

Unisem (M) Berhad

(5005 | UNI MK) Technology | Semiconductors

Ipoh Operation to Remain a Drag

KEY INVESTMENT HIGHLIGHTS

- We are maintaining our **NEUTRAL** recommendation with a revised target price of **RM3.41** post the 1QFY24 results announcement
- Minimal year-over-year improvement in 1QFY24 earnings to **RM12.5m (+7.6%yoy)**, partially dragged by the Ipoh's operation
- Anticipating sequential growth to pick up pace in the coming quarters, leading to a stronger rebound in 2HFY24
- China operation outperform that of Ipoh, with the latter dictating the group's pace of recovery for FY24

Reliance on China operation for growth. We are maintaining our **NEUTRAL** recommendation on Unisem with a revised **target price of RM3.41** in conjunction with the release of 1QFY24 financial results. There was minimal recovery seen in the quarter-in-review as utilization rate at Ipoh's operation remained weak. The pace of rebound in FY24 will largely depend on the China operation. On a separate note, the construction for Phase 1 of Gopeng's operation will be completed soon while internal qualification to start in May 2024.

Slight improvement on a year-over-year basis. 1QFY24 normalised earnings improved by +7.6%yoy to RM12.5m. This lacks ours and consensus expectations, coming in at only 6.2% and 7.5% of the full year FY24 earnings respectively.

The underperformance was mainly caused by the soft demand which translated into a slow recovery in the industry. This was further impacted by the upward revision in wages.

Meanwhile, there were no major changes in the group's 1QFY24 revenue mix by market segments. The consumer market remains the largest segment at 31%. This was followed by communications (24%), automotive (18%), industrial (17%) and PC (11%).

Adjustment in earnings estimates. After taking into consideration Unisem's 1QFY24 financial performance, we are inputting a more conservative pace of recovery in FY24. As such, we lower FY24 to FY26 earnings by between -6.7% and -32.9%.

Adjustment in target price. We are rolling forward our valuation-based year to FY25 and attain a higher target price of RM3.41 (previously RM3.13). This is despite the downward adjustment in earnings estimates as we anticipate FY25 earnings to come in higher. Our target price is derived by pegging FY25 EPS of 13.6sen against unchanged PER of 25x.

Anticipating improvement in the successive quarters. While we acknowledge that 1QFY24's performance was rather muted, we expect improvement in the quarters ahead. This will be supported by the group's operation in China which has seen a more encouraging pace of recovery as compared to that of Ipoh.

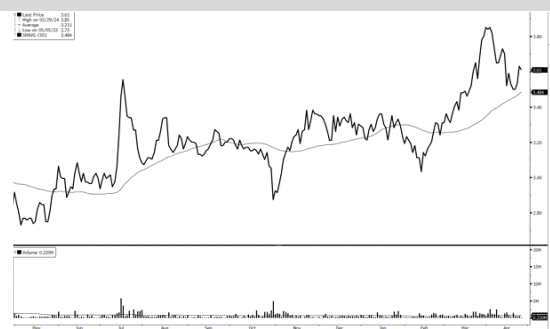
Maintain NEUTRAL

Revised Target Price: RM3.41
(Previously RM3.13)

RETURN STATISTICS

Price @ 26 th April 2024 (RM)	3.65
Expected share price return (%)	-6.6
Expected dividend yield (%)	+2.2
Expected total return (%)	-4.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.9	-3.9
3 months	-6.2	3.8
12 months	20.7	9.6


INVESTMENT STATISTICS (RM'm)

FYE June	2024E*	2025F	2026F
Revenue	1613.8	1759.0	1872.4
Operating Profit	152.1	250.2	309.8
Profit Before Tax	155.6	252.9	314.1
Core PATAMI	135.4	220.0	273.3
Core EPS (Sen)	8.4	13.6	16.9
DPS (Sen)	8.0	8.0	8.0
Dividend Yield (%)	2.2	2.2	2.2

KEY STATISTICS

FBM KLCI	1,574.12
Issue shares (m)	1,613.08
Estimated free float (%)	26.66
Market Capitalisation (RM'm)	5,823.2
52-wk price range	RM2.75-RM3.92
3-mth average daily volume (m)	0.81
3-mth average daily value (RM'm)	2.85
Top Shareholders (%)	
Huatian Technology Sdn Bhd	42.73
Jayvest Holdings Sdn Bhd	10.79
Chia Sin Tet	8.76

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We view the management confidence of better quarters ahead is in-tandem with the increase in headcount of 4.2%yoy to 6.1k in 1QFY24. Gopeng phase 1 plant construction is also on schedule for completion soon with internal qualification to start on May 2024. All in, while we agree FY24 to be a recovery year, we expect the pace of recovery to be rather slow, premised on the soft demand. However, this could be partially overcome by the addition of new customers. 

UNISEM (M) BHD: 1QFY24 RESULTS SUMMARY

Financial year Ending 31st December (All in RM'm unless stated otherwise)	1Q24	1Q23	% YoY	4Q23	% QoQ
Revenue	364.8	354.0	3.0	350.8	4.0
EBITDA	62.0	65.1	-4.7	84.1	-26.3
Depreciation and amortisation	-53.0	-52.5	1.1	-52.8	0.5
EBIT	9.0	12.6	-28.5	31.4	-71.3
Finance costs	-0.8	-2.6	-66.8	-1.9	-54.5
Interest income	3.6	3.4	6.7	4.9	-26.5
PBT	11.8	13.4	-12.4	34.4	-65.8
Taxation	-3.3	-3.5	-6.4	-5.4	-38.5
Profit / (Loss) from discontinued operation	0.0	0.0	n.m	-0.6	n.m
PATAMI	8.5	9.9	-14.1	28.4	-70.2
Normalised PATAMI	12.5	11.6	7.6	25.8	-51.7
EPS (sen)	0.8	0.7	7.6	1.6	-51.7
EBITDA margin (%)	17.0	18.4	-1.4	24.0	-7.0
EBIT margin (%)	2.5	3.6	-1.1	8.9	-6.5
Normalised PATAMI margin (%)	3.4	3.3	0.1	7.4	-3.9
Effective tax rate (%)	28.0	26.2	1.8	15.5	12.4

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	1781.8	1439.7	1613.8	1759.0	1872.4
EBITDA	479.7	305.5	392.8	497.4	562.7
EBIT	274.7	93.8	152.1	250.2	309.8
PBT	279.7	100.4	155.6	252.9	314.1
Normalised PATAMI	389.3	78.8	135.4	220.0	273.3
Normalised EPS (sen)	24.1	4.9	8.4	13.6	16.9
Normalised EPS Growth (%)	0.9	-0.8	0.7	0.6	0.2
PER (x)	10.1	50.0	29.1	17.9	14.4
Dividend Per Share (sen)	6.0	8.0	8.0	8.0	8.0
Dividend yield (%)	1.6	2.2	2.2	2.2	2.2

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	1949.5	2063.9	2123.1	2175.9	2223.0
Others	16.3	16.7	16.7	16.7	16.7
Non-current assets	1965.9	2080.6	2139.9	2192.7	2239.7
Cash	556.0	481.0	406.9	427.3	510.7
Trade debtors	226.2	198.2	222.2	242.2	257.8
Others	270.7	227.9	255.3	278.0	295.8
Current assets	1052.9	907.2	884.3	947.6	1064.3
Trade creditors	279.2	248.5	278.5	303.6	323.2
Short-term debt	163.5	89.6	89.6	89.6	89.6
Others	11.1	13.4	13.4	13.4	13.4

Current liabilities	453.8	351.4	381.5	406.6	426.1
Long-term debt	33.0	140.8	140.8	140.8	140.8
Others	115.6	110.4	110.4	110.4	110.4
Non-current liabilities	148.6	251.2	251.2	251.2	251.2
Share capital	1036.7	1036.7	1036.7	1036.7	1036.7
Retained earnings	1379.7	1348.5	1354.8	1445.8	1590.0
Equity	2416.4	2385.2	2391.5	2482.5	2626.7

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
Profit before tax	279.7	100.4	155.6	252.9	314.1
Depreciation & amortisation	204.9	211.7	240.8	247.2	252.9
Others	2.2	-9.8	-3.6	-2.7	-4.3
Operating profit before working capital changes	486.9	302.3	392.8	497.4	562.7
Changes in working capital	359.5	280.8	-21.2	-17.7	-13.8
Cash generated from operation	359.5	280.8	371.6	479.7	548.9
Income tax	-15.1	7.2	-20.2	-32.9	-40.8
Others	60.0	76.0	0.0	0.0	0.0
Net cash generated from operating activities	404.5	364.0	351.4	446.8	508.1
Capital expenditure	-595.2	-352.1	-300.0	-300.0	-300.0
Others	155.6	16.8	13.7	12.9	14.5
Investing cash flow	-439.5	-335.3	-286.3	-287.1	-285.5
Dividends paid	-96.8	-129.0	-129.0	-129.0	-129.0
Others	33.7	20.7	-10.2	-10.2	-10.2
Financing cash flow	-63.0	-108.3	-139.2	-139.2	-139.2
Net cash flow	-98.1	-79.6	-74.1	20.5	83.3
Beginning cash flow	656.0	556.0	481.0	406.9	427.3
Ending cash flow	556.0	481.0	406.9	427.3	510.7

Profitability Margins (%)	2022A	2023A	2024E	2025F	2026F
EBITDA margin	26.9	21.2	24.3	28.3	30.1
PBT margin	15.7	7.0	9.6	14.4	16.8
PAT margin	13.7	5.7	8.4	12.5	14.6
Core PAT margin	21.8	5.5	8.4	12.5	14.6

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