

Malaysia

May 31, 2022 - 7:33 AM

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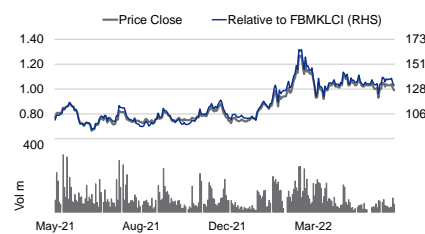
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	RM0.99
Target price:	RM1.70
Previous target:	RM1.70
Up/downside:	71.7%
CGS-CIMB / Consensus:	0.3%
Reuters:	DNEX.KL
Bloomberg:	DNEX MK
Market cap:	US\$715.6m
	RM3,125m
Average daily turnover:	US\$14.87m
	RM63.11m
Current shares o/s	3,155m
Free float:	81.7%

*Source: Bloomberg

Key financial forecasts

	Jun-22F	Jun-23F	Jun-24F
Net Profit (RMm)	187.6	241.1	315.7
Core EPS (RM)	0.06	0.08	0.10
Core EPS Growth	11981%	29%	31%
FD Core P/E (x)	14.58	12.96	9.89
Recurring ROE	15.3%	15.8%	18.0%
P/BV (x)	2.20	1.91	1.66
DPS (RM)	0.005	0.010	0.020
Dividend Yield	0.51%	1.01%	2.02%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.9	-12.4	25.3
Relative (%)	-0.3	-8.3	28.5

Major shareholders	% held
Annedjma Capital	14.4
Foxconn Singapore	3.9

Analyst(s)

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Dagang NeXchange

New semis growth driver emerging

- We see exciting growth opportunities for DNeX to solidify its position in semis space with its new foundry JV with Foxconn and SilTerra's turnaround plan.
- Reiterate Add with an unchanged RM1.70 SOP-based TP.

3QFY6/22 post-results briefing

- We attended Dagang NeXchange's (DNeX) post-3QFY6/22 results virtual briefing yesterday (30 May), hosted by Group Managing Director Tan Sri Dato' Sri Haji Syed Zainal Abidin. We gathered from management that DNeX is moving closer to a decision on the site location for its new 300mm wafers fab JV with Hon Hai Precision Industry (Foxconn) in Malaysia. DNeX aims to finalise the site location and enter into a definitive agreement with Foxconn in 3QCY22F.
- In the meantime, DNeX is in discussions with prospective investors interested in funding the project. We estimate that the new 300mm wafer fab may cost over US\$4bn (RM17.6bn) to build. The group is also looking to secure government incentives in the forms of financial assistance and tax breaks to fund the project.
- In addition, DNeX is looking to leverage its relationship with Belgium-based technology service provider and customer, Imec, to assist it in developing and carrying out technology transfer on 28-40nm process nodes.

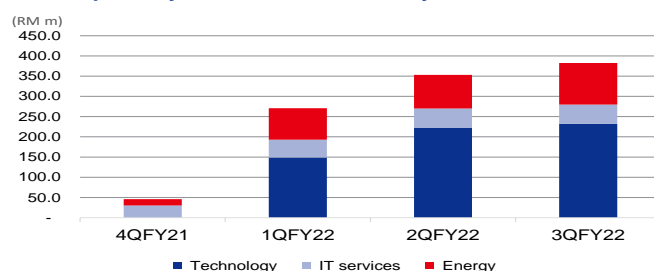
Key takeaways

- SilTerra's capacity utilisation hovered at 100% in 3QFY22, driven by three long-term agreements (LTA), which we estimate take up 70-75% of its installed capacity. SilTerra's revenue grew 4.2% qoq in 3QFY22, mainly driven by higher average selling prices (ASP) per wafer and higher wafer shipment volume.
- The group highlighted that SilTerra's Fab 1E expansion is on track to come online in early-CY23F. Fab 1E will raise SilTerra's installed capacity by 10%. This will allow the group to increase its exposure in emerging technology, such as silicon photonics and microelectromechanical systems (MEMS), which command higher ASP and better margins. SilTerra is also looking to enter into its fourth LTA in 4QFY6/22F.
- Meanwhile, Ping Petroleum's pretax profit doubled from US\$3.5m in 2QFY22 to US\$7.1m in 3QFY22 on higher oil prices and greater sales volume. However, production volume fell 16.7% qoq, mainly due to swivel leaks. Ping has a scheduled shutdown from mid-Jun to carry out a riser reinstatement plan for its debottlenecking exercise. DNeX expects this to help improve Ping's production volume from FY6/23F onwards.

Reiterate Add and RM1.70 TP

- Reiterate Add on DNeX with an unchanged RM1.70 SOP-based TP. DNeX trades at an attractive 11.4x CY23F P/E, 47-62% discount to Malaysian outsourced semiconductor assembly & testing (OSAT) and automated test equipment (ATE) sectors' 5-year mean P/E multiples. Potential re-rating catalysts: 1) stronger earnings in the coming quarters, 2) increase in institutional fund holdings (20% at end-Mar 2022), 3) narrowing discount relative to Malaysian ATE and OSAT sectors, and 4) higher crude oil prices. Downside risks: 1) weakening sentiment in the global tech sector, 2) delays in new capacity expansion at SilTerra and capex programme at Ping, and 3) lower crude oil prices.

Figure 1: Historical quarterly revenue breakdown by divisions



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Net Revenues	405.0	1,411.9	1,662.1	1,932.2
Gross Profit	89.7	514.5	606.3	729.7
Operating EBITDA	89.7	514.5	606.3	729.7
Depreciation And Amortisation	(22.5)	(145.2)	(171.1)	(185.6)
Operating EBIT	67.2	369.3	435.2	544.1
Financial Income/(Expense)	(3.3)	(44.2)	(46.1)	(40.3)
Pretax Income/(Loss) from Assoc.	(12.2)	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	51.7	325.1	389.1	503.9
Exceptional Items				
Pre-tax Profit	51.7	325.1	389.1	503.9
Taxation	(5.9)	(57.8)	(46.1)	(53.5)
Exceptional Income - post-tax				
Profit After Tax	45.8	267.3	343.0	450.4
Minority Interests	34.3	(79.7)	(101.9)	(134.7)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	80.1	187.6	241.1	315.7
Recurring Net Profit	1.2	187.6	241.1	315.7
Fully Diluted Recurring Net Profit	1.2	187.6	241.1	315.7

Balance Sheet

(RMm)	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Cash And Equivalents	267.7	601.0	618.2	809.3
Total Debtors	88.9	377.1	444.4	517.0
Inventories	15.4	65.2	76.8	89.4
Total Other Current Assets	46.1	46.1	46.1	46.1
Total Current Assets	418.1	1,089.4	1,185.5	1,461.8
Fixed Assets	655.8	1,685.1	2,007.5	2,084.0
Total Investments	0.1	0.1	0.1	0.1
Intangible Assets	979.0	979.0	979.0	979.0
Total Other Non-Current Assets	126.8	126.8	126.8	126.8
Total Non-current Assets	1,761.7	2,791.0	3,113.4	3,189.8
Short-term Debt	70.4	70.4	70.4	70.4
Current Portion of Long-Term Debt				
Total Creditors	128.5	599.7	706.7	822.2
Other Current Liabilities	31.4	31.4	31.4	31.4
Total Current Liabilities	230.3	701.4	808.4	923.9
Total Long-term Debt	16.0	316.0	316.0	166.0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	457.1	507.1	507.1	507.1
Total Non-current Liabilities	473.1	823.1	823.1	673.1
Total Provisions	422.9	622.9	622.9	622.9
Total Liabilities	1,126.3	2,147.4	2,254.4	2,219.9
Shareholders' Equity	1,022.9	1,422.8	1,632.3	1,884.9
Minority Interests	30.6	310.2	412.1	546.8
Total Equity	1,053.5	1,733.0	2,044.4	2,431.7

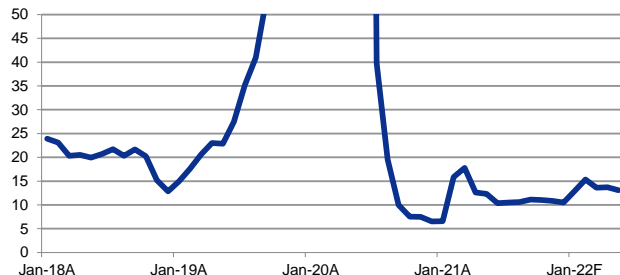
Cash Flow

(RMm)	Jun-21A	Jun-22F	Jun-23F	Jun-24F
EBITDA	89.66	514.50	606.31	729.71
Cash Flow from Invt. & Assoc.				
Change In Working Capital	26.89	133.13	28.09	30.31
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(83.41)	3.39	3.43	4.16
Net Interest (Paid)/Received	(4.20)	(50.23)	(52.16)	(46.71)
Tax Paid	(17.97)	(57.81)	(46.12)	(53.47)
Cashflow From Operations	10.97	542.98	539.55	664.00
Capex	(67.65)	(574.50)	(493.50)	(262.00)
Disposals Of FAs/subsidiaries	0.20	0.00	0.00	0.00
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	84.69	0.00	0.00	0.00
Cash Flow From Investing	17.24	(574.50)	(493.50)	(262.00)
Debt Raised/(repaid)	12.27	150.00	0.00	(150.00)
Proceeds From Issue Of Shares	190.76	228.00	0.00	0.00
Shares Repurchased				
Dividends Paid	0.00	(15.78)	(31.55)	(63.11)
Preferred Dividends				
Other Financing Cashflow	(81.06)	0.00	0.00	0.00
Cash Flow From Financing	121.97	362.22	(31.55)	(213.11)
Total Cash Generated	150.17	330.70	14.49	188.90
Free Cashflow To Equity	40.47	118.48	46.05	252.00
Free Cashflow To Firm	32.40	18.71	98.21	448.71

Key Ratios

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue Growth	(14%)	536%	18%	16%
Operating EBITDA Growth	24%	474%	18%	20%
Operating EBITDA Margin	40.7%	36.7%	36.7%	38.0%
Net Cash Per Share (RM)	0.08	0.07	0.07	0.18
BVPS (RM)	0.43	0.45	0.52	0.60
Gross Interest Cover	15.99	7.35	8.34	11.65
Effective Tax Rate	11.3%	17.8%	11.9%	10.6%
Net Dividend Payout Ratio	NA	8.4%	13.1%	20.0%
Accounts Receivables Days	148.3	60.7	90.7	91.5
Inventory Days	12.36	16.38	24.55	25.30
Accounts Payables Days	128.6	148.1	225.8	232.7
ROIC (%)	8.8%	21.1%	16.4%	18.5%
ROCE (%)	6.5%	17.4%	15.2%	17.4%
Return On Average Assets	3.5%	10.3%	9.5%	11.0%

12-mth Fwd FD P/E (x) - Dagang NeXchange



Key Drivers

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
SilTerra wafers shipment ('000)	306.8	180.9	386.8	414.0
Average crude oil prices per barrel (US\$)	53.9	90.0	75.0	70.0

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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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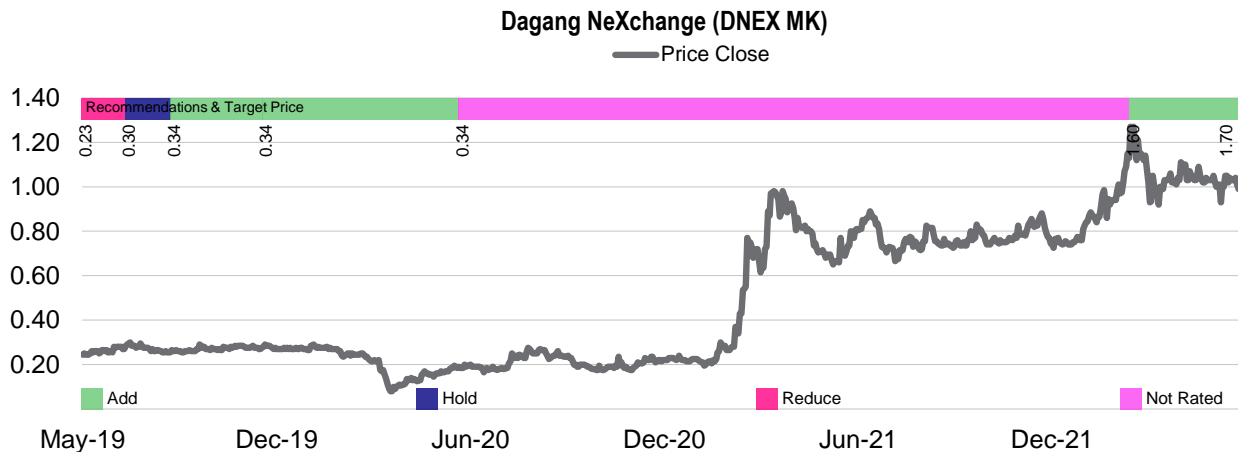
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

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)

- 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.
<i>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.</i>	
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.