Technology

NEUTRAL (Maintain)

Mounting External Factors

Analyst
Foo Chuan Loong, **Martin**
martin.foo@mbsb.com
03-2173 8353

HIGHLIGHTS

- Maintain our NEUTRAL stance on the sector as semiconductor industry faces mounting external risk factors. This is on top of the structural shift caused by the proliferation of AI
- Downturn in the smartphone market may turn out to be worse than originally anticipated
- Apart from Helium, the supply of sulphuric acid, which is used to clean and etch silicon wafers, may be at risk as well
- Up to 18 tech firms with operations in the Middle East are "legitimate target" should the war continues to escalate

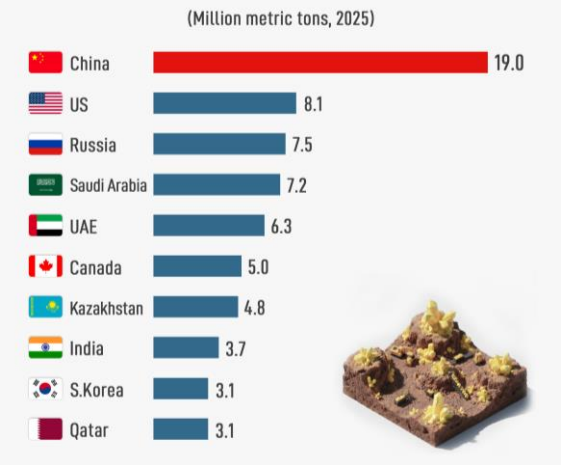
Deepening smartphone crisis. The rising demand from generative artificial intelligence (AI) and high-performance computing are redirecting the supply of memory away from smartphone. As a result, production of smartphone is adversely impacted, leading to shortage of device availability as well as higher input cost which led to elevated selling price. Smartphone producer will need to accordingly adjust the selling price and/or the specifications. This will in-turn affect consumer demand, especially in the low-to-mid market segment. The premium market segment could be more resilient in view of the healthier margin and better supply chain.

In late 2025, the smartphone production for 2026 is anticipated to decline marginally on an annual basis. However, at this juncture, the decline is expected to be more substantial. Both IDC and Counterpoint are now anticipating the global shipment for the smartphone market to contract by more than -10%yoy (IDC: -12.9%yoy; Counterpoint: -12.0%yoy). The contraction will potentially mark the lowest annual shipment of smartphone in more than a decade. While there is ongoing effort to build memory capacity, especially from memory suppliers in China, we view that it would be insufficient to offset the shortage which could prolonged beyond 2026.

Among our coverage, Inari has the highest exposure to the smartphone market at 62%, while Unisem's exposure to the communication and consumer market stands at 17% and 30% respectively. Meanwhile, MPI's revenue from consumer and communications made up 13% of total revenue.

Sulphur supply chain vulnerability. Apart from Helium, the Middle East tension could potentially affect the supply of sulphur. The Gulf states account for approximately 44% of the global Sulphur production, according to the United States Energy Information Administration. When converted to Sulphuric acid, there are five main uses which include chemical manufacturing, metal processing, batteries, cleaning products, agriculture and fertilisers. For semiconductors specifically, it is a crucial chemical used to clean and etch silicon wafers that are found in semiconductors. Thus, it prevents foreign substances from degrading the quality, reliability and yield of semiconductors.

Figure 1: Top Sulphur producing countries



Source: Globaltimes

2026 GSS at risk? For 2026, the World Semiconductor Trade Statistics (WSTS) is anticipating the global semiconductor market to reach USDD975b, an increase of +26.3%yoy. In particular, demand for memory and logic are expected to remain strong, boosted by AI-related applications and continued demand in high performance computing and data centre infrastructure. Sales for the month of January and February 2026 came in at USD82.5m (+46.1%yoy) and USD88.8m (+61.8%yoy) respectively. On a cumulative basis, the global semiconductor sales were on track to meet the full year target.

However, we view that the ongoing Middle East crisis may potentially put a dent on the global sales. This is in relation to Iran's threat of targeting U.S. tech firms with operations in the Middle East. Note that in recent years, U.S. tech firms have been funnelling resources into the Middle East for AI infrastructure build-out. A total of 18 tech companies has been identified as "legitimate targets" in retaliation for U.S. and Israeli strikes on Iran. The companies on the list include Cisco; HP; Intel; Oracle; Microsoft; Apple; Google; Meta; IBM; Dell; Palantir; Nvidia; JP Morgan; Tesla; GE; Boeing. In addition, there two companies headquartered in the United Arab Emirates namely G42 which is an Abu Dhabi-based AI company and Spire Solutions, a Dubai-based cybersecurity company. To recall, in early March, Iranian has struck AWS data centers in the Middle east which disrupts a number of apps and digital services in the United Arab Emirates. In response, Amazon, Nvidia and Google are pulling back some operations in Dubai.

Peers Comparison

Stocks	Rec.	Last closing price	Target price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
				FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
Inari	NEUTRAL	1.47	1.54	5.5	6.0	28.0	25.7	4.9	5.4	3.2	3.5
Unisem	SELL	2.72	2.59	7.3	10.5	35.5	24.7	6.0	8.0	2.3	3.1
D&O	NEUTRAL	0.48	0.43	3.5	4.1	12.3	10.5	0.0	0.0	0.0	0.0
Zetrix AI	BUY	0.75	1.24	14.3	16.4	8.7	7.6	4.3	4.9	3.5	4.0

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