31 October 2014 | 3QFY14 Results Review

Unisem (M) Bhd

In "high gear" mode

***Upgrade to* BUY (from NEUTRAL)**

***Revised* Target Price (TP): RM2.45 (previously RM1.60)**

INVESTMENT HIGHLIGHTS

- **Impressive 3Q14 earnings of RM27.1m, a strong reversal from a loss of RM-0.6m in 3Q13.**
- **9M14 core earnings amounted to RM36.8m, in-line with our expectation.**
- **Revised FY14 and FY15 forecasts higher with the imputation of higher profit margin due to better product mix going forward.**
- **Hence upgrade Unisem to BUY with a revised target price of RM2.45.**

An impressive quarter. Unisem recorded 3Q14 earnings of RM27.1m. This is a strong reversal from a loss of -RM0.6m recorded in 3Q13. The recovery was mainly attributable to the increase in topline as well as improvement in profit margin.

Within expectation. 9M14 core earnings amounted to RM36.8m, after excluding grant income worth RM10.4m. This is within our expectation, accounting for 74.3% of our full year earnings estimate. The turnaround is premised on better product mix as the company was phasing out its legacy products. In addition, the group also underwent a customer rationalization programme where emphasis is given to established clients.

Marginal growth in revenue. Unisem's 9M14 revenue increased slightly by +1.3%yoy to RM752.9m from RM743.4m in 9M13. Based on the revenue breakdown, the contribution from leaded segment has declined by -13%yoy. However, this was compensated by the increase in contribution from leadless (+8%yoy), WI Pkg & Bumping (+6%yoy) and test segment (+7%yoy). In terms of market segment, contribution from the automotive segment and communication segment has risen by +14%yoy and +6%yoy respectively. However, the increase was partly moderated by lower contributions of -11%yoy and -7%yoy from the PC and industrial segments respectively.

Higher capex incurred. Capex spending accelerated to RM24.2m in 3Q14 from RM6.7m in 3Q13, an increase of +261.2%yoy. Year-to-date, the group has incurred RM40.8m on capex against RM32.2m spent in the previous corresponding period.

RETURN STATS	
Price (30 October 2014)	RM2.45
Target Price	RM1.60
Expected Share Price Return	+46.0%
Expected Dividend Yield	+1.5%
Expected Total Return	+47.5%

STOCK INFO	
KLCI	1,842.78
Bursa / Bloomberg	5005 / UNI MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	674.2
Par Value (RM)	0.50
Market cap. (RM'm)	1,132.7
Price over NA (x)	1.1
52-wk price Range (RM)	0.835 –1.90
Beta (against KLCI)	1.25
3-mth Avg Daily Vol	2.3m
3-mth Avg Daily Value	RM2.7m
Major Shareholders (%)	
Jayvest Holdings S/B	9.11
Bandar Rasah S/B	7.55
Lembaga Tabung Haji	6.67
Sin Tet Chia	6.32

Impact. The management guided that its 4Q14 earnings to be similar to that of 3Q14. This guidance implies higher profit margin which we believe is premised on better product mix. Given such, we are revising upward our FY14 earnings estimate by +26.3%. Similarly, we are also upping our FY15 earnings by +53.3% with the imputation of higher profit margin.

Stronger outlook ahead. Management guided that demand for smartphone to remain strong due to the roll out of new smartphone models. In particular, the momentum in China's smartphone industry is expected to remain strong due to the growing 4G adoption as China's main wireless carriers continue to provide subsidies to handset consumers. Note that the group has positioned themselves within the supply chain of Apple, Xiaomi and Huawei.

Target price revised higher to RM2.45. Following our earnings upgrade, we revise our target price to RM2.45 from RM1.60 previously. This is premised on FY15 EPS of 14.4sen against forward PER multiple of 17x. The multiple equates to the average high PER recorded from 2007 to 2011, which corresponds to the period when the company was in the blacks.

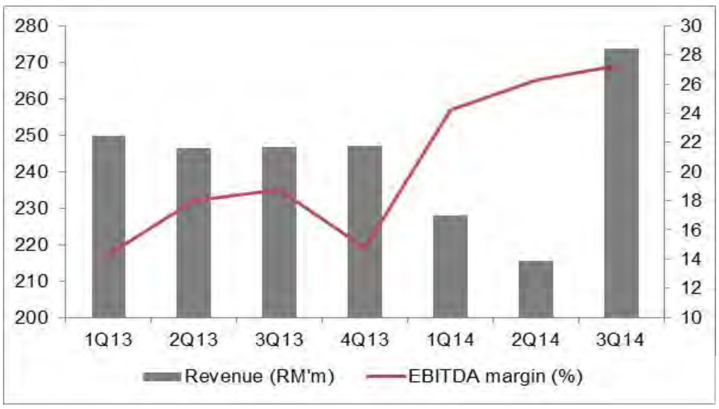
Upgrade to BUY. Subsequent to the positive turnaround seen in 2Q14, the company's earnings have advanced significantly as evident in its latest quarterly results. This was mainly attributable to: (i) more stringent customer rationalistion programme, (ii) better product mix from the phasing out of legacy products and preference on products which are less cyclical in demand, and (iii) lower cost of materials due to the offering of new products and services. Underpinned by the strong demand of smart devices, the group is able to hit utilization rate of about 70% which positively impacted its profit margin. All in, we are upgrading our recommendation for Unisem to BUY from NEUTRAL previously. We view that the results as providing a clear indication to potential investors that the revamped business model is able to yield sustainable and satisfactory results going forward.

INVESTMENT STATISTICS

FYE 31 Dec	2012	2013	2014E	2015F
Revenue (RM m)	1,091.9	990.6	1,020.2	1,101.8
EBITDA (RM m)	172.4	171.5	259.1	284.4
EBIT (RM m)	-14.7	-76.5	93.1	125.7
Pretax Profit (RM m)	-35.4	-94.8	78.5	116.9
Normalized PATAMI (RM m)	-32.3	-105.4	62.5	97.2
EPS (sen)	-4.8	-15.6	9.3	14.4
EPS Growth (%)	nm	nm	nm	55.5
PER (x)	nm	nm	18.1	11.6
Net Dividend (sen)	2.0	2.0	2.5	2.5
Net Dividend Yield (%)	1.2	1.2	1.5	1.5

Source: Company, MIDFR estimates

REVENUE vs EBITDA MARGIN



EBITDA margin continued to rise on quarterly basis since beginning of FY14 underpinned by better product mix.

Source: Company, MIDFR

DAILY PRICE CHART

Syed Muhammed Kifni
Martin Foo Chuan Loong
martin.foo@midf.com.my
03-2173 8354

3QFY14 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
FYE Dec	3Q14	% YoY	% QoQ	9MFY14	9MFY13	%YoY
Revenue	273.3	10.7	8.6	752.9	743.4	1.3
EBITDA	74.9	61.4	32.3	176.3	126.4	39.5
Depreciation and amortisation	-39.1	(7.4)	(0.5)	-119.2	-124.5	-4.3
EBIT	35.7	775.4	106.9	57.1	1.8	2999.8
Exceptional item - grant income	0.0	nm	nm	10.4	0.0	nm
Finance costs	-2.7	(41.7)	(3.6)	-9.1	-14.1	35.5
Interest income	0.0	(89.0)	(66.7)	0.1	0.2	-36.4
PBT	33.0	nm	128.3	58.5	-12.1	nm
Taxation	-5.8	910.9	47.9	-12.0	-4.0	198.2
MI	0.0	(98.7)	(98.3)	0.8	1.6	-52.2
PATAMI	27.1	nm	150.3	47.2	-14.6	-423.8
Normalised PATAMI	27.1	nm	150.3	36.8	-14.6	nm
EPS (sen)	4.0	nm	nm	7.0	-2.2	nm
EBITDA margin (%)	27.4	0.5	4.9	23.4	17.0	6.4
EBIT margin (%)	13.1	11.4	6.2	7.6	0.2	7.3
Normalized PATAMI margin (%)	9.9	10.2	5.6	4.9	-2.0	6.9
Effective tax rate (%)	17.7	125.8	-9.6	20.5	-33.2	53.7

Source: announcement, MIDFR

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% 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.

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