Malaysia

ADD *(previously NOT RATED)*

Consensus ratings*:	Buy 1	Hold 0	Sell 0

Current price:	RM1.13
Target price:	RM1.60
Previous target:	N/A
Up/downside:	41.6%
CIMB / Consensus:	18.5%
Reuters:	DNEX.KL
Bloomberg:	DNEX MK
Market cap:	US$851.8m
	RM3,566m
Average daily turnover:	US$16.43m
	RM68.92m
Current shares o/s:	3,155m
Free float:	81.2%

Source: Bloomberg

Key changes in this note

- N/A

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	34.5	32.2	111.2
Relative (%)	31.7	27.1	111.7

Major shareholders	% held
Arcadia Acres	11.6
Foxconn Singapore	3.9
Annedjma Capital	3.3

Dagang NeXchange

The new chips on the block

- DNeX is a proxy to SilTerra's turnaround and higher crude oil prices via Ping.
- We see exciting prospects for SilTerra leveraging on 1) semi chips shortages, 2) rising MtM adoption, and 3) ready access to China market through CGP.
- We initiate coverage on DNeX with an Add and SOP-based TP of RM1.60.

Transformation into a Malaysian semiconductor powerhouse

Following the appointment of a new management team led by Group Managing Director Tan Sri Syed Zainal Abidin since Oct 2020, Dagang NeXchange (DNeX) has completed multiple corporate exercises that transformed the group into one of the semiconductor powerhouses in Malaysia through the joint-acquisition of pure-play foundry SilTerra in Jul 2021. DNeX also consolidated its stake in Ping Petroleum (Ping) with an additional 60% stake acquisition in Jun 2021. We expect both SilTerra and Ping to be the major growth drivers for the group, making up 87-88% of DNeX's core net profits in FY22-24F.

Riding on SilTerra's turnaround strategy, new capacity expansion

DNeX is well positioned to benefit from SilTerra's turnaround, underpinned by on-going semi chips shortages and structural shift towards More-than-Moore (MtM) devices. SEMI projects global MtM wafers demand growing at a 10% CAGR in 2017-23F driven by megatrends such as wireless 5G infrastructure, electric vehicles, AI and machine learning. We project SilTerra to invest over RM900m capex in FY22-24F. The group plans to increase its mask layer (ML) capacity by 20% to 10m ML/annum by CY23F. We expect SilTerra to secure two new LTAs in 1HCY22F that will take up 80% of its capacity.

Robust 3-year core net profit CAGR of 453% over FY21-24F

We project DNeX to post a 3-year core EPS CAGR of 453% (FY21-24F) driven by 1) higher wafers ASP, 2) higher wafers production volume on the back of new capacity expansion, 3) higher average crude oil prices for Ping, and 4) higher production volume at Ping on the back of its new capex programme. DNeX also enjoys a lower effective tax rate given that SilTerra has over RM12bn as of Jul-21 in unrecognised deferred tax assets that could be offset against its future profits. Note that we have yet to account for: 1) contributions from emerging technology platforms like silicon photonics that command premium ASP, and 2) commercialisation of Ping's Avalon oilfield.

Initiate with an Add rating and RM1.60 target price

We initiate coverage on DNeX with an Add and SOP-based TP of RM1.60. We ascribed a 10% SOP-discount due to its conglomerate structure. The stock trades at undemanding P/E valuation of 13.7x CY23F P/E or 37-44% discounts to Malaysian OSAT and ATE means. We see 1) a stronger earnings delivery in coming quarters, 2) rise in institutional funds' holdings (10% at end-Dec 21), 3) narrowing discount relative to Malaysian ATE and OSAT sectors, and 4) higher crude oil prices as potential re-rating catalysts; while 1) weakening sentiment in global tech sector, 2) delay in new capacity expansion at SilTerra and capex programme at Ping, and 3) lower crude oil prices are potential downside risks.

Financial Summary	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (RMm)	256	221	1,263	1,577	1,845
Net Profit (RMm)	55.1	80.1	166.9	224.8	294.9
Core EPS (RM)	0.009	0.000	0.053	0.071	0.093
Core EPS Growth	(52%)	(95%)	10645%	35%	31%
FD Core P/E (x)	122	1,996	19	16	12
Price To Sales (x)	8.68	12.14	2.82	2.26	1.93
DPS (RM)	0.003	-	0.005	0.010	0.020
Dividend Yield	0.22%	0.00%	0.44%	0.88%	1.77%
EV/EBITDA (x)	29.60	28.17	8.24	6.72	5.30
P/FCFE (x)	70.91	57.48	37.87	88.47	15.28
Net Gearing	(7.9%)	(17.2%)	(10.3%)	(9.3%)	(21.4%)
P/BV (x)	3.50	2.62	2.54	2.24	1.95
ROE	2.9%	0.2%	13.8%	15.0%	17.2%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)			1.08	1.13	1.09

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Analyst(s)

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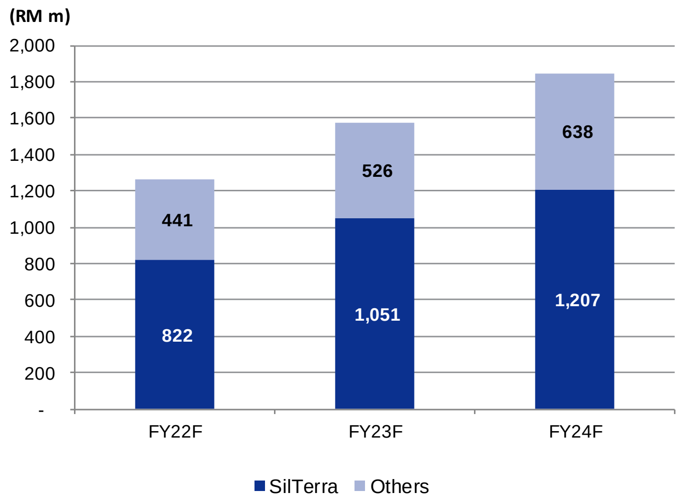
The new chips on the block

Investment thesis

Exciting exposure in a pure-play semiconductor foundry

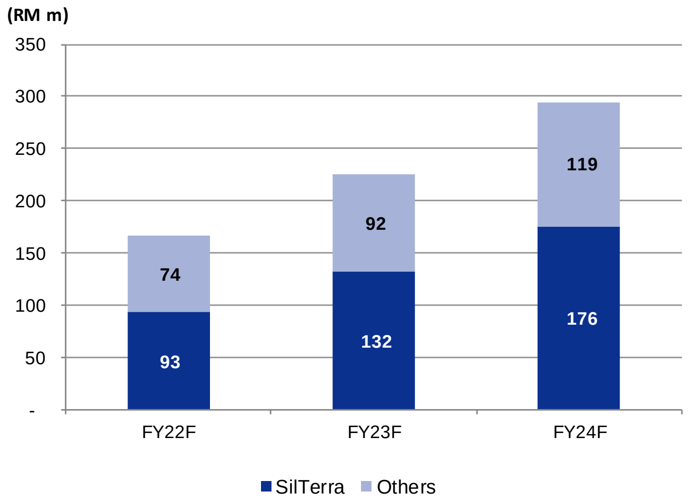
We believe Dagang NeXchange's (DNeX) joint acquisition of SilTerra with Beijing-based Beijing Integrated Circuit Advanced Manufacturing and High-End Equipment Investment Fund Center (CGP) will transform DNeX to become one of the major semiconductor players in Malaysia. We expect SilTerra to benefit from the extended global semiconductor industry upcycle, underpinned by multiple new long-term wafer supply agreements (LTAs), leveraging on its relationship with CGP and structural shift in product mix gearing towards data centers, 5G networks and life sciences applications. Essentially, we expect SilTerra to contribute 65-67% of DNeX's sales and 56-60% of its PATAMI in FY22-24F.

Figure 1: SilTerra revenue contribution forecast to DNeX's FY22-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: SilTerra PATAMI contribution forecast to DNeX's FY22-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Acquired SilTerra at 56-72% discount relative to peers

DNeX and CGP together acquired a 100% stake in SilTerra from Malaysia sovereign wealth fund Khazanah Nasional for RM273m (US$66m) in Jul 2021. Following the acquisition, SilTerra is now a 60%-owned subsidiary of DNeX. Although SilTerra had been suffering from losses since 2017 until 2020, we believe the acquisition is a value-accretive deal for DNeX, given the attractive price tag since SilTerra was valued at US$1.9m per one thousand wafers/month. This is a deep discount of between 56%-72% relative to comparable 200mm (8 inch) foundries transaction over the past 3 years. According to Semiconductor Engineering, the average cost of a new 200mm fab with 50,000 wafers per month is around US$1bn, that will include construction and equipment. This translates to about US$20m per one thousand wafers/month.

Figure 3: SilTerra's purchase consideration and new capital injection

	DNeX	CGP	Total
Equity stake	60%	40%	100%
Purchase consideration (RM m)	163.8	109.2	273.0
Capital injection (RM m)	120.0	80.0	200.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, SEMICONDUCTOR ENGINEERING

Figure 4: SilTerra's transacted price multiple relative to completed transaction and cost of setting up a new 200mm fab

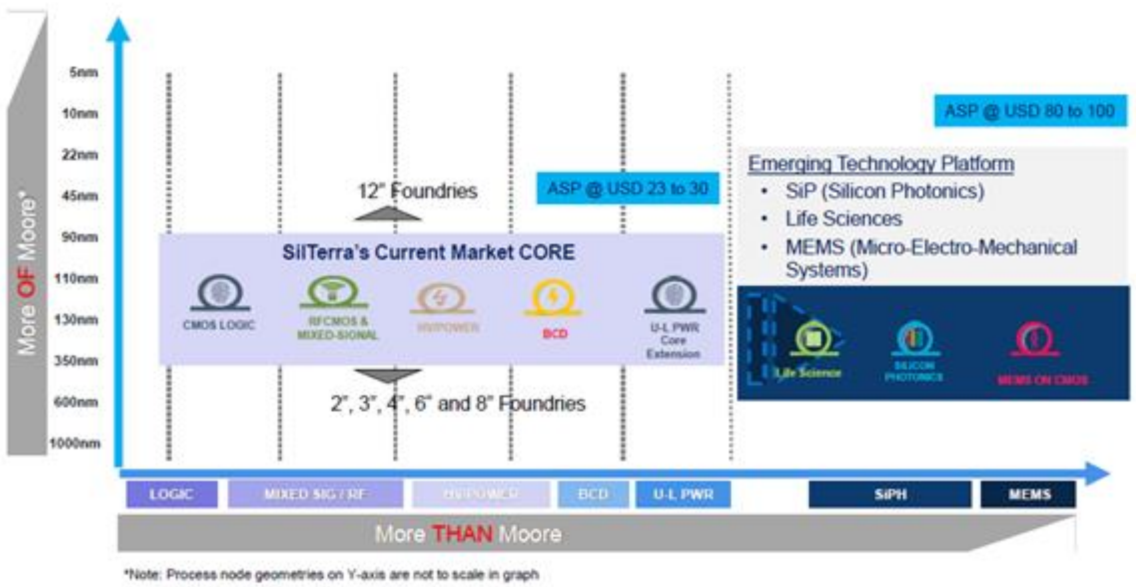
	Price per 1,000 wafers/month (US$m)	Date of completion
SilTerra	**1.9**	**26-Jul-21**
Magnachip (Korea)	4.3	1-Sep-20
Global Foundries Fab 3E (Singapore)	6.7	31-Dec-19
Cost to set up new 200mm fab	20.0	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

More-than-Moore bringing new lease of life for SilTerra ➤

SilTerra operates a single 200mm (8 inch) wafer fab in Kulim, Kedah with an estimated total wafers capacity of 35k-36/month. The 200mm wafer is mainly used for manufacturing wafers based on mature processes; More-than-Moore (MtM), that ranges from 90nm to 350nm nodes to produce chips that go into electronics products and include analog, display drivers, power management (PMICs) and radio-Frequency (RF) devices. SEMI, the global industry association representing the electronics manufacturing and design supply chain, expects global demand for MtM devices to grow from 45m 200mm wafers in 2017 to 66m 200mm wafers in 2023F, which implies a 10% CAGR over the period.

Figure 5: Rising adoption for More-than-Moore devices offers new growth avenues for maturing nodes platform



SOURCES: CGS-CIMB RESEARCH, YOLE DEVELOPPEMENT

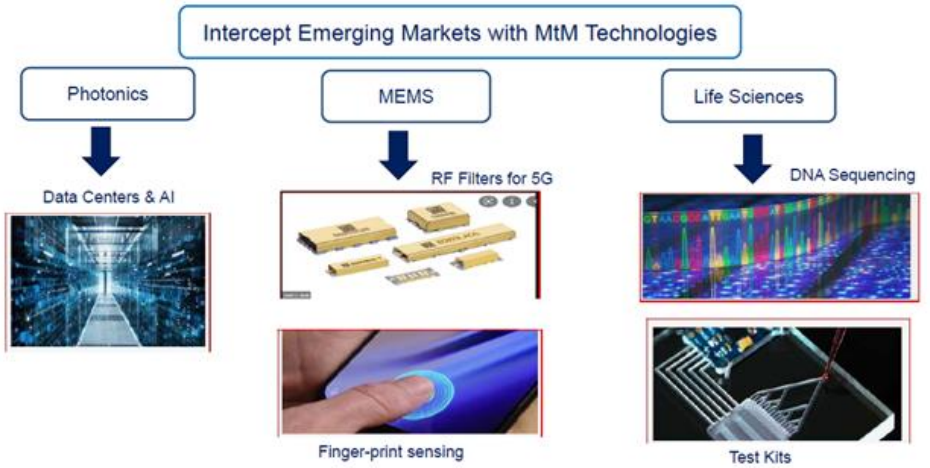
Shift in product mix gearing towards emerging technology ➤

SilTerra's existing core platform technology consists of CMOS logic, high voltage, and smart power technology, which made up approx. 93% of the group's capacity as of Sep 2021. In addition to core technology platform, the group is planning to expand its technology platform to cater to emerging technology, like silicon photonics, micro-electromechanical systems (MEMS) and life sciences applications. The group highlighted that these emerging technology platforms command higher average selling prices (ASP) of between US$80 and US$100 per mask layer, substantially higher compared to US$23-30 per mask layer ASP for SilTerra's existing core platforms.

In addition, management guided during our Malaysia Virtual Corporate Day 2022 that SilTerra's silicon photonics products are ready for mass commercialisation after five years of research and development (R&D). For example, management also shared that SilTerra is engaged with three of the top tier data center providers to supply its silicon photonics chips.

Apart from that, management also highlighted during meeting with analysts and fund managers in Jan-22 that SilTerra is also engaged with a US-based start-up to evaluate its silicon photonics transposer for potential artificial intelligence and machine learning applications.

Figure 6: SilTerra is targeting 20% revenue contribution from emerging technology by 2024-25F

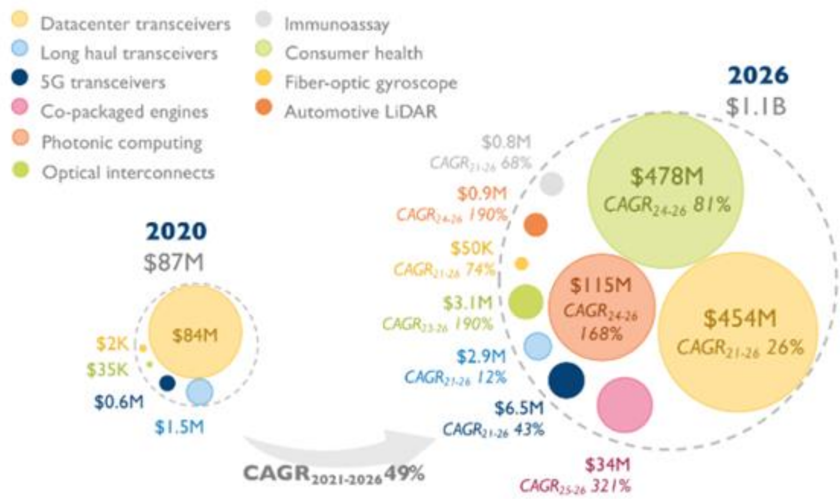


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Although emerging technology platform offers a higher ASP, it has a relatively low volume loadings profile compared to SilTerra's core platform, mainly due to the former's smaller market size. Nevertheless, we see exciting opportunities in these emerging platform technologies, driven by growing adoption in data centers, DNA sequencing and RF filters for 5G applications.

For example, market research group, Yole Developpement estimates that the size of the silicon photonics dies market will register a 2020-2026F CAGR of 49% from US$87m in 2020 to US$1.1bn in 2026F, driven by faster adoption in data centers, consumer healthcare, etc.

Figure 7: 2020-26F silicon photonics dies market forecast by application



SOURCES: CGS-CIMB RESEARCH, YOLE DEVELOPPEMENT

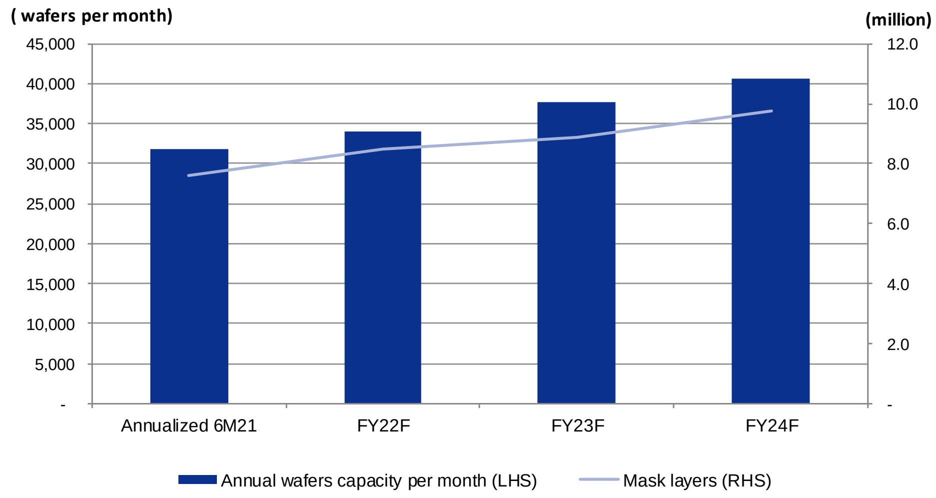
Management also shared during its post-1QFY6/22 virtual analysts briefing on 26 Nov 21, that SilTerra's new emerging technology platform made up around 7% of the foundry's capacity as of end-Sep 2021. Meanwhile it only contributed 4-5% to the group's revenue in 9MCY21. However, the group aims to have a 20% revenue contribution from the emerging technology platform by 2024-25F, on the back of higher market adoption and new capacity expansion.

SilTerra secured 2 LTAs as of Nov-21

SilTerra had secured two LTAs worth over US$560m (RM2.3bn) with Beijing-based ChipOne Technology (ChipOne) and Taiwanese Ili Technology Corp (Ilitek) as of Nov 2021 that will take up approximately 60-65% of its wafers capacity. This a positive development for SilTerra given that it will ensure healthy volume loadings over the next five years. Moreover, the group highlighted during its post-1QFY6/22 virtual analyst briefing on 26 Nov 21, that SilTerra is also in the midst of securing additional LTAs in the 1HCY22F that will secure up to 80% of its wafers capacity.

In addition, SilTerra is also looking to invest RM645m to expand its annual capacity by approx. 20% in FY6/23F. The new capex will raise SilTerra's annual mask layer production capacity from 8.3m at end-Jul 2021 to 10m mask layers. The group expects the new capacity to come on-line by 1QCY23F. SilTerra is looking to fund its capex plan via capital injections by its shareholders and internally generated funds as per group's press release on 24 Jan 2022. To recap, DNeX and CGP had set aside a total of RM200m for capital injection to expand SilTerra's capacity at the time of acquisition.

Figure 8: SilTerra's annual wafers and mask layers capacity projection FY22-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

In addition, DNeX had also raised over RM512m as of Nov-21 from warrants conversion prior to the expiry date on 31 Jul 2021 and private placements in order to partially fund SilTerra's acquisition and expansion plan and 60% stake acquisition in Ping. Apart from that, we estimate that SilTerra has also secured nearly US$100m in prepayments related to its two LTAs.

Consolidating oil and gas asset with additional 60% stake acquisition of Ping Petroleum

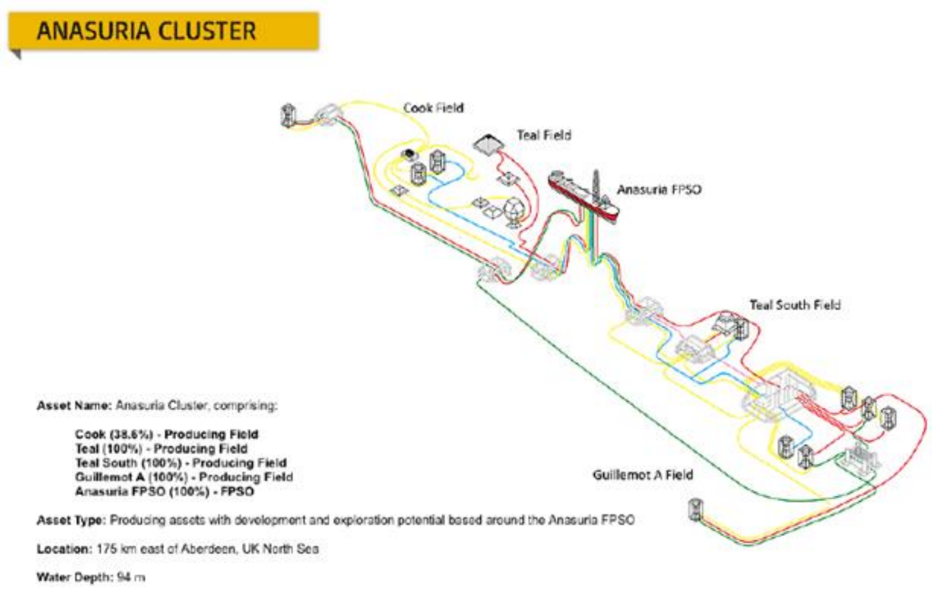
DNeX completed its additional 60% stake purchase in Ping Petroleum (Ping) for US$78m (RM314m) on 29 Jun 2021 via cash and new shares issuance. Following the acquisition, Ping is now a 90%-owned subsidiary of DNeX, with the remaining 10% stake held by Ping's founders.

Ping is principally involved in the exploration, development and production of crude oil and natural gas and investment holding. Ping is an independent upstream oil and gas company focusing on shallow water offshore production and development in Southeast Asia and the North Sea. Ping and Hibiscus Petroleum

(HIBI MK, NR) each own 50% of the Anasuria Cluster, which is located in the North Sea.

According to independent assessment prepared by THREE60 Energy Asia Sdn Bhd (TEASB), the indicative reserves and resources of Ping's entitlement in the Anasuria Cluster are 2P oil reserves estimated at 23.9 MMstb and 2P gas reserves estimated at 15.1 Bscf as at 30 Jun 2020.

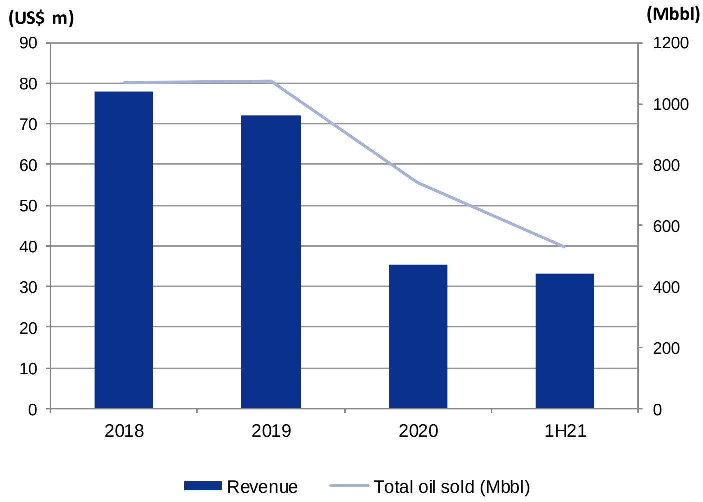
Figure 9: Anasuria cluster has four producing fields – Guillermot A, Teal, Teal South and Cook



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

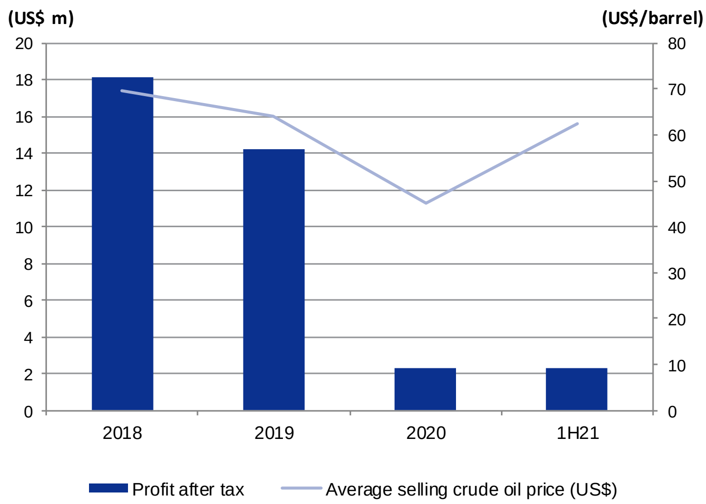
DNeX initially invested US$10m (RM40m) to acquire a 30% stake in Ping in 2Q16. Following the initial investment in Ping, DNeX has been recognising a substantial share of profit contribution from Ping for four years (2017-2020). The rationale behind the additional 60% stake purchase was to allow DNeX to control and consolidate Ping's financial results in the group.

Figure 10: Ping's historical revenue and total oil sold in 2018-1H21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 11: Ping's historical profit after tax and total oil sold in 2018-1H21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The purchase consideration for the additional 60% stake in Ping was deemed fair by a third-party independent advisor, FHMH Corporate Advisor (FMCA) based on Revalued Net Asset Valuation (RNAV) and comparable transaction analysis (CTA) valuation.

Based on the RNAV methodology, TEASB estimates Ping's RNAV stands at US$203.4m after taking into account Ping's net entitlement on its 2P reserves. Hence DNeX's purchase consideration of US$78m for 60% stake in Ping represents a discount of 36% to Ping's RNAV of US$122m.

Meanwhile using the CTA methodology, FHCA found that the price for a comparable transaction ranged from US$0.37 to US$12.42 per barrel of oil (stb), while the simple average and median were US$6.89 per stb and US$6.61 per stb, respectively. Therefore, the purchase consideration, implying the price of 2P reserves at US$4.86 per stb, is lower than the simple average and median, and is within the range of recently completed comparable transactions.

Figure 12: Comparable transaction range for Ping acquisition

Date of completion	Asset	Acquirer/Seller	Deal size (US$ m)	2P reserves (Mmstb)	Interest acquired (%)	Price/stb (US$)
02.09.2020	RockRose Energy PLC	Viaro Energy Limited	316.54	60.8	100.0	5.21
31.12.2019	Norwegian exploration and production assets of Centrica plc	NA/ Centrica plc	43.09	117.0	100.0	0.37
08.11.2019	Chevron North Sea Limited	Ithaca Energy Limited/Chevron Products UK Limited	1,677.00	135.0	100.0	12.42
30.09.2019	United Kingdom O&G Business of ConocoPhillips	NA/ ConocoPhillips	2,675.00	280.0	100.0	9.55
03.12.2018	Magnus oilfield	EnQuest plc/BP plc	300.00	63.4	75.0	6.31
01.07.2019	Marathon Oil UK LLC/Marathon Oil West of Shetland Limited	RockRose Energy plc/Marathon Oil Corporation	95.00	35.0	100.0	2.71
30.11.2018	CIECO Exploration and Production (UK) Limited	Verus Petroleum UK Limited/ITOCHU Corporation	400.00	44.0	100.0	9.09
0.7.02.2018	DNO North Sea	DNO ASA/NA	717.00	97.7	72.0	10.22
13.04.2018	DNO North Sea	DNO ASA/NA	6.67	97.7	1.0	6.69
05.04.2018	DNO North Sea	DNO ASA/NA	14.84	97.7	2.0	6.55
04.04.2018	DNO North Sea	DNO ASA/Delek Group Ltd	99.21	97.7	15.0	6.61
					Average	6.89
					Median	6.61
29.06.2021	**Ping's Anasuria Cluster**	**DNeX/Vendors of Ping**	**78.00**	**26.8**	**60.0**	**4.86**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Expanding Ping's asset portfolio with Avalon

In addition to raising its stake in Ping, the group also completed the acquisition of its remaining 50% stake in Avalon Oilfield from Summit Exploration and Production Limited in Sep 2021 for a cash consideration of US$5m (RM21.1m) with further contingent payments of an additional US$12m (RM50.6m) based on completion of key milestones.

The additional 50% stake acquisition in Avalon would allow the group to have better control and avoid any potential conflicting decisions that could arise from a new partner.

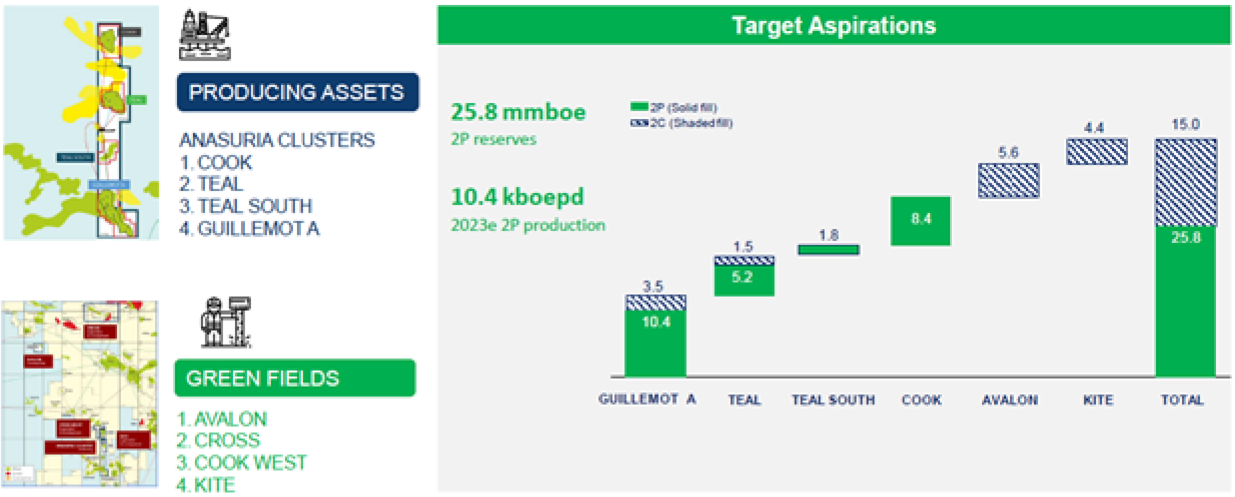
The group expects the Avalon field development to raise Ping's total oil production and reserves. Moreover, the expansion in Avalon will also help in portfolio risk mitigation as Ping would derive its revenue from two independent installations namely, i) Anasuria cluster, and ii) Avalon oilfield. We have not factored in the potential production volume of Avalon oilfield given that it still depends on regulatory approvals before Ping can proceed towards drilling and wells development and move into production.

Figure 13: Ping's asset portfolio

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The group is in the midst of submitting the field development plan for Avalon. Following approvals from Oil & Gas Authority, United Kingdom, which is expected by 2Q22F, Ping plans to commence drilling of development wells on Avalon in 3Q22F. Meanwhile it expects to complete the installations and hook-up of the production facility by 2Q23F. Based on these estimates, Avalon Oilfield is expected to begin producing oil by Jul 2023 as per DNeX's announcement on 9 Aug 2021.

Figure 14: Ping plans to develop new fields to reduce dependency on Anasuria clusters



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

New management team spearheading growth strategy

DNeX's board of directors have also installed a new senior management team led by Group Managing Director Tan Sri Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir on 1 Oct 2020. Tan Sri Syed Zainal brings large corporate and public company experience with his proven track record of success in various industries with deep experience in operations. Despite his relatively recent arrival at DNeX, Tan Sri Syed Zainal has already successfully completed two major corporate exercises in 2021, namely 1) the SilTerra joint-acquisition, and 2) a 60% stake acquisition in Ping Petroleum.

Figure 15: DNeX's new management team led by Tan Sri Dato' Sri Syed Zainal Abidin

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

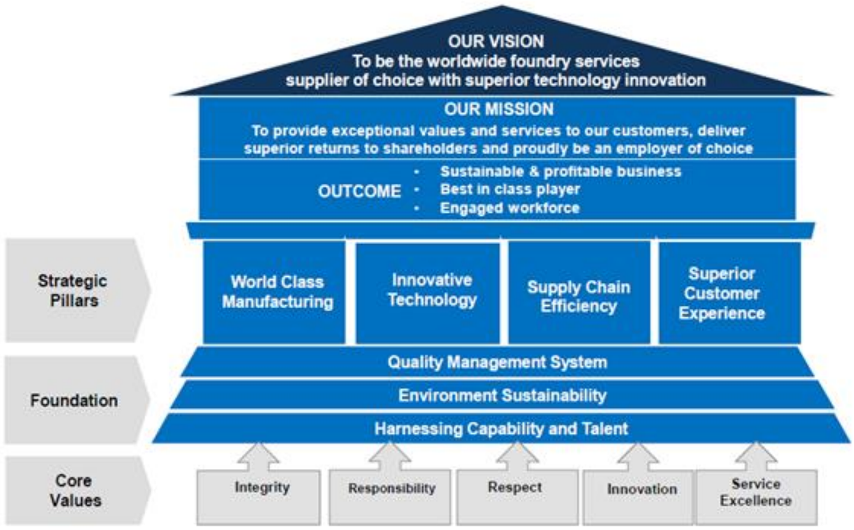
Figure 16: Profile of DNeX's management team as on 29 Oct 2021

Name	Role	Age	Nationality	Details
Tan Sri Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir	Group Managing Director	59	Malaysian	Tan Sri Dato' Sri Syed Zainal was appointed as the Group Managing Director for DNeX and its group of companies from 1 Oct 2020. He held various key positions in various government-linked companies such as Petronas, Proton, Perodua and RHB Bank. He currently sits as the Executive Chairman of SilTerra, Chairman of Innovation Associate Consulting (IAC), and Director of OGPC Sdn Bhd. He holds a Bachelor's Science Degree in Civil Engineering, University of Maryland, USA.
Zainal 'Abidin Abd Jalil	Executive Director	62	Malaysian	En Zainal previously served as DNeX's Group Managing Director from 19 Jun 2014 until his retirement on 22 Jan 2019. He was re-appointed as Executive Director for DNeX's Energy business on 1 Dec 2020. He spent over 28 years with ExxonMobil in various leadership positions across North America, West Africa and Asia Pacific regions. He holds a Bachelor's Engineering Degree in Civil Engineering, University of Queensland, Australia.
Mohd Azhar Mohd Yusof	Executive Director	46	Malaysian	En Mohd Azhar is the Executive Director for Group Corporate Services from 1 Oct 2020. He has more than 20 years experience in capital markets and corporate finance. He held various positions in various government-linked companies such as Petronas, SME Bank, FGV and Bursa Malaysia. He holds a Master's Degree in Business Administration, Unviersity Malaya, Malaysia.
Azhar Othman	Group Chief Financial Officer	54	Malaysian	En Azhar is responsible for the leading the Group Finance Team to maintain financial statement integrity, compliance and best practices throughout DNeX and its group of companies. He held various CFO role in government-linked companies such as Proton, UEM Sunrise and Johor Corp. He also served semiconductor related companies such as ONsemi and Motorola Semiconductor (M) Sdn Bhd where he held various roles in finance across all regions. He holds a Master's Degree in Business Administration, Arizona State University, USA. He is also chartered CIMA accountant and member of Malaysia Institute of Accountants.
Azlan Zainal Abidin	CEO for IT & eServices	48	Malaysian	En Azlan is responsible for the overall operations of the group's IT business segmen, and instrumental in providing leadership and overseeing implementation of the group's strategies in the IT business segment. He has over 24 years of working experience in various sectors including IT and telecommunications. He helds a Master in Business Administration, Imperial College, United Kingdom.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Following the acquisition of SilTerra, Tan Sri Syed Zainal and his team also launched SilTerra's new vision and mission statements and redefined core values on 8 Nov 2021. Management highlighted during CGS-CIMB 2022 Malaysia Corporate Day in Jan-22 that the recent exercise is a part of SilTerra's Transformation Journey towards greater excellence and new corporate culture under DNeX.

Figure 17: SilTerra's strategy house: Vision, Mission and Core Values



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Adding two new Board members with in-depth knowledge

In addition to the new management team, the group also appointed two new non-executive directors on 22 Jun 2021 to assist the senior management team in navigating its growth strategy in the semiconductor and oil & gas sectors. They are:

- **Dr Bob Wei-Ming Chen**. Dr Bob Chen currently serves as Vice President of Hon Hai Technology Group and Head of Semiconductor Business Group for Hon Hai Technology Group. He was in charge of integration of several technology nodes and various technology flavor for 10 years in TSMC. He had established several semiconductor start-ups across fields from IC design to package with Hon Hai Technology. He has about 30 patents and 40 publications. He is also a member of SilTerra board of directors. He holds a Doctorate and Master's Degree in Electrical Engineering from University of Texas, Austin, USA.
- **Dato' Robert Fisher**. He has over 45 years of experience in the oil and gas industry. He has held various senior leadership positions throughout his career, led large multi-functional organisations globally and has a proven track record in international commercial negotiations. He has spent over 20 years in ExxonMobil Corporation in the upstream sector. He was also appointed as a Senior Advisor to Bain and Company, a management consultancy group, to advise on a wide range of oil and gas projects internationally. He holds a Bachelor's Degree in Chemical Engineering from Birmingham University, United Kingdom.

Figure 18: DNeX appointed Dr Bob Chen and Dato' Robert Fisher as Non-Executive Directors on Jun 2021

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Industry outlook

Robust semiconductor equipment and industry sales outlook for 2022F

The World Semiconductor Trade Statistics (WSTS) expects global semiconductor sales to increase by 8.8% yoy to US$601bn in 2022F (vs. US$552bn in 2021F), driven by strong demand in the integrated circuits (ICs) segment, led by logic (11.1%), analog (8.8%) and memory (8.5%). Meanwhile, the sensors, discreet and optoelectronics markets are projected to grow by 11%, 7% and 6%, respectively.

Figure 19: Historical and projected 2021-22F semiconductor sales by segment

	Sales (US$ million)				Annual growth (%)		
	2019	2020	2021F	2022F	2019	2020F	2021F
Discrete	24	24	30	32	(0.3)	26.4	7.2
Optoelectronics	42	40	43	46	(2.8)	7.0	6.4
Sensors	14	15	19	21	10.7	25.6	11.3
Integrated Circuits	**333**	**361**	**461**	**502**	**8.4**	**27.6**	**9.0**
Analog	54	56	73	79	3.2	30.9	8.8
Micro	66	70	79	84	4.9	13.5	6.2
Logic	107	118	151	167	11.1	27.3	11.1
Memory	106	117	158	172	10.4	34.6	8.5
Total	**412**	**440**	**553**	**601**	**6.8**	**25.6**	**8.8**

SOURCES: CGS-CIMB RESEARCH, WSTS

Meanwhile, WSTS forecasts all major semiconductor markets to register positive sales growth in 2022F, led by the Americas (10.3%) followed by Japan (9.3%), Asia Pacific-ex Japan (8.4%) and Europe (7.1%). This will be another impressive year following a record-breaking growth of 26% in 2021F.

Figure 20: Historical and projected 2021-22F semiconductor sales by region

	Sales (US$ million)				Annual growth (%)		
	2019	2020	2021F	2022F	2020	2021F	2022F
Americas	79	95	119	131	21.3	24.6	10.3
Europe	40	38	47	50	(5.8)	25.6	7.1
Japan	36	36	44	48	1.3	19.5	9.3
Asia Pacific	258	271	343	372	5.1	26.7	8.4
Total	**412**	**440**	**553**	**601**	**6.8**	**25.6**	**8.8**

SOURCES: CGS-CIMB RESEARCH, WSTS

This is broadly in line with the average sales growth projections from various market research groups (Figure 11), which are forecasting an average of 9.4% sales growth in 2022F, up from 23.4% growth in 2021F. Overall, we believe improving semiconductor demand bodes well for foundry players such as SilTerra.

Figure 21: Worldwide semiconductor industry sales forecasts

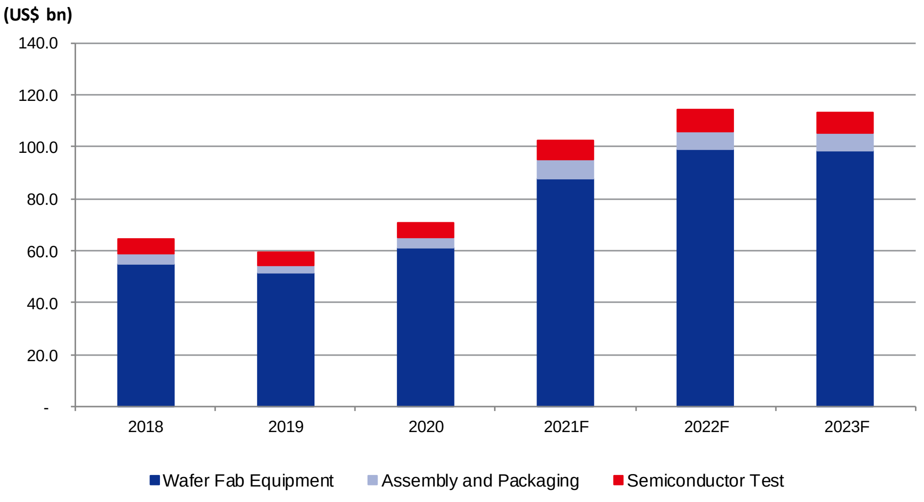
Semiconductor sales forecast	2021F	2022F
Gartner	27.0	9.0
IDC	17.0	4.0
WSTS	25.6	8.8
IC Insights	23.0	11.0
Semiconductor Intelligence	24.5	14.0
Average	**23.4**	**9.4**

SOURCES: CGS-CIMB RESEARCH, SEMICONDUCTOR-INTELLIGENCE

SEMI, the global industry association representing the electronics manufacturing and design supply chain, expects global fab spending for front-end equipment to grow by 10% yoy in 2022F to reach a new all-time high of over US$98bn, which marks a third consecutive year of growth. SEMI reported total fab equipment spending grew 17% in 2020 and 39% in 2021. The industry saw the last three consecutive years of growth from 2016 to 2018.

The association highlighted that the fab equipment market enjoyed unprecedented growth, with an increase in spending in six out of the past seven years, as chipmakers continue to invest in capacity to meet structural growth for various emerging technologies, such as artificial intelligence, autonomous machines and quantum computing. This is on top of stronger demand for remote learning and working, telehealth and other applications.

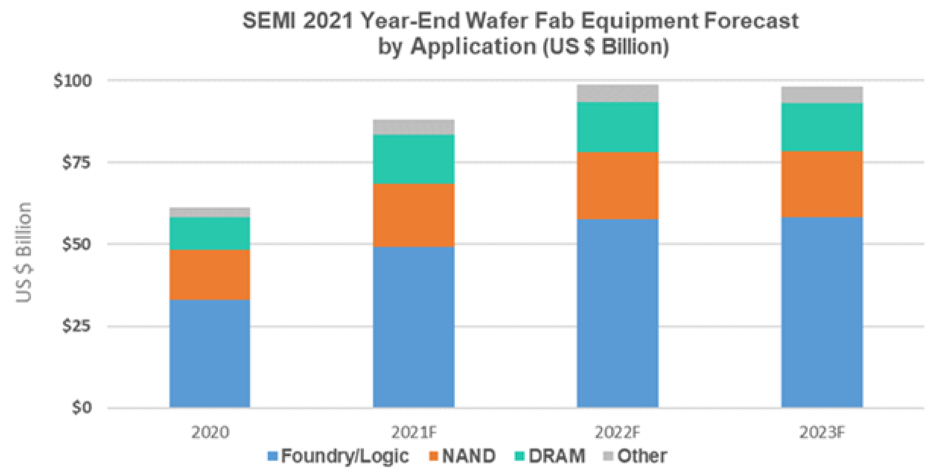
Figure 22: Historical and projected 2021-23F semiconductor sales by segment



SOURCES: CGS-CIMB RESEARCH, SEMI

In terms of wafer fab equipment spending by application, SEMI expects the foundry and logic segment to grow by 50% yoy in 2021F and 17% in 2022F, driven by robust demand for both leading-edge and mature nodes. Meanwhile, strong enterprise and consumer demand for memory and storage is driving the strength for DRAM and NAND equipment spending. SEMI expects both the DRAM and NAND markets to grow at a relatively slow rate of 1% and 8% respectively in 2022F.

Figure 23: 2020-2023F wafer fab equipment spending forecast by application



SOURCES: CGS-CIMB RESEARCH, SEMI

More-than-Moore: Key growth catalyst for 200mm wafers market

In the early days of the semiconductor industry in the 1960s, chipmakers produced the most advanced chips on 30mm (1.5 inch) wafer in a fab. Since then, the semiconductor industry has migrated to larger wafer sizes, which helped to increase the number of dies per wafer, and effectively reducing manufacturing cost.

Figure 24: The evolution of wafer size from 150mm, 200mm and 300mm

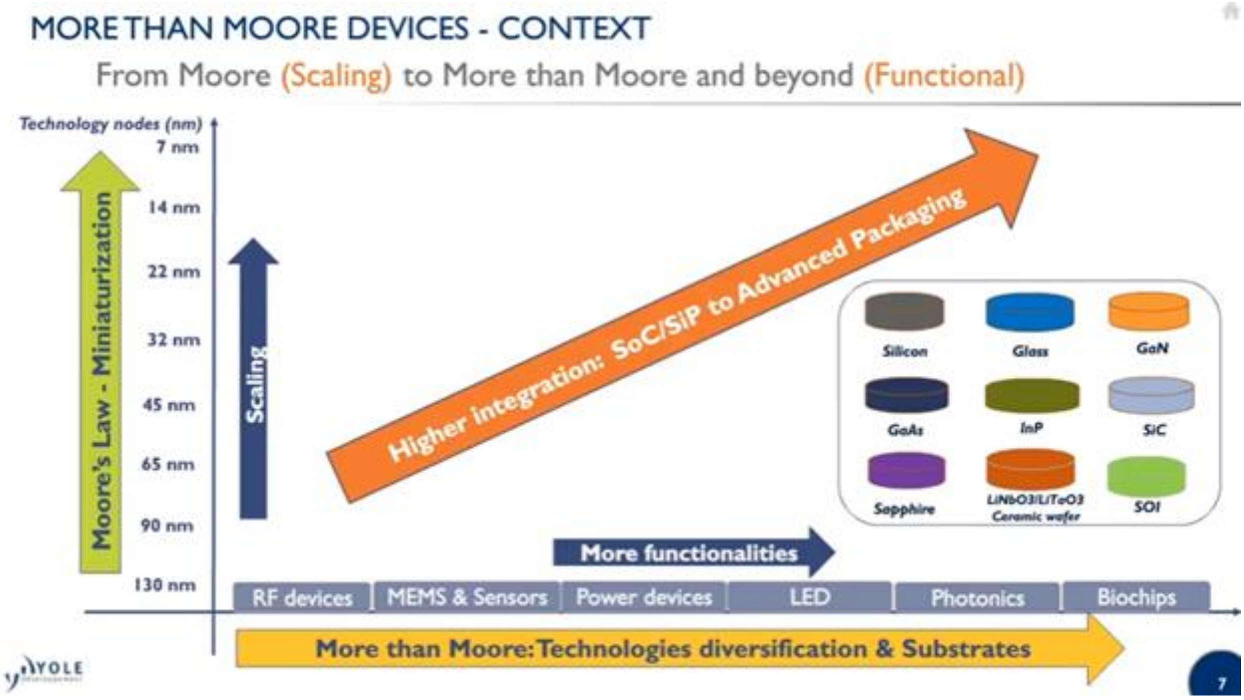
SOURCES: CGS-CIMB RESEARCH, SILTERRA COMPANY REPORTS

The concept of technology roadmap for semiconductors can be traced back to a paper by Gordon Moore in 1965, which he stated that the number of transistors on a chip would increase exponentially over time. This will result in a reduction of the relative manufacturing cost per function and hence lead to the production of more complex circuits in a semiconductor substrate. Since 1970, the number of components per chips had doubled every two years. This historical trend is known as “Moore’s Law”.

However, SEMI highlighted that today’s global semiconductor industry is facing a new era in which devices scaling and cost reductions are no longer continuing along the path set in the past few decades. Advanced nodes no longer bring the desired cost-benefits and R&D investments into new equipment, such as lithography scanners and devices below 10nm, are getting too expensive.

In order to meet growing market demand, the semiconductor industry is turning to technology solutions to bridge the gap and improve its cost-to-performance ratio, while at the same time adding more functionality via integration. Hence, the semiconductor industry is focusing on expanding semiconductor chips usage across new applications, via the More-than-Moore (MtM) context.

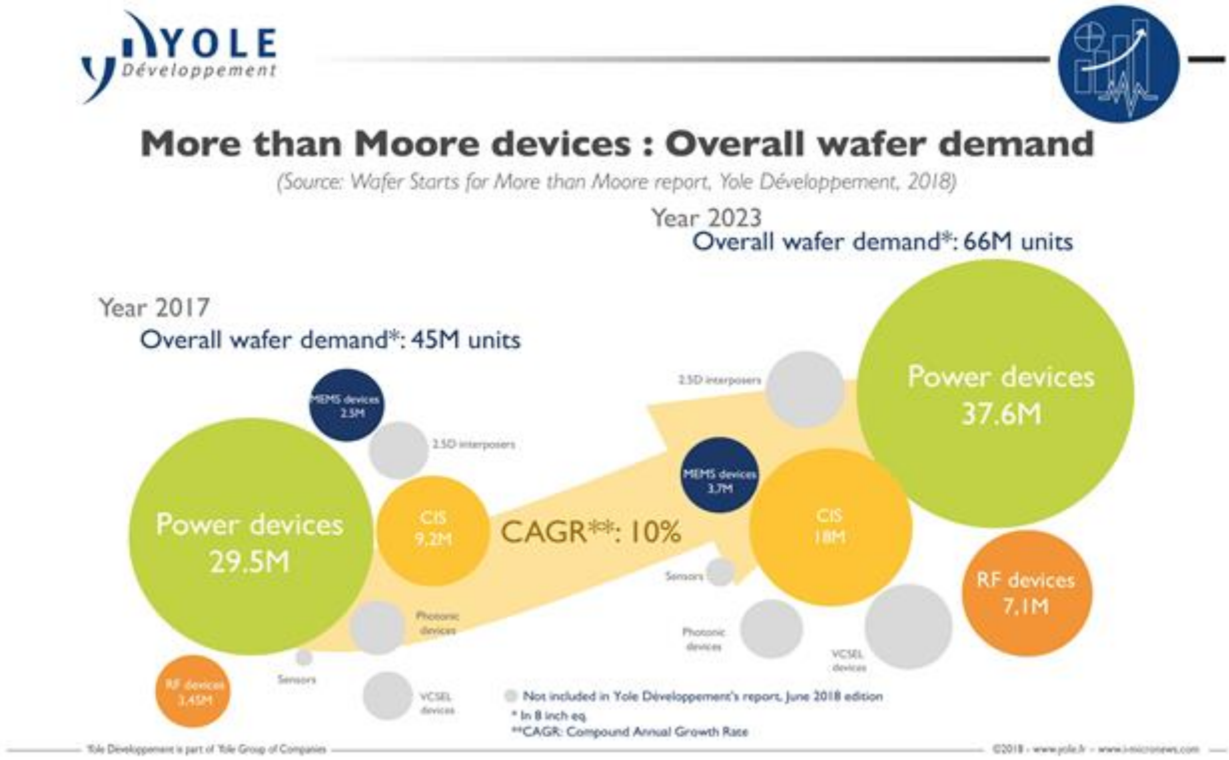
Figure 25: More-than-Moore bringing new lease of life for mature nodes platform



SOURCES: CGS-CIMB RESEARCH, YOLE DEVELOPPEMENT

MtM devices like MEMS and sensors, CMOS Image sensors (CIS), power electronics and RF represent this new functionality diversification of technologies, combining performance. Integration and cost not limited to CMOS scaling. SEMI expects global demand for MtM devices to grow from 45m 200mm wafers in 2017 to 66m 200mm wafers in 2023F, which implies a 10% CAGR over the period. Overall, we believe SilTerra is poised to benefit from the structural shift in global semiconductor from miniaturisation towards MtM devices.

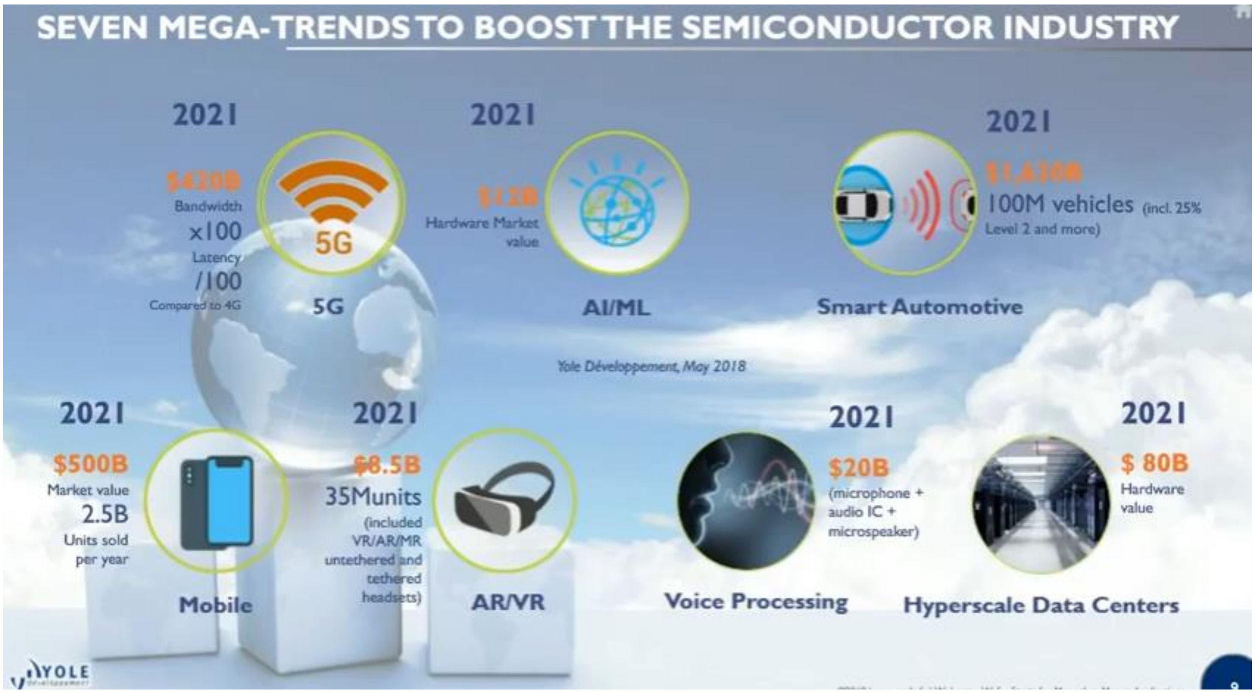
Figure 26: More-than-Moore devices 2017-2023F wafers demand forecast



SOURCES: CGS-CIMB RESEARCH, YOLE DEVELOPPEMENT

In addition, SEMI expects MtM devices growth to be driven by megatrends, such as wireless 5G network infrastructure development, smart automotive and electrification, augmented reality (AR)/ virtual reality (VR) and artificial intelligence.

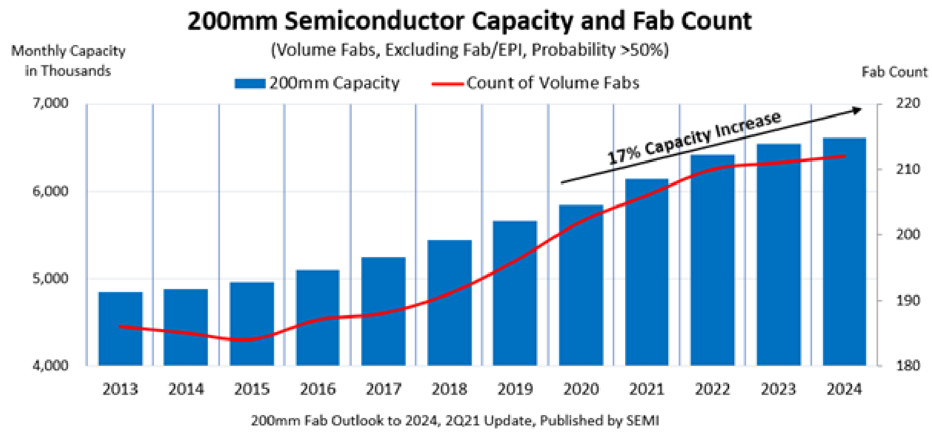
Figure 27: Yole Developpement estimates seven mega trends to drive global semiconductor industry



SOURCES: CGS-CIMB RESEARCH, YOLE DEVELOPPEMENT

SEMI projects that the total 200mm fabs installed capacity globally will grow from 5.7m wafers/month in 2020 to 6.6m wafers/month in 2024F, implying a 4-year CAGR of 4%. SEMI reported that the 200mm fab capacity increased by over 300k wafers/month or 5% yoy capacity growth in 2021. In addition, SEMI also highlighted that the total number of 200mm fabs is expected to reach 216 in 2022F, up from 184 in 2016.

Figure 28: SEMI projects 200mm wafers installed capacity to rise from 5.6m wafers/month in 2020 to 6.6m wafers/month in 2024F



SOURCES: CGS-CIMB RESEARCH, SEMI

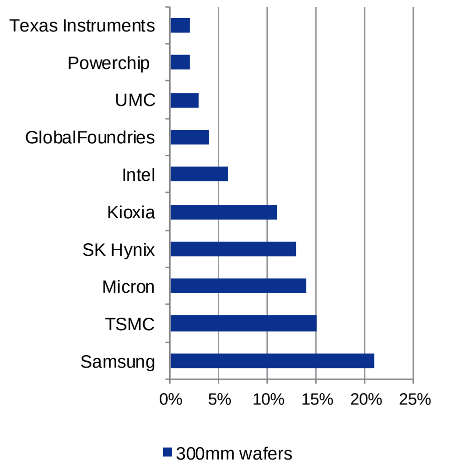
Figure 29: Yole Developpement expects Power management, MEMS, CIS and RF to drive demand for 200mm wafers

SOURCES: CGS-CIMB RESEARCH, YOLE DEVELOPPEMENT

200mm fabs were considered the most advanced fabs in the 2000s until around 2015, after which chipmakers started to migrate from 200mm to 300mm fabs. During that period, the 200mm wafers fabs were struggling due to competition and lack of new applications until 2015, when the industry saw a surge in demand for chips based on mature processes, especially with the rising adoption of Internet-of-Things (IoT). Between 2016 and 2021, the 200mm fabs capacity was tight, driven by robust demand in PMICs, display driver ICs and microcontrollers (MCU).

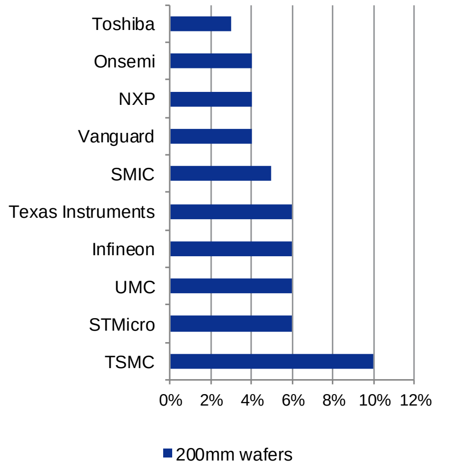
Gartner analyst Samuel Wang indicated that 200mm capacity at foundries were sold out in 1H22F. Gartner expects the capacity to remain tight and could possibly last for a few years up to 2025F. In view of a prolonged tight capacity environment, we see room for upside in terms of average selling prices for the 200mm wafers. Overall, this could be a positive development for 200mm foundries like SilTerra.

Figure 30: Installed capacity share for Top 10 players for 300mm wafers at Dec 20



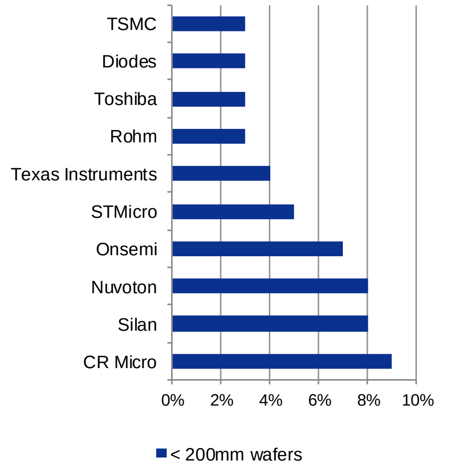
SOURCES: CGS-CIMB RESEARCH, IC INSIGHTS

Figure 31: Installed capacity share for Top 10 players for 200mm wafers at Dec 20



SOURCES: CGS-CIMB RESEARCH, IC INSIGHTS

Figure 32: Installed capacity share for Top 10 players for <200mm wafers at Dec 20



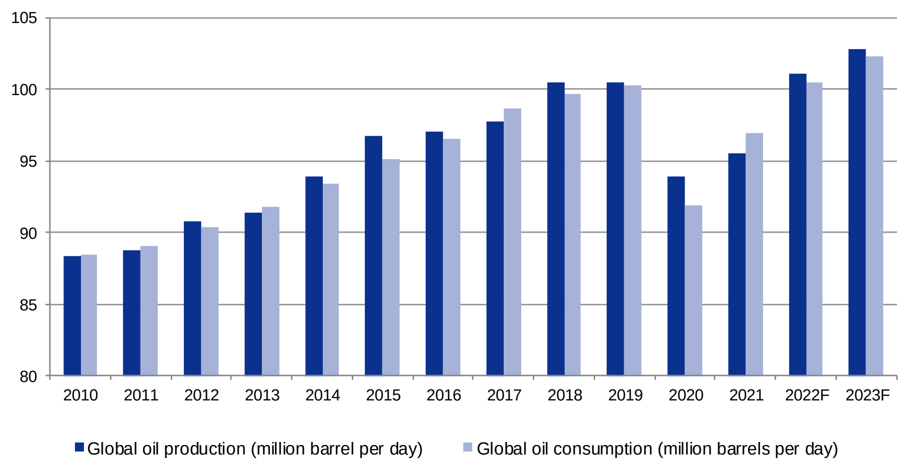
SOURCES: CGS-CIMB RESEARCH, IC INSIGHTS

Global oil consumption set to exceed pre-pandemic levels in 2022-23F

The US Energy Information Administration (EIA) estimates global oil consumption to reach 100.5m (+3.7% yoy) and 102.3m (+1.7% yoy) barrels per day in 2022F and 2023F, respectively. If the forecast is realised, the 2022 global oil consumption would surpass the pre-pandemic 2019 levels and represent a new record for global oil consumption.

Nevertheless, the growth rate in 2022F will be slightly lower than 5.5% yoy growth consumption recorded in 2021. This is mainly due to a lower economic growth forecast given that EIA through Oxford Economics estimates global GDP to grow by 4.5% in 2022F and 3.9% in 2023F, compared to 5.8% yoy growth in 2021.

Figure 33: Historical and projected 2022-23F global oil production and consumption



SOURCES: CGS-CIMB RESEARCH, EIA

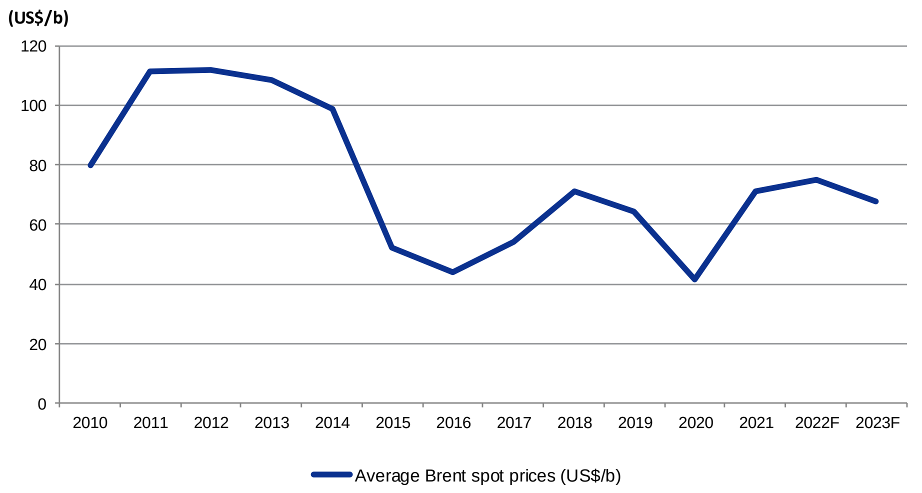
In addition, EIA also highlighted that global oil demand especially in early 2021 was still affected by pandemic-mitigation measures prior to vaccines roll-out. In spite of the gradual recovery in economic activities, EIA indicated that air travel demand remained the most affected segment in terms of oil demand in 2021.

EIA's global oil consumption forecast assumes air travel activities will increase gradually in 2022F and 2023F, but it will continue to remain below pre-pandemic levels. In view of lower air travel and jet fuel consumption relative to pre-pandemic levels, EIA expects economic growth will be the main driver of oil consumption growth, as demand increases for fuels such as gasoline, diesel and hydrocarbon gas liquids. Nevertheless, EIA also pointed out that new outbreaks of Covid-19 infections from variant mutations and renewed restrictions on mobility and business activity still pose a significant downside risk to global economy recovery.

Apart from that, EIA estimates Brent crude oil spot prices will average at US$75/bbl in 2022F. This will be slightly higher than the average Brent crude oil spot prices of US$71/bbl in 2021. In 2021, Brent prices reached its highest monthly average of US$84/bbl in Oct, while it fell to an average of US$74/bbl in Dec largely reflecting concerns over Omicron variant infections and potential mitigation efforts that could affect near-term oil demand.

EIA estimates Brent crude oil will stay at an average of US$79/bbl in 1Q22F due to balance supply-demand dynamics. However, EIA expects gradual downward pressure on oil prices from 2Q22F onwards in view of higher inventory build. In spite of higher inventories build, EIA estimates total inventories levels by end 2022F will still be lower than pre-pandemic levels of 2019, which could extend the rally in crude oil prices. Nevertheless, EIA expects inventories build to accelerate in 2023F and it expects Brent crude oil prices to average US$68/bbl in 2023F.

Figure 34: Historical and projected 2022-23F average Brent crude oil prices



SOURCES: CGS-CIMB RESEARCH, EIA

Meanwhile we assume a lower average Brent Crude oil prices of US$72/bbl in 2022F and US$67/bbl in 2023F for Ping Petroleum. Therefore, we still see a decent upside to Ping's profitability in view of higher Brent crude oil prices from 2022F onwards.

Risks

Exposure to semiconductor industry cyclicality

SilTerra is exposed to the semiconductor industry boom-bust cycle given robust demand tends to lead to a new wave of capital investment in the sector that could lead to overcapacity in the event of a downturn. Hence, this could lead to price competition and margin erosion across the semiconductor industry value chain. Moreover, any order cancellations from customers could affect SilTerra's production volumes and utilisation. Nevertheless, we gathered that capacity for 200mm foundries have remained tight over the past five years in view of a proliferation in new demand led by MtM devices. Therefore, we do not see a material risk of overcapacity for SilTerra in the next 12-24 months, especially following multiple LTAs secured as of Nov 2021.

Absence of long-term contract

SilTerra's customers typically do not enter into long-term contract arrangements due to continuous technological changes, rapid advancement in industry standards and frequent changes to product design or specification. However, these customers would instead provide a short-term rolling forecast of their potential orders that range from 6 to 12 months.

SilTerra's sales are secured by way of production orders from its customers from time to time, which may also vary from the forecasted volume shared to SilTerra earlier. Nevertheless, SilTerra's customers are turning more receptive today to enter into LTAs in view of the wafers supply constraint.

For example, SilTerra secured 2 LTAs with ChipOne and Ilitek as of Nov 2021 that will take-up approximately 60-65% of its wafer capacity. This is a positive development for SilTerra given that it will ensure healthy volume loadings over the next four to five years. Moreover, SilTerra is also in the midst of securing additional LTAs in the 1HCY22F that will secure up to 80% of its wafers capacity.

Foreign currency fluctuations

Following the acquisition of SilTerra and additional stake acquisition in Ping, DNeX's exposure to foreign currency, especially the US$, has risen significantly given that both SilTerra and Ping derive their revenues in US$. Previously, DNeX mainly derived its revenue in Ringgit Malaysia (RM), while foreign currencies made up around 7% of the group's revenue in FY19 and 18M21.

We estimate that SilTerra and Ping will together contribute 86-89% of DNeX's FY22-24F revenue. Therefore, any potential depreciation or appreciation in the US$ against RM could result in translational losses or gains in any given year as compared to prior operating periods. We see the potential depreciation in RM against US$ as positive for DNeX in view of potentially higher forex gains derived from SilTerra and Ping.

Both SilTerra and Ping have not engaged in exchange rate hedging transactions to partly mitigate the impact of exchange rate fluctuations. Notwithstanding the above, DNeX may seek to mitigate SilTerra's and Ping's exposures to foreign exchange risks by entering into forward exchange contracts and maintaining part of their cash and cash equivalents in foreign currency accounts to meet future obligations in foreign currencies, as and when deemed appropriate.

Exposure to crude oil prices volatility

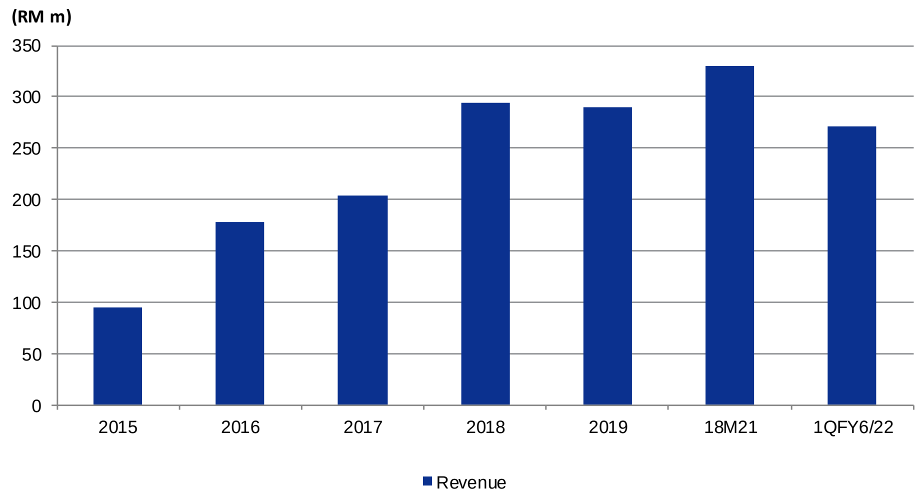
Ping's profitability will be largely dependent on prevailing crude oil prices and the demand for oil and gas. Potential fluctuations in the price of oil and gas could adversely affect the group's revenue and profit derived from Ping. Any sharp drops in crude oil and gas prices could affect Ping's operating results and cash flows. Nevertheless, we believe DNeX will constantly monitor the prices of oil and gas, and exercise prudent control in capital spending and utilise different types of hedging instruments to manage its exposure to price volatility. Based on our sensitivity analysis, we estimate for every 10% movement in average crude oil price, could impact DNeX's FY22-24F net profit between 9-10%.

Financials

Yearly revenue of between RM200 and RM300m in 2017-2020 ➤

Prior to the acquisition of oil and gas equipment service provider, OGPC in 2016, DNeX mainly derived its revenue from IT services, especially from the National Single Window (NSW) concession. The group diversified its exposure beyond IT service, with the maiden acquisition of OGPC. Following the diversification into energy division, DNeX's annual revenue jumped from RM178.5m in 2016 to RM203.9m in 2017. In 2018, DNeX's revenue rose 44% yoy to a new record of RM293.5m following the acquisition of Genaxis, a consulting firm that delivers training and consulting services to public and private sectors. Genaxis owns a 60% stake in Innovation Associates Consulting (IAC), the largest SAP distributor in Malaysia and contractor for the Integrated Government Financial and Management System (iGFMAS) for the Ministry of Finance.

Figure 35: Revenue trend (2015-1QFY6/22)

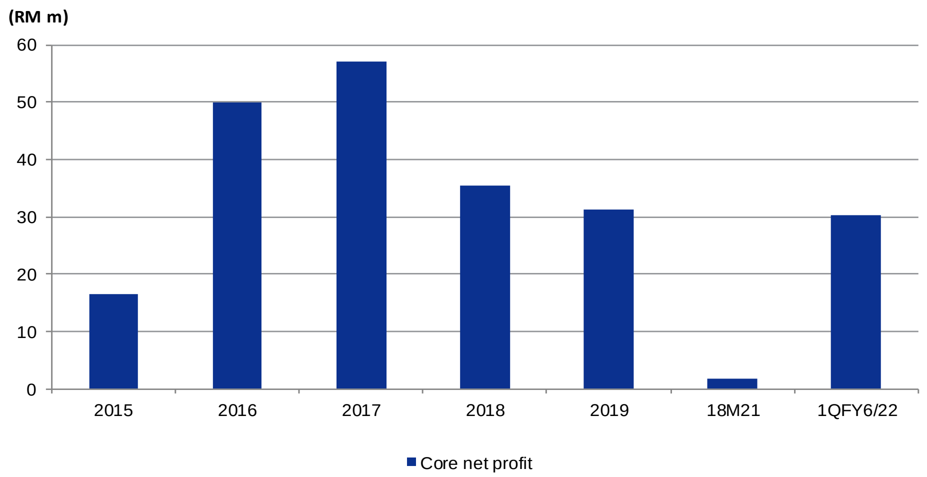


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

DNeX's profitability has been on a downtrend since 2017 ➤

We note that DNeX's profitability peaked in 2017 following the diversification strategy into oil and gas with its maiden investment in Ping and acquisition of OGPC in 2016. Thiws was also supported by a recovery in crude oil prices in 2017, after an extended period of decline in crude oil prices from 2015-2016.

Figure 36: Historical core net profit (FY17-21 and 1QFY6/22)



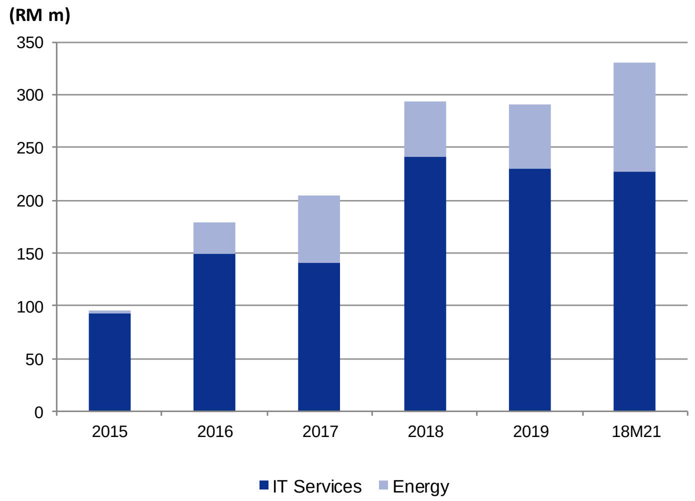
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Core net profit exclude items like gain or loss on assets disposal, impairment loss, assets write-off or written down

However, DNeX experienced successive earnings declines in 2018-2019 in view of weaker demand in the energy segment and delays in project delivery for OGPC. The group's core net profit slid significantly in 18M21 due to lower contributions from trade facilitation services following a drop in trade traffic volumes during the height of the Covid-19 pandemic in 2020 and lower contributions from the energy segment following a drop in production volumes and crude oil prices.

Highly dependent on IT services segment in 2015-18M21 ➤

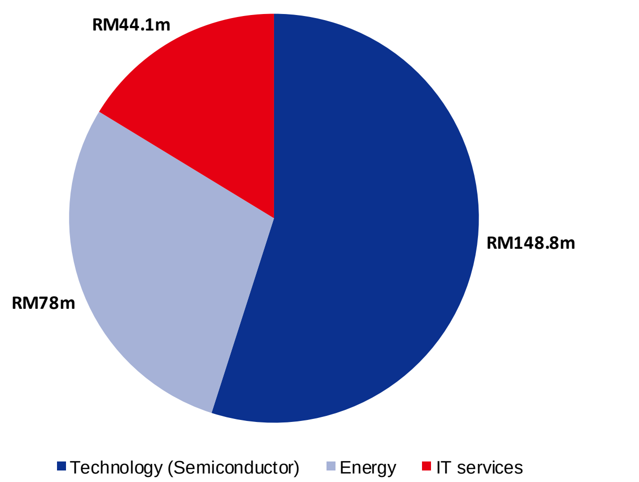
Historically, the IT services segment was a major revenue driver for DNeX between 2015 and 18M21, contributing 80% the group's annual revenue on average. Following the completed acquisition of SilTerra and consolidation of Ping in 1QFY6/22, IT services revenue contribution to DNeX fell to 16.2%.

Figure 37: Breakdown of revenue by segment (2015-18M21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 38: Breakdown of revenue by segment in 1QFY6/22

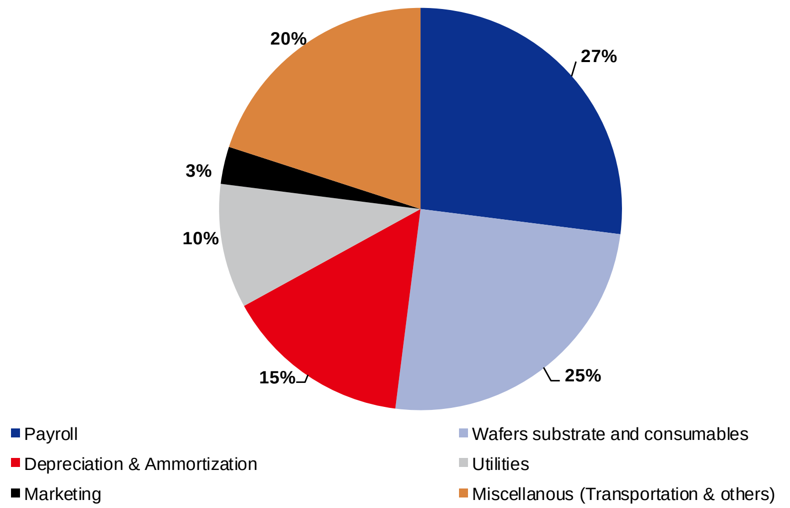


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Manufacturing and production cost make up an estimated 62% of total costs for the group ➤

As a predominantly IT services provider previously, DNeX's largest cost component was staff, which we estimate made up approx. 45% of its total cost structure prior to FY21. This is followed by raw materials and consumables (25%), and miscellaneous (5%, including utilities). Following the consolidation of SilTerra and Ping, we estimate the total manufacturing and production cost made up approx. 62% of the group's total cost in FY22-24F. Key items under manufacturing and production cost includes payroll, wafers substrate, consumables and utilities. We estimate payroll is the largest cost component for the group, making up approx. 27% of its total cost structure. Wafers substrate and consumables will the second largest cost component for the group, accounting for around 23%, followed by depreciation and amortisation at 15%, utilities at 10% and marketing at 3%.

Figure 39: CGS-CIMB Research cost structure estimates for DNeX for FY22-24F

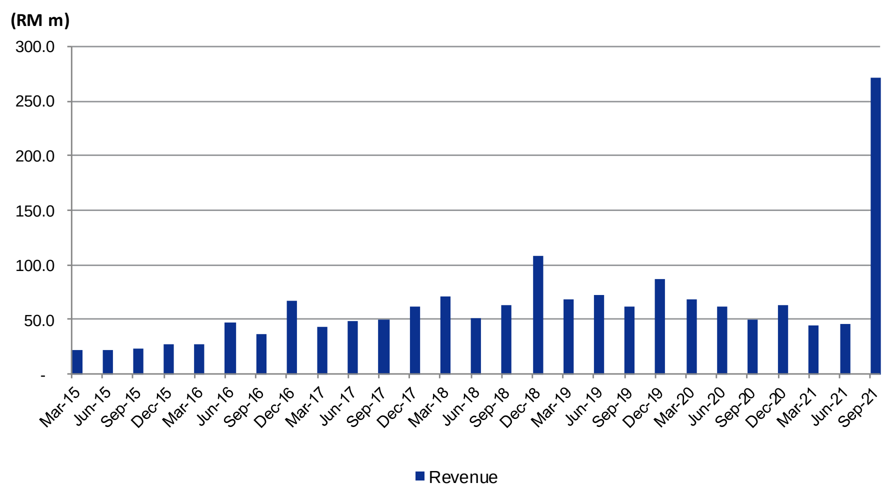


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

SilTerra's and Ping's maiden contributions in 1QFY6/22

DNeX posted a 5.4x yoy jumped in 1QFY6/22 revenue to RM270.9m, mainly driven by maiden revenue contributions from SilTerra and Ping. To recap, SilTerra and Ping contributed approx. 54% and 24% to DNeX's revenue in 1QFY6/22. The group also posted a 3.7x jump in core net profit to RM30.2m in the quarter, driven by a successful turnaround to profitability for SilTerra and higher contributions from Ping on the back of higher production volumes and crude oil prices. We expect DNeX to register a stronger financial performance going forward, underpinned by stronger contributions from SilTerra and Ping.

Figure 40: Historical quarterly revenue trend for DNeX



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SilTerra to be a major growth driver for DNeX

We expect SilTerra to register RM822m/RM1.05bn/RM1.2bn in sales in FY22F/23F/24F, driven by higher volume loadings for 200mm wafers, rising average selling price (ASP) per mask layer, and new capacity expansion and debottleneck exercise. Moreover, we expect the internal restructuring exercise within SilTerra to help improve its operating efficiency following the installment of a new management team led by Tan Sri Syed Zainal. Overall, we project SilTerra to deliver RM155m/RM221m/RM293m in net profit in FY22F/23F/24F. Our earnings forecasts for SilTerra are based on the key assumptions below:

i) Higher volume loadings at SilTerra following two LTAs secured as of Nov 2021. We assume the group will deliver 8.9m/9.5m/10m total mask layers in FY22F/23F/24F.

ii) Higher average selling prices (ASP) per mask layer for SilTerra's wafers following initial upward ASP revision in 2H21. We assume ASP per mask layer of US$21.8/US$24.5/US$26.5 in FY22F/23F/24F.

iii) Better operating efficiency through favourable sales mix with high volumes and low mix wafers loading for SilTerra.

iv) New capacity expansion and debottleneck exercise at SilTerra. SilTerra is looking to increase its annual wafers production capacity from 35k/month to 40k/month with incoming capacity from Fab 1E by 1HCY23F.

v) SilTerra to incur total capex of RM900m (RM450m/RM350m/ RM100m in FY22F/23F/24F).

vi) Average forex assumption of RM4.15/RM4.10/RM4.05 to the US$1 in FY22F/23F/24F.

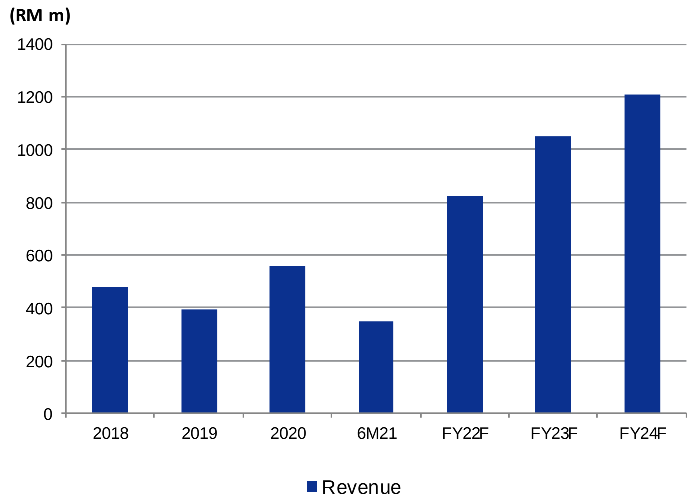
vii) Marginal effective tax rate (ETR) of 1% for FY22-24F. We assume a negligible ETR for SilTerra given that according to its latest FY20 Annual Report, SilTerra has over RM12bn worth of unrecognised deferred tax assets as at end-Dec 2020 that could be offset against its future profits.

Figure 41: SilTerra's unrecognised deferred tax assets

	2020 (RM m)	2019 (RM m)
Unutilised unvestment tax allowances	5,066	5,066
Unutilised tax losses	2,152	2,152
Unutilised capital allowances	5,033	5,006
Deductible temporary differences	45	52
	12,296	**12,276**

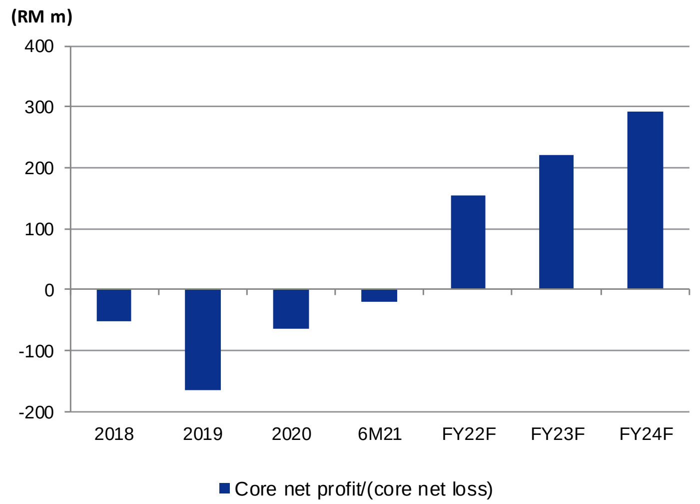
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 42: SilTerra's historical revenue and CGS-CIMB Research's forecast of its FY22-24F revenue



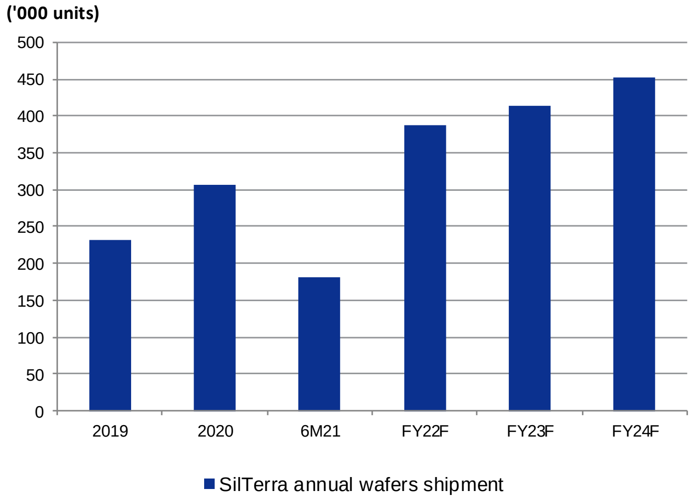
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 43: SilTerra's historical core net profit and CGS-CIMB Research's forecast of its FY22-24F core net profit



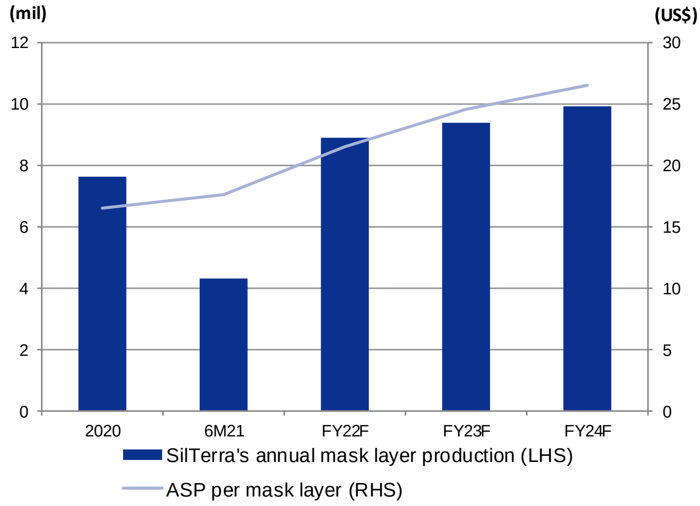
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 44: SilTerra's historical annual wafers shipments and CGS-CIMB Research's forecast of its FY22-24F annual wafers shipments



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 45: Historical and CGS-CIMB Research's forecasts of SilTerra's annual mask layer production and ASP per mask layer for FY22-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Ping to drive energy division earnings

We expect Ping to register RM262m/RM335m/RM437m sales in FY22F/23F/24F driven by rising crude oil prices and higher average production volume for the Anasuria cluster on the back of asset rejuvenation exercises that will include drilling of new wells in 2023-25F and replacement of malfunction riser system for Anasuria floating production storage and offloading. Overall, we project Ping to deliver RM58m/RM70m/RM93m in net profits in FY22F/23F/24F. Our earnings forecasts for Ping are based on the key assumptions below:

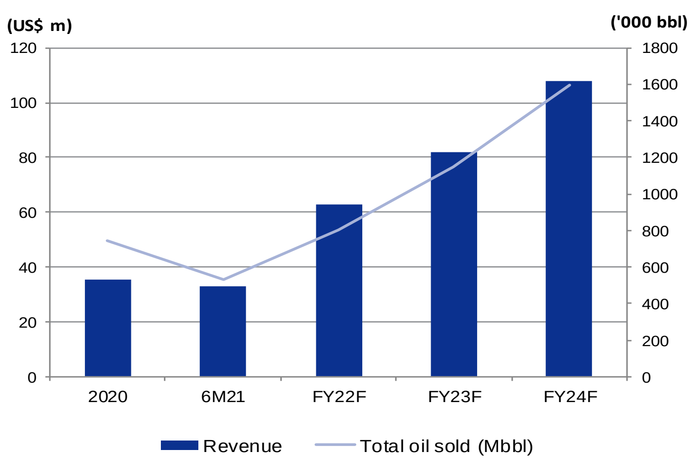
i) Average production volume of 2.1k/3.3k/4.8k barrel of oil equivalent per day for Ping in FY22F/23F/24F. Ping is allocating a total US$50m capex in FY22-24F.

ii) Average crude oil price of US$75/US$68/US$65 per barrel in FY22F/23F/24F.

iii) Average production cost of US$26/US$25/US$24 per barrel in FY22F/23F/24F.

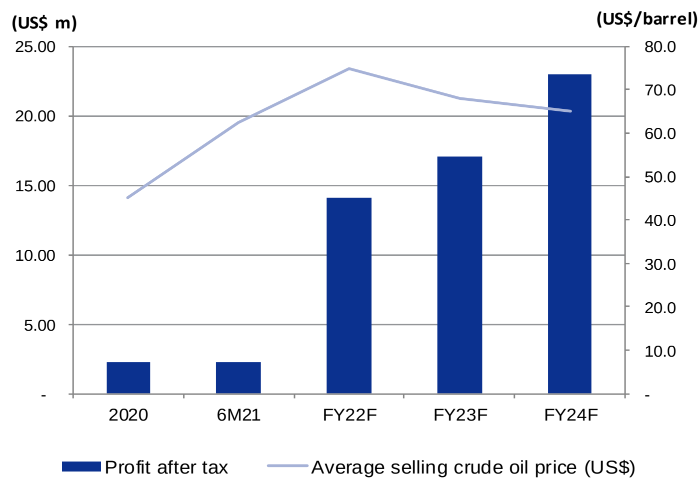
viii) Average US$/RM of RM4.15/RM4.10/RM4.05 in FY22F/23F/24F.

Figure 46: Ping's historical revenue and CGS-CIMB Research's forecast of its FY22-24F revenue



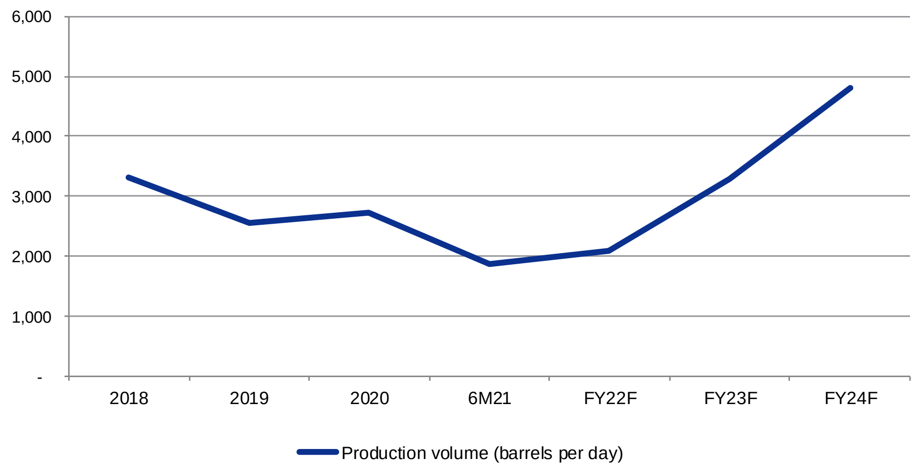
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 47: Ping's historical net profit and CGS-CIMB Research's forecast of its FY22-24F net profit



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 48: Historical and CGS-CIMB Research's projected crude oil production volume (barrels per day) for Ping in FY22-24F

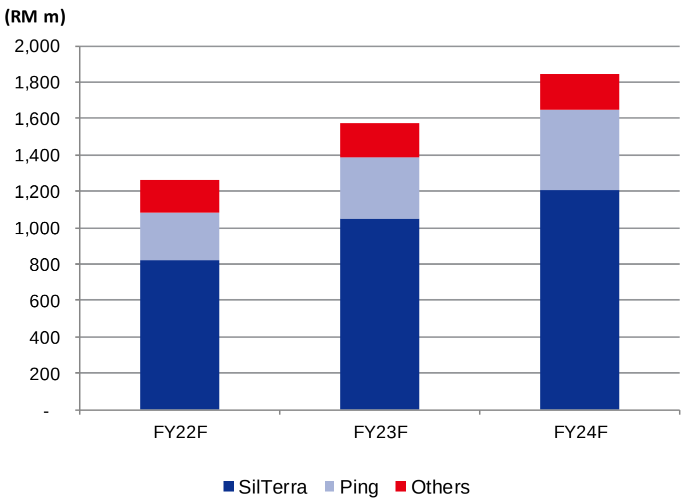


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Projecting a 3-year core net profit CAGR of 453%

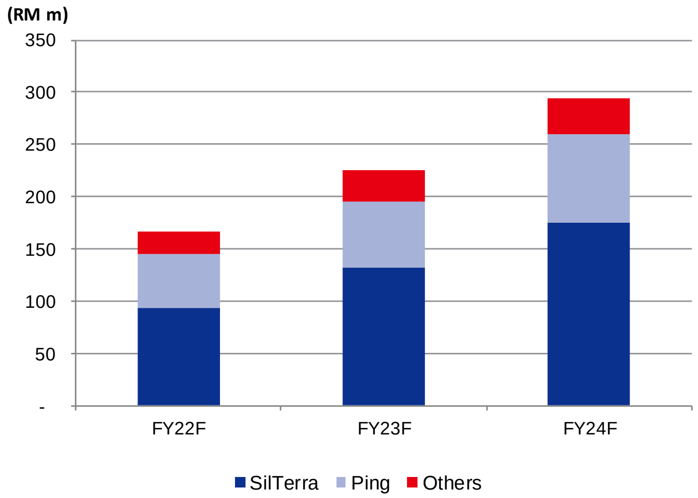
We project DNeX to register a 3-year revenue CAGR of 77% over FY21-24F driven by stronger contributions from SilTerra and Ping. We expect SilTerra and Ping together to contribute approx. 86-89% of DNeX's revenue in FY22-24F. Meanwhile the balance will likely come from DNeX's existing IT services segment. Meanwhile in terms of profitability, we forecast an impressive 3-year core EPS CAGR of 453%. We expect DNeX to register new record profits for the next three successive years (FY22-24F). Overall, we expect SilTerra and Ping together to make up 87-88% of the group's core net profits in FY22-24F.

Figure 49: CGS-CIMB Research's forecast of FY22-24F revenue



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 50: CGS-CIMB Research forecast of FY22-24F core PATAMI

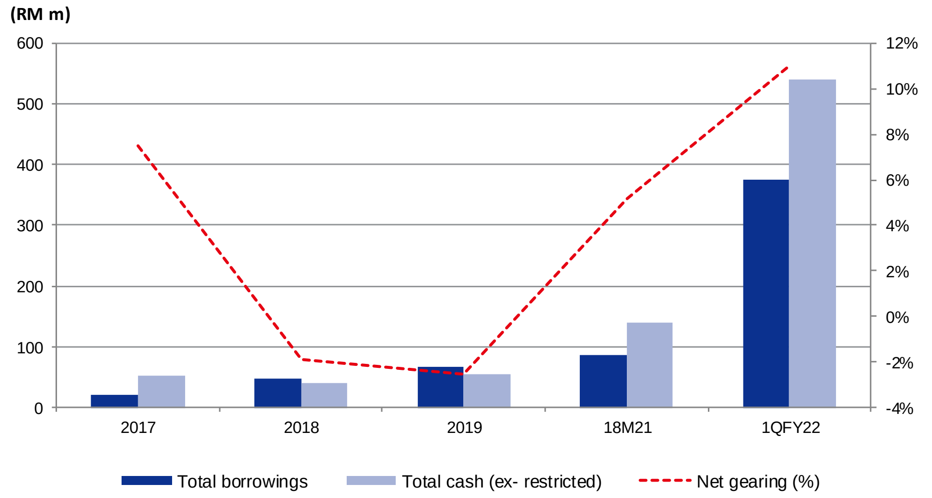


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Strong balance sheet with healthy net cash position

DNeX has a strong balance sheet. The group had RM375m in total borrowings and a RM540m cash balance at end-Sep 2021. The group had a healthy net cash position of RM165m or RM0.05/share at end-Sep 2021. We expect its cash balance to continue to increase in FY22-24F, in line with its stronger core net profit growth. We believe its strong cash balance will help the group finance future expansion.

Figure 51: Historical annual and 1QFY22 cash and total borrowings



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

No official dividend policy

DNeX's management decided to forego its dividend policy in 18M21 and did not declare any dividend for the financial period 30 June 21 as the group re-focused its resources on the new growth strategy following the acquisition of SilTerra and additional stake acquisition in Ping. The group had stopped paying dividends since its last dividend payment of 0.5 sen/share in 4Q18. We expect the company to start resume dividend payment at the end of FY22F in view of improving financial performance of its subsidiaries. According to its FY21A Annual Report, the group plans to implement a dividend policy across all subsidiaries. We expect the company to resume its dividend payout at the end of FY22F in view of stronger earnings delivery across all divisions. We assume a dividend payout range of between 9-20% in FY22-24F, which we think is reasonable between rewarding its investors with dividends and improving its financial reserves. This would translate to a dividend yield of 0.4%/0.9%/1.8% for FY22F/23F/24F.

DuPont Analysis

We anticipate the group's net margin to hover between 13% and 16% in FY22-24F driven by higher utilisation at SilTerra and production uptime for Ping. Moreover, we see potential margin expansion from a higher operating leverage and better sales mix from the emerging technology platform at SilTerra. In addition, we expect a gradual improvement in asset turnover as the group continues to raise its production utilisation on the back of robust semiconductor equipment demand. Overall, we project the group's ROE to improve from below 10% in FY18-21 to 11.9%/15.0%/17.2% in FY22F/23F/24F.

Figure 52: DuPont Analysis

DuPont Analysis	FY15	FY16	FY17	FY18	FY19	18M21	FY22F	FY23F	FY24F
Net Margin	17%	28%	28%	12%	11%	1%	13%	14%	16%
Asset Turnover	55%	57%	43%	52%	46%	24%	33%	39%	42%
Leverage	1.8	1.3	1.2	1.3	1.4	1.9	2.7	2.7	2.6
ROE	17.7%	20.3%	13.9%	8.0%	6.8%	0.2%	11.9%	15.0%	17.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Valuation and Recommendation

Under-researched

DNeX is an under-researched stock, with only one research house covering the stock as at 14 Feb 2022 (based on Bloomberg). We think this is partly due to the lack of comparable domestic companies and limited understanding of the group's business model, especially for the semiconductor foundry business. In addition, management also highlighted during our meeting with analysts and fund managers on 20 Jan-22 that institutional holdings in the stock reached 10% at end-Dec 2021. We see room for higher institutional investor participation as we expect DNeX to become increasingly more prominent on investors' radars, on the back of the exciting earnings turnaround prospects for SilTerra, as well as Ping, as a proxy to higher crude oil prices.

Trades at an undemanding P/E valuations of 13.7x CY23F

DNeX trades at 13.7x CY23F P/E, which is slightly below its 5-year mean of 14x. We use the 5-year mean P/E as a benchmark to reflect the group's valuation since its diversification into the oil & gas segment. We think the valuation is attractive given that we project a strong 3-year (FY21-24F) core net profit CAGR of 453%, which implies the stock is trading at a PEG ratio of 0.04x FY22F PEG.

Figure 53: DNeX's 1-year forward P/E (x)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Initiate coverage with an Add call and RM1.60 TP

We initiate coverage on DNeX with an Add rating and RM1.60 sum-of-parts (SOP) based target price, which implies a target P/E multiple of 19x (+0.5 s.d. above its 5-year mean). Although DNeX's share has performed relatively well, up 49% YTD, we still see a compelling upside potential from current levels given that our RM1.60 target price offers more than a 42% upside from current levels.

We use the P/E multiple as our primary method to value Technology semiconductor (SilTerra), energy and IT services segments. However, we also ascribed a 10% discount to DNeX's valuation to reflect its conglomerate structure.

We think our implied target valuation assumption of +0.5 s.d is justified given that we project an impressive CY20-23F core net profit CAGR of 453%, significantly outperforming the Malaysian semiconductor sector (OSAT and ATE) CY20-23F core net profit CAGR of 25%.

We value SilTerra at 25x CY23F P/E, which is a 10% premium to the global foundry peers mean P/E of 22.8. We think the premium is justified as we expect SilTerra to significantly outperform its' peers with a projected CY21-23F net profit CAGR of 111% compared to global foundry peers' average of 25% net profit CAGR CY21-23F. Our target P/E multiple of 25x for SilTerra is also within the sector average valuation range for Malaysian OSAT and ATE of 24-29x.

In addition, we value DNeX's energy division at 12x CY23F P/E, broadly in line with the domestic small and medium cap oil and gas peers' average P/E multiple. Finally, we peg the IT division valuation at 20x CY23F P/E multiple, which is a 25% discount to MyEG's valuation to reflect DNeX's relatively small size.

Figure 54: DNeX's sum-of-parts valuation

Operating segments	Net profit in CY23F (RM m)	DNeX's stake	Value (RM m)	Valuation basis
Technology	256.8	60%	3,883	Based on 25x CY23F P/E
Energy services	81.6	90%	881	Based on 12x CY23F P/E
IT services	32.3	100%	646	Based on 20x CY23F P/E
Total			**5,410**	
Total cash at company as at end Jun-2021			225	
Total borrowings at company as at end Jun-2021			-23	
RNAV			**5,612**	
No of shares (million)			3,155	
RNAV per share			1.78	
RNAV discount			0.18	
Target price			**1.60**	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

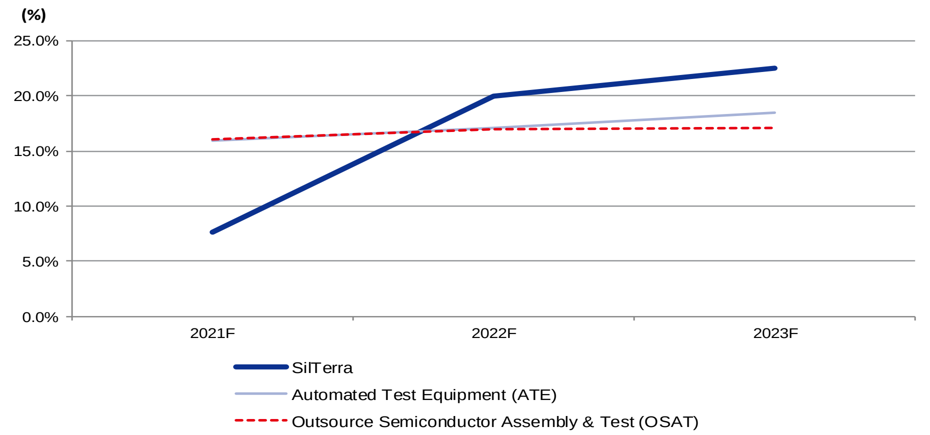
Peer comparisons

No direct local competitors

In our view, DNeX does not have any direct local competitors given its diversified exposure in the foundry semiconductor, oil & gas and IT services segments. We think DNeX offers an exciting exposure to the front-end semiconductor foundry business with SilTerra, which is unique to the Malaysian technology sector, given that most Malaysian semiconductor players are predominantly involved in the back-end semiconductor value chain that includes the assembly and test (OSAT) and automation test equipment (ATE) segments. Hence, we consider SilTerra as the most advanced semiconductor company in Malaysia's tech sector given its technology roadmap and semiconductor wafer processing capability.

Moreover, we project SilTerra commanding a higher 20-22% net profit margin in 2022-23F compared to its average Malaysian OSAT and ATE peers' at 17-18% in 2022-23F, in view of its higher ASP per wafer, rising production volume and structural shift gearing towards emerging technology that commands premium pricing and higher margins.

Figure 55: CGS-CIMB Research's projected net profit margin for SilTerra vs. Malaysian OSAT vs. Malaysian ATE



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Malaysian OSAT is based on companies under our coverage such as Inari-Amertron (INRI MK, Add, TP:RM4.95, CP RM3.23), Malaysian Pacific Industries (MPI MK, Add, TP: RM56.50, CP RM36.98), Unisem (UNI MK, Add, TP:RM5, CP RM3.13)

Malaysian ATE is based on companies under our coverage such as Pentamaster (PENT MK, Hold, TP:5.30, CP RM4.05), Mi Technovation (MI MK, Add, RM5, CP RM2.36) and ViTrox

Figure 56: Sector comparison

	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Foundries															
TSMC	2330 TT	Not rated	633.00	na	588,714	21.0	18.0	6.1	5.0	32.1	30.8	11.7	9.6	2.0	2.0
SMIC	981 HK	Add	20.55	32.90	31,433	18.1	20.2	1.4	1.4	8.2	6.8	12.2	11.2	1.9	1.9
GlobalFoundries	GFS US	Not rated	54.47	na	28,970	30.3	20.0	3.4	2.5	7.2	6.2	10.3	7.8	-	-
Hua Hong	1347 HK	Not rated	38.80	na	6,470	23.3	21.0	2.0	1.8	9.4	9.3	9.5	8.4	0.5	0.7
Win Semi	3105 TT	Not rated	308.00	na	4,684	21.2	18.0	3.5	3.2	18.5	20.2	12.2	10.0	3.1	3.7
Sector						**22.8**	**19.4**	**3.3**	**2.8**	**15.1**	**14.7**	**11.2**	**9.4**	**1.5**	**1.7**
Dagang NeXchange	**DNEX MK**	**Add**	**1.13**	**1.60**	**851**	**18.2**	**13.7**	**2.4**	**2.1**	**14.5**	**16.2**	**7.4**	**5.9**	**0.7**	**1.3**
Malaysian OSAT															
KESM	KESM MK	Hold	11.10	12.70	114	35.7	27.2	1.3	1.2	3.6	4.7	3.5	2.9	0.9	1.0
Inari-Amertron	INRI MK	Add	3.23	4.95	2,856	27.3	24.8	4.9	4.8	20.2	19.5	17.8	16.5	3.5	3.6
MPI	MPI MK	Add	36.98	56.50	1,755	22.2	20.3	3.7	3.2	17.8	17.0	10.2	9.0	0.9	1.0
Unisem	UNI MK	Add	3.13	5.00	1,205	18.7	18.8	2.3	2.1	12.5	11.5	9.4	8.9	1.9	1.9
Globetronics	GTB MK	Not rated	1.48	na	237	16.4	14.9	3.2	3.1	18.8	21.2	8.8	7.8	5.2	5.7
Sector						**23.6**	**21.9**	**3.5**	**3.3**	**16.1**	**15.5**	**12.1**	**11.1**	**2.3**	**2.4**
Malaysian ATE															
Mi Technovation	MI MK	Add	2.36	5.00	505	21.3	17.0	2.0	1.9	9.7	11.3	13.5	10.7	1.7	2.1
Pentamaster	PENTA MK	Hold	4.05	5.30	688	29.9	24.8	4.4	3.8	15.7	16.5	15.8	12.9	0.6	0.6
Vitrox	VITRO MK	Not rated	7.85	na	1,771	35.8	31.5	8.6	7.2	26.0	24.4	32.3	28.4	0.7	0.8
Sector						**29.0**	**24.4**	**5.0**	**4.3**	**17.1**	**17.4**	**20.6**	**17.3**	**1.0**	**1.2**
Global IDM															
Texas Instruments	TXN US	Not rated	162.47	na	150,049	17.5	17.1	9.4	8.1	56.5	50.1	13.3	12.9	2.9	3.1
Analog Devices	ADI US	Not rated	153.98	na	80,957	20.0	17.8	2.2	2.1	8.8	9.7	16.9	14.9	2.0	2.2
NXP	NXPI US	Not rated	185.88	na	49,432	14.3	13.3	7.1	6.3	46.7	48.2	11.1	10.4	1.7	1.9
Infineon	IFX GR	Not rated	33.25	na	49,246	20.2	20.3	3.2	2.9	16.7	16.2	11.9	11.8	1.0	1.1
Sector						**18.0**	**17.1**	**5.5**	**4.8**	**32.2**	**31.1**	**13.3**	**12.5**	**1.9**	**2.1**
Malaysia Oil & Gas															
Yinson	YNS MK	Add	5.46	8.03	1,389	14.5	7.3	1.5	1.3	10.4	18.9	9.5	7.0	1.1	1.1
Bumi Armada	BAB MK	Hold	0.55	0.51	775	6.7	7.0	0.8	0.7	12.2	10.5	7.3	6.8	-	-
Velesto	VEB MK	Hold	0.14	0.14	274	32.7	18.0	0.5	0.5	1.6	2.8	5.4	4.3	-	-
Dayang	DEHB MK	Not rated	0.96	na	266	15.5	10.2	0.6	0.5	4.5	5.4	5.8	5.3	-	-
Hibiscus	HIBI MK	Not rated	1.14	na	547	7.0	6.0	1.1	0.9	18.8	18.9	2.1	1.8	0.6	0.6
						15.3	**9.7**	**0.9**	**0.8**	**9.5**	**11.3**	**6.0**	**5.1**	**0.3**	**0.3**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
Based on closing price at 15 Feb 2022
Note: Forecasts for Not rated companies are based on Bloomberg consensus estimates

Background

History and corporate structure

Dagang NeXchange Bhd (DNeX), previously known as Time Engineering Sdn Bhd, TESB) was incorporated in Oct 1970. TESB was principally involved in the trading and distribution of welding products. In 1972, TESB ventured into electrical power components manufacturing. Upon establishing its footing in the Information and Communication Technologies (ICT) space, offering ICT related hardware and services to the government, the company was listed in 1983 on the Main Board of Bursa Malaysia (previously known as the Kuala Lumpur Stock Exchange) and renamed Time Engineering Berhad.

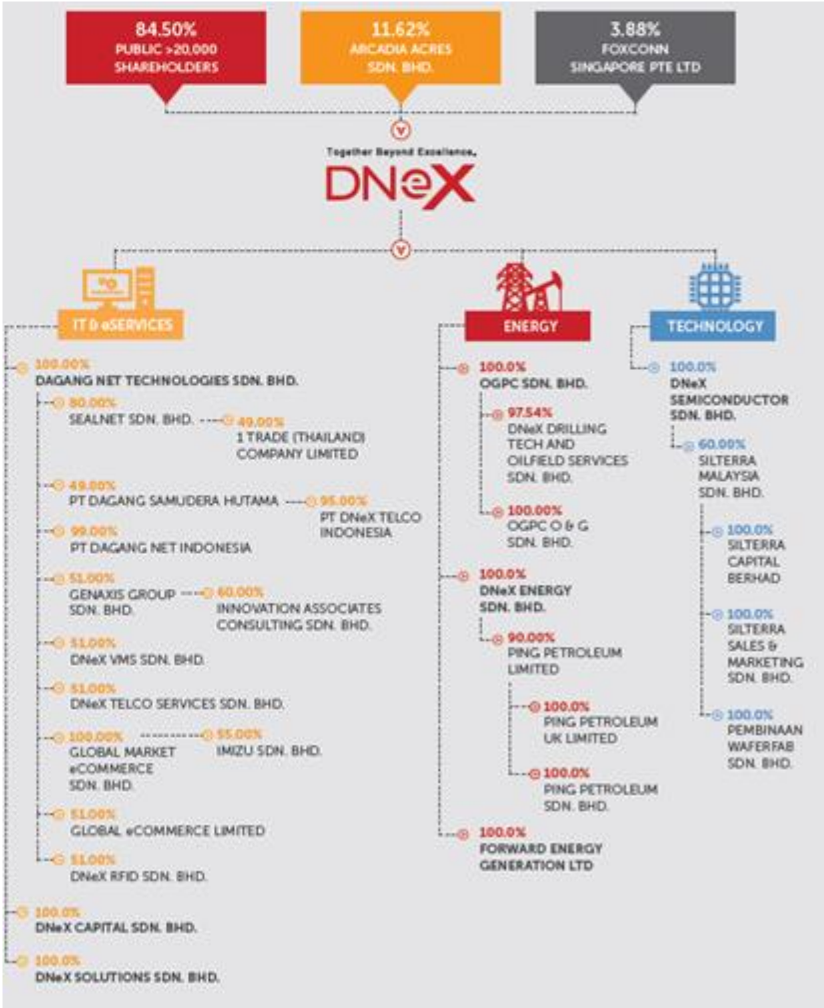
The group then proceeded to foray into a multitude of businesses and services, eventually rebranding itself as Dagang NeXchange in 2014, which was focused on both the Information Technology and Energy businesses at the time.

Today, DNeX's core businesses are principally involved in three main sectors:

1. Technology semiconductor – SilTerra, wafer foundry service.
2. Energy – upstream oil and gas exploration and production as well as equipment supply and maintenance service.

3. Information Technology (IT) services – provision of trade facilitation service for the government and private sector, technology consulting and system integration and subsea telecommunication services.

Figure 57: DNeX's corporate and key shareholder structure



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Information Technology (IT) services

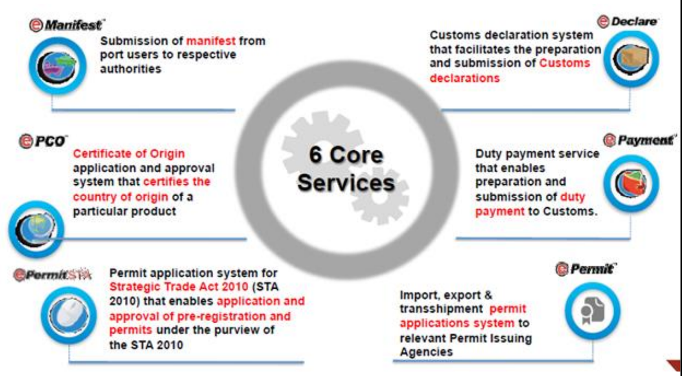
Under IT services, DNeX has three key operating divisions. These are 1) trade facilitation, 2) technology consulting and system integration, and 3) subsea telecommunication.

Trade facilitation. Dagang Net Technologies Sdn. Bhd (Dagang Net) is the wholly-owned subsidiary that operates the group's trade facilitation business. Dagang Net is the exclusive operator for Malaysia's National Single Window ("NSW") platform since 2009. NSW platform facilitates electronic customs-related transactions and duty payments. Dagang Net operates the NSW through exclusive periodic concession agreements with the government. The government has awarded the group with a new three-year extension to operate NSW platform for up until Aug 2024. The contract renewal is positive for DNeX as NSW will remain a monopoly and DNeX will continue to enjoy its status as the sole operator. We estimate NSW contributes RM90-100m in revenue and RM25-28m net profit per annum (FY22-24F) to the group.

Figure 58: NSW is a one-stop trade facilitation system

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 59: Six core services under NSW



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

In addition to NSW, Dagang Net also provides one-stop cloud-based logistics and cross border services similar to the NSW but focusing on the private sector (B2B) through its 80% owned subsidiary, Sealnet, a digital trade and logistics platform. SealNet is positioned as the global digital trade connector enabling ease in not only regional but global trade as well.

Technology consulting and system integration. The group provides customised solutions for technology refresh, system integration as well as end-to-end enterprise-wide digital transformation through its business unit, Innovation Associates Consulting Sdn Bhd (iAC). IAC was also awarded with a RM88m contract from the Ministry of Finance (MoF) in Aug 2021 to maintain the government's accrual accounting system, Integrated Government Financial and Management System (iGFMAS) for a period of 45 months.

Subsea telecommunications. The group operates in a niche area of submarine cable laying for telecommunication deployment in Southeast Asia through its 100%-owned subsidiary, DNeX Telco Services Sdn Bhd (DNeX Telco). DneX Telco offers turnkey solutions for the design, engineering, supply, installation, and repair maintenance of marine fibre optic and power cables, as well as end-to-end solutions to a wide variety of markets and industries including telecommunications, oil and gas, renewable energy, power and scientific research.

Energy ›

In the energy division, DNeX operates in the upstream oil and gas sector via 90%-owned Ping Petroleum (Ping) and OGPC. Ping is an independent upstream oil and gas company that focuses on shallow water exploration and production activities in the North Sea and Southeast Asia.

Ping currently operates the Anasuria cluster in the North Sea through a joint-venture with Hibiscus Petroleum (HIBISCS MK, NR).

Anasuria cluster represents a geographically focused package of operated producing fields and associated infrastructure comprising a 50% interest in the Guillemot A, Teal, Teal South fields, and a 19.3% interest in the Cook fields.

In addition to the Anasuria cluster, Ping also owns three other non-producing and exploratory blocks, namely Avalon, Cook West and Cross, all of which are in the North Sea, United Kingdom.

As for its greenfield assets, Ping owns a 100% working interest in the Avalon and Cross prospects, both of which are ripe for development (undeveloped discovery stages) and a 19.3% working interest in the Cook West prospect, which is still in the exploration stage at the moment.

Figure 60: Ping Petroleum's oilfield assets as on Sep 2021

Asset Name	Operator	Working Interest	Current Well Status	Block Number
Guillermot-A	Anasuria Operating Company Ltd (AOC) Petrofac is the duty holder for service operation of the Floating Production Storage and Offtake (FPSO) vessel	Ping Petroleum UK (50%) Anasuria Hibiscus (50%)	5 producers & 1 water injector	21/25a and 21/30a Collectively the Anasuria Cluster
Teal			1 horizontal producer & 2 water injectors	
Teal South			1 producer & 1 water injector	
Kite			Undeveloped	
Anasuria FPSO			Facility	
Cook	Ilhaca Energy Limited (Ithaca)	Ithaca (61.35%) Ping Petroleum UK (19.33%) Anasuria Hibiscus UK Ltd (19.33%)	1 producer & 1 water injector	21/20a Part of the Anasuria Cluster
Avalon	Ping Petroleum UK	Ping Petroleum UK (100%)	Pre-development	21/6b
Cross	Ping Petroleum UK	Ping Petroleum UK (100%)	Exploration	15/17c and 15/18c

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Apart from exposure to upstream oil and gas, the group also provides equipment supply and maintenance service for the oil and gas sector through its subsidiary OGPC Sdn Bhd. OGPC group is a licensed, approved supplier of oil and gas equipment and services to Petronas.

The principal activity of OGPC is the provision of engineering and technical support services. Over the years, OGPC has established itself as a supplier and service provider for specialised equipment and parts, including heating systems, compressors, pumps, flanges, valves, flares and filters, as well as technical support services, including offshore services (principally for the oil and gas sector). Other markets for OGPC products and services are the petrochemical, energy and industrial sectors.

Technology semiconductor

For technology semiconductor segment, DNeX operates a semiconductor foundry through its 60%-owned subsidiary, SilTerra Malaysia Sdn Bhd (SilTerra). SilTerra was founded in 1995 to provide a compact technological foundation for the country to become a developed nation, as well as a catalyst for influencing and developing breakthroughs in a variety of fields. Originally known as Wafer Technology Malaysia Sdn Bhd, the company has undergone several transformations, including a rebranding to SilTerra in 1999 and an acquisition by DNeX and partner, Beijing Integrated Circuit Advanced Manufacturing and High-End Equipment Equity Investment Fund Center Limited Partnership (CGP Fund) in 2021.

Figure 61: 200mm wafers will be diced into individual chips or ICs and later packaged and tested before going into various electronic applications such as mobile phones

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SilTerra operates as a global semiconductor foundry that specialises in Complementary Metal Oxide Semiconductor ("CMOS") fabrication processes for ICs, high voltage and mixed signal/ radio frequency process technologies which are supplied mainly to multinational companies (i.e. fabless and integrated device manufacturer companies).

SilTerra has also expanded into more advanced technology fields, such as silicon photonics, MEMS on CMOS, Galium Nitride ("GaN"), BCD, and Discrete Power — also known as More-Than-Moore (MtM) technologies.

SilTerra's revenue is primarily derived from the sale of semiconductor wafers. A semiconductor wafer is a thin slice of semiconductor substance, like crystalline silicon, used in electronics for the making of ICs. The application for SilTerra's wafer technologies and product span a wide range of industries (Figure 62).

Figure 62: Sector and end-application for IC chips produced by SilTerra

Sector	Applications
Consumer electronics	Wireless charger, load switches, LED driver, fast switching power device applications, wireless gadgets, game controllers, sensors in smartphone, small-medium panel display drivers for smartphone, identification (smart card, sim card), fingerprint application
Automotive	Head-up display, motor driver ICs, power switch, LED driver, microcontrollers for human machine interface (like audio, side mirror, seat, wiper controls), electric vehicle charging station power supply, sensors (gyroscopes, tempereture sensors, navigation), next generation illumination
Industrial	Smart home appliances, high power driving applications (motor drivers for home appliances, white goods such as air-conditioners, dryers, washing machine, industrial automation), smart metering, self learning tempereture sensor, beacon for indoor GPS
Optical data communications	Optical transceiver module in I/O links in servers and data centers, high speed networking switches
Life sciences	DNA Sequencing chips, biosensors, ultrasound and medical imaging, motion sensors in wearables, medical technologies)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 63: SilTerra's ICs being used in smartphones

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 64: SilTerra's ICs being used in wearables such as smartwatches

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 65: SilTerra's ICs being used in smart cards, RFID tags, smart meters and micro USB-HDMI

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Foxconn emerges as a strategic shareholder in DNeX

According to DNeX's 18M21 Annual Report, Arcadia Acres Sdn Bhd (AASB) is the single largest shareholder in the group with 11.6% stake as at early Oct-21. AASB is essentially the investment vehicle for DNeX's Executive Director Zainal Abidin Abd Jalil. AASB emerged as DNeX's single largest shareholder in 2017 with 20.5% stake following the acquisition of 123.m shares from then largest shareholder, Censof (CSHB MK, NR).

DNeX raised approx. RM350m through conversation of 697.85m DNeX's warrants at the exercise price of 50 sen prior to the expiry date on 31 Jul 2021. Following the warrants conversion, AASB's stake in DNeX is diluted to 11.7%.

Meanwhile Taiwan's Hon Hai Precision Industry Co Ltd, which is the main assembly service provider for Apple, bought 120m shares or 5% stake in DNeX for RM108m via its subsidiary Foxconn Singapore Pte Ltd. To recap, Foxconn has acquired a total of 120m DNeX's shares from three substantial shareholders in DNeX – 1) Annedjma Capital, Azman Karim and AASB. Following warrants conversion, Foxconn's stake in DNeX is also diluted to 3.9%.

DNeX's management highlighted in Jun-21 that Foxconn's entry in the group will provide opportunities to unlock and create value across the technology sector value chain that could include collaboration in semiconductor and downstream products such as electric vehicles and businesses related to the electric vehicle value chain. We see this could bring exciting growth opportunities to participate in Foxconn's ecosystem.

Figure 66: DNeX top 3 shareholders as of Oct 2021

Top 3 shareholders of DNeX	Stake (%)
Arcadia Acres	11.6
Foxconn Singapore Pte Ltd	3.9
Annedja Capital	3.3
Free float	81.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

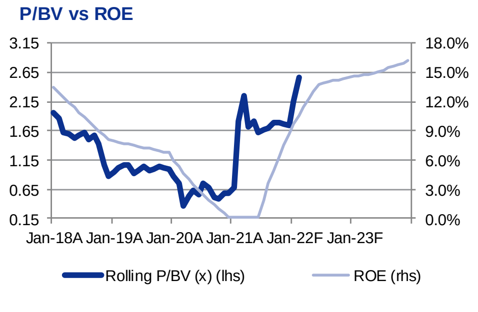
ESG in a nutshell

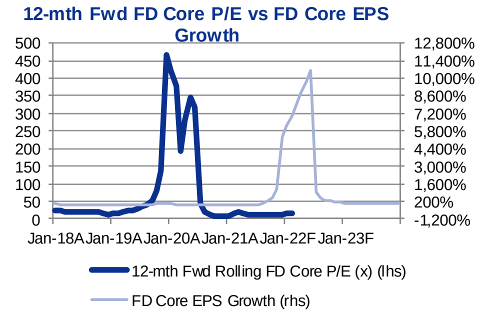
DNeX is a conglomerate with exposure to the IT services, energy and technology semiconductor segments. Prior to the acquisition of SilTerra and Ping in 2021, DNeX's business operations were primarily digital based, with limited direct environmental impacts. The group will carry a greater responsibility towards managing the environment following the addition of SilTerra and Ping under its asset portfolio. Hence, the group plans to disclose its initiatives in environmental protection in the future. However, we see room for improvement, especially in the environmental aspects, given that the group does not conduct environmental impact assessments or set climate action goals, which could help to boost its ESG score rating. DNeX is ranked in the bottom 25% in terms of ESG Ratings among FBM EMAS PLCs by FTSE Russell.

Keep your eye on	Implications
DNeX's board of directors consists of four independent directors and six non-independent directors. No independent directors have served beyond the nine years period set in the Malaysian Code of Corporate Governance (MCCG). DNeX appointed its second female board member in Dec 2021.	The addition of a second female director has helped to improve the board gender diversity in the group from 11% to 20%, but this is still short of the average 26% female board representation in top 100 public limited companies (PLCs) in Malaysia. As at end-Dec 21, independent directors made up 40% of the group's board members, down slightly from 44% in Jul 21 following the appointment new non-independent non-executive directors in Dec 21.
ESG highlights	Implications
DNeX's exposure to the front-end semiconductor foundry business with SilTerra is unique to the Malaysian technology sector given that Malaysian semiconductor players are predominantly involved in the back-end semiconductor value chain that includes assembly and test (OSAT) and automation test equipment (ATE) segments.	We see further growth in SilTerra as a catalyst for Malaysia to move up the semiconductor value chain. This will create more higher-paying job opportunities for local talent in the design and development stage. The company does not rely on migrant workers for its operations, removing potential issues related to migrant worker mistreatment.
Trends	Implications
The group plans to develop new greenfield assets, Avalon field, in 2023 that will help to raise Ping's total proven and probable (2P) reserves.	Although the potential addition of new 2P reserves from greenfield assets could help to sustain Ping's profitability in the medium term, the group is not helping the world to reduce fossil fuel usage. Moreover, we see the negative environmental impact attached to fossil fuels as affecting the valuation of its energy division. Hence, we are only pegging a 12x P/E multiple to its energy division despite its impressive FY21-24F net profit CAGR of 70%. Nevertheless, we do not rule out any plans for the group to reduce its exposure to the energy division.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





We expect a significant jump in FY22F revenue with the consolidation of SilTerra and Ping Petroleum in Sep 2021.

Profit & Loss

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Net Revenues	**350.7**	**405.0**	**1,273.3**	**1,587.1**	**1,855.2**
Gross Profit	**72.5**	**89.7**	**448.0**	**562.8**	**677.7**
Operating EBITDA	**72.5**	**89.7**	**448.0**	**562.8**	**677.7**
Depreciation And Amortisation	(22.1)	(22.5)	(152.6)	(175.6)	(190.1)
Operating EBIT	**50.4**	**67.2**	**295.4**	**387.1**	**487.6**
Financial Income/(Expense)	(3.8)	(3.3)	(46.9)	(48.8)	(42.8)
Pretax Income/(Loss) from Assoc.	3.1	(12.2)	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**49.7**	**51.7**	**248.5**	**338.4**	**444.8**
Exceptional Items					
Pre-tax Profit	**49.7**	**51.7**	**248.5**	**338.4**	**444.8**
Taxation	(9.0)	(5.9)	(11.8)	(15.5)	(19.9)
Exceptional Income - post-tax					
Profit After Tax	**40.7**	**45.8**	**236.7**	**322.9**	**424.9**
Minority Interests	14.3	34.3	(69.9)	(98.2)	(130.1)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**55.1**	**80.1**	**166.9**	**224.8**	**294.9**
Recurring Net Profit	16.3	1.2	166.9	224.8	294.9
Fully Diluted Recurring Net Profit	**16.3**	**1.2**	**166.9**	**224.8**	**294.9**

Most of the capex will be allocated for capacity expansion and debottlenecking exercise at SilTerra and Ping in FY22-23F.

Cash Flow

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
EBITDA	72.49	89.66	448.01	562.76	677.68
Cash Flow from Invt. & Assoc.					
Change In Working Capital	47.87	26.89	117.57	35.22	30.09
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(82.53)	(83.41)	3.39	3.43	4.16
Net Interest (Paid)/Received	(4.36)	(4.20)	(50.23)	(52.16)	(46.71)
Tax Paid	(23.08)	(17.97)	(11.83)	(15.45)	(19.89)
Cashflow From Operations	**10.39**	**10.97**	**506.91**	**533.80**	**645.34**
Capex	(39.17)	(67.65)	(574.50)	(493.50)	(262.00)
Disposals Of FAs/subsidiaries	6.54	0.20	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	42.91	84.69	0.00	0.00	0.00
Cash Flow From Investing	**10.28**	**17.24**	**(574.50)**	**(493.50)**	**(262.00)**
Debt Raised/(repaid)	10.23	12.27	150.00	0.00	(150.00)
Proceeds From Issue Of Shares	95.23	190.76	228.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(4.41)	0.00	(15.78)	(31.55)	(63.11)
Preferred Dividends					
Other Financing Cashflow	(42.95)	(81.06)	0.00	0.00	0.00
Cash Flow From Financing	**58.10**	**121.97**	**362.22**	**(31.55)**	**(213.11)**
Total Cash Generated	78.77	150.17	294.64	8.75	170.24
Free Cashflow To Equity	**30.90**	**40.47**	**82.41**	**40.30**	**233.34**
Free Cashflow To Firm	**25.03**	**32.40**	**(17.36)**	**92.46**	**430.05**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Expect minimal debt requirements in the near term given that capacity expansion at SilTerra and Ping will be financed via internal funds.

Balance Sheet

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Cash And Equivalents	125.4	267.7	562.3	571.0	741.0
Total Debtors	90.3	88.9	339.8	424.2	496.3
Inventories	6.0	15.4	58.8	73.3	85.8
Total Other Current Assets	71.7	46.1	46.1	46.1	46.1
Total Current Assets	**293.4**	**418.1**	**1,007.0**	**1,114.7**	**1,369.3**
Fixed Assets	267.4	655.8	1,677.7	1,995.6	2,067.5
Total Investments	144.2	0.1	0.1	0.1	0.1
Intangible Assets	393.9	979.0	979.0	979.0	979.0
Total Other Non-Current Assets	46.1	126.8	126.8	126.8	126.8
Total Non-current Assets	**851.6**	**1,761.7**	**2,783.6**	**3,101.5**	**3,173.4**
Short-term Debt	55.1	70.4	70.4	70.4	70.4
Current Portion of Long-Term Debt					
Total Creditors	93.7	128.5	540.4	674.6	789.3
Other Current Liabilities	17.5	31.4	31.4	31.4	31.4
Total Current Liabilities	**166.2**	**230.3**	**642.1**	**776.3**	**891.0**
Total Long-term Debt	17.9	16.0	316.0	316.0	166.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	154.0	457.1	507.1	507.1	507.1
Total Non-current Liabilities	**171.9**	**473.1**	**823.1**	**823.1**	**673.1**
Total Provisions	145.9	422.9	622.9	622.9	622.9
Total Liabilities	**483.9**	**1,126.3**	**2,088.1**	**2,222.3**	**2,187.0**
Shareholders' Equity	653.8	1,022.9	1,402.0	1,595.2	1,827.0
Minority Interests	7.2	30.6	300.4	398.6	528.6
Total Equity	**661.0**	**1,053.5**	**1,702.4**	**1,993.8**	**2,355.6**

We expect DNeX to enjoy a lower effective tax rate given that SilTerra has over RM12bn worth of unrecognied deferred tax assets.

Key Ratios

	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue Growth	(12%)	(14%)	473%	25%	17%
Operating EBITDA Growth	21%	24%	400%	26%	20%
Operating EBITDA Margin	28.3%	40.7%	35.5%	35.7%	36.7%
Net Cash Per Share (RM)	0.02	0.08	0.06	0.06	0.16
BVPS (RM)	0.32	0.43	0.44	0.51	0.58
Gross Interest Cover	11.57	15.99	5.88	7.42	10.44
Effective Tax Rate	18.1%	11.3%	4.8%	4.6%	4.5%
Net Dividend Payout Ratio	8.0%	NA	9.5%	14.0%	21.4%
Accounts Receivables Days	170.9	148.3	61.9	88.4	91.3
Inventory Days	5.37	12.36	16.39	23.53	24.73
Accounts Payables Days	128.0	128.6	147.9	216.5	227.5
ROIC (%)	19.1%	8.8%	16.9%	14.6%	16.6%
ROCE (%)	7.3%	6.5%	14.0%	13.7%	15.8%
Return On Average Assets	5.0%	3.5%	9.5%	9.3%	10.7%

Projecting 6-20% wafers ASP growth in FY22-24F

Key Drivers

	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
SilTerra wafers shipment ('000)	256.1	306.8	180.9	386.8	414.0
Average crude oil prices per barrel (US$)	60.7	53.9	75.0	68.0	65.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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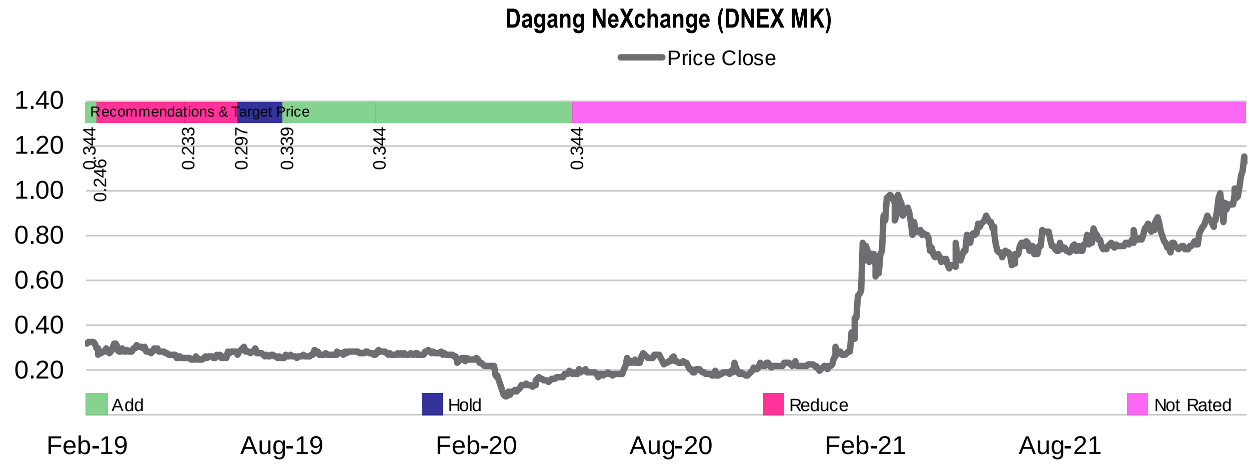
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.