

Unisem (M) Berhad

(5005 | UNI MK) Technology | Semiconductors

Single-Digit Profit Margin

KEY INVESTMENT HIGHLIGHTS

- We are downgrading our recommendation to **SELL** with a slight revision on target price to **RM3.43** post the 2QFY24 results
- Sequential improvement seen in 2QFY24 but was unable to lift 1HFY24 earnings higher as compared to 1HFY23
- Ipoh operation to remain a drag to the group in the near-term, leading to thin profit margin
- Weak 1HFY24 results does not correspond to the strong rally in share price seen on a year-to-date basis

Weak recovery. We are downgrading our recommendation for Unisem to **SELL** from NEUTRAL previously with a slight revision in **target price to RM3.43**. This is in conjunction with the release of 2QFY24 financial results. While we observed there has been an earnings recovery on a sequential basis from 1QFY24 to 2QFY24, we view that the pace of recovery was tepid. It was also insufficient to lift 1HFY24 earnings as compared to 1HFY23. We view that the main reason for the disappointment was the low production activities at Ipoh which stood at 50% as at 2QFY24. This was considering the depressed consumer sentiment which affects the communication, PC and industrial segments.

The low utilisation rate for Ipoh also led to diminishing profit margin. On the flip side, though Chengdu operation showed good performance, we view that it was insufficient to make up for the weak performance of Ipoh operation. Meanwhile, we observed that the share price has risen by +20.9% on a year-to-date basis. Benchmark to the 1HFY24 financial results, we are of the view that the valuation of more than 30x at this juncture is rather stretched.

Profit contraction on a year-over-year basis. 2QFY24 normalised earnings shrank by -29.0%yoy to RM14.2m. This was despite a +4.2%yoy increase in revenue to RM394.6m. The diminution was primarily due to the low utilisation rate as well as higher operating costs, especially for utilities and wages. Note that for the latter, the headcount has expanded to 6,359 from 5,746 a year ago which represents an increase of +10.7%yoy. As a result, the profit margin dwindled to 3.6% from 5.3% a year ago.

Decline in 1HFY24 performance. The above led to weaker 1HFY24 normalised earnings of RM26.7m (-15.6%yoy). This came in below ours and consensus expectation, making up only 19.7% and 18.4% of full year earnings estimates respectively.

Meanwhile, 1HFY24 revenue was up marginally by +3.6%yoy to RM 759.4m in view of higher sales volume from the automotive and communication market segments. Demand from the industrial market segment was rather stagnant, while lower demand was seen for PC and consumer market segments.

Downgrade to SELL

(Previously NEUTRAL)

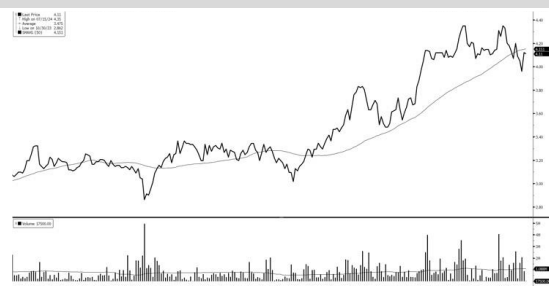
Revised Target Price RM3.43

(Previously RM3.41)

RETURN STATISTICS

Price @ 26 th April 2024 (RM)	3.99
Expected share price return (%)	-14.0
Expected dividend yield (%)	+2.0
Expected total return (%)	-12.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.2	-3.5
3 months	-1.2	9.0
12 months	29.7	9.6

INVESTMENT STATISTICS (RM'm)

FYE June	2024E*	2025F	2026F
Revenue	1613.8	1759.0	1872.4
Operating Profit	125.8	211.0	269.2
Profit Before Tax	129.0	212.5	271.1
Core PATAMI	112.2	184.9	235.9
Core EPS (Sen)	7.0	11.5	14.6
DPS (Sen)	8.0	8.0	8.0
Dividend Yield (%)	2.0	2.0	2.0

KEY STATISTICS

FBM KLCI	1,611.94
Issue shares (m)	1,613.08
Estimated free float (%)	26.75
Market Capitalisation (RM'm)	6,436.2
52-wk price range	RM2.88-RM4.44
3-mth average daily volume (m)	1.10
3-mth average daily value (RM'm)	4.56
Top Shareholders (%)	
Huatian Technology Sdn Bhd	42.73
Javvest Holdings Sdn Bhd	10.79
Chia Sin Tet	8.76

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Tune down earnings estimates. After taking into consideration Unisem's 1HFY24 financial performance, we are inputting a more conservative pace of recovery for FY24 to FY26. As such, we lower FY24 to FY26 earnings by between -13.7% and -17.1%.

Adjustment in target price. Despite more subdued earnings projections in the foreseeable term, our **target price** has been revised marginally higher to **RM3.43** from RM3.41 previously. This is premised on pegging higher target PER of 29.9x (previously 25x) which is +1 SD above the 5-year average to FY25 eps of 11.5sen. The higher valuation gives credit to the group's prevailing capacity to take in more business following the completion of Gopeng Phase 1 and Chengdu Phase 3 as well as the new purchase of land adjacent to the Gopeng Plant. We view that having these capacities will put the group in a better position as compared to its peers, especially given the current geopolitical landscape. This readiness is also supported by the higher pool of headcount.



UNISEM (M) BHD: 2QFY24 RESULTS SUMMARY

Financial year Ending 31st December (All in RM'm unless stated otherwise)	Quarterly Results			Cumulative		
	2QFY24	% YoY	% QoQ	1HFY24	1HFY23	% YoY
Revenue	394.6	4.2	8.2	759.4	732.7	3.6
EBITDA	70.5	-12.3	13.6	132.5	145.4	-8.9
Depreciation and amortisation	-53.1	-0.4	0.1	-106.1	-105.8	0.3
EBIT	17.4	-35.6	93.6	26.4	39.6	-33.4
Finance costs	-0.4	-82.2	-47.7	-1.3	-5.0	-74.4
Interest income	4.1	10.3	12.9	7.7	7.1	8.6
PBT	21.0	-25.5	79.0	32.8	41.7	-21.3
Taxation	-4.3	1.6	30.4	-7.6	-7.7	-2.0
Profit / (Loss) from discontinued operation	0.0	n.m	n.m	0.0	-0.1	n.m
PATAMI	16.8	-30.0	98.0	25.2	33.8	-25.4
Normalised PATAMI	14.2	-29.0	14.1	26.7	31.7	-15.6
EPS (sen)	0.9	-29.0	14.1	1.7	2.0	-15.6
EBITDA margin (%)	17.9	-3.4	0.9	17.5	19.8	-2.4
EBIT margin (%)	4.4	-2.7	1.9	3.5	5.4	-1.9
Normalised PATAMI margin (%)	3.6	-1.7	0.2	3.5	4.3	-0.8
Effective tax rate (%)	20.4	5.4	-7.6	23.1	18.6	4.5

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	366.5	458.2	522.1
EBIT	274.7	93.8	125.8	211.0	269.2
PBT	279.7	100.4	129.0	212.5	271.1
Normalised PATAMI	389.3	78.8	112.2	184.9	235.9
Normalised EPS (sen)	24.1	4.9	7.0	11.5	14.6
Normalised EPS Growth (%)	0.9	-0.8	0.4	0.6	0.3
PER (x)	10.1	50.0	35.1	21.3	16.7
Dividend Per Share (sen)	6.0	8.0	8.0	8.0	8.0
Dividend yield (%)	1.5	2.0	2.0	2.0	2.0

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	383.7	369.0	414.9
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	861.1	889.2	968.6
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	1331.6	1387.5	1494.3
Equity	2416.4	2385.2	2368.3	2424.1	2531.0

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
Profit before tax	279.7	100.4	129.0	212.5	271.1
Depreciation & amortisation	204.9	211.7	240.8	247.2	252.9
Others	2.2	-9.8	-3.2	-1.5	-1.9
Operating profit before working capital changes	486.9	302.3	366.5	458.2	522.1
Changes in working capital	359.5	280.8	-21.2	-17.7	-13.8
Cash generated from operation	359.5	280.8	345.3	440.5	508.3
Income tax	-15.1	7.2	-16.8	-27.6	-35.2
Others	60.0	76.0	0.0	0.0	0.0
Net cash generated from operating activities	404.5	364.0	328.5	412.9	473.1
Capital expenditure	-595.2	-352.1	-300.0	-300.0	-300.0
Others	155.6	16.8	13.4	11.6	12.1
Investing cash flow	-439.5	-335.3	-286.6	-288.4	-287.9
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	-97.3	-14.7	46.0
Beginning cash flow	656.0	556.0	481.0	383.7	369.0
Ending cash flow	556.0	481.0	383.7	369.0	414.9

Profitability Margins (%)	2022A	2023A	2024E	2025F	2026F
EBITDA margin	26.9	21.2	22.7	26.0	27.9
PBT margin	15.7	7.0	8.0	12.1	14.5
PAT margin	13.7	5.7	7.0	10.5	12.6
Core PAT margin	21.8	5.5	7.0	10.5	12.6

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