

29 July 2022

UNISEM (M)

Solid Performance Despite Challenges

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2QFY22 CNP of RM70.4m (+28.8% YoY; +38.9% QoQ) brings 1HFY22 CNP to RM121.1m, which came in within our/street expectation at 50%/51% of estimate. The group saw a 3.2ppt increase in CNP margin QoQ on higher revised ASP across all existing and new products in its Ipoh plant coupled with the favourable impact from the stronger USD. UNISEM expects its order pipeline to remain solid in subsequent quarters and has hired an additional 200 operators to boost its Ipoh plant utilisation while its Chengdu's operation remains elevated. Maintain our **OUTPERFORM** call with a higher TP of RM3.85.

Within expectations. 2QFY22 CNP of RM70.4m (+28.8% YoY; +38.9% QoQ) brings 1HFY22 CNP to RM121.1m, which came in within our/street expectation at 50%/51% of estimate.

QoQ, 2QFY22 revenue increased 9.3% while CNP jumped 38.9% to RM70.4m on solid demand for its chip packaging services. CNP grew at a larger quantum owing to an upward revision in ASP (c.6%-11%) which came into effect in the reporting quarter for all customers in Ipoh, and is reflected in both existing and new products. Coupled with the stronger US dollar, the group recorded a 3.2ppt climb in its CNP margin to 15.2%. **YoY,** 2QFY22 CNP grew 28.8% on a 15.4% climb in revenue thanks to increased loading volume across all the packages. Its Chengdu plant remained the substantial revenue contributor (c.55%) as utilisation rate stays very elevated while the Ipoh plant saw gradual improvements as utilisation rate has climbed towards 70%. Cumulatively, 1HFY22 revenue rose 14.5% to RM888.5m while CNP grew at a quicker pace of 21% to RM121.1m on better margins.

Firm order pipeline. Despite the challenging environment, the group expects demand to remain stable moving into 3QFY22. The marginal slowdown in the communication segment will be offset by growing demand for its automotive packages which has been recording three consecutive quarters of growth. UNISEM has also recently hired an additional 200 operators to increase output in its Ipoh plant and also to pick up the significant backlogs in the automotive segment.

Hungry for more capacity. The group has completed the underground works for its Gopeng plant (doubling the land area of the existing Ipoh site) and is on track to be completed by April 2023. Over in China, its Phase 3 expansion in Chengdu (doubling floor space of Phase 1 and 2 combined) is more than 60% completed and will be ready for inspection by Oct 2022.

Maintain FY22F and FY23F CNP at RM241.4m and RM268.6m, representing 22% and 11% growth, respectively.

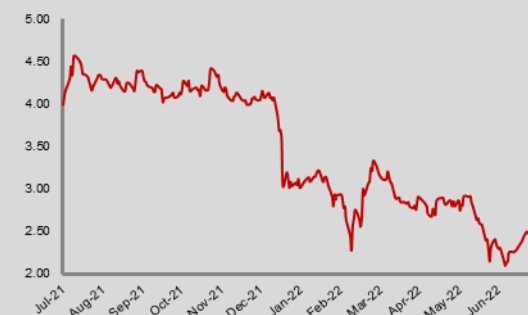
Maintain OUTPERFORM with higher Target Price of RM3.85 (previously RM3.75) on rolled-forward 23x FY23F PER (in line with peer forward mean). There is no adjustment to TP based on ESG (given a 3-star ESG rating as appraised by us).

Risks to our call include: (i) weaker-than-expected USD/MYR, (ii) slowdown in 5G adoption, and (iii) return of Covid-19 lockdowns.

OUTPERFORM ↔

Price : **RM2.76**
Target Price : **RM3.85** ↑

Share Price Performance



KLCI 1,486.25
YTD KLCI chg -5.2%
YTD stock price chg -32.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UNI MK Equity
Market Cap (RM m)	4,452.1
Shares Outstanding	1,613.1
52-week range (H)	4.36
52-week range (L)	3.38
3-mth avg daily vol:	825,087
Free Float	21.0%
Beta	0.3

Major Shareholders

Huatian Technology Sdn Bhd	48.0%
Jayvest Holdings Sdn Bhd	10.9%
Chia Sin Tet	10.4%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	1,569	1,789	1,967
EBITDA	418.5	469.2	529.3
PBT	222.6	271.6	302.2
Net Profit (NP)	197.8	241.4	268.6
Core NP	197.8	241.4	268.6
Consensus (NP)	n.a.	238.4	269.6
Earnings Revision	n.a.	0%	0%
EPS (sen)	12.3	15.0	16.7
EPS growth (%)	38.5	22.1	11.3
DPS (sen)	6.0	6.0	6.0
BV/Share (RM)	1.34	1.43	1.54
PER (x)	22.5	18.4	16.6
Price/BVPS (x)	2.1	1.9	1.8
Net Gearing (x)	(0.2)	(0.2)	(0.1)
Dividend Yield (%)	2.2	2.2	2.2

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Results Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	464.1	424.4	9.3%	402.2	15.4%	888.5	776.2	14.5%
EBIT	82.6	59.3	39.4%	63.1	31.0%	141.9	116.6	21.7%
Adjusted EBIT	82.6	59.3	39.4%	63.1	31.0%	141.9	116.6	21.7%
PBT/(LBT)	81.7	58.7	39.2%	62.5	30.8%	140.4	115.2	21.9%
Taxation	-11.3	-7.5	-50.3%	-7.7	-46.8%	-18.9	-14.7	-28.4%
Net profit/(Net loss) after MI	70.4	50.7	38.9%	54.6	28.8%	121.1	100.1	21.0%
Core NP/(NL) after MI	70.4	50.7	38.9%	54.6	28.8%	121.1	100.1	21.0%
Core EPS (sen)	4.4	3.1	38.9%	6.8	-35.8%	7.5	12.5	-40.1%
DPS (sen)	2.0	0.0		2.0		2.0	2.0	
Adjusted EBIT margin	17.8%	14.0%		15.7%		16.0%	15.0%	
Pretax margin	17.6%	13.8%		15.5%		15.8%	14.8%	
Core NP margin	15.2%	11.9%		13.6%		13.6%	12.9%	
Effective tax rate	-13.9%	-12.8%		-12.4%		-13.4%	-12.8%	

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.			
D&O GREEN TECHNOLOGIES BHD	4.04	4,998.1	Y	12/2022	28.0%	15.3%	34.0%	15.5%	41.4	30.9	26.8	6.0	5.1	17.1%	0.5%	4.50	OP
GHL SYSTEMS BHD	1.15	1,312.7	Y	12/2022	22.7%	7.0%	22.1%	13.9%	61.7	50.5	44.4	3.4	3.2	6.3%	0.0%	1.40	MP
INARI AMERTRON BHD	2.87	10,643.1	Y	06/2022	22.5%	7.0%	20.7%	7.1%	26.0	24.2	22.6	6.3	3.9	15.9%	3.7%	3.30	OP
JHM CONSOLIDATION BHD	1.24	691.4	Y	12/2022	10.7%	15.2%	38.6%	15.8%	25.9	18.7	16.1	2.8	2.4	12.6%	0.4%	1.40	MP
KELINGTON GROUP BHD	1.22	784.5	Y	12/2022	59.6%	1.7%	38.9%	1.8%	22.8	16.7	16.4	3.8	3.2	19.4%	1.5%	1.90	OP
KESM INDUSTRIES BHD	7.3	314.0	Y	07/2022	-0.2%	4.6%	-54.3%	294%	84.6	185.0	46.9	0.9	1.0	1.1%	0.7%	7.50	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	32.26	6,416.4	Y	06/2022	18.0%	6.0%	19.4%	5.5%	22.6	19.0	18.0	4.4	3.8	16.6%	1.1%	32.90	OP
P.I.E. INDUSTRIAL BHD	3.5	1,344.1	Y	12/2022	18.3%	11.9%	28.2%	11.7%	17.8	13.9	12.5	2.1	1.8	13.1%	2.5%	4.10	OP
SKP RESOURCES BHD	1.63	2,546.6	Y	03/2023	17.3%	7.7%	27.5%	6.3%	13.6	12.8	11.9	2.9	2.6	20.0%	3.9%	2.10	OP
UNISEM (M) BHD	2.76	4,452.1	Y	12/2022	14.0%	10.0%	22.1%	11.3%	22.5	18.4	16.6	2.1	1.9	10.4%	2.2%	3.85	OP

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Foreign Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	☆	
	Waste Disposal / Pollution Control	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	☆		
	Digital Transformation	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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