

04 June 2024

NationGate Holdings

Orders Return

By Samuel Tan | samueltan@kenanga.com.my

NATGATE's 1QFY24 results met expectations. Its 1QFY24 core net profit jumped 40% as orders from its key client in the networking segment resumed after its relocation from China. NATGATE has begun the production of AI servers which will be ramped up in 2HFY24. We raise FY25F earnings forecast by 19%, lift TP by 30% to RM2.06 (from RM1.58) and maintain our OUTPERFORM call.

NATGATE's 1QFY24 core net profit of RM20.4m accounted for only 16% and 15% of our full-year forecast and the full-year consensus estimate, respectively. However, we deem the results within expectation given the seasonally weak 1Q.

YoY, NATGATE's 1QFY24 revenue jumped 31.5%, driven by a strong increase in deliveries across all product segments. The top three products (c.88% of group revenue) — networking and telco (+27.5%), industrial (+33.3%), and data computing (+73.4%) — saw robust growth. The networking and telco segment, contributing c.52% of group revenue, had previously faced a temporary slowdown due to a customer's relocation out of China. Orders from the customer were already normalising. Meanwhile, the data computing segment, related to mining equipment and comprising about c.23% of group revenue, experienced a significant jump driven by a new model which was well received amidst current optimism in the DeFi market.

QoQ, contrary to its usual seasonality, 1QFY24 saw a 20.7% rise in revenue, while net profit increased by 28.1%. This was due to the low base in 4QFY23 as the typical seasonal uptick had failed to materialise due to a slowdown in orders from its networking and telecom customer that was in the midst of relocating out of China.

Outlook. We expect orders from the networking segment to improve further over the immediate term as its key customers move more production from China to Penang, boosting NATGATE's utilisation as various products transition to mass production. Meanwhile, it has begun shipping its AI servers (approved by Nvidia) to customers and the shipment is expected to pick up in 2HFY24.

Forecasts. We increase our FY25F earnings forecast by 19% to reflect the better contributions from its AI server product.

Valuations. Consequently, we raise our TP by 30% to **RM2.06** (from RM1.58) based a rolled-forward FY25F PER pegged to an unchanged PER of 25x. This represents a c.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: (i) its presence in the fast-growing industrial and commercial products used in the networking and telecommunication sectors, (ii) its 4IR-ready facilities that is able to take on jobs with higher complexity, and (iii) its value-added services such as chip-on-board (COB) that have high customer stickiness and yield better margins. Maintain **OUTPERFORM**.

Risks to our call include: (i) its 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) component shortages hurting production.

OUTPERFORM ↔

Price: **RM1.85**
Target Price: **RM2.06** ↑

Share Price Performance



KLCI	1,596.7
YTD KLCI chg	9.8%
YTD stock price chg	22.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NATGATE MK Equity
Market Cap (RM m)	3,733.1
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	-	-	+19%
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)	63.0	29.3	22.4
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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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY24	Chg	FY24	FY23	Chg
Revenue	207.0	171.6	20.7%	157.4	31.5%	207.0	157.4	31.5%
GP	207.0	171.6	20.7%	157.4	31.5%	207.0	157.4	31.5%
EBIT	34.3	30.4	12.8%	29.9	14.4%	34.3	29.9	14.4%
Interest Expense	24.5	18.3	33.5%	16.5	48.4%	24.5	16.5	48.4%
EI	-2.8	-2.4	-14.0%	-1.0	-164.0%	-2.8	-1.0	-164.0%
PBT	-0.6	0.0		-2.5		-0.6	-2.5	
Taxation	22.3	15.9	40.3%	15.5	44.5%	22.3	15.5	44.5%
Net Profit	-1.5	-2.0	24.4%	-2.2	32.0%	-1.5	-2.2	32.0%
Core Net Profit	21.0	15.9	31.9%	13.3	58.2%	21.0	13.3	58.2%
EPS (sen)	20.4	15.9	28.1%	14.5	40.3%	20.4	14.5	40.3%
DPS (sen)	1.0	0.8	28.1%	0.7	40.3%	1.0	0.7	40.3%
	0.3	0.3		0.3		0.3	0.3	
GP margin								
EBIT margin	16.5%	17.7%		19.0%		16.5%	19.0%	
Pretax margin	11.8%	10.7%		10.5%		11.8%	10.5%	
CNP margin	10.8%	9.3%		9.8%		10.8%	9.8%	
Effective tax rate	9.9%	9.3%		9.2%		9.9%	9.2%	

Source: Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY24	Chg	FY24	FY23	Chg
Revenue	207.0	171.6	20.7%	157.4	31.5%	207.0	157.4	31.5%
Networking & telco	106.9	95.4	12.0%	83.8	27.5%	106.9	83.8	27.5%
Industrial instruments	26.7	24.5	8.7%	20.0	33.3%	26.7	20.0	33.3%
Data computing	48.1	25.4	89.0%	27.7	73.4%	48.1	27.7	73.4%
Consumer electronics	2.3	3.7	-38.5%	1.4	65.9%	2.3	1.4	65.9%
Automotive	12.3	8.7	40.1%	12.8	-3.9%	12.3	12.8	-3.9%
Semiconductor	5.2	8.6	-39.7%	7.1	-26.5%	5.2	7.1	-26.5%
Others	5.6	5.1	11.1%	4.7	21.1%	5.6	4.7	21.1%
Networking & telco								
Industrial instruments	51.6%	55.6%		53.2%		51.6%	53.2%	
Data computing	12.9%	14.3%		12.7%		12.9%	12.7%	
Consumer electronics	23.2%	14.8%		17.6%		23.2%	17.6%	
Automotive	1.1%	2.2%		0.9%		1.1%	0.9%	
Semiconductor	5.9%	5.1%		8.1%		5.9%	8.1%	
Others	2.5%	5.0%		4.5%		2.5%	4.5%	

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	3.68	3.60	-2.2%	4,557.5	Y	12/2024	8.5	12.0
GHL SYSTEMS BHD	AO	1.06	1.08	1.9%	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	3.25	4.00	23.1%	12,232.2	Y	06/2024	9.4	11.8	8.6%	25.8%	34.5	27.4	4.6	13.4%	8.9	2.7%
JHM CONSOLIDATION BHD	MP	0.620	0.610	-1.6%	375.7	Y	12/2023	3.3	4.1	40.0%	21.7%	18.6	15.2	1.1	6.2%	0.5	0.8%
KELINGTON GROUP BHD	OP	3.15	4.10	30.2%	2,108.6	Y	12/2024	16.1	19.4	1.0%	20.5%	19.5	16.2	4.9	27.7%	4.5	1.4%
KESM INDUSTRIES BHD	MP	6.18	7.04	13.9%	265.8	Y	07/2024	4.0	8.1	-65.1%	102.8%	154.2	76.0	0.7	0.5%	0.0	0.0%
LGMS BHD	OP	1.41	1.90	34.8%	643.0	Y	12/2024	4.6	6.3	88.4%	37.0%	30.5	22.3	6.2	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	37.10	46.84	26.3%	7,380.3	Y	06/2024	74.5	138.0	141.8%	85.2%	49.8	26.9	3.5	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.85	2.06	11.4%	3,836.8	Y	12/2024	6.3	8.3	114.8%	30.8%	29.3	22.4	7.2	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.40	1.70	21.4%	896.4	Y	03/2024	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	5.92	6.75	14.0%	2,273.5	Y	12/2024	22.2	28.7	15.7%	29.3%	26.7	20.6	3.4	13.4%	7.0	1.2%
SKP RESOURCES BHD	OP	1.09	1.35	23.9%	1,703.0	Y	03/2024	7.3	8.5	18.5%	15.3%	14.9	12.8	1.8	12.4%	3.7	3.4%
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%	33.7	25.4	3.7	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

