

Unisem (M) Berhad

(5005 | UNI MK) Technology | Semiconductors

Improving Operational efficiency

KEY INVESTMENT HIGHLIGHTS

- **Recovery in 4QFY19 normalised earnings to RM31.1m (+37.2%yoy) due to healthier profit margin**
- **FY19 normalised earnings of RM66.6m came in better than ours and consensus expectations**
- **Closure of the Batam's plant to lead to better operating efficiency**
- **FY19 capital spending increased to RM212.5m from RM171.9m spent in FY18**
- **Upgrade to NEUTRAL with a revised TP of RM2.09**


Recovery in quarterly earnings. Unisem (M) Bhd's posted 4QFY19 loss of -RM26.9m. After adjusting for exceptional items amounting to RM57.9m, 4QFY19 normalised earnings came in at RM31.1m (+37.2%yoy). Note that the exceptional items pertained to the closure of the Batam's plant.

Better than expected financial performance. Cumulatively, FY19 normalised earnings decreased by -23.4%yoy to RM66.6m. This was attributable to lower FY19 revenue contribution of RM1,251.2m (-7.4%yoy) in view of lower sales volume. This has also impacted the group's profit margin which contracted to -5.3% (vs FY18: 6.4%). All in, the group's FY19 financial performance came in above ours and consensus expectations.

Capital Spending. Unisem's 4QFY19 capital expenditure (capex) eased by -69.3%yoy to RM15.1m after heightened capex in 1HFY19. Cumulatively, full year FY19 capex amounted to RM212.5m (+23.6%yoy)

Impact. We are imputing healthier profit margin in view of the closure of the Batam's plant on March 2020 which we view will optimise the operation of the group. As such, we are revising FY20 and FY21 earnings estimate higher to RM73.4m and RM87.9m respectively.

Target price. Post our earnings adjustment, we derive a new target price of **RM2.09** (previously RM1.80). This is premised on pegging FY20EPS of 10.0sen against unchanged forward PER of 20.9x. Our target PER is the group's two year historical average PER.

Upgrade to NEUTRAL. We expect the growth in the group's future revenue to be supported by the wafer bumping and MEMS microphone assembly. Nonetheless, the recent delay in production of its plant China could partially dampen the group's revenue. Meanwhile, the cessation of its loss-making operation in Batam by the end of 1QFY20 would have positive impact on the group's bottomline. This would further support the group's earnings recovery from for FY20. However, we have yet seen meaningful synergy stemming from its China's partner i.e. Huatian Technology Sdn Bhd. All factors considered, we are upgrading our recommendation on Unisem to **NEUTRAL** from sell previously. 

Upgrade to NEUTRAL

(Previously SELL)

Revised Target Price: RM2.09

(Previously RM1.79)

RETURN STATISTICS

Price @ 26 th February 2020 (RM)	2.21
Expected share price return (%)	-5.4
Expected dividend yield (%)	+3.8
Expected total return (%)	-1.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-9.1	-4.3
3 months	2.3	8.1
12 months	-23.5	-12.4

KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	Yes
Issue shares (m)	7,27.09
Estimated free float (%)	1352
Market Capitalisation (RM'm)	1,606.6
52-wk price range (RM)	1.91 – 3.00
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	7.95
Monthly volatility (%)	22.90
3-mth average daily volume (m)	0.15
3-mth average daily value (RM'm)	0.35
Top Shareholders (%)	
Huatian Technology Sdn Bhd	58.94
Jayvest Holdings	12.05
Chia Sin Tet	8.40

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INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2017	2018	2019E	2020F	2021F
Revenue	1,351.3	1,251.2	1,311.0	1,383.1	1,478.8
EBITDA	273.2	179.3	243.4	260.0	290.5
PBT	108.5	11.8	82.3	99.9	113.9
PATAMI	111.1	13.6	82.3	99.9	113.9
Normalised PAT	66.6	66.6	73.4	87.9	99.1
Normalised EPS (sen)	11.9	9.2	10.0	12.0	13.5
Normalised EPS Growth (%)	-48.2	-23.1	9.2	19.7	12.5
PER (x)	18.6	24.1	22.1	18.5	16.4
Dividend Per Share (sen)	7.5	6.0	7.0	8.4	9.4
Dividend yield (%)	3.4	2.7	3.2	3.8	4.3

Source: Company, MIDFR

UNISEM (M) BHD: 4QFY19 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	2019	2018	%
Revenue	319.8	-3.6	1.1	1251.2	1351.3	-7.4
EBITDA	18.6	-73.1	-63.8	179.3	273.2	-34.4
Depreciation and amortisation	-42.8	-3.1	2.8	-167.5	-164.7	1.7
EBIT	-24.2	-187.9	-352.8	11.8	108.5	-89.1
Grant income	1.6	nm	nm	2.6	0.6	nm
Finance costs	-1.5	-47.3	-20.2	-6.1	-3.2	-90.6
Interest income	1.3	11.7	-13.6	5.3	5.1	3.8
PBT	-22.9	-182.5	-334.1	13.6	111.1	-87.7
Taxation	-4.1	5.1	-69.2	-23.9	-15.2	56.8
Non-controlling interest	0.1	nm	nm	0.7	0.0	nm
PATANCI	-26.9	-214.3	737.8	-9.5	95.8	-110.0
Normalised PATANCI	31.1	37.2	110.9	66.6	86.9	-23.4
EPS (sen)	4.3	37.2	110.9	9.2	11.9	-23.1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	5.8	-15.0	-10.4	14.3	20.2	-5.9
EBIT margin (%)	-7.6	-15.9	-10.6	0.9	8.0	-7.1
Normalised PATAMI margin (%)	9.7	2.9	5.1	5.3	6.4	-1.1
Effective tax rate (%)	-17.9	-33.5	-154.1	175.3	13.7	161.6

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.