

23 February 2018 | 4Q17 Results Review

Unisem (M) Berhad

Average selling prices trended higher

INVESTMENT HIGHLIGHTS

- **FY17 normalised earnings boosted mainly by higher sales volume and improvement in average selling prices**
- **Revenue from USA segment grew strongly by +24.1yoy**
- **Higher capital spending in FY17 to cater for growing demand of flip chip packages**
- **Maintain BUY with revised target price of RM4.27 per share**

Double digit growth in FY17 normalised earnings. Unisem (M) Bhd's (Unisem) 4Q17 normalised earnings decreased by -22.1% to RM36.5m. The reduction in earnings was mainly attributable to lower profit margin from the change in product mix. Cumulatively, full year FY17 normalised earnings improved by +13.6%yoy to RM168.5m. This was mainly higher production volume and improved average selling prices.

Nonetheless, the group's full year FY17 financial performance came in slightly below our expectation as we are assuming a too optimistic profit margin.

Revenue. Unisem's revenue strengthened by +10.8%yoy to RM1,465.7m. This was mainly attributable to stronger demand from the industrial (+14.2%yoy) and consumer (+13.6%yoy) market segments.

Table 1: Revenue breakdown by market segment (RM'm)

Segment	FY16	FY17	Movement (%)
Communication	392.7	373.7	-4.8
Consumer	332.0	377.3	13.6
PC	204.4	241.9	18.3
Industrial	168.8	238.4	14.2
Automotive	224.9	234.4	4.2
Total	1,322.8	1,465.7	10.8

Source: Company, MIDFR

Higher capital expenditure (capex) allocation. The group incurred 4Q17 capex of RM30.3m. This led to full year FY17 capex of RM165.9m, an increase of +28.1%yoy. Bulk of the capex was spent to cater for the growing demand of flip chip packages.

Maintain BUY

Revised Target Price (TP): RM4.27
(previously RM4.58)


RETURN STATS	
Price (22nd February 2018)	RM2.95
Target Price	RM4.27
Expected Share Price Return	+44.7%
Expected Dividend Yield	+4.1%
Expected Total Return	+48.8%

STOCK INFO	
KLCI	1,855.07
Bursa / Bloomberg	5005 / UNI MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	733.8
Market cap. (RM'm)	2,164.8
Price over NA	2.3x
52-wk price Range	RM2.52 – RM4.25
Beta (against KLCI)	1.11
3-mth Avg Daily Vol	2.0m
3-mth Avg Daily Value	RM6.5m
Major Shareholders (%)	
Jayvest Holdings Sdn Bhd	11.87
Sin Tet Chia	8.99
Employees Provident Fund	4.21
Woon Yen	3.80

Dividends. The group announced 4Q17 dividend of 4sen per share. This is in-tandem with the quantum of dividend announced 4Q16. Cumulatively, the group has announced full year FY17 dividend of 11sen per share.

Impact. While we maintain our FY18 revenue forecasts, we are revising our FY18 earnings assumption to RM195.7m as we are forecasting a more conservative profit margin in-line with the changes in product mix.

Target price. We roll forward our valuation base year to FY19 and derive a new target price of **RM4.27** (previously RM4.58). This is premised on pegging revised FY19EPS of 28.5sen against unchanged forward PER multiple of 15x.

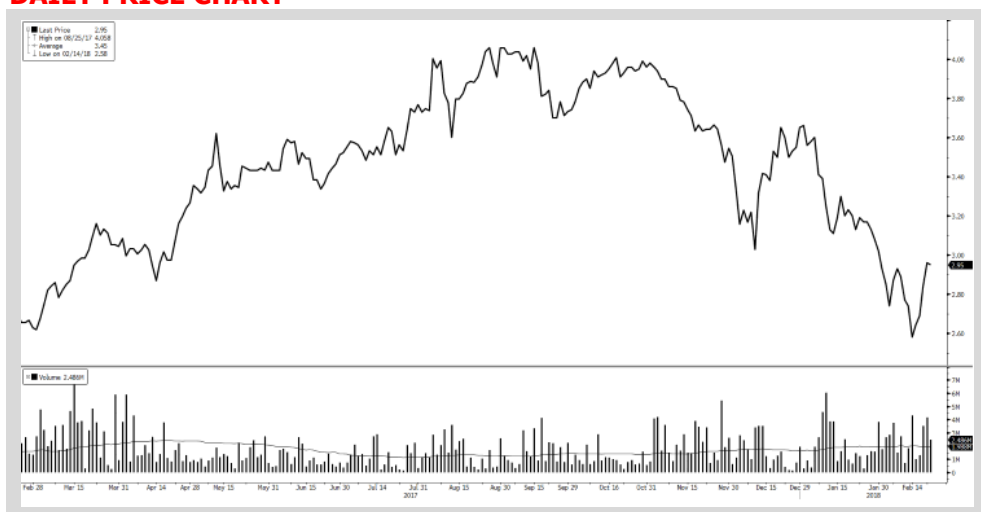
Maintain BUY. Since the positive turnaround in 2014, the group's operating profit has been growing at a steady pace. We believe the group is placing more emphasis in the provision of products and services which command better profit margin to maintain the growth momentum. We understand that the group has managed to win new orders for application in rental-bike systems, microphones and memory power management. In addition, we also expect healthy demand from automotive segment to push the financial performance of Batam's plant into the positive territory in 2018. On another note, due to its healthy net cash balance, we expect dividend yield to remain satisfactory at approximately 4%. All in, we are reiterating our **BUY** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 31 st Dec	2016	2017	2018F	2019F
Revenue (RM m)	1,322.8	1,465.7	1,595.1	1,690.5
EBITDA (RM m)	356.8	343.1	377.7	397.1
EBIT (RM m)	187.1	175.4	207.7	233.5
Pretax Profit (RM m)	187.2	180.8	211.4	233.5
Core Net Profit after MI (RM m)	147.0	168.5	190.2	208.9
EPS (sen)	20.0	23.0	25.9	28.5
EPS Growth (%)	-9.1	14.6	12.9	9.8
PER (x)	14.7	12.8	11.4	10.4
Net Dividend (sen)	11.0	11.0	12.0	12.0
Net Dividend Yield (%)	3.7	3.7	4.1	4.1

Source: Company, MIDFR

DAILY PRICE CHART



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UNISEM (M) BERHAD: 4Q17 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly					
FYE Dec	4Q17	% YoY	% QoQ	2017	2016	%YoY
Revenue	357.4	(1.3)	(6.5)	1,465.7	1,322.8	10.8
EBITDA	76.2	(26.7)	(12.3)	343.1	355.4	-3.5
Depreciation and amortisation	-40.5	3.3	(5.0)	-167.7	-169.7	-1.2
EBIT	35.8	(42.5)	(19.3)	175.4	185.7	-5.6
Grant income	0.1	nm	nm	2.8	1.4	nm
Finance costs	-0.6	1.7	-2.2	-2.3	-3.1	25.5
Interest income	1.3	13.6	5.6	5.0	3.2	56.8
PBT	36.6	-41.7	-19.4	180.8	187.2	-3.4
Taxation	-4.0	64.2	-9.3	-19.4	-23.8	-18.6
MI	-0.5	205.6	8.4	-1.9	-1.1	84.3
PATAMI	32.0	-37.6	-20.8	159.5	162.3	-1.7
Normalised PATAMI	36.5	-22.1	-15.1	168.5	148.4	13.6
EPS (sen)	5.0	(22.1)	(15.1)	23.0	20.2	13.6
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	21.3	-7.4	-1.4	23.4	26.9	-3.5
EBIT margin (%)	10.0	-7.2	-1.6	12.0	14.0	-2.1
Normalised PATAMI margin (%)	10.2	-2.7	-1.0	11.5	11.2	0.3
Effective tax rate (%)	11.0	-6.9	1.2	10.7	12.7	-2.0

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.