

SMALL/MID CAP HIGHLIGHTS

Oppstar (OPPSTAR MK)

Oppstar-ting The Giant Journey; In A Constellation With Enormous Growth

Oppstar, the first-ever listed local IC design house, is listed at an undemanding 19.6x FY23F PE. We see enormous growth opportunities that can supercharge a three-year revenue/core net profit CAGR of 33%/35% respectively from FY22, premised on aggressive workforce and geographical expansions, cutting-edge R&D and technological know-how alongside huge untapped potential augmented by Malaysia's geopolitical neutrality. Initiate coverage with BUY and a target price of RM2.28.

INVESTMENT HIGHLIGHTS

- In a constellation for a giant journey.** The success of Oppstar today, marking a spectacular two-year net profit CAGR of 528% from FY20, can be traced back to 2014. The perfect constellation was created with the teaming-up of the group's ED/CEO, Mr Ng Meng Thai, his spouse Mrs Lim Eng Hong, Mr Cheah Hun Wah (current ED/CTO) and Mr Tan Chun Chiat (current ED/COO), spearheading Oppstar to new heights. From providing integrated circuit (IC) back-end and front-end design services, the group continued on its journey by focusing on FinFET projects and designing projects for ASICs to post silicon validation services and full IC design turnkey in 2020 with superb margins. Since then, a superior revenue/net profit CAGR of 78%/528% was achieved in FY20. Over the years, the group has secured global giant names under its belt in different geographical footprints with the meaningful IC market size globally.
- Spearheading growth on twin-turbo drivers.** With key management's three decades of experience in IC design services, Oppstar has delivered design projects in various types of ICs (ie ASICs, System-On-Chips, Central Processing Units and Field Programmable Gate Arrays) using 14nm to 5nm advanced nodes, and has also secured projects in 2022 using 3nm process node technology. Notably, the group has received enquiries from existing and potential customers from different regions for both specific design services and turnkey design services, with up to 200 design engineers required for the enquires. Due to the capacity bottleneck, the group aims to more than double its current headcount of 227 to 500 by 2026.
- Reaping enormous opportunities from underpenetrated markets alongside US export ban to China.** Recall that the US government has banned IC design giants AMD and Nvidia from exporting their advanced AI chips to China (Nvidia's H100 and A100; AMD's MI250) due to potential military use. Capitalising on the geopolitical neutrality, we believe Oppstar has the upper hand. Oppstar has secured its first AI ASIC projects from China customers in 2020 and has received enquiries from its China customers on specific designs and turnkey design services. In terms of market share, by looking at the size of global IC design sales (2021: NTD5.52t or RM819.0b), Oppstar group's revenue of RM50.5m was only at a meagre 0.0062%.

KEY FINANCIALS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F	2025F
Net Turnover	29.3	50.6	60.3	82.5	117.8
EBITDA	10.6	24.0	28.6	35.8	59.7
Operating Profit	10.1	23.2	27.2	32.5	54.1
Net Profit	7.8	16.6	20.4	24.4	40.7
Net Profit (Adjusted)	7.8	16.6	20.4	29.0	40.7
EPS (sen)	1.2	2.6	3.2	4.6	6.4
PE (x)	51.4	24.1	19.6	13.8	9.8
P/B (x)	130.9	27.7	14.6	2.7	2.3
EV/EBITDA (x)	38.7	17.1	14.9	15.1	9.5
Dividend Yield (%)	1.5	1.4	1.7	2.5	3.5
Net Margin (%)	26.7	32.9	33.8	35.1	34.6
Net Debt/(Cash) to Equity (%)	(234.9)	(77.3)	(95.6)	(94.7)	(93.6)
Interest Cover (x)	(48.5)	(181.5)	(136.2)	(162.3)	(270.3)
ROE (%)	254.8	115.1	74.2	19.5	23.2

Source: Oppstar, Bloomberg, UOB Kay Hian

BUY

Share Price	RM0.63
Target Price	RM2.28
Upside	261.9%

COMPANY DESCRIPTION

Oppstar is principally involved in the provision of IC design services covering front-end design, back-end design and complete turnkey solutions. It also provides other related services such as post-silicon validation services, training and consultancy services.

STOCK DATA

GICS sector	Semicon Manufacturing
Bloomberg ticker:	OPPSTAR MK
Shares issued (m):	636.2
Market cap (RMm):	400.8
Market cap (US\$m):	88.7
3-mth avg daily t'over (US\$m):	n.a.

Price Performance (%)

52-week high/low	N.A.			
1mth	3mth	6mth	1yr	YTD
-	-	-	-	-

Major Shareholders

Cheah Hun Wah	21.1
Ng Meng Thai	20.1
Tan Chun Chiat	13.4

FY22 NAV/Share (RM)	0.20
FY23 Net Cash/Share (RM)	(0.22)

ANALYST(S)

Desmond Chong
 +603 2147 1980
 desmondchong@uobkayhian.com

STOCK IMPACT

- Aggressive expansions to capture sea of opportunities.** Note that out of the gross proceeds of RM104.3m, Oppstar has earmarked RM50m for the expansion of its workforce to: a) support its existing and potential customers, and b) continue developing its human resource capabilities, thereby ensuring its long-term sustainability. Eventually, Oppstar aims to achieve this by increasing its total workforce by 280, comprising design engineers (locals or expatriates from India and Indonesia) for IC design and engineers/technicians for post-silicon validation services, to be based in Penang and Kuala Lumpur. The increase is expected to happen over 36 months.
- Strong orderbook backlog.** It is noteworthy that the group has received enquiries from existing and potential customers from different regions for both specific design services and turnkey design services, with the enquires possibly requiring up to 200 design engineers. As at end-Jan 23, Oppstar's orderbook stood at RM34.3m, mainly consisting of turnkey design services to be delivered in the next 12 months
- Forecasting a three-year revenue/core net profit CAGR of 33%/35% respectively,** on the back of assuming: a) higher revenue per engineer on an hourly basis, b) progressively higher utilisation rate on increasing available vs billable time, and c) progressively higher headcount of design engineers towards FY25. Note that the group's headcount stood at 169 as of FY22 with utilisation rate of 89.8% in terms of available vs billable time basis. The group has earmarked RM50m for the expansion of its workforce to: a) support the needs of its existing and potential customers, and b) continue developing its human resources capabilities, ensuring its long-term sustainability.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Initiate coverage with BUY and target price of RM2.28,** based on 50.0x FY24F PE. As there is no comparable local listed peers for valuation purposes, our valuation yardstick is based on a 10% premium of its global peers' average two-year forward PE. At an IPO price of RM0.63 (19.6x FY23 PE), we see ample upside from here and expect a three-year net profit CAGR of 35% from FY22 (at an undemanding PEG ratio of 0.5x). Blue-sky valuation if pricing at 2.0x PEG ratio (average peak PEG valuation of tech names during the tech run in 2021) suggests a potentially higher target price of RM3.20 (at 70x FY24F PE).

MAJOR CUSTOMERS' PROFILE

Customer	Segment	Relationship Tenure	Revenue Contribution
Customer A	Specific design services	6 years	FY20 : 38.6%
			FY21 : 11.1%
			FY22 : 11.0%
			FPE23 : 12.3%
Customer B	Turnkey design services	4 years	FY20 : 37.2%
			FY21 : 5.9%
			FY22 : 9.5%
			FPE23 : 7.2%
Xiamen KirinCore	Turnkey design services	4 years	FY20 : 15.6%
			FY21 : 70.7%
			FY22 : 68.4%
			FPE23 : 62.7%
Customer C	Specific design services	5 years	FY20 : 3.2%
Customer D	Specific design services	8 years	FY20 : 2.1%
			FY21 : 1.4%
Synkom	Specific design services	3 years	FY21 : 8.4%
			FY22 : 6.6%
			FPE23 : 3.1%
Customer E	Specific design services and Turnkey design services	7 years	FY22 : 2.5%
			FPE23 : 10.0%

Source: Oppstar

UTILISATION OF IPO PROCEEDS

Allocations	No. of Shares (m)	%*
Public Issue		
Malaysian Public	31.8	5.0
Eligible Directors & Employees	22.3	3.5
Private Placement to Selected Investors	31.9	5.0
Bumiputera Investors Approved by MITI	79.5	12.5
Enlarged No. of Shares Upon Listing (m)	636.2	
IPO Price Per Share (RM)	0.63	
Market Capitalisation (RMm)	400.8	

* Based on the IPO price and enlarged capital of 636.2m shares upon listing

Source: Oppstar

FUTURE PLANS



Expansion of workforce

- To increase total workforce by 280 design engineers and technicians in order to compete for more orders/contracts and tap into larger potential customers.
- To provide further flexibility in managing resources and timely services delivery.



Expanding geographical footprint

- To establish, by renting, new offices in Penang, India, Singapore, and Taiwan over 36 months.
- To provide design services and support to the customers as well as to expand the design engineering team.



Business expansion through investment and acquisitions

- To tap into demand growth for IC design services / acquire complimentary design portfolio assets.
- Revenue stream diversification.
- Broaden services suite and widen geographical reach and customer base.



Expanding post-silicon validation services

- To complement the IC design business and is expected to increase the Group's revenue.
- Expansion of customer base and capabilities in delivering post-silicon validation services.



Develop IPs for RISC-V based SoC, IPs for AI and machine learning applications as well as IP for FPGA

- To license these IPs separately or incorporate the IPs into future IC design projects.
- Licensing of IPs to diversify income and improve market profile of the Group.
- To provide a bidding advantage as it is able to shorten the IC design process.

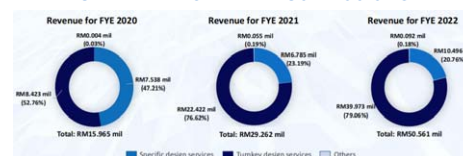


Collaborations with tertiary institutions

- Collaborations with USM, INTI Penang, UniMAP, UTAR and APU to secure future design engineers.
- Enhanced collaboration with other local and foreign tertiary institutions by 2023.

Source: Oppstar

REVENUE BREAKDOWN BY BUSINESS SEGMENT



Source: Oppstar

PROFIT & LOSS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F
Net Turnover	29.3	50.6	60.3	82.5
EBITDA	10.6	24.0	28.6	35.8
Depreciation & Amortisation	0.5	0.8	1.4	3.3
EBIT	10.1	23.2	27.2	32.5
Associate Contributions				
Net Interest Income/(Expense)	(0.2)	(0.1)	(0.2)	(0.2)
Pre-tax Profit	10.0	23.1	27.0	32.3
Tax	(2.2)	(6.5)	(6.7)	(8.0)
Minorities	0.0	(0.0)	(0.1)	(0.1)
Net Profit	7.8	16.6	20.4	24.4
Net Profit (Adjusted)	7.8	16.6	20.4	29.0

BALANCE SHEET

Year to 31 Mar (RMm)	2021	2022	2023F	2024F
Fixed Assets	1.1	1.5	3.2	8.2
Other LT Assets	1.4	0.9	0.9	0.9
Cash/ST Investment	9.3	11.2	26.3	140.9
Other Current Assets	1.7	3.6	4.2	5.7
Total Assets	15.4	20.6	38.0	159.1
ST Debt	0.5	1.0	1.0	1.0
Other Current Liabilities	9.8	4.7	8.9	8.8
LT Debt	1.5	0.0	0.0	0.0
Other LT Liabilities	0.6	0.5	0.5	0.5
Shareholders' Equity	3.1	14.4	27.5	148.8
Minority Interest		0.0	0.0	0.0
Total Liabilities & Equity	15.4	20.6	37.9	159.1

CASH FLOW

Year to 31 Mar (RMm)	2021	2022	2023F	2024F
Operating	10.0	17.3	22.1	28.6
Pre-tax Profit	10.0	23.1	27.0	32.3
Tax	(2.5)	(5.4)	(6.7)	(8.0)
Depreciation & Amortisation	0.5	0.8	1.4	3.3
Associates				
Working Capital Changes	1.7	(1.1)	0.2	0.8
Other Operating Cashflows	0.3	(0.1)	0.2	0.2
Investing	(2.9)	(1.3)	(3.0)	(8.3)
Capex (Growth)	(3.3)	(5.1)	(3.0)	(8.3)
Investments				
Proceeds from Sale of Assets	0.4	3.0	0.0	0.0
Others	(0.1)	0.8	0.0	0.0
Financing	(0.2)	(13.8)	(6.9)	94.4
Dividend Payments	(0.6)	(11.2)	(6.9)	(9.9)
Issue of Shares	0.0	0.0	0.0	104.3
Proceeds from Borrowings	1.0	0.0	0.0	0.0
Loan Repayment	(0.2)	(2.1)	0.0	0.0
Others/Interest Paid	(0.4)	(0.1)	0.0	0.0
Net Cash Inflow (Outflow)	6.9	2.2	12.2	114.6
Beginning Cash & Cash Equivalent	2.1	9.0	11.2	23.3
Changes Due to Forex Impact	0.0	(0.0)	0.0	0.0
Ending Cash & Cash Equivalent	9.0	11.2	23.3	138.0

KEY METRICS

Year to 31 Mar (%)	2021	2022	2023F	2024F
Profitability				
EBITDA Margin	36.2	47.6	47.4	43.4
Pre-tax Margin	34.2	45.7	44.8	39.1
Net Margin	26.7	32.9	33.8	35.1
ROA	50.5	80.5	53.8	15.3
ROE	254.8	115.1	74.2	19.5
Growth				
Turnover	83.3	72.8	19.3	36.8
EBITDA	498.6	126.8	19.0	25.1
Pre-tax Profit	578.0	131.3	16.9	19.4
Net Profit	1,752.5	113.2	22.8	19.4
Net Profit (Adjusted)	1,752.5	113.2	22.8	41.9
EPS	1,752.5	113.2	22.8	41.9
Leverage				
Debt to Total Capital	13.8	0.0	0.0	0.0
Debt to Equity	69.7	0.0	0.0	0.0
Net Debt/(Cash) to Equity	(234.9)	(77.3)	(95.6)	(94.7)
Interest Cover (x)	(48.5)	(181.5)	(136.2)	(162.3)

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