

# UMS Integration (UMSH SP)

## Anticipating a Recovery In 2025

Not Rated

Fair Value (Return):	N/A
Price:	SGD1.02
Market Cap:	USD548m
Avg Daily Turnover (SGD/USD)	3.03m/2.31m

- A semiconductor recovery play.** UMS Integration offers a play on the recovery in front-end semiconductor sector recovery. We expect the sector to recover this year and towards 2025. Global semiconductor capacity is expected to increase by 6% YoY in 2024 and 7% YoY in 2025 (2023: +5.5% YoY), according to SEMI's World Fab Forecast report. This makes UMS' key customer and, in turn, UMS itself key beneficiaries of the semiconductor recovery trend. The stock trades at c.18x FY24F P/E based on Bloomberg estimates, with a c.5.5% dividend yield.
- New customer and Penang facility to drive growth.** UMSH recently won a new customer in March, which will account for a higher production volume at its new Malaysia plant. This customer's strategy is to grow its fabrication (fab) capabilities in Malaysia to mitigate the risk of sanctions being imposed on China, where it has exposure. FY24 revenue guidance for this new customer is positive, and estimated at USD30m. Thereafter, orders from this customer should grow progressively. We expect a ramp-up in orders from the customer from 2H24 onwards. There are also plans for another assembly plant, post its recent equity fundraising exercise, to increase production capacity. This, in turn, should facilitate customers scaling up their orders in the future. We believe it will target more complex, medium- and large-format components to boost customer stickiness.
- Semiconductor equipment sector expected to grow into 2025.** According to Semiconductor Equipment and Materials International (SEMI), global sales of total semiconductor manufacturing equipment by original equipment manufacturers (OEMs) are forecasted to reach a record USD109bn in 2024. This is expected to continue into 2025, reaching USD128bn (+17% YoY) – driven by both front- and back-end segments. We see a gradual recovery in 2024 before a more pronounced rebound takes place in 2025. Longer-term semiconductor equipment demand should be driven by ongoing technological and innovations in artificial intelligence (AI) applications, data centres, high-performance computing, and automotive electrification.
- Results highlights.** 2Q24 earnings declined 25% YoY (+4% QoQ) to SGD9.5m on the back of SGD56m in revenue (-25% YoY, +4% QoQ). The revenue decline was led by the semiconductor segment (SGD46m, -29% YoY, +1% QoQ), offset by the aerospace segment (SGD6m, +5% YoY, +24% QoQ). GPM expanded to 53.5% (+7.2ppt YoY, +0.2ppt QoQ) due to a higher-margin component sales mix. 2Q24 showed a sequential improvement in its core business segments, which are on track for a chip sector rebound from 2025.
- Key downside risks** include a later-than-expected demand recovery, which will pose downside risks to our earnings recovery thesis.

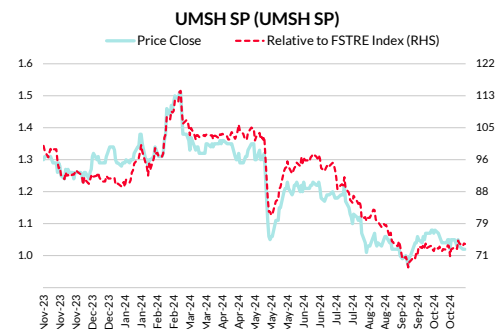
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.9)	(4.7)	(8.1)	(24.5)	(18.4)
Relative	(17.6)	(0.7)	(11.9)	(30.1)	(25.6)
52-wk Price low/high (SGD)				0.97	1.51



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total turnover (SGDm)	132	164	271	372	300
Recurring net profit (SGDm)	36	47	57	106	64
Recurring net profit growth (%)	(68.6)	27.8	23.1	83.8	(39.5)
Recurring P/E (x)	14.99	11.71	10.67	6.45	10.69
P/B (x)	2.2	2.2	2.4	2.0	1.9
P/CF (x)	10.21	9.68	9.26	7.37	8.55
Dividend Yield (%)	1.5	3.4	4.9	4.9	5.5
EV/EBITDA (x)	11.09	8.28	6.59	5.48	7.46
Return on average equity (%)	15.5	18.9	21.7	34.1	18.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>
Singapore	Recurring EPS	0.07	0.09	0.10	0.16	0.10
Technology	DPS	0.02	0.04	0.05	0.05	0.06
<b>UMS Integration</b>	BVPS	0.45	0.47	0.42	0.51	0.54
UMSH SP	Return on average equity (%)	15.5	18.9	21.7	34.1	18.2
Not Rated						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>
N/A	Recurring P/E (x)	14.99	11.71	10.67	6.45	10.69
	P/B (x)	2.2	2.2	2.4	2.0	1.9
<b>Key drivers</b>	FCF Yield (%)	9.8	8.2	9.2	5.8	7.5
An anticipated pick-up in the semiconductor sector.	Dividend Yield (%)	1.5	3.4	4.9	4.9	5.5
	EV/EBITDA (x)	11.09	8.28	6.59	5.48	7.46
<b>Key risks</b>	EV/EBIT (x)	13.16	9.57	7.63	6.28	9.37
Later-than-expected demand recovery, which will pose downside risks to its earnings recovery.						
<b>Company Profile</b>	<b>Income statement (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>
UMS Integration provides equipment manufacturing and engineering services to OEMs of semiconductors and related products. The company manufactures high-precision components and complex electromechanical assembly and final testing services. It supports the electronic, machine tools and oil and gas industries.	Total turnover	132	164	271	372	300
	Gross profit	70	88	143	186	150
	EBITDA	44	57	92	124	89
	Depreciation and amortisation	(7)	(8)	(13)	(16)	(18)
	Operating profit	37	50	80	108	71
	Net interest	(1)	(0)	(1)	(1)	0
	Pre-tax profit	39	49	79	107	71
	Taxation	(2)	(3)	(22)	(1)	(7)
	Reported net profit	36	47	57	106	64
	Recurring net profit	36	47	57	106	64
	<b>Cash flow (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>
	Change in working capital	12.9	1.3	(23.0)	(22.0)	4.4
	Cash flow from operations	53.6	56.4	66.2	92.4	79.8
	Capex	(0.2)	(11.3)	(9.8)	(52.8)	(28.7)
	Cash flow from investing activities	(7.2)	(13.0)	(21.0)	(56.5)	(31.1)
	Dividends paid	(18.8)	(26.7)	(22.7)	(33.4)	(36.2)
	Cash flow from financing activities	(30.7)	(23.0)	(33.5)	(37.7)	(44.4)
	Cash at beginning of period	18.9	34.4	53.8	65.1	61.7
	Net change in cash	15.8	20.4	11.7	(1.8)	4.2
	Ending balance cash	34.4	53.8	65.1	61.7	67.5
	<b>Balance sheet (SGDm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>
	Total cash and equivalents	34	54	65	62	67
	Tangible fixed assets	52	56	112	135	153
	Total investments	39	35	0	0	0
	Total assets	287	310	437	489	487
	Short-term debt	9	16	12	12	7
	Total long-term debt	0	0	23	18	16
	Total liabilities	42	57	132	121	100
	Total equity	245	253	304	368	387
	Total liabilities & equity	287	310	437	489	487
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>
	Revenue growth (%)	3.1	24.7	64.9	37.3	(19.5)
	Recurrent EPS growth (%)	(68.6)	28.1	9.7	65.4	(39.7)
	Gross margin (%)	52.9	53.3	52.8	49.9	50.1
	Operating EBITDA margin (%)	33.1	34.8	34.0	33.2	29.7
	Net profit margin (%)	27.7	28.4	21.2	28.3	21.3
	Dividend payout ratio (%)	22.5	40.3	58.4	31.8	58.8
	Capex/sales (%)	0.1	6.9	3.6	14.2	9.6
	Interest cover (x)	38.2	83.0	85.2	120.8	

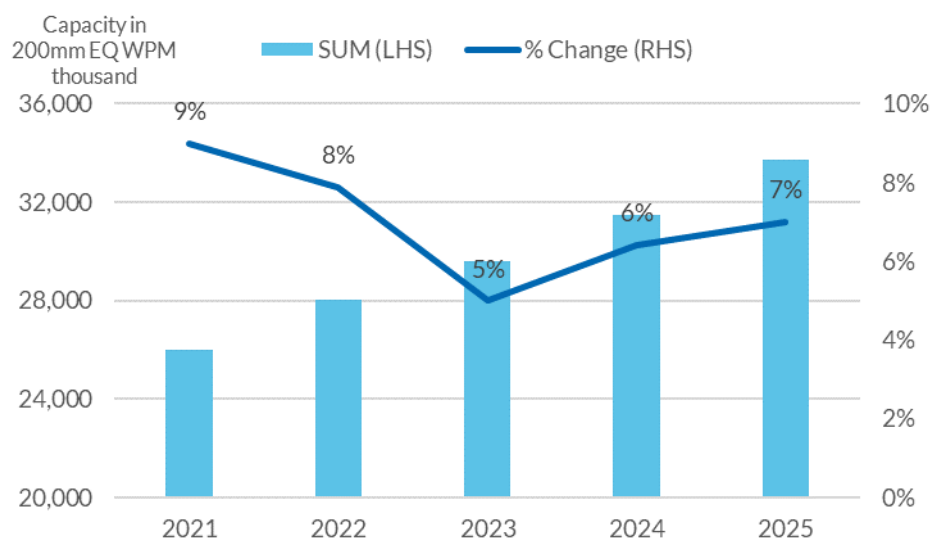
Source: Company data, RHB

## Investment Merits

### Positive outlook on the growth of the semiconductor industry

**Semiconductor equipment sector expected to grow into 2025.** According to SEMI, global sales of total semiconductor manufacturing equipment by OEMs are forecasted to reach a record USD109bn in 2024. This is expected to continue into 2025, reaching USD128bn (+17% YoY) – driven by both front- and back-end segments. We expect to see a gradual recovery in 2024 before a more pronounced rebound takes place in 2025. Longer-term semiconductor equipment demand should be driven by ongoing technological and innovations in AI applications, data centres, high-performance computing, and automotive electrification.

**Figure 1: Total semiconductor manufacturing capacity**



Source: World Fab Forecast Report, 2Q24 (June 2024) update, published by SEMI

**Growth expected for global semiconductor fab capacity.** SEMI projects global fab capacity to expand by 6% YoY in 2024 and 7% YoY in 2025 to 33.7m wafers per month (wpm) (wpm: 8-inch equivalent) based on its Jun 2024 World Fab Forecast Report. Growth in manufacturing capacity should be led by demand for high-performance chips – particularly generative AI processing for applications from cloud computing to edge devices. The increase in semiconductor capacity will stoke demand for new semiconductor capital equipment. This should bode well for UMSH since its customers are largely suppliers of semiconductor equipment.

### New customer and higher capacity to drive growth

**New customer and Penang facility to drive growth.** UMSH won a new customer in March, which will account for a higher production volume at its new Malaysia plant. This customer's strategy is to grow its fab capabilities in Malaysia to mitigate the risk of sanctions being imposed on China, where it has exposure. We expect orders from this customer to grow progressively from 2025 onwards.

**New land in Penang to increase capacity and support growth.** UMS recently acquired 5.38 acres (c.235,000 sq ft) of industrial land (leasehold, for 60 years) at Penang Science Park to support the ramp-up ahead. It is strategically located between Perai Industrial Area & Batu Kawan Industrial Park, and next to its new factory in Penang. This brings UMSH's total combined space in Singapore and Malaysia to over 1.2m sq ft. The acquisition was funded from placement proceeds raised in Jan 2024. We expect higher capacity to support long-term growth. The new land will help to grow UMS's manufacturing capacity so that it can take on more production volume, including for customers scaling up orders in the future. We believe it will target more complex, medium- and large-format components to improve customer stickiness.

**Positive on Applied Materials (AMAT).** This key customer accounts for a significant portion of UMSH's semiconductor revenue, mainly in integrated systems. UMSH supports AMAT's deposition system technology, which it provides for the semiconductor manufacturing process, including physical vapour deposition and chemical vapour deposition. The deposition tools are ultimately used in chip manufacturing. AMAT's outlook is positive, and we expect demand from it to increase in 2025. With the mechanics of UMSH's new dynamic pricing arrangement with AMAT (based on production volume) we expect the GPM related to this customer's orders to widen as well. AMAT's longer-term outlook is positive as its customers ramp up next-generation chip technologies for AI and IoT applications.

## Valuation

**Trading at <1x PEG based on current growth momentum.** UMSH is expected to deliver stronger 2H24 results, according to the Bloomberg consensus EPS data. 1H24's EPS was 2.7 SG cents and Bloomberg consensus expects FY24F's EPS to be 5.9 SG cents, in anticipating a slightly stronger 2H24. Based on Bloomberg data, the stock currently trades at c.18x FY24F P/E while EPS growth CAGR from FY24-26F is at 20%, ie from 5.9 SG cents in FY24F to 8.5 SG cents in FY26F. This translates into an attractive PEG of <1x. We include Singapore-listed technology players as peers. UMS is trading at a discount to its peer average of c.24x, based on FY24F P/E.

Figure 2: Peer comparison

Company	Market Cap (USDm)	Px Last	P/E (Act)	P/E (Yr1)	P/E (Yr2)	ROE (%)	Operating Margin (%)	Net Margin (%)	Dividend Yield (%)	Net Gearing (x)
UMS Integration	548	1.02	10.7x	17.6x	14.9x	18%	24%	21%	5.4%	Cash
Frencken Group	381	1.18	15.5x	11.6x	10.1x	10%	8%	5.7%	1.9%	Cash
AEM Holdings	310	1.18	n/a	43.7x	12.1x	(4%)	3%	(0.3%)	n/a	5.2%
Micro-Mechanics	173	1.31	28.5x	n/a	n/a	17%	20%	13.9%	3.6%	Cash
Grand Venture Tech	140	1.65	28.7x	19.5x	13.6x	5%	8%	5.0%	0.2%	30.9%
ISDN Holdings	102	0.55	32.3x	16.7x	12.0x	2%	8%	1.4%	0.9%	9.2%
Avi-Tech	33	0.30	15.5x	n/a	n/a	5%	5%	11.2%	5.9%	Cash
<b>Average</b>			<b>24.1x</b>	<b>22.8x</b>	<b>12.0x</b>	<b>6%</b>	<b>8.7%</b>	<b>6.2%</b>	<b>2.5%</b>	<b>15.1%</b>

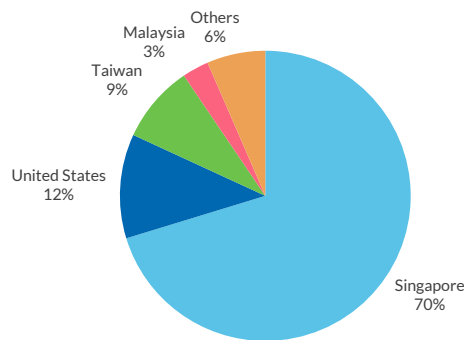
Note: All forward data/forecasts are from Bloomberg consensus except for Frencken. Data for companies not under RHB's coverage is based on Bloomberg consensus figures.  
Source: Bloomberg, RHB

**Dividends.** UMSH pays dividends quarterly as per its policy since 2012. Its DPS for FY23 was 5.6 SG cents, representing a payout ratio of 63%. DPS steadily increased from 4 SG cents in FY19 to 5.6 SG cents in FY23, with payout ratios averaging at around 60% for the past five years bar FY22 (when it was 34%). We expect quarterly dividends to be maintained and DPS to steadily increase, as earnings grow.

## Company Description

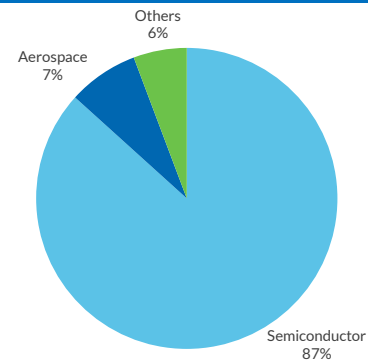
UMSH provides high-precision front-end semiconductor components, equipment and engineering solutions to OEMs of semiconductors. Products include modular and integrated systems for original semiconductor equipment manufacturing. Production facilities are located in Singapore, Malaysia and California, the US.

Figure 3: Revenue by geography (FY23)



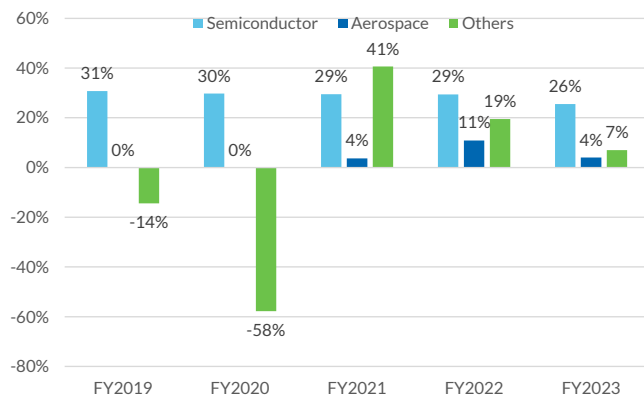
Source: Company data

Figure 4: Revenue by product segment (FY23)



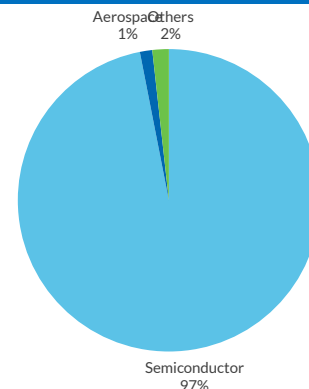
Source: Company data

Figure 5: Segmental margins (FY23)



Source: Company data

Figure 6: Profit mix by product segment (FY23)

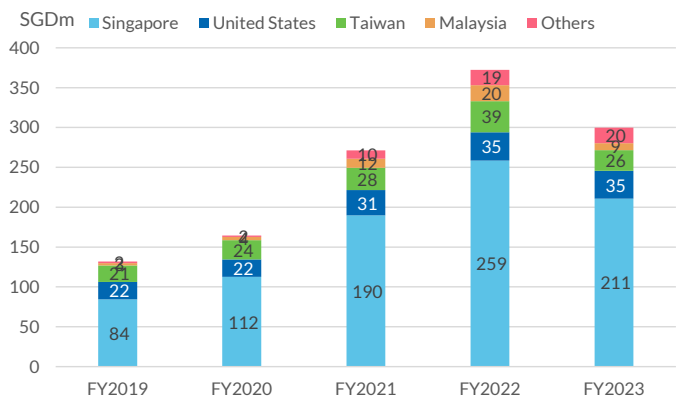


Source: Company data

**Key business segments.** UMSH's reportable segments are: i) Semiconductor, ii) aerospace, and iii) others. From its semiconductor business, UMS provides precision machining components and equipment modules for customers that are semiconductor equipment manufacturers. In the aerospace unit, UMS serves the aerospace, electronics and automotive industries with precision machining services. The others segment mainly ships water disinfection systems, trades non-ferrous metal alloys, and sells machine and customised cutting tools.

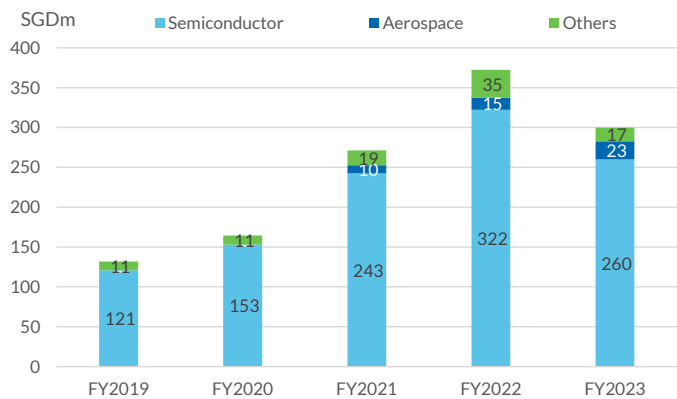
UMS's key customer in the semiconductor division is AMAT, which accounts for a major share of its revenue.

Figure 7: Revenue by geography



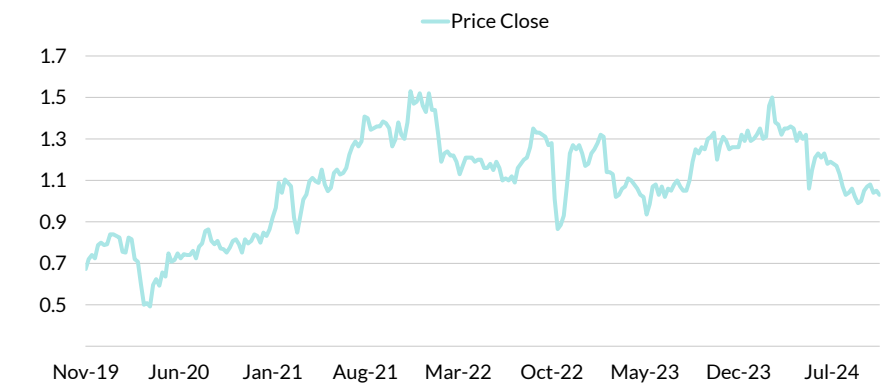
Source: Company data

Figure 8: Revenue by segment



Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

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