NationGate Holdings (NATGATE MK)

1H26: Below Expectations, But Clear Earnings Acceleration In 2027

Highlights

- Results missed our expectation as the recovery in both revenue and margins progressed more slowly than anticipated against our earlier optimistic assumptions for 2026.
- That said, we see an earnings inflection from 4Q26, driven by new optical module programmes, booming AI data centre demand and improving yields.
- We expect the growth trajectory to accelerate further into 2027, as higher ramp-up, better yields and stronger operating leverage drive an anticipated S-curve earnings recovery.
- Upgrade to BUY with a revised target price of RM1.88 (previously RM0.82), following earnings recalibration based on a rollover 24x 2027F PE.

1H26 Results

Year to 31 Dec (RMm)	2Q26	qoq%	yoy%	1H26	yoy%
Revenue	1,768.9	2.8	(32.1)	3,488.9	(35.9)
EBITDA	35.8	91.7	(63.1)	54.4	(71.1)
EBIT	18.2	416.1	(78.6)	21.7	(86.6)
Profit Before Tax	8.1	(195.6)	(90.3)	(0.4)	(100.2)
Tax	3.0	322.2	(112.4)	3.7	(108.2)
Net Profit	10.9	2,025.3	(79.1)	11.4	(89.2)
Core Net Profit	22.7	230.9	(1.5)	29.5	(71.4)
Margins	%	+/- ppt	+/- ppt	%	+/- ppt
EBITDA	2.0	0.9	(1.7)	1.6	(1.9)
EBIT	1.0	0.8	(2.2)	0.6	(2.4)
Profit Before Tax	0.5	0.9	(2.7)	(0.0)	(2.9)
Net profit	0.6	0.6	(1.4)	0.3	(1.6)
Core Net Profit	1.3	0.9	0.4	0.8	(1.0)

Source: NationGate, UOB Kay Hian

Analysis

- **Below expectation.** NationGate Holdings (NatGate) reported a 2Q26 net profit of RM10.9m (21x qoq, -79% yoy), bringing 1H26 net profit to RM11.4m (-89% yoy). Excluding both the unrealised and realised forex factors and other one-off items, adjusted net profit came in stronger at RM22.7m in 2Q26 (+231% qoq; -2% yoy) and RM29.5m in 1H26 (-71% yoy).
- This accounts for 38%/51% of our and consensus full-year expectations respectively. The deviation to our numbers was due to the slower-than-expected recovery in both revenue and margins against our earlier optimistic assumptions for 2026. The group declared a 0.25 sen interim dividend, implying a ytd net DPS of 0.50 sen and a 105% payout.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5270.8	7612.3	6635.1	8133.8	9393.8
EBITDA	286.9	265.3	141.7	337.4	519.5
Operating profit	237.3	210.7	87.4	283.6	466.3
Net profit (rep./act.)	160.2	125.1	39.2	178.8	308.8
Net profit (adj.)	121.4	69.1	39.2	178.8	308.8
EPS (sen)	5.3	3.0	1.7	7.9	13.6
PE (x)	26.4	46.4	81.9	18.0	10.4
P/B (x)	3.1	2.8	2.6	2.5	2.6
EV/EBITDA (x)	7.8	12.9	25.2	11.1	7.3
Dividend yield (%)	1.4	1.4	0.3	1.4	12.0
Net margin (%)	2.3	0.9	0.6	2.2	3.3
Net debt/(cash) to equity (%)	(98.5)	20.7	34.8	44.1	52.1
Interest cover (x)	(35.9)	(14.8)	(2.7)	(8.9)	(14.9)
ROE (%)	15.2	11.8	3.8	15.1	27.6
Consensus net profit			57.6	131.2	129.6
UOBKH/Consensus (x)			0.68	1.36	2.38

Source: NationGate, UOB Kay Hian

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BUY (Upgraded)

Share Price	RM1.41
Target Price	RM1.88
Upside	+33.3%
Previous TP	RM0.82

Stock Data

Sector	Electrical Components
Bloomberg ticker	NATGATE MK
Shares issued (m)	2,262.1
Market cap (RMm)	3190.0
Market cap (US$m)	789.8
3-mth avg daily t'over (RMm)	34.1

Price Performance (%)

52-week high/low RM1.60/RM0.56

1mth	3mth	6mth	1yr	YTD
20.5	84.3	40.3	16.3	60.8

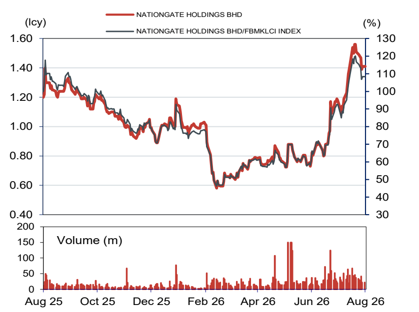
Major Shareholders (%)

Ooi Eng Leong	48.8
Tan Ah Goek	6.5
Amanah Saham Nasional Bhd	5.1

Balance Sheet Metrics

2026 NAV/Share (RM)	0.46
2026 Net Debt/Share (RM)	0.20

Price Chart



Source: Bloomberg

Company Description

NationGate focuses on the assembly and testing of: a) electronic components andproducts producing the completed printedcircuit boards (PCB), semi-finished subassemblies and fully assembled electronics products; and b) semiconductor devices.

- **Yoy, 1H26 revenue declined 36% to RM3.5b,** mainly due to a 41% yoy contraction in the data computing segment, reflecting slower uptake of its GPU server business. This was partly offset by an 8% yoy increase in the networking and telco segment which we belive was driven by the ramp-up of optical module-related business. Core net profit dropped 71% yoy, due to higher administrative expenses (+41% yoy) and lower operational leverage.
- **Sequentially, 2Q26 revenue edged up 3% qoq** to RM1.8b, driven by a strong 49% qoq increase in the networking and telco segment, which we believe reflected the ongoing ramp-up of its optical module-related business. This more than offset the 1% qoq decline in its core data computing segment. Adjusted net profit surged 231% qoq, underpinned by a higher contribution from the better-margin networking and telco segment, coupled with improved operating leverage on higher utilisation.
- **Structural industry tailwinds underpin the medium-term execution.** AI infrastructure is broadening beyond GPUs into high-speed networking, as inter-GPU communication emerges as the binding constraint in large-scale AI clusters. This is accelerating the transition from 800G to 1.6T optical interconnects. This backdrop should support the ramp of NatGate's networking and telco segment as hyperscalers accelerate AI data centre deployments and migrate toward higher-speed connectivity, with additional upside from a proposed US restriction on Chinese-made optical transceivers providing a positive spillover for non-China-based suppliers.
- **Moving further up the optical networking value chain.** NatGate is progressively broadening its role beyond conventional PCB-level assembly for optical transceiver applications into more specialised optical component and sub-assembly manufacturing. Its capabilities now extend to CoC (chip-on-carrier), CoS (chip-on-submount), and TOSA/ROSA/TROSA assembly, bringing the group closer to the optical engine and increasing its manufacturing content per programme. These higher-value processes typically involve longer qualification cycles and tighter customer integration, which should support stronger customer stickiness and improve revenue quality as production volumes ramp up.
- While we expect margins to improve progressively as the business moves beyond the initial gestation period and volumes ramp up, we see this as a potentially game-changing growth avenue, with significant opportunities emerging upon successful yield optimisation and large-scale rollout from 2027 onwards.

Earnings Revision/Risk

- We recalibrate our 2026/27 earnings forecasts to reflect: a) 2026: A reduction to RM39.2m (from RM78.2m), primarily due to a longer-than-expected gestation period for its new optical module programmes; and b) 2027: An anticipated S-curve earnings inflection from RM98.1m to RM178.8m, driven by improving production yields, stronger operating leverage and a higher-volume ramp-up as Natgate progresses into higher-value optical transceiver module assembly supported by robust customer programme ramps.

Valuation/Recommendation

- **Upgrade to BUY with a higher target price of RM1.88 (from RM0.82),** based on a rollover 24x 2027F PE. This is based on average blended 50:50 PE, referencing the average seven-year mean forward PE of electronic manufacturing services and outsourced semiconductor assembly and test.
- While we expect 2026 to remain a gestation year, we believe the risk-reward profile is increasingly skewed toward the upside spilling over into 2027, supported by the significant growth potential of NatGate's optical module business and our view that the worst of the earnings weakness is behind us.
- **Risks:** a) slower-than-expected ramp-up of the optical module and data computing (CPU/GPU) businesses; b) adverse foreign exchange fluctuations; and c) higher-than-expected component costs.

Adjustment for 2Q26 Net Profit

2Q26	
Reported PAT	**11.1**
Adjustment for:	
Realised forex gains/(loss)	-22.9
Unrealised forex gain	7.0
Fair value loss on derivative	-1.8
Fixed assets written off	0.0
Fair value gain on investment securities	0.0
Allowance for slow moving inventories	5.9
2Q26 adjusted PAT	**22.8**
2Q26 adjusted PATMI	**22.7**

Source: NationGate

Environmental, Social, Governance (ESG) Updates

Environmental
- Solar installations generated RM505k in electricity cost savings and reduced emissions by c.964 tCO_2e at Plants P3 and P5 in 2025. - AI-driven HVAC system reduced energy consumption by 20–27% at Plant 5, equivalent to c.620 tonnes of Scope 2 CO_2 reduction annually. - 93% of total waste was diverted from disposal.
Social
- Female employees accounted for 44% of the workforce, while women represented 33% of the Board. - Zero work-related fatalities were recorded in 2025, with 1,528 employees trained on health and safety standards.
Governance
- Zero confirmed corruption or harassment cases reported. - Zero breaches of data privacy and zero substantiated complaints concerning customer privacy breaches or loss of customer data were recorded.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	7,612	6,635	8,134	9,394
EBITDA	265	142	337	519
Deprec. & amort.	55	54	54	53
EBIT	211	87	284	466
Associates				
Net interest income/(expense)	(14)	(32)	(32)	(31)
Pre-tax profit	196	55	252	435
Tax	(54)	(13)	(60)	(104)
Minorities	17	3	13	22
Net profit	125	39	179	309
Net profit (adj.)	69	39	179	309

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	386	382	378	374
Other LT assets	136	119	119	119
Cash/ST investment	418	265	94	25
Other current assets	2,032	2,032	2,529	2,684
Total assets	2,972	2,798	3,120	3,203
ST debt	634	624	614	605
Other current liabilities	1,134	1,011	1,199	1,355
LT debt	3	3	3	3
Other LT liabilities	36	12	12	12
Shareholders' equity	1,143	1,215	1,306	1,229
Minority interest	47	3	13	22
Total liabilities & equity	2,972	2,798	3,120	3,200

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	(1,050)	(83)	(66)	376
Pre-tax profit	196	55	252	435
Tax	(99)	(13)	(60)	(104)
Deprec. & amort.	55	54	54	53
Working Capital Changes	(1,165)	(96)	(229)	74
Other operating cashflows	(51)	(51)	(51)	(51)
Investing	(169)	(50)	(50)	(49)
Capex (growth)	(212)	(50)	(50)	(49)
Investments	0	0	0	0
Proceeds from Sale of Assets	0	0	0	0
Others	42	0	0	0
Financing	(291)	(20)	(55)	(395)
Dividend payments	(24)	(46)	(10)	(45)
Proceed from Borrowings	77	0	0	0
Loan repayment	(302)	(10)	(10)	(9)
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	(1,510)	(153)	(171)	(68)
Beginning cash & cash equivalent	1,928	418	265	94
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	418	265	94	25

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	3.5	2.1	4.1	5.5
Pre-tax margin	2.6	0.8	3.1	4.6
Net margin	0.9	0.6	2.2	3.3
ROA	4.2	1.4	5.7	9.6
ROE	11.8	3.8	15.1	27.6
Growth				
Turnover				
EBITDA	44.4	(12.8)	22.6	15.5
Pre-tax profit	(7.5)	(46.6)	138.1	54.0
Net profit	(14.8)	(71.9)	356.2	72.7
Net profit (adj.)	(21.9)	(68.7)	356.2	72.7
EPS	(43.1)	(43.3)	356.2	72.7
Leverage	(43.1)	(43.3)	356.2	72.7
Debt to total capital				
Debt to equity				
Net debt/(cash) to equity	24.9	26.1	23.1	22.2
Interest cover	69.9	70.1	60.8	63.6