



Outthink. Outperform.

Take profit

Unisem's 1H17 results were broadly in line with expectations. Among other factors, the 2.5% appreciation of the RM in 2Q17 worked against Unisem, resulting in a 9% qoq decline in earnings. While Unisem's capex plans are ongoing, we think that revenue growth could be easily wiped out by further appreciation of the RM, evidenced in 2Q17. The recent run-up in stock price thus provides the opportunity to exit the stock. Downgrade to SELL.

1H17 core earnings up 27% yoy – broadly inline

Unisem's 1H17 revenue rose 14% yoy but core net profit rose a faster 27% yoy on revenue growth, margin improvement and lower interest expenses. 1H17 core profit of RM86m was broadly in line with expectations (53% and 47% of our and street 2017 estimates). Revenue growth however is still being underpinned by currency translation (revenue booked at an average RM/US\$ of 4.39 in 1H17 vs RM4.10/US\$ in 1H16). Sales in US\$ terms were up a milder 6% yoy.

2Q17 core earnings sequentially lower

Sequentially, 2Q17 core profit shrank 9% qoq, also representing the second consecutive quarter of decline. The weaker profit was due to margin compression (EBITDA margin down 1.4ppts qoq to 24.3%) as 2Q17 revenue grew 1.5% qoq. The softer margin was due to a combination of currency (2Q17 revenue booked at RM4.34/US\$ vs RM4.45/US\$ in 1Q17) and unfavourable product mix. For 2Q17, the proportion of lower-margin products rose 1ppt qoq to 21% of revenue while the high-margin test business slipped 1ppt to 16%.

Downgrade to Sell after recent run-up

Management has guided for sequential revenue growth of 5% in 3Q17 on the back of firmer demand across its new products. 1H17 capex of RM117m also suggests some improvement going into 2H17. We raise our 2017-19E EPF forecast by 11-20% and TP from RM3.11 to RM3.41 (now based on 14x 2018E EPS, from 14x 2017E EPS). While we have upgraded our earnings, we see limited scope for further earnings upside with downside risk emanating from a firmer appreciation of the RM against the US\$, which has been the real driver behind Unisem's profitability. Downgrade to SELL. Key risks include better-than-expected demand and further depreciation of the RM.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1260.4	1322.8	1470.1	1515.4	1539.8
EBITDA (RMm)	344.6	331.8	361.8	361.6	346.6
Pretax profit (RMm)	173.1	187.2	199.7	192.1	188.4
Net profit (RMm)	155.5	162.3	180.9	178.7	175.3
EPS (sen)	21.2	22.1	24.6	24.3	23.9
PER (x)	19.2	18.4	16.5	16.7	17.0
Core net profit (RMm)	161.0	148.4	180.3	178.7	175.3
Core EPS (sen)	21.9	20.2	24.6	24.3	23.9
Core EPS growth (%)	125.0	-7.8	21.5	-0.9	-1.9
Core PER (x)	18.6	20.1	16.6	16.7	17.0
Net DPS (sen)	10.0	11.0	14.8	14.6	14.3
Dividend Yield (%)	2.5	2.7	3.6	3.6	3.5
EV/EBITDA (x)	8.6	8.4	7.6	7.1	7.0
Chg in EPS (%)			+10.5	+20.6	+20.0
Affin/Consensus (x)			1.0	0.9	0.9

Source: Company, Affin Hwang estimates

Results Note

Unisem

UNI MK

Sector: Technology

RM4.07 @ 8 August 2017

SELL (downgrade)

Downside 19%

Price Target: RM3.41

Previous Target: RM3.11



Price Performance

	1M	3M	12M
Absolute	+12.1%	+16.3%	+61.5%
Rel to KLCI	+10.8%	+15.4%	+51.6%

Stock Data

Issued shares (m)	733.8
Mkt cap (RMm)/(US\$m)	2,986.7/697.0
Avg daily vol - 6mth (m)	1.80
52-wk range (RM)	2.27-4.25
Est free float	65.7%
BV per share (RM)	1.98
P/BV (x)	2.05
Net cash/ (debt) (RMm) (2Q17)	193.6
ROE (2017E)	12.5%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Jayvest Holdings Sdn	11.7%
Sin Tet Chia	7.1%
Woon Yen	5.2%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31Dec (RMm)	2Q17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comments
Revenue	365.7	1.5	14.0	726.0	13.7	1H17 revenue growth driven by higher sales in US\$ terms (+6.1% yoy) and also from impact of a weaker RM/US\$.
Op costs	(276.9)	3.5	13.7	(544.5)	12.8	
EBITDA	88.8	(4.2)	15.0	181.5	16.4	
<i>EBITDA margin (%)</i>	<i>24.3</i>	<i>-1.4ppt</i>	<i>+0.2ppt</i>	<i>25.0</i>	<i>+0.6ppt</i>	1H17 margin higher yoy due to low base in 1H16, which also coincided with a stronger RM/US\$
Depn and amort	(42.4)	0.6	(0.1)	(84.6)	(1.8)	Forex loss in 2Q17 negated by grant income and property disposal gains
EBIT	46.4	(8.2)	33.4	96.9	38.8	
Int expense	(0.6)	4.4	(39.4)	(1.2)	(43.2)	
Int and other inc	1.3	8.1	(71.7)	2.4	(70.5)	
EI	0.8	(392.7)	(76.3)	0.6	(86.9)	
Pretax profit	47.9	(5.8)	14.6	98.8	23.1	
Core pretax	47.1	(8.0)	23.0	98.2	29.3	
Tax	(5.4)	(1.7)	32.9	(10.9)	50.7	
<i>Tax rate (%)</i>	<i>11.2</i>	<i>4.3</i>	<i>16.0</i>	<i>11.0</i>	<i>22.4</i>	
MI	(0.4)	(11.2)	227.1	(0.9)	28.9	
Net profit	42.1	(6.3)	11.9	87.0	20.3	Broadly in line - accounts for 53% and 47% of our and street 2017 estimates
EPS (sen)	5.7	(6.3)	11.9	11.9	20.3	
Core net profit	41.2	(8.7)	21.1	86.4	27.0	

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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