

03 August 2018 | 2Q18 Results Review

Unisem (M) Berhad

Earnings impacted by unfavourable product mix

Reiterate TRADING SELL

Unchanged Target Price (TP): RM1.90

INVESTMENT HIGHLIGHTS

- Normalised earnings continue to be adversely impact by the change in product mix
- Nonetheless, 1H18 normalised earnings came in-line with our expectation
- Lower interim dividend (2Q18: 2.5sen vs 2Q17: 3.5sen) declared in view of weaker financial performance
- Reiterate TRADING SELL with an unchanged target price of RM1.90 per share

Profit margin narrowed to single digit. Unisem (M) Bhd (Unisem) 2Q18 normalised earnings retraced by -51.6%yoy to RM20.9m. Note that we have excluded the foreign exchange gain of RM10.2m. The decrease in normalised earnings was mainly attributable to the unfavourable change in product mix (*refer to table 1*). The management commented that one of its customers from the MEMS segment has exited the business. Due to the change in product mix, the profit margin came in lower at 6.1% as oppose to 11.8% achieved in 2Q17.

Within expectation. Cumulatively, the group's 1H18 normalised earnings amounted to RM37.1m (-58.0%yoy). This made up 41.0% and 34.6% of ours and consensus full year FY18 earnings estimates respectively. Nonetheless, the results came in as expected as we are expecting stronger 2H18 to made up for the shortfall in 1H18. The group indicated that it has managed to secure a new customer for the MEMS packaging segment. This is expected to improve the overall customer portfolio.

Table 1: Revenue breakdown by product and services (%)

Segment	2Q18	2Q17
Leaded	22	21
Leadless	35	33
WL pkg / MEMs Bump	27	30
Test	16	16
Total	100	100

Source: Company, MIDFR


Impact on earnings. No change to our earnings estimates at this juncture.

RETURN STATS	
Price (2 nd August 2018)	RM2.59
Target Price	RM1.90
Expected Share Price Return	-26.6%
Expected Dividend Yield	+3.1%
Expected Total Return	-23.5%

STOCK INFO	
KLCI	1,778.13
Bursa / Bloomberg	5005 / UNI MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	727.1
Market cap. (RM'm)	1,883.1
Price over NA	1.3x
52-wk price Range	RM1.60 – RM4.25
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	1.9m
3-mth Avg Daily Value	RM4.7m
Major Shareholders (%)	
Estate of Soo Yut Kuan	12.9
Jayvest Holdings Sdn Bhd	12.05
Sin Tet Chia	8.04

Dividend. Unisem declared first interim dividend of 2.5sen in 2Q18. This is 1sen lower as compared to 2Q17 dividend of 3.5sen, in view of weaker financial performance during the quarter-in-review.

Target price. We are maintaining our target price of RM1.90 per share. This is premised on pegging FY19 EPS of 15.2sen against forward PER multiple of 12.5x which is the group's 3 year historical average PER.

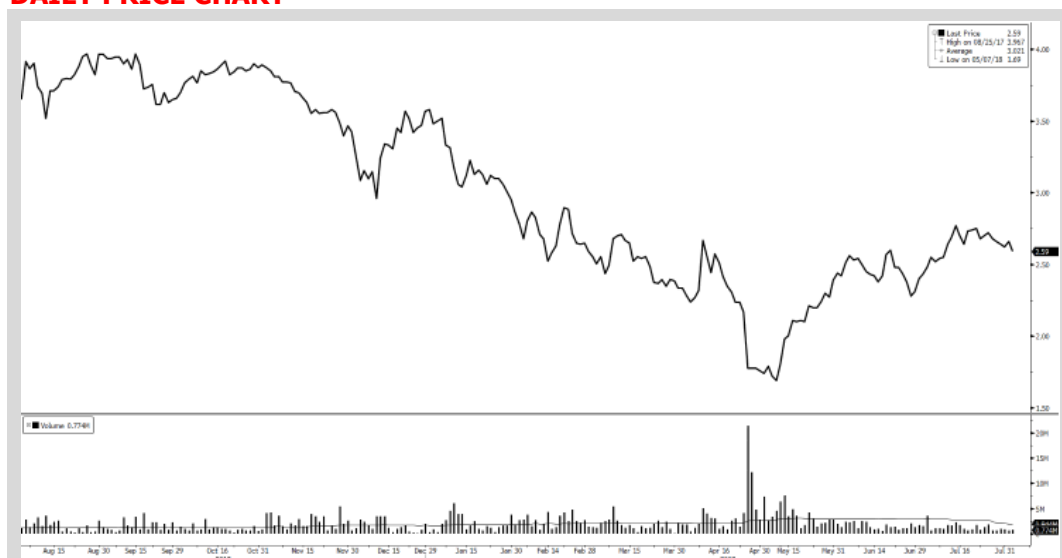
Reiterate TRADING SELL. Excluding the forex gain recorded in 2Q18, the recovery in its financial performance has been slow, in line with our expectation. In 2H18, we do not expect significant change in the group's product mix which will boost the profit margin. Moreover, the pressure from fluctuation in foreign exchange currency will affect the group's cash balance. This, in-turn, will affect the group's dividend payment as seen in the latest quarterly result. All factors considered, we are reiterating our **TRADING SELL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 31 st 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)	12.9	11.3	21.0	17.0
Net Dividend (sen)	11.0	11.0	7.0	8.0
Net Dividend Yield (%)	4.2	4.2	2.7	3.1

Source: Company, MIDFR

DAILY PRICE CHART



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UNISEM (M) BERHAD: 2Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly			Cumulative		
FYE Dec	2Q18	% YoY	% QoQ	2018	2017	%YoY
Revenue	343.2	(6.2)	6.7	664.7	726.0	-8.4
EBITDA	76.5	(12.5)	60.8	124.1	179.8	-31.0
Depreciation and amortisation	-41.3	2.7	1.9	-81.8	-84.6	-3.3
EBIT	35.3	(21.7)	397.2	42.3	95.2	-55.5
Grant income	0.4	nm	nm	0.4	2.3	nm
Finance costs	-0.7	-23.0	12.1	-1.4	-1.2	-18.9
Interest income	1.3	5.0	8.1	2.5	2.4	5.0
PBT	36.2	-24.4	369.7	43.9	98.8	-55.5
Taxation	-5.1	4.5	271.1	-6.5	-10.9	-39.9
MI	0.1	-115.9	-124.7	-0.2	-0.9	-77.3
PATAMI	31.1	-26.0	414.4	37.2	87.0	-57.2
Normalised PATAMI	20.9	-51.6	34.6	37.1	88.4	-58.0
EPS (sen)	2.9	(51.4)	35.1	5.1	12.0	-57.9
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	22.3	-1.6	7.5	18.7	24.8	-6.1
EBIT margin (%)	10.3	-2.0	8.1	6.4	13.1	-6.7
Normalised PATAMI margin (%)	6.1	-5.7	1.3	5.6	12.2	-6.6
Effective tax rate (%)	14.2	3.0	-3.8	14.9	11.0	3.9

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.