

04 March 2024

# Nationgate Holdings

## V-Shaped Recovery on the Cards

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NATGATE expects a V-shaped recovery upon the completion of the migration of a networking product customer's operation from China to Penang by May 2024. Meanwhile, its data computing segment will ride on a customer's new model launch. NATGATE has also been qualified to purchase AI GPUs. We fine-tune down our FY24-25F net profit forecasts by 3% and 2% respectively, trim our TP by 2% to RM1.58 (from RM1.62) but maintain our OUTPERFORM call.

We came away from NATGATE's post-4QFY23 results briefing feeling upbeat on its prospects. The key takeaway as follows:

1. NATGATE expects a V-shaped recovery (surpassing the FY22 levels) upon the completion of the migration of the operations of a networking and telecommunications product customer from China to Penang by May 2024. Recall, NATGATE reported weak earnings in 4QFY23 due to poor absorption of additional cost incurred from the increased headcount by 400-500 workers in anticipation of the surge in orders from this customer that did not come about as soon as it had expected.
2. It expects a higher loading volume from its data computing division, driven by a new DeFi equipment model recently launched by a customer. While the growing orders may potentially exceed its current capacity, the group will choose to increase shifts rather than expanding the lines to comply with its internal risk management policy that flags customer concentration risk.
3. It has been qualified as an official cloud partner of a well-known US GPU manufacturer, which allows it to procure AI GPUs for its project with xFusion, an AI-based data centre customer. While the group has placed orders for the next 12 months, the lead time could potentially take 6 months or more before the first delivery arrives, cutting it close to its 3QFY24 timeline where it aims to scale up its production with the PCBA process on top of the final assembly works.

**Forecasts.** We fine-tune down our FY24-25F net profit forecasts by 3% and 2%, respectively.

**Valuations.** Correspondingly, we tweak our TP down by 2% to RM1.58 (from RM1.62) 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 case.** 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) value-added 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 : **RM1.41**  
Target Price : **RM1.58** ↓

### Share Price Performance



KLCI	1,538.0
YTD KLCI chg	6.4%
YTD stock price chg	-11.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NATGATE MK Equity
Market Cap (RM m)	2,924.2
Shares Outstanding	2,073.9
52-week range (H)	1.77
52-week range (L)	1.08
3-mth avg. daily vol.	4,836,482
Free Float	29.9%
Beta	0.3

### Major Shareholders

Ooi Eng Leong	57.9%
Tan Ah Geok	7.2%
CIMB Group Holdings Bhd	3.6%

### Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	638.3	1,327.3	1,460.0
EBITDA	122.7	204.5	243.9
PBT	60.9	130.8	143.3
<b>Core Net Profit</b>	60.9	130.8	143.3
Consensus	-	134.5	162.3
Earnings Revision	-	-3%	-2%
EPS (sen)	2.9	6.3	6.9
EPS Growth (%)	-28.9	114.7	9.6
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	0.20	0.25	0.31
Price/BV (x)	6.9	5.5	4.4
PER (x)	47.0	21.9	20.0
Net Gearing (x)	0.3	0.2	0.2
ROA (%)	8.3	11.1	12.9
ROE (%)	14.7	24.9	22.1
Dividend Yield (%)	0.7	0.7	0.7



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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	MP	3.32	3.60	8.4%	4,111.1	Y	12/2024	8.5	12.0	133.7%	41.6%	39.2	27.7	4.1	10.8%	1.4	0.4%
GHL SYSTEMS BHD	OP	0.660	0.880	33.3%	753.4	Y	12/2024	2.4	2.8	-3.5%	15.8%	27.6	23.9	1.4	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.17	4.05	27.8%	11,901.1	Y	06/2024	9.9	12.1	14.0%	22.1%	32.1	26.3	4.5	14.1%	9.3	2.9%
JHM CONSOLIDATION BHD	MP	0.630	0.700	11.1%	378.8	Y	12/2024	4.7	5.2	94.5%	11.0%	13.5	12.2	1.1	8.5%	0.5	0.8%
KELINGTON GROUP BHD	OP	2.55	3.40	33.3%	1,658.5	Y	12/2024	16.1	19.4	1.0%	20.5%	15.8	13.1	4.0	27.7%	4.5	1.8%
KESM INDUSTRIES BHD	MP	6.60	7.06	7.0%	283.9	Y	07/2024	6.3	10.2	-44.9%	63.0%	106.7	63.8	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	1.00	1.16	16.0%	456.0	Y	12/2024	4.6	5.6	88.4%	21.8%	21.6	17.7	4.4	22.2%	0.9	0.9%
M'SIAN PACIFIC INDUSTRIES BHD	MP	29.04	24.30	-16.3%	5,776.9	Y	06/2024	59.6	118.3	93.5%	98.3%	48.7	24.6	2.8	5.8%	35.0	1.2%
NATGATE HOLDINGS BHD	OP	1.41	1.58	12.1%	2,924.2	Y	12/2024	6.3	6.9	114.8%	9.6%	22.3	20.4	5.5	27.4%	1.0	0.7%
OPPSTAR BHD	OP	1.18	1.72	45.8%	755.1	Y	12/2024	3.4	5.7	3.3%	66.7%	34.3	20.6	4.9	15.1%	0.9	0.8%
P.I.E. INDUSTRIAL BHD	OP	3.35	4.00	19.4%	1,286.5	Y	12/2024	22.2	26.1	15.7%	17.4%	15.1	12.8	1.9	13.4%	7.0	2.1%
SKP RESOURCES BHD	MP	0.760	0.850	11.8%	1,179.6	Y	03/2024	5.7	6.4	-38.4%	13.1%	13.3	11.9	1.4	10.3%	2.8	3.7%
UNISEM (M) BHD	MP	3.33	2.95	-11.4%	5,371.6	Y	12/2024	10.2	12.7	100.1%	24.9%	32.8	26.2	2.2	6.8%	6.0	1.8%
Simple Average										31.4%	29.3%	29.1	22.5	3.0	12.9%		1.3%

Source: Kenanga Research

**Stock ESG Ratings:**

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

☆ 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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