

02 May 2024

# OPPSTAR

## IC Design Collaboration with Samsung

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OPPSTAR is collaborating with Samsung to produce integrated circuits (ICs) including using Samsung's 14nm FinFET technology. This is significant as it comes with access to the foundry's process development kit (PDK), transforming OPPSTAR into an enabler (i.e. converting concepts into tangible products) for fabless tech players. While we maintain our forecasts, TP of RM1.72 and OUTPERFORM call, we take note that investors are willing to pay premium valuations for IC designers with collaboration with semiconductor foundries.

OPPSTAR is collaborating with Samsung to manufacture industrial ICs including using Samsung's 14nm FinFET technology foundry process. This represents a significant milestone given that it comes with access to the foundry's PDK, which includes proprietary library files and manufacturing methodology. Typically, access to such resources will only be granted after rigorous qualification processes, including assessment of design capability, company track record, and secure dedicated network. OPPSTAR's success with Samsung speaks volume for its credentials. Samsung is the second-largest semiconductor maker in the world with an estimated 14% share in 2023.

The access to wafer foundries transforms IC design houses like OPPSTAR into enablers (i.e. converting concepts into tangible products) for fabless tech players such as Nvidia, Qualcomm, Broadcom, AMD, and MediaTek.

The demand for customised IC design is strong on the back of the proliferation of IoT devices, autonomous vehicles, and artificial intelligence (AI) applications. Meanwhile, statistics from *Market.us* reveal that the 14nm node (part of the "14nm/16nm" family) holds the largest share of global process nodes at c.28%. This dominance stems from the well-established nature of the 14nm process node, boasting high yield rates at a comparatively affordable price compared to leading-edge nodes. Moreover, the 14nm node remains highly capable for modern-day applications, as evidenced by products such as the Exynos 8 Octa, Nvidia GTX1080, and Tesla UBQ01B0 full self-driving processor, offering an ideal balance between performance and affordability.

We are highly positive on OPPSTAR's latest development. While the earnings impact may not be immediate, we notice that investors globally are willing to pay an average CY24F PER of c.54x for IC designers with collaboration with semiconductor foundries (see Page 2), vs. OPPSTAR's FY25F (Mar) PER of only 25x.

Nevertheless, the latest development aside, we anticipate an upswing in OPPSTAR's earnings (after a soft patch recently) on the back of the doubling of its order book to RM24.7m (as of Feb 2024) on recurring turnkey design jobs from its existing customer, Xiamen KirinCore, as well as the addition of orders from the recently acquired design company in Japan.

**Forecasts.** Maintained.

**Valuations.** We keep our TP of RM1.72 based on an unchanged 30x FY25F PER, a c.45% discount to global peers' forward average (see Page 2) due to the substantial disparity in revenue size between OPPSTAR and its global counterparts. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

# OUTPERFORM ↔

Price : RM1.45  
Target Price : RM1.72 ↔

### Share Price Performance



KLCI	1,575.9
YTD KLCI chg	8.4%
YTD stock price chg	13.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OPPSTAR MK Equity
Market Cap (RM m)	928.8
Shares Outstanding	636.2
52-week range (H)	2.95
52-week range (L)	0.87
3-mth avg. daily vol.	1,258,548
Free Float	29.5%
Beta	n.a.

### Major Shareholders

Cheah Hun Wah	20.1%
Ng Meng Thai	20.0%
Tan Chun Chiat	13.3%

### Summary Earnings Table

FYE Mar (RM m)	2023A	2024F	2025F
Turnover	57.9	66.0	103.0
EBITDA	28.6	29.7	49.0
PBT	27.4	28.8	48.1
<b>Net Profit (NP)</b>	21.2	21.9	36.5
Consensus (NP)	-	25.0	38.2
Earnings Revision	-	-	-
EPS (sen)	3.3	3.4	5.7
EPS Growth (%)	27.8	3.0	67.1
NDPS (sen)	0.8	0.9	1.4
BVPS (RM)	0.21	0.24	0.28
Price/BV (x)	6.8	6.0	5.1
PER (x)	43.5	42.2	25.3
Gearing (x)	0.0	0.0	0.0
ROA (%)	15.0	8.1	12.2
ROE (%)	15.6	14.3	20.3
Dividend Yield (%)	0.6	0.6	1.0

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**Investment case.** 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 strong design capabilities in leading-edge process nodes, and (iii) its diverse customer base, i.e. both from the East and the West given its strong working relationships with various foundries. **OUTPERFORM.**

**Risks to our call include:** (i) longer-than-expected gestation period for its regional expansions, (ii) single customer concentration risk with c.60% group revenue derived from Xiamen KirinCore, (iii) economic downturn resulting in customers slowing down the development of new ICs.

Peer Comparison			
	CY24F PER (x)	CY25F PER (x)	Market Cap (USD m)
Socionext Inc	26.8	17.1	4,951.3
Global Unichip Corporation	57.3	30.4	5,639.1
Alchip Technologies Ltd	54.8	29.2	7,127.2
M31 Technology Corp	81.6	32	1,220.4
ASMedia Technology Inc	40.1	19.9	4,150.2
Aspeed Technology Inc	62.2	35.2	3,587.6
<b>Simple Average</b>	<b>53.8</b>	<b>27.3</b>	

Source: Kenanga Research

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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	66.0	103.0	<b>Growth (%)</b>					
EBITDA	10.7	24.4	28.6	29.7	49.0	Turnover	83.3	72.8	14.5	14.0	56.0
Depre & Amor	-0.5	-1.1	-1.2	-1.0	-0.9	EBITDA	500.4	128.2	17.4	4.0	64.8
Operating Profit	10.2	23.2	27.4	28.8	48.1	Operating Profit	557.8	127.9	17.9	5.0	67.1
Other Income	1.2	1.0	1.8	2.0	3.2	PBT	578.0	131.3	18.4	5.1	67.1
Interest Exp	-0.2	-0.1	0.0	0.0	0.0	Net Profit	1752	112.9	27.8	3.0	67.1
Associate	-0.1	0.0	0.0	0.0	0.0						
PBT	10.0	23.1	26.4	28.8	48.1	<b>Profitability (%)</b>					
Taxation	-2.2	-6.5	-6.2	-6.9	-11.5	EBITDA Margin	36.5	48.2	49.4	45.0	47.6
Minority Interest	0.0	0.0	0.0	0.0	0.0	Operating Margin	34.9	46.0	47.3	43.6	46.7
<b>Net Profit</b>	<b>7.8</b>	<b>16.6</b>	<b>21.2</b>	<b>21.9</b>	<b>36.5</b>	PBT Margin	34.2	45.7	47.3	43.6	46.7
<b>Core Net Profit</b>	<b>7.8</b>	<b>16.6</b>	<b>21.2</b>	<b>21.9</b>	<b>36.5</b>	Core Net Margin	26.7	32.8	36.7	33.1	35.5
						Effective Tax Rate	22.0	28.2	22.5	24.0	24.0
						ROA	6.1	50.5	80.4	15.0	8.1
						ROE	254.8	118.3	15.6	14.3	20.3
						<b>DuPont Analysis</b>					
						Net Margin (%)	1.9	2.4	0.4	0.2	0.3
						Leverage Factor (x)	5.0	1.4	1.0	1.8	1.7
						ROE (%)	254.8	118.3	15.6	14.3	20.3
						<b>Leverage</b>					
						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	-135.5	-163.5
						Net Debt/Equity (x)	-1.0	-0.4	-0.1	-0.9	-0.9
						<b>Valuations</b>					
						Core EPS (sen)	1.2	2.6	3.3	3.4	5.7
						DPS (sen)	0.0	0.0	0.8	0.9	1.4
						BVPS (RM)	0.0	0.0	0.2	0.2	0.3
						PER (x)	118.3	55.5	43.5	42.2	25.3
						Div. Yield (%)	0.0	0.0	0.6	0.6	1.0
						P/BV (x)	301.4	65.7	6.8	6.0	5.1
						EV/EBITDA (x)	86.2	37.7	32.1	26.5	15.5

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	MP	3.32	3.60	8.4%	4,111.0	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	0.735	0.880	19.7%	1,141.1	Y	12/2024	2.4	2.8	-3.5%	15.8%	30.8	26.6	1.6	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.09	4.05	31.1%	11,613.0	Y	06/2024	9.9	12.1	14.0%	22.1%	31.3	25.6	4.4	14.1%	9.3	3.0%
JHM CONSOLIDATION BHD	MP	0.580	0.700	20.7%	351.2	Y	12/2024	4.7	5.2	94.5%	11.0%	12.4	11.2	1.0	8.5%	0.5	0.9%
KELINGTON GROUP BHD	OP	2.74	3.40	24.1%	1,829.2	Y	12/2024	16.1	19.4	1.0%	20.5%	17.0	14.1	4.3	27.7%	4.5	1.6%
KESM INDUSTRIES BHD	MP	6.12	7.06	15.4%	263.3	Y	07/2024	6.2	10.3	-46.2%	67.2%	99.0	59.2	0.7	0.7%	0.0	0.0%
LGMS BHD	OP	1.21	1.16	-4.1%	552.1	Y	12/2024	4.6	5.6	88.4%	21.8%	26.1	21.4	5.3	22.2%	0.9	0.7%
M'SIAN PACIFIC INDUSTRIES BHD	MP	30.30	24.30	-19.8%	6,359.1	Y	06/2024	59.6	118.3	93.5%	98.3%	50.8	25.6	2.9	5.8%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.74	1.58	-9.2%	3,609.2	Y	12/2024	6.3	6.9	114.8%	9.6%	27.6	25.2	6.8	27.4%	1.0	0.6%
OPPSTAR BHD	OP	1.45	1.72	18.6%	928.8	Y	03/2024	3.4	5.7	3.3%	66.7%	42.2	25.3	6.0	15.1%	0.9	0.6%
PIE INDUSTRIAL BHD	OP	5.72	6.75	18.0%	2,197.3	Y	12/2024	22.2	28.7	15.7%	29.3%	25.8	19.9	3.3	13.4%	7.0	1.2%
SKP RESOURCES BHD	MP	1.02	0.850	-16.7%	1,594.0	Y	03/2024	5.7	6.4	-38.4%	13.1%	17.9	15.9	1.9	10.3%	2.8	2.7%
UNISEM (M) BHD	MP	3.65	2.95	-19.2%	5,888.1	Y	12/2024	10.2	12.7	100.1%	24.9%	35.9	28.8	2.4	6.8%	6.0	1.6%
Simple Average										31.4%	30.1%	31.9	24.5	3.4	12.9%		1.1%

Source: Kenanga Research

**Stock ESG Ratings:**

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