

Natongate Holdings

Busy Times Ahead

By Samuel Tan | samueltan@kenanga.com.my

NATGATE anticipates: (i) higher demand from the telco segment, (ii) a recovery in the data computing segment on an upcoming new model launch by a customer, and (iii) increased orders from its customer in the optical transceiver space. It will start producing for xFusion, an AI-based data centre customer, in 2QFY24, while another two customers in the same space may come onboard later. We keep our earnings forecasts, TP of RM1.70 and OUTPERFORM call.

We came away from a meeting with NATGATE yesterday feeling positive on its outlook. The key takeaways are as follows:

1. NATGATE has seen a bottom in the recently reported 3QFY23 results and is now realigned back onto a path of strong growth trajectory. The group attributed the softer demand for optical transceivers in the recent 3QFY23 to the relocation of its key customer out from China to Penang. This temporary transition presents significant opportunities for NATGATE, benefiting from higher volume allocation. The current 30% outsourcing to NATGATE by the customer is expected to increase to 70% over the next 18-24 months. To facilitate the move, NATGATE will lease its entire Plant 8 (c.248k sq ft) to the customer that is slated to be completed by end-2023.
2. Orders from the telco segment are rising due to increased demand for military communication devices amid Middle East geopolitical tensions. In addition, demand from the data computing segment is showing signs of meaningful order recovery as its customer is rushing to push out existing models in anticipation to kick start a new model in early 2024. It is also a norm that a launch of a new model typically follows with robust order visibility over the next 12 months.
3. The onboarding of xFusion, an AI-based data centre customer, is currently underway, primarily focusing on final assembly works. Managing the intricate procedure of sourcing AI-related components from the USA, the group is sanguine on initiating a gradual ramp-up in the 2QFY24, which will then involve the PCBA process on top of the final assembly works. Success in securing necessary supplies is expected to attract interest from two additional customers in the same sector, eager to entrust jobs to NATGATE.

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 can 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 : **RM1.22**
Target Price : **RM1.70** ↔

Share Price Performance



KLCI	1,466.8
YTD KLCI chg	-1.9%
YTD stock price chg	221.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NATGATE MK Equity
Market Cap (RM m)	2,530.2
Shares Outstanding	2,073.9
52-week range (H)	1.77
52-week range (L)	0.81
3-mth avg daily vol:	4,038,784
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)	11.0	8.6	5.9
PER (x)	29.5	35.4	17.9
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

16 November 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	3.45	2.30	-33.3%	4,272.1	Y	12/2023	5.2	9.2	-33.7%	77.1%	66.2	37.4	4.8	7.3%	0.9	0.3%
GHL SYSTEMS BHD	OP	0.770	0.980	27.3%	879.0	Y	12/2023	2.7	3.0	8.9%	13.4%	28.6	25.2	1.6	5.8%	0.0	0.0%
INARI AMERTRON BHD	OP	3.00	4.17	39.0%	11,234.4	Y	06/2024	10.4	12.4	20.5%	18.8%	28.7	24.2	4.3	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	1.52	2.15	41.4%	980.1	Y	12/2023	9.7	10.2	12.6%	4.8%	15.7	14.9	3.4	23.5%	2.7	1.8%
KESM INDUSTRIES BHD	MP	7.00	7.06	0.9%	301.1	Y	07/2024	6.3	10.2	-44.9%	63.0%	113.2	67.7	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	27.18	27.20	0.1%	5,406.0	Y	06/2024	80.9	118.2	162.5%	46.1%	33.6	23.0	2.6	7.8%	35.0	1.3%
NATGATE HOLDINGS BHD	OP	1.22	1.70	39.3%	2,530.2	Y	12/2023	3.4	6.8	-16.6%	97.5%	35.5	17.9	8.6	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.62	1.82	12.3%	1,030.6	N	12/2023	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	3.13	3.61	15.3%	1,202.1	Y	12/2023	17.7	20.0	-4.2%	13.4%	17.7	15.7	2.0	11.7%	7.0	2.2%
SKP RESOURCES BHD	MP	0.830	0.950	14.5%	1,296.8	Y	03/2024	6.3	7.1	-31.6%	12.5%	13.2	11.7	1.5	11.4%	3.2	3.9%
UNISEM (M) BHD	UP	3.26	2.00	-38.7%	5,258.6	Y	12/2023	4.7	10.0	-68.6%	111.6%	68.8	32.5	2.2	3.2%	6.0	1.8%
Simple Average										-6.4%	37.9%	32.5	23.6	3.4	11.9%		1.2%

Source: Kenanga Research

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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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

