

02 November 2018 | 3Q18 Results Review

Unisem (M) Berhad

Profit margin remains at single digit

ACCEPT OFFER

Offer Price (TP): RM3.30

INVESTMENT HIGHLIGHTS

- The group's financial performance continues to be negatively impacted by the unfavourable product mix
- Cumulative 9MFY18 normalised earnings came in weaker (-58.0%yoy), in-line with our expectation
- Lower interim dividend (3Q18: 2.0sen vs 3Q17:3.5sen) declared in view of weaker financial performance
- Reiterate our recommendation to accept offer and shift focus to its listed peers who offer better earnings quality

Yet to achieve double digit profit margins. Unisem (M) Bhd (Unisem) 3QFY18 normalised earnings retraced by -37.8%yoy to RM27.1m. The decrease in normalised earnings was mainly attributable to unfavourable change in product mix. This has also led to lower profit margin of 7.9% as oppose to 11.4% achieved in 3QFY17.

Within expectation. Cumulatively, the group's 9MFY18 normalised earnings amounted to RM37.1m. This translates into a decrease of 58.0%yoy. The financial results came in within ours but below consensus expectations, accounting for 70.9% and 59.4% of ours and consensus full year FY18 earnings estimates respectively.

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

Dividend. Unisem declared first interim dividend of 2.0sen in 3Q18. This is 1.5sen lower as compared to 3Q17 dividend of 3.5sen, in view of weaker financial performance during the quarter-in-review. Cumulatively, for 9MFY18 the group declared dividend of 4.5sen.


Accept Offer. On a year-to-date basis, the share has underperformed. We believe that the decline was premised on Unisem's unfavourable product mix which has negatively impacted its 1HFY18 normalised earnings (-58.0%yoy) as well as depreciation of the USD/MYR exchange rates. In view of this, we previously had a trading sell recommendation on the stock. We view that this had led the chairman to seek a strong Chinese partner to boost Unisem's business, especially its Chengdu operation in China. Thus, the takeover offer represents an opportunity for investor to exit the company and shift focus to other listed semiconductor companies which offer better earnings quality.

RETURN STATS

Price (1 st November 2018)	RM2.98
Offer Price	RM3.30
Expected Share Price Return	+10.7%
Expected Dividend Yield	+0%
Expected Total Return	+10.7%

STOCK INFO

KLCI	1,706.92
Bursa / Bloomberg	5005 / UNI MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	727.1
Market cap. (RM'm)	2,166.7
Price over NA	1.3x
52-wk price Range	RM1.60 – RM4.03
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	2.5m
3-mth Avg Daily Value	RM7.4m
Major Shareholders (%)	
Estate of Soo Yut Kuan	12.91
Jayvest Holdings Sdn Bhd	12.05
Sin Tet Chia	8.04
Norges Bank	3.09

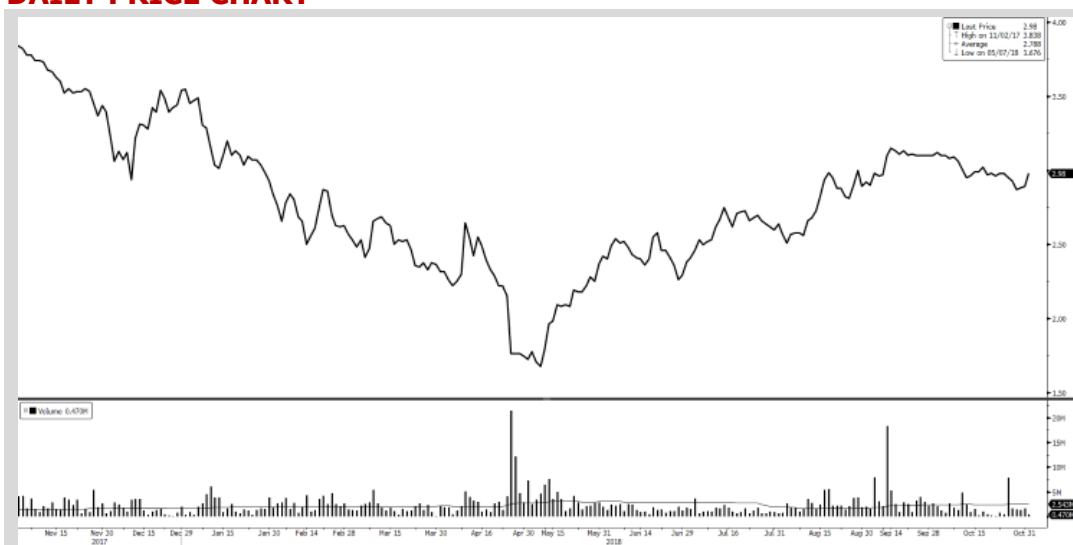
Moreover, due to the weak financial performance, dividend declared is also less attractive. We opine that dividend yield to decline below three percent in the foreseeable term. All factors considered, we are recommending investors to accept the takeover offer. 

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)	14.9	13.0	24.2	19.6
Net Dividend (sen)	11.0	11.0	7.0	8.0
Net Dividend Yield (%)	3.7	3.7	2.3	2.7

Source: Company, MIDFR

DAILY PRICE CHART



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UNISEM (M) BERHAD: 3Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly			Cumulative		
FYE Dec	3Q18	% YoY	% QoQ	2018	2017	%YoY
Revenue	343.2	(10.2)	0.0	1019.5	1108.3	-8.0
EBITDA	79.2	(8.9)	3.4	204.2	266.8	-23.5
Depreciation and amortisation	-41.4	2.8	0.3	-123.2	-127.2	-3.2
EBIT	37.7	(14.8)	7.1	81.0	139.6	-42.0
Grant income	1.0	nm	nm	0.5	2.6	nm
Finance costs	-0.8	-36.4	10.9	-2.2	-1.7	-24.8
Interest income	1.4	16.1	9.7	4.0	3.7	8.8
PBT	39.4	-13.3	8.7	83.3	144.2	-42.2
Taxation	-4.4	2.1	-15.2	-10.9	-15.3	-28.9
MI	0.1	-128.1	110.4	-0.1	-1.4	-95.5
PATAMI	35.1	-13.1	12.9	72.3	127.4	-43.2
Normalised PATAMI	27.1	-37.8	29.3	64.2	132.0	-51.3
EPS (sen)	3.7	(37.2)	30.0	8.8	18.0	-51.1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	23.1	0.3	0.8	20.0	24.1	-4.0
EBIT margin (%)	11.0	-0.6	0.7	7.9	12.6	-4.7
Normalised PATAMI margin (%)	7.9	-3.5	1.8	6.3	11.9	-5.6
Effective tax rate (%)	11.1	1.3	-3.1	13.1	10.6	2.5

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.