

Unisem (M)

Priced-in Uncertainty

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2Q19 CNP of RM14.2m (-53.7% YoY; +143.2% QoQ) brought 1H19 CNP to only RM20.1m (-45.3%), which is markedly below consensus at 22% and our forecast at 20%. An interim dividend of 2.0 sen was recommended, also below expectations. Trim FY19-20E CNP by 28-27% to RM70.9-93.2m and dividend from 9.0-11.0 sen to 6.0-7.5 sen. Upgrade to MARKET PERFORM with a lower TP of RM2.05.

A substantial miss. Unisem registered 2Q19 core net profit (CNP) of RM14.2m (-53.7% YoY, +143.2% QoQ), bringing 1H19 CNP to only RM20.1m (-45.3% YoY), which is markedly below consensus at 22% and our forecast at 20%. The disappointment came as Chinese customers turned to local suppliers post-Huawei ban in May 2019, leading to weaker sales in the communications segment. The automotive industry also remained sluggish, particularly in China, as buyers held back purchases ahead of the imposition of VI emission standards in July. An interim dividend of 2.0 sen was recommended during the quarter, below our expectations of 3.0 sen for the quarter and 9.0 sen for the fiscal year.

YoY, 1H19 CNP tumbled 45.3% on a revenue decline of 7.5% (USD terms: -11.6%), again, caused by weakness in the automotive and communications segments. This was exacerbated by a higher effective tax rate of 28.0% (vs. 14.2% in 2Q18) due to non-deductible losses of a subsidiary company. However, **QoQ**, 2Q19 CNP recovered 143.2% on a revenue improvement of 2.9% (USD terms: +1.6%), driven by higher demand for radio frequency (RF)/communications components that go into Chinese mobile phones as well as 5G network infrastructure. In addition, the quarter recorded foreign exchange gains of RM3.5m vs. foreign exchange losses of RM2.4m in 1Q19 on the back of favourable exchange rate (USD/MYR: +1.3%).

Uncertainty extends into 2H19. Management guided flat 3Q19 and 2H19 revenue sequentially, as the closure of Batam facility (<10% revenue contribution) offset a production ramp-up of micro electromechanical systems (MEMS) microphones. Notwithstanding a potentially flattish top-line, we remain sanguine that Unisem's earnings will recover appreciably in 2H19, backed by the discontinuation of loss-making Batam facility and the expansion of the group's wafer bumping capacity in its Ipoh and Chengdu facilities. The group is in the midst of finalising qualifications to set up a 12-inch wafer bumping facility, with production expected to commence in 4Q19.

Trim FY19-20E CNP by 28-27% to RM70.9-93.2m after cutting revenue forecasts by 8-13% to account for the closure of Batam facility and slow resumption of demand for communications products as trade disputes intensify. We have also lowered our FY19-20E dividend forecasts from 9.0-11.0 sen to 6.0-7.5 sen.

Upgrade to MARKET PERFORM with a lower TP of RM2.05 (from RM2.15) based on unchanged Fwd. PER of 16.0x applied to FY20E EPS of 12.8 sen (rolled forward from FY19E). The Fwd. PER is in line with Unisem's mid-cycle PER. Despite the uncertain environment, we believe most negatives have been priced in with a 35% share price correction YTD.

Risks to our call include: (i) weaker/stronger-than-expected USD/MYR, (ii) slower/faster-than-expected adoption of 5G, and (iii) an escalation/resolution of the trade war.

MARKET PERFORM ↑

Price : **RM2.14**
Target Price : **RM2.05** ↓

Share Price Performance



KLCI 1,611.79
YTD KLCI chg -4.7%
YTD stock price chg -34.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UNI MK Equity
Market Cap (RM m)	1,556.0
Shares Outstanding	727.1
52-week range (H)	3.30
52-week range (L)	2.14
3-mth avg daily vol:	173,903
Free Float	21%
Beta	0.7

Major Shareholders

Huatian Technology Sdn Bhd	58.9%
Jayvest Holdings Sdn Bhd	12.1%
Sin Tet Chia	8.1%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	1,351	1,259	1,294
EBITDA	278.9	251.3	264.2
PBT	111.1	79.4	104.4
Net Profit (NP)	95.8	70.9	93.2
Core NP	95.2	70.9	93.2
Consensus (NP)	-	90.3	110.1
Earnings Revision (%)	-	-28.1%	-27.1%
EPS (sen)	13.1	9.7	12.8
EPS growth (%)	-39.6%	-26.0%	31.4%
DPS (sen)	7.5	6.0	7.5
BV/Share (RM)	1.96	2.00	2.05
PER	16.3	22.0	16.8
Price/BVPS (x)	1.1	1.1	1.0
Net Gearing (x)	(0.2)	(0.3)	(0.3)
Dividend Yield (%)	3.5	2.8	3.5



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Results Highlight								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	311.9	303.1	2.9%	343.2	-9.1%	615.1	664.7	-7.5%
EBIT	20.4	8.2	147.6%	36.9	-44.9%	28.6	45.3	-36.9%
Adjusted EBIT	20.1	8.0	151.4%	36.6	-44.9%	28.2	44.9	-37.2%
PBT/(LBT)	19.2	7.1	170.7%	36.2	-46.9%	26.3	43.9	-40.0%
Taxation	-5.4	-1.1	-408.1%	-5.1	-4.8%	-6.5	-6.5	1.2%
Net profit/(Net loss) after MI	14.5	6.1	138.4%	31.1	-53.6%	20.5	37.2	-44.9%
Core NP/(NL) after MI	14.2	5.9	143.2%	30.8	-53.7%	20.1	36.8	-45.3%
Core EPS (sen)	2.0	0.8	143.2%	4.2	-53.4%	2.8	5.0	-45.0%
DPS (sen)	2.0	0.0		2.5		2.0	2.5	
Adjusted EBIT margin	6.5%	2.6%		10.7%		4.6%	6.8%	
Pretax margin	6.2%	2.3%		10.6%		4.3%	6.6%	
Core NP margin	4.6%	1.9%		9.0%		3.3%	5.5%	
Effective tax rate	-28.0%	-14.9%		-14.2%		-24.5%	-14.9%	
<i>Source: Kenanga Research</i>								

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BERHAD	0.560	621.1	Y	12/2019	3.7%	10.5%	8.6%	20.8%	17.2	16.9	15.0	2.0	2.0	11.6%	2.0%	0.675	OP
KESM INDUSTRIES BERHAD	7.12	306.3	N	07/2019	-9.8%	15.1%	-70.7%	74.3%	7.8	26.6	15.3	0.9	0.9	3.2%	2.6%	8.70	OP
MALAYSIAN PACIFIC INDUSTRIES BHD	8.71	1,732.4	N	06/2019	8.1%	5.3%	16.0%	5.8%	10.1	8.7	8.3	1.5	1.4	13.6%	3.6%	12.10	OP
P.I.E. INDUSTRIAL BERHAD	1.23	472.4	Y	12/2019	5.5%	7.3%	-4.0%	11.9%	11.1	11.6	10.4	1.1	1.1	9.4%	4.1%	1.25	MP
SKP RESOURCES BHD	1.21	1,512.7	Y	03/2020	28.5%	15.2%	30.4%	13.3%	15.6	12.0	10.6	2.6	2.3	20.3%	4.3%	1.40	OP
UNISEM (M) BERHAD	2.14	1,556.0	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	16.3	22.0	16.8	1.1	1.1	4.9%	2.8%	2.05	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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