

Malaysia

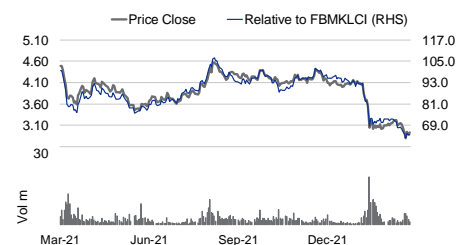
ADD (no change)

Consensus ratings*: Buy 8 Hold 2 Sell 0

Current price:	RM2.93
Target price:	RM4.00
Previoustarget:	RM5.00
Up/downside:	36.5%
CGS-CIMB / Consensus:	-12.4%
Reuters:	UNSM.KL
Bloomberg:	UNI MK
Market cap:	US\$1,125m
	RM4,726m
Average daily turnover:	US\$1.85m
	RM7.75m
Current shares o/s:	1,613m
Free float:	25.0%
*Source: Bloomberg	

Key changes in this note

- FY22F EPS decreased by 4%.
- FY23F EPS increased by 9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.9	-32.7	-34.7
Relative (%)	-9.4	-37.6	-35.3

Major shareholders	% held
TSHT	48.0
John Chia	27.0

Analyst(s)


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Unisem

In the midst of new investment cycle

- FY21 core net profit was in line with our expectation, at 96% of our and 98% of Bloomberg consensus full-year net profit forecast.
- Unisem is on a multi-year growth phase, driven by strategic portfolio expansion for RF, power management and sensor products.
- Reiterate Add with a lower RM4.00 TP, based on a lower 22x CY23F P/E.

US\$ sales in 4Q21 rose 16% qoq

US\$ revenue in 4Q21 grew 16% qoq to US\$102m, a record quarter for the group, driven by better-than-expected utilisation at Unisem Chengdu (UC). The group attributed the stronger sales to higher demand across most segments: communication (+43%), consumer (+3%), industrial (+16%) and PC (+27%). The strong sales performance was ahead of management's 10-12% qoq sales growth guidance. The group indicated that UC's utilisation hovered at close to 90%, while Unisem Ipoh was running at below 70% levels, partly due to prolonged wafer constraint from its customers and headcount shortage during the quarter. Nevertheless, the group still expects flattish qoq sales delivery in 1Q22F, which implies double-digit yoy sales growth against 1Q21. Overall, core net profit rose 41% qoq to RM57.3m in 4Q21. The group also declared a 2 sen interim DPS for the quarter, in line with our expectation.

FY21 core net profit jumped 48% yoy

FY21 US\$ revenue rose 21% yoy amid robust demand in all segments: communication (+11%), consumer (+29%), PC (+19%), industrial (+28%) and automotive (+20%). EBITDA margin also expanded by 1.2% pts yoy to 26% in FY21. Overall, Unisem delivered 48% yoy core net profit growth to RM199m in FY21.

In the midst of capacity expansion in Ipoh and Chengdu

Management highlighted that construction for UC, Phase 3 is under way and on track for completion by 4Q22F. Unisem plans to build a new plant (Phase 3) in Chengdu that would raise its total production floor space in China from 520k to 996k sq ft by end-2022F, in order to capture the growing demand for domestic semiconductor ecosystems in China. Apart from that, the group is also looking to construct a new plant in Gopeng, Perak. We gathered from management that the upcoming Gopeng plant could increase its production capacity in Malaysia between 60-80% once it is fully occupied. Overall, we expect Unisem to incur approx. RM400m capex in FY22F (vs. RM571m in FY21).

Reiterate Add with a lower RM4.00 TP

We cut our FY22F EPS by 4% to account for higher depreciation charges, but raise our FY23F EPS by 9% to reflect maiden contribution from UC Phase 3. The stock has fallen by 28% YTD, mainly due to weak sentiment in the tech sector in view of a rising interest rate environment. We cut our target multiple from +2 s.d. to Malaysian outsource semiconductor sector's 5-year mean P/E of 22x in view of weak sentiment in the sector. Reiterate Add with a lower RM4.00 TP, based on 22x CY23F P/E (vs. 31x previously).

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	1,307	1,569	1,760	1,950	2,122
Net Profit (RMm)	134.5	198.9	259.2	293.5	329.7
Core EPS (RM)	0.09	0.12	0.16	0.18	0.20
Core EPS Growth	94.8%	38.9%	30.3%	13.2%	12.3%
FD Core P/E (x)	33.01	23.45	18.23	16.10	14.33
Price To Sales (x)	3.40	3.01	2.69	2.42	2.23
DPS (RM)	0.030	0.058	0.070	0.075	0.080
Dividend Yield	1.02%	1.99%	2.39%	2.56%	2.73%
EV/EBITDA (x)	12.31	10.40	8.58	7.63	6.42
P/FCFE (x)	75.2	NA	121.3	31.6	12.9
Net Gearing	(25.8%)	(22.2%)	(17.9%)	(18.0%)	(25.8%)
P/BV (x)	2.60	2.18	2.04	1.90	1.76
ROE	8.6%	10.1%	11.6%	12.2%	12.8%
% Change In Core EPS Estimates			(3.95%)	9.43%	
CGS-CIMB/Consensus EPS (x)			0.98	1.03	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

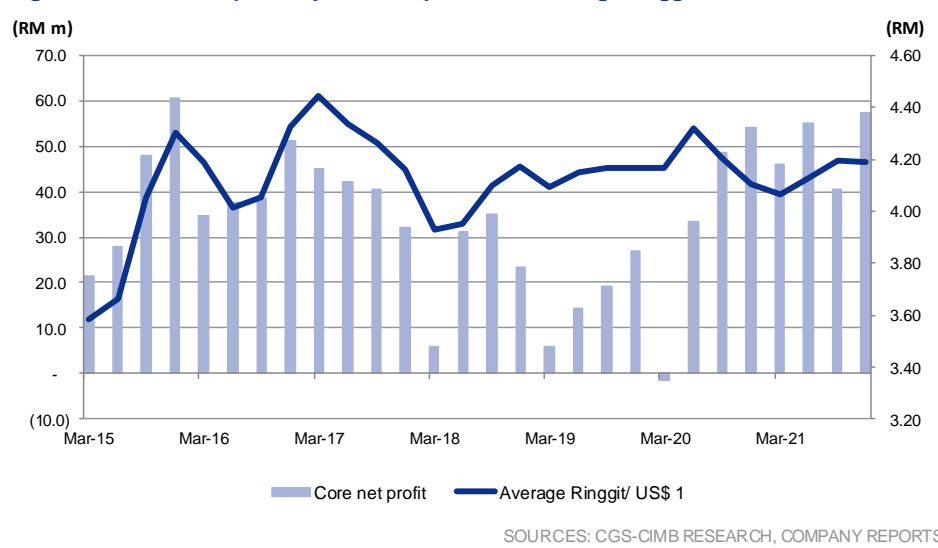
Key re-rating catalysts and downside risks ▶

Potential re-rating catalysts include a major capacity expansion drive in China to capture the growing exposure to Chinese semiconductor customers, higher dividend payouts, and a recovery in wafer-level chip-scale package (WLCSPP) volume loadings. Meanwhile, we see an appreciation in the RM against the US\$, and a slowdown in end-demand applications, such as smartphones and data centres, as key downside risks to our call.

Figure 1: Results comparison

FYE Dec (RM m)	4Q21	4Q20	yoy %	3Q21	qoq%	4Q21	4Q20	yoy %	Prev.	
			chg		chg	Cum	Cum	chg	FY21F	Comments
Revenue	426	366	16.4	366	16.4	1,569	1,307	20.0	1,504	US\$ sales grew 16% qoq in 4Q21
Operating costs	(320)	(265)	20.6	(272)	17.5	(1,161)	(984)	18.0	(1,082)	
EBITDA	107	101	5.4	94	13.1	408	324	26.2	422	In line
EBITDA margin (%)	25.1	27.7		25.8		26.0	24.8		28.0	
Depn & amort.	(49.4)	(44.9)	9.9	(48.5)	1.8	(193.5)	(167.6)	15.5	(179.8)	Above expectation
EBIT	57.5	56.5	1.8	46.0	25.1	214.8	156.1	37.6	241.9	
Interest expense	(0.7)	(1.6)	(54.2)	(0.8)	(6.3)	(0.7)	(1.6)	(54.2)	(4.6)	Total borrowings of RM175m as at end-Dec 21
Interest & inv inc	2.6	0.8	> 100	0.8	> 100	2.6	0.8	> 100	3.2	Net cash of RM481m as at end-Dec 21
Exceptionals	(0.0)	(0.1)	(59.6)	(0.2)	(91.4)	(0.7)	(0.1)	> 100	-	
Pretax profit	59.3	56.8	4.3	48.1	23.4	222.6	155.1	43.5	240.5	Below expectation
Tax	(2.0)	(2.9)	(30.6)	(7.7)	(73.4)	(24.4)	(20.7)	18.0	(33.7)	Below expectation
Tax rate (%)	3.4	5.2		15.9		11.0	13.3		14.0	
Net profit	57.3	53.9	6.2	40.4	41.7	198.2	134.4	47.5	206.8	In line
Core net profit	57.3	54.0	6.2	40.7	40.9	198.9	134.5	47.8	206.8	FY21 core net profit made up 96% of our and 98% of
Core EPS (sen)	3.6	3.7	(4.3)	2.5	40.9	12.3	9.3	33.3	12.8	Bloomberg consensus full-year estimates
Net DPS (sen)	2.0	2.0	-	2.0	-	6.0	6.0	-	6.0	In line

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Historical quarterly core net profit and average ringgit/US\$


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Historical revenue breakdown by product portfolio

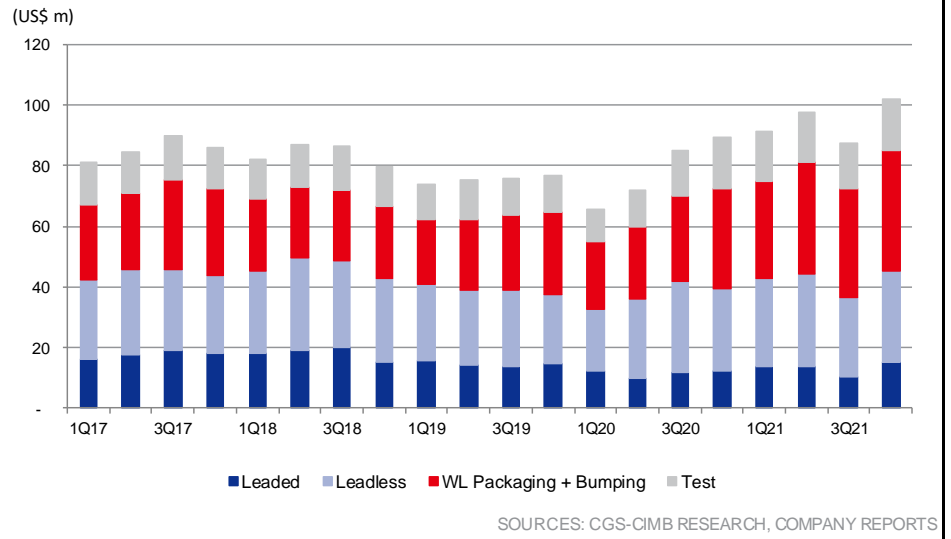


Figure 4: Historical revenue breakdown by end application

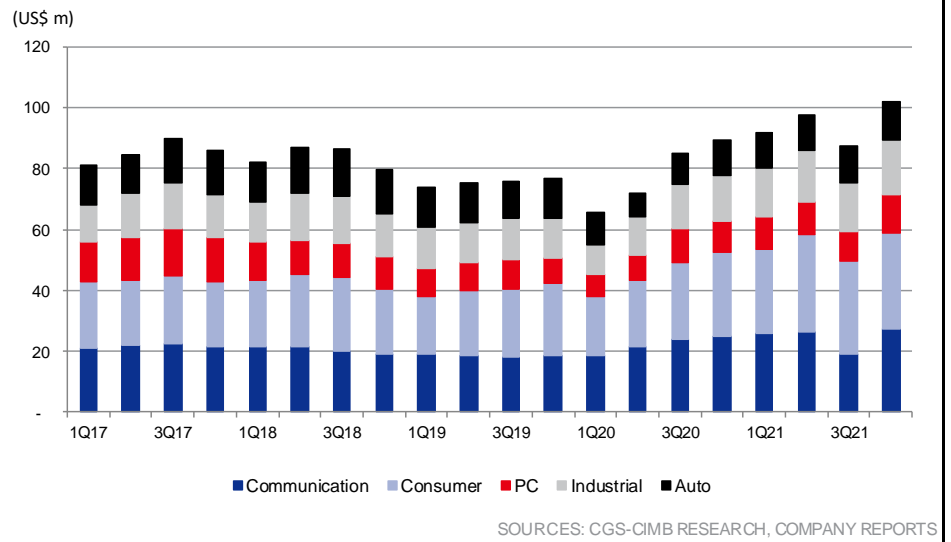


Figure 5: Historical revenue-to-employee ratio



Figure 6: Earnings revision

FYE Dec 31 (RM m)	Original			Revised			Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Turnover	1,673	1,698	na	1,760	1,950	2,122	5%	15%	na
EBITDA	503	513	na	502	561	628	0%	9%	na
EBIT	320	318	na	302	335	371	-6%	5%	na
Pretax profit	317	316	na	305	337	375	-4%	7%	na
Net profit	270	268	na	259	294	330	-4%	9%	na
EPS (sen)	17	17	na	16	18	20	-4%	9%	na

SOURCES: BLOOMBERG, CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

Unisem was reinstated as a constituent of FTSE4Good Bursa Malaysia in Jun 2021. The group is ranked in the top 25% by ESG Ratings among FBM EMAS PLCs by FTSE Russell. Unisem's manufacturing sites in Ipoh and Chengdu were awarded with Silver Status from the Responsible Business Alliance (RBA) Validated Audit Process. Unisem is bound to the RBA Code of Conduct, which establishes standards to ensure that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity and business operations are environmentally responsible.

Keep your eye on

Unisem raised approximately RM446m cash proceeds through a private placement exercise in 2020 to fund its expansion plan and working capital requirements. The group has allocated RM124m or 28% of the proceeds to increase its assembly and test capacity and invest in automation and robotics equipment to mitigate human errors and intervention at the wafer bumping facility in Ipoh, Malaysia.

Implications

The group has utilised RM91.2m out of RM124m allocated for its assembly and test capacity and invested in automation and robotics equipment as at end-Sep 2021. The automation initiative is part of the group's strategy to embrace Industry 4.0 to achieve quality enhancement and automotive excellence. In addition, this will also help to reduce its dependency on migrant workers. We estimate the group employs 1.6k migrant workers at its Unisem Ipoh plant.

ESG highlights

Unisem was removed from the FTSE4Good Bursa Malaysia Index in Jun 2019 due to a drop in its public shareholding spread to below the 25% threshold under Listing Requirement, following the entry of new shareholder, Tianshui Huatian Technology (TSHT) in Jan 2019. Since then, the group has taken various initiatives to address the public spread shareholding through a private placement exercise, disposal of treasury shares and ordinary shares through the open market.

Implications

The group indicated through a Bursa announcement on 5 Jul 2021 that the public shareholding spread was at 25%. Thus, it has met the public shareholding spread requirement. Unisem was reinstated into the FTSE4Good Bursa Malaysia Index in Jun 2021. We believe this highlights the group's strong focus towards corporate governance.

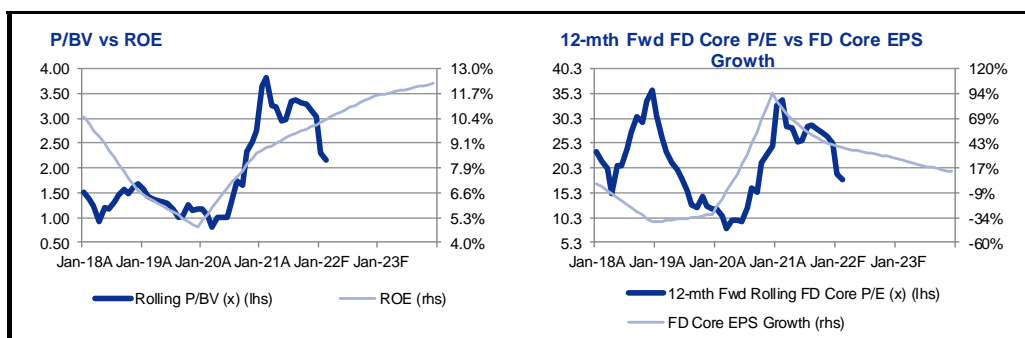
Trends

We gathered that Unisem's plant in Chengdu experienced a relatively higher employee turnover rate compared to its operations in Ipoh. For example, Unisem Chengdu's annual employee turnover rate hovered between 51% and 59% during 2018 to 2020. This is above the annual turnover rate target of 45% for Unisem Chengdu. Meanwhile, the annual employee turnover rate at Unisem Ipoh remains within the annual employee turnover target of 25%. The group indicated the higher turnover rate is a common trend across all industrial sites in China and in the semiconductor industry in China.

Implications

In order to address the high turnover rate at Chengdu, the group has undertaken measures to review and align its compensation and benefits to ensure it is competitive with respect to local offerings. We think the high employee turnover rate could affect the group's ability to scale up operations given that it will require additional time to train the new hires and it could pose operational risks, especially given the group is in the midst of adding a new Phase 3 building that will nearly double its production floor area from 520k sq ft to 996k sq ft in 2022.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	1,307	1,569	1,760	1,950	2,122
Gross Profit	1,307	1,569	1,760	1,950	2,122
Operating EBITDA	324	408	502	561	628
Depreciation And Amortisation	(168)	(194)	(200)	(226)	(257)
Operating EBIT	156	215	302	335	371
Financial Income/(Expense)	(1)	8	3	3	4
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	155	223	305	337	375
Exceptional Items					
Pre-tax Profit	155	223	305	337	375
Taxation	(21)	(24)	(46)	(44)	(45)
Exceptional Income - post-tax					
Profit After Tax	135	199	259	294	330
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	135	199	259	294	330
Recurring Net Profit	135	199	259	294	330
Fully Diluted Recurring Net Profit	135	199	259	294	330

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	323.7	408.3	502.4	561.1	627.9
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(8.0)	11.5	(14.2)	(14.1)	(12.8)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(4.4)	(2.4)	(3.5)	(3.5)	(3.5)
Tax Paid	(11.5)	2.6	(45.7)	(43.9)	(45.0)
Cashflow From Operations	299.8	420.0	439.0	499.6	566.6
Capex	(240.7)	(483.5)	(400.0)	(350.0)	(200.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(240.7)	(483.5)	(400.0)	(350.0)	(200.0)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(47.1)	(94.3)	(112.9)	(121.0)	(129.1)
Preferred Dividends					
Other Financing Cashflow	(4.4)	(2.4)	(3.5)	(3.5)	(3.5)
Cash Flow From Financing	(51.5)	(96.6)	(116.4)	(124.5)	(132.6)
Total Cash Generated	7.5	(160.1)	(77.5)	25.1	234.1
Free Cashflow To Equity	59.1	(63.4)	39.0	149.6	366.6
Free Cashflow To Firm	63.4	(61.0)	42.5	153.1	370.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	664	656	588	623	868
Total Debtors	179	200	225	249	271
Inventories	176	260	292	324	352
Total Other Current Assets	12	3	3	3	3
Total Current Assets	1,031	1,120	1,108	1,199	1,494
Fixed Assets	1,232	1,654	1,854	1,978	1,921
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	9	9	9	9	9
Total Non-current Assets	1,240	1,663	1,863	1,987	1,930
Short-term Debt	99	119	119	119	119
Current Portion of Long-Term Debt					
Total Creditors	227	344	386	428	466
Other Current Liabilities	2	1	1	1	1
Total Current Liabilities	328	464	506	547	585
Total Long-term Debt	109	56	56	56	56
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	24	40	40	40	40
Total Non-current Liabilities	133	96	96	96	96
Total Provisions	38	57	57	57	57
Total Liabilities	499	617	659	701	738
Shareholders' Equity	1,773	2,166	2,312	2,485	2,686
Minority Interests	0	0	0	0	0
Total Equity	1,773	2,166	2,312	2,485	2,686

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	4.5%	20.0%	12.2%	10.8%	8.8%
Operating EBITDA Growth	25.5%	26.2%	23.0%	11.7%	11.9%
Operating EBITDA Margin	24.8%	26.0%	28.5%	28.8%	29.6%
Net Cash Per Share (RM)	0.29	0.30	0.26	0.28	0.43
BVPS (RM)	1.13	1.34	1.43	1.54	1.66
Gross Interest Cover	35.5	90.2	85.7	95.0	105.2
Effective Tax Rate	13.3%	10.9%	15.0%	13.0%	12.0%
Net Dividend Payout Ratio	35.0%	47.4%	43.6%	41.2%	39.1%
Accounts Receivables Days	47.24	44.16	44.10	44.36	44.87
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	12.7%	15.6%	17.0%	16.8%	17.4%
ROCE (%)	8.9%	10.2%	12.5%	13.0%	13.4%
Return On Average Assets	6.70%	7.53%	8.92%	9.45%	9.86%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Communication	372.1	409.3	473.0	320.4	95.7
Consumer	396.0	505.1	569.5	385.7	115.2
PC	154.0	180.6	184.7	129.0	39.7
Industrial	216.8	274.6	308.8	222.1	70.4
Auto	168.6	199.3	224.2	156.6	48.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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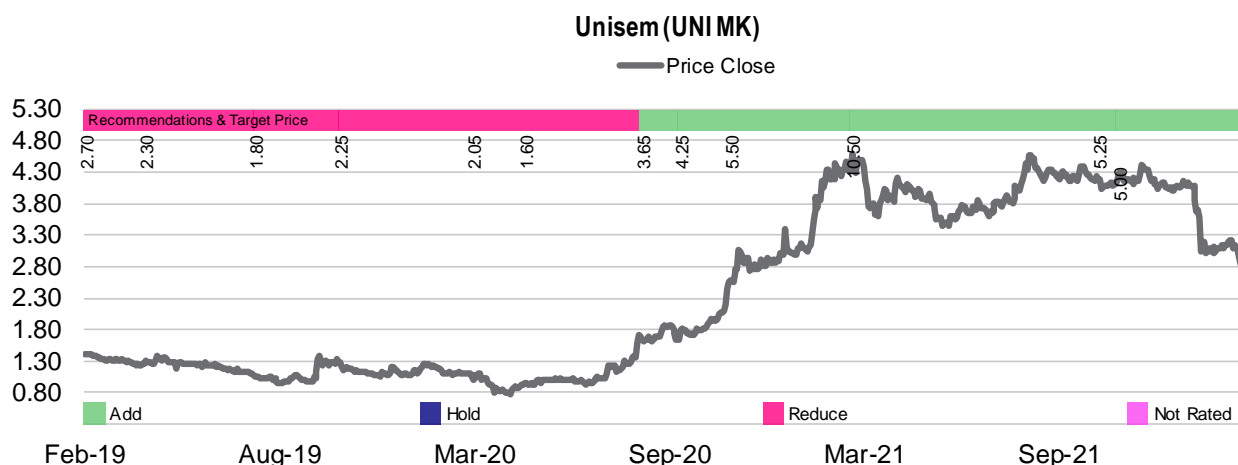
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619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

