

Unisem (M) Bhd

(5005 | UNI MK) Technology | Semiconductors

On a Stronger Footing Post MCO

KEY INVESTMENT HIGHLIGHTS

- **2Q20 normalised earnings rebounded strongly to RM33.9m mainly due to resumption of production activities post MCO**
- **This led to 1H20 normalised earnings of RM27.0m (+40.5%yoy), better than our expectations**
- **Production activities expected to remain rampant moving into 2H20, mainly supported by the 5G play**
- **Nonetheless, valuation remains stretched at this juncture which is significantly above the two year average of 18.1x**
- **Maintain NEUTRAL with a revised TP of RM3.10**

Strong earnings recovery. Unisem (M) Bhd's 2Q20 normalised earnings rebounded strongly to RM33.9m after suffering a normalised of -RM5.7m in 1Q20. This was mainly attributable to higher sales volume achieved subsequent to the resumption of productivity post the MCO. On sequential quarter basis, higher revenues was seen across all market segments, namely communication (+21.5%yoy), consumer (+13.4%yoy), PC (+23.8%yoy) and industrial (+28.6%yoy) with the exception of automotive (-22.0%yoy) segments.

Exceed expectations. The strong recovery in 2QFY20 earnings had led to positive 1HFY20 normalised earnings of RM27.0m (+40.5%yoy). This came in better than we have initially anticipated, accounting for 49.9%yoy of full year FY20 earnings estimate.

Capital Spending. 2QFY20 capex came in at RM81.7m, mainly to cater for capacity expansion for assembly and test in Chengdu and Ipoh. This led to 1H20 capex of RM166.5m, a marginal increase of +1.9%yoy. The group remains mindful in its capex commitment as it acknowledges that Covid-19 pandemic will continue to create uncertainty. In addition, the some of the plant and equipment located at Batam has been redirected to Chengdu and Ipoh post cessation of the operation. Coupled with lower cash reserve of RM278.2m (-31.9%qoq) as at 2QFY20, we foresee minimal incremental capex in the coming quarters.

Impact. We are revising upwards FY20/21/22 earnings estimates to RM71.3m/88.1m/100.9m respectively. This is resulting from better profit margin assumption which arises from higher production activities, the change in product mixture as well as the cessation of the loss-making Batam operation.

Target price. Post our earnings adjustment, we are revising Unisem's target price to **RM3.10** (previously RM1.90). This is premised on pegging revised FY21 EPS of 12.1sen against forward PER of 25.6x (previously 20.9x) which is +1.5SD above the group's two year historical average PER. The richer valuation denotes the group's earnings resiliency and future earnings growth potential in the wake of Covid19 pandemic

Maintain NEUTRAL

Revised Target Price: RM3.10
(Previously RM1.90)

RETURN STATISTICS

Price @ 3 rd August 2020 (RM)	3.19
Expected share price return (%)	-2.8
Expected dividend yield (%)	+2.4
Expected total return (%)	-0.4

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	46.3	44.5
3 months	55.6	46.2
12 months	45.0	50.0

KEY STATISTICS

FBM KLCI	1,572.61
Syariah compliant	Yes
Issue shares (m)	727.09
Estimated free float (%)	12.36
Market Capitalisation (RM'm)	2,319.40
52-wk price range (RM)	1.53– 3.41
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	6.59
Monthly volatility (%)	22.90
3-mth average daily volume (m)	0.47
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
Huatian Technology Sdn Bhd	58.94
Jayvest Holdings	12.05
Chia Sin Tet	8.57

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Dividend. Despite commendable 1HFY20 earnings performance, 1H20 dividend remain stagnant at 2sen, in comparison to 1H29. We view that the lower dividend announced was premised on the group's effort to improve its balance sheet as well as to reflect the volatile global consumption and consumer confidence in the wake of the Covid-19 pandemic.

Maintain NEUTRAL. The group has performed exceptionally as the production activities resume post MCO. Coupled with the cessation of the Batam operation, the group's profit margin has improved tremendously which led to strong recovery in earnings. It has also performed well beyond the FY19 earnings performance. Moving forward, the group's well-being would be supported mainly by higher demand of the hi-end microphones as well as the group's strategic play into 5G. However, there is not much positive spillover effect from having Tianshui Huatian Electronics Group Co. Ltd as its major shareholder. Given the upbeat production activities and its effort to maintain a healthier balance sheet, we view that dividend prospects is rather tepid at this juncture. Note that the group's cash position has trended lower in recent quarters. Moreover, the group has also increase its borrowings which would lead to higher repayment commitment. While we agree that Unisem demands a premium valuation premised on its brighter future prospect, we opine that its current valuation of approximately 28x is a significant variance from its two year historical average PER of 18x. All factors considered, we are keeping our **NEUTRAL** recommendation at this juncture. 

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	1,205.9	1,255.4	1,310.0
EBITDA	273.2	179.3	241.8	261.1	292.3
EBIT	108.5	11.8	80.7	101.0	115.7
PBT	111.1	13.6	81.0	101.3	115.9
Normalised PATAMI	86.2	66.6	71.3	88.1	100.9
Normalised EPS (sen)	11.9	9.2	9.8	12.1	13.9
Normalised EPS Growth (%)	-48.2	-23.1	7.1	23.7	14.4
PER (x)	26.8	34.8	32.5	26.3	23.0
Dividend Per Share (sen)	7.5	6.0	6.0	7.5	8.0
Dividend yield (%)	2.4	1.9	1.9	2.4	2.5

Source: Company, MIDFR

Figure 1: Quarterly revenue breakdown by market segment



Source: Company

UNISEM (M) BHD: 2QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2Q20	% YoY	% QoQ	1H20	1H19	% Ytd
Revenue	310.1	-0.6	13.4	565.2	545.0	3.7
EBITDA	82.6	35.0	96.4	131.5	117.8	11.6
Depreciation and amortisation	-41.1	1.4	0.4	-79.8	-76.9	3.8
EBIT	41.6	112.0	nm	51.7	40.9	26.3
Grant income	0.5	nm	nm	1.2	0.4	nm
Finance costs	-1.4	14.9	-13.3	-2.9	-1.1	-169.7
Interest income	0.7	-47.0	-9.3	1.6	2.6	-38.9
PBT	41.4	111.1	nm	51.5	42.8	20.3
Taxation	-7.5	-39.4	88.6	-12.3	-7.7	59.0
Loss from discontinued operation	0.0	nm	nm	-8.1	-14.8	-45.2
MI	0.0	nm	nm	0.0	0.2	nm
PATAMI	34.0	nm	nm	31.1	20.5	51.7
Normalised PATAMI	33.9	nm	nm	27.0	19.2	40.5
EPS (sen)	4.7	1,497.6	(691.8)	3.7	2.6	40.5
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	26.6	7.0	11.3	23.3	21.6	1.6
EBIT margin (%)	13.4	7.1	13.0	9.1	7.5	1.6
Normalised PATAMI margin (%)	10.9	10.2	13.0	4.8	3.5	1.3
Effective tax rate (%)	18.2	-9.3	-325.4	23.8	18.1	5.8

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.