

## Unisem (M) Berhad

(5005 | UNI MK) Technology | Semiconductors

### Slower-than-Anticipated Sequential Earnings Recovery

#### KEY INVESTMENT HIGHLIGHTS

- We are keeping our **NEUTRAL** recommendation with a slight reduction in TP to **RM2.95** post the 2QFY23 results announcement
- 2QFY23 normalised earnings shown sequential improvement of **+73.1%qoq** to **RM20.1m**, although it is still down by **-73.4%yoy**
- The weak sentiment led to a weaker recovery in demand on a sequentially. This should persist in the coming quarters
- Nonetheless, the group's expansion plan remains intact which would enable them to benefit from 'China plus one' strategy

**Awaiting a more upbeat utilisation rate.** We are keeping our **NEUTRAL** recommendation at this juncture with a lower target price of **RM2.95** post the 2QFY23 results announcement. The sequential recovery observed in the quarter-in-review was much slower than anticipated owing to softer demand across the various product segments. Moving forward, we still expect the group to remain on the recovery path, albeit at a slower pace. This could potentially pick up pace considerably only in FY24.

**Slower recovery.** 2QFY23 normalised earnings declined by **-74.3%yoy** to **RM20.1m**. Softer demand has led to lower utilization of 50% and 70% for its Ipoh and Chengdu plants respectively. This has led to 3QFY23 revenue of **RM378.7m** (**-18.4%yoy**).

Meanwhile, revenue mix was relatively the same i.e. communication (19%), consumer (34%), PC (12%), industrial (18%) and automotive (17%). Fortunately, on a sequential basis, we saw earnings improvement of **+73.1%qoq** supported by **+7%qoq** recovery in revenue.

**1HFY23 underperformed.** On a cumulative basis, 1HFY23 normalised earnings amounted to **RM31.7m**, a decline of **-75.5%yoy**. This was led by **-17%yoy** drop in revenue to **RM737.7m**. All in, Unisem's 1HFY23 financial performance came in below ours and consensus expectation, making up only 21.1% and 18.2% of full year FY23 earnings forecast respectively.

**A more conservative forecast and target price.** In view of the weaker than expected recovery in demand, we are factoring a **-29.3%** and **-4.2%** reduction in FY23 and FY24 earnings estimates respectively.

This led to a lower target price of **RM2.95** from **RM3.08** previously. Note that we are keeping our PE valuation multiple target unchanged at 25x.

**Still on a recovery path.** We expect the upcoming quarters to show better performance in anticipation of a continuous recovery in demand, especially for the communication and consumer segments. On another note, the group's expansion plan remains on track. For the Chengdu plant, installation of equipment and qualification by their customer is currently underway. Meanwhile, locally at Gopeng, the plant construction is progressing as scheduled and is expected to be completed by 4QCY23.

**Maintain NEUTRAL**

**Revised Target Price: RM2.95**  
(Previously RM3.08)

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> July 2023 (RM)	3.22
Expected share price return (%)	-8.4
Expected dividend yield (%)	+1.9
<b>Expected total return (%)</b>	<b>-6.5</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.2	0.4
3 months	8.4	8.3
12 months	28.1	29.6


#### INVESTMENT STATISTICS (RM'm)

FYE Dec	2023E*	2024F	2025F
Revenue	1,524.5	1,645.6	1,671.7
Operating Profit	111.0	203.5	208.8
Profit Before Tax	117.5	209.7	217.6
Core PATAMI	106.0	189.3	196.3
Core EPS (Sen)	6.6	11.8	12.2
DPS (Sen)	6.0	6.0	6.0
Dividend Yield (%)	1.9	1.9	1.9

#### KEY STATISTICS

FBM KLCI	1,451.27
Issue shares (m)	806.54
Estimated free float (%)	27.42
Market Capitalisation (RM'm)	5,194
52-wk price range	RM2.29-RM3.67
3-mth average daily volume (m)	0.72
3-mth average daily value (RM'm)	1.08
Top Shareholders (%)	
Huatian Technology Sdn Bhd	42.71
Javvest Holdings Sdn Bhd	10.95
Chia Sin Tet	8.86

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We view that these would be timely to capture the increasing demand from China and Taiwan in view of diversification strategy. In this regard, management shared that it is in the process of onboarding up to seven new customers. 

## UNISEM (M) BHD: 2QFY23 RESULTS SUMMARY

Financial year Ending 31st December (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	2Q23	% YoY	% QoQ	2023	2022	% YoY
Revenue	378.7	-18.4	7.0	737.7	888.5	-17.0
EBITDA	80.3	-39.0	23.5	145.4	238.6	-39.1
Depreciation and amortisation	-53.3	3.0	1.6	-105.8	-101.5	4.3
EBIT	27.0	-66.2	114.9	39.6	137.1	-71.1
Finance costs	-2.5	175.9	-2.5	-5.0	-1.5	245.8
Interest income	3.7	36.8	9.3	7.1	4.8	48.4
PBT	28.2	-65.4	110.6	41.7	140.4	-70.3
Taxation	-4.2	-62.7	20.2	-7.7	-18.9	-59.0
Profit / (Loss) from discontinued operation	-0.1	n.m	n.m	-0.1	135.0	n.m
PATAMI	23.9	-88.4	142.8	33.8	256.6	-86.8
<b>Normalised PATAMI</b>	20.1	-74.3	73.1	31.7	129.4	-75.5
EPS (sen)	1.2	-74.3	73.1	2.0	8.1	-75.5
EBITDA margin (%)	21.2	-7.2	2.8	19.7	26.9	-7.1
EBIT margin (%)	7.1	-10.1	3.6	5.4	15.4	-10.1
Normalised PATAMI margin (%)	5.3	-11.5	2.0	4.3	14.6	-10.3
Effective tax rate (%)	14.9	1.1	-11.2	18.6	13.4	5.1

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1568.9	1694.8	1524.5	1645.6	1671.7
EBITDA	407.5	493.4	356.3	467.8	465.2
EBIT	212.1	266.1	111.0	203.5	208.8
PBT	219.7	274.3	117.5	209.7	217.6
Normalised PATAMI	198.7	247.5	106.0	189.3	196.3
Normalised EPS (sen)	12.4	15.4	6.6	11.8	12.2
Normalised EPS Growth (%)	0.3	0.2	-0.6	0.8	0.0
PER (x)	19.7	15.8	36.9	20.7	19.9
Dividend Per Share (sen)	6.0	6.0	6.0	6.0	6.0
Dividend yield (%)	1.9	1.9	1.9	1.9	1.9

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1637.5	1860.1	2064.8	2000.6	1944.2
Others	16.8	0.0	0.0	0.0	0.0
<b>Non-current assets</b>	<b>1654.3</b>	<b>1860.1</b>	<b>2064.8</b>	<b>2000.6</b>	<b>1944.2</b>
Cash	656.0	601.0	418.7	566.9	721.4
Trade debtors	200.5	216.5	194.8	210.3	213.6
Others	272.3	284.1	255.8	275.9	280.3
<b>Current assets</b>	<b>1128.7</b>	<b>1101.7</b>	<b>869.3</b>	<b>1053.1</b>	<b>1215.3</b>
Trade creditors	344.4	372.1	334.7	361.3	367.0
Short-term debt	118.7	118.7	118.7	118.7	118.7
Others	0.6	0.6	0.6	0.6	0.6
<b>Current liabilities</b>	<b>463.8</b>	<b>491.4</b>	<b>454.0</b>	<b>480.6</b>	<b>486.3</b>
Long-term debt	56.2	56.2	56.2	56.2	56.2
Others	96.8	96.8	96.8	96.8	96.8

<b>Non-current liabilities</b>	<b>153.1</b>	<b>153.1</b>	<b>153.1</b>	<b>153.1</b>	<b>153.1</b>
Share capital	1036.7	1036.7	1036.7	1036.7	1036.7
Retained earnings	1129.4	1280.6	1290.3	1383.3	1483.3
<b>Equity</b>	<b>2166.1</b>	<b>2317.3</b>	<b>2327.0</b>	<b>2420.0</b>	<b>2520.0</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Profit before tax	219.7	274.3	117.5	209.7	217.6
Depreciation & amortisation	195.4	227.3	245.3	264.3	256.4
Others	-5.5	-8.2	-6.5	-6.2	-8.8
Operating profit before working capital changes	409.5	493.4	356.3	467.8	465.2
Changes in working capital	11.5	-9.3	12.6	-9.0	-1.9
<b>Cash generated from operation</b>	<b>421.0</b>	<b>484.1</b>	<b>368.9</b>	<b>458.8</b>	<b>463.3</b>
<b>Income tax</b>	<b>2.6</b>	<b>-26.8</b>	<b>-11.5</b>	<b>-20.5</b>	<b>-21.2</b>
<b>Others</b>	<b>-86.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash generated from operating activities</b>	<b>337.6</b>	<b>457.3</b>	<b>357.5</b>	<b>438.3</b>	<b>442.0</b>
Capital expenditure	-483.5	-450.0	-450.0	-200.0	-200.0
Others	10.5	10.4	8.7	8.4	11.0
<b>Investing cash flow</b>	<b>-472.9</b>	<b>-439.6</b>	<b>-441.3</b>	<b>-191.6</b>	<b>-189.0</b>
Dividends paid	-64.4	-96.3	-96.3	-96.3	-96.3
Others	185.9	23.7	-2.2	-2.2	-2.2
<b>Financing cash flow</b>	<b>121.5</b>	<b>-72.6</b>	<b>-98.5</b>	<b>-98.5</b>	<b>-98.5</b>
<b>Net cash flow</b>	<b>-13.9</b>	<b>-54.9</b>	<b>-182.3</b>	<b>148.2</b>	<b>154.5</b>
<b>Beginning cash flow</b>	<b>665.6</b>	<b>651.7</b>	<b>596.8</b>	<b>414.5</b>	<b>562.7</b>
<b>Ending cash flow</b>	<b>651.7</b>	<b>596.8</b>	<b>414.5</b>	<b>562.7</b>	<b>717.2</b>

<b>Profitability Margins (%)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
EBITDA margin	26.0	29.1	23.4	28.4	27.8
PBT margin	14.0	16.2	7.7	12.7	13.0
PAT margin	12.6	14.6	7.0	11.5	11.7
Core PAT margin	12.7	14.6	7.0	11.5	11.7

Source: Bloomberg, 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology