

HLIB Research

PP 9484/12/2012 (031413)

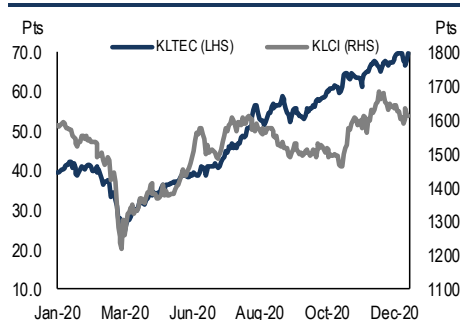
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OVERWEIGHT

(Maintain)

KLTEC vs KLCI

Stock Rating

Stock	Rating	Price	Target
Frontken	BUY	4.05	4.61
Inari	BUY	2.67	3.28
Revenue	HOLD	1.31	1.29
Unisem	BUY	6.28	6.48
UWC	BUY	9.49	10.28
ViTrox	HOLD	14.40	12.43

Technology

Supercharged

Outperformed the broader index after a remarkable recovery from Mar's plunge. Although our sector upgrade was untimely, our top pick UWC was a lead gainer. Both global semiconductor sales and spending forecasts are pointing north for 2021. However, weaker greenback outlook may dent the sector's prospect. We are not overly concern on the rising input prices as tech players are believed to be able pass through the additional costs. Growth is expected to be driven by smartphone, communication, HPC, IoT and auto. We maintain **OVERWEIGHT** stance and tactically in favour of frontend players. However, on top of Frontken and UWC, we also include Inari Amertron as one of our top picks leveraging on iPhone 12 super cycle.

Outperformed in 2020. After a rapid recovery from Mar's plunge, KLTEC gained 84% vs KLCI's 2% increase (see Figure #1). Although we did not upgrade the sector timely enough when market sentiment turned, our top pick UWC was one of the lead gainers in the sector with +359%.

Global semiconductor sales. Despite 10M20's 6% growth to USD358bn (see Figure #2), the latest industry average growth projection of 4% (see Figure #3) is perceived to be rather conservative. We think the industry will end 2020 closer to our earlier projection of circa +5%. As for 2021, the sector is expected to ramp up an even stronger average growth of 9.6% (see Figure #4). While all product categories are expected to experience expansions (see Figure #5), memory (+13%) leads the pack, followed by opto (+10%), analog (+9%), sensors (+8%), discrete (+7%), logic (+7%) and micro (+1%). The driver behind memory bullish outlook is due to the strength in memory prices (see Figure #6).

Equipment spending. Capital investment was strong in 11M20 with 24% gain in 3MA billings to USD27bn (see Figure #7). Based on SEMI's latest forecast, there will be 13 new fab constructions (Chinax4, Taiwanx4, Americasx2, SEAx2 and Othersx1) in 2020 with a total investment of USD38bn yielding additional installed capacity of 473kwpm (200mm equivalent). For 2021, 7 new fabs will be developed (Americasx2, Chinax2, Taiwanx1, Koreax1 and Othersx1) with total capex of USD37bn with a total capacity of 289kwpm. This projection validates our view on frontend's vigorous capex ahead and reinforces our bullishness on this sub segment.

Weaker greenback. HLIB expects USD to be softer in 2021 averaging RM4.00/USD compared to 2020's average of RM4.20/USD (see Figure #8). As such, we expect tech firms to be marginally impacted as their sales are majority denominated in USD terms while partly cushioned by the USD cost items.

Higher input costs. Gold, aluminium, copper and steel prices are on the upward trajectories (see Figure #9) and may spell bad news for tech players. While partly offset by weaker USD projection, pricier commodities will exert pressures on margins for packagers and equipment makers. However, we are not overly concerned as industry wide capacity constraint positions tech players with stronger bargaining power to pass through higher material costs.

Segmental view. Recovery in smartphone along with communication segments are expected to be the major growth driver on the back of 5G proliferation. Next would be high-performance computing (HPC) supported by the robust cloud investments by global tech giants. Although IoT device generally has lower IC content, the sheer forecasted volume suggests that this market is too big to ignore. Lastly, demand from automotive is expected to be solid as electric/autonomous vehicle require significantly higher semiconductor content.

Reiterate OVERWEIGHT. We expect tech sector to experience multiyear earnings growths supported by fundamental exponential demand. Our forecasts reflect that majority of the companies under coverage (Frontken, UWC, Inari and ViTrox) will likely deliver all-time high earnings in the upcoming quarterly results. We maintain our tactical position in favour of frontend players as many countries have rushed to develop their semiconductor capabilities, especially in leading edge ($\leq 7\text{nm}$) frontend fabrication (foundry) to be self-sufficient on the back of national strategic and security interests. However, on top of **Frontken** and **UWC**, we also include **Inari Amertron** as one of our top picks, leveraging on iPhone 12 super cycle.

Frontken. Reiterate **BUY** with higher TP of **RM4.61** (previously RM4.10) as we raise its PE valuation multiple from 40x to 45x, pegged to mid-FY22 EPS. It has a unique exposure to world's leading-edge semiconductor frontend supply chain which is currently in high demand on the back of national strategic and security interests. Furthermore, we opine that its operation is largely shielded from the reintroduction of MCO as majority of revenues (>80%) are generated from Taiwan and Singapore, where the pandemic is under full controls. We like Frontken for its multi-year growth ahead on the back of: (1) sustainable global semiconductor market outlook; (2) robust fab investment; (3) leading edge technology (5/3/2nm); and (4) solid balance sheet (net cash of RM263m or 25 sen per share) to support its Taiwan semiconductor expansions.

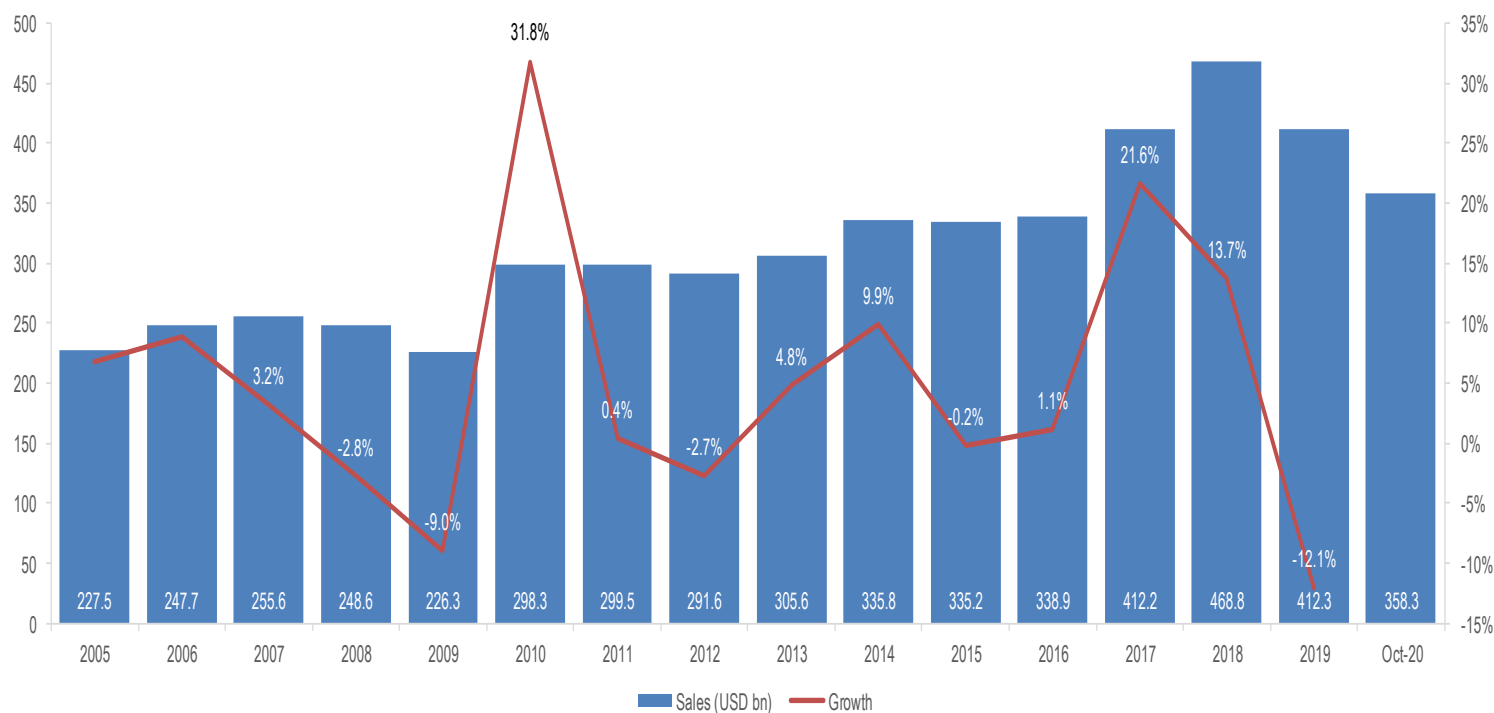
UWC. With its increasing exposure to semiconductor front end supply chain and solid demand for its products, we raise FY21-23 earnings by 8%, 5% and 8%, respectively. In turn, our TP is lifted from RM8.88 to **RM10.28** as we elevate its PE valuation from 38x to 42x, pegged to FY22 EPS. Maintain **BUY**. The escalating trade intensity may eventually benefit UWC which provides a one-stop solution as more companies shift productions out of China to avoid import tariffs.

Inari Amertron. Reiterate **BUY** with unchanged TP of **RM3.28**, pegged to 35x of FY22 FD EPS. iPhone 12 super cycle is likely to boost Inari back to its glory days while opto division is expected to improve with more customer diversifications and partnerships. Our view is reinforced by two recent news flow: (i) Nikkei Asia reported that Apple's plan to boost iPhone production by 30% for 1HCY21; and (2) DigiTimes claimed that iPhone 12 sales in China exceeded expectations with 18m unit shipment or over 20% market share in 4Q20 (3Q20: 8% by Counterpoint).

Figure #1 **Techs' Share Price Performance**

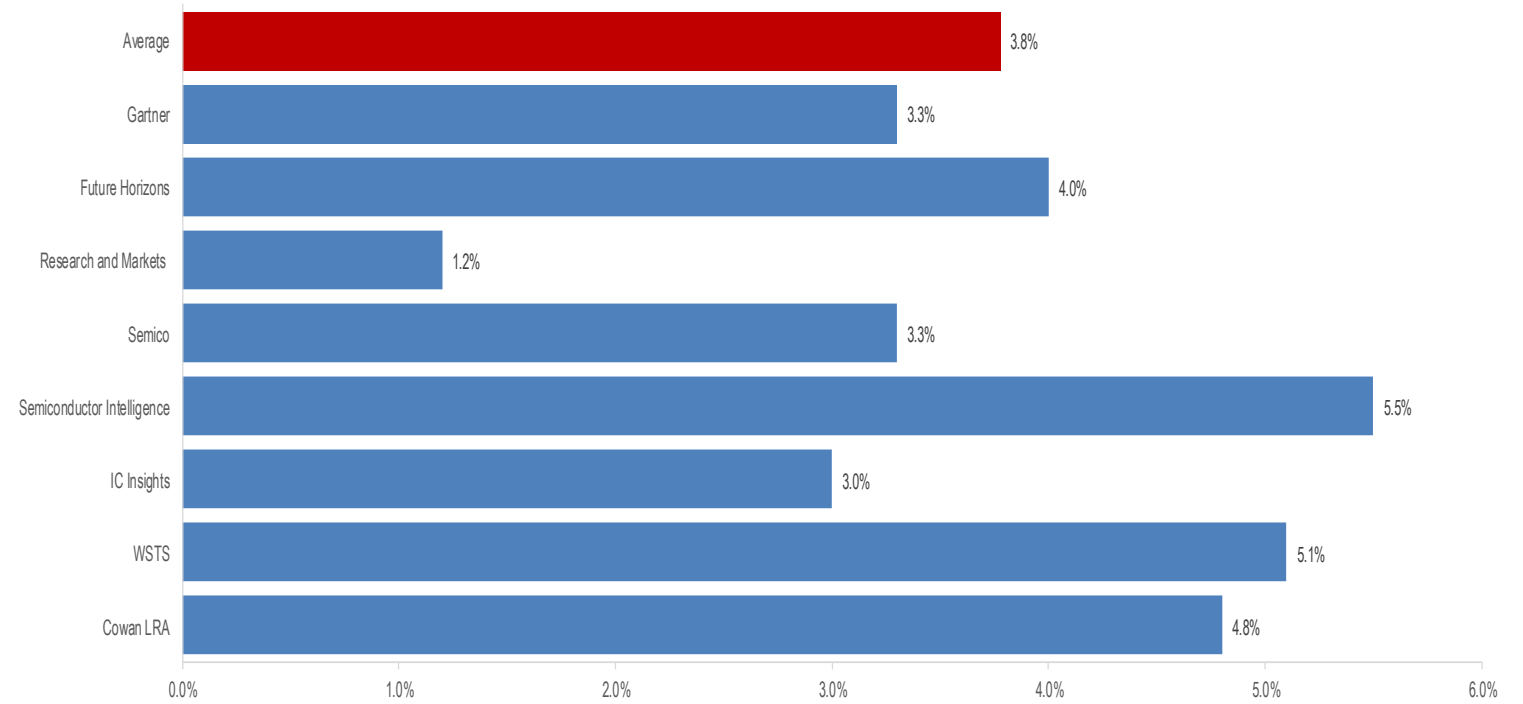
	Closing Price (RM)				Change (%)		
	2017	2018	2019	2020	2018	2019	2020
KLCI	1,796.81	1,690.58	1,588.76	1,627.21	-5.9	-6.0	2.4
Technology	41.86	29.34	37.91	69.72	-29.9	29.2	83.9
Elsoft	2.70	1.09	0.83	0.795	-3.1*	-23.9	-4.2
Frontken	0.46	0.71	2.29	3.55	53.3	224.8	55.0
Globetronics	6.60	1.75	2.33	2.70	-38.1*	33.1	15.9
Inari Amertron	3.40	1.50	1.70	2.76	-33.8*	13.3	62.4
MPI	12.61	9.95	11.44	25.96	-21.1	15.0	126.9
Revenue		1.22	1.39	1.26	N/A	89.9*	-9.4
Unisem	3.65	3.28	2.16	6.18	-10.1	-34.1	186.1
UWC		0.82	3.20	9.80	N/A	290.2	359.4*
VisDynamics	0.62	0.50	0.53	0.76	-20.2	7.1	42.5
ViTrox	6.21	6.29	7.92	14.70	1.3	25.9	85.6
Average					-9.0	64.1	76.7

* Adjusted for bonus issue
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Figure #2 **Global Semiconductor Sales**

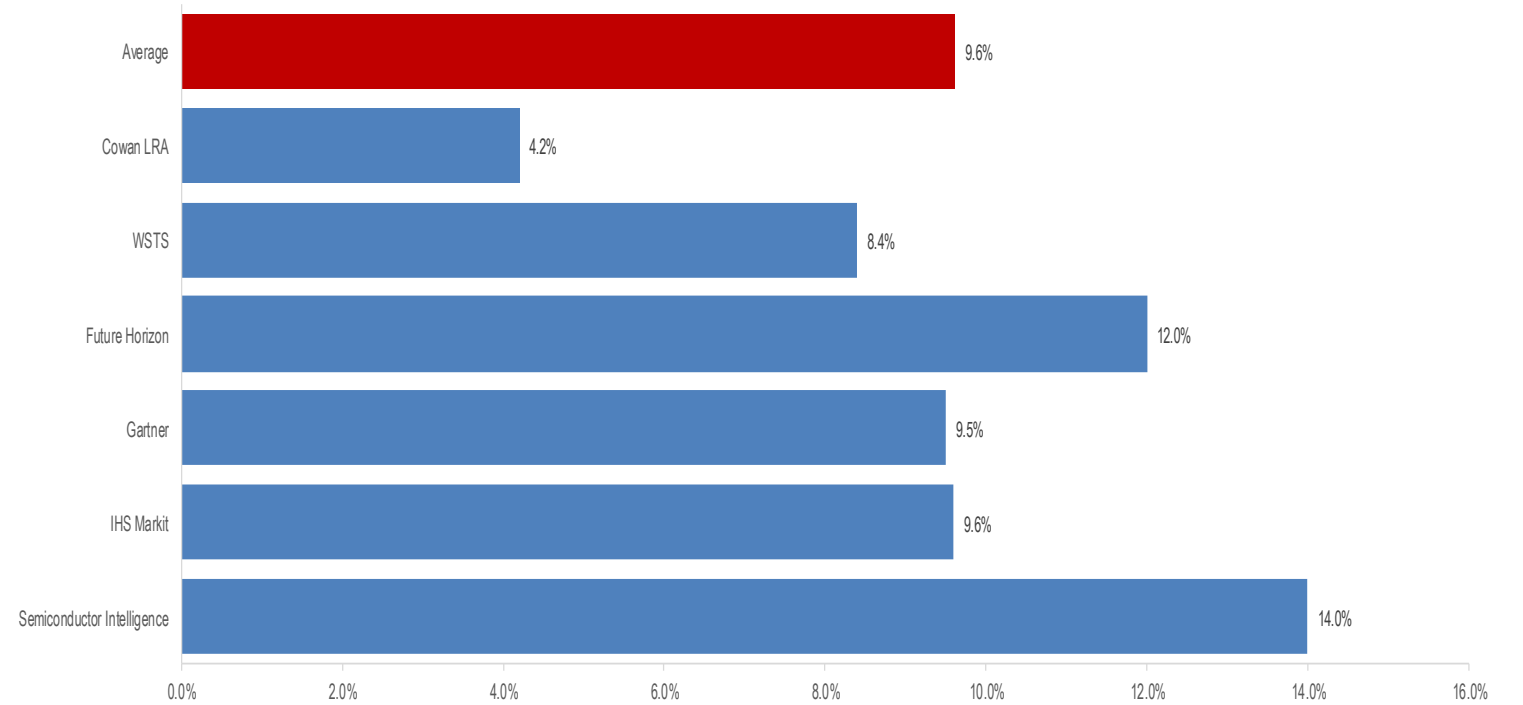
WSTS, HLIB

Figure #3 2020 Global Semiconductor Sales Forecasts



Various, HLIB

Figure #4 2021 Global Semiconductor Sales Forecasts

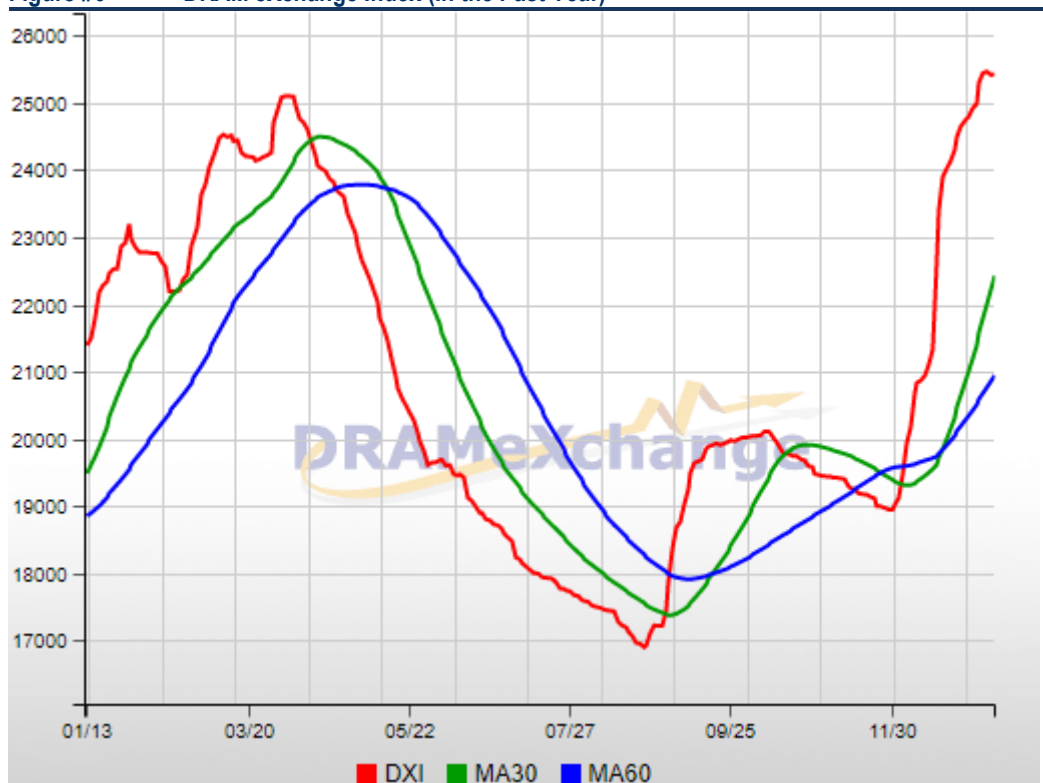


Various, HLIB

Figure #5 WSTS Semiconductor Market Forecast Breakdown

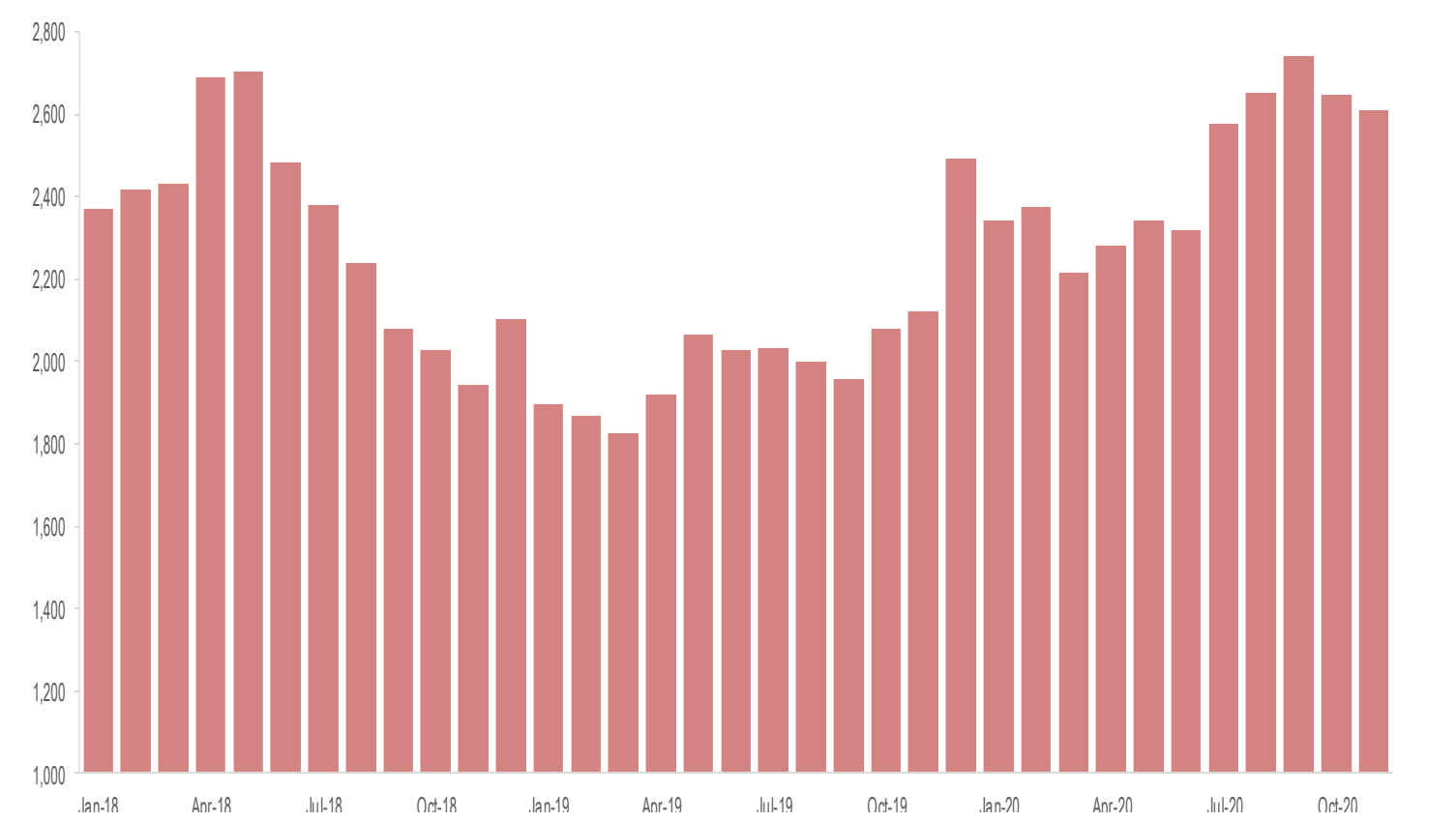
	Sales (USD m)			YoY Growth (%)		
	2019	2020	2021	2019	2020	2021
Region						
Americas	78,619	93,343	102,164	-23.7	18.7	9.5
Europe	39,816	36,452	38,543	-7.3	-8.4	5.7
Japan	35,993	35,759	37,841	-9.9	-0.7	5.8
Asia Pacific	257,879	267,590	290,854	-8.8	3.8	8.7
Total	412,307	433,145	469,403	-12.0	5.1	8.4
Products						
Discrete semiconductors	23,881	23,593	25,292	-0.9	-1.2	7.2
Optoelectronics	41,561	40,481	44,628	9.3	-2.6	10.2
Sensors	13,511	14,515	15,642	1.2	7.4	7.8
Integrated circuits	333,354	354,556	383,840	-15.2	6.4	8.3
Analog	53,939	53,954	58,578	-8.2	0.0	8.6
Micro	66,440	67,744	68,444	-1.2	2.0	1.0
Logic	106,535	113,419	121,507	-2.5	6.5	7.1
Memory	106,440	119,440	135,311	-32.6	12.2	13.3
Total	412,307	433,145	469,403	-12.0	5.1	8.4

WSTS

Figure #6 DRAM eXchange Index (In the Past Year)

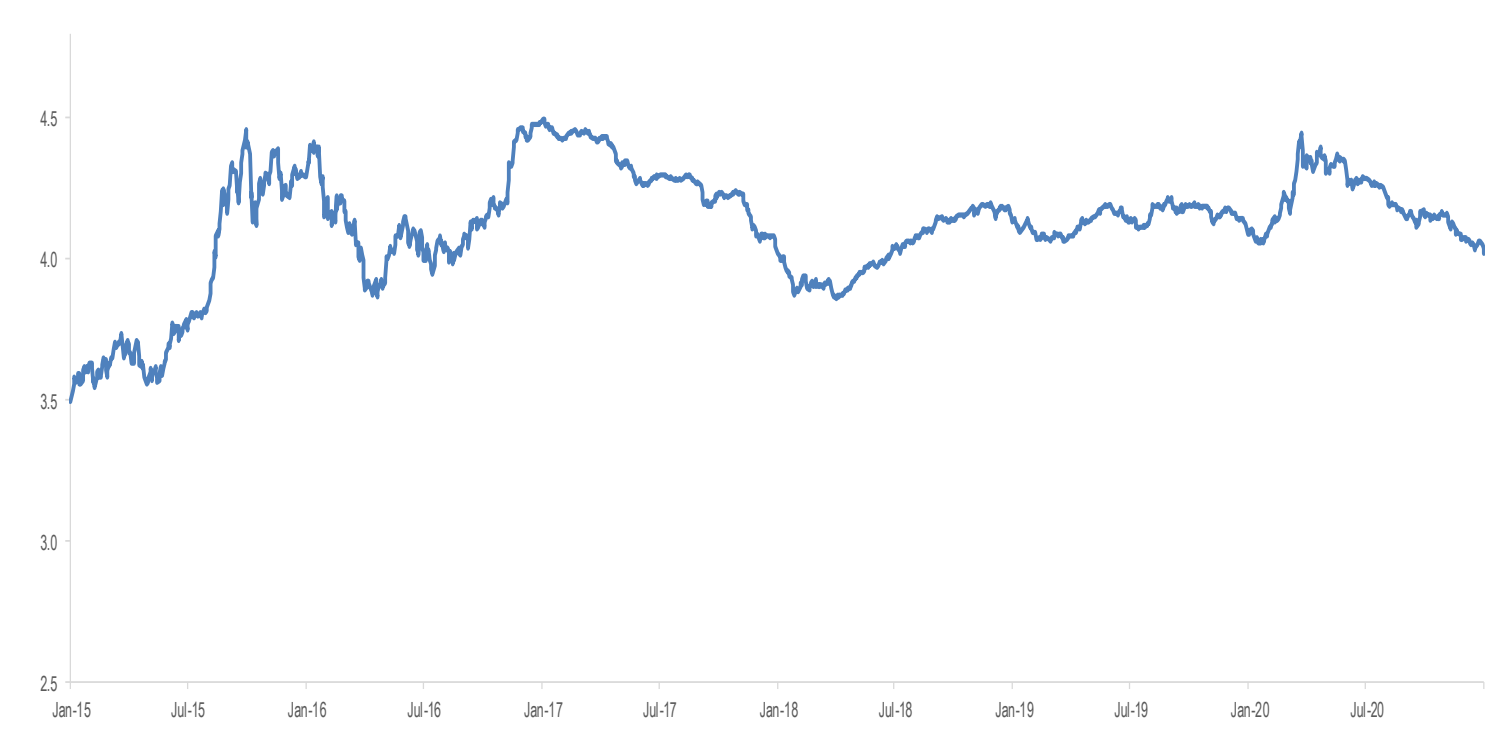
TrendForce

Figure #7 3MA Billings (USD m)



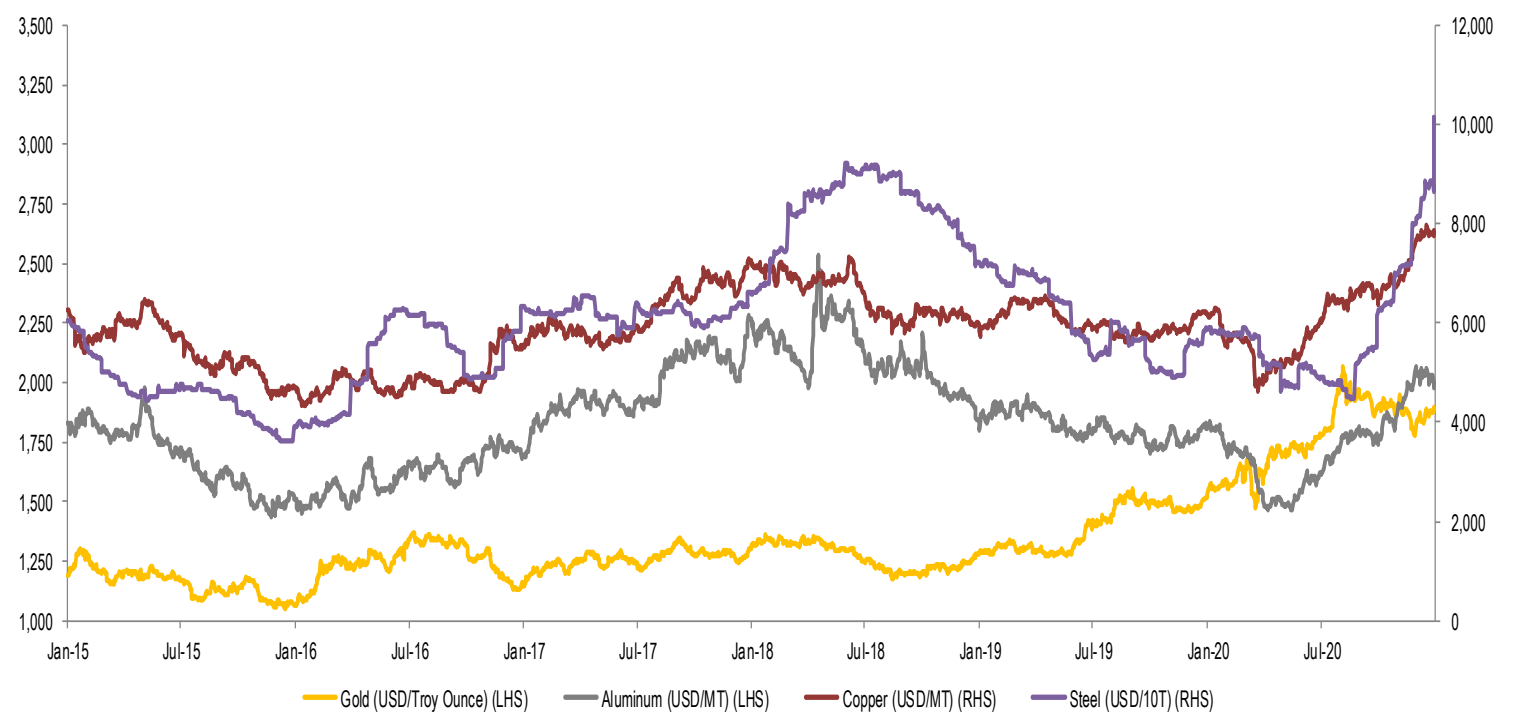
SEMI, HLIB

Figure #8 RM/USD Rate



Bloomberg, HLIB

Figure #9 Gold, Copper and Aluminium Prices



Bloomberg, HLIB

UWC Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Jul	FY19	FY20	FY21f	FY22f	FY23f
Revenue	144.4	219.1	300.2	404.5	454.0
COGS	(87.2)	(136.6)	(166.0)	(218.8)	(245.6)
EBITDA	57.1	82.4	134.2	185.7	208.4
D&A	(9.0)	(10.5)	(16.8)	(18.8)	(17.1)
EBIT	48.1	72.0	117.4	166.9	191.3
Net Interest Income	(1.9)	0.7	1.0	1.4	2.3
Associates	0.0	0.0	0.0	0.0	0.0
PBT	46.2	72.6	118.4	168.3	193.6
Tax	(10.0)	(14.9)	(23.7)	(33.7)	(38.7)
Net Profit	36.2	57.8	94.7	134.7	154.9
MI	0.0	0.0	0.0	0.0	0.0
PATAMI	36.2	57.8	94.7	134.7	154.9
Exceptionals	(7.7)	(2.9)	0.0	0.0	0.0
Core PATAMI	28.5	54.9	94.7	134.7	154.9
Basic Shares (m)	550.2	550.2	550.2	550.2	550.2
Rep EPS (sen)	6.6	10.5	17.2	24.5	28.2
Core EPS (sen)	5.2	10.0	17.2	24.5	28.2
Core FD EPS (sen)	5.2	10.0	17.2	24.5	28.2

Balance sheet

FYE Jul	FY19	FY20	FY21f	FY22f	FY23f
Cash	54.4	57.8	79.5	120.2	189.6
Receivables	44.5	68.8	98.7	133.0	149.3
Inventories	37.1	43.5	54.6	71.9	80.7
Investment	0.0	0.0	0.0	0.0	0.0
PPE	95.8	109.8	123.0	144.7	173.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Assets	0.0	0.6	0.6	0.6	0.6
Total Assets	231.8	280.5	356.4	470.4	593.2
Payables	17.7	36.1	40.9	53.9	60.6
ST borrowings	12.8	2.1	2.1	2.1	2.1
LT borrowings	11.9	2.6	2.6	2.6	2.6
Other Liabilities	12.9	16.5	16.5	16.5	16.5
Total liabilities	55.3	57.2	62.1	75.1	81.7
Shareholders' Funds	176.5	223.3	294.3	395.3	511.5
MI	0.0	0.0	0.0	0.0	0.0
Total S/H Equity	176.5	223.3	294.3	395.3	511.5
Ttl Liab&S/H Funds	231.8	280.5	356.4	470.4	593.2

Cashflow Analysis

FYE Jul	FY19	FY20	FY21f	FY22f	FY23f
EBITDA	57.1	82.4	134.2	185.7	208.4
Tax Paid	(7.2)	(13.0)	(23.7)	(33.7)	(38.7)
WC Changes	(26.4)	(12.7)	(36.1)	(38.6)	(18.5)
Other	(9.8)	(1.1)	1.0	1.4	2.3
CFO	13.7	55.6	75.4	114.8	153.5
FCF	0.7	34.1	45.4	74.4	108.1
CAPEX (CF)	(13.0)	(21.5)	(30.0)	(40.4)	(45.4)
Acquisitions	13.0	0.0	0.0	0.0	0.0
Other	0.4	1.2	0.0	0.0	0.0
CFI	0.4	(20.2)	(30.0)	(40.4)	(45.4)
Dividend	0.0	(11.0)	(23.7)	(33.7)	(38.7)
Debt changes	(26.6)	(20.5)	0.0	0.0	0.0
Other	53.8	(0.4)	0.0	0.0	0.0
CCF	27.2	(31.9)	(23.7)	(33.7)	(38.7)
Net Cashflow	41.3	3.4	21.7	40.7	69.4

Quarterly financial summary

FYE Jul	1Q20	2Q20	3Q20	4Q20	1Q21
Revenue	46.9	54.9	55.8	61.4	71.5
COGS	(29.8)	(35.8)	(35.4)	(35.6)	(38.9)
EBITDA	17.1	19.1	20.4	25.8	32.6
D&A	(2.4)	(2.4)	(2.6)	(3.1)	(4.1)
EBIT	14.7	16.7	17.8	22.7	28.5
Net Interest Income	0.1	0.3	0.2	0.1	0.2
Associates	0.0	0.0	0.0	0.0	0.0
PBT	14.8	17.0	18.0	22.8	28.7
Tax	(3.6)	(3.7)	(3.4)	(4.2)	(6.9)
Net Profit	11.2	13.3	14.6	18.6	21.7
MI	0.0	0.0	0.0	0.0	0.0
PATAMI	11.2	13.3	14.6	18.6	21.7
Exceptionals	(0.7)	(0.0)	(1.4)	(0.7)	1.1
Core PATAMI	10.6	13.3	13.2	17.9	22.8
Basic Shares (m)	550.2	550.2	550.2	550.2	550.2
Rep EPS (sen)	2.0	2.4	2.7	3.4	3.9
Core EPS (sen)	1.9	2.4	2.4	3.3	4.1
Core FD EPS (sen)	1.9	2.4	2.4	3.3	4.1

Valuation Ratios

FYE Jul	FY19	FY20	FY21f	FY22f	FY23f
PER (x)	144.1	90.4	55.1	38.8	33.7
Core PER (x)	183.2	95.1	55.1	38.8	33.7
FD PER (x)	183.2	95.1	55.1	38.8	33.7
DPS (sen)	3.0	2.0	4.3	6.1	7.0
Net DY (%)	0.3	0.2	0.5	0.6	0.7
Book/share (sen)	32.1	40.6	53.5	71.8	93.0
P/Book (x)	29.6	23.4	17.7	13.2	10.2
FCF/share (sen)	0.1	6.2	8.2	13.5	19.7
FCF yield (%)	0.0	0.7	0.9	1.4	2.1
Mkt Cap	5,221.4	5,221.4	5,221.4	5,221.4	5,221.4
Net Cash(Debt)	29.7	53.1	74.8	115.5	184.9
EV	5,191.7	5,168.3	5,146.6	5,105.9	5,036.5
EV/EBITDA (x)	90.9	62.7	38.4	27.5	24.2
ROE (%)	16.1	24.6	32.2	34.1	30.3
Current Ratio (x)	4.5	4.5	5.4	5.8	6.7
Quick Ratio (x)	3.2	3.3	4.1	4.5	5.4
Interest Cover (x)	20.6	136.3	501.2	712.4	816.7

Other Ratios

FYE Jul	FY19	FY20	FY21f	FY22f	FY23f
Sales Growth (%)		51.7	37.0	34.8	12.2
EBITDA Growth (%)		44.3	62.8	38.4	12.2
EBIT Growth (%)		49.6	63.1	42.1	14.6
PBT Growth (%)		57.2	63.0	42.2	15.0
Net Profit Growth (%)		59.4	64.0	42.2	15.0
Core PATAMI Growth (%)		92.7	72.5	42.2	15.0
EBITDA Margin (%)	39.6	37.6	44.7	45.9	45.9
EBIT Margin (%)	33.3	32.9	39.1	41.3	42.1
PBT Margin (%)	32.0	33.2	39.4	41.6	42.6
Net Profit Margin (%)	25.1	26.4	31.6	33.3	34.1
Core PATAMI Margin (%)	19.7	25.1	31.6	33.3	34.1
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	9.0	9.8	10.0	10.0	10.0

Figure #10 Peers comparison for Equipment Vendors

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x)		P/B (x)		Gross DY (%)
				2020	2021	2020	2021	2020
Malaysia								
ViTrox	Dec	14.40	1,671.7	62.6	48.6	12.2	10.3	0.4
Aemulus	Sep	0.61	90.7	40.7	23.5	3.1	2.7	N/A
Elsoft Research	Dec	0.92	151.0	N/A	N/A	N/A	N/A	N/A
Average				51.6	36.1	7.6	6.5	0.4
Asia								
Advantest	Mar	8,260.00	15,812.2	35.4	27.7	6.4	5.5	0.9
Koh Young Technology	Dec	120,900.00	1,100.0	83.1	44.2	6.4	5.8	0.4
Chroma ATE	Dec	200.00	3,006.9	36.0	21.9	6.0	5.1	1.8
Average				45.8	29.4	6.4	5.6	1.2
Europe								
BE Semiconductor	Dec	51.72	4,938.7	35.2	27.2	11.4	10.0	2.8
ASML	Dec	418.25	213,241.2	54.0	42.2	12.5	11.7	0.6
Average				44.6	34.7	12.0	10.8	1.7
US								
National Instruments	Dec	46.75	6,135.7	40.0	31.4	4.9	4.8	2.2
Teradyne	Dec	135.70	22,533.8	30.4	28.1	11.7	10.3	0.3
KLA-Tencor	Jun	289.11	44,655.9	23.0	22.0	13.8	10.8	1.3
Applied Materials	Oct	97.96	89,569.2	19.5	18.0	6.9	5.7	0.9
Veeco Instruments	Dec	19.78	981.3	22.6	17.6	N/A	N/A	N/A
Brooks Automation	Sep	72.40	5,372.8	41.7	34.3	4.4	3.9	1.0
Average				29.6	25.7	9.1	7.7	1.1
Overall Average				38.3	29.0	8.5	7.4	1.2
Bloomberg								

Bloomberg

Figure #11 Peers comparison for OSAT

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x)		P/B (x)		Gross DY (%)
				2020	2021	2020	2021	2020
Malaysia								
Inari Amertron	Jun	2.67	2,168.1	33.4	27.8	6.9	6.5	2.6
Globetronics Tech	Dec	2.67	439.7	34.2	24.7	5.7	5.3	2.5
Unisem	Dec	6.28	1,203.1	35.9	27.0	3.2	3.0	1.2
MPI	Jun	26.86	1,314.3	28.2	24.6	3.7	3.4	1.1
Average				32.9	26.0	4.9	4.5	1.8
Foreign								
Broadcom	Oct	445.76	181,296.4	17.0	15.9	7.6	7.4	3.2
Analog Devices	Oct	158.3	58,489.5	27.8	24.8	4.9	4.4	1.6
Skyworks Solutions	Sept	162.05	26,913.5	21.4	18.8	6.2	5.5	1.2
Texas Instruments	Dec	171.31	157,252.7	30.9	27.8	18.6	18.3	2.2
Qualcomm	Sept	156.11	176,560.4	21.7	19.5	19.6	13.9	1.7
Infineon Tech	Sept	33.82	53,723.7	34.3	28.2	4.1	3.7	0.8
Qorvo	Mar	182.76	20,844.5	21.3	18.8	4.5	3.9	0.0
Amkor	Dec	8.74	2,093.6	15.6	10.7	1.1	1.0	N/A
ASE	Dec	73.9	10,390.4	14.5	12.6	1.6	1.5	3.1
Powertech	Dec	88.9	2,254.8	10.3	9.1	1.7	1.6	5.8
Chipbond	Dec	64.8	1,369.5	10.7	12.5	1.6	1.5	5.6
Average				20.4	17.5	6.0	5.3	2.2
Overall average				23.5	19.6	5.7	5.1	2.1

Bloomberg

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Stock rating guidelines

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guidelines as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.