s estimates, albeit slightly less bullish than AMAT’s initial guidance for Q2 FY2020. We also assume AMAT is able to regain back market share to 44% by 2021. In this scenario, UMS’s semiconductor business will see a fairly strong rebound close to 2017 figures.

Figure 9: Case 1: bullish scenario figures

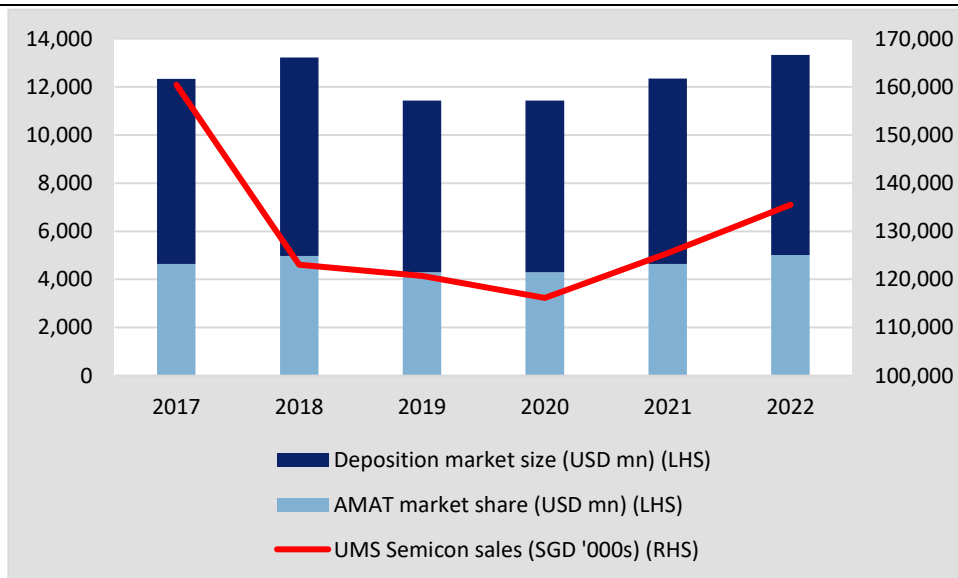


Source: Company data, KGI Research

Base Case: Deposition market stalls, then climbs, AMAT has flat market share

Case 2, our base case, assumes zero growth in 2020, followed by 8% growth in 2021. The base case takes into account a push-back in revenue recognition due to delayed production and deliveries, translating to revenue recognition in late 2H20 / 2021. We think this is the most likely scenario as 1) AMAT was initially fairly bullish about 2020, with the company expecting double digit yoy growth compared to 2019’s trough, which is in line with demand trends, and 2) as of current, no major semiconductor company has announced order cancellations, but have voiced concerns with their supply chains. As such, we think demand is likely to pick up, albeit not reaching 2018’s peak level.

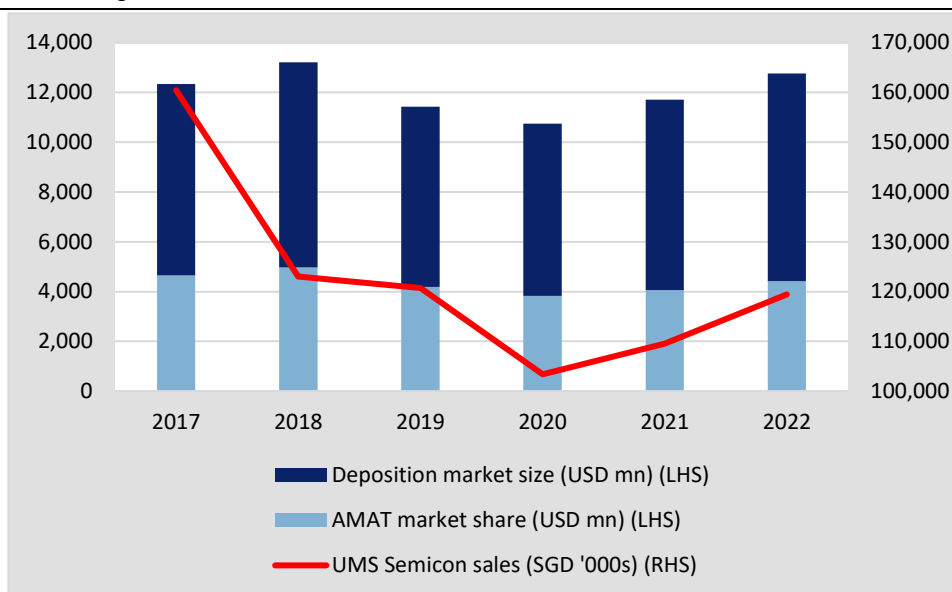
Figure 10: Case 2: base scenario figures



Source: Company data, KGI Research

Bear Case: Deposition market contracts, AMAT loses market share

Our bear case scenario is aligned with Gartner’s forecast, where the deposition market contracts in 2020, mirroring 2-year contraction cycles in the semi capital equipment industry. This is followed by a 9% rebound in 2021, albeit off a low base. Furthermore, we take the assumption that LRCX and other deposition players gain market share over AMAT, thus leading to further depressed sales for UMS. In this scenario, we see UMS returning to a revenue level similar to 2016’s.

Figure 11: Case 3 - bear scenario figures


Source: Company data, KGI Research

Other businesses: While the aerospace industry is likely to see structural headwinds from the COVID-19 crisis, we think there are further operational synergies that UMS can unlock from its associates, especially JEP, to withstand the income loss from the aerospace segment. We model associates' profits at 6% of Profit Before Tax, 17% less than FY19 performance. We also take the assumption that Starke and Kalf grow 10%/5% yoy for 2020/2021, significantly lower than recent growth rates indicate but fairly pragmatic given the current business outlook.

Operating Statistics:

We think gross margins will erode further in 2020 as sales mix will continue to pick up from non-semiconductor businesses, which have lower margins than the semiconductor business. Assuming no extraordinary charges, PATMI and EPS will be flat from 2019 to 2020, and pick up in 2021 and 2022. Refer to page X for key ratios.

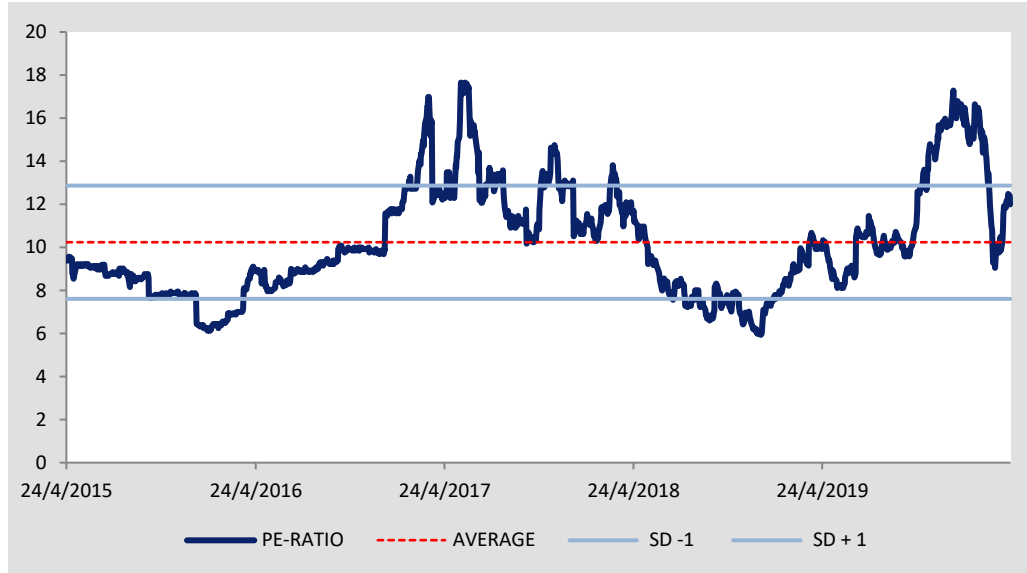
Figure 12: Key assumptions used to derive share price

		2020	2021	2022
Revenue (SGD mn)	Bull	145.3	167.9	193.5
	Base	128.5	138.7	149.4
	Bear	115.7	122.7	133.3
EBITDA (SGD mn)	Bull	45.5	55.4	67.7
	Base	40.2	45.8	52.3
	Bear	36.2	40.5	46.6
PATMI (SGD mn)	Bull	36.9	45.6	56.4
	Base	32.5	37.5	43.4
	Bear	29.2	33.1	38.6
Implied share price (SGD)	Bull		0.76	
	Base		0.67	
	Bear		0.60	

Source: KGI Research

Valuation:

UMS has traded at c. 6x P/E at trough and peaked around 17x P/E. We think 11x P/E is a fair peg, >50% discount to fellow AMAT suppliers and 1x PE lower than our current AEM peg, given the weaker competitive positioning of UMS relative to AEM. Applying the 11x peg to our 2021 and 2022 earnings estimate yields a target price of S\$0.78 and S\$0.90 respectively. Our implied share price in figure 12 is also based off 11x P/E.

Figure 13: UMS's P/E trading band for the past 5 years


Source: Bloomberg, KGI Research

Figure 14: Peer comparisons for UMS

Company Name	BGB Ticker	Price (local curr.)	Market Cap (\$\$ Mn)	P/E (x)			P/B (x)		3y EPS CAGR (%)	EV/EBITDA (x)		Div Yield (%)	YTD Price Performance (%)	1y Price Performance (%)	1mth Price Performance (%)
				TTM	FY20F	FY21F	Current	TTM		FY20F					
SG Semiconductor Capital Equipment Manufacturing (Average)				13.1	14.4	12.7	3.7	42%	9.4	6.6	3.18	-1.50	44.87	-0.05	
UMS HOLDINGS LTD	UMSH SP	SGD 0.82	437	13.1	13.3	11.6	1.8	-20%	10.4	10.1	4.27	-20.4	12.3	-3.3	
AEM HOLDINGS LTD	AEM SP	SGD 2.45	671	8.0	11.2	10.4	4.9	151%	8.2	6.9	2.10	21.3	114.9	-4.2	
MICRO-MECHANICS HOLDINGS LTD	MMH SP	SGD 1.75	243	18.1	18.8	16.1	4.4	-6%	9.6	9.0	-	-5.4	7.4	7.4	
Applied Materials known supplier list (Average of all)				45.2	26.6	19.6	3.1	26%	22.3	12.7	0.4	-7.0	10.9	7.3	
>10% exposure (Average)				28.8	23.9	16.9	3.1	-2%	14.8	11.6	0.6	-10.3	24.3	17.2	
TECHNO QUARTZ INC	5217 JP	JPY 10750	111	8.3	-	-	0.9	45%	3.9	-	-	16.0	43.7	5.6	
GL SCIENCES INC	7705 JP	JPY 1014	150	6.9	-	-	0.5	23%	3.4	-	-	-35.8	-40.8	9.5	
ULTRA CLEAN HOLDINGS INC	UCTT US	USD 19.00	1060	31.7	12.2	10.5	1.7	-	9.7	6.3	0.00	-19.7	54.0	13.6	
ICHOR HOLDINGS LTD	ICHR US	USD 26.68	858	43.3	12.5	9.8	2.7	-54%	17.5	7.3	0.00	-19.8	6.5	7.3	
ADVANCED ENERGY INDUSTRIES	AEIS US	USD 59.61	3229	31.7	26.5	16.5	3.4	-30%	26.1	10.0	0.00	-16.3	4.4	12.3	
VAT GROUP AG	VACN SW	CHF 163.30	7113	65.4	44.6	35.9	9.4	-20%	32.7	22.8	2.45	-0.2	29.1	15.8	
RORZE CORP	6323 JP	JPY 4505	1051	14.2	-	11.8	3.1	20%	10.1	-	-	3.3	73.1	55.9	
<10% exposure (Average)				52.9	27.4	20.6	3.1	39%	26.1	13.1	0.4	-5.4	4.6	2.8	
FLEX LTD	FLEX US	USD 9.82	6978	10.3	8.2	8.3	1.7	-45%	5.4	4.7	0.00	-22.2	-14.1	10.5	
CELESTICA INC	CLS CN	CAD 9	1116	36.4	10.9	8.3	0.6	-15%	5.1	3.6	0.00	-21.0	-12.1	-14.9	
MKS INSTRUMENTS INC	MKSI US	USD 107.95	8352	27.6	22.3	15.3	2.9	-36%	19.2	10.8	0.74	-1.9	21.9	-6.2	
BENCHMARK ELECTRONICS INC	BHE US	USD 23.93	1229	30.9	19.7	15.3	0.9	-	8.0	-	1.88	-30.4	-11.4	0.3	
BROOKS AUTOMATION INC	BRKS US	USD 41.58	4316	96.4	37.8	28.8	2.6	160%	23.5	14.5	0.96	-0.9	9.3	27.0	
ENTEGRIS INC	ENTG US	USD 56.48	10720	35.4	28.3	24.0	6.5	77%	19.6	16.4	0.55	12.8	39.0	10.4	
II-VI INC	IIVI US	USD 35.36	4540	90.2	25.6	13.9	1.6	5%	31.7	8.8	0.00	5.0	-5.1	-4.2	
HANA MATERIALS INC	166090 KS	KRW 17450	400	11.4	-	-	2.3	14%	7.9	-	-	-7.9	2.3	-11.9	
RBC BEARINGS INC	ROLL US	USD 132.81	4689	26.3	26.2	30.9	3.1	20%	17.3	22.2	0.00	-16.1	-4.0	7.6	
LITTELFUSE INC	LFUS US	USD 156.33	5351	24.6	37.1	23.6	2.5	4%	13.5	12.9	1.20	-18.3	-17.2	1.7	
ONTO INNOVATION INC	ONTO US	USD 35.94	2553	66.1	21.5	14.5	1.4	-78%	131.1	9.6	0.00	-1.6	-1.0	19.0	
CYBEROPTICS CORP	CYBE US	USD 27.26	275	194.7	64.9	45.7	3.3	-24%	-	20.1	0.00	48.3	58.4	0.4	
PTC INC	PTC US	USD 69.96	11393	88.4	31.2	25.1	6.3	-	40.7	21.8	0.00	-6.6	-20.4	-7.4	
ZEBRA TECHNOLOGIES CORP-CLA	ZBRA US	USD 244.97	18338	22.8	23.6	17.9	7.5	453%	16.6	14.5	0.00	-4.1	19.4	-3.2	
ADVANCED ENERGY INDUSTRIES	AEIS US	USD 60.00	3229	31.7	26.5	16.5	3.4	-30%	26.1	10.0	0.00	-16.3	4.4	12.3	
Semiconductor Front-end Testing Equipment Manufacturers (Average)				26.4	24.9	19.6	6.3	34%	17.0	13.4	1.8	-0.4	34.8	34.8	
ASML HOLDING NV	ASML NA	EUR 279	181836	44.6	38.8	27.4	9.5	13%	35.4	22.5	-	5.7	50.3	8.8	
LAM RESEARCH CORP	LRX US	USD 280	57312	19.4	18.4	15.8	9.0	17%	14.3	12.4	1.63	-4.2	37.3	10.4	
TOKYO ELECTRON LTD	8035 JP	JPY 22940	47714	19.5	20.9	17.8	4.3	47%	12.4	9.1	-	-4.1	30.0	7.9	
KLA CORP	KLAC US	USD 176	38883	20.1	18.8	18.3	10.3	13%	16.3	13.7	1.88	-1.3	39.6	3.1	
AIXTRON SE	AIXA GY	EUR 9	1475	40.8	32.3	21.6	2.1	120%	14.0	10.3	-	-0.1	-16.9	26.1	
ASM INTERNATIONAL NV	ASM NA	EUR 102	8018	14.2	20.3	16.9	2.6	-7%	9.6	12.6	-	1.8	68.3	21.3	

Updated on 30 April 2020
 Source: Bloomberg, KGI Research

Company Overview

UMS started off as Long’s Manufacturing in Silicon Valley, USA, back in 1984 by current CEO-Chairman Luong Andy. UMS was incorporated in Singapore in 2001 and is listed on SGX shortly after on 25th May 2001. UMS manufactures components and does sub-assembly services for major semiconductor OEMs, with Applied Materials as a key client. UMS’s relationship with Applied Materials has dated back since 2006.

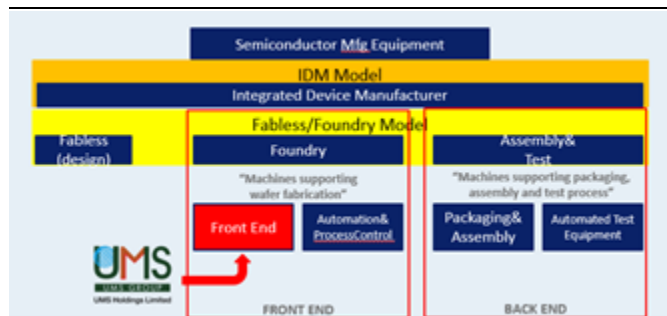
Endura commands a key position in front end manufacturing process

Front-end manufacturing is a multi-step process used to describe the first half of semiconductor production process, which involves the formation of transistors and creation of the semiconductor chip on the wafer. The multi-step process involves 7 key procedures, which all take place in a foundry/fab.

- 1) Diffusion
- 2) Deposition
- 3) Polishing
- 4) Photolithography
- 5) Etch
- 6) Implant
- 7) Clean

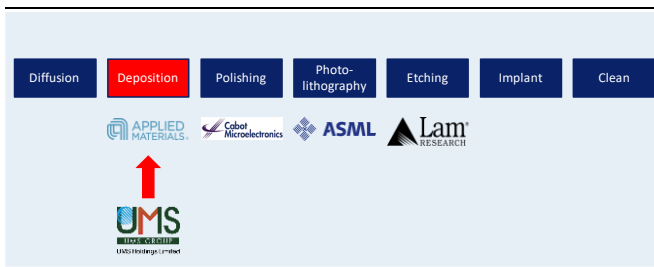
The key component that UMS manufactures are chambers for AMAT’s Endura product line, which are used for different types of deposition, mainly Chemical Vapour Deposition (CVD) and Physical Vapour Deposition (PVD). Endura was introduced in April 1990 purely as a PVD machine, and quickly reached PVD market leader position with 100 shipments in 3 years. Over the years, AMAT added other capabilities, such as the ability to handle CVD and Atomic Layer Deposition (ALD). AMAT holds #1 market share in the CVD and PVD market, and has sold over 4,500 Endura systems in the past 20 years to over 100 customers, including the likes of Samsung, Intel, TSMC and Micron.

Figure 15: UMS supplies key components to Applied Materials, a major front-end OEM company



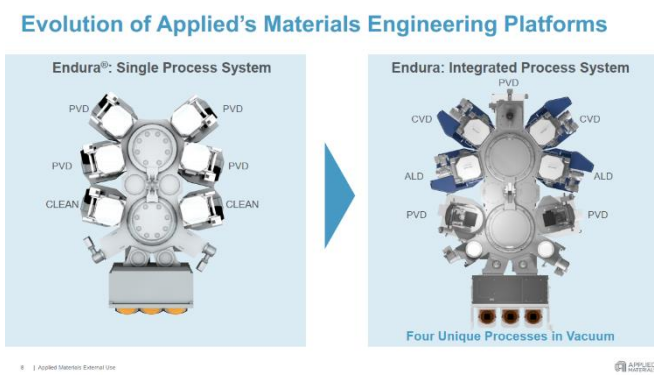
Source: KGI Research

Figure 16: AMAT is market leader in deposition, a key step of the front end manufacturing process



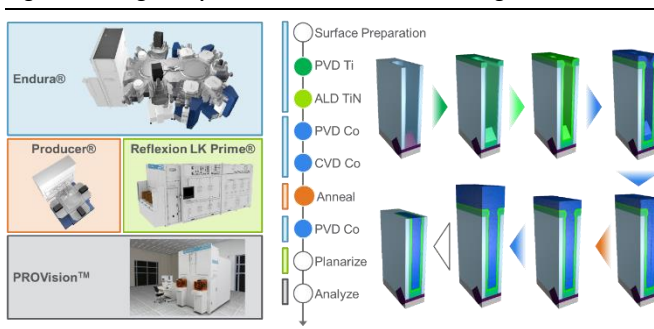
Source: KGI Research

Figure 17: Revamp of Endura’s design to include CVD and ALD capabilities



Source: Applied Materials

Figure 18: Integrated process flow with Endura handling PVD, ALD, CVD



Source: Applied Materials

Since 2016, UMS has also actively sought diversification opportunities, with acquisitions in the Aerospace industry through a 10% stake in All Star Fortress Sdn Bhd and a 38.7% stake in JEP Holdings Ltd. UMS has a 51% equity stake in Kalf Engineering Pte Ltd, which handles chemical engineering solutions. UMS also has a 70% equity stake in Starke Singapore Pte Ltd, a non-ferrous metal alloy specialist, which is in the material distribution business.

UMS currently has factories in Singapore, Malaysia, and United States, totaling over 640,000 square feet. The bulk of production capacity is in Penang factory, at around 500,000 square feet.

Financial Forecasts
Figure 19: Forecasted financials (2018A – 2022F)

YE 31 Dec					
INCOME STATEMENT (\$m)	2018A	2019A	2020F	2021F	2022F
Revenue	127.9	131.9	128.5	138.7	149.4
Cost of sales	(50.9)	(62.1)	(61.3)	(63.8)	(65.7)
Gross Profit	77.0	69.8	67.2	74.9	83.6
D&A expense	(5.7)	(6.9)	(6.4)	(6.9)	(7.5)
Selling, general, admin expenses	(28.3)	(26.8)	(27.0)	(29.1)	(31.4)
Profit from Operations	43.0	36.2	33.8	38.8	44.8
Finance income/(expenses)	(0.4)	(0.6)	(0.4)	(0.4)	(0.4)
Share of JV results	0.5	2.6	2.0	2.3	2.7
Other operating income/(expenses)	2.4	(2.7)	0.0	0.0	0.0
Profit before Tax	45.5	35.5	35.4	40.7	47.1
Income tax	(2.9)	(2.2)	(2.5)	(2.9)	(3.3)
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
PATMI	42.7	33.2	32.9	37.9	43.8
BALANCE SHEET (\$m)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	18.9	34.4	49.3	65.5	86.3
Trade and other receivables	15.1	22.1	21.5	23.2	25.0
Inventory	70.4	51.7	54.5	56.7	58.4
Other current assets	0.0	0.0	0.0	0.0	0.0
Current Assets	104.5	108.2	125.2	145.4	169.7
Property, plant and equipment	53.4	52.3	49.1	45.6	41.9
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	175.8	172.4	168.6
Total assets	275.0	287.2	301.1	317.8	338.3
Trade and other payables	14.1	18.8	18.0	17.8	18.9
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	31.7	31.6	32.7
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	259.5	276.4	295.8
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	230.5	244.9	259.5	276.4	295.8
Total Liabilities and Equity	275.0	287.2	301.1	317.8	338.3
CASH FLOW STATEMENT (\$m)	2018A	2019A	2020F	2021F	2022F
Net income before tax	45.5	35.5	35.4	40.7	47.1
Depreciation & Amortisation	5.4	4.3	5.7	6.9	6.4
Other non-cash adjustments	(1.3)	3.3	(0.8)	(1.8)	(1.2)
Change in Working Capital	(7.5)	12.9	(3.0)	(4.0)	(2.4)
Income Tax Paid	(3.6)	(2.3)	(2.5)	(2.9)	(3.3)
Interest Paid	0.0	0.0	0.0	0.0	0.0
CF from operating activities	38.7	53.6	34.8	38.9	46.6
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)	(16.3)	(18.7)	(21.7)
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)	(0.4)	(0.4)	(0.4)
CF from financing activities	(30.5)	(30.7)	(16.7)	(19.1)	(22.1)
Net increase in cash & cash equiv.	(40.6)	15.8	14.9	16.3	20.7
FX effects	(0.0)	(0.3)	0.0	0.0	0.0
Beginning Cash	59.6	18.9	34.4	49.3	65.5
Ending Cash	18.9	34.4	49.3	65.5	86.3

Source: KGI Research

Key Ratios
Figure 20: Key ratios (2018A – 2022F)

KEY RATIOS	2018A	2019A	2020F	2021F	2022F
Profitability					
Core EPS	0.05	0.10	0.07	0.06	0.06
Core EPS Growth (%)	–	86.6	(24.5)	(15.8)	(7.9)
DPS (SGD Cents)	5.5	3.5	3.0	3.5	4.0
Dividend Yield (%)	6.7	4.3	3.7	4.3	4.9
Profitability					
Gross margin	60.2%	52.9%	52.3%	54.0%	56.0%
EBITDA margin	38.1%	32.6%	31.3%	33.0%	35.0%
Net margin	33.0%	24.9%	25.3%	27.0%	29.0%
ROE	18.3%	13.4%	12.5%	13.6%	14.7%
ROA	15.4%	11.4%	10.8%	11.8%	12.8%
Financial Structure (x)					
Interest coverage	70.4	37.5	84.5	97.1	112.0
Total Debt/Equity (%)	9.1	5.0	4.8	4.5	4.2
Market Valuation (x)					
Price / Earnings	10.4	13.4	13.5	11.7	10.1
Price / Book	1.9	1.8	1.7	1.6	1.5
Price / Sales	3.4	3.3	3.4	3.2	2.9
EV / EBITDA	9.2	9.8	10.1	8.5	7.1

Source: KGI Research

KGI's Ratings

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.
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