

Nationgate Holdings

Positioned for AI-Driven Growth in FY25

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NATGATE is well-positioned to capitalize on strong AI server demand in the data computing segment, with scalable production capacity to meet increasing demand in FY25. Its networking and telco divisions are also recovering, with a shift to higher-margin advanced optical transceivers planned for FY25. We have revised down our FY24F earnings to reflect recent trends, while maintaining our FY25 forecast. Our target price remains at RM2.30, with an unchanged OUTPERFORM call.

We recently met with NATGATE's management and remain optimistic about its promising outlook. The key takeaways from the meeting are as follows:

1. NATGATE remains highly optimistic of strong growth in its data computing division, driven by robust server production and improving chip supply for crypto-related products. In 1HCY24, the group delivered 270 units of its new AI server, with a bold target of reaching 1k units by year-end. With the capacity to assemble 1k units per month, scalable up to 3k, NATGATE is well-positioned to capture rising demand in FY25 across the region, alongside increased demand from the expanding number of data centres in Malaysia. We have assumed it has the capacity to assemble of 1.5k units per month in our earnings model from FY25 onwards.
2. NATGATE's networking (optical transceivers) and telco (military communication device) divisions, contributing c.23% of revenue, are recovering as customer migration from China to Penang nears completion. The group is currently handling higher volumes of <100G optical transceivers in FY24, with a shift to higher revenue and margin advanced modules (200G-800G) planned for FY25.
3. NATGATE's 1HFY24 revenue surged 195% YoY to RM887m, driven by an over tenfold increase in its data computing segment due to the contribution from its new server business. However, strong revenue growth was partially offset by a lower gross profit margin (1HCY24: 9.5% vs. 1HCY23: 16.7%) due to an unfavorable revenue mix, as the new server business carries a lower single-digit margin. Despite this, net profit increased 79% YoY to RM50m.

Forecasts. We have reduced our FY24F earnings by 14% after incorporating 2QFY24 results and adjusting our margin assumptions lower to reflect the latest trends. Our FY25 projections remain unchanged.

Valuations. We maintain our TP at **RM2.30** 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).

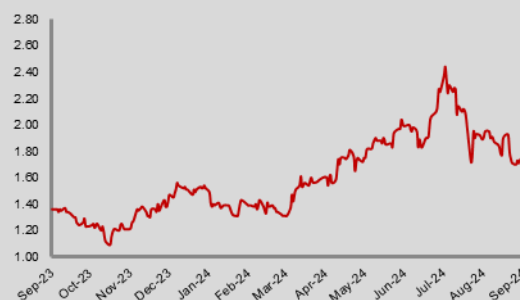
Investment case. We like NATGATE for its: (i) exposure to the fast-growing industrial and commercial products used in the networking and telecommunication sectors, (ii) 4IR-ready facilities that can take on higher complexity jobs, and (iii) value-added services such as chip-on-board (COB) that enhance customer stickiness and yield better margins. Maintain **OUTPERFORM**.

Risks to our call include: (i) 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) adverse impact from component shortage which could delay delivery schedule.

OUTPERFORM ↔

Price : RM1.72
Target Price : RM2.30 ↔

Share Price Performance



KLCI	1,660.59
YTD KLCI chg	14.2%
YTD stock price chg	13.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NATGATE MK EQUITY
Market Cap (RM m)	3,915.2
Shares Outstanding	2,276.3
52-week range (H)	2.52
52-week range (L)	1.08
3-mth avg. daily vol.	7,579,790
Free Float	41%
Beta	0.8

Major Shareholders

Ooi Eng Leong	48.2%
Tan Ah Geok	6.5%
CIMB Group Holdings Bhd	3.4%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	638	2,032	4,544
EBIT	78	147	266
PBT	71	135	252
Net Profit	61	112	209
Consensus	-	115	171
Earnings Revision (%)	-	-14	-
Core EPS (sen)	2.9	5.1	9.2
EPS Growth (%)	-43.7	75.4	78.1
NDPS (sen)	1.0	1.1	1.2
BV/Share (RM)	0.2	0.4	0.5
Core PER (x)	58.7	33.4	18.8
P/BV (x)	8.6	4.1	3.6
Gearing (x)	0.1	-0.4	0.1
Net Dvd Yield (%)	0.6	0.6	0.7

19 September 2024

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 18 Sept (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	OP	2.18	2.64	21.1%	2,702.1	Y	12/2024	5.8	9.8	64.2%	67.4%	25.8	18.2	2.8	7.9%	1.0	0.5%	
INARI AMERTRON BHD	OP	3.01	4.05	34.6%	11,402.3	Y	06/2025	10.0	12.1	22.0%	21.3%	32.0	25.4	3.9	13.2%	8.0	2.7%	
KELINGTON GROUP BHD	OP	3.12	4.16	33.3%	2,145.4	Y	12/2024	16.8	19.8	5.1%	18.1%	19.3	16.0	5.2	30.1%	9.0	2.9%	
LGMS BHD	OP	1.25	1.53	22.4%	570.0	Y	12/2024	3.6	5.1	46.4%	41.5%	27.0	19.7	5.8	17.7%	1.0	0.8%	
M'SIAN PACIFIC INDUSTRIES BHD	OP	27.10	38.80	43.2%	5,117.2	Y	06/2025	118.4	149.0	87.1%	25.9%	36.4	19.6	2.4	10.8%	35.0	1.3%	
NATIONGATE HOLDINGS BHD	OP	1.72	2.30	33.7%	3,915.2	Y	12/2024	5.1	9.2	84.2%	86.6%	30.0	18.7	4.1	16.9%	1.0	0.6%	
OPPSTAR BHD	MP	0.825	0.820	-0.6%	528.5	Y	03/2025	2.2	3.3	-11.0%	52.2%	14.6	12.6	3.3	9.0%	1.0	1.2%	
P.I.E. INDUSTRIAL BHD	OP	5.20	6.35	22.1%	1,997.0	Y	12/2024	17.5	27.0	-9.4%	54.5%	23.4	18.1	3.0	10.5%	0.0	0.0%	
SKP RESOURCES BHD	OP	1.11	1.35	21.6%	1,734.2	Y	03/2025	7.4	8.4	18.8%	14.5%	15.2	13.1	1.6	11.0%	0.0	0.0%	
UNISEM (M) BHD	OP	3.16	3.70	17.1%	5,097.3	Y	12/2024	10.2	12.7	100.4%	25.2%	31.1	24.9	2.1	6.8%	8.0	2.5%	
Simple Average					35,209.3													

Source: Kenanga Research

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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Published by:

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