

26 February 2021

Unisem (M)

Smooth Sailing Ahead

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4QFY20 CNP of RM60.9m (vs. 4QFY19 NL of RM26.9m) brings FY20 CNP to RM142.8m (vs. FY19 NL of RM9.5m), which exceeded our/street's full-year estimates by 29%/9%. Moving into 1QFY21, the group expects earnings to sustain QoQ despite shorter working days due to the CNY holidays. Unisem is building a new plant in Chengdu that is slated to be completed by 1QFY22 as its current utilisation rate which is at c.80% is expected to trend higher due to strong chip packaging demand for: (i) RF, (ii) power packages for data centre, and (iii) MEMS microphone. Maintain **OUTPERFORM** with a higher TP of RM10.00.

Above expectations. Unisem recorded 4QFY20 CNP of RM60.9m (vs. 4QFY19 NL of RM26.9m), bringing FY20 CNP to RM142.8m (vs. FY19 NL of RM9.5m), which exceeded our and street's full-year estimates by 29% and 9%, respectively. The results came in above expectation owing to a surge in orders for both its Ipoh and Chengdu plants. More importantly, the closure of the loss-making Batam plant propelled net margins higher toward the mid-teens level.

YoY, 4QFY20 revenue increased 29% to RM366.4m (+31% in USD terms to US\$89.3m), as the group experienced higher loading volumes for its wafer level packaging service as well as stronger demand for its wafer bumping service. Cumulatively, the group recorded FY20 NP of RM142.8m (vs. RM9.5m NL) as well as better margins after closing down the loss-making Batam plant. **QoQ**, 4QFY20 NP jumped 20% to RM60.9m on a 2.4% increase in revenue to RM366.4m.

New capacity expansion. Despite shorter working days in 1QFY21 due to the Chinese New Year holiday, the group expects earnings to sustain QoQ thanks to robust chip packaging demand for radio frequency (RF), power packages, MEMS microphones, as well as automotive tyre pressure measurement system (TMPS). Current utilisation rates in Ipoh and Chengdu are running at c.80% and is expected to trend higher. Hence, Unisem is allocating RM25m to upgrade its Ipoh plant. Also, RM328m will be allocated for building a new plant (Phase 3) in Chengdu which will be ready by 1Q 2022. The extra capacity will allow Unisem to take on more orders from its largest customer which is aggressively looking to increase orders for multichip module (MCM) power amplifier (PA), particularly for the sub-6 RF segment.

We raised FY21E CNP by 44% to RM235.3m and introduced FY22E CNP of RM254.6m, representing growth of 64.8% and 8.5%, respectively.

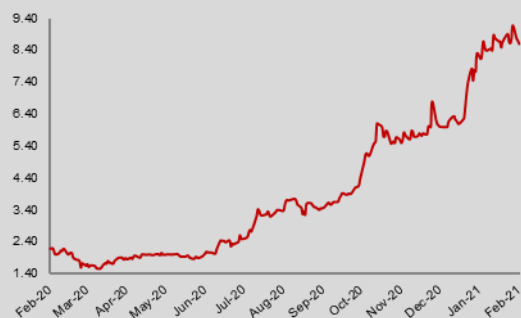
Maintain OUTPERFORM with a higher TP of RM10.00 (from RM5.15) based on higher FY21E PER of 31x (previously 23x) at +1.5SD to the group's 3-year mean.

Risks to our call include: (i) weaker-than-expected USD/MYR, (ii) slower-than-expected adoption of 5G, and (iii) worsening US-China trade war.

OUTPERFORM ↔

Price : **RM8.97**
Target Price : **RM10.00** ↑

Share Price Performance



KLCI 1,581.54
YTD KLCI chg -2.8%
YTD stock price chg 43.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker UNI MK Equity
Market Cap (RM m) 7,174.2
Shares Outstanding 799.8
52-week range (H) 9.27
52-week range (L) 1.53
3-mth avg daily vol: 613,569
Free Float 20.5%
Beta 1.0

Major Shareholders

Estate Of Soo Yut Kuan 53.6%
Jayvest Holdings Sdn Bhd 10.9%
Sin Tet Chia 7.8%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	1,289	1,528	1,635
EBITDA	338.1	436.9	466.8
PBT	164.0	267.1	296.4
Net Profit (NP)	142.8	235.3	254.6
Core NP	142.8	235.3	254.6
Consensus (NP)	n.a.	180.1	204.3
Earnings Revision	n.a.	44%	0%
EPS (sen)	19.6	32.4	35.9
EPS growth (%)	1596	64.8	8.5%
DPS (sen)	6.0	8.5	8.5
BV/Share (RM)	2.44	2.68	2.95
PER (x)	45.7	27.7	25.0
Price/BVPS (x)	3.7	3.4	3.0
Net Gearing (x)	(0.3)	(0.3)	(0.4)
Dividend Yield (%)	0.7	0.9	0.9

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Results Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	366.4	357.7	2.4%	285.0	28.6%	1289.3	1119.8	15.1%
EBIT	57.6	56.4	2.0%	25.2	128.7%	168.4	101.7	65.6%
Adjusted EBIT	57.6	56.4	2.0%	31.1	84.8%	159.4	101.7	56.8%
PBT/(LBT)	56.8	55.7	2.1%	23.7	140.1%	164.0	98.1	67.2%
Taxation	-2.9	-6.2	52.9%	-4.7	36.9%	-21.4	-19.1	-12.1%
Net profit/(Net loss) after MI	60.9	50.7	20.1%	-26.9	326.9%	142.8	-9.5	1596.4%
Core NP/(NL) after MI	60.9	50.7	20.1%	-26.9	326.9%	142.8	-9.5	1596.4%
Core EPS (sen)	8.4	7.0	20.1%	-26.9	131.2%	19.6	2.4	725.1%
DPS (sen)	2.0	2.0		2.0		6.0	4.0	
Adjusted EBIT margin	15.7%	15.8%		10.9%		12.4%	9.1%	
Pretax margin	15.5%	15.6%		8.3%		12.7%	8.8%	
Core NP margin	16.6%	14.2%		-9.4%		11.1%	-0.9%	
Effective tax rate	-5.2%	-11.2%		-19.7%		-13.1%	-19.5%	

Source: Kenanga Research

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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	3.99	4,644.4	Y	12/2019	44.3%	21.9%	102.4%	21.3%	79.9	39.5	32.5	9.6	8.3	21.0%	0.9%	4.20	OP
INARI AMERTRON BHD	3.64	12,068.9	Y	06/2020	37.4%	24.9%	80.1%	15.8%	67.6	38.1	32.9	8.9	8.5	23.3	2.5%	4.00	OP
JHM CONSOLIDATION BHD	2.44	1,360.5	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.35	MP
KELINGTON GROUP BHD	2.48	797.1	Y	12/2020	-8.2%	22.3%	-44.7%	130%	20.8	40.3	17.5	3.3	3.3	8.1%	0.6%	3.10	OP
KESM INDUSTRIES BERHAD	15.9	683.9	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	24.5	18.2	1.0	1.0	5.0%	1.1%	10.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	38	7,558.1	Y	06/2020	10.0%	10.0%	44.0%	11.1%	47.5	32.9	29.6	5.8	5.2	14.2%	0.8%	43.00	OP
P.I.E. INDUSTRIAL BERHAD	3.47	1,332.6	Y	12/2020	-6.0%	76.0%	-46.0%	185%	22.5	41.8	14.7	1.8	1.8	4.0%	1.4%	3.30	OP
SKP RESOURCES BHD	2.39	2,987.2	Y	03/2020	23.7%	2.4%	67.3%	32.2%	40.8	24.4	18.5	4.9	4.4	18.0%	2.7%	3.00	OP
UNISEM (M) BERHAD	8.97	7,174.2	Y	12/2020	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP

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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