Technology

NEUTRAL ↓

Memory Tightness, Selective Tech

By Cheow Ming Liang I cheowml@kenanga.com.my; Tan Woon Pin / woonpin@kenanga.com.my

The global semiconductor upcycle remains intact, with the market still on track to approach USD1t by 2026, supported by structural drivers such as AI, HPC, 5G and next-generation device upgrades. However, gains are becoming more concentrated as AI-driven memory tightness increasingly benefits AI infrastructure at the expense of non-AI end-markets as tighter DRAM/NAND supply pushes up costs for smartphones, PCs, vehicles and broader electronics. While AI-driven demand remains supportive of memory-led WFE spending, which should continue to outpace other segments, it also raises affordability risks and margin pressure across the wider technology chain. Concurrently, AI applications are evolving from assistants and copilots into agents and agentic AI, extending the spending cycle beyond model training into real-world deployment, with a focus presently more on monetisation rather than capability alone. Against this backdrop of intensifying external risks — particularly global memory tightness, supply-chain fragility and persistent cost pressure — we downgrade the sector to NEUTRAL from OVERWEIGHT, while continuing to prefer front-end names on clearer earnings visibility, with KGB (OP, TP: RM6.15) and UWC (OP, TP: RM4.70) as our top picks, alongside INFOMINA (OP, TP: RM1.90) for its scalable and recurring AI-driven earnings potential.

Global semiconductor upcycle remains intact, but gains are becoming more concentrated. The global semiconductor cycle remains firm, with industry sales still accelerating and the market on track to approach US$1t by 2026. January 2026 sales rose 3.7% MoM and 46.1% YoY to USD83.7b, while WSTS expects the market to grow by more than 25% in 2026 to c.USD975b, led by continued strength in Logic and Memory. Unlike previous cycles, this upturn has been supported by more structural drivers, including AI, HPC, 5G and next-generation device upgrades, which should help extend the cycle, although the benefits are becoming increasingly uneven across the sector.

AI-driven memory tightness is reshaping the industry, but at the expense of non-AI demand. AI workloads are significantly more memory-intensive, prompting suppliers to prioritize HBM and high-capacity DDR5 for AI servers over conventional DRAM and NAND for smartphones, PCs, vehicles and other consumer devices. This has created a zero-sum environment, where hyperscalers and AI server customers are absorbing a disproportionate share of industry output, while non-AI end-markets face tighter supply, higher costs and weaker affordability.

The AI boom is also making phones, PCs and electronics more expensive. IDC has sharply cut its 2026 smartphone shipment forecast, while Gartner now expects global PC shipments to experience a double-digit decline, both citing surging memory costs. In short, the AI build-out is no longer only lifting demand for AI infrastructure, but is also pushing up input costs across the broader electronics chain, which could squeeze margins, weaken affordability and place structural pressure on lower-end devices.

Memory remains the key driver of the next WFE upcycle. Against this backdrop, memory is emerging as the clear leader of the next wafer fabrication equipment (WFE) upcycle. We expect memory WFE to have grown 13% in 2025 followed by 23% in 2026, before moderating to 9% in 2027, making it the strongest growth segment across semiconductors. This reflects the highly equipment-intensive migration in 3D NAND and DRAM; we estimate memory will account for roughly 65%–70% of total WFE capex over 2024–2027. By comparison, logic spending should recover more gradually, supported by continued migration towards 3nm-class and sub-3nm nodes.

AI applications are evolving rapidly, but monetization is now the key differentiator. AI has progressed from basic automation to assistants, copilots, agents, and now agentic AI, where systems can increasingly reason, use tools and execute tasks with limited human intervention. In practical terms, AI is moving from a reactive helper to a more autonomous digital worker, extending the spending cycle beyond model training into real-world deployment. From an investment perspective, however, the focus is shifting from AI capability alone to sustainable monetization.

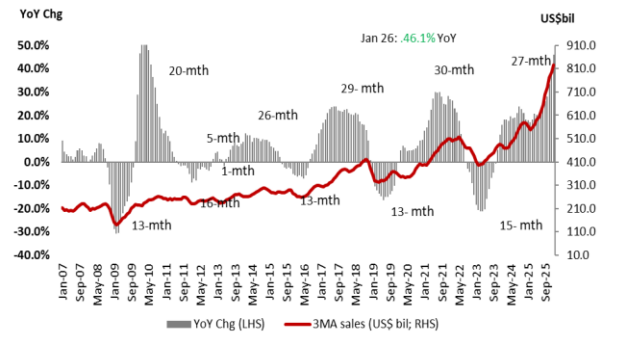
Downgrade the sector rating to NEUTRAL from OVERWEIGHT as external risks have intensified, particularly from global memory tightness, supply-chain fragility and persistent cost pressure across the value chain. In response, we revise our valuation framework for key OSAT, ATE and EMS names. For OSATs, we move away from the FY20-based benchmark and now anchor valuations to the historical average 26x PER across the past three upcycles, versus 29.3x previously, implying c.+0.5 standard deviation above KLTEC's five-year forward PER. We also value PENTA at 30x PER, consistent with the historical average ATE PER across the same period, while our EMS valuation assumptions are being reassessed to reflect the tougher operating backdrop. All in, we continue to prefer front-end (FE) names on clearer earnings visibility, with **KGB (OP, TP: RM6.15)** and **UWC (OP, TP: RM4.70)** remaining our top sector picks. We also like **INFOMINA (OP, TP: RM1.90)** for its ability to convert early AI adoption into a scalable and recurring earnings stream.

Global Chip Market on Track for Approaching USD1t by 2026, led by AI-driven Logic and Memory upcycle

Global semiconductor sales continued to accelerate in January 2026, rising 3.7% MoM and 46.1% YoY to USD83.7b, supported by sustained strength in the Logic and Memory segments. For 2026, WSTS projects the global semiconductor market to expand by more than 25% to roughly USD975b, bringing the industry close to the USD1t milestone. Growth is expected to remain broad-based across regions and product categories, with Memory and Logic once again leading the cycle, each forecasted to grow by more than 30% YoY. This will be driven by structural demand from AI, high-performance computing and data centres. Regionally, the Americas and Asia Pacific are expected to remain the strongest contributors, while Europe and Japan should record low double-digit growth as the recovery broadens beyond the core AI and data-centre segments.

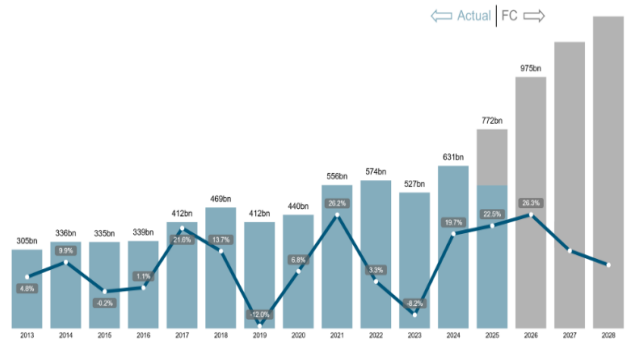
The current semiconductor upcycle, which began in November 2023, has now sustained strong double-digit growth through October 2025. Historically, semiconductor upcycles have averaged around 22 months, with the longest lasting about 30 months, implying that the current 27-month rally has already exceeded historical norm and could potentially extend into mid-CY26 or beyond. More importantly, unlike previous cycles, this upturn appears to be supported by stronger structural drivers, including accelerating AI adoption, high-performance computing, 5G proliferation and next-generation AI smartphone upgrades. Together, these trends continue to fuel demand for advanced logic chips, GPUs and AI accelerators, reinforcing the view that the current cycle remains more durable than a typical cyclical rebound.

Exhibit 1: Global Semiconductor Sales (% YoY)



Source: Kenanga, WSTS

Exhibit 2: Global Semiconductor Market (USD b) Actual vs. Forecast



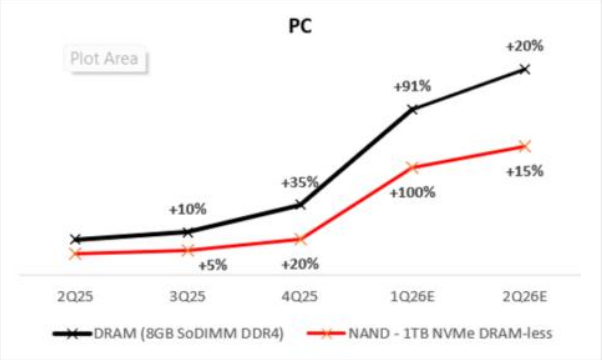
Source: WSTS

Unprecedented Memory Shortage Driven by AI Demand. The global memory market is facing an unusually severe supply crunch, with demand now materially outpacing available capacity. Unlike previous memory cycles, which were largely driven by swings in consumer electronics demand, the current shortage is being reshaped by the rapid expansion of AI infrastructure. AI workloads are significantly more memory-intensive and are increasingly absorbing industry capacity, prompting memory manufacturers to redirect production away from conventional DRAM and NAND used in PCs, smartphones, vehicles and other consumer devices to higher-value products such as HBM and high-capacity DDR5 for AI data centres. As a result, the supply of general-purpose memory has tightened meaningfully, driving broad-based price increases across the market.

AI Servers Are Consuming a Disproportionate Share of Global Memory Capacity. Compared with consumer devices, AI servers and enterprise systems require substantially more memory per unit, meaning the rapid build-out of AI infrastructure is taking up an outsized share of industry output. In response, memory suppliers have prioritized orders from hyperscalers and OEMs building AI servers, leaving less DRAM available for traditional end-markets. Supply for AI-specific memory remains relatively manageable, however, as major customers have secured capacity through long-term agreements with leading suppliers such as Samsung, SK hynix and Micron. This has allowed hyperscalers including Microsoft, Google, Meta and Amazon to lock in production slots for HBM and other AI-optimised memory solutions, further reinforcing the preferential allocation of capacity toward the AI segment.

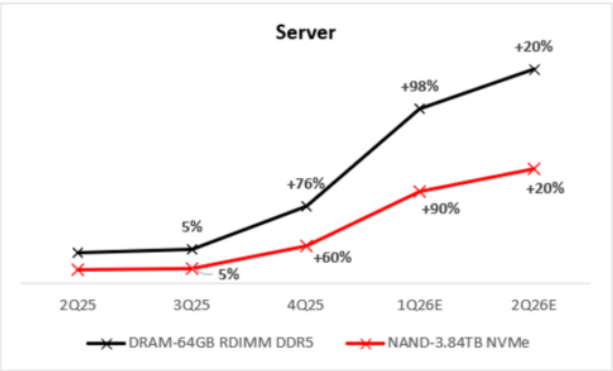
Driving a Strategic Shift in Manufacturing Focus to the Detriment of Other End-Markets. With meaningful new memory capacity unlikely to come onstream before 2027, the industry is effectively operating in a zero-sum environment, where each wafer allocated to HBM for AI accelerators reduces the supply available for LPDDR5X in smartphones or SSDs in consumer laptops. The knock-on effect is rising cost pressure across non-AI applications, including consumer electronics, automotive and industrial segments, where higher memory prices are squeezing margins and could weaken end-demand as costs are passed through to customers. For instance, server memory prices have risen sharply, with the price of 64GB RDIMM climbing from US$450 in 4Q25 to more than USD900 in 1Q26 and will potentially exceed USD1,000 by 2Q26. The PC market is seeing a similar trend, with 8GB SoDIMM DDR4 prices having risen 91% in 1Q26, although growth in both markets is expected to moderate to around 20% in 2Q26 due to the high base effect.

Exhibit 3: Price Trends for PC Memory



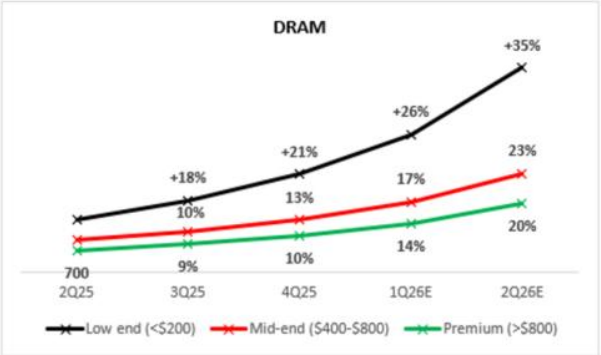
Source: Kenanga Research

Exhibit 4: Price Trends for Server Memory



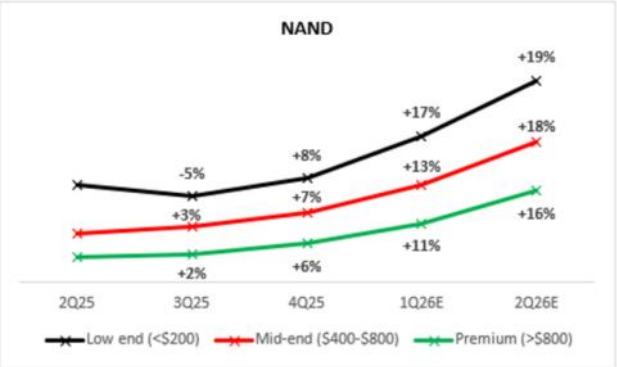
Source: Kenanga Research

Exhibit 5: Smartphone Memory Cost BOM



Source: Kenanga Research

Exhibit 6: Smartphone Memory Cost BOM



Source: Kenanga Research

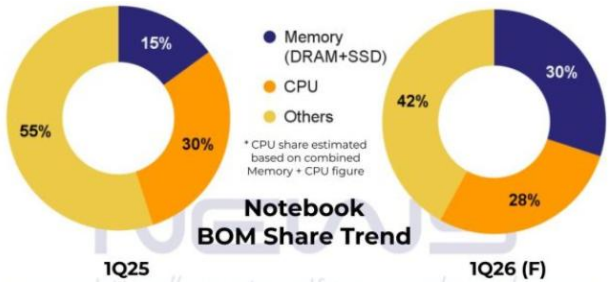
Memory Price Surge Drives Structural Reset in Smartphones and PCs

IDC has materially lowered its 2026 global smartphone outlook, now projecting shipments to fall 12.9% YoY (vs. low single digit decline three months ago) to 1.12b units. This would mark the sharpest annual decline on record and drive the market to its lowest level in more than a decade. The downgrade is driven primarily by a sharp surge in memory prices, as DRAM supply is increasingly being redirected toward higher-margin AI data-centre demand, leaving smartphone makers facing tighter supply and elevated component costs. IDC expects the impact to be most severe for low-end Android vendors, given their weaker pricing power and greater exposure to margin pressure, while Apple and Samsung are likely to be relatively more resilient due to their stronger balance sheets and more premium product mix. It also forecasts smartphone ASPs to rise 14% to a record USD523 in 2026, as vendors shift towards higher-margin models to offset cost inflation.

More importantly, IDC views the current high memory cost is not as a temporary dislocation, but as a structural reset for the industry, with only a modest recovery expected in 2027 and 2028 and the sub-USD100 smartphone segment potentially becoming uneconomical even after memory prices normalize. This reflects how memory, once a smaller portion of the total bill of materials (BOM), has now become a major cost burden. Typically accounting for c.15–20% of BOM in mid-range devices and c.10–15% in high-end models, Trendforce suggests that memory could now represent as much as 30–40% of total device cost in certain cases, following a more than 200% surge in memory prices since 1Q26.

Separately, Gartner's latest forecast points to a similar trend in the PC market, with worldwide PC shipments expected to decline 10.4% YoY in 2026 due to surging memory costs. Gartner estimates combined DRAM and SSD prices could rise 130% by end-2026, which in turn could lift PC prices by 17% versus 2025, weighing on demand and driving a greater skew towards premium devices. This is notable given Gartner had earlier expected AI PCs to account for 55% of the total PC market in 2026, with AI PC shipments reaching 143m units. However, its latest update suggests that near-term weakness in the broader PC market is now outweighing the benefits from replacement demand and the AI PC refresh cycle. More importantly, PC memory costs are expected to rise to 23% of total BOM from 16% in 2025, leaving vendors with limited ability to absorb higher costs and rendering low-margin entry-level laptops increasingly uneconomical. As a result, Gartner expects the sub-USD500 entry-level PC segment to disappear by 2028, while rising AI PC prices are also likely to delay the segment's projected 50% market penetration until 2028.

Exhibit 7: Notebook BOM Share Trend



Source: TrendForce, Kenanga Research

Exhibit 8: CPU, Memory components on the rise

CPU, Memory Components on the Rise			
Category	Price Update	BOM Share	Details
CPU	Intel raised **entry-level/older notebook CPU** prices **15%+**	**Memory + CPU expected to hit 58% of NB BOM in 1Q26, up from 45% in 1Q25**	Intel plans further 2Q hikes for mid- to high-end CPUs
			Tight Intel and AMD supply is prioritizing mid- to high-end CPUs, driving up PC costs
Memory	PC DRAM (DDR4 & DDR5 blended) prices expected to surge **105–110%**		DDR4 & DDR5 blended; up 38–43% in 4Q25

Source: TrendForce, Kenanga Research

Memory is set to lead the next WFE (wafer fabrication equiment) upcycle, with our forecast pointing to growth of 13% in 2025 and 23% in 2026, before easing to 9% in 2027 — the strongest growth profile across all major semiconductor segments. The key driver is the highly equipment-intensive nature of memory technology migration, particularly as 3D NAND moves beyond 300 layers and DRAM advances toward smaller nodes and more complex 3D structures, both of which require greater use of advanced deposition and process tools. We estimate memory will account for c.65%–70% of total WFE capex over 2024–2027, making it the primary driver of the next industry upcycle. In contrast, logic spending should recover more gradually, albeit remaining constructive, supported by ongoing migration to 3nm-class and sub-3nm technologies where tighter geometries and higher process complexity should continue to underpin equipment demand.

Exhibit 9: Bottom-Up Derivation of WFE Capex (2026-2027F)

US$bn	2023	2024	2025	2026	2027
Foundry					
TSMC	30.5	29.8	40.9	52.8	59.7
UMC	2.9	2.8	1.8	1.8	1.7
Global Foundries	1.8	0.6	0.7	1.0	1.2
VIS	0.2	0.5	2.0	1.2	1.0
PSMC	1.5	0.7	0.6	0.4	0.5
Rapidus	0.0	0.0	0.0	1.0	2.0
DB Hitek	0.3	0.1	0.1	0.1	0.1
SMIC	7.6	7.7	7.2	6.8	6.2
Hua Hong	0.9	2.8	2.1	1.9	1.6
Tower Semi	0.4	0.4	0.4	0.5	0.4
Others	2.7	3.5	4.8	5.0	5.0
Total	**48.9**	**48.9**	**60.6**	**72.4**	**79.4**
Y/Y changes		*0%*	*24%*	*19%*	*10%*
Logic					
Intel	25.8	23.9	15.9	15.1	15.8
Texas Instruments	5.1	4.8	4.9	3.0	3.0
Nexchip	1.0	1.8	1.4	0.8	0.8
Others	8.0	9.0	8.0	8.2	8.5
Total	**39.9**	**39.6**	**30.1**	**27.1**	**28.2**
Y/Y changes		*-1%*	*-24%*	*-10%*	*4%*
Memory					
Micron	7.7	8.4	15.9	21.3	24.9
SK Hynix	6.4	11.7	16.4	22.0	23.4
Samsung	44.1	37.7	33.5	39.8	41.5
Sandisk	-	-	0.2	0.3	0.3
Nanya Tech	0.4	0.5	0.5	0.5	0.9
Kioxia	3.7	2.1	1.5	1.8	2.1
CXMT	3.0	3.5	4.0	5.0	6.0
YMTC	3.0	4.0	4.5	5.0	6.0
Others	6.0	7.4	8.9	9.0	9.5
Total	**74.3**	**75.3**	**85.3**	**104.7**	**114.6**
Y/Y changes		*1%*	*13%*	*23%*	*9%*
Grand Total Capex	**163.1**	**163.7**	**176.1**	**204.2**	**222.1**
Y/Y changes		*0%*	*8%*	*16%*	*9%*
Total Capex ex-China	**147.5**	**144.0**	**156.9**	**184.8**	**201.5**
Y/Y changes		*-2%*	*9%*	*18%*	*9%*
WFE Capex	**106.0**	**108.1**	**119.8**	**138.9**	**155.5**
WFE% Total Capex	*65%*	*66%*	*68%*	*68%*	*70%*
Y/Y changes		*2%*	*11%*	*16%*	*12%*
WFE Capex ex-China	**92.9**	**93.6**	**102.0**	**120.1**	**135.0**
WFE% Total Capex ex-China	*63%*	*65%*	*65%*	*65%*	*67%*
Y/Y changes		*1%*	*9%*	*18%*	*12%*

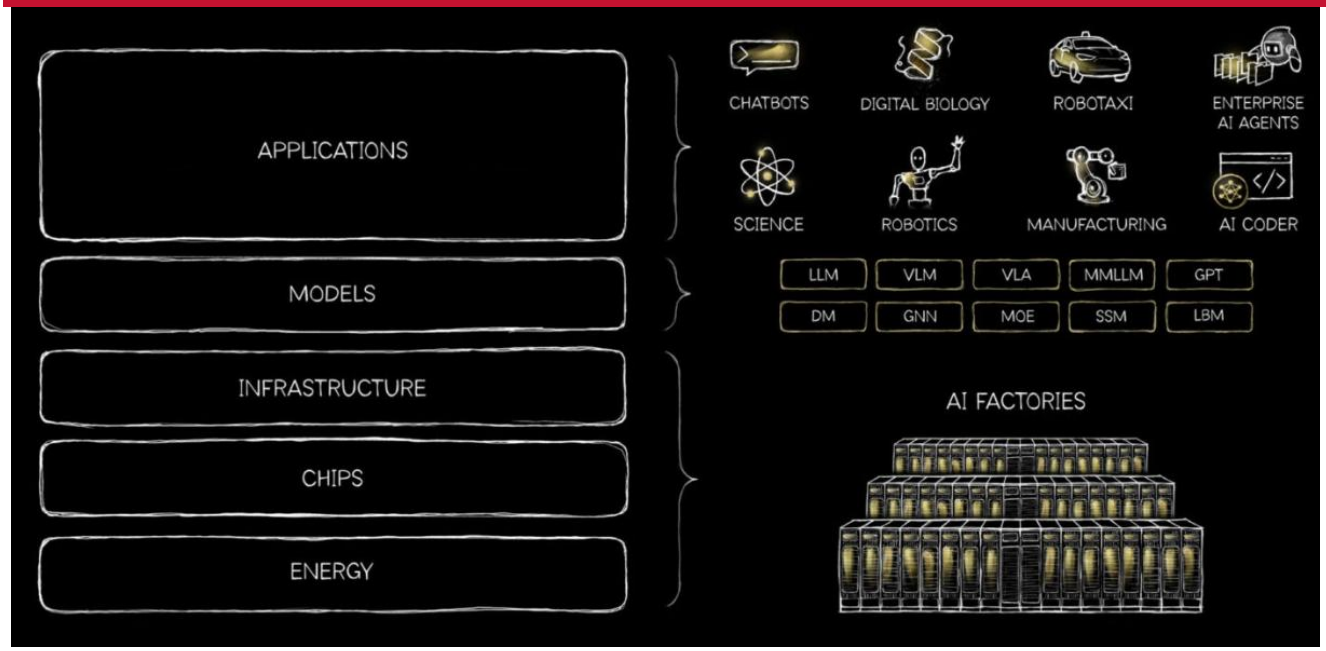
Source: Various news sources, Earnings Transcript, Bloomberg, Kenanga Research

NVIDIA's "AI is a 5-Layer Cake"

NVIDIA CEO Jensen Huang has recently described AI as a complex five-layer structure requiring trillions in investment to fully develop and unlock its potential in a recent post. Through this "AI Is a 5-Layer Cake" perspective, NVIDIA framed AI as not just a narrow software theme, but as a full-stack infrastructure revolution. The central idea is that AI now produces intelligence in real time, which means the entire computing stack must be rebuilt around it. Nvidia breaks this stack into five layers: **energy, chips, infrastructure, models** and **applications**. **Energy** underpins AI through power availability, heat management and electricity supply; **chips** convert that energy into compute; **infrastructure** encompasses the data centres, networking, cooling and power systems that form what Nvidia calls "**AI factories**"; **models** span not only LLMs but also biology, chemistry, physics, robotics and autonomy; and **applications,** where actual economic value is created, sit at the top with technology set to monetize across different areas such as drug discovery, industrial automation, legal copilots and self-driving vehicles.

The core message is that every successful AI application pulls demand through the entire stack beneath it — from models, to infrastructure, to chips, all the way down to energy supply. In Nvidia's view, AI has already crossed a critical inflection point, with better reasoning, fewer hallucinations, stronger grounding and clearer commercial traction across software, logistics, customer service, manufacturing and healthcare. In simple terms, AI is no longer just a software story — it is becoming a multi-year industrial buildout story. That broadens the opportunity set well beyond model developers to include companies exposed to power, semiconductors, data centre infrastructure, networking, cooling and real-world AI deployment, reinforcing Nvidia's argument that AI is emerging as a foundational platform on par with electricity or the internet. NVIDIA also highlights that open-source models matter because they broaden adoption and stimulate demand across the full AI stack.

Exhibit 10: NVIDIA's AI is a 5-Layer Cake



Source: Nvidia Blog, Kenanga Research

Evolution of AI applications: From Basic Automation to Agentic AI

AI application has progressed through several distinct stages — from **basic automation, to AI assistant, AI copilot, AI agent**, and now **agentic AI.** At its most basic level, **automation** follows fixed rules and predefined instructions to execute repetitive tasks. **AI assistants** marked the next step forward by enabling machines to answer questions and generate content, while **AI copilots** further enhanced productivity by helping users complete tasks more efficiently, albeit still under human guidance. The next phase is **AI agents**, which are more action-oriented and capable of planning tasks, using tools and executing steps to achieve a defined objective. **Agentic AI** builds on this by enabling multiple agents or systems to coordinate across a workflow with limited human intervention.

In practical terms, AI is evolving from a reactive helper into a more autonomous digital worker. This shift is commercially significant because it broadens AI's role from improving productivity at the margin to supporting the execution of real business processes. As such, the market is increasingly viewing agentic AI not simply as an extension of generative AI (a technology that can create content on demand, with AI assistants and AI copilots are practical applications of that technology), but as the next phase of enterprise adoption — one that could unlock a much larger value pool across software, workflows and digital infrastructure.

Exhibit 11: Evolution of AI: From Basic Automation to Agentic AI

Entity	Core role	What they actually do	AI exposure	Monetisation path	Remarks
Anthropic, OpenAI, Google DeepMind	**Model developer**	Foundation models and AI platforms	**Very direct**	API usage, enterprise subscriptions, model access	Upstream model owners; benefit from rising enterprise AI and agent adoption. Anthropic positions Claude as its AI product, while Google markets Gemini as its assistant/model family.
Microsoft Power Automate, UiPath (classic RPA (robotic process automation))	**Basic Automation**	Automate repetitive, rules-based tasks across apps, screens and workflows	**Indirect to moderate**	Software licences, workflow automation, enterprise subscriptions	This is the most mature and proven layer. It is strong in repetitive workflows, but limited in reasoning and autonomous decision-making. Microsoft defines RPA (robotic process automation) as automating legacy systems through UI actions.
Claude, ChatGPT, Gemini, Grok	**AI Assistant**	Answer prompts, write, summarise, analyse and support users conversationally	**Very direct**	Subscription fees, API usage, enterprise assistant adoption	This is the conversational layer. Claude is officially described by Anthropic as a family of large language models.
Microsoft Copilot, GitHub Copilot, enterprise copilots built on Claude/GPT/Gemini	**AI Copilot**	Assist users inside existing workflows by suggesting, drafting, retrieving and guiding actions, while the human remains in control	**Very direct**	Seat-based pricing, software uplift, workflow integration	This sits between assistant and agent. A copilot helps users do work faster, but typically does not independently own the full task flow. This is a synthesis based on how copilots are positioned in enterprise software.
Manus, OpenAI Operator, ChatGPT agent	**AI Agent**	Execute multi-step tasks using tools, browsers, or connected systems	**Very direct**	Usage-based pricing, premium subscriptions, enterprise licences	This is where AI starts to act rather than just respond. OpenAI describes Operator as handling browser tasks such as filling forms and ordering groceries, and ChatGPT agent as thinking and acting using tools on its own computer.
OpenClaw, LlamaIndex, AutoGen, CrewAI, UiPath Maestro	**Agentic AI**	Orchestrate agents, tools, robots, rules and people across longer-running, goal-driven processes	**Direct, but infrastructure-oriented**	Platform licences, orchestration software, enterprise automation stack	This is the highest layer in the stack: not just one agent doing one task, but coordinated, governed, multi-step autonomous workflows. UiPath describes Maestro as the orchestration layer connecting robots, AI agents and systems, and defines agentic automation as the latest step in automation's evolution.

Source: Various Sources, Kenanga Research

The Emerging of Claude and OpenClaw

Recent Nasdaq volatility reflects a market that is becoming more selective on AI. Investors are no longer rewarding AI exposure indiscriminately, but are instead differentiating between companies positioned to benefit from the next phase of AI adoption and those whose business models may be vulnerable to disruption. A key catalyst was the market's reaction to Anthropic's expanding enterprise capabilities, with Reuters reporting that a new legal tool built on Claude (a flagship AI product/model that built by Antrophic) triggering a sharp sell-off in software and data-services stocks as investors reassessed whether AI could begin competing directly with parts of the application layer. Sentiment was further unsettled by Anthropic's USD30b fund-raise at a USD380b post-money valuation, which reinforced the view that capital, customers and talent are becoming increasingly concentrated among a small group of frontier AI platforms. Overall, the recent Nasdaq swings point to a transition from broad-based AI enthusiasm towards a more disciplined repricing of where future AI value is likely to be created and captured.

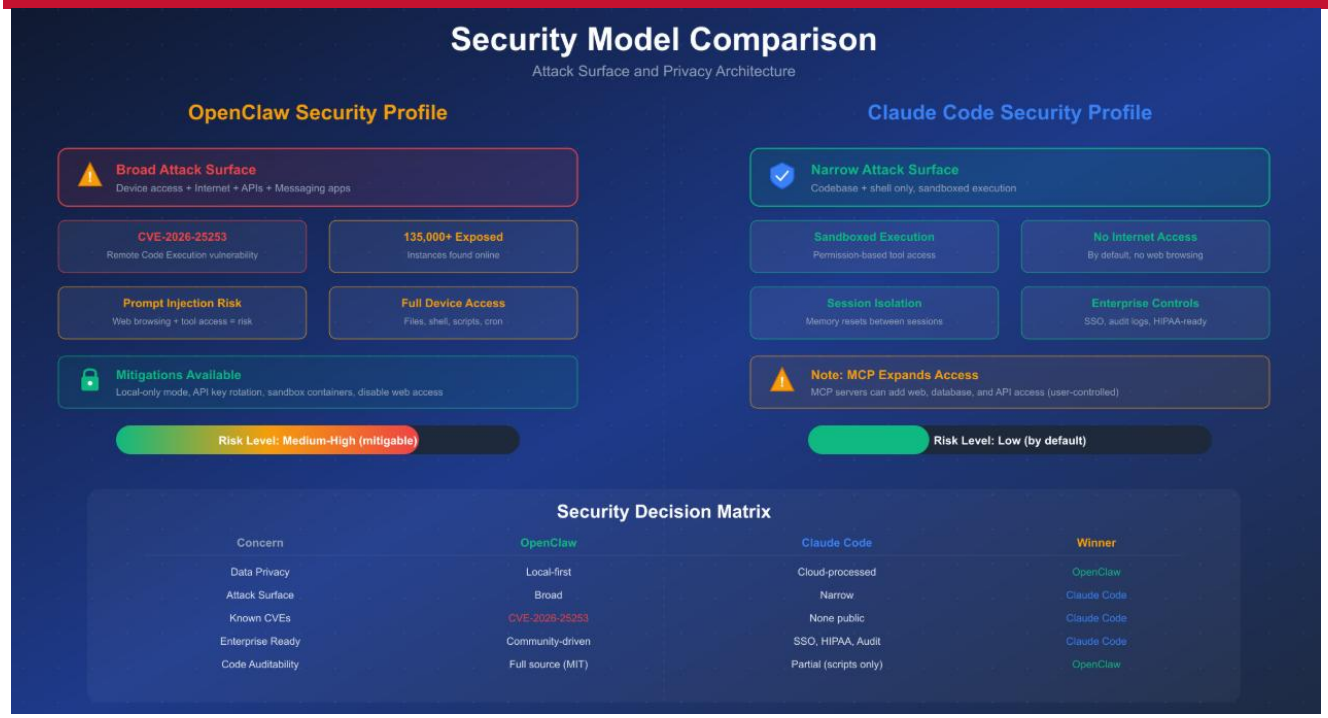
OpenClaw has recently drawn significant attention across the global technology landscape. As an open-source AI agent framework, it goes beyond traditional chatbot-style interaction by enabling software to understand tasks, utilise tools and execute actions directly within a system. This marks a broader shift in AI from a "talking assistant" to a "digital worker" capable of acting autonomously. The wider implication is potentially meaningful for the technology value chain. As agentic AI adoption gains traction, it could drive stronger demand for both cloud and edge computing, while also creating new opportunities across servers, processors, cooling solutions and the broader semiconductor infrastructure ecosystem.

From an investment perspective, the agentic AI could extend the AI spending cycle beyond model training into real-world execution infrastructure. That said, adoption is unlikely to be frictionless, as security, compliance and system-control risks remain key constraints when these agents operate with higher levels of access. In other words, while the long-term opportunity is meaningful, sustainable deployment will likely depend not only on performance, but also on security, compatibility and enterprise-grade governance.

Exhibit 12: OpenClaw vs. Claude Code Architecture Comparision

Source: AI Free API, Kenanga Research

Exhibit 13: OpenClaw vs. Claude Code Security Model Comparison



Source: AI Free API, Kenanga Research

Malaysia AI Application Landscape

Overall, the read-through to Malaysia's technology and semiconductor sector is positive, but the benefits are likely to be selective rather than broad-based. As AI shifts from simple prompt-based use cases towards heavier inference and more autonomous, agent-led workflows, demand should increasingly favour the underlying infrastructure needed to support that complexity — including advanced packaging, testing, precision engineering, interconnects, server-related manufacturing and industrial automation — which plays to Malaysia's strengths in semiconductor assembly, electronics manufacturing and specialised industrial supply chains. At the same time, the emergence of agentic AI is also supportive for local software and IT services players such as **Infomina (OP, TP: RM1.90)** and **Agmo (Not Rated),** as enterprises increasingly look for partners that can integrate AI into real workflows, data systems and governance frameworks. That said, the market is unlikely to reward AI exposure on the theme alone; the key differentiator will be the ability to convert early AI adoption into scalable, recurring and commercially meaningful contracts. In short, agentic AI strengthens Malaysia's relevance to the global AI value chain, but the upside is likely to accrue most to companies with clear execution, monetization and infrastructure-linked exposure.

Exhibit 14: Malaysia AI Application Players

Entity	Core role	What they actually do	AI exposure	Monetisation path	Remarks
Infomina	AI Copilot / emerging AI Agent enabler	Deploys enterprise AI, data and infrastructure solutions for customers	Indirect to moderate	Project wins, implementation work, recurring support	Infomina is best classified as a downstream enterprise deployment proxy. Today it looks closer to the AI Copilot stage, with upside to move toward AI Agent as customers adopt more workflow-led AI execution. This is an inference based on its enterprise integration role rather than on ownership of frontier models.
Agmo	AI Copilot / AI Agent enabler	Builds enterprise apps, AI workflows and digital solutions with selected consumer-facing application layers	Moderate and increasingly direct at application level	Software delivery, subscriptions, implementation and support	Agmo appears slightly further downstream at the application layer, so it fits better as an AI Copilot / AI Agent enabler, especially where enterprises want packaged AI workflows rather than just conversational tools. This is an inference based on its role as a workflow/application builder.

Source: Kenanga Research

Infomina positions AI as an enterprise value engine that moves decision-making up the value chain—from explaining what happened, to anticipating what comes next, and ultimately recommending what should be done. This reflects its view of AI as a practical business enabler that can sharpen insights, improve responsiveness and drive better operational outcomes. Central to this strategy is AiMod, Infomina's "agent-to-agent" enterprise AI solution and AI pipeline builder. AiMod is designed to ingest data across structured, semi-structured and unstructured formats—including CRM/ERP systems, databases, CSV/XML/JSON files, emails, PDFs, images, videos and handwritten documents—and convert them into governed, decision-ready inputs. This provides the foundation for more scalable analytics, automation and AI-led enterprise workflows.

In layman terms, imagine a lender receives hundreds of loan applications daily, each with emails, PDF payslips, bank statements and supporting images. AiMod first "reads" and pulls the key details out of those documents, then cleans and standardizes the data so it is consistent across applicants. Next, it runs an AI model to flag risky or suspicious applications and explains what drove the alert. Finally, it sends the result to the credit team via a dashboard or alert list so staff focus on exceptions, approve clean cases faster, and keep improving the model as new outcomes (good/bad loans) are fed back into the system.

Exhibit 15: Infomina's AiMod (Agent to Agent Solution)

Source: Infomina, Kenanga Research

Downgraded the Sector Rating to NEUTRAL

All in, external risks to the sector — particularly global memory tightness — have intensified versus three months ago. Firstly, the US technology sector is likely to remain volatile in the near term, as firmer oil prices and inflation concerns continue to weigh on risk appetite and valuation multiples, especially for high-growth names, despite a still-supportive earnings and capex backdrop for AI-linked semiconductor, custom silicon and data-centre infrastructure players. More importantly, any disappointment in AI adoption or returns could quickly spill over to tightly linked counterparties, amplifying downside risks and increasing the likelihood of valuation de-rating. Secondly, supply-chain fragility remains a concern, particularly for critical materials and logistics, including packaging inputs such as substrates and leadframes, where geopolitical chokepoints could disrupt both front-end fabs and backend operations; recent Middle East tensions have also underscored the risk of knock-on effects through higher energy and freight volatility. Thirdly, broad-based cost inflation and margin pressure persist across the value chain, driven by global memory shortages, FX volatility and customer-led cost-sharing or price-down mechanisms, with the impact most visible in more commoditized segments, especially EMS, where utilization remains sub-optimal.

Against this backdrop, we downgrade the sector to NEUTRAL from OVERWEIGHT and revise our PER assumptions for key names under our OSAT, ATE and EMS coverages. We believe the previous valuation framework for OSAT names, which was anchored to the FY20 valuation band when trade-war concerns temporarily eased during the first Trump administration, is no longer reflective of current conditions. Accordingly, we now peg OSAT valuations to the historical average PER of 26x across the past three industry upcycles, versus 29.3x previously (see Exhibits 13 and 14), implying c.+0.5 standard deviation above KLTEC's five-year forward PER.

Likewise, we value PENTA at 30x PER, in line with the average ATE PER across the past three upcycles. That said, we have not cut valuations aggressively, as we are only moving from c.+0.5 standard deviation to the historical average PER, given that: (i) the current semiconductor upcycle still has room to run, supported by continued strength in logic and memory demand; and (ii) growth in AI-related memory/device content, alongside the improving mix towards mid- to premium-tier smartphones and PCs, which should still provide some support — rather than an outright negative read-through — for local OSAT and ATE players.

On the EMS front, we peg an average 14.3x PER, which is -1x standard deviation below the historical average forward PER for the subsector over the past three downcycles (see Exhibit 18). This adjustment reflects the lingering headwinds facing the sector, with costing pressures and uncertainty in end demand continuing to impact performance expectations.

Exhibit 16: Revised TPs and Valuation Methodologies

	New TP	Rating	Last Price @ 19 Mar (RM)	% Upside/ (downside)	
OPPSTAR	0.23	MP	0.23	0%	Based on a lower PER of 25x (~40% discount to global peers) versus the previous 28x, we adjust for weaker end demand driven by geopolitical tensions and rising costs.
INARI	1.80	OP	1.32	36%	Based on a lower targeted CY26 PER of 26x, aligned with the historical average OSAT PER across the past three upcycles and implying c.0.5 SD above KLTECH's five-year forward PER. Note that our TP consist of 5% ESG premium
UNISEM	1.97	UP	2.70	-27%	Based on a lower targeted FY26 PER of 26x, aligned with the historical average OSAT PER across the past three upcycles and implying c.0.5 SD above KLTECH's five-year forward PER.
MPI	31.30	MP	29.60	6%	Based on a lower targeted FY27 PER of 26x, aligned with the historical average OSAT PER across the past three upcycles and implying c.0.5 SD above KLTECH's five-year forward PER.
SKP	0.50	MP	0.48	4%	Based on a lower margin assumption of 3.3% for FY27F (versus 3.5% previously), we account for the challenging macro environment, which has weakened demand for consumer electronics products and resulted in higher operating costs.
PIE	1.28	MP	1.19	8%	Based on a lower PER of 16x (near the mean) versus the previous 17.2x, we reflect weaker end demand as a result of geopolitical tensions and rising costs.
NATGATE	0.66	OP	0.66	0%	Based on a lower PER of 15x (-0.5SD below the mean) versus the previous 18x, we reflect weaker end demand due to geopolitical tensions and rising costs. As a result, we have lowered our FY26 earnings estimate by 7% on the back of a more conservative margin assumption.
D&O	0.47	MP	0.51	-8%	Based on unchanged FY26F PER of 30x, implied D&O 5-year mean.
LGMS	0.58	OP	0.51	14%	Based on an unchanged FY26F PER of 24x, which is -0.5SD below its average forward mean PE, to reflect the slower-than-expected business pickup
KGB	6.15	OP	5.00	23%	Based on an unchanged targeted FY26F PER of 30x, in line with +1SD of KLTECH's 5-year forward PER.
UWC	4.70	OP	4.15	13%	Based on FY27 PER of 33x (slightly below its 5Y average mean PER of 35.7x).
PENTA	3.65	OP	3.13	17%	Based on a lower targeted 30x FY26F PER, aligned with the average ATE PER across the past three upcycles.
INFOMINA	1.90	OP	1.15	65%	Based on FY27 PER of 25x, in line with the historical 3-year blended average of selected listed IT/systems integrator peers (Kronologi Asia, Cloudpoint, LGMS)

Source: Kenanga Research

Exhibit 17: Previous TPs and Valuation Methodologies

	TP	Rating	Last Price @ 19 Mar (RM)	
OPPSTAR	0.40	MP	0.23	Based on unchanged FY27F PER of 36x, implying a 10% discount to the peer-group forward PER to reflect OPPSTAR's smaller scale and narrower capabilities versus global peers.
INARI	2.05	OP	1.32	Based on a targeted PER at 29.3x, to align with the OSAT peers. Note that our TP consist of 5% ESG premium
UNISEM	2.22	UP	2.70	Based on an unchanged FY26F PER of 29.3x, in line with its peers' average.
MPI	35.30	MP	29.60	Based on target FY27 PER of 29.3x, anchored to the FY20 valuation band, when the first Trump administration's policy stance helped ease the initial trade-war overhang.
SKP	0.53	OP	0.48	Based on a lower PER of 12x FY27F EPS, in line with the peer group's 1-year forward mean, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation
PIE	1.40	MP	1.19	Based on a lower PER of 17.2x – aligned with its 5-year average forward mean PE, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation
NATGATE	0.85	OP	0.66	Based on a lower PER of 18x, slightly below its mean since its listing in Jan 2023, to reflect broader sector-wide uncertainties arising from ongoing supply-chain relocation
D&O	0.47	MP	0.51	Based on unchanged FY26F PER of 22x, implied -1 SD below its 5-year mean.
LGMS	0.58	MP	0.51	Based on a lower FY26F PER of 24x, which is -0.5SD below its average forward mean PE, to reflect the slower-than-expected business pickup
KGB	6.15	OP	5.00	Based on targeted FY26F PER of 30x, in line with +1SD of KLTECH's 5-year forward PER.
UWC	4.38	OP	4.15	Based on CY26 PER of 33x (slightly below its 5Y average mean PER of 35.7x).
PENTA	4.25	OP	3.13	Based on a targeted 35x FY26F PER, c.+1 SD above its own 5-year mean
INFOMINA	1.90	OP	1.15	Based on FY27 PER of 25x, in line with the historical 3-year blended average of selected listed IT/systems integrator peers (Kronologi Asia, Cloudpoint, LGMS)

Source: Kenanga Research

Exhibit 18: Historical forward PER comparisons (past 3 cycles)

	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24	CY25
				May 13 - Jun 15				Aug 16 -Dec 18			Feb 20 - Jul 22				Nov 23 - current	
				Uptrend				Uptrend			Uptrend				Uptrend	
OSAT																
INARI	-	-	8.7	12.3	17.4	17.3	19.5	23.1	25.5	31.3	35.2	29.0	27.7	36.1	34.8	24.9
MPI	13.2	11.2	35.7	40.0	15.2	11.6	12.5	14.6	14.1	15.0	23.1	23.9	44.9	61.7	40.7	30.4
UNISEM	9.4	23.7	19.1	—	21.2	13.1	11.3	15.5	25.2	27.0	35.1	31.4	18.6	67.6	65.7	37.7
GLOBETRONICS	19.3	—	10.8	17.2	18.4	24.9	35.4	35.4	15.8	31.5	34.6	21.8	19.0	41.5	14.2	-
Simple Average	**10.5**	**11.6**	**18.6**	**23.2**	**18.1**	**16.7**	**19.7**	**22.1**	**20.1**	**26.2**	**32.0**	**26.5**	**27.6**	**51.7**	**38.8**	**23.2**
ATE																
VITROX	6.3	7.8	7.4	11.0	11.8	15.9	15.5	35.3	28.6	42.1	63.4	53.0	36.8	48.0	66.8	62.3
PENTAMASTER	—	—	—	—	8.6	16.6	—	—	14.6	25.2	52.1	47.8	35.7	35.1	35.3	35.7
ELSOFT	-	-	-	-	-	-	-	-	-	-	66.9	52.6	46.5	36.4	34.0	40.0
MI TECH	-	-	-	-	-	—	—	—	23.7	26.5	51.8	46.9	21.0	29.8	26.0	26.8
Simple Average	**6.3**	**7.8**	**3.7**	**3.7**	**5.1**	**10.8**	**7.7**	**17.6**	**16.7**	**23.5**	**58.5**	**50.1**	**35.0**	**37.3**	**40.5**	**41.2**
EMS																
NATGATE	-	-	-	-	-	-	-	-	-	—	—	—	—	47.2	45.2	9.8
V.S. INDUSTRY	8.7	7.0	6.5	8.4	12.7	13.7	15.0	18.6	17.5	20.6	25.1	21.3	20.8	23.5	28.7	21.1
SKP RESOURCES	—	—	8.5	9.5	18.0	18.7	14.8	14.6	16.1	12.1	19.2	16.2	12.9	11.8	8.9	8.2
PIE	9.5	—	—	11.6	11.3	17.8	24.3	13.9	13.5	14.6	32.3	25.3	15.8	19.1	35.2	14.7
JHM	-	-	-	-	-	-	11.7	25.0	14.3	30.4	39.8	41.2	20.6	20.6	13.7	15.3
UCHI TECH	11.0	9.0	10.5	12.7	13.0	12.7	13.4	20.3	16.1	16.4	16.3	16.1	13.2	14.5	15.5	13.5
Simple Average	**7.3**	**5.4**	**6.4**	**8.4**	**11.0**	**12.6**	**15.8**	**18.5**	**15.5**	**18.8**	**26.5**	**24.0**	**16.7**	**22.8**	**24.5**	**13.8**

Historical Forward Average PER (past 3 cycles)

	Upcycle	Downcycle
OSAT	25.7	28.6
ATE	29.8	19.8
EMS	17.7	17.5
KLTEC	30.5	22.4

Source: Kenanga Research

Exhibit 19: Semiconductor recovery & growth cycles

May 13 - Jun 15	Uptrend (26)		Boom in smartphones, cloud, and data centres	Surge in demand for smartphones, cloud services	Memory, logic, micro	Boom in smartphones and cloud computing demand drove adoption of FinFET technology. Significant investments in advanced semiconductor nodes.
Jul 15 - Jul 16		Downtrend (13)	Saturation in PCs and smartphones	Declining PC sales, market saturation	Memory, analog	Declining PC sales and market saturation in smartphones led to capacity reductions. Focus on IoT and low-power chip R&D.
Aug 16 - Dec 18	Uptrend (29)		IoT and automotive drive growth	IoT, automotive electronics, and AI adoption	Sensors, logic, memory	Strong momentum in IoT, automotive electronics, and AI drove growth. Heavy investment in 7nm technology and advanced process nodes.
Jan 19 - Jan 20		Downtrend (13)	US-China trade tensions and inventory glut	Trade tensions, oversupply	Logic, analog, memory	Inventory glut caused by US-China trade tensions prompted diversification into automotive and industrial semiconductors.
Feb 20 - Jul 22	Uptrend (30)		Pandemic-driven demand for remote work and 5G	Remote work, 5G, and data centre demand	Memory, logic, analog	COVID-19 pandemic spurred remote work demand, boosting PCs, tablets, and data centres. Accelerated investment in 5nm/3nm nodes.
Aug 22 - Oct 23		Downtrend (15)	Post-COVID overcapacity and reduced demand	Overcapacity, reduced consumer demand	Memory, logic, analog	Overcapacity from the COVID-driven boom led to inventory management strategies. Focus on AI accelerators and high-margin products.
Nov 23 - Current	Uptrend (27)		AI-driven recovery and sustainable manufacturing focus	AI, energy-efficient chips, and advanced packaging	Logic, memory, sensors	Recovery driven by AI chips and energy-efficient technologies. Investments in advanced packaging and sustainable semiconductor manufacturing.

Source: Kenanga Research

Exhibit 20: KLTEC's 5-year forward PER

Source: Bloomberg, Kenanga Research

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 24 Mar. (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	0.485	0.470	-3.1%	601.1	Y	12/2026	2.1	2.3	132.7%	39.9%	22.8	21.3	0.9	3.8%	1.0	2.1%
INARI AMERTRON BHD	OP	1.38	2.05	48.6%	5,251.1	Y	06/2026	5.7	7.5	-14.6%	30.6%	24.0	18.4	1.9	7.2%	5.0	3.6%
KELINGTON GROUP BHD	OP	5.17	6.15	19.0%	4,079.2	Y	12/2026	20.5	21.9	23.4%	6.8%	25.2	23.6	5.8	26.1%	13.0	2.5%
LGMS BHD	OP	0.480	0.580	20.8%	218.9	Y	12/2026	2.9	3.6	30.4%	21.8%	16.5	13.5	1.7	10.5%	2.0	4.2%
M'SIAN PACIFIC INDUSTRIES BHD	MP	29.02	35.30	21.6%	5,786.5	Y	06/2026	104.4	120.3	35.2%	15.2%	27.8	24.1	2.6	9.7%	35.0	1.2%
NATIONGATE HOLDINGS BHD	MP	0.660	0.850	28.8%	1,493.3	Y	12/2026	4.7	5.7	7.8%	21.1%	14.0	11.6	1.4	10.2%	2.0	3.0%
OPPSTAR BHD	MP	0.200	0.280	40.0%	128.3	Y	03/2026	(1.6)	1.0	-184.7%	-40.0%	N.A.	20.3	1.0	-8.0%	0.0	0.0%
P.I.E. INDUSTRIAL BHD	MP	1.15	1.40	21.7%	441.6	Y	12/2026	8.1	8.8	37.6%	8.0%	14.2	13.1	0.7	4.8%	0.0	0.0%
SKP RESOURCES BHD	MP	0.445	0.530	19.1%	695.3	Y	03/2026	5.7	4.4	-24.4%	-22.5%	7.9	10.1	0.6	8.0%	0.0	0.0%
UNISEM (M) BHD	UP	2.69	2.22	-17.5%	4,339.2	Y	12/2026	7.6	9.2	94.1%	21.8%	35.5	29.2	2.0	5.8%	6.0	2.2%
UWC BHD	OP	4.24	4.70	10.8%	4,677.3	Y	07/2026	9.0	14.3	143.3%	59.0%	47.3	29.7	8.1	18.7%		0.0%
PENTAMASTER CORP BHD	OP	3.02	4.25	40.7%	2,148.2	Y	12/2026	12.1	13.1	39.0%	8.1%	24.9	23.0	2.5	10.4%	2.0	0.7%
INFOMINA BHD	OP	1.10	1.90	72.7%	661.4	Y	05/2026	5.6	7.6	60.7%	34.8%	19.5	14.5	3.3	18.3%	1.0	0.9%
Simple Average					**30,521.4**					**21.5%**	**20.7%**	**25.2**	**20.9**	**2.5**	**9.7%**		**1.6%**

Source: Kenanga Research

This section is intentionally left blank

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.***

Published by:

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