Technology

NEUTRAL (Maintain)

Washed out Year for Smartphone?

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HIGHLIGHTS

- Maintain our NEUTRAL stance on the sector as we view that the smartphone industry is anticipated to experience a challenging 2026
- The memory crunch brought about by the AI boom has led to supply concerns for the smartphone industry. For 2026, major memory producer is focusing more on fulfilling AI-driven contracts
- The low-end smartphone segment could feel greater impact as compared to the high-end premium segment
- There could be a combination of remedial action that can be done by the smartphone vendors to minimize the downside risk
- Local OSAT have varied exposure to the global smartphone supply chain

Marginal contraction anticipated. For 2026, the market is expecting the smartphone market to contract between -0.9%yoy to -2.1%yoy. This was mainly due to the ongoing shortage of memory chips. Note that memory chips are biggest bottleneck that may affect the AI boom.

Taking cue from the 4Q25 performance, the smartphone market may see a marginal improvement in 2026. According to IDC, the global smartphone shipment sawn an increase of +2.3%yoy to 336.3m units. This is despite the ongoing memory shortage crisis. Demand was supported by sustained premium growth, strong momentum in foldables, and accelerated pull-in demand as consumers anticipated upcoming price hikes.

Declining allocation for consumer mobile memory. Global memory producers such as SK Hynix, Samsung Electronics and Micron Technology are aggressively shifting their production away from the consumer market . Notably, Micron Technology also announced that it plans to stop selling memory for the consumers business by February 2026 to focus on meeting demand for high-powered artificial intelligence chips. This will enable Micron to improve supply and support for its larger, strategic customers in faster-growing segment. Meanwhile, SK Hynix has its entire 2026 production capacity for HBM, DRAM and NAND already sold out to fulfil its AI-driven contracts.

Apple and Samsung may have the competitive advantage. The low-end smartphone segment is expected to be impacted the most. The escalating cost of the memory component could lead to higher smartphone prices. This is further exacerbated by the potentially reduced shipment. Thus, the "low-price" strategy to lift demand is no longer feasible.

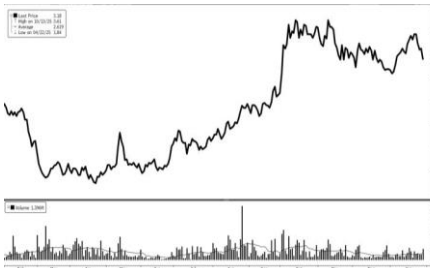
However, the flagship phone model segment could be more resilient. Apple, for instance, could leverage on its strong supply chain and high margin products to minimise issue. Meanwhile, Samsung, may mediate by relying on its own internal memory output i.e. via Samsung Electronics. Note that the latter is the global leader in overall memory market. This will enable Samsung to have a more competitive product pricing as well as healthier offering as compared to its peers.

COMPANY *IN FOCUS*

Unisem (M) Bhd

Maintain SELL | Unchanged target price: RM1.54
Price @ 28 Jan 2026: RM3.18

- Contribution from Chengdu operation to continue to soar
- Concerns persist for the Ipoh operation
- Net debt position escalate as the group gear up for future growth



Potential remedial action. Raising ASP, especially for the low-end segment, would be the easiest approach. However, it may lead to consumer holding back the purchases. Thus, some of the potential remedies include: i) downgrade specification, especially the memory specification, ii) streamlining of product portfolio, with a greater focus on the mid-to-high variants, iii) enticing consumers to upgrade to higher specification variant iv) software optimisation to cut down on the memory usage as well as v) securing advance order of the necessary components.

Exposure to the smartphone market. On the local front, local outsourced semiconductor assembly and test (OSAT) companies have varied presence in the smartphone industry. Notably, Inari has the largest exposure to the smartphone/ mobile devices market where 64% of the revenue is derived from. This is followed by Unisem whereby the communications segment made up 30% of the total revenue and Malaysian Pacific Industries at 13%. Note that D&O Green Technology only has exposure to the automotive market. Nonetheless, while Inari has the largest exposure as compared to its peers, the impact could be partially cushioned by the fact that the end customer primarily focuses on the high-end smartphone segment.

Peers Comparison

Stocks	Rec.	Last closing price	Target price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
				FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
Inari	NEUTRAL	1.66	2.09	7.4	8.2	28.2	25.5	8.0	8.8	3.8	4.2
Unisem	SELL	3.18	2.66	3.3	7.5	80.6	35.5	8.0	8.0	3.0	3.0
D&O	SELL	0.66	0.77	2.5	3.0	30.8	25.7	0.3	0.3	0.4	0.4
Zetrix AI	BUY	0.82	1.25	10.7	12.1	11.7	10.3	3.2	3.6	2.6	2.9

Source: MBSB Research

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology