

29 April 2024

# Unisem (M)

## A Slow Start but Recovery Tone Set

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**UNISEM's 1QFY24 results met expectations. Its 1QFY24 revenue grew by 3% on billings to new customers but core net profit fell 14% on forex losses, salary adjustments and lumpy annual bonuses. It guided for sequential revenue growth of 10% to 12% driven largely by its Chengdu plant. We keep our forecasts but raise our TP by 25% to RM3.70 (from RM2.95). Maintain MARKET PERFORM.**

UNISEM's 1QFY24 core net profit of RM8.5m (-14.1% YoY) only accounted for 5% of both our full-year forecast and the full-year consensus estimate. However, we deem it within expectations as we expect stronger quarters ahead.

**YoY**, its 1QFY24 revenue inched 3% higher, driven by the commencement of projects with new customers during the quarter, involving products such as: (i) sub-6GHz radio frequency power amplifiers used in Korean smartphones, and (ii) high-powered RF transmission chips for a US customer. Additionally, robust utilisation in the Chengdu plant was supported by existing European (MEMS microphone related) and Chinese domestic customers (smartphone related), contributing to a healthy utilisation of c.75%. However, the loading volume in its Ipoh plant remained soft, with only c.50% utilisation rate for both test and assembly, and wafer bumping operations. However, its 1QFY24 core net profit declined 14%, weighed down by forex losses (RM4m due to USD loans), additional costs related to staff bonuses and a slight increase in headcount for its Chengdu plant.

**QoQ**, its 1QFY24 the top line grew by 4% (or +3.6% in USD terms), slightly above the group's flattish guidance, attributed to the commencement of new customers' products. However, its core net profit plunged by 70%, primarily due to: (i) a high base in 4Q due to the year-end peak period, (ii) a seasonally low 1Q owing to the Chinese New Year holidays, and (iii) wage adjustments and bonus payouts.

**Outlook.** The group guided for sequential revenue growth of 10% to 12%, mainly driven by its Chengdu plant as new and existing customers continue to ramp up at a gradual pace. The Phase 3 plant in Chengdu, twice the capacity of Phases 1 and 2 combined, has initiated equipment installation and qualification processes. The growth rate also assumes that utilisation in Ipoh remains soft and has bottomed out. Meanwhile, it is in the early stages of onboarding a new customer related to NAND flash for its Ipoh plant, expected to commence pilot run in 2HFY24, coinciding with the setup of new pilot lines for internal qualification in its new Gopeng plant by May 2024.

**Forecasts.** Maintained.

**Valuations.** We raise our TP by 25% to **RM3.70** (from RM2.95), having rolled forward our valuation base year to FY25F (from FY24F). Our valuation basis remains unchanged at 29x PER, in line with its peers' average. There is no adjustment to TP based on ESG given a 3-star ESG rating as appraised by us (see Page 4).

**Investment case.** We like UNISEM for: (i) its healthy presence in the power module business, (ii) being able to benefit from the China+1 initiative, and (iii) a strong balance sheet to support its expansion plans. However, its fundamentals have been fully priced in at the current share price. Maintain **MARKET PERFORM**.

## MARKET PERFORM ↔

Price : **RM3.65**  
Target Price : **RM3.70** ↑

### Share Price Performance



KLCI 1,575.2  
YTD KLCI chg 8.0%  
YTD stock price chg 9.1%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker UNI MK Equity  
Market Cap (RM m) 5,887.7  
Shares Outstanding 1,613.1  
52-week range (H) 3.92  
52-week range (L) 2.75  
3-mth avg daily vol: 813,377  
Free Float 26.7%  
Beta 0.8

### Major Shareholders

Huatian Technology Sdn Bhd 42.7%  
Jayvest Holdings Sdn Bhd 10.8%  
Chia Sin Tet 8.8%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,440	1,670	1,837
EBITDA	266.4	367.1	411.4
PBT	100.4	201.0	250.9
<b>Net Profit (NP)</b>	<b>81.9</b>	<b>164.0</b>	<b>204.8</b>
<b>Core NP</b>	<b>81.9</b>	<b>164.0</b>	<b>204.8</b>
Consensus (NP)	-	167.4	212.4
Earnings Revision	-	-	-
EPS (sen)	5.1	10.2	12.7
EPS Growth (%)	-66.3	100.1	24.9
DPS (sen)	8.0	6.0	6.0
BV/Share (RM)	1.48	1.52	1.59
PER (x)	71.8	35.9	28.8
Price/BVPS (x)	2.5	2.4	2.3
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Dividend Yield (%)	2.2	1.6	1.6

29 April 2024

**Risks to our call include:** (i) a weaker-than-expected recovery in global consumer electronics demand; (ii) intensifying US-Sino chip wars; and (iii) a steep depreciation of the USD against the MYR.

<b>Results Highlight</b>								
	<b>1Q</b>	<b>4Q</b>	<b>QoQ</b>	<b>1Q</b>	<b>YoY</b>	<b>3M</b>	<b>3M</b>	<b>YoY</b>
<b>FYE Dec (RM m)</b>	<b>FY24</b>	<b>FY23</b>	<b>Chg</b>	<b>FY23</b>	<b>Chg</b>	<b>FY24</b>	<b>FY23</b>	<b>Chg</b>
<b>Turnover</b>	<b>364.8</b>	<b>350.8</b>	<b>4.0%</b>	<b>354.0</b>	<b>3.0%</b>	<b>364.8</b>	<b>354.0</b>	<b>3.0%</b>
EBIT	12.6	36.3	-65.3%	16.0	-21.1%	12.6	16.0	-21.1%
<b>Adjusted EBIT</b>	<b>12.6</b>	<b>36.3</b>	<b>-65.3%</b>	<b>16.0</b>	<b>-21.1%</b>	<b>12.6</b>	<b>16.0</b>	<b>-21.1%</b>
PBT/(LBT)	11.8	34.4	-65.8%	13.4	-12.4%	11.8	13.4	-12.4%
Taxation	-3.3	-5.4	38.5%	-3.5	6.4%	-3.3	-3.5	6.4%
Net profit/(Net loss) after MI	8.5	28.4	-70.2%	9.9	-14.1%	8.5	9.9	-14.1%
<b>Core NP/(NL) after MI</b>	<b>8.5</b>	<b>28.4</b>	<b>-70.2%</b>	<b>9.9</b>	<b>-14.1%</b>	<b>8.5</b>	<b>9.9</b>	<b>-14.1%</b>
Core EPS (sen)	0.5	1.8	-70.2%	0.6	-14.1%	0.5	0.6	-14.1%
DPS (sen)	2.0	2.0		2.0		2.0	2.0	
Adjusted EBIT margin	3.5%	10.3%		4.5%		3.5%	4.5%	
Pretax margin	3.2%	9.8%		3.8%		3.2%	3.8%	
Core NP margin	2.3%	8.1%		2.8%		2.3%	2.8%	
Effective tax rate	-28.0%	-15.5%		-26.2%		-28.0%	-26.2%	

Source: Kenanga Research

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29 April 2024

### Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	3.18	3.60	13.2%	3,937.8	Y	12/2024	8.5	12.0	133.7%	41.6%	37.6	26.5	4.0	10.8%	1.4	0.4%
GHL SYSTEMS BHD	OP	0.730	0.880	20.5%	833.3	Y	12/2024	2.4	2.8	-3.5%	15.8%	30.5	26.4	1.5	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.03	4.05	33.7%	11,387.8	Y	06/2024	9.9	12.1	14.0%	22.1%	30.7	25.1	4.3	14.1%	9.3	3.1%
JHM CONSOLIDATION BHD	MP	0.580	0.700	20.7%	351.5	Y	12/2024	4.7	5.2	94.5%	11.0%	12.4	11.2	1.0	8.5%	0.5	0.9%
KELINGTON GROUP BHD	OP	2.60	3.40	30.8%	1,729.8	Y	12/2024	16.1	19.4	1.0%	20.5%	16.1	13.4	4.1	27.7%	4.5	1.7%
KESM INDUSTRIES BHD	MP	6.27	7.06	12.6%	269.7	Y	07/2024	6.2	10.3	-46.2%	67.2%	101.4	60.6	0.8	0.7%	0.0	0.0%
LGMS BHD	OP	1.20	1.16	-3.3%	547.2	Y	12/2024	4.6	5.6	88.4%	21.8%	25.9	21.2	5.3	22.2%	0.9	0.8%
MSIAN PACIFIC INDUSTRIES BHD	MP	29.50	24.30	-17.6%	5,868.4	Y	06/2024	59.6	118.3	93.5%	98.3%	49.5	24.9	2.8	5.8%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.75	1.58	-9.7%	3,629.4	Y	12/2024	6.3	6.9	114.8%	9.6%	27.7	25.3	6.8	27.4%	1.0	0.6%
OPPSTAR HOLDINGS BHD	OP	1.25	1.72	37.6%	799.9	Y	03/2024	3.4	5.7	3.3%	66.7%	36.3	21.8	5.2	15.1%	0.9	0.7%
P.I.E. INDUSTRIAL BHD	OP	5.73	6.75	17.8%	2,200.6	Y	12/2024	22.2	28.7	15.7%	29.3%	25.8	20.0	3.3	13.4%	7.0	1.2%
SKP RESOURCES BHD	MP	1.03	0.850	-17.5%	1,609.2	Y	03/2024	5.7	6.4	-38.4%	13.1%	18.1	16.1	1.9	10.3%	2.8	2.7%
UNISEM (M) BHD	MP	3.65	3.70	1.37%	5,887.7	Y	12/2024	10.2	12.7	100.1%	24.9%	35.9	28.8	2.4	6.8%	6.0	1.6%
Simple Average										31.4%	30.1%	30.8	23.7	3.3	12.9%		1.1%

Source: Bloomberg, Kenanga Research

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29 April 2024

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★	☆	
	Workers Safety & Wellbeing	★	★	★	☆	
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emission Management	★	★	★		
<b>SPECIFIC</b>	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★	☆	
	Effluent/Water Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Waste Management	★	★	☆		
	Technology & Innovation	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ 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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