

UMS Holdings Limited

Upbeat Outlook Justifies Upside

UMS Holdings Ltd's (UMS) FY11 net attributable profit of S\$27.6m exceeded our forecast by 3.4%. The highlight was a return to strong sequential growth in 4Q FY11. UMS's tone at the results briefing implied a surprise solid 1Q 2012 – other tech companies we spoke to were more optimistic about 2Q 2012. Strong orders particularly from Korea (e.g. Samsung) have boosted performance at Applied Materials, thus benefiting UMS with order forecasts indicating positive momentum in 1H 2012. **Maintain Increase Exposure.**

Key Developments:

Results Summary: 4Q 2011 revenue and net profit grew by 16.1% and 50.0% respectively, when exceptional gains of S\$3.5m from the disposal of factory properties in 3Q 2011 were excluded. Reported full year sales and net profit were down 11.3% and 3.8% respectively due to a weak 3Q. Free cashflow remained strong for the full year, at 1.5x net profit. The higher full year dividend per share of 6 S cents represents a very attractive 12.4% yield based on a share price of S\$0.485.

Strong Results from Applied: For the quarter ended Dec 2011, Applied reported sequential orders growth of 53.3% and sales growth of 26% QoQ from the Silicon Systems Group (semiconductor equipment segment). As at mid February, Applied expects overall net sales growth of 5%-15% QoQ. We are very encouraged by the positive outlook at Applied, which bodes well for UMS.

IMT Acquisitions - the Trump Card: Furthermore, UMS's 2012 profit growth has already been confirmed with the acquisition of IMT-S and IMT-USA (production partners of UMS). The consolidation of services that previously had to be outsourced will add about S\$5m-S\$6m to UMS's bottom-line. Our conservative profit growth forecast of S\$6.0m assumes that UMS will pass on some of the margin captured to Applied. We expect UMS to maintain its quarterly dividends in spite of having to finance its acquisitions. Any working capital requirements arising from timing differences between operating and investing cashflows will be satisfied via bank borrowings.

Increase Exposure

- Intrinsic Value S\$0.795
- Prev Close S\$0.485

Main Activities

UMS Holdings Limited is a one-stop strategic integration partner providing equipment manufacturing and engineering services to OEMs of semiconductor equipment and related products. The company manufactures high precision components and provides complex electromechanical assembly and final testing services. The company was incorporated in Singapore in January 2001.

Financial Highlights

(Y/E Dec) S\$m	FY10	FY11	FY12F
Revenue	129.0	114.4	134.5
Gross Profit	72.3	66.7	79.3
Earnings	28.7	27.6	33.6
EPS (S cts)	8.25	8.04	9.78

Source: Company, SIAS Research

Key ratios (FY12F)

PER	5.0
P/BV	0.8
Return on Common Equity	17.5%
Gross Debt/Common Equity	0%
Current ratio	3.3

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (UMSH SP)



Source: Bloomberg

52wks High-Low S\$0.630 /S\$0.250
 Number of Shares 343.75m
 Market Capitalization S\$166.7m

Analyst:

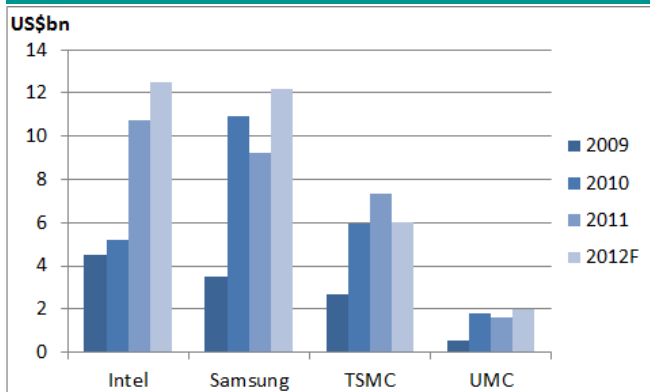
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Industry Update and Results Analysis

Capacity Expansion Among Larger Players: While industry association SEMI expects flat growth for equipment spending in 2012, both Intel and Samsung announced 16% and 32% increase in budgeted capital expenditure to >US\$12bn each for 2012. Other major foundries TSMC, Globalfoundries and UMC have set aside US\$6bn, >US\$3bn and US\$2bn respectively for capex in 2012. Apparently, the larger players are continuing to invest heavily in capacity while smaller players are holding back. IC Insights expects both Intel and Samsung to account for half of total capital expenditures in 2012.

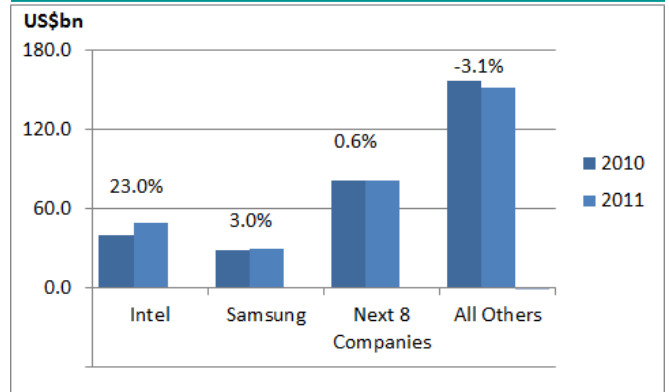
Similar fortunes can be gleaned from global semiconductor revenue data. The top 10 semiconductor companies reported a combined 7% increase in sales in 2011, while all other producers recorded a 3% decline. The differing fortunes between the larger and smaller players explained for the contrast in projected capital spending, where the industry leaders are expanding or maintaining market shares.

Figure 1: Capital Spending of Major Foundries



Source: Various Sources, SIAS Research

Figure 2: Semiconductor Sales Growth

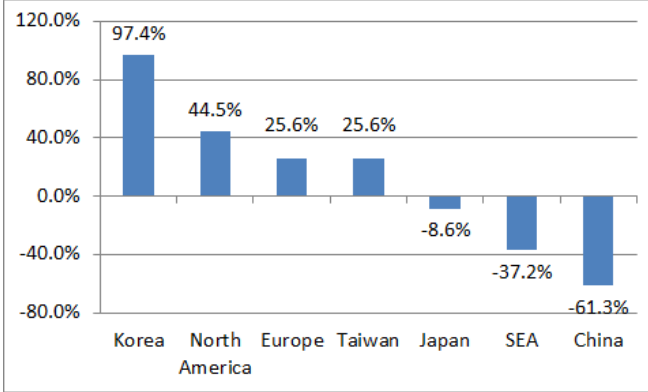


Source: Various Sources, SIAS Research

...Thus Benefiting Equipment Market Leader: Applied's Silicon Systems Group, which produces semiconductor equipment, reported new orders of US\$1.4bn for the quarter ended Dec 2011 (+53% versus Sep 2011 quarter). Book-to-bill ratio rebounded from 0.9x to 1.05x on a quarter-to-quarter basis, suggesting a return to growth.

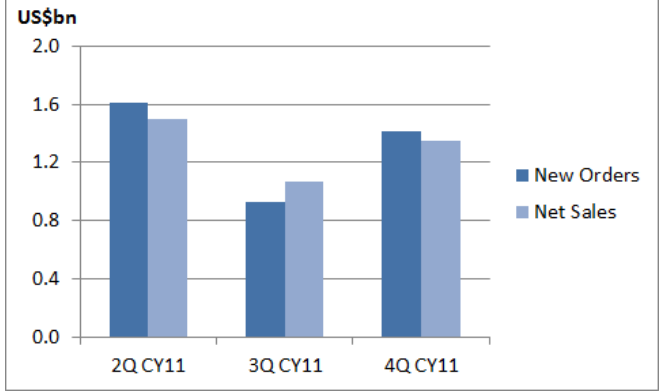
On a consolidated level, the geographical distribution of orders reflected strong demand from Korea with orders growth of 97.4% for the said region. Strong customer order forecasts mentioned by UMS is likewise supported by a 16.3% growth in backlog at the Applied Silicon Systems Group (from US\$0.9bn at end Sep 2011 to US\$1.06bn at end Dec 2011).

Figure 3: Applied Materials Consolidated New Orders (4Q CY11 Growth)



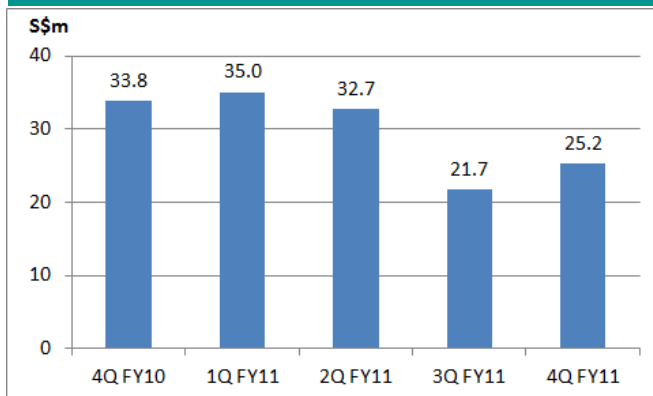
Source: Applied Materials, SIAS Research

Figure 4: Applied Materials Silicon Systems Group New Orders & Net Sales



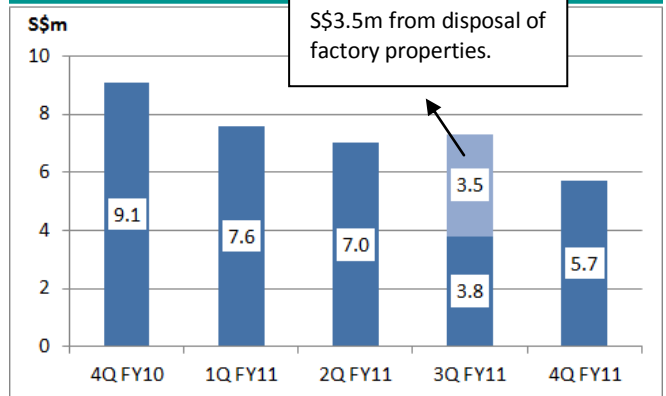
Source: Applied Materials, SIAS Research

Figure 5: UMS Quarterly Sales Picked Up



Source: Company, SIAS Research

Figure 6: UMS Quarterly Net Profit



Source: Company, SIAS Research

What About the Bankruptcy of Elpida Memory? The DRAM segment has been relatively weaker than the segments of logic and IC chips. Sales to DRAM makers accounted for only 10% of sales in 4Q CY11 at Applied's Silicon Systems Group with Foundry and Logic customers making up for 71% of sales. In fact, the dominant consensus over the bankruptcy of Elpida is that DRAM prices will likely rise if Elpida reduces production. In any case, we expect the impact on equipment demand to be relatively muted as the DRAM sector as a whole has to reduce oversupply.

UMS to Improve Margin: UMS is qualified for more than 70 special processes in the production of components for semiconductor equipment manufacturers. Via the acquisition of the IMT Group (Integrated Manufacturing Technologies Pte. Ltd. (IMT-S) and Integrated Manufacturing Technologies, Inc (IMT-USA), UMS adds vacuum welding and tube bending services to its list of qualified capabilities.

The acquisitions (completed in February 2012) will reduce the subcontracting needs of the company and allow more margin to accrue in-house (starting from mid 1Q to 2Q 2012). More importantly, the lack of qualified vacuum welding and tube bending Applied contractors in the region provides the company with a marginal discriminatory pricing advantage – thus raising barriers of entry to the systems integration services market.

At the corporate level, the company intends to continue shifting some 10% more activities and services to Malaysia to take advantage of tax benefits accrued for its investment in Penang, while retaining system integration activities in Singapore.

Forecasts: The combination of positive drivers from both the industry and within the company led us to our FY12 net profit forecast to S\$33.6m versus S\$30.0m previously. We also rolled forward our forecasts to FY14F and now expects the company to make S\$35.8m of net profit by 2014.

Figure 7: Economic Profit Valuation Model

S\$m	FY12F	FY13F	FY14F
Revenue	134.5	141.2	146.1
EBIT	38.3	39.5	40.9
Tax on EBIT	-5.7	-5.9	-6.1
NOPLAT	32.6	33.6	34.8
Invested Capital	188.1	198.4	208.9
% of Debt	1.4%	0.0%	0.0%
% of Equity	98.6%	100.0%	100.0%
WACC (%)	12.1%	12.3%	12.3%
Capital Charge	22.8	24.3	25.6
Economic Profit	9.8	9.3	9.2
Terminal Value			91.4
Discount Rate	0.89	0.79	0.71
Present Value	8.7	7.4	6.5
Book Value	185.4	Risk Free Rate	2.5%
Explicit Value	22.6	Beta	1.3
Terminal Value	64.6	Market RP	7.5%
Value of Equity	272.6	Cost of Equity	12.3%
Number of Shares (m)	343.8	Cost of Debt	3.5%
Value per share (S\$)	0.795	LT Growth	2.0%

Source: SIAS Research

Figure 8: Financial Forecasts and Estimates

S\$m	FY09	FY10	FY11	FY12F	FY13F	FY14F
Revenue	47.3	129.0	114.4	134.5	141.2	146.1
Gross Profit	27.8	72.3	66.7	79.3	83.3	86.2
Operating Profit	-24.8	33.8	31.4	38.3	39.5	40.9
Net Profit	-24.3	28.7	27.6	33.6	34.6	35.8
Attributable to Shareholders						
Total Current Assets	61.7	79.0	82.1	81.5	96.0	120.9
Total Non-Current Assets	145.6	134.3	128.1	144.6	136.9	128.8
Total Current Liabilities	27.8	27.4	21.8	24.8	21.1	26.2
Total Non-Current Liabilities	16.7	6.9	3.0	2.9	2.9	2.9
Total Equity	162.8	178.9	185.4	198.4	208.9	220.7
Cash from Operating Activities	13.9	31.3	39.1	42.5	56.5	37.8
Cash from Investing Activities	-14.0	-6.9	3.2	-28.1	-5.0	-5.0
Cash from Financing Activities	5.9	-26.9	-25.4	-23.3	-24.1	-24.1
Net Change in Cash	5.8	-2.5	16.9	-8.9	27.4	8.7
Inventory Days	526	192	258	210	180	180.0
Receivable Days	81	43	49	45	45	45.0
Payable Days	450	123	129	120	120	120.0
Return on Common Equity	-13.8%	16.8%	15.2%	17.5%	17.0%	0.2
Return on Assets	-11.0%	13.7%	13.1%	15.4%	15.1%	0.1
Gross Debt / Common Equity	12.5%	4.0%	1.4%	0.0%	0.0%	0.0
Current Ratio	2.2	2.9	3.8	3.3	4.6	4.6
EPS (S cents)	-6.87	8.25	8.04	9.78	10.1	10.4
BV / Share (S cents)	46.0	52.1	53.9	57.7	60.8	64.2
PER	NA	5.9	6.0	5.0	4.8	4.7
P/BV	1.1	0.9	0.9	0.8	0.8	0.8

Source: Company, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
