



Unisem (M) Berhad

Market Conditions Improving

TP: RM3.15 (+15.0%)

Last Traded: RM2.74

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BUY

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Review

- Unisem reported a strong FY16 net profit of RM162.3mn (+32.9% QoQ, +8.0% YoY). Results exceeded ours and consensus expectations at 108.3% and 106.5%. A final interim dividend of 4.0sen (YTD: 11.0sen) was declared.
- **QoQ.** Results exceeded our forecasts. USD revenue came in much stronger than anticipated, growing 5.0% QoQ (vs. flattish guidance). This was supported by a pick up in November and December 2016 for flip chip 2G PA modules. Margins were also supported by the weaker ringgit at RM4.32 (+6.7% QoQ) in 4Q2016.
- **YoY.** Topline growth of 4.9% YoY was supported by a higher USD/MYR rate (+6.1% YoY). USD sales declined 1.4% YoY, with weakness stemming from the communications segment (-9.8% YoY). We understand that the inventory situation has recovered in the communication segment. EBITDA margins fell 0.7pp – due to shifts in product mix. There were higher contributions from wafer level packaging and bumping in the previous year.
- Its net cash position improved to RM202.2mn. The group remains in a favourable position to support higher dividends. Our forecasted DPS of 12.0sen, translates into a favourable yield of 4.4%.

Impact

- Imputing year end figures into our model, we tweak our FY17/FY18 figures by less than 1.0% to RM197.7mn/RM213.3mn.

Outlook

- Management is forecasting USD sales growth of 3.0-5.0% YoY in 2017. While exact details are scarce, we understand there are plans in the pipeline to introduce new packages. Demand for wafer level chip scale packages and bumping activities are also increasing in China. QoQ, USD sales are expected to decline 5.0% QoQ amid seasonally weaker trends. We expect revenue will be stronger in the second half, driven by major smartphone launches.

Valuation

- We raise our TP for Unisem to RM3.15/share (from RM2.85/share) – premised on a higher EV/EBITDA multiple of 5.0x and CY17 EBITDA. We raise our EV/EBITDA multiple on the back of improving underlying USD sales and continuance of the weak ringgit environment. Dividend yields are attractive at 4.4%. **BUY.**

Share Information

Bloomberg Code	UNI MK
Stock Code	5005
Listing	Main Market
Share Cap (mn)	733.8
Market Cap (RMmn)	2,010.7
Par Value	0.50
52-wk Hi/Lo (RM)	2.78/2.04
12-mth Avg Daily Vol ('000 shrs)	1,722.6
Estimated Free Float (%)	69.8
Beta	0.77
Major Shareholders (%)	
	John Chia - 26.4

Forecast Revision

	FY17	FY18
Forecast Revision (%)	(1.0)	(0.9)
Net profit (RMmn)	197.7	213.3
Consensus	161.9	173.6
TA's / Consensus (%)	122.1	122.9
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY17	FY18
Net gearing (x)	(0.2)	(0.3)
CFPS (sen)	38.9	53.7
P/CFPS (x)	7.0	5.1
ROAA (%)	11.0	11.4
ROAE (%)	13.5	13.5
NTA/Share (RM)	2.1	2.3
Price/NTA (x)	1.3	1.2

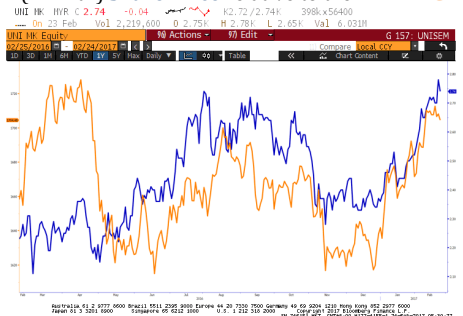
Scorecard

	% of FY	
vs. TA	108.3	Above
vs. Consensus	106.5	Above

Share Performance (%)

Price Change	UNI	FBM KLCI
1 mth	9.6	1.4
3 mth	14.6	4.9
6 mth	5.0	1.3
12 mth	23.4	2.4

(12-Mth) Share Price relative to the FBM KLCI

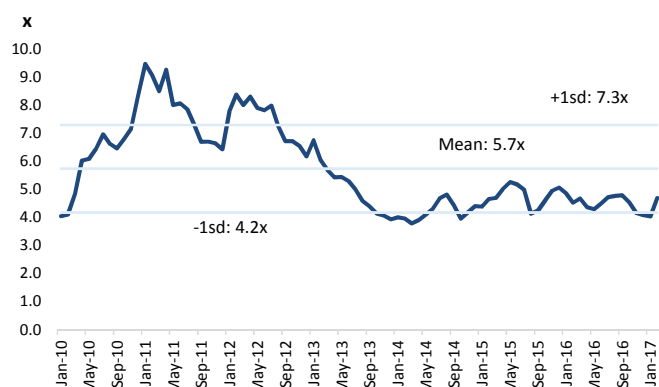


Source: Bloomberg

Table 1: Earnings Summary (RMmn)

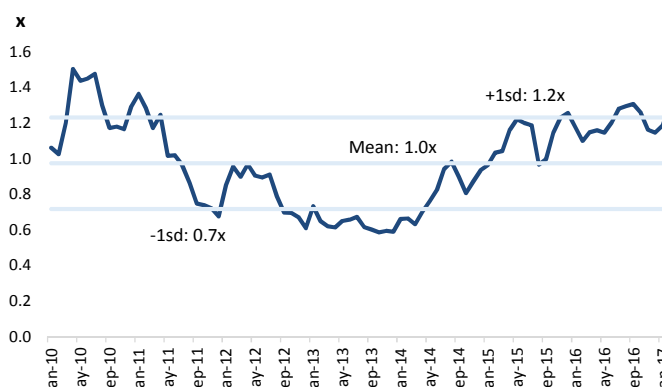
FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,260.4	1,322.8	1,403.1	1,450.0	1,489.6
EBITDA	349.3	356.9	403.6	426.4	445.6
EBITDA margin (%)	27.7	27.0	28.8	29.4	29.9
Depreciation and amortisation	(176.4)	(169.7)	(180.0)	(185.5)	(191.0)
EBIT	172.9	187.2	223.6	240.9	254.6
Net finance costs	(5.1)	(0.1)	(1.7)	(1.4)	(1.0)
JV/Associates	0.0	0.0	0.0	0.0	0.0
EI	5.3	0.0	0.0	0.0	0.0
PBT	173.1	187.2	221.9	239.4	253.5
Taxes	(15.9)	(23.8)	(22.2)	(23.9)	(25.4)
MI	(1.7)	(1.1)	(2.0)	(2.2)	(2.3)
Net profit	155.5	162.3	197.7	213.3	225.9
Core net profit	150.2	162.3	197.7	213.3	225.9
Core EPS (sen)	20.5	22.1	26.9	29.1	30.8
EPS Growth (%)	128.9	8.0	21.8	7.9	5.9
PER (x)	13.4	12.4	10.2	9.4	8.9
EV/EBITDA (x)	5.5	5.3	4.7	4.5	4.3
DPS (sen)	10.0	12.0	12.0	12.0	12.0
Div Yield (sen)	3.6	4.4	4.4	4.4	4.4

Figure 1 : Forward EV/EBITDA



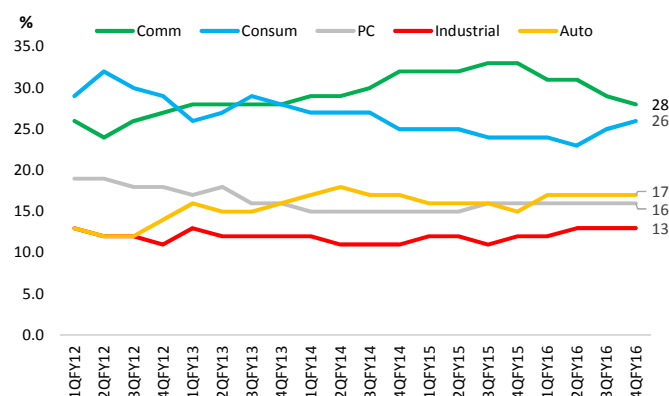
Source: Companies, TA Securities

Figure 2 : Forward PB



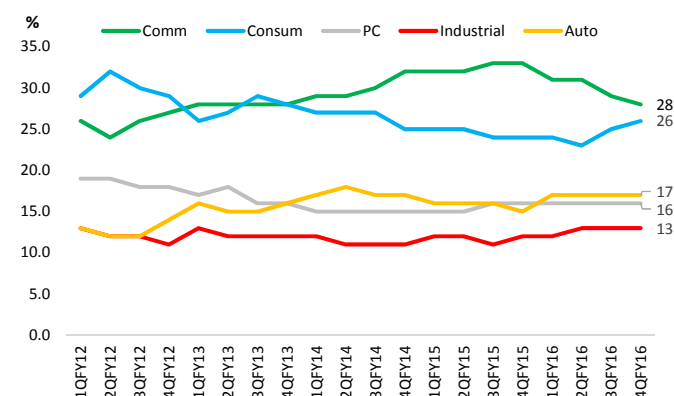
Source: Companies, TA Securities

Figure 3 : Product Mix



Source: Companies, TA Securities

Figure 4 : Segment Mix



Source: Companies, TA Securities

Table 2: FY16 Results Analysis (RMmn)

FYE Dec	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)
Revenue	352.0	322.0	362.1	12.5	2.9	1,260.4	1,322.8	4.9
Revenue (USD)	81.8	79.4	83.7	5.5	2.4	323.4	319.0	(1.4)
EBITDA	114.2	86.0	103.8	20.8	(9.1)	349.3	356.9	2.2
Depreciation & Amortisation	(48.9)	(41.8)	(41.9)	0.3	(14.4)	(176.4)	(169.7)	(3.8)
EBIT	65.3	44.2	62.0	40.2	(5.1)	172.9	187.2	8.3
Interest costs	(0.4)	(0.1)	0.8	(840.5)	(334.2)	(5.1)	(0.1)	(98.8)
EI	0.0	0.0	0.0	n/a	n/a	5.3	0.0	n/a
PBT	65.0	44.1	62.8	42.4	(3.3)	173.1	187.2	8.1
Tax	(3.9)	(5.3)	(11.3)	112.9	192.3	(15.9)	(23.8)	50.2
MI	(0.7)	(0.2)	(0.2)	(1.1)	(74.2)	(1.7)	(1.1)	(38.3)
Net profit	60.4	38.6	51.3	32.9	(15.0)	155.5	162.3	4.3
Core net profit	60.4	38.6	51.3	32.9	(15.0)	150.2	162.3	8.0
Capex	8.3	29.8	23.2	(22.1)	179.5	132.3	129.5	(2.1)
Core EPS (sen)	8.2	5.3	7.0	33.1	(14.9)	21.0	22.1	5.5
DPS (sen)	4.0	3.5	4.0	14.3	0.0	10.0	11.0	10.0
Profitability ratio				p.p.	p.p.			p.p.
EBITDA margin (%)	32.4	26.7	28.7	2.0	(3.8)	27.7	27.0	(0.7)
PBT margin (%)	18.5	13.7	17.3	3.6	(1.1)	13.7	14.1	0.4
Net profit margin (%)	17.2	12.0	14.2	2.2	(3.0)	11.9	12.3	0.4
Tax rate (%)	5.9	12.0	18.0	6.0	12.0	9.2	12.7	3.6
Product mix (%)								
Leaded	17	20	20	0	3			
Leadless	33	32	32	0	(1)			
WL pkg/MEMs bumping	33	31	31	0	(2)			
Test	17	17	17	0	0			
Comm	33	29	28	(1)	(5)			
Consum	24	25	26	1	2			
PC	16	16	16	0	0			
Industrial	12	13	13	0	1			
Auto	15	17	17	0	2			

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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