ChipMOS TECHNOLOGIES INC. Q1 2022 Earnings Conference Call
May 5, 2022 3:00 PM Taiwan

Company Participants
S.J. Cheng – Chairman and President
Silvia Su – Vice President-Finance and Accounting Management Center
Jesse Huang – Spokesperson and Senior Vice President-Strategy and Investor Relations.
G.S. Shen – Technical Deputy Director-Strategy and Investor Relations

Operator
Greetings, and welcome to the ChipMOS First Quarter 2022 Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. I would now like to turn the conference over to Dr. GS Shen, of ChipMOS TECHNOLOGIES Strategy and Investor Relations team to introduce the management team of the Company in Conference. Dr. Shen, you may begin.

GS Shen, Technical Deputy Director-Strategy and Investor Relations
Thank you, operator. Welcome everyone to ChipMOS' first quarter 2022 results conference call. Joining us today from the company are Mr. S.J. Cheng, Chairman and President; and Ms. Silvia Su, Vice President of Finance and Accounting Management Center. We are also joined on the call today by Mr. Jesse Huang, Spokesperson and Senior Vice President of Strategy and Investor Relations. S.J. will chair the meeting and review business highlights and provide color on the operating environment. After Silvia's review of the Company's key financial results, SJ will provide our current business outlook. All Company executives will then participate in an open Q&A session.

Please note, we have posted a presentation on the MOPS and also on the ChipMOS' website www.chipmos.com to accompany today's conference call. Before we begin the prepared comments, we advise you to review our forward-looking statements disclaimer, which is noted as the "Safe Harbor Notice" on the second page of today's presentation. As a reminder, today's conference call is being recorded and a replay will be made available later today on the Company's website.

At this time, I'd like to now turn the call over to our company's Chairman and President, Mr. S.J. Cheng. Please go ahead, sir.

S.J. Cheng, Chairman and President
Yes, thank you, GS. We appreciate everyone joining our call today. We continue to deliver strong financial results. It has not been easy with the semiconductor supply chain constraints and geopolitics. But our team has done a great job. We are focused and in position to capture higher volumes of the higher margin segments we have been growing in. In terms of Q1 2022….

- Q1 is normally lower than Q4 for the entire industry. For ChipMOS even with the headwind of fewer working days in Q1, our revenue was just down 1% from Q4 2021 and was up 4% year over year. This reflects the strength of our business and benefit from customer re-stocking inventory.

- Gross Margin increased 80 basis points to 25% compared to Q1 2021, despite global Inflation and supply chain constraints.
- We maintained our operating expenses in Q1 at 6.9% of revenue. We have been reducing costs through increased automation and other programs we implemented at our manufacturing facilities.
- Finally, Net Earnings increased 27% in Q1 2022 compared to Q1 2021, with 1Q22 reaching NT$1.68 EPS. We are very proud to deliver the higher profitability in such a challenging operating environment.

Let me give you some additional color on our Q1 performance…
Our overall utilization rate increased to 79% in Q1 2022. Driven by strong demand from OLED DDIC and Automotive applications, our high-end DDIC test platform still remained fully utilized in Q1. DDIC and Bumping UT level both increased to 87% and 86% respectively. We also saw an uptick in customer loading, with Assembly utilization increasing to 69% in Q1 2022. Testing was slightly lower at 73%.

Regarding our manufacturing business, assembly represented 28% of Q1 revenue. Testing represented around 21% and wafer bumping represented remain around 19.5% of Q1 revenue. On a product basis, our DDIC product was about 32% of Q1 revenue, with gold bumping representing about 17.4%. Revenue from DRAM and SRAM represented about 19.5% of Q1 revenue. Our Flash and the Mixed-signal products represented about 21% and 10% of Q1 revenue, respectively.

As additional color on our business, our memory product revenue was up about 0.7% compared to Q4 2021, and down 2.4% on a year over year basis. Memory products represented about 40.7% of total Q1 revenue. DRAM revenue increased 26% year over year and increased over 16.4% compared to Q4. This represented about 19% of total Q1 revenue, led by underlying demand growth and some near-turn rush orders and customer re-stocking inventory. Total Flash revenue represented about 21% of Q1 revenue. This was down just 9.6% compared to Q4 2021 and about 18% year over year. We are seeing some improvement in Q2. NAND revenue increased around 5% compared to Q4 2021, led by customer re-stocking inventory, and represented about 30% of Q1 total Flash revenue.

Moving onto Driver IC-related product revenue, including gold bumping. This business benefitted from higher OLED and Auto demand, as customers optimize their product mix, which helped offset the typical impacts of seasonality in Q1. Our Driver IC-related product revenue slightly decreased about 1.1% compared to Q4 2021 and was up about 9.7% on a year over year basis. Driver IC-related revenue was about 49.4% of total Q1 2022 revenue. DDIC revenue, including COG and COF, was slightly up over Q4 2021 and was up just over 14% year-over-year, driven by price increases and our high end test platform being fully utilized. COG revenue represented around 60% of Q1 DDIC revenue. It was up about 4% over Q4 2021 and significantly up 23% year over year led by the increasing of OLED and Automotive. TDDI revenue represented about 22.5% of Q1 2022 DDIC revenue. OLED also grew significantly over Q4 2021 and represented more than 5% of Q1 DDIC revenue.

On an end market basis, Revenue from Automotive and Industrial represented about 16.7% of Q1. Driven by strong demand for car display panels, the DDIC portion of Auto grew more than 20% over Q4 2021 and accounted more than 1/2 of Auto. Smartphones and TV, as an end market, accounted about 30.7% and about 17% of Q1 2022 revenue, respectively. Computing represented about 9.6% and consumer represented 26% of Q1 2022 revenue.

Now let me turn the call to Ms. Silvia Su, to review the first quarter 2022 financial results. Silvia, please go ahead.

Silvia Su, Vice President-Finance and Accounting Management Center

Thank you S.J. All dollar amounts cited in our presentation are in NT dollars. The following numbers are based on the exchange rates of NT$ 28.62 against US$1 as of March 31, 2022.
All the figures were prepared in accordance with Taiwan-International Financial Reporting Standards.

Referencing presentation Page 12 Consolidated Operating Results Summary

For the first quarter of 2022, total revenue was NT$ 6,725 million.
Net profit attributable to the Company was NT$ 1,225 million in Q1.
Net earnings for the first quarter of 2022 were NT$ 1.68 per basic common share or US$ 1.18 per basic ADS.
EBITDA for Q1 was NT$ 2,421 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.
Return on equity of Q1 was 19.5%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income
Compared to 4Q21:

Total 1Q22 revenue decreased 1.0% compared to 4Q21.
1Q22 Gross profit was NT$ 1,678 million, with gross margin at 25.0% compared to 26.0% in 4Q21. This represents a decrease of 1.0ppts.
Our operating expenses in 1Q22 were NT$ 467 million, or 6.9% of total revenue, which is about a 0.1% improvement compared to 4Q21.
Operating profit for 1Q22 was NT$ 1,232 million, with operating profit margin at 18.3%, which is about a 1.4ppts decrease compared to 4Q21.
Net non-operating income in 1Q22 was NT$ 229 million compared to NT$ 319 million in 4Q21. The difference is mainly due to a decrease of the share of profit of associates accounted for using equity method of NT$ 240 million and the increase of financial costs of NT$ 3 million and partially offset by the increase of foreign exchange gains of NT$ 154 million.
Profit attributable to the Company in 1Q22 decreased 13.6% compared to 4Q21.
Basic weighted average outstanding shares were 727 million shares.

Compared to 1Q21:

Total revenue for 1Q22 was up 4.0%.
Gross margin at 25.0% increased 0.8ppts compared to 1Q21.
Operating expenses increased 10.0% compared to 1Q21.
Operating profit margin at 18.3% increased 0.4ppts compared to 1Q21.
Net non-operating income of NT$ 229 million in 1Q22 compared to NT$ 25 million in 1Q21 which increased NT$ 204 million. The difference is mainly due to an increase of foreign exchange gains of NT$ 152 million and share of profit of associates accounted for using equity method of NT$ 58 million and partially offset by the decrease of gain on valuation of financial assets at fair value through profit or loss of NT$ 6 million.

Profit was up 27.7% compared to 1Q21. The difference is mainly due to an increase of operating profit of NT$ 73 million and net non-operating income of NT$ 204 million and partially offset by the increase of income tax expense of NT$ 11 million.

Referencing presentation Page 14 Consolidated Statements of Financial Position & Key Indices
Total assets at the end of 1Q22 were NT$ 42,015 million.
Total liabilities at the end of 1Q22 were NT$ 16,280 million.
Total equity at the end of 1Q22 was NT$ 25,735 million.
Accounts receivable turnover days in 1Q22 were 81 days.
Inventory turnover days was 58 days in 1Q22.

Referencing presentation Page 15 Consolidated Statements of Cash Flows
As of March 31, 2022, our balance of cash and cash equivalents was NT$ 6,288 million, increased NT$ 382 million compared to the beginning of the year.
Free cash flow for the first quarter of 2022 was NT$ 1,536 million compared to NT$ 922 million for the same period in 2021. The difference is mainly due to an increase of operating profit of NT$ 73 million, depreciation expenses of NT$ 61 million and the decrease of CapEx of NT$ 486 million and partially offset by the increase of income tax expense of NT$ 11 million.
Free cash flow was calculated by adding depreciation, amortization, interest income together with operating profit and then subtracting CapEx, interest expense, income tax expense and dividend from the sum.

Referencing presentation Page 16 Capital Expenditures and Depreciation
We invested NT$ 624 million in CapEx in Q1.
The breakdown of CapEx in Q1 was 4.0% for bumping, 49.1% for LCD Driver, 24.4% for assembly and 22.5% for testing.
Depreciation expenses were NT$ 1,188 million in Q1.

As of April 30, 2022, the Company's outstanding ADS number was approximately 4.4 million units, which represents around 12.1% of the Company's outstanding common shares.

That concludes the financial review. I will now turn the call back to our Chairman Mr. S.J. Cheng for our outlook. Please go ahead, sir.

SJ Cheng, Chairman and President
Thank you, Silvia. Clearly we are coming off a very strong 2021 and 2022 is off to a strong start. But the industry continues to face several industry headwinds with global inflation, the Ukraine and Russia conflict and lockdowns in China. These can impact both the supply chain and demand. Entering Q2, customers' demand is healthy and we will continue to manage the situation closely and work with customers and our supply chain partners to reduce any impacts. In general, we are cautiously upward the situation with healthy demand continuing in Q2.

In our memory product, momentum is expected to improve in Q2 over Q1. We expect DRAM momentum will remain healthy, and Flash is improving as we benefit from customers re-stocking inventory.

And in DDIC, our high end test platform capacity remains at a high utilization level led by demand from OLED and automotive applications. We continue to add DDIC high end test capacity quarterly to meet customer demand. In general, the momentum of DDIC is better than memory product. Meanwhile, we added take or pay contracts with customers to ensure the UT level in the future and to give us even better long term visibility on our new capacity added.

Given the continued evolving COVID-19 situation, ChipMOS continues to closely follow all government health regulations and have been able to reduce both distractions and disruptions. Actions we took a year ago to ensure the health of our employees and customers, gave us a strong plan to once again use. We take this seriously in order to keep our facilities open to give our customers the reliability and quality they trust us for. For example, all employees must daily record the temperature measurement result and self-health announcement. To reduce the opportunities for close contact and to minimize the scope of risks and members in case isolation, we have separated them into A and B teams by re-routing and seat real-name system.

In the meantime, continuous company-wide COVID-19 rapid tests were implemented after consecutive holidays since Lunar New Year holiday 2022, including all long-term contractors. All vendors and guests need use a COVID-19 rapid test in order to enter a factory. To encourage employee to follow internal epidemic prevention and control measures and to be vaccinated as soon as possible, we also paid an epidemic prevention and vaccination bonus. In addition, epidemic prevention subsidies are also issued to encourage foreign employees to follow our Company's epidemic prevention guidelines, such as point-to-point moving, reducing unnecessary egress, and lowering the chance of cross-contact with other factory personnel.

Up to now, we have achieved more than 99.8% second-does vaccine coverage for all employees and 96.6% of all employees have been third vaccinated. By the way, all foreign employees who are eligible for vaccination also have received a third vaccination.

I am pleased to report that we continue to operate normally. To reduce the minimum impact on daily operations and business, we continue to adjust the company's pandemic prevention measures on a rolling basis to the situation of the epidemic and the latest guidance of CECC.

Finally, before turning the call over to for your questions, I would like to highlight our latest dividend. Reflecting our continued business strength, positive outlook and focus on building shareholder value, our Board approved another dividend. Pending shareholder approval at our May AGM, we will distribute NT$ 4.3 per common share.

Operator, that concludes our formal remarks, we can now take questions.

Question-and-Answer Session

Operator
Thank you. At this time, we will be conducting a question-and-answer session. [Operator provides Q&A instructions]

Our first question comes from Jerry Su from Credit Suisse. You may begin.

Jerry Su
Considering there is more and more noise about end market demand, would you please give us more color about your Q2 outlook? Which product segment should perform better among each of memory and DDIC?

SJ Cheng
Firstly, regarding to DRAM, Niche DRAM will be favored from healthy demand of DDR3. Commodity DRAM is being favored from rush orders due to China lockdowns impacting local supply chains. As for NOR Flash, recent inventory levels seem slightly higher, with customers adjusting wafer loading accordingly.
As for DDIC, we have been increasing additional wafer testing capacity, and have engaged take or pay contracts with customers to maintain a higher UT rate. Besides, also due to China lockdowns, those customers having wafer foundry support in Taiwan tend to adopt our backend capacity instead of in China.

In general, the momentum of DDIC is better than memory product. We cautiously think the situation will improve in Q2 with healthy demand continuing.

As for second half of 2022, the industry continues to face several industry headwinds with global inflation, the Ukraine and Russia conflict and lockdowns in China. These can impact both the supply chain and demand. We will continue to manage the situation closely and work with customers and our supply chain partners to reduce any impacts. We will continue to update you on our 2022 Q2 earnings call.

Jerry Su
Would you please give us more commentary besides your positive wafer testing outlook, such as COG, COF & gold bumping?

SJ Cheng
We see some local customers becoming conservative. However, it could be offset by the demand from China customer due to the lockdown as we just discussed. Therefore, we think DDIC performance will still be healthy overall.

Jerry Su
Under current global circumstance, how would you comment on 2022 Capex and depreciation?

Silvia Su
Regarding to 2022 CapEX, it will be near 20% of annual revenue. And 2022 depreciation will be increasing 2~3% quarterly.

Operator
Our second question comes from Denny Wang from Sinopac securities. You may begin.

Denny Wang
Would you give us your expectation of 2022 tax rate?

Silvia Su
Our Q1 tax rate is around 16%, therefore 2022 tax rate is expected around 16~18%.

Denny Wang
Will DDIC wafer test revenue in Q2 be favored more than in Q1 due to price increases?

SJ Cheng
We added take or pay contracts with customers to ensure the UT level, however, customers are working on testing time reduction in order to compensate the potential DDIC end market price drop. Therefore, Q2 would be in the similar level with Q1.

Denny Wang
Is the Shanghai lockdown impacting Unimos operations?

SJ Cheng
Based on the previous pandemic control experience from the last two years, Unimos's employees live in the factory campus park area. This is closed and eliminates outsiders from entering the factory and removes lockdown issues. However, logistics can still be a little difficult. We expect this to improve further because Unimos was on the Shanghai priority production resumption list.

Denny Wang
Do you observe longer delivery times for those outstanding DDIC wafer tester orders?

SJ Cheng
Due to semiconductor material mismatch, the delivery would take more than one year especially for probers and low temperature test platforms for automotive applications.

Denny Wang
CapEx in Q1 is relatively lower, so that means the CapEx for the second half will be significantly higher. Would you please comment which will be the major?

Silvia Su
The majority will be for DDIC testers.

Denny Wang
Would you please comment on the reason making Q1 Inventory turnover days appear to be pretty high since 2016?

SJ Cheng
Most of the contribution comes from higher material safety stock for assembly due to longer delivery time.

Denny Wang
Follow up question to your higher material cost, will it impact to your gross margin?

SJ Cheng
As for the higher gold price, we could reflect that to customers based on agreed gold bumping price formula, but not all of it for assembly. As for the other assembly materials, such as substrate, we could reflect some to customers.

Operator
Thank you. And I am not showing any further questions in the queue. I would like to turn the call back over to GS.

GS Shen
That concludes our question-and-answer session. Thank you for participating. I'll turn the floor back to Mr. S.J. Cheng for any closing comments.

S.J. Cheng
Thank you everyone for joining our conference call. Please email our IR Team if you have any more questions. We appreciate your support. Goodbye.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

CALL ITSELF AND THE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.