

Unisem (M) Bhd

(5005 | UNI MK) Technology | Semiconductors

Maintain NEUTRAL

Seasonal uptrend in earnings to persist

Revised Target Price: RM1.90
(Previously RM2.09)

KEY INVESTMENT HIGHLIGHTS

- The group suffered 1Q20 normalised loss of -RM5.7m, mainly due to the movement control order (MCO)
- FY20 capex may come in lower due to repurpose of the Batam plant subsequent to the cessation of the operation
- Lowering FY20 and FY21 earnings estimates to factor in the impact of Covid19 pandemic
- While FY20 is expected to be a challenging year, we view that the seasonal uptrend in quarterly earnings to persist
- Maintain NEUTRAL with a revised TP of RM1.90

An event-battered quarter. Unisem (M) Bhd's 1Q20 normalised loss came in at -RM5.7m after excluding the gain on foreign exchange. The lower earnings mainly stemmed from lower revenue of RM273.3m (-9.8%yoy). The weaker revenue was led by the adverse impact on MCO as well as lower sales volume from its Batam operation in view of the planned cessation of operation on 31st March 2020. In addition, the group also incurred higher net finance cost and higher effective tax rate. All in, Unisem's loss-making 1Q20 quarter came in below ours and consensus expectations.

Capital Spending. Unisem's 1QFY20 capital expenditure (capex) increased by +17.9%yoy to RM84.8m. This was mainly channeled to its Chengdu plant to increase the production capability and capacity. Nonetheless, management guided that full year FY20 capex could come in lower as compared to FY19 as the management remains cautious on the outlook for 2H20 in view of the on-going Covid19 pandemic. In addition, the group will also seek to repurpose of some of the assets in Batam for its existing production in Ipoh and Chengdu.

Impact. We are lowering our revenue assumption across all the products segments to FY20 and FY21 to take into account the impact of the Covid19 pandemic. As a result, FY20 and FY21 earnings estimates have been reduce to RM51.5m and RM67.1m respectively.

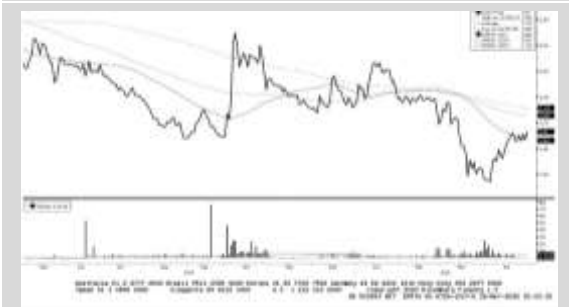
Target price. We are rolling forward our valuation based year to FY21. Coupled with our earnings adjustments, we derive a new target price of **RM1.90** (previously RM2.09). This is premised on pegging FY21 EPS of 9.1sen against unchanged forward PER of 20.9x. Our target PER is the group's two year historical average PER.

Maintain NEUTRAL. The group's 1Q20 financial performance has adversely impacted by the Covid19 outbreak which led to disruption in production activities at both the Ipoh and Chengdu plants. Subsequent to the disruption, the production activities have pick up pace. This is expected to continue in the coming quarters. Higher production activities would also enable the group make up for the order backlog. In addition, the ramp in production activities will be supported by the demand of 5G infrastructures and portables. However, as the pandemic has yet to subside, we do not discount there could be further interruption in value chain.

RETURN STATISTICS

Price @ 29 th April 2020 (RM)	1.93
Expected share price return (%)	-1.6
Expected dividend yield (%)	+3.1
Expected total return (%)	-1.5

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	15.6	12.5
3 months	22.2	-7.7
12 months	-24.3	-10.2

KEY STATISTICS

FBM KLCI	1,380.30
Syariah compliant	Yes
Issue shares (m)	7,27.09
Estimated free float (%)	13.42
Market Capitalisation (RM'm)	1,403.28
52-wk price range (RM)	1.53– 2.93
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	11.02
Monthly volatility (%)	16.59
3-mth average daily volume (m)	0.40
3-mth average daily value (RM'm)	0.74
Top Shareholders (%)	
Huatian Technology Sdn Bhd	58.94
Jayvest Holdings	12.05
Chia Sin Tet	8.49

Analyst
Foo Chuan Loong, **MARTIN**
martin.foo@midf.com.my
03-21738354

We also expect the ongoing pandemic will also affect the demand of the end users. On another note, we view that the timely cessation of the Batam operation would also help to preserve the group's cash balance and prevent further dilution to the group earnings. At this juncture, we view that the downside risk to earnings is rather limited. All factors considered, we are maintaining our **NEUTRAL** recommendation. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	1,351.3	1,251.2	1,193.3	1,242.2	1,296.1
EBITDA	273.2	179.3	221.2	235.4	264.9
EBIT	108.5	11.8	60.1	75.4	88.3
PBT	111.1	13.6	60.4	75.6	88.6
Normalised PATAMI	86.2	66.6	54.1	66.8	77.1
Normalised EPS (sen)	11.9	9.2	7.4	9.1	10.5
Normalised EPS Growth (%)	-48.2	-23.1	-19.5	23.4	15.2
PER (x)	16.2	21.1	26.2	21.2	18.4
Dividend Per Share (sen)	7.5	6.0	5.0	6.0	6.5
Dividend yield (%)	3.9	3.1	2.6	3.1	3.4

Source: Company, MIDFR

UNISEM (M) BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	273.3	303.1	-9.8	319.8	-14.5
EBITDA	42.1	48.4	-13.0	18.6	126.7
Depreciation and amortisation	-40.9	-41.5	1.5	-42.8	-4.4
EBIT	1.2	6.9	-82.8	-24.2	-104.9
Grant income	0.7	0.2	nm	1.6	nm
Finance costs	-1.6	-1.1	-40.3	-1.5	3.8
Interest income	0.8	1.2	-29.1	1.3	-35.5
PBT	1.2	7.1	-83.7	-22.9	-105.1
Taxation	-4.0	-1.1	-275.6	-4.1	-2.9
Non-controlling interest	0.0	0.0	-100.0	0.1	-100.0
PATANCI	-2.8	6.1	nm	-26.9	nm
Normalised PATANCI	-5.7	8.4	nm	31.1	nm
EPS (sen)	-0.8	1.2	nm	4.3	nm
			+/- ppts		+/- ppts
EBITDA margin (%)	15.4	16.0	-0.6	5.8	9.6
EBIT margin (%)	0.4	2.3	-1.8	-7.6	8.0
Normalised PATAMI margin (%)	-2.1	2.8	-4.9	9.7	-11.8
Effective tax rate (%)	343.6	14.9	328.6	-17.9	361.5

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.