

04 June 2024

# OPPSTAR

## Growth Building Blocks Put in Place

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OPPSTAR has put in place building blocks for growth, namely, Samsung's wafer fab collaboration, expansion in the Japanese market and broadening the offerings of its post-silicon validation services. It shared that its recently announced 1QFY24 results could have been stronger had a turnkey project from a Chinese customer come in sooner. We keep our forecasts, TP of RM1.70 and OUTPERFORM call.

We came away from OPPSTAR's post-4QFY24 results briefing feeling reassured of its prospects. The key takeaways are as follows:

1. It has put in building blocks for growth in place. Its collaboration with Samsung will bring about a recurring revenue stream alongside the life-cycle of the customer's product. OPPSTAR has also identified low-hanging customers with the possibility of moving beyond the initial non-recurring engineering (NRE) phase (which typically takes two years) in FY25. Meanwhile, Oppstar Japan is now working with nine new Japanese customers. It can leverage on this track record to bid for more complex projects down the road. It also plans to broaden the offerings of its post-silicon validation services.
2. Its order book as at end-1QFY24 declined to RM18.2m (from RM24m three months ago) as a turnkey project from a Chinese customer did not come in sooner. Half each of the order backlog came from: (i) turnkey design (largely contributed by Xiamen KirinCore), and (ii) specific design projects (mainly from Malaysian-based MNC and Japanese customers). Its customer base has expanded to 23 (up from 12 in FY23) driven by new customers mostly for specific design projects and the acquisition of a Japanese design house.
3. We understand that OPPSTAR's weaker 4QFY24 revenue (-20% QoQ; -17% YoY) was mainly due to lower recognition from the turnkey design segment (-32% QoQ; -20% YoY) while the specific design segment (+22% QoQ; -9% YoY) remained fairly stable. Note that the turnkey design segment commands c.71% of the group's revenue and typically yields better margin compared to specific design jobs (c.28% of group revenue). Its performance could have been stronger had a turnkey project from a Chinese customer come in sooner as mentioned.

**Forecasts.** Maintained.

**Valuations.** We keep our TP of **RM1.70** based on an unchanged 30x FY25F PER, at a c.40% 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).

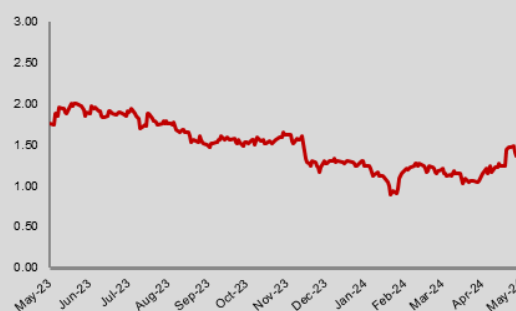
**Investment case.** We like OPPSTAR for: (i) its foothold and growing presence in the front-end semiconductor space with high entry barriers, specifically, stringent qualification requirements, (ii) its strong design capabilities in leading-edge process nodes, and (iii) its diverse customer base, i.e. 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.60% group revenue derived from Xiamen KirinCore, (iii) economic downturn resulting in customers slowing down the development of new ICs.

# OUTPERFORM ↔

Price : **RM1.40**  
Target Price : **RM1.70** ↔

### Share Price Performance



KLCI 1,596.7  
YTD KLCI chg 9.8%  
YTD stock price chg 6.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OPPSTAR MK Equity
Market Cap (RM m)	896.4
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>Net Profit (NP)</b>	<b>13.7</b>	<b>36.3</b>	<b>41.9</b>
Consensus (NP)	-	31.0	33.7
Earnings Revision	-	-	-
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)	6.0	5.1	4.3
PER (x)	65.3	24.7	21.4
Gearing (x)	0.0	0.0	0.0
ROA (%)	8.8	13.3	14.0
ROE (%)	9.2	20.7	20.3
Dividend Yield (%)	0.6	1.0	1.2



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	3.68	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%
PIE 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

**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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