Company Registration No.: 200100340R

UMS reports net profit of S$14.8 million on revenue of $58.6 million in 1HFY2019

- 2QFY2019 net profit attributable to shareholders improved by about 15% to S$8.1 million from S$7 million in 1QFY2019

- Continues to reward shareholders with interim dividend

Singapore, August 14 2019 - SGX Mainboard-listed UMS Holdings Limited ("UMS" or "The Group") stayed profitable for the 1HFY2019 and proposed to reward shareholders with an interim dividend of 0.5 cents per share.

This is despite a softer Group performance due to ongoing US-China trade tensions, plunging memory prices and the shift in chipmakers' strategies which resulted in lower capital spending.

Net profit attributable to shareholders slid 42% to S$15.1 million from S$25.9 million for the corresponding six-month period last year as revenue eased 19% to S$58.6 million compared to S$72.7 million during the same period.

The lower revenue was attributed to a 26% decline in semiconductor sales from S$72.3 million to S$53.4 million.

All of the Group's geographical markets reported lower sales. Revenue from Singapore fell 21% to S$34.9 million from S$44 million from the corresponding period last year. Revenue from USA was down by 2% to $11.7 million, Taiwan 20% lower to S$10.5 million, Malaysia down by 65% to S$1.1 million and others slid by 7% to S$0.4 million.

The change in product mix and higher revenue contribution from Starke's material distribution business to the Group's overall sales caused a drop in gross material margin which declined to 53% from 61% in 1HFY2018. This is because its distribution business earns a lower margin as compared to the Group's semiconductor business.

The Group's bottom line however was boosted by contributions from its associates and subsidiaries. Sales from the Others segment rose 961% from S$0.5 million to S$5.2 million due to revenue from its subsidiaries – Kalf Engineering and Starke Singapore, the latter which had made its maiden contributions to the Group from 3QFY2018. The Group continues to reap rewards of increasing profitability and higher contributions from its associate JEP Holdings Ltd ("JEP") of which the Group recently increased its stake to 39%.

Group expenses were also slashed. Personnel costs fell mainly due to lower overtime costs and decrease in bonus provisions while other expenses declined 19% in line with decreased production volumes and income tax expenses shrank 45% as a result of lower profits.

Second Quarter Performance

The Group's net profit improved by about 15% to S$8.1 million in 2QFY2019 from S$7 million in 1QFY2019 as revenue went up by about 4.8% - lifted by a 128% increase from the Group's non-semiconductor businesses. Compared to 1QFY2019, the Group's semiconductor sales stayed stable, easing by just 2% from S$27 million to S$26.4 million in 2QFY2019.

The Group's gross material margin in 2QFY2019 also remained stable as compared to 1QFY2019.

However, compared to 2QFY2018, its gross material margin in 2QFY2019 fell to 53% from 64% in 2QFY2018 partly due to product mix, and partly due to higher contribution of Starke's material distribution business to the Group's overall sales mix.

The Group benefited from a bigger share of results from its associate company JEP as well as the appreciation of the US dollar during the quarter.

However, challenging global semiconductor conditions in 2QFY2019 triggered a 25% decrease in sales from its semiconductor segment. Overall revenue was down 15% to S$30 million from S$35.2 million in 2QFY2018.

Semiconductor sales declined due to lower semiconductor integrated system sales which fell 19% from S$14.7 million in 2QFY2018 to S$11.9 million in 2QFY2019. There was also a 30% drop in component sales from S$20.6 million in 2QFY2018 to S$14.5 million in 2QFY2019.

Only USA showed an uptick of 7% to S$6.4 million from S$6 million for the same quarter last year. Singapore's sales eased mainly due to weaker demand for semiconductor integrated system sales by 13% to S$17.7 million. Revenue from Taiwan and Malaysia fell as a result of lower component sales, Taiwan by 28% to S$5.3 million; Malaysia by 68% to $0.4 million.

The Group made efforts to trim expenses as well. Personnel costs were reduced by 10% due to lower overtime costs and decreased bonus provisions. Other expenses were cut by 20% in line with lower production volume, while income tax expense was slashed by 51% in line with reduced profits.

Healthy Cashflow

UMS continues to generate a healthy cash flow as the Group registered a whopping S$15.5 million positive net cash from operating activities compared to S$5.0 million in 2QFY2018, a 208% improvement.

It also generated S$15.1 million free cash flow in 2QFY2019 compared to S$3.3 million in 2QFY2018.

The improved cash flow is achieved mainly from running down its inventory and lower capital expenditures.

The Group's borrowings rose temporarily to satisfy certain financial conditions required for its general offer of JEP Holdings Ltd. It invested S$6.9 million to raise its equity stake in JEP Holdings Ltd from 29% to 39% during the quarter.

1HFY2019 net cash flow from the Group's operating activities surged to S$27.3 million from S$20.2 million in 1HFY2018. UMS also generated free cash flow of S$25.7 million in 1HFY2019, up 68% from S$15.3 million in 1HFY2018, benefitting from concerted efforts to slash inventory and capital expenditures.

Even after making additional investment in JEP and paying dividends of S$10.7 million, the Group's net cash and cash equivalents (net of bank borrowings) rose to S$6.0 million as of 30 June 2019, reversing from a net debt of S$1.4 million in 31 December 2018.

Stable Outlook

Said Mr Andy Luong, UMS' Executive Chairman and CEO, “The Group's positive performance amid negative market conditions is commendable and reflects our successful diversification beyond the semiconductor industry. We are therefore pleased to extend our usual practice to reward our loyal shareholders with an interim dividend of 0.5 cents per share.

“While the second half outlook for the semiconductor business remains challenging, we are currently seeing stable business order volumes from our major customer in the US. Our non-semiconductor businesses have also made good progress especially our associate JEP which has improved its profitability steadily.”

According to latest report from SEMI, global sales of semiconductor manufacturing equipment by original equipment manufacturers (OEMs) are projected to decline by 18.4 percent to $52.7 billion in 2019 from last year's historic high of $64.5 billion.

The SEMI report however indicated that growth in equipment sales is expected to resume in 2020, with an 11.6 percent jump to $58.8 billion on the strength of memory spending and new projects in China; while equipment sales in Japan will surge 46.4 percent to $9.0 billion. The upside is based on the assumption of a macro-economic recovery if trade tensions subside in 2020.

[Source:https://www.newswire.ca/news-releases/semi-2019-mid-year-total-equipment-forecast-2019-market-reset-with-2020-recovery-841493814.html]

"Going forward, UMS will intensify collaboration with JEP to maximise our group synergies and to enhance our income streams. As JEP's operational efficiency improves, its team has stepped up its engagement with aerospace OEM customers and is making promising progress", he added.

A report by Deloitte has highlighted that the aerospace industry is likely to keep up its growth trajectory in 2019, led by growing commercial aircraft production and strong defence spending. In the commercial aerospace sector, aircraft order backlog remains at an all-time high as demand for next-generation, fuel-efficient aircraft continues to surge with the rise in oil prices. With the aircraft backlog at its peak, manufacturers are expected to ramp up production rates, hence, driving growth in the sector.

[Source:https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Manufacturing/gx-eri-2019-global-a-and-d-sector-outlook.pdf]

UMS is therefore poised to gain from the growing global aerospace industry, worth an estimated US$838 billion, according to an analysis conducted by the AeroDynamic Advisory and Teal Group Corp.

[Source: https://aviationweek.com/farnborough-airshow-2018/aerospace-industry-worth-us838-billion]

Barring any unforeseen circumstances, the Group will remain profitable in FY2019.

About UMS Holdings Limited
Incorporated in Singapore on January 17, 2001, UMS Holdings Limited is a one-stop strategic integration partner providing equipment manufacturing and engineering services to Original Equipment Manufacturers of semiconductors and related products. The Group is in the business of front-end semi-conductor equipment contract manufacturing and is also involved in complex electromechanical assembly and final testing devices. The products we offer include modular and integration system for original semiconductor equipment manufacturing. Other industries that we also support include the electronic, machine tools and oil and gas. Headquartered in Singapore, the Group has production facilities in Singapore, Malaysia as well as California, USA. Issued on behalf of UMS Holdings Limited.

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