

06 June 2024

Natongate Holdings

Higher Production Across Segments

By Samuel Tan | samueltan@kenanga.com.my

NATGATE guided for recovery in production at its networking division following the completion of the customer's relocation from China to Penang. Meanwhile, its data computing segment will be buoyed by the production ramp-up of its new AI-server and a pickup in the production of its crypto-related product as chip shortages ease. We keep our forecasts, TP of RM2.06 and our **OUTPERFORM** call.

We came away from NATGATE's post-1QFY24 results briefing feeling reassured of its prospects. The key takeaway follows:

1. NATGATE is seeing recovery in its networking (optical transceivers) and telco (military communication device) divisions (1QFY24 +32% YoY), which contributes c.52% of the group's total revenue. This is as the migration of the production of the networking-related products of a major customer from China to Penang moves closer to full completion. The customer is now renting NATGATE's Plant 8 and the tenure will commence in Jul 2024. As such, NATGATE will handle increased volumes of optical transceivers (<100G modules) before transitioning to higher-end modules (200G-800G) as per the customer's allocation schedule. This transition is expected to enhance the plant's utilisation rate (currently at c.60%) and improve absorption of cost arising from the additional c.400-500 workforce hired in advance for this project.
2. We understand that the strong performance from its data computing division in 1QFY24 (+73% YoY) was primarily driven by its new server product which accounted for c.42% of the segment's revenue. This means that the demand for its crypto-related product (making up the remaining c.58% of the segment's revenue) remained flat as the customer was hit by chip shortages (chip sourcing rests with the customer as the job was awarded on a consignment basis). This issue was also reported by another local EMS peer producing the same product. Despite this, NATGATE remains optimistic about the overall growth of the data computing division, supported by the further production ramp-up at the server business and a gradual easing of the chip supply shortages for the crypto-related product.
3. NATGATE is in the midst of expanding its Plant 6 to 194k sq ft (from 74k sq ft) and Plant 9 to 194k sq ft (from 84k sq ft) with completion expected in end-2024. These expansions will add another 230k sq ft, making up for Plant 8 (c.248k sq ft) rented out to its networking customer. Post expansion (ex- Plant 8), the group will have a total floor space of c.1m sq ft that should adequately accommodate growth over the next two years.

Forecasts. Maintained

Valuations. We keep our TP of **RM2.06** based on an unchanged 25x FY25F 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**.

OUTPERFORM ↔

Price : **RM1.83**
Target Price : **RM2.06** ↔

Share Price Performance



KLCI	1,608.5
YTD KLCI chg	10.6%
YTD stock price chg	22.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NATGATE MK Equity
Market Cap (RM m)	3,795.3
Shares Outstanding	2,073.9
52-week range (H)	1.82
52-week range (L)	1.08
3-mth avg. daily vol.	5,151,482
Free Float	29.9%
Beta	0.3

Major Shareholders

Ooi Eng Leong	57.9%
Tan Ah Geok	7.2%
Citigroup Inc	3.7%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	638.3	1,327.3	1,533.0
EBITDA	122.7	204.5	278.6
PBT	60.9	130.8	171.1
Core Net Profit	60.9	130.8	171.1
Consensus	-	122.3	144.7
Earnings Revision	-	-	-
EPS (sen)	2.9	6.3	8.3
EPS Growth (%)	-28.9	114.7	30.8
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	0.20	0.25	0.33
Price/BV (x)	9.3	7.3	5.7
PER (x)	63.3	29.5	22.5
Net Gearing (x)	0.3	0.2	0.2
ROA (%)	8.3	11.1	15.0
ROE (%)	14.7	24.9	25.3
Dividend Yield (%)	0.5	0.5	0.5

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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	3.60	3.60	0.0%	4,458.5	Y	12/2024	8.5	12.0
GHL SYSTEMS BHD	AO	1.07	1.08	0.9%	1,221.4	Y	12/2024	2.4	2.8	-3.5%	15.8%	44.8	38.8	2.3	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.41	4.00	17.3%	12,836.0	Y	06/2024	9.4	11.8	8.6%	25.8%	36.2	28.8	4.9	13.4%	8.9	2.6%
JHM CONSOLIDATION BHD	MP	0.670	0.610	-9.0%	403.0	Y	12/2024	3.3	4.1	40.0%	21.7%	20.1	16.4	1.2	6.2%	0.5	0.7%
KELINGTON GROUP BHD	OP	3.17	4.10	29.3%	2,122.0	Y	12/2024	16.1	19.4	1.0%	20.5%	19.7	16.3	5.0	27.7%	4.5	1.4%
KESM INDUSTRIES BHD	MP	6.12	7.04	15.0%	263.2	Y	07/2024	4.0	8.1	-65.1%	102.8%	152.7	75.3	0.7	0.5%	0.0	0.0%
LGMS BHD	OP	1.48	1.90	28.4%	674.9	Y	12/2024	4.6	6.3	88.4%	37.0%	32.0	23.4	6.5	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	38.00	46.84	23.3%	7,559.3	Y	06/2024	74.5	138.0	141.8%	85.2%	51.0	27.5	3.6	7.2%	35.0	0.9%
NATGATE HOLDINGS BHD	OP	1.83	2.06	12.6%	3,795.3	Y	12/2024	6.3	8.3	114.8%	30.8%	29.5	22.5	7.1	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.40	1.70	21.4%	896.4	Y	12/2024	5.7	6.5	165.0%	15.4%	24.7	21.4	5.1	22.4%	1.4	1.0%
P.I.E. INDUSTRIAL BHD	OP	6.03	6.75	11.9%	2,315.8	Y	12/2024	22.2	28.7	15.7%	29.3%	27.2	21.0	3.5	13.4%	7.0	1.2%
SKP RESOURCES BHD	OP	1.19	1.35	13.4%	1,859.2	Y	03/2024	7.3	8.5	18.5%	15.3%	16.3	14.0	2.0	12.4%	3.7	3.1%
UNISEM (M) BHD	MP	4.10	3.70	-9.8%	6,613.6	Y	12/2024	10.2	12.7	100.1%	24.9%	40.3	32.3	2.7	6.8%	6.0	1.5%
Simple Average										44.1%	32.8%	34.4	25.9	3.8	13.5%		1.1%

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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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

