

31 May 2023

OPPSTAR

Japan, Here I Come

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OPPSTAR has set Japan to be its next overseas target market where it has started to engage with prospective Japanese clients. Meanwhile, it has marked a new milestone with an IP turnkey project where it will eventually co-own the IP developed, allowing for recurring IP royalties with high margins. We keep our forecasts (as we feel that it is still premature to reflect contributions from these new initiatives), TP of RM1.82 and MARKET PERFORM call.

We came away from OPPSTAR's post-4QFY23 briefing feeling reassured of its prospects. The key takeaways are as follow:

1. Despite an industry-wide slowdown, OPPSTAR continues to receive a healthy number of enquiries from regional players. One notable engagement involves a Japanese company seeking to leverage OPPSTAR's expertise as Japan revitalises its semiconductor investment. With that in mind, the group has made Japan its priority for its next overseas expansion, viewing the upcoming TSMC fab (focused on 5nm-10nm nodes) in Kyushu Island as a catalyst that will drive more demand for IC design services in the region.
2. Alongside its ongoing turnkey projects, the group was recently engaged to work on an intellectual property (IP) turnkey design. This marks a significant milestone for the group as it will hold co-ownership of the developed IP, allowing them to generate passive revenue from future IP royalties. We deemed this development to be positive, as the group taps into the recurring IP business which will bring about higher margins. However, it's still at an early stage with meaningful contributions to likely be reflected in FY25.
3. The group has raised its headcount to 230 at present (from 183 in FY22) and has plans to expand its total workforce to 500 employees by FY26 to enable it to take on more projects simultaneously. It is willing to attract talent with good offers as a strong team is key to securing higher-value projects.

Forecasts. Maintained.

We keep our TP of RM1.82 based on 30x FY25F PER, in line with global peers' forward average (see Page 2). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

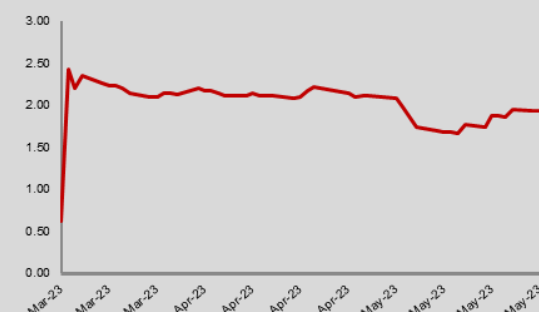
Investment thesis. We like OPPSTAR for: (i) its foothold and growing presence in the front-end semiconductor space with high entry barriers, specifically, stringent qualification requirements, (ii) its ability to attract customers from both the East and the West thanks to its access to various foundries and strong design capabilities in leading-edge process nodes, and (iii) its superior net profit margin of >30% vs peers' range of 6.4%-19.3%. However, we believe its current share price has fairly reflected its value. Maintain **MARKET PERFORM**.

Risks to our call include: (i) longer-than-expected gestation period for its regional expansions, (ii) single customer concentration risk with c.68% group revenue derived from Xiamen KirinCore, (iii) economic downturn resulting in customers slowing down the development of new ICs.

MARKET PERFORM ↔

Price : RM1.98
Target Price : RM1.82 ↔

Share Price Performance



KLCI 1,398.5
YTD KLCI chg -6.8%
YTD stock price chg 217.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	OPPSTAR MK Equity
Market Cap (RM m)	1,259.7
Shares Outstanding	636.2
52-week range (H)	2.95
52-week range (L)	1.50
3-mth avg daily vol:	7,443,849
Free Float	41.8%
Beta	n.a.

Major Shareholders

Ng Meng Thai	20.1%
Cheah Hun Wah	21.2%
Tan Chun Chiat	13.4%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	57.9	79.5	108.5
EBITDA	28.6	38.3	51.9
PBT	27.4	37.3	50.9
Net Profit (NP)	21.2	28.4	38.7
Consensus (NP)	-	27.5	36.3
Earnings Revision	-	-	-
EPS (sen)	3.3	4.5	6.1
EPS growth (%)	27.8	33.6	36.5
NDPS (sen)	0.8	1.1	1.5
BVPS (RM)	0.21	0.25	0.29
Price/BV (x)	9.2	8.0	6.8
PER (x)	59.4	44.4	32.6
Gearing (x)	0.0	0.0	0.0
ROA (%)	15.0	10.4	12.7
ROE (%)	15.6	18.0	20.7
Dividend Yield (%)	0.4	0.6	0.8



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Income statement						Financial Data & Ratios					
FY Mar (RM m)	2021A	2022A	2023A	2024F	2025F	FY Mar	2021A	2022A	2023A	2024F	2025F
Revenue	29.3	50.6	57.9	79.5	108.5	Growth (%)					
EBITDA	10.7	24.4	28.6	38.3	51.9	Turnover	83.3	72.8	14.5	37.2	36.5
Depre & Amor	-0.5	-1.1	-1.2	-1.0	-0.9	EBITDA	500.4	128.2	17.4	33.8	35.5
Operating Profit	10.2	23.2	27.4	37.3	50.9	Operating Profit	557.8	127.9	17.9	36.1	36.5
Other Income	1.2	1.0	1.8	2.4	3.3	PBT	578.0	131.3	18.4	36.3	36.5
Interest Exp	-0.2	-0.1	0.0	0.0	0.0	Net Profit	1752	112.9	27.8	33.6	36.5
Associate	-0.1	0.0	0.0	0.0	0.0						
PBT	10.0	23.1	26.4	37.3	50.9	Profitability (%)					
Taxation	-2.2	-6.5	-6.2	-9.0	-12.2	EBITDA Margin	36.5	48.2	49.4	48.2	47.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	Operating Margin	34.9	46.0	47.3	47.0	47.0
Net Profit	7.8	16.6	21.2	28.4	38.7	PBT Margin	34.2	45.7	47.3	47.0	47.0
Core Net Profit	7.8	16.6	21.2	28.4	38.7	Core Net Margin	26.7	32.8	36.7	35.7	35.7
						Effective Tax Rate					
						ROA	22.0	28.2	22.5	24.0	24.0
						ROE	6.1	50.5	80.4	15.0	10.4
							254.8	118.3	15.6	18.0	20.7
						DuPont Analysis					
						Net Margin (%)	1.9	2.4	0.4	0.3	0.4
						Leverage Factor (x)	5.0	1.4	1.0	1.7	1.6
						ROE (%)	254.8	118.3	15.6	18.0	20.7
						Leverage					
						Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.7	0.0	0.0	0.0	0.0
						Net (Cash)/Debt	-3.2	-6.3	-6.9	-139.5	-169.6
						Net Debt/Equity (x)	-1.0	-0.4	-0.1	-0.9	-0.9
						Valuations					
						Core EPS (sen)	1.2	2.6	3.3	4.5	6.1
						DPS (sen)	0.0	0.0	0.8	1.1	1.5
						BVPS (RM)	0.0	0.0	0.2	0.2	0.3
						PER (x)	161.5	75.9	59.4	44.4	32.6
						Div. Yield (%)	0.0	0.0	0.4	0.6	0.8
						P/BV (x)	411.5	89.7	9.2	8.0	6.8
						EV/EBITDA (x)	117.8	51.5	43.9	29.3	21.1

Source: Kenanga Research

Peer Comparison			
	CY24F PER (x)	CY25F PER (x)	Market Cap (USDm)
Global Unichip Corporation	39.1	31.5	6,603.3
Alchip Technologies Ltd	28.1	23.5	3,906.2
M31 Technology Corp	39.9	31.5	880.5
ASMedia Technology Inc	26.5	21.4	2,944.0
Andes Technology Corp	59.9	35.3	852.9
Aspeed Technology Inc	44.8	34.7	3,832.9
Simple Average	52.4	29.7	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	UP	3.62	2.68	-25.97%	4,480.8	Y	12/2023	7.8	10.7	-1.0%	37.9%	46.5	33.7	4.9	10.7%	1.3	0.4%
GHL SYSTEMS BHD	OP	0.820	1.05	28.05%	930.3	Y	12/2023	3.0	3.4	21.3%	12.9%	27.3	24.3	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.46	2.46	0.00%	9,183.0	Y	06/2023	9.0	10.2	-14.1%	13.1%	27.4	24.2	3.6	13.3%	8.6	3.5%
JHM CONSOLIDATION BHD	MP	0.730	0.800	9.59%	439.4	Y	12/2023	5.3	5.9	40.0%	10.6%	13.7	12.4	1.3	9.8%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.40	1.92	37.14%	900.2	Y	12/2023	8.7	9.0	1.1%	3.2%	16.1	15.6	3.2	21.3%	2.4	1.7%
KESM INDUSTRIES BHD	MP	6.92	6.91	-0.14%	297.7	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	558.5	0.8	-1.9%	7.5	1.1%
LGMS BHD	OP	1.02	1.32	29.41%	465.1	Y	12/2022	3.1	5.3	12.7%	70.4%	32.8	19.2	4.8	15.7%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	26.90	15.26	-43.27%	5,350.3	Y	06/2023	41.8	105.8	-74.7%	153.3%	64.0	25.4	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.25	1.40	12.00%	2,592.4	Y	12/2023	5.0	6.1	20.4%	22.8%	25.2	20.5	7.9	37.1%	0.3	0.2%
OPPSTAR BHD	MP	1.98	1.82	-8.08%	1,259.7	N	03/2024	4.5	6.1	34.0%	36.3%	44.4	32.6	8.0	19.3%	1.1	0.6%
PIE INDUSTRIAL BHD	OP	3.20	4.05	26.56%	1,228.9	Y	12/2023	22.5	25.3	22.0%	12.5%	14.2	12.6	2.0	14.6%	7.0	2.2%
SKP RESOURCES BHD	UP	1.02	0.950	-6.86%	1,593.6	Y	03/2024	6.3	7.1	-31.6%	12.5%	16.2	14.4	1.8	11.4%	3.2	3.1%
UNISEM (M) BHD	MP	2.99	2.75	-8.03%	4,823.1	Y	12/2023	8.9	13.8	-41.2%	55.7%	19.4	17.4	2.0	5.9%	6.0	2.0%
Simple Average										-26.4%	33.6%	30.4	22.7	3.4	12.9%		1.3%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Occupational Health & Safety	★	★	★	★	
	Protection of Customer Data	★	★	★	★	
	Cybersecurity	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Digital Transformation	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:
Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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