

30 May 2023

Oppstar Bhd

Chip Design Services in Short Supply

By Samuel Tan | samueltan@kenanga.com.my

OPPSTAR's FY23 results beat expectations where net profit grew 28%, driven by strong demand for its turnkey IC design as well as post-silicon validation services, and better cost control. The demand for customised chips is strong with technology including AI advancing at breakneck speed. We raise our FY24-25F forecasts by 12% and 16%, respectively, lift our TP by 40% to RM1.82 (from RM1.30) and upgrade our recommendation to MARKET PERFORM from UNDERPERFORM.

Above expectation. OPPSTAR's FY23 earnings of RM21.3m (+28%) beat our forecast and consensus estimate by 9% and 6%, respectively. The variance against our forecast came from stronger deliveries of its turnkey IC design services.

Results' highlights. YoY, FY23 revenue recorded a growth of 14.5% on the back of higher turnkey design projects secured and recognised during the year. The increase in demand for specific design services and post-silicon validation service further bolstered the company's performance. Notably, the group's efficient cost control propelled a 28.1% net profit growth (after adjusting for RM0.95m one-off listing expenses), resulting in a net profit margin increase of 3.9ppts.

Customised chip design services in short supply. The demand for outsourced customised chip design services is strong with technology including AI advancing at breakneck speed. Many companies are actively pursuing AI development to enhance workflow efficiency, making it clear that the market for customised chip design will continue to flourish. Furthermore, the ongoing chip war between the US and China presents a favourable landscape for companies like OPPSTAR. With a neutral position, the group is well-positioned to capitalise on the situation and seize project opportunities from both parties.

Forecasts. We raise our FY24-25F earnings forecasts by 12% and 16%, respectively.

Consequently, we raise our TP by 40% to RM1.82 (from RM1.30) based on a higher 30x FY25F PER (previously 25x), in line with the upward trending average forward PER of its global peers (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).

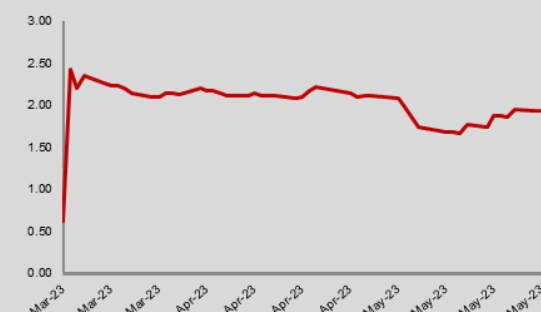
Investment thesis. We like OPPSTAR for: (i) its foothold and growing presence in the front-end semiconductor space with high entry barriers, specifically, stringent qualification requirements, (ii) its ability to attract customers from both the East and the West thanks to its access to various foundries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

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: **RM2.00**
Target Price: **RM1.82** 

Share Price Performance



KLCI 1,404.9
YTD KLCI chg -6.1%
YTD stock price chg 217.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	OPPSTAR MK Equity
Market Cap (RM m)	1,272.4
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 Mar (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
Core NP (CNP)	21.2	28.4	38.7
Consensus (NP)	-	27.0	34.6
Earnings Revision	-	12%	16%
EPS (sen)	3.3	4.2	5.8
EPS growth (%)	27.8	27.1	36.5
NDPS (sen)	0.8	1.1	1.4
BVPS (RM)	0.21	0.25	0.29
Price/BV (x)	9.3	8.1	6.9
PER (x)	60.0	47.2	34.5
Net 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

30 May 2023

Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	14.5	14.6	-0.8%	n.a.	n.a.	57.9	50.6	14.5%
GP	8.5	8.0	6.9%	n.a.	n.a.	33.5	30.1	11.2%
EBIT	6.8	5.9	14.1%	n.a.	n.a.	26.5	23.2	13.8%
PBT	6.8	5.9	14.1%	n.a.	n.a.	26.4	23.1	14.3%
Taxation	-1.3	-1.5	12.1%	n.a.	n.a.	-6.2	-6.5	5.6%
Net Profit (NP)	5.5	4.5	23.4%	n.a.	n.a.	20.4	16.6	22.4%
Core NP	5.6	4.7	20.7%	n.a.	n.a.	21.3	16.6	28.1%
EPS (sen)	0.9	0.7	20.7%	n.a.	n.a.	3.3	2.6	28.1%
DPS (sen)	0.8	0.0				0.8	0.0	
GP margin	58.9%	54.7%				57.9%	59.6%	
EBIT margin	46.7%	40.5%				45.7%	46.0%	
Pretax margin	46.6%	40.5%				45.6%	45.7%	
CNP margin	38.8%	31.9%				36.8%	32.9%	
Effective tax rate	-18.9%	-24.5%				-23.3%	-28.2%	

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

30 May 2023

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	3.89	2.68	-31.11%	4,815.1	Y	12/2023	7.8	10.7	-1.0%	37.9%	50.0	36.3	5.2	10.7%	1.3	0.3%
GHL SYSTEMS BHD	OP	0.800	1.05	31.25%	907.5	Y	12/2023	3.0	3.4	21.3%	12.9%	26.7	23.7	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.47	2.46	-0.40%	9,220.3	Y	06/2023	9.0	10.2	-14.1%	13.1%	27.5	24.3	3.7	13.3%	8.6	3.5%
JHM CONSOLIDATION BHD	MP	0.740	0.800	8.11%	445.4	Y	12/2023	5.3	5.9	40.0%	10.6%	13.9	12.6	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	7.00	6.91	-1.29%	301.1	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	565.0	0.9	-1.9%	7.5	1.1%
LGMS BHD	OP	1.10	1.32	20.00%	501.6	Y	12/2023	3.1	5.3	12.7%	70.4%	35.4	20.8	5.1	15.7%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	27.12	15.26	-43.73%	5,394.1	Y	06/2023	41.8	105.8	-74.7%	153.3%	64.6	25.6	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.23	1.40	13.82%	2,550.9	Y	12/2023	5.0	6.1	20.4%	22.8%	24.7	20.1	7.8	37.1%	0.3	0.2%
OPPSTAR BHD	MP	2.00	1.82	-9.00%	1,272.4	N	03/2024	4.5	6.1	34.0%	36.3%	44.8	32.9	8.1	19.3%	1.1	0.6%
P.I.E. INDUSTRIAL BHD	OP	3.29	4.05	23.10%	1,263.5	Y	12/2023	22.5	25.3	22.0%	12.5%	14.6	13.0	2.0	14.6%	7.0	2.1%
SKP RESOURCES BHD	UP	1.02	1.20	17.65%	1,593.6	Y	03/2023	9.7	7.9	-11.1%	-17.9%	10.5	12.9	1.8	17.8%	4.8	4.7%
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										-24.2%	28.7%	29.4	22.8	3.5	13.4%		1.4%

Source: Kenanga Research

30 May 2023

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my