Maybank Kim Eng

Technology

Singapore

UMS Holdings (UMSH SP)

Signs of earnings resilience

BUY

Share Price	SGD 0.93
12m Price Target	SGD 1.00 (+13%)
Previous Price Target	*SGD 0.96*

CEO and SEMI offer positive signs; BUY

In a Business Times interview, UMS' CEO sees that if business conditions do not deteriorate, 2H20 prospects are "bright" due to the rollout of 5G over the next 2-3 years. Also, SEMI has raised its forecast for 2021 global fab equipment spending to a record USD67.6b (previously: USD65.7b), implying 24% YoY increase. These suggest resilience to UMS' earnings prospects, in our view. Maintain BUY with ROE-g/COE-g of SGD1.00 (2x FY20E P/B). Stronger-than-expected order momentum may be a catalyst.

CEO sees "bright" 2H20; room for long-term growth

We highlight three key takeaways from the interview that reinforces our positive view on UMS: i) CEO Mr Luong's expectation that UMS will do "very well" in 2H20 due to 5G driven spending; ii) "lots of room" to deliver on competitive pricing to Applied Materials (AMAT), while still focusing on improving profitability; and iii) room for growth – as UMS plans to expand its Penang capacity by 200,000 sqm (+40%), by 2022.

SEMI expects higher 2021 global fab spending

While SEMI now forecasts 2021 global fab spending to grow by 24% YoY to a record USD67.7b (1Q20 forecast: USD65.7b), it also expects 2020 equipment spending to fall by 4% YoY. This contrasts its forecast for a 3% growth in the 1Q20 update, as it anticipates global equipment spending to now trough in 2Q20 rather than 1Q20 previously. However, our forecasts for UMS are unchanged as we remain comfortable with UMS' earnings visibility in 2Q-3Q20. SEMI expects spending to pick up in 2H20, and sees strength in 3D NAND as well as logic and foundry. It expects DRAM spending to pick up in 2021.

Key risks

SEMI's bullish view on 2021 is predicated on demand strength from continuing digital transformation, as well as from cloud services, server storage, gaming and health applications. However, like SEMI, we see downside risks from a reduction in discretionary consumer and corporate spending due to a protracted slump in the global economy. We view the potential for SGD0.06 DPS as a support for the share price.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22A
Revenue	128	132	143	163	179
EBITDA	51	40	49	62	65
Core net profit	43	34	41	51	54
Core EPS (cts)	8.0	6.3	7.6	9.6	10.1
Core EPS growth (%)	(16.2)	(22.1)	21.2	26.5	5.6
Net DPS (cts)	4.5	4.0	5.0	5.0	5.0
Core P/E (x)	7.1	16.5	12.3	9.7	9.2
P/BV (x)	1.3	2.3	1.9	1.8	1.6
Net dividend yield (%)	7.9	3.9	5.4	5.4	5.4
ROAE (%)	19.4	13.8	16.3	19.1	18.4
ROAA (%)	16.1	11.9	13.8	16.4	15.9
EV/EBITDA (x)	6.1	13.2	9.9	7.4	7.0
Net gearing (%) (incl perps)	2.7	net cash	net cash	net cash	net cash
Consensus net profit	-	-	41	45	-
MKE vs. Consensus (%)	-	-	(0.4)	13.4	-

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Company Description

UMS manufactures high precision components and modules found in front-end semiconductor equipment

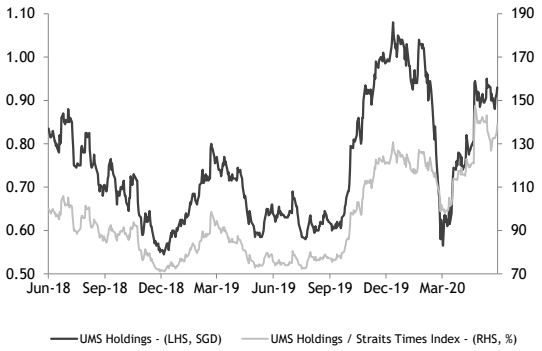
Statistics

52w high/low (SGD)	1.08/0.57
3m avg turnover (USDm)	5.5
Free float (%)	69.2
Issued shares (m)	536
Market capitalisation	SGD498.9M
	USD357M

Major shareholders:

LUONG ANDY	20.7%
UMS Holdings Bhd.	6.8%
Dimensional Fund Advisors LP	0.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	60	41
Relative to index (%)	(1)	41	76

Source: FactSet

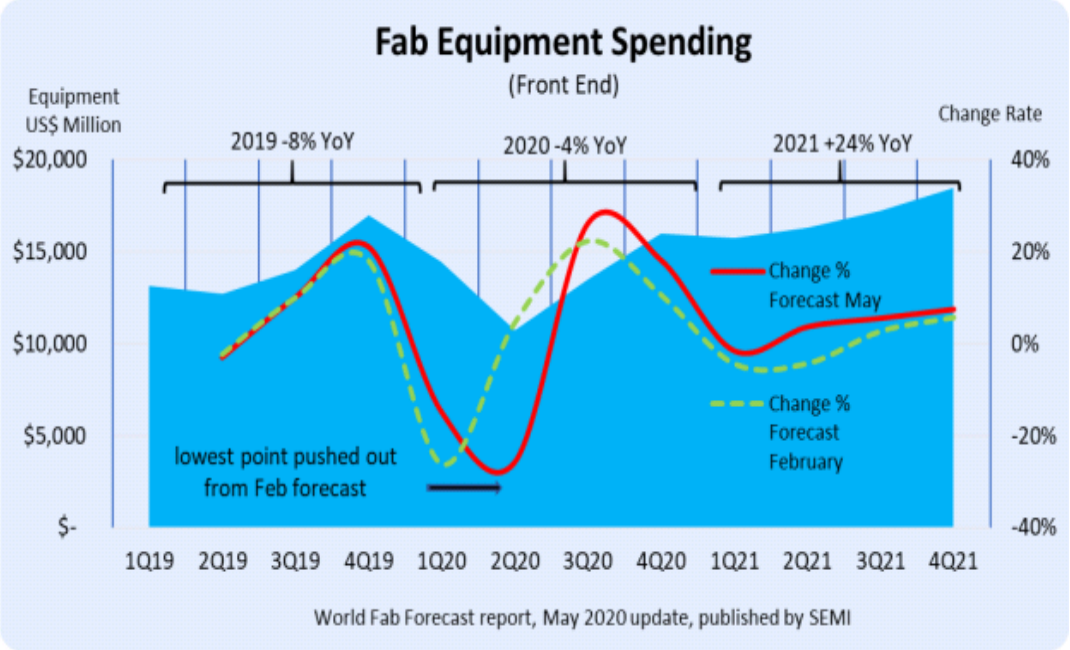
SEMI 2Q20 global fab equipment forecast

Although SEMI has pushed out its expectation for the trough for semiconductor equipment spending to 2Q20 from 1Q20, it expects investments to rise in 2H20.

SEMI's expected trajectory of investments by segments/ sub-segments:

- 3D NAND – 2020: +30% YoY; 2021: +17% YoY
- DRAM – 2020: -11% YoY; 2021: +50% YoY
- Logic foundry – 2020: -11% YoY; 2021: +16% YoY

Fig 1: SEMI's global fab equipment spending forecast by quarter

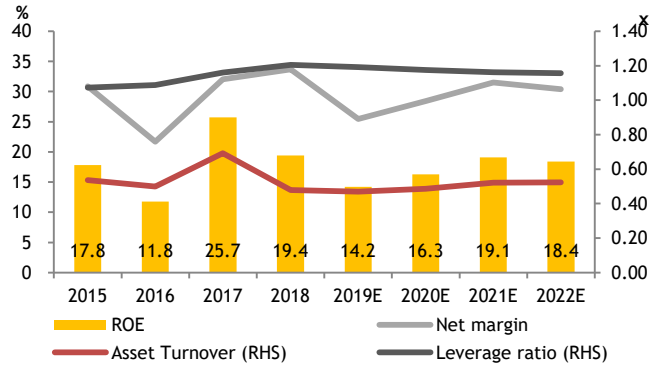


Source: SEMI

Value Proposition

- Precision metals engineering firm - specialises in assembling modules and precision engineering for components for front-end semiconductor equipment.
- Has entrenched relationship with key customer Applied Materials, which in turn has an estimated 19% of WFE market share in 2018.
- Through associate JEP, UMS is expanding precision metals engineering to non-semiconductor sectors such as aerospace, which sees tailwinds from outsourcing trends.

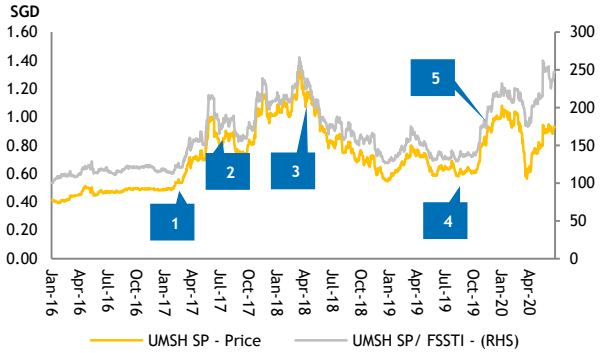
UMS Du Pont ROE



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



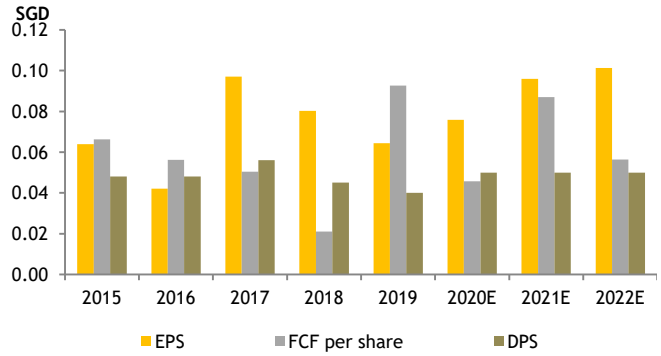
Source: Company, Maybank Kim Eng

1. Endura contract renewed for three years (2020 expiry)
2. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
3. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
4. AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
5. AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.

Financial Metrics

- PATMI growth of 21% in FY20E, driven by sustained investments from logic and foundry end-customers, and recovery from memory end-customers.
- UMS has a strong track record of maintaining a net cash balance sheet to tide through cycles.
- We forecast capex to be near depreciation levels. FCF and balance sheet are expected to support dividends over forecast period.

EPS, FCF per share and DPS



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Earlier-than-expected recovery in investments from memory semiconductor players.
- Better-than-expected contributions from Kalf Engineering, Starke and JEP.
- Better-than-expected cost control, which in turn supports margins.

Downside

- Further deterioration in US-China trade relations resulting in delayed semiconductor equipment spending.
- Weaker-than-expected margins due to negative operating leverage if volume falls.
- Lower-than-expected dividends may spook yield investors. UMS has a quarterly dividend policy and a track record of strong cash flow generation.

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FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22A
Key Metrics					
P/E (reported) (x)	11.0	11.6	12.3	9.7	9.2
Core P/E (x)	7.1	16.5	12.3	9.7	9.2
P/BV (x)	1.3	2.3	1.9	1.8	1.6
P/NTA (x)	1.3	2.3	1.9	1.8	1.6
Net dividend yield (%)	7.9	3.9	5.4	5.4	5.4
FCF yield (%)	3.7	8.8	4.9	9.4	6.1
EV/EBITDA (x)	6.1	13.2	9.9	7.4	7.0
EV/EBIT (x)	6.9	15.9	11.5	8.3	7.8
INCOME STATEMENT (SGD m)					
Revenue	127.9	131.9	143.1	163.4	178.8
Gross profit	77.0	69.8	75.8	91.5	96.5
EBITDA	51.1	40.4	48.7	61.9	65.1
Depreciation	(5.7)	(6.9)	(6.8)	(6.3)	(6.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	45.4	33.5	41.9	55.6	58.6
Net interest income /(exp)	(0.4)	(0.6)	(1.1)	(1.4)	(1.2)
Associates & JV	0.5	2.6	2.6	2.6	2.6
Exceptionals	0.0	(1.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	45.5	34.5	43.4	56.8	60.0
Income tax	(2.9)	(2.2)	(3.0)	(5.7)	(6.0)
Minorities	0.4	0.3	0.3	0.3	0.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	43.1	32.6	40.7	51.5	54.3
Core net profit	43.1	33.6	40.7	51.5	54.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	18.9	34.4	32.0	51.6	55.0
Accounts receivable	15.1	22.1	25.0	28.7	39.8
Inventory	70.4	51.7	58.8	59.4	75.8
Property, Plant & Equip (net)	53.4	52.3	55.5	54.2	52.7
Intangible assets	82.2	81.2	81.2	81.2	81.2
Investment in Associates & JVs	29.5	39.4	42.0	44.5	47.1
Other assets	5.4	6.1	6.1	6.1	6.1
Total assets	**275.0**	**287.2**	**300.6**	**325.8**	**357.9**
ST interest bearing debt	21.7	9.3	9.3	9.3	9.3
Accounts payable	14.1	18.8	20.3	21.5	26.3
LT interest bearing debt	3.4	3.6	3.6	3.4	3.4
Other liabilities	5.0	11.0	9.0	9.0	9.0
Total Liabilities	**44.6**	**42.3**	**42.2**	**43.1**	**48.0**
Shareholders Equity	228.6	243.3	257.1	281.8	309.3
Minority Interest	1.9	1.6	1.3	0.9	0.6
Total shareholder equity	**230.5**	**244.9**	**258.4**	**282.7**	**309.9**
Total liabilities and equity	**275.0**	**287.2**	**300.6**	**325.8**	**357.9**
CASH FLOW (SGD m)					
Pretax profit	45.5	34.5	43.4	56.8	60.0
Depreciation & amortisation	5.7	6.9	6.8	6.3	6.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(16.5)	18.1	(10.1)	(3.2)	(22.7)
Cash taxes paid	(2.6)	(2.3)	(3.0)	(5.7)	(6.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	31.5	54.5	34.5	51.6	35.2
Capex	(20.3)	(5.8)	(10.0)	(5.0)	(5.0)
Free cash flow	11.3	48.7	24.5	46.6	30.2
Dividends paid	(29.5)	(18.8)	(26.8)	(26.8)	(26.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	3.0	(12.2)	0.0	(0.2)	0.0
Other invest/financing cash flow	(26.1)	(3.3)	0.0	0.0	0.0
Effect of exch rate changes	0.7	(0.0)	0.0	0.0	0.0
Net cash flow	(40.6)	14.4	(2.3)	19.6	3.4

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22A
Key Ratios					
Growth ratios (%)					
Revenue growth	(21.3)	3.1	8.5	14.2	9.4
EBITDA growth	(14.3)	(20.9)	20.5	27.2	5.1
EBIT growth	(17.9)	(26.2)	25.0	32.8	5.4
Pretax growth	(17.6)	(24.3)	25.9	30.9	5.7
Reported net profit growth	(16.2)	(24.4)	24.9	26.5	5.6
Core net profit growth	(16.2)	(22.1)	21.2	26.5	5.6
Profitability ratios (%)					
EBITDA margin	39.9	30.6	34.0	37.9	36.4
EBIT margin	35.5	25.4	29.3	34.0	32.8
Pretax profit margin	35.6	26.1	30.3	34.7	33.6
Payout ratio	56.0	65.9	65.9	52.1	49.4
DuPont analysis					
Net profit margin (%)	33.7	24.7	28.4	31.5	30.4
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	19.4	13.8	16.3	19.1	18.4
ROAA (%)	16.1	11.9	13.8	16.4	15.9
Liquidity & Efficiency					
Cash conversion cycle	364.9	309.7	250.5	250.5	260.4
Days receivable outstanding	54.3	50.8	59.2	59.2	69.0
Days inventory outstanding	424.4	354.3	295.9	295.9	295.9
Days payables outstanding	113.8	95.3	104.5	104.5	104.5
Dividend cover (x)	1.8	1.5	1.5	1.9	2.0
Current ratio (x)	2.7	3.3	3.6	4.2	4.4
Leverage & Expense Analysis					
Asset/Liability (x)	6.2	6.8	7.1	7.6	7.5
Net gearing (%) (incl perps)	2.7	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	2.7	net cash	net cash	net cash	net cash
Net interest cover (x)	113.2	52.9	38.8	39.7	48.9
Debt/EBITDA (x)	0.5	0.3	0.3	0.2	0.2
Capex/revenue (%)	15.8	4.4	7.0	3.1	2.8
Net debt/ (net cash)	6.2	(21.4)	(19.1)	(38.9)	(42.3)

Source: Company; Maybank

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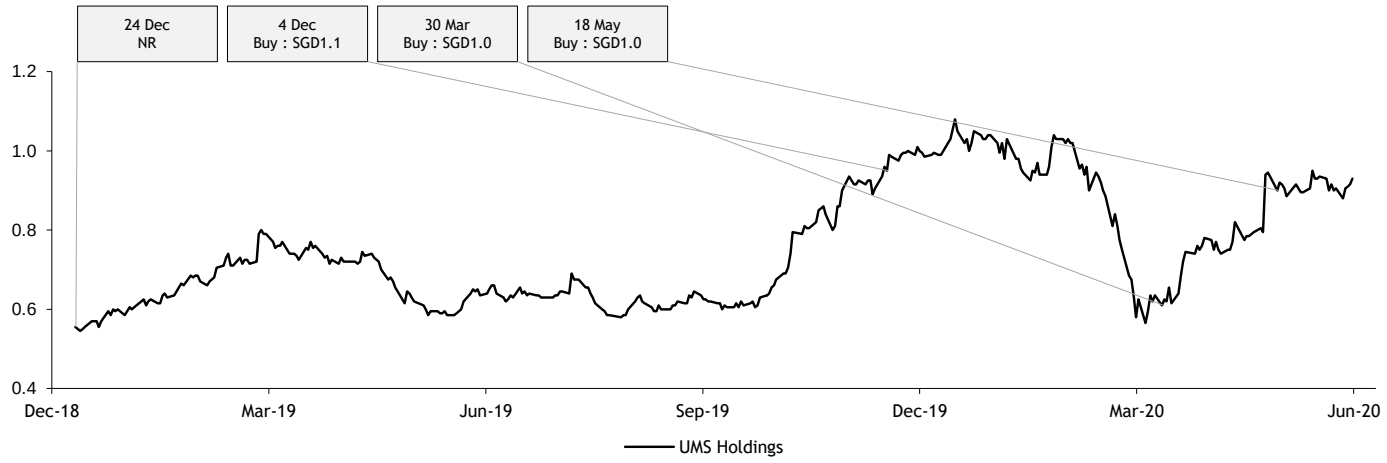

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