Technology

Overweight (Maintained)

Malaysia's Edge In The Global Semiconductor Race

- **OVERWEIGHT; Top Picks: Malaysian Pacific Industries, CTOS Digital, Coraza Integrated Technology.** We recently hosted a sectoral series event with industry veteran and CEO of EQUVO Melvin Low. It was attended by government officials, corporates, fund managers, analysts and industry experts. Discussions focused on opportunities and challenges in advancing Malaysia's semiconductor sector, to capture emerging trends in light of intensifying geopolitical tensions.
- **The four Asian Dragons.** Taiwan and South Korea dominate global wafer fabrication, accounting for 70% of foundry revenue. Taiwan is the leader in advanced chip production, while South Korea excels in both logic and memory chips. These countries have developed strong ecosystems and well-established supply chains (equipment, materials, engineering support services), supported by extensive engineering talent, stable economies and political landscapes, and accommodative government incentives. Meanwhile, Singapore hosts several advanced fabricators (fabs) such as GlobalFoundries and Micron, as well semiconductor processing equipment suppliers, thanks to its massive talent pool and supportive government policies.
- **The rest of the world.** The US, Japan and Europe are actively working to attract semiconductor companies to build fabrication facilities. The US introduced the CHIPS And Science Act to encourage domestic semiconductor manufacturing, while Japan is leveraging government support and partnerships with firms like TSMC to revitalise its semiconductor industry. China is also working to strengthen its high-tech capabilities by building its own internal supply chain with various government subsidies. However, they are still several years to a decade behind in achieving full technological self-sufficiency.
- **The case for Malaysia.** Malaysia, home to companies like DNeX (SilTerra) and X-FAB, has the potential to expand its role in advanced packaging and semiconductor manufacturing, backed by its infrastructure and skilled workforce. As geopolitical shifts and supply chain diversification drive semiconductor companies to explore new locations, Malaysia is positioning to capture a greater share of the market. However, investments in these technologies require patience, often taking 5-10 years to yield returns.
- **Key ingredients.** Successfully establishing and growing semiconductor fabs requires several key resources and government support mechanisms. First, a strong base of engineering talent is crucial to sustain advanced manufacturing to achieve good yield and R&D efforts. Government policies such as subsidies and taxes further enhance investment appeal, by lowering operational costs. Third, reliable and competitively priced utilities like electricity and water are necessary to support high-energy-consuming fabrication processes.
- **US-China trade war.** The trade war has accelerated the diversification of supply chains, pushing companies to explore regions like South-East Asia for manufacturing. The reshaping of global supply chains is influencing where companies choose to invest and produce their products. Navigating this conflict requires a balanced approach, avoiding excessive alignment with either side to maintain trade relationships and strategic positioning. Challenges: Instability in the resilience of the supply chain, cost competitiveness, and headwinds in sourcing talent.

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Coraza Integrated Technology	Buy	0.62	10.3	17.4	1.7	10.3	-
CTOS Digital	Buy	1.58	31.5	21.1	4.1	19.9	3.0
Datasonic Group	Buy	0.61	80.9	11.0	2.5	23.1	7.3
GHL Systems	Neutral	1.08	-	36.0	2.2	6.1	1.4
Globetronics Technology	Trading Buy	0.70	40.0	14.1	1.0	7.2	1.4
Inari Amertron	Neutral	3.06	16.0	27.1	3.4	12.8	3.1
Malaysian Pacific Industries	Buy	38.50	85.8	14.7	1.8	13.0	2.5
Pentamaster Corp	Buy	5.12	47.1	22.9	2.9	13.2	0.6
Unisem (M)	Buy	3.72	42.1	21.5	1.7	8.2	2.3

Source: Company data, RHB

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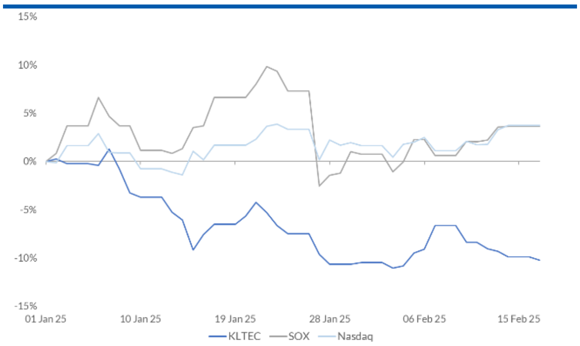

Source: Company data, RHB

The four Asian Dragons

Wafer fabrication is most prevalent in Taiwan and South Korea, which dominate the global semiconductor manufacturing landscape, accounting for 70% of the world's foundry revenue. Taiwan, home to industry leader Taiwan Semiconductor Manufacturing Company (TSMC), has the largest share of advanced chip production, while South Korea, led by Samsung and SK Hynix, plays a key role in both logic and memory chip manufacturing. These countries have developed strong ecosystems and well-established supply chains (equipment, materials, engineering support services) over the past decades, supported by extensive engineering talent, favourable living conditions, stable economies and political landscapes, on top of accommodative government incentives. Meanwhile, Singapore is also home to some advanced fabs such as GlobalFoundries and Micron, as well as semiconductor processing equipment suppliers, thanks to its massive talent pool and supportive government policies.

Taiwan: The semiconductor powerhouse. Taiwan has a highly developed semiconductor ecosystem, anchored by industry leaders like TSMC and MediaTek. Chips from Taiwan have a strong presence in electric vehicles (EVs), particularly Light Detection and Ranging (LiDAR) and electronic boards, as well as medical life sciences. The country's advanced semiconductor manufacturing capabilities are exemplified by facilities like FAB 12 and the upcoming FAB 22, underscoring its commitment to expanding its production infrastructure. While base wages in Taiwan are relatively low compared to other regions — fresh graduates typically earn around USD1k per month — the compensation package is often bolstered by substantial bonuses, making it competitive overall. Taiwan's success in these industries is further driven by a strong work ethic and a relentless focus on manufacturing yield and efficiency.

South Korea: A model for China. South Korea has a strong semiconductor industry, with giants like Samsung and SK Hynix leading the way. Many former employees of these companies have leveraged their expertise to launch their own ventures, further enriching the ecosystem. Wages in South Korea are generally higher than in Taiwan, although bonuses tend to be less substantial. The workforce is known for its competitiveness and regimented structure, reflecting a strong hierarchical culture that emphasises discipline and efficiency. On the sustainability front, South Korea is increasingly prioritising green initiatives, despite challenges posed by rising energy costs. While its government offers incentives to support these efforts, these are not as extensive as that in the US, South Korea's semiconductor development over the past 25 years, marked by strategic investments and technological advancements, serves as a compelling model for China's ambitions in the industry.

Singapore: A hub for advanced manufacturing. Singapore also hosts a thriving semiconductor ecosystem, with major players such as Micron, GlobalFoundries, and SSMC — a JV between NXP and TSMC — operating significant facilities in the country. The nation also hosts other key industry participants, including Soitec (specialising in silicon insulation) and companies like Siltronic and Silicon Box. The Singapore Government offers substantial subsidies, akin to the CHIPS and Science Act to attract and retain semiconductor investments. Although the specifics are undisclosed, the incentives are believed to be generous. This is reflected in the large number of fabs and advanced manufacturing facilities the country has attracted. Additionally, Singapore's immigration policies are friendly enough to attract top-tier engineers and executives from around the world, further strengthening its talent pool. While Singapore is not a low-cost manufacturing destination, its focus on high-tech production, innovation and advanced packaging ensures its competitiveness in the global semiconductor industry. This strategic emphasis on cutting-edge technologies and high-value manufacturing solidifies Singapore's role as a critical hub in the semiconductor supply chain.

Malaysia: Rising star in semiconductor assembly and test. Malaysia has emerged as an attractive destination for the semiconductor industry, especially the back-end process, benefiting from a skilled workforce in semiconductor packaging, EMS and some wafer fabrication. Home to companies like DNeX (SilTerra) and X-FAB, Malaysia has the potential to expand its role in advanced packaging and semiconductor manufacturing, supported by strong infrastructure and technical expertise. This expertise is complemented by strong proficiency in English and bilingual capabilities in Chinese, facilitating communication in global operations. Additionally, Malaysia's growing role in advanced packaging is further reinforced by the diversification of supply chains amid the US-China trade war, positioning the country as an increasingly attractive destination for semiconductor investment and high-tech manufacturing. As geopolitical shifts and supply chain diversification drive semiconductor companies to explore new locations, Malaysia is positioning itself to capture a greater share of the market.

The rest of the world

While Taiwan and South Korea lead in wafer fabrication, the US, Japan and the EU are actively working to attract semiconductor companies to build fabs within their regions. The USA has introduced the CHIPS and Science Act, offering billions in subsidies and incentives to encourage domestic semiconductor manufacturing, with companies like TSMC, Intel, and Samsung investing in new facilities. Similarly, Japan is leveraging government support and partnerships with firms like TSMC to revitalize its semiconductor industry. China is also working to strengthen its semiconductor and high-tech capabilities by building its own internal supply chain. However, the country remains several years to a decade behind in achieving full technological self-sufficiency.

Beyond these major players, other countries in Asia are also positioning themselves within the semiconductor value chain. Malaysia, home to companies like DNeX (SilTerra) and X-FAB, has the potential to expand its role in advanced packaging and semiconductor manufacturing, supported by its existing infrastructure and skilled workforce. Meanwhile, India is emerging as a potential "dark horse" in the industry, attracting growing interest from global semiconductor players. The country has secured investments such as Powerchip's partnership with Tata, signaling its ambitions to become a key player in the semiconductor supply chain. As geopolitical shifts and supply chain diversification drive semiconductor companies to explore new locations, Malaysia and India are positioning themselves to capture a greater share of the market.

In contrast, Thailand's political instability continues to impact investor confidence, while Vietnam remains focused on EMS and heavy manufacturing.

The case for Malaysia

Emerging as a key player. Malaysia plays a critical role in the global semiconductor supply chain, particularly in the outsourced semiconductor assembly and testing (OSAT) segment. The country is home to leading OSAT players such as Inari Amertron, MPI, Unisem, and Globetronics, which provide essential back-end services – including packaging, testing and assembly – for major global semiconductor companies. Additionally, Malaysia's strategic location in South-East Asia and its well-developed free trade zones (FTZs) allow for the seamless import and export of semiconductor components and finished products. With strong government support, including tax incentives and grants under initiatives like the New Industrial Master Plan (NIMP 2030) and the National Semiconductor Strategy (NSS), the country continues to attract new semiconductor investments.

One of Malaysia's key strengths lies in its cost competitiveness. Competitive wages for operators and technicians, coupled with low costs for power and water, make it an economically viable hub for semiconductor manufacturing. Furthermore, the country's well-developed logistics infrastructure — encompassing road, rail, air, and sea freight networks — ensures efficient supply chain management and global connectivity.

Malaysia's appeal extends beyond its industrial capabilities. It offers a solid quality of life, with affordable and high-quality living conditions that attract expatriates. International schools, a comfortable environment for families, and proximity to Singapore further enhance its livability and strategic positioning. This connectivity with Singapore, a global semiconductor hub, provides additional opportunities for collaboration and talent mobility.

Moreover, Malaysia has the potential to draw experienced semiconductor professionals currently working in key markets such as Singapore, Taiwan, China, and the US. By leveraging its diaspora of skilled talent, Malaysia can further strengthen its talent pool and industry capabilities, positioning itself as a leading player in the global semiconductor landscape. Together, these factors make Malaysia a promising and well-rounded choice for semiconductor investment and growth.

To attract semiconductor and high-tech industries, Malaysia needs to implement a comprehensive strategy that includes government support, talent attraction, education reforms, and industry recognition. The Government must be prepared to provide substantial subsidies, tax incentives, and special pricing for power and water to make the country competitive for fab investments. Additionally, efforts should be made to bring back experienced Malaysian semiconductor professionals working abroad, by offering special incentives and making the Malaysia My Second Home (MM2H) programme more attractive for expatriates. Strengthening universities by increasing engineering and technology programme intakes, aligning curricula with industry needs, and fostering research collaboration with companies will help build a skilled local workforce.

Finally, recognising industry leaders, scientists, and key contributors can inspire greater participation in high-tech industries and drive motivation for R&D. Highlighting their achievements not only fosters innovation but also encourages the next generation to contribute to technological advancements.

To strengthen its position in the semiconductor and software industries, Malaysia can collaborate with Singapore and ASEAN to establish a regional cluster or hub. Working closely with Singapore can help attract major players like Micron, GlobalFoundries and Lam Research – by offering these companies incentives to expand their operations into Malaysia. Additionally, facilitating the seamless movement of equipment, materials and engineering support between the two countries can enhance supply chain efficiency. At a broader ASEAN level, linking with Thailand, Vietnam, and the Philippines can provide a cost-effective alternative to China for production activities. Encouraging free trade and the smooth flow of materials within ASEAN can further enhance regional competitiveness. Positioning ASEAN as a China+1 alternative for semiconductor, software, and equipment production will strengthen the region's role in global supply chains, making it an attractive destination for high-tech investments.

Key ingredients of success

Successfully establishing and growing semiconductor fabs requires several key resources and government support mechanisms. First, a strong base of engineering talent is essential to sustain advanced manufacturing, ensuring good yields and supportive R&D efforts. Government policies such as subsidies, tax incentives and tax-free status in FTZs play a crucial role in enhancing investment appeal by lowering operational costs. Additionally, reliable and competitively priced utilities like electricity and water are critical to support the high-energy demands of fabrication processes. Efficient supply chain logistics, including access to equipment, materials, and wafer shipment networks, further reduce lead times and production costs. Lastly, a favourable living environment for skilled professionals, including high-quality infrastructure and proximity to urban centres helps in attracting and retaining top talent. By integrating these factors, a country can position itself as a strong player in the global semiconductor industry.

However, setting up a semiconductor fab requires substantial investment and patience, often taking 5–10 years to become profitable. Taiwan and South Korea have successfully built their semiconductor industries through long-term investments and precise execution. TSMC's success is partially due to its strong focus on manufacturing yield.

Opportunities in the emerging technology trend

As the industry grows, semiconductor equipment investments are expected to double from USD100bn today to USD200bn over the next decade, reflecting the increasing demand and continued advancements in semiconductor technology. The rise of AI, EVs, and autonomous vehicles (AVs) is fueling the need for more advanced chips and memory. The semiconductor supply chain encompasses not only chip manufacturing, but also the supporting industries and services that enable its growth.

The US-China trade war: Implications for the region

The ongoing US-China trade war that also encompasses semiconductors and AI continues to intensify, with restrictions on technology transfers, tariffs, and the entity list affecting China's access to advanced semiconductor equipment. While China faces economic struggles, slow technological progress, and reliance on state-backed enterprises, the US continues to leverage its technological dominance through companies like AMAT, Lam Research, Nvidia, Intel and Micron. The US also exerts influence over the EU and Japan to isolate China from the semiconductor supply chain, reinforced by incentives under the CHIPS and Science Act. Trump's unpredictable stance has further disrupted trade policies, creating a need for a balanced approach to maintain global trade relationships.

The trade war has accelerated the diversification of supply chains, pushing companies to explore regions like South-East Asia for manufacturing. The reshaping of global supply chains is influencing where companies choose to invest and manufacture or assemble their products. As the situation evolves, navigating this conflict requires a balanced approach, avoiding excessive alignment with either side to maintain trade relationships and strategic positioning.

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(1) they do not have any financial interest in the securities or other capital market products of the subject companies mentioned in this report, except for:

Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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