

Malaysia

Overweight (no change)

Highlighted Companies

Inari-Amertron Bhd
ADD, TP RM4.30, RM3.05 close

We like Inari as a proxy for radio-frequency (RF) content value growth on the back of rising worldwide 5G smartphone penetration. We project FY21-24F core net profit CAGR of 15%. We see potential earnings upside from Inari's portfolio expansion strategy into the automotive and industrial segments.

Malaysian Pacific Industries
ADD, TP RM48.60, RM35.28 close

MPI is riding on a new investment cycle with capacity expansion in Malaysia and China underpinned by key drivers such as 5G testing, SiC, GaN and module assembly. MPI has the highest exposure to the automotive sector among Malaysian OSAT, at 33% of its FY6/21 sales.

Pentamaster Corp Bhd
ADD, TP RM4.20, RM3.69 close

The group is guiding for mid-teens topline growth in FY22F on the back of healthy orderbook replenishment from new and existing customers going into automotive, industrial and medical device segments. Pentamaster became a constituent of the Bursa FTSE4Good Index in Dec 21.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Inari-Amertron Bhd	25.82	23.46	
Malaysian Pacific Industries	21.23	19.32	
Pentamaster Corp Bhd	27.68	22.86	20.33
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Inari-Amertron Bhd	4.62	4.53	
Malaysian Pacific Industries	3.52	3.07	
Pentamaster Corp Bhd	4.09	3.57	3.13
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Inari-Amertron Bhd	3.69%	3.85%	
Malaysian Pacific Industries	0.98%	1.02%	
Pentamaster Corp Bhd	0.68%	0.81%	0.95%

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Semiconductor

Auto & EV driving Malaysian semis growth

- Malaysian semi players are bullish for stronger demand in auto beyond 2022F, driven by structural shifts towards EV, ADAS, safety and connectivity.
- Maintain Overweight on Malaysian semis. We like MPI and Pentamaster as preferred plays riding on accelerating SiC and GaN adoption in EVs.

Key takeaways from CGS-CIMB Virtual Tech & EV Conference 2022

We invited three Malaysian semiconductor companies (Inari-Amertron, Malaysian Pacific Industries and Pentamaster Corp) to be part of CGS-CIMB's inaugural Virtual Tech & EV Conference on 7-8 Apr 2022. We gathered that all three companies were bullish, seeing stronger sales growth in the automotive segment underpinned by structural shifts towards electrification, advanced driver assist (ADAS), safety and connectivity, in spite of near-term challenges from prolonged supply chain disruption, lack of human capital and longer equipment lead times. Nevertheless, we expect margins to remain fairly stable despite the rising cost environment as the structural shift towards a higher margin portfolio and advanced packages will help to alleviate inflationary cost pressures.

Inari-Amertron (INRI MK, Add, TP: RM4.30)

Inari is focusing on a portfolio expansion strategy with five new projects. One of the examples cited by the group was in the data communications segment, with stronger sales growth in 2022F driven by mass commercialisation of new transceiver modules going into data centre application at P21. In addition, the group has a strong vision for its new system for module assembly becoming a major growth driver over the next three years, with potential annual revenue contribution of US\$100m. Finally, the group expects to continue to benefit from content value growth in radio-frequency (RF) applications, underpinned by enhancement programmes, such as RF dual-sided molding package and electromagnetic interference shield coating going into next generation mobile devices.

Malaysian Pacific Industries (MPI MK, Add, TP: RM48.60)

MPI reiterated its strategy to derive over 50% revenue exposure from the automotive segment over the next 3-5 years (vs. 33% in FY6/21) through new applications, such as silicon carbide (SiC) and gallium nitride (GaN), and growing sensor adoption in autonomous EVs. Meanwhile, the group said its plant at Carsem Suzhou (CSZ), China, remains open in spite of tightening lockdown measures to curb Covid-19 infections in Shanghai and Shenzhen. However, the group could face near-term headwinds due to material shortages at CSZ as some of the foundries in China have been closed since Mar. While this could impact CSZ's sales volume in the Jun 22 quarter, we are not overly concerned as we forecast MPI to deliver over 20% yoy sales growth in 9MFY6/22F. To recap, we estimate CSZ made up around 40% of MPI's sales in FY6/21.

Pentamaster Corp (PENT MK, Add, TP: RM4.20)

Pentamaster expects the automotive segment to be the leading revenue driver, with projected 30% revenue contribution in 2022F (vs. 20% in 2021). The group attributed the stronger growth to a growing customer base and increased recurring orders for its wafer burn-in and test solutions for SiC wafers, IGBT and integrated power modules going into electric vehicles and trains. The group also projects stronger sales growth from medical equipment following a new factory automation line contract award from a US-based medical company. Overall, the group is optimistic for higher GP margin delivery of 30-33% in 2022F compared to 30% in FY21 in view of a favourable sales mix from the auto and medical segments, which offer relatively high margins.

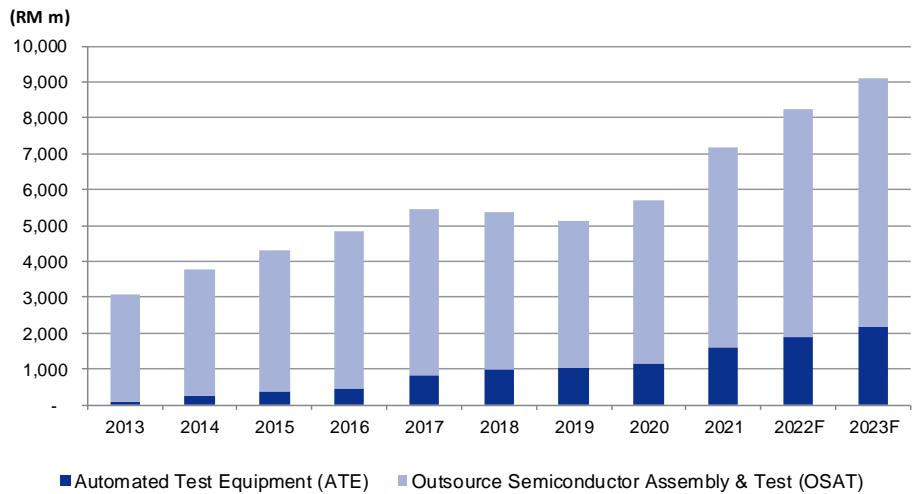
Maintain Overweight on Malaysian semis

We project 21% and 24% core net profit growth for Malaysian outsource semiconductor assembly and test (OSAT) and automated test equipment (ATE) sectors in 2022F, respectively. We think Malaysian ATE offers better value at this juncture given the sector trades at 27.9x CY22F P/E, nearly 1 s.d. below the 3-year sector mean of 34x, while Malaysian OSAT trades at 22.7x CY22F, which is broadly in line with its mean P/E.

Potential catalysts and risks ▶

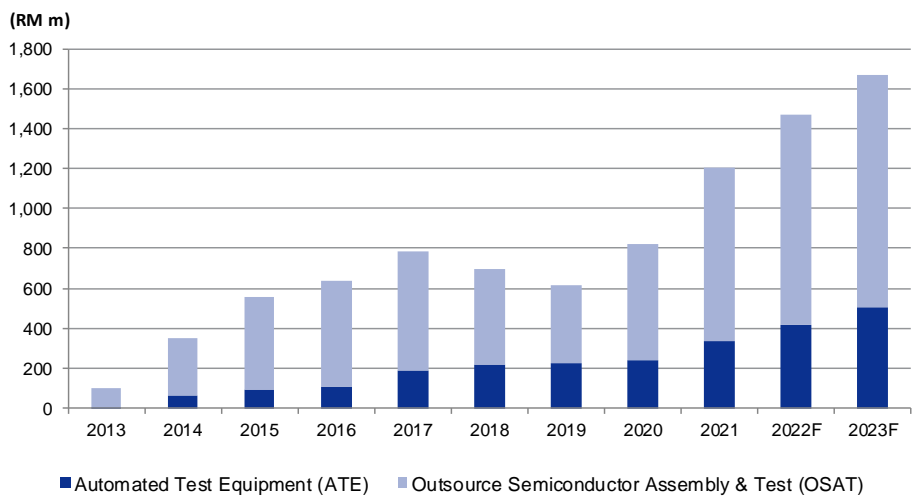
We see potential earnings surprises and upgrades from Bloomberg consensus, stronger-than-expected 5G mobile and EV adoption and depreciation in ringgit vs. US\$ as key re-rating catalysts for the sector. Meanwhile, appreciation in ringgit vs. US\$, stricter lockdown measures in the manufacturing sector in response to spikes in Covid-19 cases and extended lead times due to raw material shortages are potential downside risks to our call.

Figure 1: Malaysian ATE and OSAT historical annual and projected sector revenue forecasts for 2022-23F



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Malaysian ATE and OSAT historical annual and projected sector net profit forecasts for 2022-23F



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Malaysian ATE sector 1-year forward P/E (x)



SOURCES: BLOOMBERG, CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Malaysian OSAT sector 1-year forward P/E (x)



SOURCES: BLOOMBERG, CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: 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
Malaysian OSAT															
KESM	KESM MK	Hold	8.58	9.50	87	31.1	21.7	1.0	1.0	3.3	4.5	2.1	1.6	1.2	1.3
Inari-Amertron	INRI MK	Add	3.05	4.30	2,677	25.8	23.5	4.6	4.5	20.1	19.5	16.4	15.1	3.7	3.8
MPI	MPI MK	Add	35.28	48.60	1,662	21.2	19.3	3.5	3.1	17.8	17.0	9.5	8.4	1.0	1.0
Unisem	UNI MK	Add	3.07	4.00	1,173	19.1	16.9	2.1	2.0	11.6	12.2	9.0	8.0	2.3	2.4
Globetronics	GTB MK	Not rated	1.52	na	241	18.3	16.1	2.7	2.6	18.2	20.3	10.4	9.3	3.3	3.2
Sector						22.7	20.4	3.3	3.1	15.7	15.7	11.2	10.1	2.5	2.6
Malaysian ATE															
Aemulus	AMLS MK	Add	0.75	1.30	119	14.3	12.5	1.5	1.4	11.5	12.9	6.4	5.8	3.2	4.1
Mi Technovation	MI MK	Add	1.98	3.50	420	19.2	14.8	1.7	1.6	8.9	10.9	11.7	9.0	3.0	3.3
Pentamaster	PENTA MK	Add	3.69	4.20	622	27.7	22.9	4.1	3.6	15.8	16.7	14.5	11.8	0.7	0.8
Vitrox	VITRO MK	Not rated	8.10	na	1,812	36.7	31.6	8.9	7.5	25.5	23.9	33.6	29.2	0.7	0.8
Sector						27.9	23.1	4.9	4.2	16.7	17.2	19.9	16.7	1.5	1.6

SOURCES: BLOOMBERG, CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

We think the material ESG issues relating to the Malaysian semiconductor sector revolve around human capital, specifically the availability of skilled talent and dependency on migrant workers. However, we do not see the treatment of migrant workers as a material issue given that the sector is in compliance with the Responsible Business Alliance (RBA) standard that ensures working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity, and business operations are environmentally responsible. Hence, we think this actually differentiates the semiconductor sector from other manufacturing industries in Malaysia. Nevertheless, we see room for improvement for the sector in terms of environmental impact disclosure and carbon neutrality targets.

Keep your eye on

In the 12th Malaysia Plan (2021-2025), the government indicated that the number of migrant workers will be capped at 15% of total workforce to reduce the country's dependency on migrant workers across various sectors. We estimate that migrant workers currently make up 20-30% of the operational workforce of the average semiconductor assembly and test (OSAT) service provider in Malaysia.

Implications

We do not see the potential ruling of a 15% cap on migrant workers as a major issue for Malaysian OSAT given that the sector has been investing in automation in order to improve efficiency and also to combat the impact of rising wages. On the contrary, the move could accelerate the adoption of industry 4.0 automation solutions among Malaysian OSAT players and benefit Malaysian ATE players with exposure in automation solutions. Meanwhile, we see no impact from the migrant worker cap ruling for the ATE sector as we estimate that over 90% of their employees are locals and given the greater technical knowledge compared to production floor operators required for OSATs.

ESG highlights

Within our coverage universe, Inari, Pentamaster and Unisem are constituents of the Bursa Malaysia FTSE4Good Index. These companies are ranked within the top 25% by ESG Ratings in FBM EMAS. Meanwhile, MPI is ranked in the top 26-50% by ESG Ratings in FBM EMAS.

Implications

We think companies on the FTSE4GOOD Index could command a premium valuation relative to peers as more institutional investors incorporate ESG ratings into their investment strategies. We see potential inclusion into FTSE4GOOD Index for companies like MPI leading to a valuation re-rating.

Trends

We see the lack of human capital development, especially in the technical aspects, as posing a key challenge to the sector's future prospects given its dependence on human capital to innovate and stay ahead of the competition. Moreover, we believe competition for engineering talent from MNCs expanding in Penang will make it harder for the sector to attract engineering talent and scale-up operations.

Implications

In order to address the issue, we understand companies like Inari, MPI and Pentamaster have had to embark on multiple industry and academic collaborations, such as structured internship programmes, smart partnerships and new curriculum development based on industry applications, in a bid to ensure a healthy pipeline of human capital. Such programmes have contributed positively to the local community.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

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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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

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)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

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.