

NationGate Holdings Berhad

Electronics Manufacturing Services Provider

TP: RM0.70 (+84.2%)

Ace Market Listing

NOT RATED

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Background

Founded in 2010, NationGate Holdings Bhd (NationGate) is an electronics manufacturing services (EMS) provider focused on the assembly and testing of: i) electronic components and products and ii) semiconductor devices. The group's end customers include multinational companies (MNC) within the networking & telecommunications, data computing, industrial instruments, consumer electronics, automotive, and semiconductor segments.

IPO Statistic

The IPO entails a public issue of 435.5mn new shares and offer for sale of 290.4mn existing shares. Collectively, they account for 35.0% of the group's enlarged issued share capital.

Competitive Advantages

1. Experienced Management Team
2. Technical Capabilities to Meet Varied Requirements
3. Committed to Stringent Quality Assurance
4. Established Business Relationships with MNCs

Valuation

At the IPO price of RM0.38/share, NationGate is priced at a trailing PE of 13.7x CY21 EPS. As we ascribe a target PE multiple of 16.0x against its CY23F EPS, we derive a fair value of RM0.70/share. This takes into account NationGate's growth prospects (FY22F/FY23F/FY24F: +30.4%/+21.9%/+15.0%) backed by growth of the electrical and electronics industry and its expansion plans. Additionally, we have also taken into consideration the group's established track record attested to by its long-term strategic business relationships with MNCs. **Not Rated.**

Earnings Summary

FYE Dec (RM mn)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	566.2	760.9	875.0	962.5	1,034.7
EBITDA	57.8	96.1	131.3	144.4	155.2
EBITDA margin (%)	10.2	12.6	15.0	15.0	15.0
Dep. & amortisation	(20.3)	(26.3)	(34.4)	(29.9)	(26.1)
EBIT	37.5	69.8	96.8	114.4	129.1
Net finance costs	(4.6)	(7.1)	(8.0)	(6.2)	(4.5)
EI	0.0	0.0	0.0	(5.7)*	0.0
PBT	32.9	62.7	88.8	102.6	124.6
Taxation	(2.2)	(3.1)	(13.3)	(15.4)	(18.7)
PATAMI	30.6	57.3	74.8	86.3	104.9
Core PATAMI	30.6	57.3	74.8	91.2	104.9
Core EPS (sen)	1.5	2.8	3.6	4.4	5.1
Core EPS Growth (%)	481.6	87.3	30.4	21.9	15.0
PE (x)	25.7	13.7	10.5	8.6	7.5
DPS (sen)	0.0	0.2	0.7	0.8	1.0
Dividend yield (%)	0.0	0.6	1.9	2.2	2.7

* Listing expenses.

Share Information

Listing	Ace Market
Enlarged Share Capital (mn)	2,073.9
Market Cap @ RM0.38 (RM mn)	788.1
Issue price (RM)	0.38
Oversubscription rate	N/A
Estimated free float (%)	35.0

Tentative Listing Dates

Opening of the IPO	12-Dec-22
Closing of the IPO	30-Dec-22
Balloting of Applications	4-Jan-23
Allotment of Shares	11-Jan-23
Listing	12-Jan-23

Ratio & Analysis

NTA per share (post IPO) (RM)	0.22
Price to NTA (x)	1.8
Proforma Net Gearing (x)	0.5

Utilisation of Proceeds	RM (mn)	%
Purchase of mach. & equip.	5.9	3.6
Working capital requirements	48.4	29.2
Repayment of bank borrowings	105.5	63.8
Estimated listing expenses	5.7	3.4
TOTAL	165.5	100.0

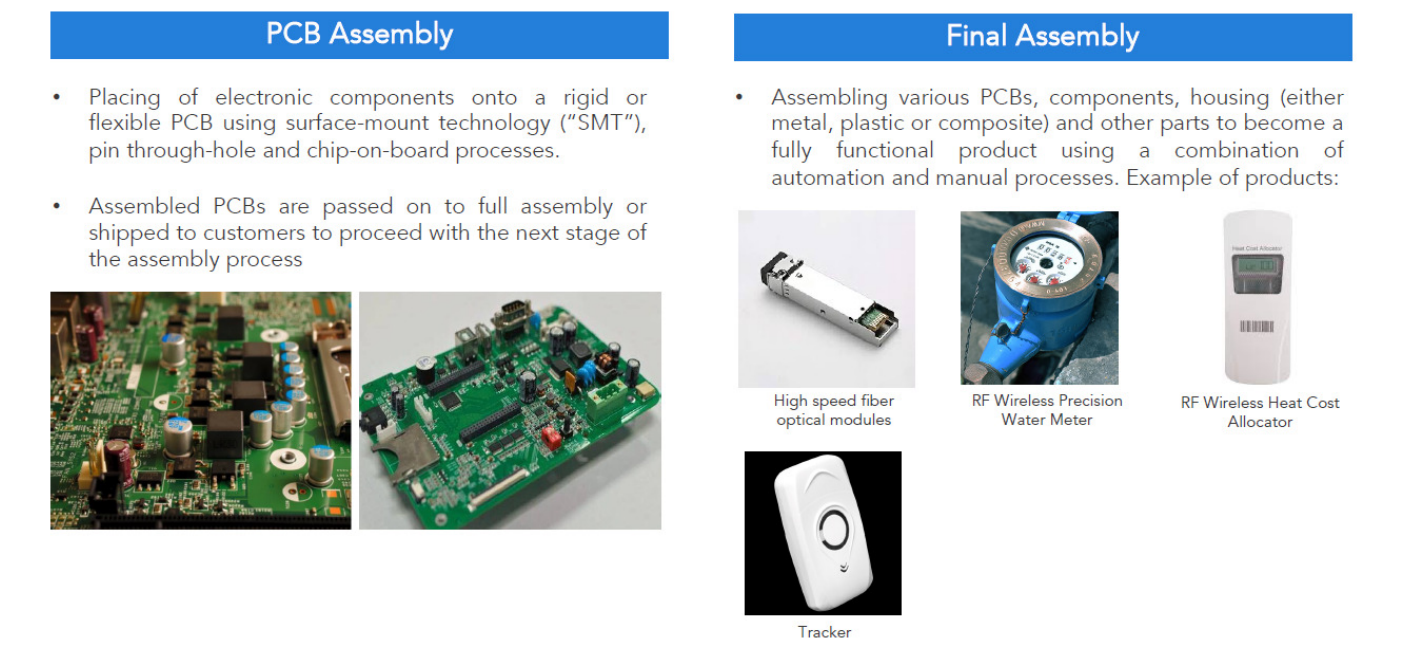
Business Overview

Founded in 2010, NationGate Holdings Bhd (NationGate) is an electronics manufacturing services (EMS) provider. The group’s end customers include multinational companies (MNC) within the networking & telecommunications, data computing, industrial instruments, consumer electronics, automotive, and semiconductor segments. Its focus is on the assembly and testing of:

- i. **Electronic components and products.** This is for 3 main categories of electronic components and products including completed printed circuit boards, semi-finished sub-assemblies, and fully assembled electronic products.
- ii. **Semiconductor devices.** This involves the encasing of semiconductor devices in materials (e.g., plastic and metal) to prevent physical damage and corrosion, dissipating heat produced in semiconductor devices, and supporting the electrical contacts between semiconductor devices and the printed circuit board.

In addition, NationGate also provides value-added services to complement its assembly and testing activities. This includes: i) high precision plastic injection moulding, ii) prototyping for manufacturability, iii) supply chain management, iv) testing and inspection, and v) packaging.

Figure I: NationGate’s EMS Offerings

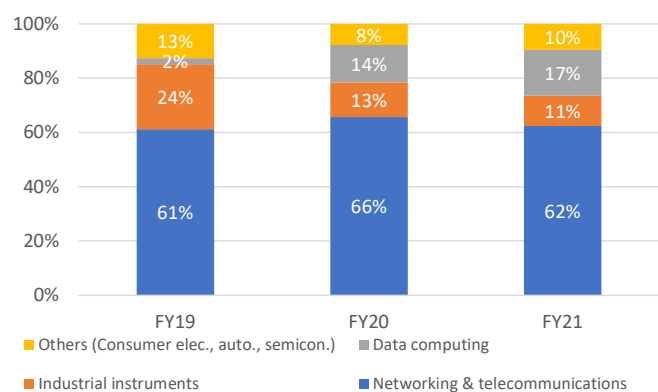


Source: Company, TA Securities

Today, NationGate has manufacturing facilities in Seberang Perai, Pulau Pinang and Taiping, Perak. As at 14 November 2022, the group has 31 surface-mount technology (SMT) assembly lines with a capacity to mount 1,257.6mn mounting points per month.

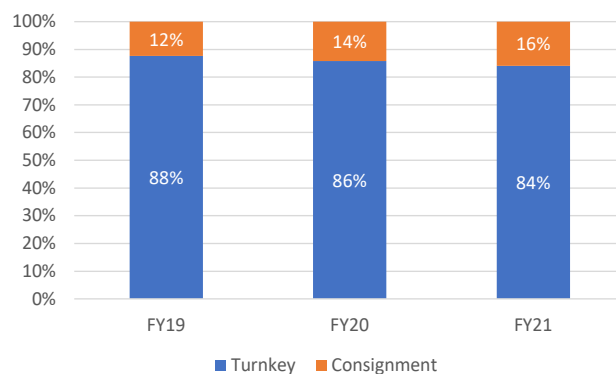
In terms of business model, NationGate provides its EMS services on either: i) a turnkey basis or ii) consignment basis. Under turnkey-based contracts, the group is responsible for procuring raw materials and input components used in the assembly process. As for consignment-based contracts, customers are responsible for sourcing, sorting, and packaging of raw materials which are then delivered to the group.

Figure 2: Revenue Breakdown by Customer Segments



Source: Company, TA Securities

Figure 3: Revenue Breakdown by Business Segment



Source: Company, TA Securities

Table 1: Share Allocation

Public Issue to:	No. of Shares ('000)	% of Enlarged Share Capital	Amount
Malaysian public	103,697	5.0%	RM39.4mn
Eligible directors and employees	103,697	5.0%	RM39.4mn
Private placement to selected investors	228,132	11.0%	RM86.7mn
Total	435,526	21.0%	RM165.5mn

Offer for Sale to:	No. of Shares ('000)	% of Enlarged Share Capital	Amount
Private placement to Bumiputera investors approved by the MITI	259,242	12.5%	RM98.5mn
Private placement to selected investors	31,109	1.5%	RM11.8mn
Total	290,351	14.0%	RM110.3mn

Source: Company, TA Securities

Table 2: Shareholding Changes Pre & Post-IPO

Name	Designation	Pre-IPO		Post-IPO	
		Direct	Indirect	Direct	Indirect
Ooi Eng Leong	Managing Director, Promoter, & Substantial Shareholder	89.0%	11.0%*	57.8%	7.2%*
Tan Ah Geok	Promoter & Substantial Shareholder	11.0%	89.0%*	7.2%	57.8%*
Total		100.0%	100.0%	65.0%	65.0%

* Deemed interest by virtue of Ooi Eng Leong & Tan Ah Geok being spouses

Source: Company, TA Securities

Table 3: Utilisation of Proceeds

Purpose	Amount	% of Gross Proceeds	Timeframe
Purchase of machineries and equipment	RM5.9mn	3.6%	Within 36 months
Working capital requirements	RM48.4mn	29.2%	Within 24 months
Repayment of bank borrowings	RM105.5mn	63.8%	Within 24 months
Estimated listing expenses	RM5.7mn	3.4%	Within 1 month
Total	RM165.5mn	100.0%	

Source: Company, TA Securities

Competitive Advantages

1) Experienced Management Team

NationGate is backed by an experienced management team. Each member of its key management team possesses over 16 years of working experience in their respective field of expertise and have been instrumental to its growth. The group is helmed by its co-founder and Managing Director Ooi Eng Leong who possesses over 34 years of combined working experience in the electrical and electronics (E&E) industry and EMS market in Malaysia.

2) Technical Capabilities to Meet Varied Requirements

NationGate possesses the technical capabilities and scale to meet the varied requirements of its customers across various industry segments. The customers it has served include those within the networking and telecommunications, data computing, industrial instruments, consumer electronics, automotive, and semiconductor segments. The group's capabilities are supported by an in-house technical team which comprise of 367 engineers and technicians. In addition, it has continuously invested in machineries and equipment to stay abreast with evolving technological requirements.

As at 14 November 2022, NationGate has 31 SMT assembly lines with the capacity to mount up to 1,257.6mn mounting points per month. The group's SMT assembly lines are flexible and modular which allows it to cater to customers with different order requirements and size as well as a wider pool of clientele. On top of that, NationGate has also invested in an enterprise resource system which facilitates improved efficiency of its entire EMS operations as well as prompt response to its customers' requests.

3) Committed to Stringent Quality Assurance

NationGate places strong emphasis on the quality of services provided to its customers. The group is committed that the Quality Management System (QMS) it has in place are aligned to internationally acceptable practices. Its QMS conforms to international standards such as ISO 9001:2015, ISO 14001:2015, AS9100D, ISO 13485:2016, and IATF 16949:2016.

4) Established Business Relationships with Multinational Companies

NationGate has established long term strategic business relationships with MNCs which comprise manufacturers and brand owners. Among others, its customers include subsidiaries of US-based corporations listed on the Nasdaq Stock Exchange as well as subsidiaries of Taiwan and China-based corporations. NationGate's ability to secure orders from such customers attests to its capabilities including good quality control, flexible production mix, broad range of EMS services with the provision of high precision plastic injection moulding services, long operating track record, and deep technical know-how. From FY19 to FY21, the group's top 5 customers accounted for 73.4% and 78.0% of its revenue.

Future Plans and Business Strategies

1) Expansion of EMS Service Offerings

NationGate intends to expand its EMS service offerings to existing customers as well as to secure new ones. This would involve the group's marketing and business development team continuously seeking for expansion opportunities in existing products manufactured in terms of expanding the number and value of semi-finished sub-assemblies manufactured for fully assembled electronic products.

Meanwhile, NationGate also intends to ride on its new business collaboration recently entered into with GoldTek. The business collaboration with GoldTek will allow NationGate to secure new business growth and strengthen their relationship for future collaborations with more affiliates and/or subsidiaries of Hon Hai Precision Industry Co Ltd. Listed on the Taipei Stock Exchange, GoldTek is principally involved in the provision of portable and low power consumption Artificial Intelligence of Things electronic devices, design, and fabrication services.

2) Expansion of SMT Assembly Capacity

NationGate plans to expand its SMT assembly capacity. This would involve the acquisition of additional machineries and equipment to further expand the group's SMT assembly lines for printed circuit board assembly services, which is then expected to result in enhanced efficiency. Expansion on this front is expected to increase NationGate's capacity by 38.4mn mounting points per month to a maximum of 1,296.0mn mounting points per month.

Key Risks Relating to Business and Industry

- i. Dependence on major customers.
- ii. Foreign exchange fluctuations.
- iii. Inability to adapt to technological changes.

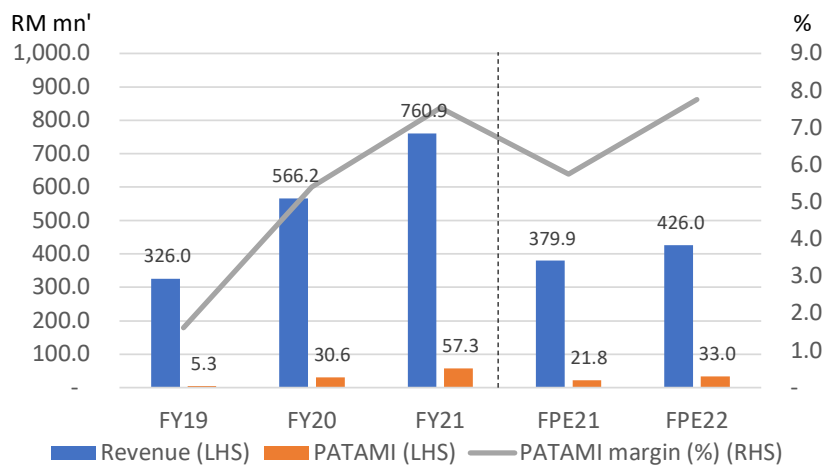
Outlook

The EMS industry is closely linked to the E&E industry with the former providing vital and direct supporting services to the latter. According to an independent market research report by Providence Strategic Partners in the IPO prospectus, Malaysia's E&E exports grew at a 2-year CAGR of 10.5% to RM455.7bn in 2021. This was driven by demand from major trading partners including China, Singapore, and the USA, as well as the global economic recovery. Going forward, the growth momentum is expected to sustain with local E&E exports forecasted to grow at a 6-year CAGR of 10.3% to RM819.1bn in 2027. Among others, the key drivers for this include:

- i. pursuit by manufacturers for leaner capital structure via outsourcing of capital and resource intensive manufacturing related activities;
- ii. rapid technological advancement and the rising adoption of electrical content in traditional and non-traditional end-user markets such as automotive and consumer electronics;
- iii. Malaysia's established electronics cluster which is home to hundreds of companies including electronics MNCs.

Financial Highlights & Forecast

Figure 4: Financial Performance

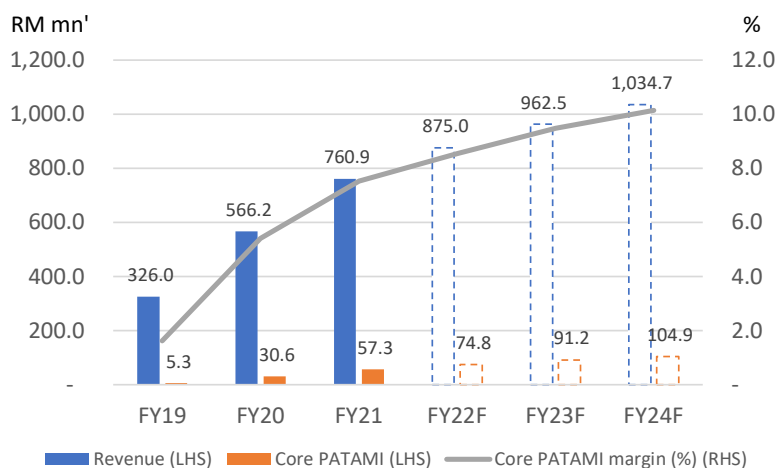


Source: Company, TA Securities

From FY19 to FY21, NationGate’s revenue and net profit grew at a 2-year CAGR of 52.8% and 230.0% to RM760.9mn and RM57.3mn. The robust growth was driven by a major customer involved in the networking and telecommunications industry, mainly for its new generation of optical telecommunications modules and devices. In addition, growth was also underpinned by assembly and testing activities for customers in the data computing, semiconductor, industrial instrument, and automotive segments.

In tandem with the robust revenue growth and a higher mix of consignment activities which generally command higher margin, NationGate’s net profit margin expanded by 5.9pp from 1.6% in FY19 to 7.5% in FY21.

Figure 5: Financial Forecast



Source: Company, TA Securities

Going forward, we project NationGate’s revenue and core earnings to grow at a 3-year CAGR of 10.8% and 22.3% to RM1,034.7mn and RM104.9mn in FY24F. We expect growth to be driven by increased orders from its major customers within the networking and telecommunications and industrial instruments industry. In addition, we also expect the group to capture new

opportunities via its expansion plans coupled with the rising adoption of electrical content within traditional and non-traditional end-user markets such as automotive and consumer electronics. Meanwhile, near-term visibility is also supported by NationGate's unbilled purchase orders of RM369.6mn as at 14 November 2022.

Balance Sheet

As at ended June 2022, NationGate possessed a net debt of RM234.0mn with gearing of 1.6x. On a pro forma basis, fresh proceeds of RM165.5mn from the IPO is expected to see the group's gearing narrow to 0.5x.

Dividend Policy

NationGate currently does not have any formal dividend policy. As we assume a dividend payout of 20% across FY22F/FY23F/FY24F, we forecast forward yields at 1.9%/2.2%/2.7%.

Valuation

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For reference, we identify peers on the local bourse to include V.S. Industry, SKP Resources, P.I.E. Industrial, and Aurelius Technologies, which trade in the range of 13.8x to 15.2x against CY23F EPS (refer to Table 5).

Table 4: Earnings Summary (RM mn)

FYE Dec (RM mn)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	566.2	760.9	875.0	962.5	1,034.7
EBITDA	57.8	96.1	131.3	144.4	155.2
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PBT	32.9	62.7	88.8	102.6	124.6
Taxation	(2.2)	(3.1)	(13.3)	(15.4)	(18.7)
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Core EPS (sen)	1.5	2.8	3.6	4.4	5.1
Core EPS Growth (%)	481.6	87.3	30.4	21.9	15.0
PE (x)	25.7	13.7	10.5	8.6	7.5
DPS (sen)	0.0	0.2	0.7	0.8	1.0
Dividend yield (%)	0.0	0.6	1.9	2.2	2.7

* Listing expenses.

Table 5: Peers Comparison

Company	Price	TP/FV	Recom.	Market Cap.	PE (x)		EPS Growth (%)		Dividend yield (%)		ROE (%)	
	(RM)	(RM)			(RM mn')	CY22	CY23	CY22	CY23	CY22	CY23	CY22
V.S. Industry Bhd*	0.92	-	Not Rated	3,530.8	17.9	13.8	-4.9	29.3	2.3	3.4	9.2	11.6
SKP Resources Bhd	1.74	1.85	BUY	2,718.5	15.8	14.2	13.5	11.5	3.9	4.2	20.9	21.3
P.I.E. Industrial Bhd*	2.62	-	Not Rated	1,006.2	15.9	13.8	10.0	15.2	2.7	2.7	10.6	11.6
Aurelius Technologies Bhd*	1.90	-	Not Rated	680.5	20.8	15.2	na	37.1	0.8	1.4	10.0	16.2
NationGate Holdings Bhd	0.38	0.70	Not Rated	788.1	10.5	8.6	30.4	21.9	1.9	2.2	34.1	20.1
Average (ex-NationGate)					17.6	14.2	6.2	23.3	2.4	2.9	12.7	15.2

* Based on consensus data from Bloomberg.

Appendix I: NationGate's Customer Segments & Products

Networking & Telecommunications



- Optical transceivers



- Two-way walkie-talkie

Data Computing



- Supercomputers



- Computing devices

Industrial Instruments



- Radio frequency wireless heat cost allocator

Consumer Electronics



- Electronic display

Semiconductor



- LED Emitter

Automotive



- PCBs for in-vehicle multimedia system

Others

- Medical devices, IoT, household electronic products and analytical instrumentation devices

Source: Company, TA Securities

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	NR	NR	NR	NR
Remark	NR	NR	NR	NR

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Tuesday, December 27, 2022, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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