

31 May 2024

# Oppstar

## Growing Pains, Better Outlook in FY25

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**OPPSTAR's FY24 results disappointed. Its FY24 core net profit fell 34%, weighed down by increased headcount to drive expansion. Oppstar has recently partnered with Samsung's wafer fab to be an enabler for fabless tech players, in addition to its expansion to Japan and China. We fine-tune down our FY25F earnings forecast by 1% and trim our TP to RM1.70 (from RM1.72). Maintain OUTPERFORM.**

OPPSTAR's FY24 earnings of RM13.3m missed our forecast and the consensus estimate by 39% and 35%, respectively. The key variance against our forecast came largely from turnkey project contributions not coming in timely.

**YoY**, its FY24 revenue dipped by 2% due to a slow pick-up in its turnkey design segment's turnover, which is uncommon for turnkey design projects, partially cushioned by improved performance from its specific design and post-silicon validation services. However, its core net profit plunged by a steeper 34% due to increase in its headcount to 290 (from 230 in FY23) to support business expansion.

**QoQ**, its 4QFY24 core net profit plunged 91% on a 20% decline in its revenue on the back of weak performance from both turnkey and specific design projects. This could be partially attributable to the Chinese New Year break as >c.50% of its orders is catered to its key Chinese customer. Not helping either, similarly, was the increase in its headcount.

**Outlook.** OPPSTAR is still very much in its expansionary phase with a target to increase its headcount to 500. This ambitious goal is to cater for future demand as the group foresees growing demand for customised chip design services amidst the escalating race for AI supremacy. It has also embarked on a multi-prong strategy to capture more businesses from: (i) Japan where it has completed the acquisition of a local Japanese design house and is currently getting more enquiries, (ii) its 50%-owned JV, Shanghai Longhuixin Integrated Circuit Group Co, where it co-develops and co-owns IPs, and (iii) the collaboration with Samsung's wafer fab which will elevate it to be an enabler for fabless tech players, focusing on 14nm node.

**Forecasts.** We fine-tune down our FY25F earnings forecast by 1% and introduce our FY26F earnings forecast projecting 15.5% growth.

**Valuations.** We tweak our TP down to **RM1.70** (from RM1.72) based on an unchanged 30x FY25F PER, at about 40% discount to the mean forward PER of its peers (see page 2) to reflect OPPSTAR's significantly smaller size and more limited capabilities vs. its global counterparts. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

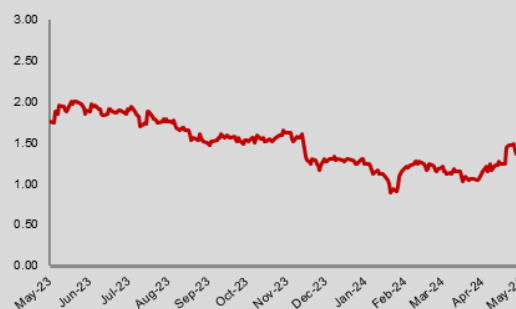
**Investment case.** We like OPPSTAR for: (i) its foothold and growing presence in the front-end semiconductor space with high entry barriers, specifically, stringent qualification requirements, (ii) its strong design capabilities in leading-edge process nodes, and (iii) its diverse customer base, i.e. both from the East and the West given its strong working relationships with various foundries. Maintain **OUTPERFORM**.

**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, and (iii) economic downturn resulting in customers slowing down the development of new ICs.

# OUTPERFORM ↔

Price: **RM1.49**  
Target Price: **RM1.70** ↓

### Share Price Performance



KLCI	1,604.3
YTD KLCI chg	10.3%
YTD stock price chg	13.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OPPSTAR MK Equity
Market Cap (RM m)	953.9
Shares Outstanding	640.3
52-week range (H)	2.95
52-week range (L)	0.87
3-mth avg. daily vol.	3,665,012
Free Float	27.9%
Beta	n.a.

### Major Shareholders

Cheah Hun Wah	20.5%
Ng Meng Thai	19.5%
Tan Chun Chiat	12.8%

### Summary Earnings Table

FYE Mar (RM m)	2024A	2025F	2026F
Turnover	56.9	117.7	136.0
EBITDA	19.8	48.3	62.4
PBT	18.5	47.3	54.7
<b>Core NP (CNP)</b>	13.7	36.3	41.9
Consensus (NP)	na	31.0	33.7
Earnings Revision	na	-1%	NEW
EPS (sen)	2.1	5.7	6.6
EPS Growth (%)	-34.4	164.7	15.5
NDPS (sen)	0.8	1.4	1.6
BVPS (RM)	0.23	0.27	0.32
Price/BV (x)	6.4	5.4	4.6
PER (x)	69.5	26.3	22.7
Net Gearing (x)	0.0	0.0	0.0
ROA (%)	8.8	13.3	14.0
ROE (%)	9.2	20.7	20.3
Dividend Yield (%)	0.5	1.0	1.1

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
<b>Revenue</b>	<b>12.1</b>	<b>15.2</b>	<b>-20.3%</b>	<b>14.5</b>	<b>-16.6%</b>	<b>56.9</b>	<b>57.9</b>	<b>-1.7%</b>
GP	4.5	6.9	-34.9%	8.5	-47.4%	26.9	33.5	-19.7%
EBIT	2.0	5.7	-65.4%	6.8	-70.6%	19.7	26.5	-25.6%
Interest Expense	0.0	0.0	9.1%	0.0	-42.9%	0.0	0.0	-10.0%
EI	-1.1	0.0		0.0		-2.2	-0.3	
PBT	3.1	5.7	-46.0%	6.8	-54.1%	20.8	26.4	-21.4%
Taxation	-1.5	-1.1	-42.0%	-1.3	-20.3%	-5.2	-6.2	14.8%
Net Profit (NP)	1.6	4.6	-66.4%	5.5	-71.6%	15.5	20.4	-23.7%
<b>Core NP</b>	<b>0.4</b>	<b>4.6</b>	<b>-90.5%</b>	<b>5.6</b>	<b>-92.2%</b>	<b>13.3</b>	<b>20.0</b>	<b>-33.6%</b>
EPS (sen)	0.1	0.7	-90.5%	0.9	-92.2%	2.1	3.1	-33.6%
DPS (sen)	0.3	0.5		0.8		0.8	0.0	
GP margin	37.2%	45.5%		58.9%		47.3%	57.9%	
EBIT margin	16.4%	37.9%		46.7%		34.5%	45.7%	
Pretax margin	25.6%	37.8%		46.6%		36.5%	45.6%	
CNP margin	3.6%	30.7%		38.8%		23.4%	34.6%	
Effective tax rate	-49.6%	-18.9%		-18.9%		-25.2%	-23.3%	

Source: Kenanga Research

Peer Comparison			
	CY24F PER (x)	CY25F PER (x)	Market Cap (USD m)
Socionext Inc	32.3	30.8	5,488.1
Global Unichip Corporation	53.0	38.6	6,132.4
Alchip Technologies Ltd	35.0	26.3	6,870.5
M31 Technology Corp	66.1	47.5	1,159.7
ASMedia Technology Inc	30.7	21.6	4,217.3
Aspeed Technology Inc	70.1	44.7	4,066.5
<b>Simple Average</b>	<b>47.9</b>	<b>34.9</b>	

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	3.73	3.60	-3.5%	4,618.8	Y	12/2024	8.5	12.0	133.7%	41.6%	44.1	31.1	4.7	10.8%	1.4	0.4%
GHL SYSTEMS BHD	OP	1.06	1.08	1.8%	1,210.0	Y	12/2024	2.4	2.8	-3.5%	15.8%	44.4	38.4	2.2	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.36	4.00	19.0%	12,646.2	Y	06/2024	9.4	11.8	8.6%	25.8%	35.7	28.4	4.8	13.4%	8.9	2.6%
JHM CONSOLIDATION BHD	MP	0.620	0.610	-1.6%	375.7	Y	12/2024	3.3	4.1	40.0%	21.7%	18.6	15.2	1.1	6.2%	0.5	0.8%
KELINGTON GROUP BHD	OP	3.21	4.10	27.7%	2,148.8	Y	12/2024	16.1	19.4	1.0%	20.5%	19.9	16.5	5.0	27.7%	4.5	1.4%
KESM INDUSTRIES BHD	MP	6.26	7.04	12.5%	269.3	Y	07/2024	4.0	8.1	-65.1%	102.8%	156.1	77.0	0.8	0.5%	0.0	0.0%
LGMS BHD	OP	1.47	1.90	29.3%	670.3	Y	12/2024	4.6	6.3	88.4%	37.0%	31.7	23.2	6.5	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	38.74	46.84	20.9%	7,706.5	Y	06/2024	74.5	138.0	141.8%	85.2%	52.0	28.1	3.7	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.88	1.58	-16.0%	3,899.0	Y	12/2024	6.3	6.9	114.8%	9.6%	29.8	27.2	7.3	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.49	1.70	14.1%	954.0	Y	03/2024	5.7	6.5	165.0%	15.4%	26.3	22.7	5.4	22.4%	1.4	0.9%
P.I.E. INDUSTRIAL BHD	OP	5.99	6.75	12.7%	2,300.4	Y	12/2024	22.2	28.7	15.7%	29.3%	27.0	20.9	3.4	13.4%	7.0	1.2%
SKP RESOURCES BHD	MP	1.11	0.850	-23.4%	1,734.2	Y	03/2024	5.7	6.4	-38.4%	13.1%	19.5	17.3	2.0	10.3%	2.8	2.5%
UNISEM (M) BHD	MP	4.14	3.70	-10.6%	6,678.1	Y	12/2024	10.2	12.7	100.1%	24.9%	40.7	32.6	2.7	6.8%	6.0	1.4%
Simple Average										34.3%	30.8%	35.2	26.9	3.8	13.3%		1.0%

Source: Kenanga Research

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**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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