

COMPANY RESULTS

UMS Integration (UMSH SP)

3Q24: Earnings Still Below Expectations Due To Slow Ramp-up Of New Customer

UMS' 3Q24 earnings of S\$10m (-32% yoy/+12% qoq) are below expectations, while its 9M24 earnings of S\$29.5m (-33% yoy) only met 69% of our full-year estimate. This was due to weaker global chip demand and a general business slowdown. Interim dividend declined 20% yoy. UMS indicated that its new key customer has requested UMS to ramp up production in the coming months, but it may take some time to achieve meaningful earnings contributions. Upgrade to HOLD. Target price: S\$0.95.

3Q24 RESULTS

Year to 31 Dec (S\$m)	3Q24	3Q23	% chg yoy	2Q24	% chg qoq
Revenue	64.9	71.3	(26)	55.0	18
Gross profit	33.5	36.5	(8)	29.9	12
Gross margin (%)	51.6	51.2	0.4ppt	54.3	(2.7ppt)
PATMI	10.4	15.3	(32)	9.3	12
Net margin (%)	16.0	21.6	(5.6ppt)	16.9	(0.9ppt)

Source: UMS Holdings, UOB Kay Hian

RESULTS

- 3Q24 earnings missed expectations due to slower-than-expected ramp-up of new customer.** UMS Integration Ltd (UMS) reported 3Q24 earnings of S\$10m (-32% yoy/+12% qoq), which are below expectations, with 9M24 earnings meeting only 69% of our full-year estimate. Interim dividend for 3Q24 was lowered by 20% yoy to 1.0 S cents. The weak results imply that the indicative orders from Lam Research have not come through meaningfully yet.
- 3Q24 revenue declined 9% yoy due to weaker semiconductor segment.** UMS' semiconductor sales fell 13% yoy. The weaker semiconductor performance was due to weaker global chip demand. Semiconductor integrated system sales dropped 19% yoy to S\$27m in 3Q24 while component sales declined 6% yoy to S\$28m. Geographically, all key markets (except Malaysia and the US) posted lower revenue in 3Q24. Malaysia was the star performer, reporting a 38% sales surge attributed mainly to the commencement of business with a new major customer. Sales in Singapore slumped 14% yoy due to lower semiconductor component sales while revenue from Taiwan fell 35% yoy on lower sales of component spares.
- UMS expects market uncertainties to continue.** The ramp-up of its new customer has been slower than expected due to labour constraints and execution issues as the operation teams at both ends are new. As a result, UMS's previous revenue expectation of US\$30m from the new customer appears to be harder to achieve. However, UMS remains prudent in managing market risks and is investing prudently across its key business segments to support its long-term growth plans.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	372	300	245	265	286
EBITDA	120	87	70	76	82
Operating profit	104	69	47	51	55
Net profit (rep./act.)	98	60	41	45	49
Net profit (adj.)	98	60	41	45	49
EPS (S\$ cent)	14.7	9.0	5.8	6.3	6.8
PE (x)	7.1	11.6	17.9	16.4	15.2
P/B (x)	2.0	1.9	1.8	1.7	1.7
EV/EBITDA (x)	5.3	7.4	9.1	8.4	7.8
Dividend yield (%)	4.8	5.4	4.2	4.5	4.7
Net margin (%)	26.4	20.1	16.9	17.0	17.0
Net debt/(cash) to equity (%)	(9.3)	(12.5)	(31.1)	(33.6)	(36.4)
Interest cover (x)	134.7	n.a.	n.a.	n.a.	n.a.
ROE (%)	31.9	17.2	10.7	10.7	11.2
Consensus net profit (S\$m)	-	-	41	48	53
UOBKH/Consensus (x)	-	-	1.00	0.94	0.93

Source: UMS Integration, Bloomberg, UOB Kay Hian

HOLD

(Upgraded)

Share Price	S\$1.04
Target Price	S\$0.95
Upside	-8.7%
(Previous TP)	S\$0.90

COMPANY DESCRIPTION

UMS provides high precision components and complex electromechanical assembly and final testing for semiconductor equipment manufacturers.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	UMSH SP
Shares issued (m):	710.5
Market cap (S\$m):	739.0
Market cap (US\$m):	555.1
3-mth avg daily t'over (US\$m):	2.0

Price Performance (%)

52-week high/low	S\$1.58/S\$0.97			
1mth	3mth	6mth	1yr	YTD
0.0	1.0	(21.2)	(19.4)	(22.4)

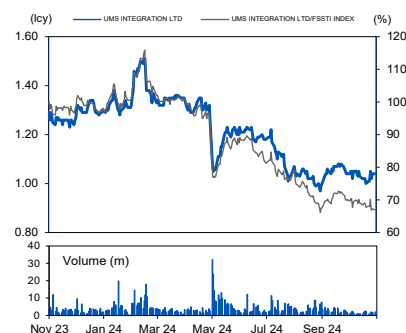
Major Shareholders

Andy Luong (Founder)	15.0%
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FY24 NAV/Share (S\$) 0.58

FY24 Net Cash/Share (S\$) 0.18

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

STOCK IMPACT

- SEMI expects global spending on 300mm fab equipment to reach a record US\$400b from 2025 to 2027.** SEMI highlighted in its quarterly 300mm Fab Outlook Report that the robust spending is being driven by the regionalisation of semiconductor fabs and the increasing demand for artificial intelligence (AI) chips used in data centres and edge devices. Globally, 300mm fab equipment spending is projected to grow by 4% to US\$99.3b in 2024, and further increase by 24% to US\$123.2b in 2025, surpassing the US\$100b level for the first time. Spending is forecast to experience an 11% growth to US\$136.2b in 2026 followed by a 3% increase to US\$140.8b in 2027.
- UMS has expanded its production capacity significantly following the completion of its new Penang facilities.** The facility will be a key beneficiary of the global chip sector rebound as well as the rising shift of global semiconductor supply chains to the region, especially in Malaysia and Singapore where its two key customers have committed to major expansion plans. The group is also well-placed to capitalise on the post-COVID-19 aviation boom.
- UMS' performance in the past six months has reinforced its resilience and ability to leverage on twin growth engines – semiconductors and aerospace – and propel it forward.** Despite the ongoing market turbulence, political tensions and challenging global chip industry, UMS' performance improved as it did better in 2Q24 compared with 1Q24. UMS' gross margins continued to grow as it enhanced its product mix and scaled up its business with more orders from a new major customer in Malaysia. UMS' diversification into the aerospace business has also lifted both sales and earnings as air travel growth has continued to accelerate worldwide.

EARNINGS REVISION/RISK

- We trim our 2024/25/26 earnings estimates by 3%/5%/7% respectively after reducing our revenue estimates by 2%/2%/3% to account for the earnings miss in 3Q24 and slower-than-expected ramp-up of UMS' new customer.

VALUATION/RECOMMENDATION

- Upgrade to HOLD with a 6% higher target price of S\$0.95,** based on a PE-based valuation of 15x 2025F EPS (rollover from 2024). This is pegged to 1SD above UMS' historical mean PE. The reason for pegging our PE-based valuation multiple to above mean is to reflect the improvement in UMS' earnings quality from new contributions from its new customer.

SHARE PRICE CATALYST

- Higher-than-expected factory utilisation rates.
- Return of orders for aircraft components to benefit subsidiary, JEP Holdings.
- Better-than-expected cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 11 Nov 24 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE	Yield
					2024 (x)	2025 (x)	2024 (x)	2025 (x)	2024 (x)	2025 (x)	2024 (%)	2024 (%)
AEM	AEM SP	SGD	1.3	306	41.9	16.3	0.8	0.8	13.6	8.8	2.1	0.6
Venture	VMS SP	SGD	12.9	2,806	15.3	14.1	1.3	1.3	8.6	8.0	8.6	5.8
Frencken	FRKN SP	SGD	1.19	382	11.6	10.6	1.2	1.1	6.6	6.2	10.4	2.6
Singapore average					22.9	13.7	1.1	1.1	9.6	7.7	7.0	3.0
Kulicke & Soffa	KLIC US	USD	48.17	2,626	n.a.	25.7	n.a.	n.a.	812.4	23.6	0.2	1.7
Applied Materials	AMAT US	USD	192.03	158,310	22.5	19.9	8.2	7.2	18.7	16.4	40.0	0.7
Lam Research	LRCX US	USD	78.2	100,619	26.8	21.9	11.9	10.0	21.5	17.7	45.7	1.0
KLA Corp	KLAC US	USD	687.41	91,948	33.7	22.3	27.4	21.9	24.8	18.0	87.8	0.8
Teradyne	TER US	USD	110.89	18,060	34.9	26.3	6.0	5.2	25.2	19.7	18.9	0.4
Global average					29.5	23.2	13.4	11.1	180.5	19.1	38.5	0.9
UMS	UMSH SP	SGD	1.04	555	17.9	16.4	1.8	1.7	9.1	8.4	10.7	4.2

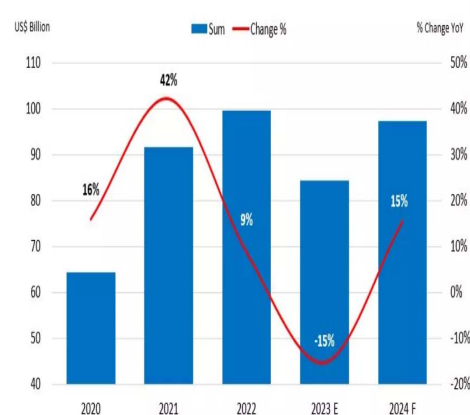
Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

FAB EQUIPMENT SPENDING (FRONT-END)



Source: World Fab Forecast Report 3Q23 update, SEMI

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	299.9	245.0	264.6	285.8
EBITDA	86.5	70.3	75.9	81.6
Deprec. & amort.	17.9	23.6	25.3	26.9
EBIT	68.6	46.7	50.6	54.7
Total other non-operating income	(0.0)	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.2	0.9	0.9	1.0
Pre-tax profit	68.8	47.5	51.5	55.7
Tax	(7.3)	(5.0)	(5.4)	(5.8)
Minorities	(1.2)	(1.2)	(1.2)	(1.2)
Net profit	60.3	41.4	44.9	48.7

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	152.7	149.1	143.8	136.9
Other LT assets	99.4	99.2	99.2	99.2
Cash/ST investment	67.5	160.9	173.9	191.0
Other current assets	167.6	124.1	131.3	141.0
Total assets	487.2	533.4	548.3	568.1
ST debt	6.8	16.3	14.3	13.9
Other current liabilities	59.2	44.3	47.3	50.4
LT debt	15.8	15.8	15.8	15.8
Other LT liabilities	18.5	15.7	15.9	17.7
Shareholders' equity	359.8	414.2	427.9	443.2
Minority interest	27.1	27.1	27.1	27.1
Total liabilities & equity	487.2	533.4	548.3	568.1

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	79.8	91.5	67.4	72.1
Pre-tax profit	68.5	47.5	51.5	55.7
Tax	(11.4)	(6.9)	(5.1)	(4.9)
Deprec. & amort.	17.9	23.6	25.3	26.9
Associates	0.0	0.0	0.0	0.0
Working capital changes	14.1	27.3	(4.3)	(5.7)
Non-cash items	(9.4)	0.0	0.0	0.1
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(31.1)	(19.4)	(20.0)	(20.0)
Capex (growth)	(29.7)	(20.0)	(20.0)	(20.0)
Investment	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(1.5)	0.6	0.0	0.0
Financing	(44.4)	22.9	(32.3)	(32.8)
Dividend payments	(36.2)	(37.5)	(31.3)	(33.4)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(7.4)	9.5	(1.9)	(0.4)
Others/interest paid	(0.8)	50.9	0.9	1.0
Net cash inflow (outflow)	4.2	95.0	15.1	19.3
Beginning cash & cash equivalent	61.7	67.5	160.9	173.9
Changes due to forex impact	1.6	(1.5)	(2.1)	(2.3)
Ending cash & cash equivalent	67.5	160.9	173.9	191.0

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	28.8	28.7	28.7	28.6
Pre-tax margin	22.9	19.4	19.5	19.5
Net margin	20.1	16.9	17.0	17.0
ROA	12.3	8.1	8.3	8.7
ROE	17.2	10.7	10.7	11.2
Growth				
Turnover	(19.5)	(18.3)	8.0	8.0
EBITDA	(27.9)	(18.7)	8.0	7.5
Pre-tax profit	(33.5)	(30.9)	8.4	8.1
Net profit	(38.8)	(31.4)	8.7	8.3
Net profit (adj.)	(38.8)	(31.4)	8.7	8.3
EPS	(38.8)	(35.3)	8.7	8.3
Leverage				
Debt to total capital	5.5	6.8	6.2	5.9
Debt to equity	6.3	7.7	7.0	6.7
Net debt/(cash) to equity	(12.5)	(31.1)	(33.6)	(36.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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