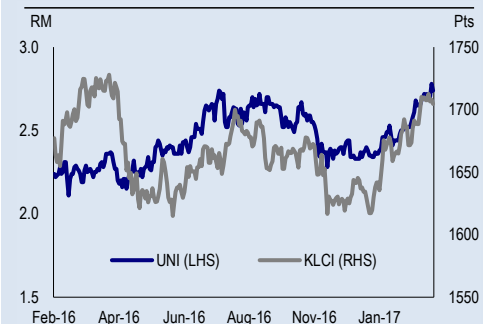


**Unisem (BUY ↑, EPS ↑)**
**INDUSTRY: NEUTRAL**
**EARNINGS EVALUATION / BRIEFING**
**24 February 2017**
**Price Target: RM3.00 (↑)**
**Share Price: RM2.74**
**FY16 Results In Line**

<b>Results</b>	<ul style="list-style-type: none"> <li>FY16 revenue of RM1.3bn was translated into a core net profit of RM148.0m. This is in line, accounting for 96-97% of HLIB and consensus FY estimates, respectively.</li> </ul>
<b>Deviations</b>	<ul style="list-style-type: none"> <li>None.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>Recommended a final tax-exempt dividend of 4.0 sen per share (4Q15: 4.0 sen) subject to shareholders' approval.</li> <li>FY16 dividend totaled 11 sen (FY15: 10 sen) per share.</li> </ul>
<b>Highlights</b>	<ul style="list-style-type: none"> <li><b>QoQ:</b> Sales grew 13% thanks to volume improvement coupled with stronger US\$. In US\$ term, it gained strongly by 6%, above previous guidance of flat sequential quarter. Core net profit expanded 39% with better economy of scale.</li> <li><b>YoY:</b> Top line was upped by 3% and 2% in US\$ term. However, bottom line was weaker by 23% due to sales mix which skewed towards lower margin products.</li> <li><b>FY16:</b> Revenue growth of 5% was mainly attributable to USD strength where it actually fell by 1% in US\$ term. However, bottom line was weaker by 7% due the same reason above.</li> <li>Experienced strong demand in flip-chip while increasing demands for bump and wICSP are coming from China.</li> <li>Utilization rate improved qoq with wICSP/bumping at high 80%, leadless at 65-70% and leaded at 60%.</li> <li>Healthy balance sheet with a net cash position of RM202.2m (28 sen per share) as end of 4Q16. Prudent CAPEX policy allows room for dividend which is projected with a yield of 4.2% for FY17.</li> <li>1Q17 revenue is guided to range US\$78-79m, implying a 3.4% yoy growth but to decline 6.2% qoq due to seasonality.</li> <li><b>FY17 guidance:</b> (1) Revenue growth of 3-5% in US\$ term; (2) Higher effective tax rate of 13-14%; (3) CAPEX to be 35-37% of EBITDA.</li> </ul>
<b>Catalysts</b>	<ul style="list-style-type: none"> <li>Improved consumer confident and spending.</li> <li>Technological advancement and creation of new electronics.</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>FOREX, weak consumer demand, labour wage hike and continuous drag by Batam's performance.</li> </ul>
<b>Forecasts</b>	<ul style="list-style-type: none"> <li>Tweak our assumptions based on latest operating data and guidance. In turn, FY17-18 EPS forecasts are raised by 2.4% and 0.8%, respectively.</li> </ul>
<b>Rating</b>	<b>BUY ↑, TP: RM3.00 ↑</b> <ul style="list-style-type: none"> <li>Besides being the major beneficiary of strong greenback, we like its (1) exposure to the automotive sector; (2) strategic presence in China's booming tech market; (3) healthy balance sheet; and (4) rewarding dividend yield.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>Upgrade to <b>BUY</b> from Trading Buy after raising our TP by 2.7% from RM2.92 to RM3.00, reflecting our earnings revision. Our fair value is pegged to 13x of FY17 EPS.</li> </ul>

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**(603) 2168 1082**

KLCI	1704.5
Expected share price return	9.5%
Expected dividend return	4.2%
Expected total return	13.7%

**Share price**

**Information**

Bloomberg Ticker	UNI MK
Bursa Code	5005
Issued Shares (m)	734
Market cap (RM m)	2,011
3-mth avg. volume ('000)	1,558
SC Shariah-compliant	Yes

<b>Price Performance</b>	1M	3M	12M
Absolute	10.5	15.6	22.3
Relative	8.3	10.6	20.4

**Major shareholders**

Jayvest Holdings SB	8.9%
Bandar Rasah	7.0%
John Chia	5.7%

**Summary Earnings Table**

FYE Dec (RMm)	2015A	2016A	2017F	2018F
Revenue	1,260	1,323	1,445	1,477
EBITDA	355	357	361	369
Pre-tax Profit	173	187	198	211
Reported PATAMI	156	162	169	180
Adjusted PATAMI	159	148	169	180
Rep. EPS sen	21.2	22.1	23.0	24.6
Adj. EPS sen	21.7	20.2	23.0	24.6
Net DPS sen	10.0	11.0	11.5	12.3
Net DY (%)	3.6	4.0	4.2	4.5
P/E (x)	12.9	12.4	11.9	11.1
P/BV (x)	1.5	1.4	1.3	1.3
EV/EBITDA (x)	5.6	5.1	4.7	4.3
Net D/Equity %	0.0	-0.1	-0.2	-0.3
ROA %	0.1	0.1	0.1	0.1
ROE %	0.1	0.1	0.1	0.1

HLIB

**Figure #1 Unisem's 4Q16 Results**

RMm	4Q15	3Q16	4Q16	QoQ (%)	YoY (%)	Comments
Revenue	352.0	322.0	362.1	12.5	2.9	Higher thanks to improved orders and stronger US\$. In US\$ term, revenue grew 5.5% qoq and 2.4% yoy. QoQ: Filtered down from revenue. YoY: Lower as sales mix skewed towards lower margin products.
EBITDA	114.8	86.4	105.3	21.9	-8.3	
EBITDA Margin %	32.6%	26.8%	29.1%			
EBIT	65.9	44.6	63.4	42.1	-3.8	Filtered down from EBITDA.
PBT	65.0	44.1	62.8	42.4	-3.3	
Reported PAT	61.1	38.8	51.5	32.7	-15.7	Filtered down from PBT.
PATAMI	60.4	38.6	51.3	32.9	-15.0	
Normalized PATAMI	60.5	33.4	46.5	39.2	-23.1	After one-off adjustments.
Reported EPS (sen)	8.2	5.3	7.0	32.9	-15.0	
Adjusted EPS (sen)	8.2	4.6	6.3	39.2	-23.1	After one-off adjustments.

Company Data

**Figure #2 Unisem's FY16 Results**

RMm	FY15	FY16	YoY (%)	Comments
Revenue	1,260.4	1,322.8	4.9	Higher due to stronger US\$. In US\$ term, it actually fell by 1.4%.
EBITDA	355.8	360.0	1.2	Filtered down from sales.
EBITDA Margin %	28.2%	27.2%		
EBIT	179.4	190.3	6.1	Filtered down from EBITDA.
PBT	173.1	187.2	8.1	
Reported PAT	157.2	163.3	3.9	Filtered down from PBT.
PATAMI	155.5	162.3	4.3	
Normalized PATAMI	159.0	148.0	-6.9	After one-off adjustments.
Reported EPS (sen)	21.2	22.1	4.3	
Adjusted EPS (sen)	21.7	20.2	-6.9	After one-off adjustments.

Company Data

**Figure #3 FY16 Results vs FY16 HLIB, Consensus**

RMm	Actual FY16	HLIB Est FY16	Actual vs HLIB (%)	Consensus FY16	Actual vs Consensus (%)	Comments
Revenue	1,322.8	1,287.7	102.7	1,295.9	102.1	In line.
EBITDA	360.0	347.7	103.5	343.4	104.8	
EBITDA Margin %	27.2%	27.0%		26.5%		
EBIT	190.3	177.8	107.0	175.6	108.4	
PBT	187.2	177.6	105.4	170.2	110.0	
Reported PAT	163.3	156.3	104.5	152.4	107.2	
PATAMI	162.3	154.7	104.9	152.4	106.5	
Normalized PATAMI	148.0	154.7	95.6	152.4	97.1	In line.
Reported EPS (sen)	22.1	21.1	104.9	20.8	106.3	
Adjusted EPS (sen)	20.2	21.1	95.7	20.8	96.9	In line.

Company Data, HLIB, Bloomberg

**Figure #4 Quarterly Revenue Breakdown and Comparison by Products and Services**

Revenue Breakdown (%)	4Q15	1Q16	2Q16	3Q16	4Q16
Leaded	17.0	19.0	20.0	20.0	20.0
Leadless	33.0	33.0	34.0	32.0	32.0
WL packaging / bumping	33.0	31.0	29.0	31.0	31.0
Test	17.0	17.0	17.0	17.0	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Company Data, HLIB

**Figure #5 Quarterly Revenue Breakdown and Comparison by Market Segment**

Revenue Breakdown (%)	4Q15	1Q16	2Q16	3Q16	4Q16
Communication	33.0	31.0	31.0	29.0	28.0
Consumer Electronics	24.0	24.0	23.0	25.0	26.0
PC	16.0	16.0	16.0	16.0	16.0
Industrial	12.0	12.0	13.0	13.0	13.0
Auto	15.0	17.0	17.0	17.0	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Company Data, HLIB

**Figure #6 HLIB Forecasts vs. Consensus**

RMm	FY17E			FY18F		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	168.8	161.9	+4.3	180.5	173.6	+4.0
EPS (sen)	23.0	22.1	+4.1	24.6	23.6	+4.2

Bloomberg, HLIB

**Figure #7 Regional Peers Comparison**

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x)		P/B (x)		Gross DY (%) 2017
				2017	2018	2017	2018	
<b>Malaysia</b>								
Inari Amertron	Jun	1.91	835.7	19.5	15.9	4.7	4.0	2.5
Globetronics Tech	Dec	4.40	278.8	20.8	12.6	4.1	3.8	4.6
Unisem	Dec	2.74	451.8	12.4	11.6	1.3	1.3	4.3
MPI	Jun	9.44	421.9	11.4	11.5	1.8	1.7	2.5
<b>Average</b>				<b>16.0</b>	<b>12.9</b>	<b>3.0</b>	<b>2.7</b>	<b>3.5</b>
<b>Foreign</b>								
Broadcom	Oct	214.16	85,886.5	15.2	14.1	3.7	3.1	1.9
Analog Devices	Oct	82.06	25,373.5	21.9	20.4	4.2	3.7	2.0
Skyworks Solutions	Sept	96.71	17,883.5	15.6	13.7	4.4	3.8	1.2
Texas Instruments	Dec	77.23	77,190.3	20.7	19.3	7.0	6.5	2.6
Qualcomm	Sept	57.1	84,339.0	12.3	11.8	2.7	2.3	3.8
Infineon Tech	Sept	17.5	20,974.1	22.1	19.0	3.5	3.2	1.4
Qorvo	Mar	67.55	8,541.9	15.0	11.7	1.8	1.6	0.0
Amkor	Dec	10.1	2,400.7	15.9	13.1	1.6	1.4	N/A
ChipMOS	Dec	16.07	712.7	0.4	0.5	0.1	0.3	N/A
ASE	Dec	38.3	9,925.5	12.8	11.8	1.8	1.7	4.9
Powertech	Dec	90.1	2,282.7	12.0	11.0	1.8	1.7	5.3
Siliconware	Dec	48.45	4,909.5	14.3	13.9	2.2	2.2	6.1
Chipbond	Dec	47.55	1,003.9	16.2	12.6	1.3	1.2	4.4
<b>Average</b>				<b>15.0</b>	<b>13.3</b>	<b>2.8</b>	<b>2.5</b>	<b>3.0</b>
<b>Overall average</b>				<b>15.2</b>	<b>13.2</b>	<b>2.8</b>	<b>2.6</b>	<b>3.2</b>

Bloomberg

## Unisem (M) Berhad (BUY, PT: RM3.00, CP: RM2.74)

### Income Statement

FYE 31 Dec (RMm)	2014A	2015A	2016A	2017F	2018F
Revenue	1,038.3	1,260.4	1,322.8	1,445.1	1,476.9
COGS	-782.3	-905.8	-966.0	-1,083.8	-1,107.6
<b>EBITDA</b>	<b>255.9</b>	<b>354.7</b>	<b>356.8</b>	<b>361.3</b>	<b>369.2</b>
D&A	-159.8	-176.4	-169.7	-164.4	-160.3
EBIT	96.1	178.2	187.1	196.9	208.9
Net Interest Income	-11.6	-5.1	0.1	0.7	2.3
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>84.5</b>	<b>173.1</b>	<b>187.2</b>	<b>197.6</b>	<b>211.2</b>
Tax	-16.8	-15.9	-23.8	-27.7	-29.6
Net Profit	67.8	157.2	163.3	169.9	181.7
Minority Interests	-0.7	1.7	1.1	1.1	1.2
<b>PATAMI</b>	<b>68.4</b>	<b>155.5</b>	<b>162.3</b>	<b>168.8</b>	<b>180.5</b>
<b>Adj PATAMI</b>	<b>63.7</b>	<b>159.0</b>	<b>148.0</b>	<b>168.8</b>	<b>180.5</b>
Basic Shares (m)	733.8	733.8	733.8	733.8	733.8
Rep. EPS (sen)	9.3	21.2	22.1	23.0	24.6
Adj. EPS (sen)	8.7	21.7	20.2	23.0	24.6
Adj. FD EPS (sen)	8.7	21.7	20.2	23.0	24.6

### Quarterly Financial Summary

FYE 31 Dec (RMm)	4Q15	1Q16	2Q16	3Q16	4Q16
Revenue	352.0	317.8	320.9	322.0	362.1
COGS	-237.2	-234.7	-235.7	-235.6	-256.9
<b>EBITDA</b>	<b>114.8</b>	<b>83.1</b>	<b>85.2</b>	<b>86.4</b>	<b>105.3</b>
D&A	-48.9	-43.7	-42.5	-41.8	-41.9
EBIT	65.9	39.5	42.8	44.6	63.4
Net Interest Income	-0.9	-1.1	-1.0	-0.5	-0.6
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>65.0</b>	<b>38.4</b>	<b>41.8</b>	<b>44.1</b>	<b>62.8</b>
Tax	-3.9	-3.2	-4.1	-5.3	-11.3
Net Profit	61.1	35.3	37.8	38.8	51.5
Minority Interests	0.7	0.6	0.1	0.2	0.2
<b>PATAMI</b>	<b>60.4</b>	<b>34.7</b>	<b>37.6</b>	<b>38.6</b>	<b>51.3</b>
<b>Adj PATAMI</b>	<b>60.5</b>	<b>34.0</b>	<b>34.1</b>	<b>33.4</b>	<b>46.5</b>
Basic Shares (m)	733.8	733.8	733.8	733.8	733.8
Rep. EPS (sen)	8.2	4.7	5.1	5.3	7.0
Adj. EPS (sen)	8.2	4.6	4.6	4.6	6.3
Adj. FD EPS (sen)	8.2	4.6	4.6	4.6	6.3

### Balance Sheet

FYE 31 Dec (RMm)	2014A	2015A	2016A	2017F	2018F
Cash	51	133	254	360	477
Receivables	162	203	219	239	245
Inventories	123	130	139	156	160
Investments	5	6	7	8	9
Fixed Assets	1,110	1,178	1,129	1,095	1,067
Intangibles	8	6	4	4	4
Other Assets	25	35	34	33	32
<b>Ttl Assets</b>	<b>1,484</b>	<b>1,691</b>	<b>1,786</b>	<b>1,896</b>	<b>1,993</b>
Payables	163	183	261	285	291
Short Term Debt	199	91	36	36	36
Long Term Debt	48	18	15	15	15
Other Liabilities	43	42	55	55	55
<b>Ttl Liab</b>	<b>452</b>	<b>335</b>	<b>367</b>	<b>391</b>	<b>398</b>
Shareholders' Funds	1,025	1,352	1,414	1,498	1,588
Minority Interests	7	4	5	6	8
Total S/H Equity	1,032	1,356	1,419	1,505	1,596
<b>Ttl Liab&amp;S/H Funds</b>	<b>1,484</b>	<b>1,691</b>	<b>1,786</b>	<b>1,896</b>	<b>1,993</b>

### Valuation Ratios

FYE 31 Dec (RMm)	2014A	2015A	2016A	2017F	2018F
PER (x)	29.4	12.9	12.4	11.9	11.1
Adj. PER (x)	31.6	12.6	13.6	11.9	11.1
FD PER (x)	31.6	12.6	13.6	11.9	11.1
Net DPS (sen)	6.0	10.0	11.0	11.5	12.3
Net DY (%)	2.2	3.6	4.0	4.2	4.5
Book/share (sen)	1.4	1.8	1.9	2.0	2.2
P/Book (x)	2.0	1.5	1.4	1.3	1.3
FCF/share (sen)	24.1	25.0	31.1	26.0	28.2
FCF yield (%)	8.8	9.1	11.4	9.5	10.3
Mkt Cap	2,011	2,011	2,011	2,011	2,011
Net Cash(Debt)	-195	23	202	309	425
EV	2,206	1,987	1,809	1,702	1,586
EV/EBITDA (x)	8.6	5.6	5.1	4.7	4.3
ROE (%)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.9	1.7	2.1	2.4	2.7
Quick Ratio (x)	0.6	1.3	1.6	1.9	2.2
Interest Cover (x)	8.3	28.5	60.3	63.4	67.3

### Cashflow Analysis

FYE 31 Dec (RMm)	2014A	2015A	2016A	2017F	2018F
EBIT	96	178	187	197	209
Tax Paid	-15	-23	-17	-28	-30
Working Capital Chgs	-18	-28	52	-13	-2
Other	160	201	129	165	163
<b>Operating CF</b>	<b>223</b>	<b>329</b>	<b>351</b>	<b>321</b>	<b>340</b>
<b>FCF</b>	<b>177</b>	<b>183</b>	<b>228</b>	<b>191</b>	<b>207</b>
CAPEX	-46	-145	-122	-130	-133
Asset Sales	0	0	0	0	0
Acquisitions	0	0	0	0	0
Other	13	7	5	0	0
<b>Investing CF</b>	<b>-33</b>	<b>-139</b>	<b>-117</b>	<b>-130</b>	<b>-133</b>
Dividends	-27	-71	-55	-84	-90
Debt Chgs	-178	-136	-58	0	0
Other	-6	89	-2	0	0
<b>Financing CF</b>	<b>-212</b>	<b>-119</b>	<b>-116</b>	<b>-84</b>	<b>-90</b>
<b>Net Cashflow</b>	<b>-22</b>	<b>71</b>	<b>117</b>	<b>107</b>	<b>116</b>

### Other Ratios

FYE 31 Dec (RMm)	2014A	2015A	2016A	2017F	2018F
Sales Growth (%)	4.8	21.4	4.9	9.2	2.2
EBITDA Growth (%)	185.4	38.6	0.6	1.2	2.2
EBIT Growth (%)	-226.2	85.4	5.0	5.2	6.1
PBT Growth (%)	-189.2	104.8	8.1	5.6	6.9
Net Profit Growth (%)	-164.9	127.3	4.3	4.0	6.9
EBITDA Margin (%)	24.6	28.1	27.0	25.0	25.0
EBIT Margin (%)	9.3	14.1	14.1	13.6	14.1
PBT Margin (%)	8.1	13.7	14.1	13.7	14.3
Net Profit Margin (%)	6.5	12.5	12.3	11.8	12.3
Net Debt/Equity (%)	18.9	NetCash	NetCash	NetCash	NetCash
CAPEX/Sales (%)	4.4	11.5	9.2	9.0	9.0

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(a) -

2. As of 24 February 2017, the analyst, Tan J Young who prepared this report, has interest in the following securities covered in this report:

(a) -

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.