

**13 August 2012**
**Team Coverage**

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**12-month upside potential**

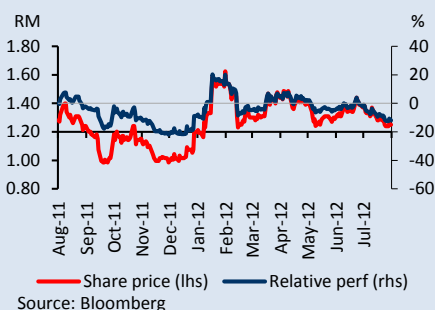
Target price	1.32
Current price (as at 10 August)	1.20
Capital upside (%)	10.0
Net dividends (%)	2.1
Total return (%)	12.1

**Key stock information**

Syariah-compliant?	Yes
Market cap (RM m)	842.8
Issued shares (m)	674.2
Free float (%)	61.5
52-week high / low (RM)	1.63 / 0.99
3-mth avg volume ('000)	806.5
3-mth avg turnover (RM m)	1.1

**Share price performance**

	1M	3M	6M
Absolute (%)	-10.1	-6.7	-18.7
Relative (%)	-11.1	-10.5	-22.7

**Share price chart**

**Major shareholders**

	%
Bandar Rasah Sdn Bhd	25.2
Lembaga Tabung Haji	5.4

## Unisem

Technology

## Neutral ↓

Bloomberg Ticker: UNI MK | Bursa Code: 5005

## Cautious on 2HFY12 outlook

We attended Unisem's analyst briefing last Friday post the release of its 2QFY12 results where management is now more pessimistic of its 2HFY12 outlook than previously guided. While earnings recovery is still on the cards, management now opines that it will only materialise in FY13 when the transitioning from legacy products to higher margin products will be fully completed by 1QFY13. Given the uncertainties in the global economic outlook, we believe Unisem will come under further selling pressure in the near-term. As such, we downgraded Unisem from Trading Buy to NEUTRAL given the limited near-term earnings growth prospects and intensifying currency risks to revenue and margin.

### 2QFY12 losses in all operations except Unisem Chengdu

- For 2QFY12, losses recorded in all geographical operations except for Unisem Chengdu (China) which just breakeven.
- Batam recorded highest losses of RM5m, follow by Europe (RM1.6m), UAT (RM0.8m) and Ipoh (RM0.5m). Management guided that a major customer in Batam reported excess inventory build-up in supply chain as a result of the on-going Euro debt crisis.
- Overall, management was shocked by the extreme downturn seen in the industry as second half is traditionally a stronger sales period for the group due to back-to-school and holiday seasons. The weak industry outlook is mainly due to the on-going debt crisis in Europe, an anaemic economic recovery in USA as well as the credit tightening in China, which has directly impacted the overall semiconductor industry.
- The capacity utilisation rate averaged at about 62% for the group (vs 60% in 1QFY12). YTD, capex stood at RM50.9m. The group has guided capex of approximately RM150-160m for FY12, mainly to cater for Chengdu expansion.
- The current order visibility is up to three months only as many customers have lost the ability to forecast long-term outlook.

### On-going retrenchment exercise

- Unisem had begun its retrenchment exercise since 2QFY11 with the reduction of its workforce by 14% YTD to 8,924 people. The reorganisation plan, which includes retrenchment, is a common practice for technology companies looking to slash cost. The group will continue its retrenchment exercise as initiatives taken by the group to right size headcount. On the local front, we believe the semiconductor industry has not been spared from the industry's aggressive cost cutting measures. Thus, we foresee more job cuts in the offing amidst slumping sales.

### Shift to higher margin products

- As previously highlighted, Unisem is gradually phasing out its legacy packaging products and will concentrate on higher margin products (can be as high as 40%-EBITDA level) such as flipchip and WLCSP packaging going forward.
- This product restructuring process will be completed by 1QFY13. Management guided that the tweak in package portfolio is a necessity due to the deteriorating margin for legacy products.

### Revised downward earnings forecast

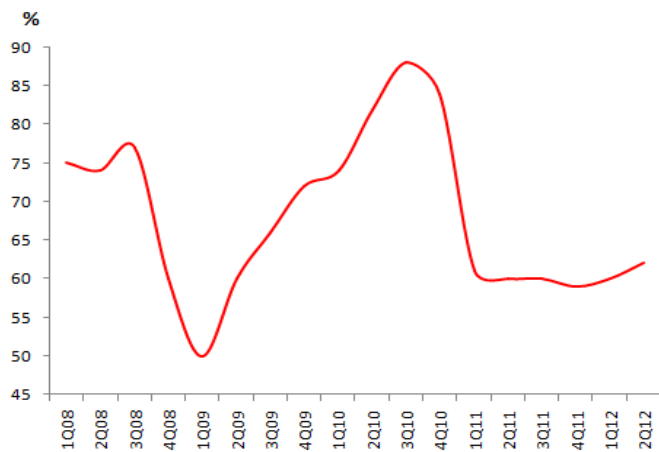
- Management is now guiding for a flat sequential revenue growth but a profitable 3Q.
- Following management guidance, we cut our FY12-FY14 earnings forecast further as we expect Unisem to report its first annual loss since 2003 with a loss of RM11.3m in FY12. Meanwhile, we expect the group to record net profit of RM34.6m and RM66.6m in FY13 and FY14, respectively. The earnings adjustments mainly take into account lower ASP and sales volume.



### Downgrade to NEUTRAL from Trading Buy with new TP of RM1.51

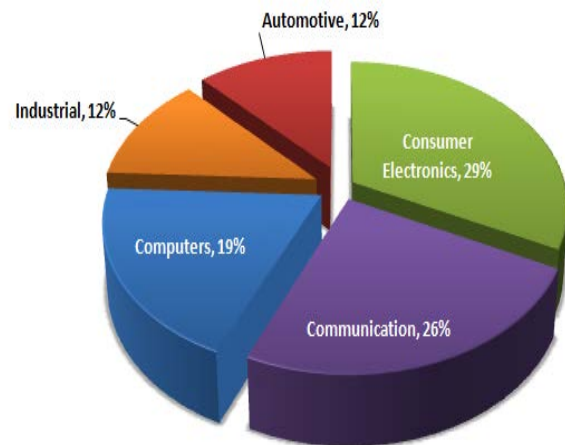
- We have revised our target price to RM1.32 (from RM1.58) after the earnings downgrade and pegging it with a 30% discount to P/B of 1.2x. With that, we downgraded Unisem from Trading Buy to **NEUTRAL** given the limited near-term earnings growth prospects.
- Given the uncertainties in the global economic outlook, we believe Unisem would still come under further selling pressure. The situation is exacerbated by intensified pricing pressures from more sophisticated buyers.
- Investment risks include (i) slower than expected global economic growth, (ii) weakening of USD, (iii) rising cost of raw materials, and (iv) overcapacity.

Figure 1 : Capacity utilisation rate



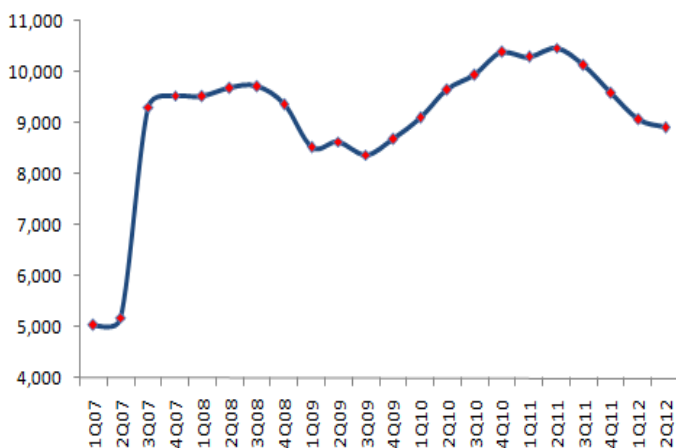
Source: Company

Figure 2 : End-user market segment (2QFY12)



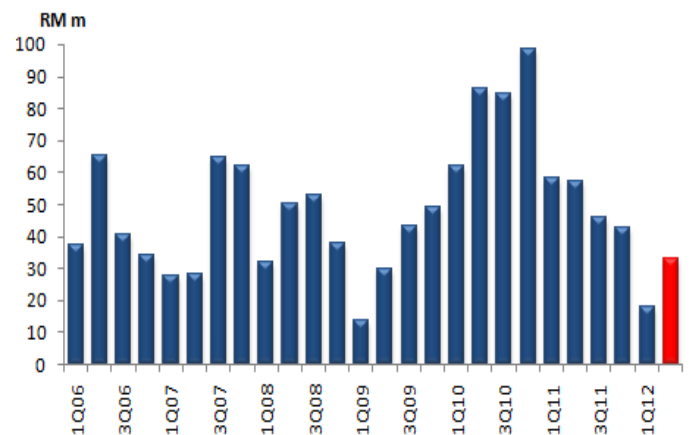
Source: Company

Figure 3 : Total headcount



Source: Company

Figure 4 : Capex



Source: Company



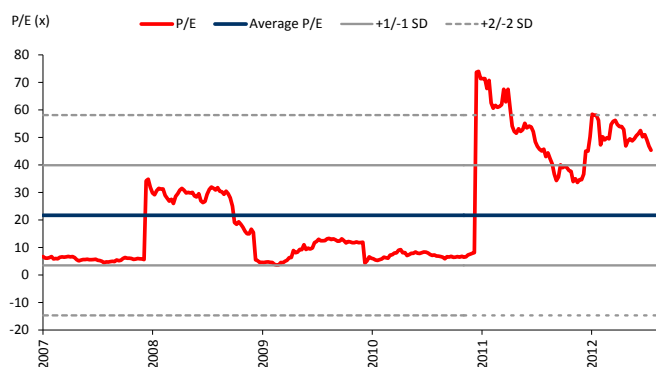
## SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 5 : Key financial data

FYE 31 Dec	FY10	FY11	FY12F	FY13F	FY14F
Revenue (RM m)	1,395.1	1,160.9	1,187.7	1,285.2	1,303.7
EBITDA (RM m)	342.2	162.4	174.4	231.1	268.8
EBIT (RM m)	191.9	3.2	7.3	56.2	88.8
Pretax profit (RM m)	193.3	14.3	(12.7)	38.2	73.9
Reported net profit (RM m)	181.9	19.7	(11.3)	34.6	66.6
Core net profit (RM m)	181.9	19.7	(11.3)	34.6	66.6
EPS (sen)	27.0	2.9	(1.7)	5.1	9.9
Core EPS (sen)	27.0	2.9	(1.7)	5.1	9.9
Alliance / Consensus (%)			(23.5)	40.2	54.7
Core EPS growth (%)	194.3	(89.2)	(157.0)	(407.1)	92.9
P/E (x)	4.4	41.0	(71.9)	23.4	12.1
EV/EBITDA (x)	3.3	7.8	7.1	5.3	4.1
ROE (%)	17.9	1.8	(1.0)	3.2	6.1
Net gearing (%)	31.2	41.0	39.7	37.9	26.5
Net DPS (sen)	8.0	2.0	2.5	5.0	5.0
Net dividend yield (%)	6.7	1.7	2.1	4.2	4.2
BV/share (RM)	1.57	1.62	1.57	1.58	1.62
P/B (x)	0.8	0.7	0.8	0.8	0.7

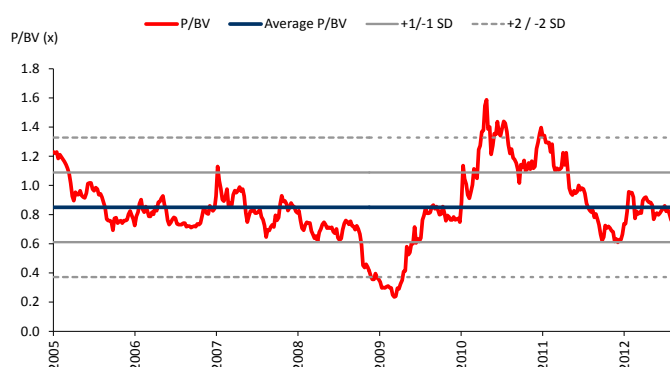
Source: Alliance Research, Bloomberg

Figure 6 : Forward P/E trend



Source: Alliance Research, Bloomberg

Figure 7 : Forward P/B trend



Source: Alliance Research, Bloomberg

Figure 8 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13
Unisem	Neutral	1.32	1.20	809.1	-157.0	407.1	-71.9	23.4	0.8	0.8	-1.1	3.3	2.1	4.2
Malaysian Pacific Industries	T. Buy	3.60	2.70	566.7	-33.1	589.1	64.7	9.4	0.8	0.8	1.3	8.4	5.6	7.4
TSMC	N/R	N/R	82.00	2,125,130.3	17.3	7.8	13.5	12.5	2.7	2.3	N/A	N/A	3.7	3.8
Powertech Technology	N/R	N/R	56.30	44,992.0	1.4	10.9	9.4	8.4	1.1	1.1	14.5	14.3	4.3	4.5
King Yuan Electronics	N/R	N/R	14.55	16,987.8	161.1	45.2	14.7	10.1	0.8	0.8	5.7	7.9	8.5	9.2
Amkor Technology	N/R	N/R	5.53	861.4	29.8	41.9	9.2	6.5	1.3	1.1	13.8	19.8	0.0	0.0
Average					16.8	8.1	13.4	12.4	1.3	1.1	6.8	10.7	3.7	3.8

Source: Alliance Research, Bloomberg

Share price date: 10 August 2012



Unisem (M) Berhad

Financial Summary

Price Date: 10 August 2012

Balance Sheet

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
PPE	1,244.7	1,332.0	1,315.0	1,290.2	1,210.1
Intangibles	112.3	112.3	110.1	107.9	105.7
Inventories	160.6	161.0	162.7	176.1	178.6
Receivables	196.3	182.8	169.2	183.1	185.7
Other assets	13.5	-	-	0.0	0.0
Deposit, bank and cash	108.3	63.5	39.3	8.4	21.8
<b>Assets</b>	<b>1,835.8</b>	<b>1,851.6</b>	<b>1,796.3</b>	<b>1,765.7</b>	<b>1,702.0</b>
LT borrowings	215.5	215.7	150.3	134.2	101.9
ST borrowings	227.3	299.7	315.1	281.2	213.5
Payables	289.9	204.9	227.8	246.5	250.0
Other liabilities	30.5	29.5	29.5	29.5	29.5
<b>Liabilities</b>	<b>763.2</b>	<b>749.8</b>	<b>722.7</b>	<b>691.4</b>	<b>595.0</b>
Share capital	337.1	337.1	337.1	337.1	337.1
Reserves	722.9	752.2	724.1	724.9	757.9
<b>Shareholder's equity</b>	<b>1,059.9</b>	<b>1,089.3</b>	<b>1,061.2</b>	<b>1,062.0</b>	<b>1,095.0</b>
MI	12.6	12.5	12.4	12.2	12.1
<b>Equity</b>	<b>1,072.6</b>	<b>1,101.8</b>	<b>1,073.5</b>	<b>1,074.2</b>	<b>1,107.0</b>
<b>Equity and Liabilities</b>	<b>1,835.8</b>	<b>1,851.6</b>	<b>1,796.3</b>	<b>1,765.7</b>	<b>1,702.0</b>

Cash Flow Statement

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Profit before taxation	183.0	19.6	(12.7)	38.2	73.9
Depreciation & amortisation	150.3	159.2	167.0	174.8	180.0
Changes in working capital	2.2	(72.0)	34.8	(8.6)	(1.6)
Net interest received/ (paid)	17.1	17.7	20.0	18.0	15.0
Share of associates & JV prof	-	-	-	-	-
Tax paid	(9.3)	(4.2)	1.3	(3.8)	(7.4)
Others	(76.3)	104.4	(17.8)	(15.8)	(12.8)
<b>Operating Cash Flow</b>	<b>266.8</b>	<b>224.6</b>	<b>192.6</b>	<b>202.8</b>	<b>247.1</b>
Capex	(259.1)	(282.4)	(150.0)	(150.0)	(100.0)
Others	4.5	0.6	-	-	-
<b>Investing Cash Flow</b>	<b>(254.7)</b>	<b>(281.9)</b>	<b>(150.0)</b>	<b>(150.0)</b>	<b>(100.0)</b>
Issuance of shares	-	-	-	-	-
Changes in borrowings	89.2	33.3	(50.0)	(50.0)	(100.0)
Dividends paid	(33.2)	(33.7)	(16.9)	(33.7)	(33.7)
Others	(7.0)	(17.5)	-	-	-
<b>Financing Cash Flow</b>	<b>49.1</b>	<b>(17.9)</b>	<b>(66.9)</b>	<b>(83.7)</b>	<b>(133.7)</b>
Net cash flow	61.3	(75.1)	(24.2)	(30.9)	13.3
Forex	(6.9)	3.7	-	-	-
Beginning cash	53.9	108.3	63.5	39.3	8.4
<b>Ending cash</b>	<b>108.3</b>	<b>63.5</b>	<b>39.3</b>	<b>8.4</b>	<b>21.8</b>

Income Statement

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Revenue	1,395.1	1,160.9	1,187.7	1,285.2	1,303.7
EBITDA	342.2	162.4	174.4	231.1	268.8
Depn & amort	(150.3)	(159.2)	(167.0)	(174.8)	(180.0)
Net interest expense	(15.8)	(17.7)	(20.0)	(18.0)	(15.0)
Associates & JV	-	-	-	-	-
EI	-	-	-	-	-
<b>Pretax profit</b>	<b>193.3</b>	<b>14.3</b>	<b>(12.7)</b>	<b>38.2</b>	<b>73.9</b>
Taxation	(10.3)	5.3	1.3	(3.8)	(7.4)
MI	(1.0)	0.1	0.1	0.2	0.2
<b>Net profit</b>	<b>181.9</b>	<b>19.7</b>	<b>(11.3)</b>	<b>34.6</b>	<b>66.6</b>
<b>Adj net profit</b>	<b>181.9</b>	<b>19.7</b>	<b>(11.3)</b>	<b>34.6</b>	<b>66.6</b>

Key Statistics & Ratios

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
<b>Growth</b>					
Revenue	34.6%	-16.8%	2.3%	8.2%	1.4%
EBITDA	51.5%	-52.5%	7.4%	32.5%	16.4%
Pretax profit	231.1%	-92.6%	-188.8%	-401.9%	93.2%
Net profit	194.3%	-89.2%	-157.0%	-407.1%	92.9%
Adj EPS	194.3%	-89.2%	-157.0%	-407.1%	92.9%
<b>Profitability</b>					
EBITDA margin	24.5%	14.0%	14.7%	18.0%	20.6%
Net profit margin	13.0%	1.7%	-0.9%	2.7%	5.1%
Effective tax rate	-5.3%	37.4%	-10.0%	-10.0%	-10.0%
ROA	9.9%	1.1%	-0.6%	2.0%	3.9%
ROE	17.9%	1.8%	-1.0%	3.2%	6.1%
<b>Leverage</b>					
Debt/ Assets (x)	0.24	0.28	0.26	0.24	0.19
Debt/ Equity (x)	0.41	0.47	0.43	0.39	0.28
(Net debt)/ equity (x)	0.31	0.41	0.40	0.38	0.27

Key Drivers

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Avg capacity utilisation	-	-	65%	70%	73%
Exchange rate (RM/USD)	-	-	3.10	3.10	3.00

Valuation

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
EPS (sen)	27.0	2.9	(1.7)	5.1	9.9
Adj EPS (sen)	27.0	2.9	(1.7)	5.1	9.9
P/E (x)	4.4	41.0	(71.9)	23.4	12.1
EV/ EBITDA (x)	3.3	7.8	7.1	5.3	4.1
Net DPS (sen)	8.0	2.0	2.5	5.0	5.0
Yield	6.7%	1.7%	2.1%	4.2%	4.2%
BV per share (RM)	1.57	1.62	1.57	1.58	1.62
P/BV (x)	0.8	0.7	0.8	0.8	0.7



## DISCLOSURE

### Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

### Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Divyld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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