

25 April 2018 | 1Q18 Results Review

## Unisem (M) Berhad

*Appalling 1Q18 financial performance*

### INVESTMENT HIGHLIGHTS

- **Worst-than-expected 1Q18 financial performance mainly attributable to unfavourable exchange rate**
- **Lower capital spending in 1Q18 (-36.6%yoy), concentrating on the areas of IOT and power management**
- **Do not expect significant recovery in the immediate term**
- **Downgrade to TRADING SELL with a revised target price of RM1.90 per share**

**Severely below expectations.** Unisem (M) Bhd's (Unisem) 1Q18 normalised earnings plunged by -65.6%yoy to RM 15.6m. The reduction in earnings was mainly attributable to the depreciation of USD/MYR exchange rate as compared to the prevailing rate in the corresponding quarter a year ago. Note that in USD terms, the revenue recorded a marginal growth of +1.1%yoy. Meanwhile, the operating expenses remain elevated as the bulk of the cost is denominated in Ringgit. There is also an upward adjustment in labour cost during the quarter-in-review.

All in, the group's 1Q18 financial performance came in severely below our and consensus expectations, accounting for 8.2% and 10.3% of full year FY18 earnings estimates respectively.

**Table 1: Revenue breakdown by market segment (%)**

Segment	1Q18	1Q17
Communication	26	26
Consumer	27	27
PC	12	16
Industrial	16	15
Automotive	16	16

Source: Company, MIDFR

**Higher capital expenditure (capex) allocation.** The group incurred 1Q18 capex of RM45.1m. This represents a decrease of -36.6%yoy. Bulk of the capex was spent on wirebonders and tester/handlers for IOT and power management manufacturing lines.

**Downgrade to TRADING SELL**  
(previously BUY)  
**Lowered Target Price (TP): RM1.90**  
(previously RM4.27)


RETURN STATS	
Price (24 April 2018)	RM2.22
Target Price	RM1.90
Expected Share Price Return	-14.4
Expected Dividend Yield	+3.6%
<b>Expected Total Return</b>	<b>-10.8%</b>

STOCK INFO	
KLCI	1,865.34
Bursa / Bloomberg	5005 / UNI MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	733.8
Market cap. (RM'm)	1,629.1
Price over NA	2.3x
52-wk price Range	RM2.19 – RM4.25
Beta (against KLCI)	1.16
3-mth Avg Daily Vol	5.8m
3-mth Avg Daily Value	RM2.6m
Major Shareholders (%)	
Estate of Soo Yut Kuan	12.80
Jayvest Holdings Sdn Bhd	11.89
Sin Tet Chia	8.59
Woon Yen	3.80

**Impact on earnings.** We are imputing lower revenue contribution across all segments and reduce our profit margin assumption to account for the increase in labour cost. All factors considered, we are cutting FY18 and FY19 earnings estimates by -52.4% and -46.5% respectively.

**Dividend.** Due to the downward revision in Unisem's FY18 and FY19 earnings estimates, we are also trimming our dividend estimates for both year to 7.0sen and 8.0sen respectively.

**Target price.** We are deriving a new target price of RM1.90 per share (previously RM4.27). This is premised on pegging FY19EPS of 15.2sen against forward PER multiple of 12.5x which is the group's 3 year historical average PER. Note that we are updating our forward PER from 15x previously. This is to account for the uncertainty emanating from the US-China trade war and the global slowdown in demand of smart devices.

**Downgrade to TRADING SELL.** The first quarter is historically the weakest quarter. However, the unfavourable exchange rate has unexpectedly put more pressure on the group's earnings. While we expect production to pick up pace towards 2H18, we expect the earnings upside is rather limited as Ringgit remain steady below RM4.00. Furthermore, we do not expect significant cost savings should the group step up its cost saving initiatives. The weak earnings outlook is also expected to limit the group's ability to payout attractive dividend. All factors considered, we are downgrading our stock recommendation to **TRADING SELL** from buy previously. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	2016	2017	2018F	2019F
Revenue (RM m)	1,322.8	1,465.7	1,439.6	1,501.6
EBITDA (RM m)	356.8	343.1	256.3	285.0
EBIT (RM m)	187.1	175.4	96.4	124.4
Pretax Profit (RM m)	187.2	180.8	100.1	124.4
Core Net Profit after MI (RM m)	147.0	168.5	90.6	111.7
EPS (sen)	20.0	23.0	12.3	15.2
EPS Growth (%)	-9.1	14.6	-46.3	23.4
PER (x)	11.0	9.6	17.9	14.5
Net Dividend (sen)	11.0	11.0	7.0	8.0
Net Dividend Yield (%)	5.0	5.0	3.2	3.6

Source: Company, MIDFR

## DAILY PRICE CHART



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## UNISEM (M) BERHAD: 1Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly				
	1Q18	1Q17	% YoY	4Q17	% QoQ
<b>FYE Dec</b>					
Revenue	321.6	360.2	(10.7)	357.4	(10.0)
EBITDA	47.6	92.4	(48.5)	76.2	(37.6)
Depreciation and amortisation	-40.5	-42.2	3.9	-40.5	0.1
EBIT	7.1	50.2	(85.9)	35.8	(80.2)
Grant income	0.1	0.1	nm	0.1	nm
Finance costs	-0.6	-0.6	-14.6	-0.6	12.2
Interest income	1.2	1.2	5.0	1.3	-7.4
PBT	7.7	50.9	-84.8	36.6	-78.9
Taxation	-1.4	-5.5	74.7	-4.0	-65.7
MI	-0.3	-0.5	-42.9	-0.5	-50.2
PATAMI	6.1	44.9	-86.5	32.0	-81.1
Normalised PATAMI	15.6	45.2	-65.6	36.5	-57.4
EPS (sen)	2.1	6.2	(65.6)	5.0	(57.4)
			+/- ppts		+/- ppts
EBITDA margin (%)	14.8	25.6	-10.8	21.3	-6.5
EBIT margin (%)	2.2	13.9	-11.7	10.0	-7.8
Normalised PATAMI margin (%)	4.8	12.5	-7.7	10.2	-5.4
Effective tax rate (%)	18.0	10.8	7.2	11.0	6.9

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.