

Unisem (M) Berhad

(5005 | UNI MK) Technology | Semiconductors

Marginal Improvement in Sequential Performance

KEY INVESTMENT HIGHLIGHTS

- We are keeping our **NEUTRAL** recommendation with an unchanged target price of **RM2.95** post the 3QFY23 results announcement
- **3QFY23** normalised earnings shown minimal sequential improvement of **+5.9%qoq**, although it is still down by **-65.8%yoy**
- **Weak sentiment** led to depress utilization rate for both the **Chengdu** and **Ipoh** plant
- **The group's expansion plan** remains intact which would eventually enable them to benefit from 'China plus one' strategy

Tepid recovery. We are keeping our **NEUTRAL** recommendation at this juncture with an unchanged target price of **RM2.95** post the 3QFY23 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. 3QFY23 normalised earnings declined by **-65.8%yoy** to RM21.3m. Softer demand has adversely affected the utilization rate for both the Chengdu and Ipoh plant. This has led to 3QFY23 revenue of RM356.2m (**-19.0%yoy**).

Meanwhile, the revenue mix was relatively the same i.e., communication (21%), consumer (35%), PC (11%), industrial (16%) and automotive (17%). Fortunately, on a sequential basis, we saw earnings improvement of **+5.9%qoq**.

9MFY23 underperformed. On a cumulative basis, 9MFY23 normalised earnings amounted to RM52.9m, a decline of **-72.1%yoy**. This was led by an **-18%yoy** drop in revenue to RM1.1b. All in, Unisem's 9MFY23 financial performance came in below our expectation, making up only 49.9% of the full year FY23 earnings forecast.

FY24 and FY25 earnings estimates remain unchanged. In view of the weaker than expected recovery in demand, we are reducing further FY23 earnings by **-24.3%** to RM80.3m. Nonetheless, we are keeping FY24 and FY25 earnings estimates unchanged premised on a stronger pace of recovery. Hence, our target price remains unchanged at RM2.95.

Still on a recovery path. We expect the upcoming quarters to show a slow pace of recovery. This, however, should pick up pace moving into FY24. Our view is supported by the group's ongoing expansion plan for both Chengdu and Gopeng which remain unchanged at this juncture. These would be timely to capture the increasing demand from China and Taiwan in view of diversification strategy.



Maintain NEUTRAL

Unchanged Target Price: RM2.95

RETURN STATISTICS

Price @ 26 th October 2023 (RM)	3.10
Expected share price return (%)	-4.8
Expected dividend yield (%)	+1.9
Expected total return (%)	-2.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.2	1.0
3 months	-1.8	3.4
12 months	32.2	33.4

INVESTMENT STATISTICS (RM'm)

FYE June	2023E*	2024F	2025F
Revenue	1487.7	1645.6	1671.7
Operating Profit	82.7	204.0	209.2
Profit Before Tax	89.0	209.8	217.5
Core PATAMI	80.3	189.3	196.3
Core EPS (Sen)	5.0	11.8	12.2
DPS (Sen)	6.0	6.0	6.0
Dividend Yield (%)	1.9	1.9	1.9

KEY STATISTICS

FBM KLCI	1,440.60
Issue shares (m)	806.54
Estimated free float (%)	27.43
Market Capitalisation (RM'm)	5,194
52-wk price range	RM2.37-RM3.67
3-mth average daily volume (m)	0.65
3-mth average daily value (RM'm)	2.11
Top Shareholders (%)	
Huatian Technology Sdn Bhd	42.71
Javvest Holdings Sdn Bhd	10.88
Chia Sin Tet	8.91

UNISEM (M) BHD: 3QFY23 RESULTS SUMMARY

Financial year Ending 31st December (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	3Q23	% YoY	% QoQ	2023	2022	% YoY
Revenue	356.2	-19.0	-5.9	1,088.9	1,328.2	-18.0
EBITDA	76.0	-34.3	-5.5	221.4	354.2	-37.5
Depreciation and amortisation	-53.1	1.6	-0.3	-158.9	-153.8	3.3
EBIT	22.8	-64.0	-15.6	62.4	200.4	-68.8
Finance costs	-2.5	63.5	0.7	-7.6	-3.0	152.4
Interest income	4.0	61.3	9.3	11.1	7.3	52.9
PBT	24.3	-62.1	-13.8	66.0	204.7	-67.8
Taxation	-5.4	-32.5	27.5	-13.1	-26.8	-51.1
Profit / (Loss) from discontinued operation	-1.0	n.m	n.m	-1.1	140.4	n.m
PATAMI	18.0	-70.8	-24.7	51.8	318.3	-83.7
Normalised PATAMI	21.3	-65.8	5.9	52.9	189.5	-72.1
EPS (sen)	1.3	-65.8	5.9	3.3	11.7	-72.1
EBITDA margin (%)	21.3	-5.0	0.1	20.3	26.7	-6.3
EBIT margin (%)	6.4	-8.0	-0.7	5.7	15.1	-9.4
Normalised PATAMI margin (%)	6.0	-8.2	0.7	4.9	14.3	-9.4
Effective tax rate (%)	22.1	9.7	7.2	19.9	13.1	6.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1568.9	1694.8	1487.7	1645.6	1671.7
EBITDA	407.5	493.4	328.0	468.3	465.6
EBIT	212.1	266.1	82.7	204.0	209.2
PBT	219.7	274.3	89.0	209.8	217.5
Normalised PATAMI	198.7	247.5	80.3	189.3	196.3
Normalised EPS (sen)	12.4	15.4	5.0	11.8	12.2
Normalised EPS Growth (%)	0.3	0.2	-0.7	1.4	0.0
PER (x)	19.7	15.8	48.8	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
Non-current assets	1654.3	1860.1	2064.8	2000.6	1944.2
Cash	656.0	601.0	395.7	541.3	695.7
Trade debtors	200.5	216.5	190.1	210.3	213.6
Others	272.3	284.1	249.7	275.9	280.3
Current assets	1128.7	1101.7	835.5	1027.4	1189.6
Trade creditors	344.4	372.1	326.6	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
Current liabilities	463.8	491.4	445.9	480.6	486.3
Long-term debt	56.2	56.2	56.2	56.2	56.2
Others	96.8	96.8	96.8	96.8	96.8
Non-current liabilities	153.1	153.1	153.1	153.1	153.1
Share capital	1036.7	1036.7	1036.7	1036.7	1036.7
Retained earnings	1129.4	1280.6	1264.6	1357.7	1457.7
Equity	2166.1	2317.3	2301.3	2394.3	2494.3

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Profit before tax	219.7	274.3	89.0	209.8	217.5
Depreciation & amortisation	195.4	227.3	245.3	264.3	256.4
Others	-5.5	-8.2	-6.3	-5.8	-8.3
Operating profit before working capital changes	409.5	493.4	328.0	468.3	465.6
Changes in working capital	11.5	-9.3	15.4	-11.7	-1.9
Cash generated from operation	421.0	484.1	343.4	456.5	463.7
Income tax	2.6	-26.8	-8.7	-20.5	-21.2
Others	-86.0	0.0	0.0	0.0	0.0
Net cash generated from operating activities	337.6	457.3	334.7	436.1	442.4
Capital expenditure	-483.5	-450.0	-450.0	-200.0	-200.0
Others	10.5	10.4	8.5	8.0	10.5
Investing cash flow	-472.9	-439.6	-441.5	-192.0	-189.5
Dividends paid	-64.4	-96.3	-96.3	-96.3	-96.3
Others	185.9	23.7	-2.2	-2.2	-2.2
Financing cash flow	121.5	-72.6	-98.5	-98.5	-98.5
Net cash flow	-13.9	-54.9	-205.3	145.6	154.5
Beginning cash flow	665.6	651.7	596.8	391.5	537.0
Ending cash flow	651.7	596.8	391.5	537.0	691.5

Profitability Margins (%)	2021A	2022A	2023E	2024F	2025F
EBITDA margin	26.0	29.1	22.0	28.4	27.8
PBT margin	14.0	16.2	6.0	12.7	13.0
PAT margin	12.6	14.6	5.4	11.5	11.7
Core PAT margin	12.7	14.6	5.4	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