

24 February 2017 | 4Q16 Results Review

Unisem (M) Berhad

Higher dividend

INVESTMENT HIGHLIGHTS

- **FY16 earnings normalised earnings came in within our expectation**
- **Demand from the automotive and industrial segments remain robust**
- **Higher dividend declared in FY16, reflecting stronger cash position**
- **Maintain BUY with revised target price of RM3.13 per share**

EBITDA margin erosion. Unisem's 4Q16 normalised earnings was down by -21.0%yoy to RM46.8m. The decline in earnings was mainly attributable to lower EBITDA margin. Nonetheless, 4Q16 revenue increased by +2.9%yoy to RM362.1m, supported by better demand from the automotive and industrial segments.

Within expectation. Inclusive of 4Q16 financial performance, Unisem's FY16 normalised earnings came in lower (-9.6%yoy) at RM147.0m. This was mainly attributable to reduction in EBITDA margin and higher effective tax. All in, Unisem's FY16 normalised earnings came in within our and consensus expectations, accounting for 97.8% and 99.5% of full year FY16 earnings respectively

Capital expenditure (capex) intensified in 4Q16. The group's capital spending increased by +179.5%yoy to RM23.2m. This brings FY16 capex to RM129.5m. Nonetheless, this is slightly below (-2.1%yoy) FY15 capex of RM132.3m.

Dividend. The group declared interim dividend of 4sen per share in 4Q16, in-line with 4Q15 quantum. Year-to-date, the group has announced dividend amounting to 11sen per share. This is higher than FY15 dividend of 10sen per share. We view that higher dividend declared in FY16 is reflective of the group's stronger net cash reserve. Note that the group's cash level increase significantly to RM253.8m as at 4Q16 from RM133.0m a year ago.

Impact on earnings. We fine-tuned our FY17 earnings estimate slightly higher by +1.9% as we are assuming higher contribution from the industrial segments.


Maintain BUY

Revised Target Price (TP): RM3.13
(previously RM3.06)

RETURN STATS	
Price (23 rd February 2017)	RM2.74
Target Price	RM3.13
Expected Share Price Return	+14.2%
Expected Dividend Yield	+4.4%
Expected Total Return	+18.6%

STOCK INFO	
KLCI	1,704.48
Bursa / Bloomberg	5005 / UNI MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	733.8
Par Value (RM)	0.50
Market cap. (RM'm)	2,010.7
Price over NA	1.2x
52-wk price Range	RM2.04 – RM2.78
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	1.7m
3-mth Avg Daily Value	RM4.1m
Major Shareholders (%)	
Jayvest Holdings Sdn Bhd	8.88
Bandar Rasah	7.00
Sin Tet Chia	5.71

Target price. Following our earnings revision, we derive a new target price of **RM3.13** per share (previously RM3.06 per share). This is premised on FY17 EPS of 21.6sen against forward PER multiple of 14.5x.

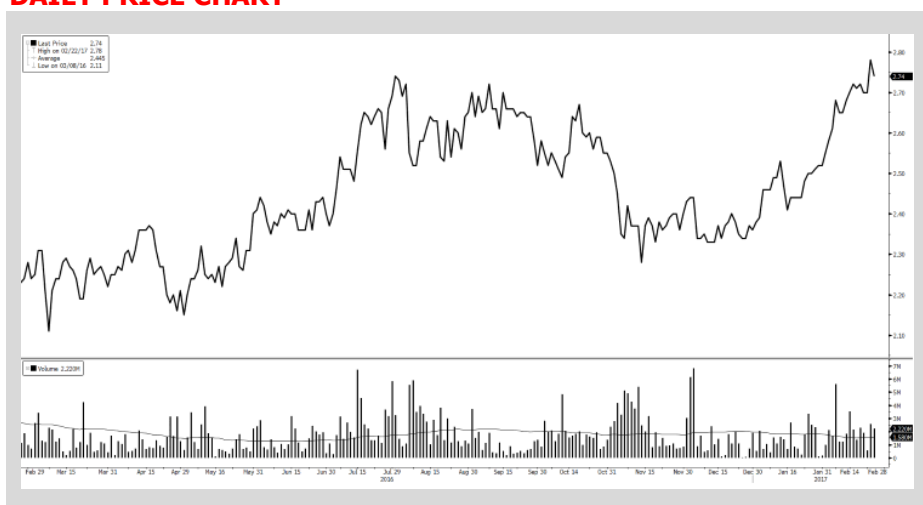
Maintain BUY. The group has shown positive earnings track record since 1Q14. The positive turnaround provides a clear indication that the revamped business model is able to yield sustainable and satisfactory results. The group is now more focus on achieving better product mix which will translates into higher profit margin. We expect that the positive momentum will continue to be seen throughout FY17, given the strong demand for its product especially from the automotive and industrial segments. On another note, due to the improvement in Unisem's net operating cashflow, we believe the group will be more generous in its dividend payment as seen in its latest dividend announcement. All in, we maintain our **BUY** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 31 Dec	2015	2016	2017F	2018F
Revenue (RM m)	1,260.4	1,322.8	1,389.1	1,430.7
EBITDA (RM m)	354.7	356.8	357.8	366.6
EBIT (RM m)	178.2	187.1	192.1	209.8
Pretax Profit (RM m)	173.1	187.2	191.6	209.8
Core Net Profit after MI (RM m)	162.6	147.0	158.2	175.2
EPS (sen)	22.0	20.0	21.6	23.9
EPS Growth (%)	118.2	-9.1	7.6	10.7
PER (x)	12.4	13.7	12.7	11.5
Net Dividend (sen)	10.0	11.0	12.0	13.0
Net Dividend Yield (%)	3.6	4.0	4.4	4.7

Source: Company, MIDFR

DAILY PRICE CHART



Martin Foo Chuan Loong
 martin.foo@midf.com.my
 +603 2173 8354

Unisem: 4Q16 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE Dec	4Q16	% YoY	% QoQ	2016	2015	%YoY
Revenue	362.1	2.9	12.5	1322.8	1260.4	4.9
EBITDA	104.1	-8.8	21.6	356.8	354.7	0.6
Depreciation and amortisation	-41.9	14.3	0.3	-169.7	-176.4	-3.8
EBIT	62.2	-4.7	41.9	187.1	178.2	5.0
Finance costs	-0.6	34.9	18.2	-3.1	-6.3	50.3
Interest income	1.2	111.7	51.9	3.2	1.1	177.2
PBT	62.8	-3.3	42.4	187.2	173.1	8.1
Taxation	-11.3	-192.3	112.9	-23.8	-15.9	50.2
MI	-0.2	-74.2	-1.1	-1.1	-1.7	-38.3
PATAMI	51.3	-15.0	32.9	162.3	155.5	4.3
Normalised PATAMI	46.8	-21.0	21.2	147.0	162.6	-9.6
EPS (sen)	6.4	-21.0	21.2	20.0	22.2	-9.6
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	28.7	-3.7	2.2	27.0	28.1	-1.2
EBIT margin (%)	17.2	-1.4	3.6	14.1	14.1	0.0
Normalised PATAMI margin (%)	12.9	-3.9	0.9	11.1	12.9	-1.8
Effective tax rate (%)	18.0	12.0	6.0	12.7	9.2	3.6

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.