Unisem (M) Berhad
(5005 | UNI MK) Main | Technology

4 Stars

SHARIAH Compliant

Maintain **SELL**
Revised Target Price **RM1.86** (from RM3.43)

Corporate Update

Utilisation Rate at Ipoh Remains Depressed

Outlook remains bleak. We are reiterating our SELL recommendation on Unisem with a revised target price of RM1.86 from RM3.43 previously. Since we downgrade our recommendation for Unisem to SELL in July 2024, the share price has retraced by more than -40%. Nonetheless, post the 4QFY24 briefing, we expect there could be further downside to the group's share price. As seen in the latest quarterly results, the unfavourable product mix which primarily led by the low utilisation rate in the Ipoh plant, has led to profit margin compression for the group. We foresee that the utilisation rate for Ipoh will remain depressed given the soft demand in products. Moreover, its new plant in Gopeng is unlikely to contribute much to the group. These could partially negate the positivity coming from its Chengdu plant.

Profit margin impacted by low utilisation rate at its Malaysian operation. 4QFY24 normalised earnings came in at RM12.5m, a decline of -51.8%yoy. This was despite a higher revenue growth of RM411.8m (+187.4%yoy). This was mainly attributable to unfavourable product mix as well as sharp increase in cost of sales to -RM384.4m (+22.8%yoy) which negatively impacted the profit margin.

Not up to par with expectations. On a cumulative basis, FY24 normalised earnings contracted by -31.6%yoy to RM53.9m. Meanwhile, revenue grew by +9.8%yoy to RM1,580.9m. The decline in profitability was due to the aforementioned reasons. All-in-all, Unisem's FY24 financial performance came in at less than 72% of ours and consensus FY24 earnings estimates.

Decline in cash reserve. The group's cash reserved dwindled by more than -42%yoy to RM278.4m as at end 2024. This was mainly attributable to higher capex of RM346m (+11.6%yoy) as well as repayment of borrowings. Note that the total borrowings reduced by -18.8%yoy to RM187.1m. This resulted in lower net cash of RM100.2m as at end 2024 from RM250.7m a year ago.

Tune down earnings estimates. After taking into consideration Unisem's 1HFY24 financial performance, we are inputting a more conservative pace of recovery for FY24 to FY26. As such, we lower FY24 to FY26 earnings by between -13.7% and -17.1%.

Weaker earnings prospect. We are cutting both FY25 and FY26 earnings estimates by more than 40%. While we maintain our revenue estimates, we input a more conservative profit margin. This takes into consideration unfavourable product mix, depressed utilisation rate at its Ipoh operation, absence of meaningful contribution from the new Gopeng plant as well as higher depreciation and amortisation cost stemming from the new Gopeng plant as well as Phase 3 of Chengdu plant.

RETURN STATISTICS	
Price @ 28th Feb 2025 (RM)	2.16
Expected share price return (%)	-13.9
Expected dividend yield (%)	+3.7
Expected total return (%)	-10.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-20.4	-20.1
3months	-26.5	-25.1
12 months	-33.3	-34.1

INVESTMENT STATISTICS

FYE JUNE (RM'm)	2024E	2025F	2026F
Revenue	1759.0	1872.4	1966.0
Operating Profit	103.0	139.9	175.1
PBT	104.1	135.9	167.3
Core PATAMI	76.7	100.2	123.3
Core EPS (sen)	4.8	6.2	7.6
DPS (sen)	8.0	8.0	8.0
Dividend Yield	3.7	3.7	3.7

KEY STATISTICS

FBM KLCI	1,574.70
Issue shares (m)	1,613.08
Estimated free float (%)	24.02
Market Capitalisation (RM'm)	3,581.04
52-wk price range (rm)	RM2.21 – RM4.44
3-mth average daily volume (m)	0.78
3-mth average daily value (RM'm)	2.20
Top Shareholders (%)	
Huatian Technology Sdn Bhd	43.94
Jayvest Holdings Sdn Bhd	10.87
Chia Sin Tet	10.05

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Downward revision in target price. Coupled with the weaker earnings projects, we roll forward our valuation base year to FY26 and derive a new target price of RM1.86 from RM3.43 previously. Note that we maintain our target PER of 29.9x.

UNISEM (M) BHD: 4QFY24 RESULTS SUMMARY

Financial year Ending 31st December (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	4Q24	% YoY	% QoQ	2024	2023	% YoY
Revenue	411.8	17.4	0.5	1,580.9	1,439.7	9.8
EBITDA	72.8	-13.5	-17.4	293.4	305.5	-4.0
Depreciation and amortisation	-56.7	7.4	2.4	-218.1	-211.7	3.0
EBIT	16.1	-48.6	-50.8	75.3	93.8	-19.8
Finance costs	-2.8	52.7	0.2	-7.0	-9.4	-26.0
Interest income	2.9	-40.7	-14.9	14.0	16.0	-12.5
PBT	16.2	-52.9	-51.4	82.3	100.4	-18.0
Taxation	-7.5	40.0	13.9	-21.6	-18.5	17.2
Profit / (Loss) from discontinued operation	0.0	n.m	n.m	0.0	-1.7	n.m
PATAMI	8.7	-69.4	-67.5	60.7	80.2	-24.4
Normalised PATAMI	12.5	-51.8	-15.4	53.9	78.8	-31.6
EPS (sen)	0.8	-51.8	-15.4	3.3	4.9	-31.6
EBITDA margin (%)	17.7	-6.3	-3.8	18.6	21.2	-2.7
EBIT margin (%)	3.9	-5.0	-4.1	4.8	6.5	-1.8
Normalised PATAMI margin (%)	3.0	-4.3	-0.6	3.4	5.5	-2.1
Effective tax rate (%)	46.3	30.7	26.5	26.3	18.4	7.9

Source: Company, MIDFR

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	1,439.7	1,580.9	1,759.0	1,872.4	1,966.0
EBITDA	305.5	293.4	338.9	385.3	429.0
EBIT	93.8	75.3	103.0	139.9	175.1
PBT	100.4	82.3	104.1	135.9	167.3
Normalised PAT	**78.8**	**53.9**	**76.7**	**100.2**	**123.3**
Normalised EPS (sen)	4.9	3.3	4.8	6.2	7.6
Normalised EPS Growth (%)	-0.8	-0.3	0.4	0.3	0.2
PER (x)	50.0	73.0	51.3	39.3	31.9
Dividend Per Share (sen)	8.0	8.0	8.0	8.0	8.0
Dividend yield (%)	3.7	3.7	3.7	3.7	3.7

Balance Sheet (RM'm)	2023A	2024A	2025E	2026F	2027F
Fixed assets	2063.9	2099.3	2190.3	2271.8	2344.8
Others	16.7	47.5	47.5	47.5	47.5
Non-current assets	**2080.6**	**2146.7**	**2237.7**	**2319.3**	**2392.3**
Cash	481.0	278.4	121.2	2.0	-84.0
Trade debtors	198.2	215.5	239.7	255.2	267.9
Others	227.9	250.9	278.8	296.6	311.3
Current assets	**907.2**	**744.7**	**639.7**	**553.8**	**495.2**
Trade creditors	248.5	340.7	379.1	403.6	423.7
Short-term debt	89.6	108.8	108.8	108.8	108.8
Others	13.4	6.5	6.5	6.5	6.5
Current liabilities	**351.4**	**456.1**	**494.5**	**518.9**	**539.1**
Long-term debt	140.8	78.3	78.3	78.3	78.3
Others	110.4	109.4	109.4	109.4	109.4
Non-current liabilities	**251.2**	**187.7**	**187.7**	**187.7**	**187.7**
Share capital	1036.7	1036.7	1036.7	1036.7	1036.7
Retained earnings	1348.5	1210.9	1158.6	1129.7	1124.0
Equity	**2385.2**	**2247.6**	**2195.3**	**2166.4**	**2160.7**

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	100.4	82.3	104.1	135.9	167.3
Depreciation & amortisation	211.7	218.1	235.9	245.4	253.9
Others	-9.8	-24.8	-1.1	4.0	7.8
Operating profit before working capital changes	302.3	275.7	338.9	385.3	429.0
Changes in working capital	302.3	275.7	-13.8	-8.8	-7.3
Cash generated from operation	302.3	275.7	325.1	376.5	421.7
Income tax	-20.1	-18.4	-27.4	-35.7	-44.0
Others	81.8	5.3	0.0	0.0	0.0
Net cash generated from operating activities	**364.0**	**262.6**	**297.7**	**340.7**	**377.7**
Capital expenditure	-352.1	-297.2	-326.9	-326.9	-326.9
Others	16.8	16.1	7.4	2.3	-1.5
Investing cash flow	**-335.3**	**-281.1**	**-319.6**	**-324.7**	**-328.4**
Dividends paid	-129.0	-129.0	-129.0	-129.0	-129.0
Others	20.7	-49.0	-6.2	-6.2	-6.2
Financing cash flow	**-108.3**	**-178.0**	**-135.3**	**-135.3**	**-135.3**
Net cash flow	-79.6	-196.5	-157.2	-119.2	-86.0
Beginning cash flow	**556.0**	**481.0**	**278.4**	**121.2**	**2.0**
Ending cash flow	**481.0**	**278.4**	**121.2**	**2.0**	**-84.0**

Profitability Margins	2023A	2024A	2025E	2026F	2027F
EBITDA margin	21.2	18.6	19.3	20.6	21.8
PBT margin	7.0	5.2	5.9	7.3	8.5
PAT margin	5.7	3.8	4.4	5.3	6.3
Core PAT margin	5.5	3.4	4.4	5.3	6.3

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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology