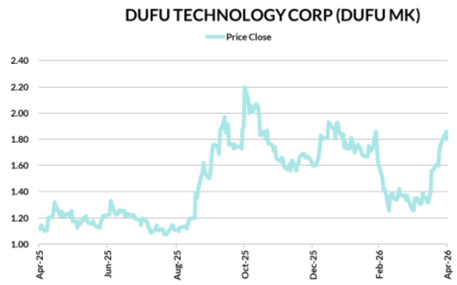
Dufu Technology Corp

Fair Value: MYR2.36-2.98
Price: MYR1.80

Riding On The AI-Driven Storage And Memory Upcycle



Source: Bloomberg

Stock Profile

Bloomberg Ticker	DUFU MK
Avg Turnover (MYR/USD)	7.81m/1.9m
Net Gearing (%)	(16.3)
Market Cap (MYRm)	960.0
Beta (x)	1.3
BVPS (MYR)	0.64
52-wk Price low/high (MYR)	1.08 - 2.25
Free float (%)	45

Major Shareholders (%)

Perfect Full Yen	10.6
Perfect Commerce	8.4
Lee Hui-Ta	8.2

Share Performance (%)

	1m	3m	6m	12m
Absolute	35.3	5.7	(10.7)	48.4
Relative	32.1	6.4	(17.4)	35.5

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Investment Merits

- Riding on the surge in agentic artificial intelligence (AI), data centre (DC) infrastructure, and cloud storage
- Demand visibility and supply scarcity for memory and storage products
- Market share recovery and material alpha (ASP uplift)
- Robust demand in the metal sheet division, tracking the growth in the E&E and semiconductor industries.

Company Profile

Dufu Technology (DUFU) is engaged in the design, development, and manufacturing of precision machining components, hard disk drive (HDD)-related components, steel moulds, stamping components and sheet metal fabrication. It also provides marketing, engineering and turnkey support services.

Highlights

AI-driven demand supercycle. The explosion of generative and agentic AI, alongside the surge in central processing unit (CPU)-intensive infrastructure, has solidified the role of HDDs in modern AI ecosystems. While solid state drives (SSDs) excel in speed-intensive tasks, HDDs remain the indispensable backbone for cost-effective, massive-scale storage. High-capacity enterprise drives offer a superior cost-per-gigabyte ratio and lower total cost of ownership (TCO), making them essential for high-density storage arrays in cloud environments, deep learning platforms, and AI-enabled edge security, particularly for long-term data retention and agentic workflows. With major manufacturers reporting that 2026 production capacity is already fully sold, lead times for enterprise drives have stretched to 6-12 months — a trend expected to persist into 2027.

Platter density and material inflection. Technological breakthroughs have allowed HDD makers to overcome mechanical constraints, moving toward 11- and 13-disk architectures to achieve 30–40TB capacities. For component makers, each additional disk in a drive stack directly scales the demand for precision spacers. Beyond volume, the adoption of Heat-Assisted Magnetic Recording (HAMR) necessitates a shift to titanium spacers and specialised dampening to manage extreme vibration and thermal loads. This material transition serves as a significant growth catalyst, as titanium components command an ASP roughly 3-4x higher than traditional stainless steel.

Competitive moat and regained market share. Given the high-volume, low-mix and cost-competitiveness nature of the business, the HDD component market operates as a niche oligopoly similar to the HDD makers. The increase in global storage demand spurred by AI data accumulation flows directly to established suppliers like DUFU. Note: DUFU has been qualified as a second-source supplier for the third major

HDD maker since last year, and has regained its allocation from the market leader after resolving previous technical challenges in 2024. This recovery, combined with higher volumes, is expected to enhance operating leverage and drive significant margin expansion in spite of the weaker USD.

Robust outlook for sheet metal & engineering support. Accounting for 18-30% of group revenue, the non-HDD division is projected to record an accelerated performance this year. This growth aligns with the robust orderbooks seen across the local precision machining and engineering support sectors, fuelled by the semiconductor industry's upcycle and sustained demand for AI-related equipment. With a new production facility — set to double capacity — expected to be operational by 1H27, DUFU is well-positioned to capitalise on diversifying opportunities within the automotive, medical, and semiconductor sectors.

Company Report Card

Results highlights. DUFU's FY25 earnings recovered to MYR28m (+24% YoY) from a low in FY24, supported by a 6.7% growth in revenue amid a recovery in demand while regaining some lost ground in market share.

Balance sheet/cash flow. The company remains in a sound position, with net cash of MYR60m at the end of FY25. Both declining FCF yield (FY25: 3.9%) and ROE (FY25: 8.1%) were consistent with the decline in profitability in the past two years. However, stronger growth is expected, in view of the upturn in the HDD sector and the benefit of scale.

Dividends. Management declared a 3.5sen DPS for FY25 (flat YoY), reflecting a payout ratio of 68% and dividend yield of c.2% at its current share price. Assuming a payout ratio of 60% amid improved profitability, dividends should trend higher to reflect a ~3% yield in FY26.

Management. Executive Chairman Dato' Lee Hui-Ta is the major shareholder, who co-founded the group in the early 1990s. The group is led by CEO Teoh Chiew Hong, who has been with the company for over 20 years. He is supported by the company's CFO, David Khoo Chong Beng, who has been with DUFU since 2017.

Investment Case

Demand supercycle to drive earnings growth. Our FV range of MYR2.30-2.98 reflects a target 20-22x P/E on FY27–28F earnings. We believe this valuation is attractive, as the target multiple sits comfortably below the broader technology sector average and the 5-year P/E mean of DUFU's closest peers in the HDD industry.

Key downside risks include the escalation of input costs, slower orders, weaker-than-expected sales, and unfavourable FX rates.

Profit & Loss	Dec-23	Dec-24	Dec-25
Total turnover (MYRm)	228	260	277
Reported net profit (MYRm)	24	23	28
Recurring net profit (MYRm)	24	23	28
Recurring net profit growth (%	-63.7	-7.3	24.4
Recurring EPS (MYR)	0.04	0.04	0.05
DPS (MYR)	0.04	0.04	0.04
Dividend Yield (%)	1.9	1.9	1.9
Recurring P/E (x)	40.4	43.6	35.1
Return on average equity (%)	7.2	6.6	8.0
P/B (x)	2.9	2.9	2.8
P/CF (x)	0.2	0.2	0.2

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-23	Dec-24	Dec-25
Total current assets	260	257	260
Total assets	417	447	448
Total current liabilities	32	53	54
Total non-current liabilities	45	50	45
Total liabilities	77	103	99
Shareholder's equity	340	344	349
Minority interest	0	1	1
Other equity	0	0	0
Total liabilities & equity	417	447	448
Total debt	47	64	54
Net debt	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

Cash Flow (MYRm)	Dec-23	Dec-24	Dec-25
Cash flow from operations	49	44	58
Cash flow from investing acti	(15)	(46)	(13)
Cash flow from financing act	(40)	2	(28)
Cash at beginning of period	108	103	102
Net change in cash	(5)	(2)	12
Ending balance cash	103	102	114

Source: Company data, RHB