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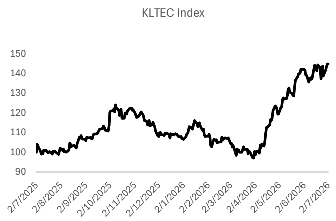
KL Technology Index



Our Top Picks

Company	Rating	Price	Target
ATECH	BUY	0.74	0.87
EG	BUY	1.75	2.69
FRONTKN	BUY	4.95	5.71
INARI	HOLD	2.18	2.11
MI	BUY	4.88	6.23
QES	BUY	0.57	0.74
SKYECHIP	BUY	3.00	4.67
VITROX	BUY	7.39	9.35
WENTEL	BUY	0.28	0.39

Technology Sector

Overweight (↔)

6% Isn't Enough: Malaysia's Push into Design and Packaging

- **We attended The Edge-HSBC E&E Symposium 2026 ("The Value Chain Shift"), keynoted by Deputy Finance Minister YB Liew Chin Tong.**
- **Malaysia captures only ~6% of semiconductor value-add despite handling ~13% of global assembly, test and packaging.**
- **Government is now backing IC design and advanced packaging to move Malaysia up the value curve.**
- **Talent is a retention issue, not a supply one; non-tax-deductible ESOS/share grants were flagged as a low-cost fix for Budget 2027.**
- **We maintain OVERWEIGHT on the Malaysian technology sector and keep all ratings and target prices unchanged from our 2H2026 Tech Sector Outlook**

Key takeaways from the Symposium:

We came away from The Edge-HSBC E&E Symposium 2026 with greater conviction that Malaysia's semiconductor industry is moving beyond its traditional OSAT role towards higher-value IC design and advanced packaging. While the transition will take time, policy support is becoming increasingly targeted, reinforcing our positive long-term view on the sector.

The "Smiley Curve" and Malaysia's Value Capture Problem

The keynote framed the semiconductor value chain as a smile-shaped curve: design and IP capture roughly half of total value-add, fabrication around a quarter, and assembly/test/packaging, where Malaysia's traditional stronghold only around 6%. Four data points were used to illustrate the gap: E&E accounts for about 40% of national exports (the largest single category); Malaysia handles an estimated 13% of global semiconductor assembly, test and packaging outside China and Taiwan; the E&E industry nonetheless contributes only 6–7% of GDP because activity is concentrated at the low-value end and largely multinational-led; and Bursa-listed semiconductor companies represent only around 1.7% of total market capitalisation. Two routes to rise were proposed: moving along the curve into design and brand ownership (D&O Green Technology's (**N.R.**) own-brand automotive LED chips were cited as an example already underway), or shifting the whole assembly/packaging segment upward in value, which is the explicit intent behind the new Malaysia Advanced Packaging Consortium (MAPC).

Advanced Packaging: MAPC as the Concrete Vehicle

The Malaysia Advanced Packaging Consortium (MAPC), launched in May 2026 with RM 92m of government funding matched by RM 93m from industry, was cited as the clearest example of the government "shifting the whole curve" rather than merely moving along it. MAPC will develop a pilot HBM4 (high-bandwidth memory) advanced-packaging line over two years, with participants split by role: SkyeChip (IC design) (**BUY, TP: RM 4.67**), FusionAP (packaging R&D), Inari (OSAT lines) (**HOLD, TP: RM 2.11**), and Pentamaster/NSW Automation (test and automation) (**N.R.**). This directly corroborates the packaging-bottleneck thesis in our 2H2026 sector outlook, where we noted TSMC's CoWoS capacity remains sold out through 2026 despite a near-quadrupling of capacity since 2023.

Talent "A Pay Problem, not a Talent Problem"

Panellists were consistent in framing Malaysia's constraint as retention and compensation rather than raw supply – an estimated 1.1m Malaysian passport holders work in Singapore, and local IC design/OSAT wages were repeatedly benchmarked against Taiwanese and Singaporean offers. Concrete measures raised included linking property-sector housing benefits to semiconductor-cluster retention in Penang, extending work permits for foreign STEM graduates in Malaysia beyond the current two-to-three-year window, and a proposal to partition Malaysia's 1% HRDF/HRD Corp salary levy toward company-level and industry-level local-content R&D matching funds, similar to schemes cited in Brazil and Singapore. Separately, a Bursa-listed semiconductor company CFO in the audience flagged that ESOS and share grants are not tax-

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deductible in Malaysia (unlike cash bonuses or the treatment in Western markets), and asked that this should be considered in Budget 2027.

SkyeChip's Listing as a Proof of Concept

SkyeChip (**BUY, TP: RM 4.67**), a Penang-headquartered designer of AI and high-bandwidth-memory chips, listed on Bursa Malaysia's Main Market with its IPO oversubscribed by roughly 95x and proceeds of approximately RM352m, 60% of it earmarked for R&D. This was positioned by the Deputy Minister as evidence that the value-chain-shift thesis is investable today, not merely a multi-year policy aspiration. Under the National Semiconductor Strategy (NSS), the government's stated ambition is for ten IC design/advanced-packaging companies to reach public listing, with individual company valuations of the order of RM 100m, though panellists noted a persistent Series-A/pre-IPO funding gap in the US$ 10–20m range that remains only partially addressed by existing venture pools

Trust and Geopolitical Neutrality as a Competitive Moat

Multiple speakers, including Intel Malaysia's design-centre leadership, argued that Malaysia's core competitive advantage over the next cycle is less about cost and increasingly about trust: reliability, IP protection and non-alignment across the US-China divide, at a time when advanced AI chip supply chains are reconfiguring around "who can be trusted" rather than "who is cheapest." This was cited as the reason multinationals have deepened rather than diversified away from Malaysian operations even amid tariff and export-control noise, and offers a rationale for the geographic supply-chain diversification channel we already flag in our coverage — EG Industries' (**BUY, TP: RM 2.69**) Thailand facility and Mi Technovation's (**BUY, TP: RM6.23**) Johor plant in particular, alongside ViTrox's (**BUY, TP: RM 9.35**) own supply-chain diversification into China.

Our view. We maintain our **OVERWEIGHT** stance on the technology sector as the KLTEC Index's 29.5x FY27F forward P/E remains supported by the structural AI-driven semiconductor upcycle, improving earnings momentum and multi-year earnings visibility.

MI and EG as our top picks: Our highest-conviction BUYs remain **Mi Technovation** and **EG Industries**. ViTrox moves to our highest conviction BUY alongside MI and EG following this revision.

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Tuesday, 14 Jul, 2026**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.