

3 March 2025

Technology | Semiconductors

## Unisem (M) (UNI MK)

**Buy** (Maintained)

### Earnings Inflection Point; Stronger Loadings Ahead

- **Stay BUY with lower MYR3.35 TP from MYR3.72, 55% upside, c.4% yield.** Unisem's FY24 core earnings missed, dragged by ASP erosion and higher pre-operating costs despite the recovery in revenue (+9.8% YoY). Management expects a flattish QoQ loadings into 1Q25 with potentially stronger earnings despite a seasonally weak 1Q, signalling the recovery is gaining pace. We advise to position on the stock as we believe the earnings have reached an inflection point and the sector should experience better loading – consistent with an uptick in capex for many as seen in improving orders for ATE players.
- **Below expectations.** Unisem's FY24 revenue of MYR1.58bn (+9.8% YoY) met expectations but core earnings of MYR53.9m (-33% YoY) was a miss, at only 84% and 72% of our and Street's full-year estimates. Lower EBITDA margins – due to changes in product mix, price competition in China, pre-opening expenses for Gopeng plant, and the loss-making wafer bumping services (UAT). Notably, EBITDA margin compressed to 19% (FY23: 22.2%) despite higher revenue. A fourth interim dividend of MYR0.02/share (flattish YoY) was declared, bringing YTD DPS to MYR0.08 – yielding 3.7% at current price.
- **4Q24 USD revenue on an upward trajectory** (four consecutive quarters) with a 1.9% growth QoQ to USD93.7m, despite a seasonally weaker 4Q in prior years. This is attributable to better loadings at Unisem Chengdu for the Chinese smartphone market. Nonetheless, core profit contracted QoQ to MYR12.5m (-15.4% QoQ, -52.9% YoY) due to unfavourable product mix, ASP erosion, and increased operating costs stemming from the new Gopeng plant. Headcount continued to rise, reaching 6,572 from just 5,784 in 4Q24 in preparation for higher loadings and new operations in Gopeng plant. Total capex incurred in 4Q24 was MYR84.5m (3Q24: MYR91.6m), mainly for equipment at the Chengdu plant and the plant construction at Gopeng.
- **Outlook.** A flattish QoQ revenue ahead into 1Q25 (indicates a better FY25 as it is usually a seasonally weak quarter) can be expected where demands for MEMS microphone, PMIC for servers, and EVs remain on the uptrend. In fact, its major customer is indicating a 40% increase in loadings YoY. The Chengdu plant is running at healthy utilisation and the installation of equipment and qualification in the Phase 3 plant are ongoing. However, the utilisation at MY plants remains sub-optimal, dragging the group profitability as customers are holding back due to geopolitical uncertainty. The Gopeng plant is now in operation and could potentially contribute c.USD15-30m revenue in FY25.
- **Forecasts and ESG.** We cut 2025-2026F earnings by 29% and 13% on lower margin and higher cost base assumptions as the new Gopeng plant is still ramping up. Our TP is lowered to MYR3.35 from MYR3.72 as we roll forward our valuation base year to mid-FY26F to better reflect the anticipated sector recovery, pegged to an unchanged 30x FY25F P/E (+1.5SD from its 5-year mean). Our TP includes a 2% ESG premium. Downside risks: Slower-than-expected orders, technology obsolescence, and unfavourable FX movement.

Target Price (Return):

MYR3.35 (55.0%)

Price (Market Cap):

MYR2.16 (USD781m)

ESG score:

3.1 (out of 4)

Avg Daily Turnover (MYR/USD)

2.09m/0.47m

#### Analyst

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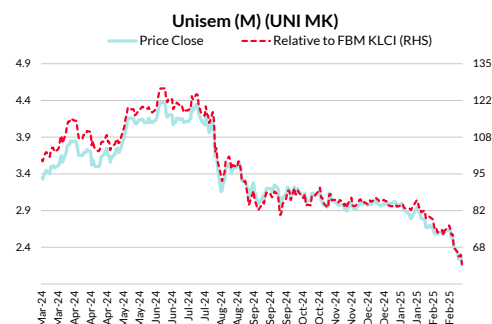
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.5)	(19.1)	(26.0)	(32.5)	(35.1)
Relative	(24.4)	(20.5)	(24.6)	(26.5)	(37.0)
52-wk Price low/high (MYR)					2.16 – 4.37



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	1,440	1,581	1,691	1,846	1,990
Recurring net profit (MYRm)	80	54	139	213	265
Recurring net profit growth (%)	(67.5)	(33.0)	158.7	53.1	24.4
Recurring P/E (x)	43.30	64.63	24.99	16.32	13.12
P/B (x)	1.5	1.6	1.6	1.5	1.5
P/CF (x)	9.58	12.36	11.01	8.35	7.07
Dividend Yield (%)	3.7	3.7	4.0	4.6	5.3
EV/EBITDA (x)	10.65	11.21	8.60	6.64	5.46
Return on average equity (%)	2.7	2.7	6.2	9.4	11.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.0 (GOOD)

S Score: 3.0 (GOOD)

G Score: 3.3 (EXCELLENT)

Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Overall GHG emissions increased 7% from the previous year due to higher utilisation and production activities. Nonetheless, GHG emissions intensity recorded a slight increase as production during the year involved more products requiring more sophisticated production methods and a higher amount of electricity.	Scope 1	2	2	-	-
	Scope 2	145	117	-	-
	Scope 3	-	0	-	-
	Total emissions	147	119	na	na
	Source: Company data, RHB				

Latest ESG-Related Developments

Unisem re-entered the FTSE4Good Bursa Malaysia Index in Jun 2021, placing it among companies with leading ESG practices and in compliance with the best practice disclosures.

Its new Environmental Roadmap will chart the direction and environmental initiatives for the next few years up to 2025, which includes stepped-up targets to reduce energy intensity, GHG intensity, and water consumption intensity; targeting Green Building Certification for its new plants; and stepped-up targets for non-hazardous waste recycling rates.

The group is exploring options to reduce reliance on fossil-based power and is also looking into areas where it can take advantage of solar power generation at operating sites.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: Jul 2024

E Score: 3.0 (GOOD)

The group monitors and manages its greenhouse gas emissions. Key energy consumption reduction initiatives are performed at its sites. In terms of waste management, Unisem aims to achieve a 50% recycling rate of total scheduled waste generated. All of its sites comply to local environmental laws on e-waste handling and practices.

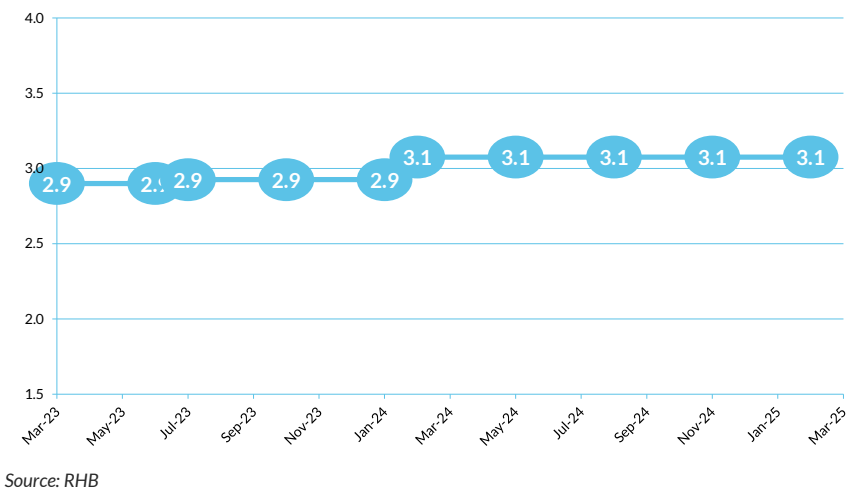
S Score: 3.0 (GOOD)

Unisem has a Safety and Health Policy in place to create a safe and conducive work environment for its employees. Health and safety training is provided to enhance employee safety awareness.

G Score: 3.3 (EXCELLENT)

Unisem has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we highlight that the MD and Chairman positions are held by the same person. Independent board members represent less than half of the board, while 33% of board members are female directors. Guidance and disclosures from management are notable and have been beneficial to the investment community.

ESG Rating History



## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
Malaysia	Recurring EPS	0.05	0.03	0.09	0.13	0.16
Technology	DPS	0.08	0.08	0.09	0.10	0.12
<b>Unisem (M)</b>	BVPS	1.48	1.39	1.39	1.43	1.48
UNI MK	Return on average equity (%)	2.7	2.7	6.2	9.4	11.3
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
30x FY25F P/E	Recurring P/E (x)	43.30	64.63	24.99	16.32	13.12
	P/B (x)	1.5	1.6	1.6	1.5	1.5
	FCF Yield (%)	0.3	(0.4)	3.3	7.7	9.8
	Dividend Yield (%)	3.7	3.7	4.0	4.6	5.3
<b>Key drivers</b>	EV/EBITDA (x)	10.65	11.21	8.60	6.64	5.46
i. New contract wins;	EV/EBIT (x)	35.17	40.13	20.14	12.89	9.95
ii. Higher loadings;						
iii. Weaker MYR vs USD.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
i. Fluctuation in orders;	Total turnover	1,440	1,581	1,691	1,846	1,990
ii. Slower-than-expected smartphone sales;	Gross profit	696	746	846	960	1,040
iii. Stronger MYR vs USD;	EBITDA	304	303	397	498	577
iv. Technology obsolescence.	Depreciation and amortisation	(212)	(218)	(228)	(241)	(260)
	Operating profit	92	85	170	257	317
	Net interest	(9)	(7)	(8)	(8)	(8)
	Pre-tax profit	84	84	161	248	309
	Taxation	(18)	(22)	(22)	(35)	(43)
	Reported net profit	66	63	139	213	265
	Recurring net profit	80	54	139	213	265
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
Unisem is an OSAT player with plants in Ipoh, Perak, Malaysia and Chengdu, China. The company offers a suite of assembly and test services, such as wafer bumping, wafer probing, wafer grinding, a range of leadframe and substrate integrated circuits packaging, wafer level chipscale packaging (CSP), flipchip and radio frequency, analog, digital and mixed-signal testing services.	Change in working capital	82	5	(51)	(38)	(32)
	Cash flow from operations	364	282	316	417	493
	Capex	(352)	(297)	(200)	(150)	(150)
	Cash flow from investing activities	(335)	(281)	(200)	(150)	(150)
	Dividends paid	(129)	(129)	(139)	(160)	(186)
	Cash flow from financing activities	(108)	(178)	(139)	(168)	(193)
	Cash at beginning of period	556	481	278	247	355
	Net change in cash	(80)	(177)	(23)	100	150
	Ending balance cash	481	298	255	347	505
	<b>Balance sheet (MYRm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Total cash and equivalents	481	278	255	355	505
	Tangible fixed assets	2,064	2,099	2,072	1,980	1,870
	Total assets	2,988	2,891	2,874	2,933	3,022
	Short-term debt	90	109	109	105	101
	Total long-term debt	141	78	78	75	71
	Total liabilities	603	644	627	633	641
	Total equity	2,385	2,248	2,248	2,301	2,381
	Total liabilities & equity	2,988	2,891	2,874	2,933	3,022
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Revenue growth (%)	(19.2)	9.8	7.0	9.1	7.8
	Recurrent EPS growth (%)	(67.5)	(33.0)	158.7	53.1	24.4
	Gross margin (%)	48.4	47.2	50.0	52.0	52.2
	Operating EBITDA margin (%)	21.1	19.1	23.5	27.0	29.0
	Net profit margin (%)	4.6	4.0	8.2	11.6	13.3
	Dividend payout ratio (%)	196.9	205.8	100.0	75.0	70.0
	Capex/sales (%)	24.5	18.8	11.8	8.1	7.5
	Interest cover (x)	9.77	12.14	20.17	30.52	38.90

Source: Company data, RHB

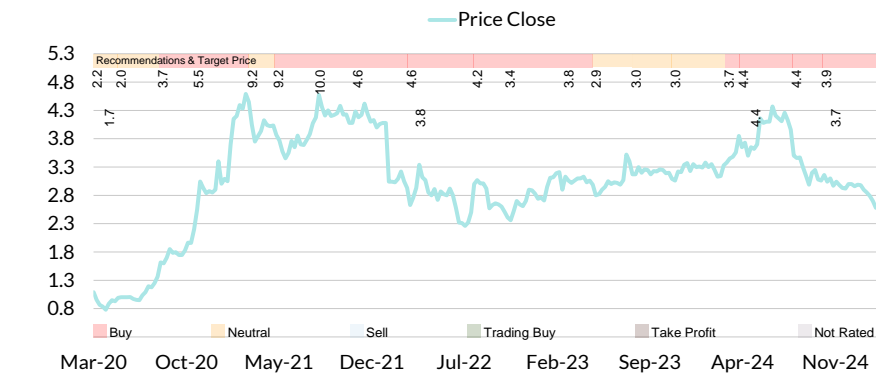
## Results At a Glance

Figure 1: Results review

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Revenue	350.8	409.7	411.8	0.5	17.4	1,439.7	1,580.9	9.8	YoY & QoQ: Better loadings from various customers amid a gradual recovery in semiconductor sector.
EBITDA	86.4	79.5	79.5	(0.0)	(8.1)	320.1	300.6	(6.1)	
EBITDA margin (%)	24.6	19.4	19.3			22.2	19.0		YoY: Higher labour costs, ASP erosion, pre-opening expenses for Gopeng plant and unfavourable FX and product mix.
Depreciation & amortisation	(52.8)	(55.3)	(56.7)	(2.4)	(7.4)	(211.7)	(218.1)	(3.0)	
EBIT	33.7	24.1	22.8	(5.6)	(32.3)	108.3	82.5	(23.8)	
EBIT margin (%)	9.6	5.9	5.5			7.5	5.2		
Interest expense	(1.9)	(2.8)	(2.8)	(0.2)	(52.7)	(9.4)	(7.0)	26.0	
Interest income	-	-	-	Nm	Nm	-	-	Nm	
Associates	-	-	-	Nm	Nm	-	-	Nm	FX gains/losses.
El/Others	2.6	12.0	(3.8)	Nm	Nm	1.5	6.8	356.8	
Pretax profit	34.4	33.3	16.2	(51.4)	(52.9)	100.4	82.3	(18.0)	
Pretax Margin (%)	9.8	8.1	3.9			7.0	5.2		
Tax	(5.4)	(6.6)	(7.5)	(13.9)	(40.0)	(18.5)	(21.6)	(17.2)	
Effective tax rate (%)	(15.5)	(19.7)	(46.3)			(18.4)	(26.3)		
Minority Interest	-	-	-	Nm	Nm	-	-	Nm	
Net profit	29.1	26.7	8.7	(67.5)	(70.1)	81.9	60.7	(26.0)	
Core profit	26.4	14.7	12.5	(15.4)	(52.9)	80.5	53.9	(33.0)	Below expectations.
Net Margin (%)	350.8	409.7	411.8	0.5	17.4	1,439.7	1,580.9	9.8	

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-10-30	Buy	3.7	3.0
2024-10-09	Buy	3.9	3.1
2024-07-31	Buy	4.4	3.6
2024-04-29	Buy	4.4	3.8
2024-04-01	Buy	4.4	3.8
2024-02-28	Buy	3.7	3.3
2023-10-27	Neutral	3.0	3.1
2023-07-28	Neutral	3.0	3.2
2023-04-28	Neutral	2.9	3.0
2023-02-24	Buy	3.8	3.1
2022-10-12	Buy	3.4	2.4
2022-07-29	Buy	4.2	3.0
2022-03-21	Buy	3.8	3.1
2022-02-28	Buy	4.6	2.9
2021-10-27	Buy	4.6	4.1

Source: RHB, Bloomberg

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