

15 November 2023

NationGate Holdings

3QFY23 Earnings Improve QoQ

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NATGATE's 9MFY23 results met expectations. We are unperturbed by the slight delays in the production ramp-up in its networking and telco segment, pending the relocation of the production base of its key customer from China to Penang. Meanwhile, the onboarding of new Chinese customers in the AI-related fields is underway with contributions from 2QCY24. We keep our forecasts, TP of RM1.70 and OUTPERFORM call.

Within expectations. NATGATE's 9MFY23 net profit of RM45.6m accounted for only 64% and 65% of our full-year forecast and the full-year consensus estimate, respectively. However, we deem the results within expectations as we expect a bumper 4Q.

Results' highlights. YoY, NATGATE's 9MFY23 revenue declined by 36.2% due to a 55.3% top line contraction at its network and telco segment. The temporary hiccup had been very well guided by the company. It was due to its key customer currently relocating out from China to Penang, affecting the ramp-up of the production of new optical transceiver models. Thankfully, the decline was partially cushioned by an uptick in orders from the data computing segment (+13.5%) as well as a multi-fold increase in demand from the consumer segment (+496%), albeit from a low base.

Keeping up the pace. NATGATE is confident that the positive earnings momentum in 3QFY23 will be extended into 4QFY23. The group is taking on the production of a broader range of products of its key customer specialising in optical transceivers, as the customer relocates its base from China to Penang. This is at the expense of the customer's China-based contract manufacturers. At present, the customer outsources 30% of its contract manufacturing to NATGATE, with the balance 70% to its China-based contract manufacturers. However, this is set to reverse over the next 18-24 months. In addition, the onboarding of a data centre customer, xFusion, is underway with plans to initiate a gradual production ramp-up in 2QCY24, involving the PCBA process.

Forecasts. Maintained

We keep our TP of RM1.70 based on an unchanged 25x FY24F PER. This represents a 30% premium to peers' forward mean, justified by the group's favourable exposure to the fast-growing networking product segment and its advanced capabilities which yield better margins as well as enhancing customer stickiness. 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 NATGATE for its: (i) exposure to the fast-growing industrial and commercial products used in the networking and telecommunication sectors, (ii) 4IR-ready facilities that is able to take on higher complexity jobs, and (iii) added-value services such as chip-on-board (COB) that enhance customer stickiness and yield better margins. Maintain **OUTPERFORM**.

Risks to our call include: (i) heavy reliance on the networking segment which contributes c.70% of group revenue, (ii) competition from foreign EMS players that have presence in Malaysia, and (iii) adverse impact from component shortage which could delay delivery schedule.

OUTPERFORM ↔

Price: **RM1.21**
Target Price: **RM1.70** ↔

Share Price Performance



KLCI	1,451.5
YTD KLCI chg	-2.9%
YTD stock price chg	215.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NATGATE MK Equity
Market Cap (RM m)	2,509.5
Shares Outstanding	2,073.9
52-week range (H)	1.50
52-week range (L)	0.81
3-mth avg daily vol:	4,059,482
Free Float	95.0%
Beta	0.3

Major Shareholders

AIA Bhd	3.1%
CIMB Group Holdings Bhd	2.6%
Amanah Saham Nasional Bhd	1.5%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	945.7	782.8	1,359.3
EBITDA	152.1	134.9	212.7
PBT	85.6	71.4	141.0
Core Net Profit	85.6	71.4	141.0
Consensus	-	69.9	134.5
Earnings Revision	-	-	-
EPS (sen)	4.1	3.4	6.8
EPS growth (%)	43.8	-16.6	97.4
NDPS (sen)	1.0	0.3	0.3
BVPS (RM)	0.11	0.14	0.21
Price/BV (x)	10.9	8.4	5.8
PER (x)	29.1	34.8	17.6
Net Gearing (x)	1.4	0.7	0.5
ROA (%)	11.2	8.2	11.2
ROE (%)	37.4	24.2	32.7
Dividend Yield (%)	0.8	0.2	0.2

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	165.6	143.7	15.2%	305.2	-45.7%	466.7	731.2	-36.2%
GP	30.5	20.5	48.9%	42.3	-27.9%	80.9	102.2	-20.8%
EBIT	23.0	18.1	27.3%	55.7	-58.8%	57.5	81.0	-29.0%
PBT	21.0	16.1	29.9%	52.6	-60.1%	52.6	72.9	-27.9%
Taxation	-3.7	-1.8	-103.3%	-7.7	52.0%	-7.7	-9.5	19.0%
Net Profit	17.3	14.3	20.6%	30.1	-42.5%	44.9	63.1	-28.9%
Core Net Profit	18.9	14.4	31.3%	31.2	-39.4%	45.6	61.3	-25.5%
EPS (sen)	0.9	0.7	31.3%	1.5	-39.4%	2.2	3.0	-25.5%
DPS (sen)	0.3	0.3		0.0		0.8	1.0	
GP margin	18.4%	14.3%		13.9%		17.3%	14.0%	
EBIT margin	13.9%	12.6%		18.3%		12.3%	11.1%	
Pretax margin	12.7%	11.2%		17.2%		11.3%	10.0%	
CNP margin	11.4%	10.0%		10.2%		9.8%	8.4%	
Effective tax rate	-17.6%	-11.2%		-14.6%		-14.6%	-13.0%	

Source: Kenanga Research

Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	76.7	68.1	12.6%	228.0	-66.4%	228.6	511.5	-55.3%
Networking & telco	25.4	21.2	20.0%	29.2	-12.9%	66.6	83.7	-20.4%
Industrial instruments	28.5	20.9	36.7%	15.4	84.9%	77.1	67.9	13.5%
Data computing	6.8	9.1	-25.3%	1.9	266.6%	17.3	2.9	496.9%
Consumer electronics	13.7	10.9	25.9%	18.9	-27.4%	37.3	34.6	7.9%
Automotive	10.0	8.0	24.1%	7.3	37.5%	25.1	19.5	28.3%
Semiconductor	4.5	5.6	-18.6%	4.6	-1.9%	14.8	11.0	33.7%
Others								
Networking & telco	46.3%	47.4%		74.7%		49.0%	70.0%	
Industrial instruments	15.3%	14.7%		9.6%		14.3%	11.4%	
Data computing	17.2%	14.5%		5.1%		16.5%	9.3%	
Consumer electronics	4.1%	6.3%		0.6%		3.7%	0.4%	
Automotive	8.3%	7.6%		6.2%		8.0%	4.7%	
Semiconductor	6.0%	5.6%		2.4%		5.4%	2.7%	
Others	2.7%	3.9%		1.5%		3.2%	1.5%	

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	3.43	2.30	-32.9%	4,247.3	Y	12/2023	5.2	9.2	-33.7%	77.1%	65.8	37.2	4.8	7.3%	0.9	0.3%
GHL SYSTEMS BHD	OP	0.760	0.980	28.9%	861.8	Y	12/2023	2.7	3.0	8.9%	13.4%	28.3	24.9	1.6	5.8%	0.0	0.0%
INARI AMERTRON BHD	OP	2.96	4.17	40.9%	11,084.6	Y	06/2024	10.4	12.4	20.5%	18.8%	28.4	23.9	4.2	14.9%	9.9	3.3%
JHM CONSOLIDATION BHD	MP	0.780	0.700	-10.3%	469.7	Y	12/2023	3.1	4.6	-17.8%	48.7%	24.9	16.8	1.4	5.9%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.50	2.15	43.3%	967.2	Y	12/2023	9.7	10.2	12.6%	4.8%	15.5	14.7	3.4	23.5%	2.7	1.8%
KESM INDUSTRIES BHD	MP	6.92	7.06	2.0%	297.7	Y	07/2023	6.3	10.2	-44.9%	63.0%	111.9	66.9	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	1.00	1.32	32.0%	456.0	Y	12/2023	3.1	5.3	12.7%	70.4%	32.2	18.9	4.7	15.7%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	MP	26.90	24.05	-10.6%	5,350.3	Y	06/2024	80.9	118.2	162.5%	46.1%	33.2	22.8	2.5	7.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.21	1.70	40.5%	2,509.5	Y	12/2023	3.4	6.8	-16.6%	97.5%	35.2	17.8	8.5	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.62	1.82	12.3%	1,030.6	N	03/2024	4.5	6.1	34.0%	36.3%	36.3	26.6	6.5	19.3%	1.1	0.7%
P.I.E. INDUSTRIAL BHD	OP	3.18	3.61	13.5%	1,221.3	Y	12/2022	17.7	20.0	-4.2%	13.4%	18.0	15.9	2.0	11.7%	7.0	2.2%
SKP RESOURCES BHD	MP	0.810	0.950	17.3%	1,257.7	Y	03/2024	6.3	7.1	-31.6%	12.5%	12.9	11.4	1.5	11.4%	3.2	4.0%
UNISEM (M) BHD	UP	3.25	2.00	-38.5%	5,242.5	Y	12/2023	4.7	10.0	-68.6%	111.6%	68.6	32.4	2.2	3.2%	6.0	1.8%
Simple Average										-6.4%	37.9%	32.2	23.3	3.4	11.9%		1.3%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Technology & Innovation	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Ethical Practices	★	★	★	☆	
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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