

24 February 2017

Unisem (M)

Above Expectations

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FY16 CNP of RM160.5m came in above expectations thanks to higher-than-expected forex translation. However, total DPS of 11.0 sen was in line. Management is guiding for seasonally weaker top-line growth (in USD terms) but higher YoY growth. FY17 could be a better year given the potential volume ramp up for wICSP amidst the launching of new flagship smartphones in 2H17, to be augmented by stronger USD. All in, our TP has been raised to RM2.80 (from RM2.52) following higher sales assumption as well as stronger USD/MYR assumption. Maintain MARKET PERFORM.

Above expectations. The group recorded 4Q16 core net profit (NP) of RM50.9m (+32% QoQ, -17% YoY), bringing FY16 CNP to RM160.5m (+3%) which made up 107%/105% of our/consensus' full-year estimates. The positive deviation was due to the higher-than-expected forex translation. As expected, a final net DPS of 4.0 sen was declared under the quarter reviewed, bringing YTD net DPS to 11.0 sen (representing 50% pay-out).

YoY, FY16 revenue increased by 5% helped by favourable currency translations. Recall that FY16 USD/MYR exchange rate improved by 6% from avg. RM3.91/USD in FY15 to avg. RM4.14/USD. However, **on a fairer comparison which is in USD terms**, FY16 USD revenue, in fact, dropped marginally by 1% to USD319.0m (from USD323.4m) dragged mainly by the Communication segment. Note that in FY2016, Communication segment was particularly weak as its key customers were caught with high inventory level due to sluggish smartphone demand as well as overstocked issue. Back home with the MYR currency, while adjusted EBIT grew with a similar quantum of 5%, core NP recorded a narrower growth of 3% on higher effective tax rate of 12.7%.

Meanwhile on QoQ basis, 4Q16 revenue rebounded by 13% (or +6% in USD terms), a normalisation from a weaker 3Q16. However, the group's adjusted EBIT soared by 41%, which we believed was mainly driven by the net impact of stronger USD (with almost 100% of USD revenue after netting of the 40% USD raw material cost). Recall that 4Q16's USD/MYR exchange rate improved by 7% from avg. RM4.05/USD in 3Q16 to avg. RM4.32/USD in 4Q16.

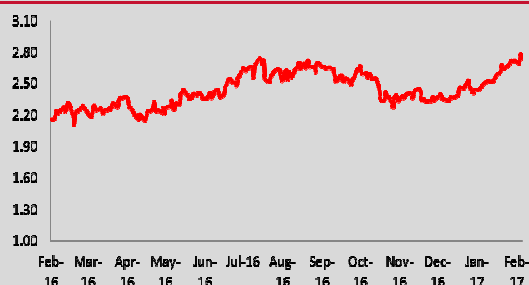
Outlook. Management is guiding for a weaker growth at top-line (in USD terms) given the seasonality effect. However, YoY growth is expected to be higher as management sees higher bumping and wICSP business demand from China for Chinese smartphones application. For FY17, management is targeting to hit a low to mid-single growth (in USD terms) which we believe is possible; to be supported by the potential volume ramp up for wICSP amidst the launching of new flagship smartphones in 2H17, alongside the resolution of the inventory overstock issue. On top of that, we also reckon that the prevailing strong USD could also augment its net exporter's earnings profile.

Maintain MARKET PERFORM. All in, our FY17E CNP has been raised by 11% to account for higher USD/MYR assumption of RM4.40/USD coupled with higher sales assumption from Communication segment and better operational efficiency. As a result, our TP is raised to RM2.80 (from RM2.52) with an unchanged PER of 12.0x (a valuation which is broadly in line with Malaysian OSAT players). **Maintain MARKET PERFORM. Risks to our call include:** (i) lower-than-expected sales and margins, and (ii) adverse currency exchange to the group.

MARKET PERFORM ↔

Price: RM2.74
Target Price: RM2.80 ↑

Share Price Performance



KLCI	1704.48
YTD KLCI chg	3.8%
YTD stock price chg	16.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UNI MK Equity
Market Cap (RM m)	2,010.7
Issued shares	733.8
52-week range (H)	2.78
52-week range (L)	2.04
3-mth avg daily vol:	1,557,967
Free Float	78%
Beta	0.8

Major Shareholders

Jayvest Holdings Sdn Bhd	8.9%
Bandar Rasah Sdn Bhd	7.0%
Sin Tet Chia	5.7%

Summary Earnings Table

FY Dec (RM m)	2015A	2016E	2017E
Turnover	1,260	1,323	1,429
EBITDA	358.8	360.0	377.9
PBT	173.1	187.2	197.3
Net Profit (NP)	155.5	162.3	171.1
Core NP	156.8	160.5	171.1
Consensus (NP)	-	157.0	162.0
Erngs Revision (%)	-	-	+11%
EPS (sen)	21.4	22.1	23.3
EPS growth (%)	112.3%	3.5%	5.5%
DPS (sen)	10.0	11.0	11.0
BV/Share (RM)	1.84	1.93	2.05
PER	12.8	12.4	11.7
Price/BVPS (x)	1.5	1.4	1.3
Net Gearing (x)	(0.0)	(0.1)	(0.3)
Dividend Yield (%)	3.6	4.0	4.0

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Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	362.1	322.0	12.5%	352.0	2.9%	1322.8	1260.4	4.9%
EBIT	63.4	44.6	42.1%	65.9	-3.8%	190.3	179.4	6.1%
Adjusted EBIT	62.9	44.6	41.0%	67.0	-6.0%	188.5	180.2	4.6%
PBT/(LBT)	62.8	44.1	42.4%	65.0	-3.3%	187.2	173.1	8.1%
Taxation	-11.3	-5.3	-112.9%	-3.9	-192.3%	-23.8	-15.9	-50.2%
Net profit/(Net loss) after MI	51.3	38.6	32.9%	60.4	-15.0%	162.3	155.5	4.3%
Core NP/(NL) after MI	50.9	38.6	31.6%	61.5	-17.3%	160.5	156.4	2.6%
Core EPS (sen)	6.9	5.3	31.6%	8.4	-17.3%	21.9	22.2	-1.3%
DPS (sen)	4.0	3.5		4.0		11.0	10.0	
Adjusted EBIT margin	17.4%	13.9%		19.0%		14.2%	14.3%	
Pretax margin	17.3%	13.7%		18.5%		14.1%	13.7%	
Core NP margin	14.0%	12.0%		17.5%		12.1%	12.4%	
Effective tax rate	-18.0%	-12.0%		-5.9%		-12.7%	-9.2%	

Source: Kenanga Research

Revenue breakdown by market segment

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Communication	101.4	93.4	8.6%	116.1	-12.7%	392.8	410.2	-4.2%
Consumer	94.2	80.5	17.0%	84.5	11.5%	324.7	308.3	5.3%
PC	57.9	51.5	12.5%	56.3	2.9%	211.6	195.9	8.0%
Industrial	47.1	41.9	12.5%	42.2	11.5%	168.8	148.0	14.1%
Auto	61.6	54.7	12.5%	52.8	16.6%	224.9	198.1	13.5%
Total	362.1	322.0	12.5%	352.0	2.9%	1322.8	1260.4	4.9%

Source: Company, 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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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