Technology

AI Infrastructure and Data Center Boom

OVERWEIGHT

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We believe the data center and smartphone leveraged plays are shifting into more exciting stages. Following a 12-18 month data center construction phase, we anticipate the fit-out phase to begin in 4QCY24–1HCY25, providing a key opportunity for PIE (TP: RM6.35, OP), NATGATE (TP: RM2.30, OP), and INARI (TP: RM4.05, OP) to leverage on the rising AI infrastructure. Meanwhile, Generative AI smartphones - which shift user interactions from touch to voice are expected to grow more than 3-fold in 2024 and by another 73% in 2025. However, near-term headwinds are still lingering in the automotive semiconductor segment due to recent tariff hikes on Chinese EVs. All told, the sharp decline in the Bursa Malaysia Technology Index presents a buying opportunity for quality tech stocks. Taking over coverage, our top picks for the quarter - INARI, PIE, NATGATE, and KGB (TP: RM4.16, OP) are well-positioned, with strong earnings visibility and exposure to high-growth segments like AI-related infrastructure.

Strong growth in the global semiconductor market. The global semiconductor market is forecasted to experience robust growth in CY24 and CY25. As of July 2024, global semiconductor sales surged by 18.7% YoY, reaching USD 51.3b. Growth has been driven by strong demand in the Americas, China, and Asia Pacific, though Japan and Europe saw slight declines. Looking forward, the World Semiconductor Trade Statistics (WSTS) expects the global semiconductor market to grow by 16% in 2024, with Logic and Memory leading the charge, where a 12.5% growth is projected for CY25, reaching USD687b.

Data center boom: A key opportunity for Tech players. Malaysia's data center sector is expected to expand significantly, with IT capacity increasing from 500MW to over 3,000MW. AI servers alone are estimated at RM97.8b, offering significant opportunities for local tech players. Following a 12-18 month data center construction phase, we ancipate the fit-out phase to beging in 4QCY24-1HCY25. Companies like PIE, NATGATE, and INARI are positioned to benefit from this growth. PIE has secured a major server switcher customer, while NATGATE aims to deliver 1,000 AI servers by year-end. INARI is ramping up production of 800G optical transceivers to meet increasing demand for faster data transfers in data centers.

Smartphone market gains momentum with AI. The global smartphone market grew by 6.5% YoY in 2QCY24, reaching 285.4m units. While Apple and Samsung continue to dominate the premium segment, Chinese manufacturers are focusing on the mid-and-low-end market to capture volume. Looking ahead, Generative AI smartphones, which shifting interactions from touch to voice as voice assistants become more intelligent and personalized, are expected to be the next major growth driver, with shipments projected to grow by 364% in 2024. By 2028, the market is expected to reach 912m units, with a CAGR of 78% from 2023 to 2028, according to IDC.

Automotive semiconductor growth amid tariff challenges. The automotive semiconductor segment is set for long-term growth, driven by the rise of EVs, ADAS, and autonomous driving technologies. However, recent tariff hikes on Chinese EVs, (100% in the U.S. (effective 1 August 2024) and 27.4%-48.1% in the EU (effective later in 2024)) may disrupt supply chains. Malaysia's neutral stance in the trade conflict could position it as an alternative production hub, though the stickiness of the automotive supply chain, due to lengthy validation processes, may delay the impact on local players like MPI (TP: RM38.80, OP) and D&O (TP: RM2.64, OP).

Rationalizing earnings estimates and recommendations. Taking over coverage, we have updated our earnings estimates for several companies for recent developments. OPPSTAR (TP: RM0.82, MP) saw a significant revision downward due to delays in securing new foundry contracts and rising labor costs. INARI and MPI also had their estimates lowered due to margin compression and supply chain risks. On the other hand, KGB saw an upward revision due to stronger-than-expected order book growth, reflecting more optimism in the company (*please refer to exhibits 11 & 31 for details*).

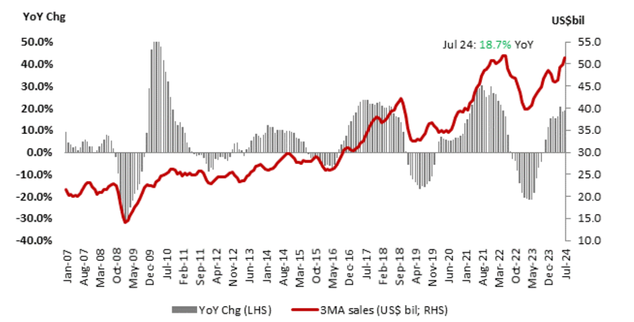
INARI, PIE, NATGATE and KGB are our top picks for the sector. The Bursa Malaysia Technology Index has declined 14.4% in the past month, underperforming the FBM KLCI, which gained 0.7%. This has brought the sector's YTD performance to -5.2%, no thanks to a pullback in AI-related optimism, disappointing earnings from local tech firms, and a stronger MYR. Despite these challenges, the recent price dip offers a great buying opportunity for quality tech stocks. Our top picks for the quarter are INARI, PIE, NATGATE, and KGB. These companies stand out with clear earnings visibility and are well-positioned to capitalize on the data center Fit-Out Phase and growing demand for AI-related infrastructure, making them strong contenders for outperformance as the sector rebounds.

Anticipating robust growth in year 2024 and 2025. According to the Semiconductor Industry Association (SMI), global semiconductor sales grew 18.7% YoY in July 2024, reaching USD51.3b. This marks the fourth consecutive month of growth, as tracked by the World Semiconductor Trade Statistics (WSTS), which represents 99% of U.S. semiconductor revenue and nearly two-thirds of non-U.S. chip firms. The strong annual growth was driven by robust sales in the Americas (up 40.1%), China (up 19.5%), and Asia Pacific/All Other regions (up 16.7%). However, this was partially offset by declines in Japan (-0.8%) and Europe (-12.0%).

WSTS has revised its 2024 forecast in June, now expecting the global semiconductor market to grow by 16% YoY to US$611b, driven by stronger performance in computing markets. For 2024, growth will be led by Logic (up 10.7%) and Memory (up 76.8%), while other segments like Discrete, Optoelectronics, Sensors, and Analog are expected to see slight declines.

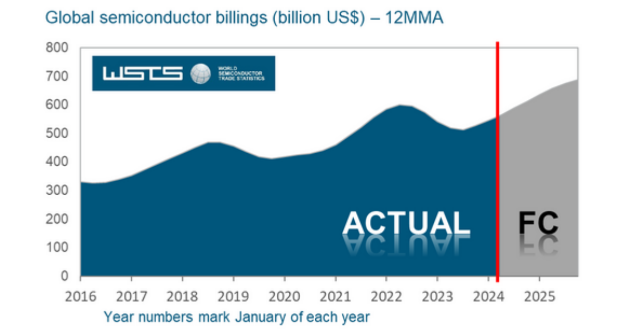
In 2025, the market is projected to grow 12.5%, reaching USD687b, with Memory and Logic continuing to drive growth, both surpassing USD200b. Other segments are expected to grow modestly. Regionally, the Americas and Asia Pacific are expected to see strong growth in 2025 (25.1% and 17.5%, respectively), while Europe will have minimal growth (0.5%), and Japan may see a slight decline (-1.1%).

Exhibit 1: Global Semiconductor Sales (% YoY)



Source: SIA

Exhibit 2: Global Semiconductor Billings (USDb)



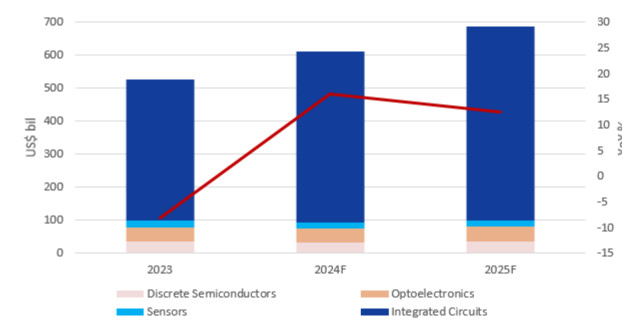
Source: WSTS

Exhibit 3: WSTS Spring Forecasts

Spring 2024	Amounts in US$M			Year on Year Growth in %		
	2023	2024	2025	2023	2024	2025
Americas	134,377	**168,062**	**192,941**	-4.8	25.1	14.8
Europe	55,763	**56,038**	**60,901**	3.5	0.5	8.7
Japan	46,751	**46,254**	**50,578**	-2.9	-1.1	9.3
Asia Pacific	289,994	**340,877**	**382,961**	-12.4	17.5	12.3
Total World - $M	526,885	**611,231**	**687,380**	-8.2	16.0	12.5
Discrete Semiconductors	35,530	**32,773**	**35,310**	4.5	-7.8	7.7
Optoelectronics	43,184	**42,736**	**44,232**	-1.6	-1.0	3.5
Sensors	19,730	**18,265**	**19,414**	13.7	-7.4	6.3
Integrated Circuits	428,442	**517,457**	**588,425**	-9.7	20.8	13.7
Analog	81,225	79,058	84,344	-8.7	-2.7	6.7
Micro	76,340	77,590	81,611	-3.5	1.6	5.2
Logic	178,589	197,656	218,189	1.1	10.7	10.4
Memory	92,288	163,153	204,281	-28.9	76.8	25.2
Total Products - $M	526,885	**611,232**	**687,381**	-8.2	16.0	12.5

Source: WSTS

Exhibit 4:WSTS – Segmental Breakdown



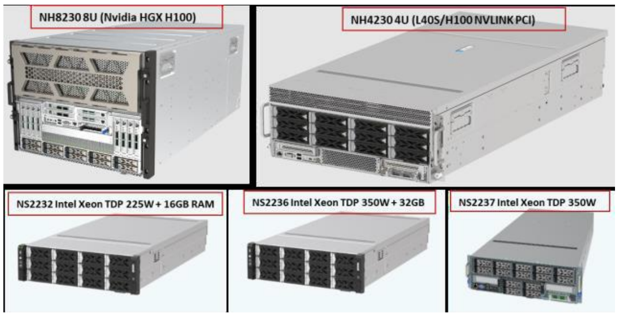
Source: WSTS

Tech players set to gain from Data Center Fit-Out Phase. Our earlier analysis (refer to our previous report dated 15 August, titled *Tech Players Are Next to Ride the Data Centre Boom*) shows that data centers typically go through 12-18 months of core construction, followed by the fit-out phase, where essential infrastructure like servers, power systems, and cooling units are installed. Tech companies specializing in servers and related equipment are expected to start seeing benefits from this phase between 4QCY24 and 1HCY25, coinciding with the completion of data centers that began construction earlier this year.

Note that, Malaysia's data center capacity is projected to surge, supporting over 3,000MW of IT capacity compared to the current operational capacity of less than 500MW. The market for AI servers alone is estimated at RM97.8b, assuming 40% of the new IT capacity (around 2,600MW) is dedicated to AI servers, which typically consume about 11kW each.

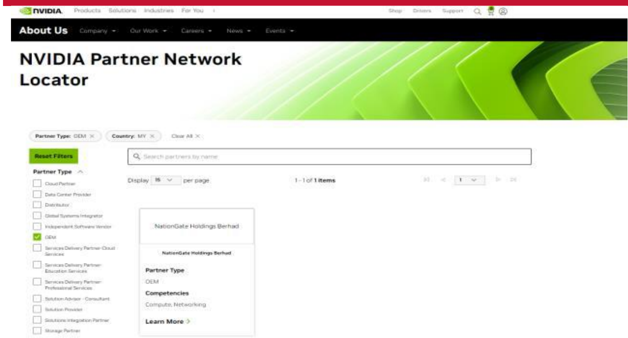
Local EMS players such as PIE, NATGATE, and INARI, with business segments linked to AI data centers and servers, are well-positioned to benefit from the rapid growth in AI-related infrastructure. PIE has secured a key customer specializing in server switches, which will fully occupy its new 280k sq ft plant 6. Mass production is expected to begin by 2025, further boosting PIE's presence in the AI data center market. NATGATE, on the other hand, has made notable strides in the AI server space, delivering 270 units in 1HCY24 and aiming to hit 1,000 units by the end of the year. This aggressive expansion is gaining momentum, supported by the data center boom in Malaysia. Additionally, INARI is capitalizing on the demand for faster data transfer within data centers by ramping up production of up to 800G optical transceiver modules (refer to exhibit 7 & 8), driven by the growing need for higher bandwidth as AI adoption increases.

Exhibit 5: NatGate's AI and General Servers



Source: NatGate

Exhibit 6: NatGate Listed as Nvidia Partner Network



Source: Nvidia

Exhibit 7: Optical Transceivers

Source: Cloudlight

Exhibit 8:Optical Transceivers

Source: Linkel Technologies

Worldwide smartphone shipments continue to grow. Latest June 2024 preliminary data from IDC's worldwilde quarterly mobile phone tracker indicated that the global smartphone shipments grew by 6.5% YoY, reaching 285.4m units in 2QCY24. This marks the fourth consecutive quarter of growth, although demand remains uneven across many markets.

Despite this, competition among top brands is intensifying. Apple and Samsung continue to dominate the premium segment, benefiting from a trend towards higher-end devices. Meanwhile, leading Chinese manufacturers are increasing low-end shipments to capture volume amidst weak demand, putting pressure on mid-range devices.

Samsung led in 2QCY24 with an 18.9% market share, supported by its flagship devices and AI strategy. Apple followed with 15.8% market share, driven by stronger performance in China and other key regions. Xiaomi ranked third at 14.8%, while vivo and OPPO tied for fourth place with around 9% market share each. Both Xiaomi and vivo experienced double-digit growth, particularly in emerging markets, while OPPO registering 1.8% growth due to expansion outside of China. Moving forward, 2HCY24 is expected to see more excitement, especially with the rise of Gen AI smartphones, which will protentially be the next growth driver after 5G and foldables.

Reshaping the mobile experience. The rise of AI-powered smartphones, driven by breakthroughs in Generative AI (GenAI, a technology that can produce various types of content, including text, imagery, audio and synthetic data) and Large Language Models (LLMs), is set to revolutionize mobile user experiences. AI will bring smarter features and services, shifting interactions from touch to voice as voice assistants become more intelligent and personalized.

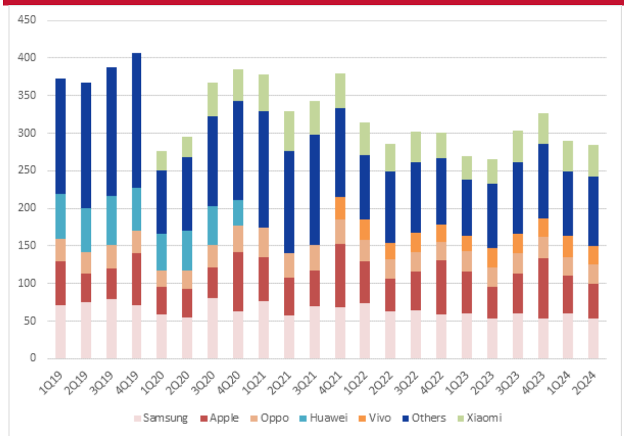
IDC projects a 364% surge in Gen AI smartphone shipments in 2024, reaching 234m units. Despite economic challenges and longer device lifecycles, this segment is poised to be the fastest-growing in the industry. Shipments are expected to grow by 73.1% in 2025 and continue at a double-digit pace through 2028, reaching 912m units, with a CAGR of 78.4% from 2023 to 2028.

Several Gen AI smartphones, such as the Samsung Galaxy S24 Ultra, Xiaomi 14 Ultra, Google Pixel 8 Pro, and iPhone 16 series, have already entered the market. With advancing technology, more powerful and affordable Gen AI smartphones are expected to drive consumer demand and accelerate upgrade cycles in the coming months.

INARI, where the RF segment accounted for 61% of FY24 turnover, is expected to benefit from the recent launch of a new US GenAI smartphone and the anticipated smartphone replacement cycle.

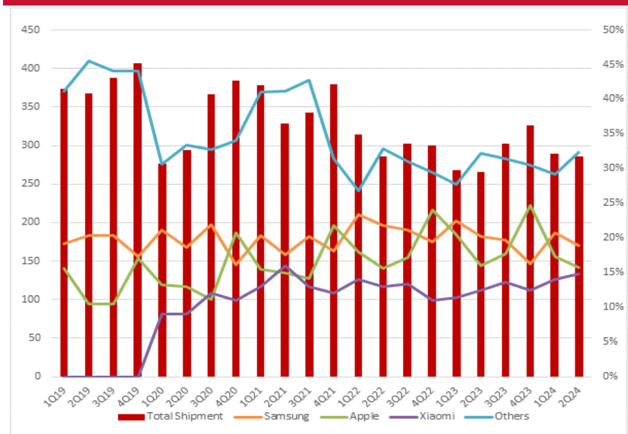
MPI, which derives approximately 13% of its revenue from the consumer and communications segment, is also well-positioned to capitalize on the recovery in China's smartphone market, spurred by Huawei's 7nm processor breakthrough and premiumization by Xiaomi and Honor. This is reflected in its improved utilization rate, which exceeded 60% at its Suzhou plant by the end of FY24. Additionally, the group is postitioned to benefit from the upcoming smartphone replacement cycle where it has strategically tapped into the 5G revolution through robust custom offerings in various high-growth areas such as (i) RF (Radio Frequency) solutions for 5G mobile devices and WiFi6, (ii) Power packaging expertise, particularly for handsets and 5G base stations, and (iii) MEMS (Micro-Electro-Mechanical Systems) & Sensors, where MPI is expanding into high-grade BOM (Bill of Materials) for the RF segment, targeting premium components and ensuring higher performance for 5G applications.

Exhibit 9: Worldwise Smartphone Shipments (m units)



Source: IDC

Exhibit 10: Worldwide Smarphone Shipments Market Share



Source: IDC

Tarrifs shake up EV supply chains. While the automotive semiconductor segment is poised for medium-to-long-term growth, driven by key trends such as electric vehicles (EVs), advanced driver-assistance systems (ADAS), and autonomous driving technologies, recent tariff increases on Chinese EV imports to the U.S. and EU may disrupt supply chains. The U.S. has increased tariffs on Chinese EVs to 100% (from 25% previously), while the EU has imposed provisional tariffs ranging from 27.4% to 48.1%, due to concerns over unfair subsidies and industrial overcapacity.

These tariffs are expected to cause shifts in the automotive semiconductor supply chain. Malaysia, being a neutral party in the U.S.-China trade conflict, could potentially benefit as companies seek alternative production hubs. However, the automotive supply chain is known for its "stickiness", primarily due to the lengthy qualification processes that automotive semiconductors require, often taking years to validate. As a result, the direct impact on Malaysian OSAT (such as MPI) and other automotive segment focus EMS players (such as D&O) may be less immediate or significant in the near term, even though the country could be well-positioned for future gains.

Rationalise our earnings assumptions and recommendations. We have reshuffled our tech sector coverage and are incorporating the latest quarterly results into our financial models. This update allows us to rationalize our earnings assumptions and stock recommendations. The revised estimates reflect the latest business developments, growth prospects, and market conditions. The table below outlines the changes in earnings estimates and the corresponding rationale for each stock *(please refer to exhibit 11-31 for details)*

Exhibit 11: OPPSTAR - Rationales for Changing Earnings Estimate

Before (RMm)	FY24	FY25F	FY26F	After (RMm)	FY24	FY25F	FY26F	Remarks
Turnover	57	118	136	Turnover	57	58	72	(1) Weak 1Q25 results due to a longer transition period in expanding its engineering team to secure new foundry contracts. (2) Higher labor costs are impacting margins
Net Profit	16	36	42	Net Profit	16	14	21	
% chg in NP				% chg in NP		-62%	-50%	

Source: Kenanga

Exhibit 12: INARI - Rationales for Changing Earnings Estimate

Before (RMm)	FY24	FY25F	FY26F	After (RMm)	FY24	FY25F	FY26F	Remarks
Turnover	1479	1811	2022	Turnover	1,479	1,697	1,968	(1) Weak 4Q24 results due to lower sales & margin compression from higher input costs related to expansion and new product development. (2) Lower sales & margin assumptions to reflect current trends
Net Profit	307	442	494	Net Profit	307	374	454	
% chg in NP				% chg in NP		-15%	-8%	

Source: Kenanga

Exhibit 13: UNISEM - Rationales for Changing Earnings Estimate

Before (RMm)	FY23	FY24F	FY25F	After (RMm)	FY23	FY24F	FY25F	Remarks
Turnover	1,440	1,670	1,838	Turnover	1,440	1,670	1,838	Unchanged
Net Profit	82	164	205	Net Profit	82	164	205	
% chg in NP				% chg in NP		0%	0%	

Source: Kenanga

Exhibit 14: MPI - Rationales for Changing Earnings Estimate

Before (RMm)	FY24	FY25F	FY26F	After (RMm)	FY24	FY25F	FY26F	Remarks
Turnover	2,095	2,634	2,871	Turnover	2,095	2,400	2,689	(1) Lower automotive segment revenue due to potential supply chain disruptions following the recent tariff increases on Chinese EVs in the US and EU. (2) Lower margin assumptions to reflect current trends
Net Profit	126	274	337	Net Profit	126	235	296	
% chg in NP				% chg in NP		-14%	-12%	

Source: Kenanga

Exhibit 15: SKP Resources - Rationales for Changing Earnings Estimate

Before (RMm)	FY24	FY25F	FY26F	After (RMm)	FY24	FY25F	FY26F	Remarks
Turnover	1,863	2,008	2,258	Turnover	1,863	2,008	2,258	Unchanged
Net Profit	97	115	132	Net Profit	97	115	132	
% chg in NP				% chg in NP		0%	0%	

Source: Kenanga

Exhibit 16: PIE - Rationales for Changing Earnings Estimate

Before (RMm)	FY23	FY24F	FY25F	After (RMm)	FY23	FY24F	FY25F	Remarks
Turnover	1,217	1,357	1,941	Turnover	1,217	1,068	1,606	(1) Excluded lower-margin customer contributions.
Net Profit	74	85	110	Net Profit	74	67	104	
% chg in NP				% chg in NP		-21%	-6%	

Source: Kenanga

Exhibit 17: NatGate - Rationales for Changing Earnings Estimate

Before (RMm)	FY23	FY24F	FY25F	After (RMm)	FY23	FY24F	FY25F	Remarks
Turnover	638	2,007	4,508	Turnover	638	2,032	4,544	(1) Incorproated 2Q24 numbers into the model (2) Lower margin assumptions as the new server business carries lower single-digit margins.
Net Profit	61	131	209	Net Profit	61	112	209	
% chg in NP				% chg in NP		-14%	0%	

Source: Kenanga

Exhibit 18: D&O - Rationales for Changing Earnings Estimate

Before (RMm)	FY23	FY24F	FY25F	After (RMm)	FY23	FY24F	FY25F	Remarks
Turnover	1,017	1,169	1,403	Turnover	1,017	1,144	1,332	(1) Incorporated weak 2Q24 results, caused by lower revenue and lower-than-expected margins as a result of low utilization rates.
Net Profit	44	105	148	Net Profit	44	72	121	
% chg in NP				% chg in NP		-31%	-18%	

Source: Kenanga

Exhibit 19: LGMS - Rationales for Changing Earnings Estimate

Before (RMm)	FY23	FY24F	FY25F	After (RMm)	FY23	FY24F	FY25F	Remarks
Turnover	34	59	81	Turnover	34	48	67	(1) Lower revenue assumption as a longer cybersecurity awareness campaign is anticipated, with soft enforcement likely during the early of cybersecurity act implementation stage.
Net Profit	11	21	29	Net Profit	11	16	23	
% chg in NP				% chg in NP		-22%	-20%	

Source: Kenanga

Exhibit 20: KGB - Rationales for Changing Earnings Estimate

Before (RMm)	FY23	FY24F	FY25F	After (RMm)	FY23	FY24F	FY25F	Remarks
Turnover	1,614	1,564	1,674	Turnover	1,614	1,626	1,706	(1) Raised FY24 target order book to RM1.2b from RM1.0b previously.
Net Profit	103	104	125	Net Profit	103	108	127	
% chg in NP				% chg in NP		4%	2%	

Source: Kenanga

Exhibit 21: OPPSTAR – Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	57	58	72
EBIT	21	17	26
PBT	21	17	26
Net Profit	16	14	21
Consensus		24	30
Earnings Revision	-	-62%	-50%
Core EPS (sen)	2.4	2.2	3.3
EPS growth (%)	-43	-11	52
NDPS (sen)	0.8	0.7	1.0
BV/Share (RM)	0.2	0.2	0.3
Core PER (x)	33.4	37.6	24.8
P/BV (x)	3.5	3.4	3.1
Gearing (x)	Net Cash	Net Cash	Net Cash
Net Dvd Yield (%)	1.0%	0.9%	1.2%

Source: Kenanga

Exhibit 22: INARI – Summary Earnings Table

FY Jun (RM m)	2024A	2025F	2026F
Turnover	1,479	1,697	1,968
EBIT	312	386	468
PBT	310	384	466
Core Net Profit	307	374	454
Consensus		404	454
Earnings Revision	-	-15%	-8%
Core EPS (sen)	8.0	10.0	12.1
EPS growth (%)	-8	24	21
NDPS (sen)	7.7	7.5	7.5
BV/Share (RM)	0.75	0.77	0.81
Core PER (x)	37.6	30.3	24.9
P/BV (x)	4.0	3.9	3.7
Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	2.6	2.5	2.5

Source: Kenanga

Exhibit 23: Unisem – Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,440	1,670	1,838
EBIT	110	198	252
PBT	100	196	250
Net Profit	82	164	205
Consensus		129	194
Earnings Revision	-	-	-
Core EPS (sen)	5	10	13
EPS growth (%)	-66.4	100.4	25.2
NDPS (sen)	8	8	8
BV/Share (RM)	1.5	1.5	1.5
Core PER (x)	62.3	31.1	24.8
P/BV (x)	2.1	2.1	2.0
Gearing (x)	Net Cash	Net Cash	Net Cash
Net Dvd Yield (%)	2.5%	2.5%	2.5%

Source: Kenanga

Exhibit 24: MPI – Summary Earnings Table

FY Jun (RM m)	2024A	2025F	2026F
Turnover	2,095	2,400	2,689
EBIT	223	335	403
PBT	254	342	410
Net Profit	164	235	296
Consensus		227	303
Earnings Revision	-	-14%	-12%
Core EPS (sen)	82.7	118.4	149.0
EPS growth (%)	168	43	26
NDPS (sen)	35.0	35.0	35.0
BV/Share (RM)	10.51	11.35	12.49
Core PER (x)	32.8	22.9	18.2
P/BV (x)	2.6	2.4	2.2
Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	1.3	1.3	1.3

Source: Kenanga

Exhibit 25: SKP Resources – Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	1,863	2,008	2,258
EBIT	121	149	171
PBT	126	151	173
Net Profit	97	115	132
Consensus	-	120	149
Earnings Revision	-	-	-
Core EPS (sen)	6.2	7.4	8.4
EPS growth (%)	-31	19	15
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.6	0.6	0.7
Core PER (x)	24.7	20.8	18.2
P/BV (x)	2.7	2.4	2.1
Gearing (x)	0.0	Net Cash	Net Cash
Net Dvd Yield (%)	0.0%	0.0%	0.0%

Source: Kenanga

Exhibit 26: PIE – Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,217	1,068	1,606
EBIT	92	84	133
PBT	89	81	129
Net Profit	74	67	104
Consensus		89	127
Earnings Revision	-	-21%	-6%
EPS (sen)	19.3	17.5	27.0
EPS growth (%)	6.0	-9.5	54.6
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.6	1.8	2.0
Core PER (x)	26.9	29.7	19.2
P/BV (x)	3.3	3.0	2.6
Gearing (x)	0.0	-0.2	-0.3
Net Dvd Yield (%)	0.0%	0.0%	0.0%

Source: Kenanga

Exhibit 27: NATGATE – Summary Earnings Table

FY 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%

Source: Kenanga

Exhibit 28: D&O – Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,017	1,144	1,332
EBIT	71	103	156
PBT	50	80	133
Net Profit	44	72	121
Consensus		82	143
Earnings Revision	-	-31%	-18%
Core EPS (sen)	3.6	5.8	9.8
EPS growth (%)	-41.3	63.9	67.5
NDPS (sen)	0.3	0.5	0.5
BV/Share (RM)	0.7	0.6	0.7
Core PER (x)	61.1	37.3	22.3
P/BV (x)	3.0	3.7	3.3
Gearing (x)	0.2	0.1	-0.2
Net Dvd Yield (%)	0.1%	0.2%	0.2%

Source: Kenanga

Exhibit 29: LGMS – Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	34	48	67
EBIT	14	21	31
PBT	15	22	31
Net Profit	11	16	23
Consensus		21	29
Earnings Revision	-	-22%	-20%
Core EPS (sen)	2.5	3.6	5.1
EPS growth (%)	-11.2	46.1	41.7
NDPS (sen)	0.5	1.0	1.0
BV/Share (RM)	0.2	0.2	0.3
Core PER (x)	50.8	34.7	24.5
P/BV (x)	6.6	5.8	4.9
Gearing (x)	0.9	2.0	3.2
Net Dvd Yield (%)	0.4%	0.8%	0.8%

Source: Kenanga

Exhibit 30: KGB – Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,614	1,626	1,706
EBIT	144	153	176
PBT	133	143	166
Net Profit	103	108	127
Consensus		120	137
Earnings Revision	-	4%	2%
EPS (sen)	15.9	16.8	19.8
EPS growth (%)	83.9	5.1	18.1
NDPS (sen)	4.0	8.5	10.0
BV/Share (RM)	0.5	0.6	0.7
Core PER (x)	19.6	18.6	15.8
P/BV (x)	6.0	5.3	4.6
Gearing (x)	-0.3	-0.7	-0.7
Dvd Yield (%)	1.3%	2.7%	3.2%

Source: Kenanga

Exhibit 31: Change in TPs and Stock Recommendations

Company Names	Old TP	Old Rating	New TP		New Rating		Last Price @ 18 Sept (RM)	% Upside/ (downside)	Valuation Methodology
OPPSTAR	1.70	OP	0.82	↓	MP	↓	0.825	-1%	Based on an unchanged 30x FY25F PER, at about 40% discount to the mean forward PER of its peers to reflect OPPSTAR's significantly smaller size and more limited capabilities vs. its global counterparts
INARI	4.60	OP	4.05	↓	OP	↔	3.01	35%	Based on an unchanged 35x FY25, a 10% premium on peer's forward mean, justified by the company's superior net margins of >20%, (vs. peers of single digit). Our TP imputes a 5% premium to reflect its 4-star ESG rating.
UNISEM	3.70	MP	3.70	↔	OP	↑	3.16	17%	Based on an unchanged PER of 29x pegged to FY25F EPS, in line with its peers' average
MPI	46.84	OP	38.80	↓	OP	↔	27.10	43%	Based on unchanged 29x CY25 PER, in line with peer's forward average.
SKP	1.35	OP	1.35	↔	OP	↔	1.11	22%	Based on an unchanged targeted 16x FY26F EPS. The valuation reflects the uptrend in peer's forward mean but we still retain a c.10% discount as the group still lacks customer diversity compared to peers.
PIE	6.75	OP	6.35	↓	OP	↔	5.20	22%	Based on an unchanged 23.5x FY25 PER, 10% discount to AI server-related peer such as NATGATE
NATGATE	2.30	OP	2.30	↔	OP	↔	1.72	34%	Based on an unchanged 25x FY25 PER, a 30% premium to peers fwd mean, justified by the group's favourable exposure to the fastgrowing networking product segment, and its advanced capabilities which yield better margins as well as enhancing customer stickiness.
D&O	3.60	MP	2.64	↓	OP	↑	2.18	21%	Based on a lower 27x (vs. 30x previously) FY25 PER, in line with peers' fwd ave (vitrox, inari and penta)
LGMS	1.90	OP	1.53	↓	OP	↔	1.25	22%	Based on an unchanged 30x FY25 PER, in line with global peers' fwd mean, such as Qualys, Fortinet, and Akamai Technologies
KGB	4.10	OP	4.16	↑	OP	↔	3.12	33%	Based on an unchanged 21x FY25 PER. Our valuation represents a c.10% discount to peer's forward mean PER of 24x which includes global players such as Air Products, Air Liquide and Linde.

Source: Kenanga

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**					**39.0%**	**32.4%**	**27.5**	**20.8**	**3.4**	**13.4%**		**1.2%**

Source: Kenanga Research

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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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