

EMC (2383.TW/2383 TT)

2024F AI server product sales to rise QoQ; AI PC a boost in 2H24F

Outperform · Maintained

Price as of February 29 (NT\$)	495.0
12M target price (NT\$)	575
Previous target price (NT\$)	550
Revised up (%)	4.5
Upside (%)	16.2

Key message

- 4Q23 operating margin missed.
- 1Q24F sales guided to fall by single digits QoQ, beating expectations.
- AI server product sales guided to rise every quarter (QoQ) this year.

Trading data

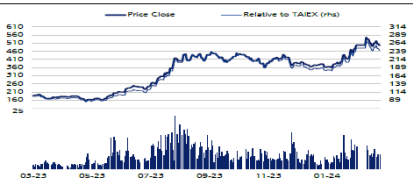
Mkt cap (NT\$bn/US\$mn)	170.1 / 5,359
Outstanding shares (mn)	343.6
Foreign ownership (mn)	103.5
3M avg. daily trading (mn)	4.02
52-week trading range (NT\$)	153.5 –545

Performance	3M	6M	12M
Absolute (%)	33.1	22.7	159.8
Relative (%)	23.9	8.6	137.5

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	3.98A	3.25A	3.93A	4.08A
2023	1.44A	3.00A	6.04A	5.81F
2024	5.79F	5.79F	6.80F	6.15F

Share price chart



Source: TEJ

Event

4Q23 sales arrived at NT\$12.88bn, above consensus by 4.5%, while gross and operating margins were 28.3% and 19.0%, below consensus of 30.5% and 21.3%. Net profit was NT\$1.99bn, slightly below consensus of NT\$2.06bn by 3.6%

Impact

4Q23 operating margin missed consensus by 6.7%. Gross margin fell short of expectations on one-off sales allowances (1.0-ppt erosion), unfavorable product mix (higher automotive, lower margin-accretive handset) and forex. In terms of product mix, the weightings of networking and auto were flat QoQ at a respective 50-55% and 10-15%, with sales up 10% and 6% QoQ, while that of handset slipped 5ppts QoQ to 30-35%, with sales down 5% QoQ.

1Q24F sales guided to fall by single digits QoQ on surging AI server demand, beating expectations. Management guides networking sales to grow by single digits QoQ in 1Q24F, and expects auto and handset sales to both fall by single digits QoQ on slow season. It projects capacity utilization of 75-80%, with gross margin at 27.5-30.5%.

AI server product sales guided to rise every quarter (QoQ) this year. Management guides: (1) AI server CCL accounted for a respective 22-23% and 25-26% of sales in 3Q-4Q23. Orders for AI server products will rise every quarter (QoQ) this year, while those for low DK fiberglass cloth are intact. EMC expects new competitors will emerge to vie with the firm in the next-generation AI server market this year, though market share changes are still unclear; (2) for 4Q23 networking sales (48% server, 48% switch, 4% satellite), 400G remained the bulk of the switch business. 800G switch will commence small-volume production in 1H24F and enter mass production in 2H24F. For satellite, 2023-24F sales weightings are a respective 3-4% and above 5%, with EMC's market share sustaining at over 50%; (3) 2024F capex is NT\$5.4bn, with NT\$4bn for expansion of the Malaysia plant (targeting monthly capacity of 600k sheets under mass production, and a maximum of 750k sheets in 1Q25F), NT\$700mn for maintenance and NT\$700mn for product line investment expansion in the US. 2024F depreciation growth will not exceed NT\$100mn; and (4) 2023-24F monthly capacity of a respective 3.8mn sheets and 4.2mn sheets.

Valuation & Action

Although new competitors are expected to emerge to vie with EMC in the next-generation AI server market, we believe that as the firm's market value rises, it will maintain a market share of 60%-70% in AI server materials, while AI PC offers earnings upside in 2H24F. We accordingly revise up our target price to NT\$575, based on 22x 2024-25F average EPS. Maintain Outperform.

Risks

Weaker-than-expected client demand; competitors gain development lead.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$mn)	38,500	38,673	41,296	50,921	55,191
Gross profit (NT\$mn)	10,069	9,710	11,333	15,175	16,632
Operating profit (NT\$mn)	6,923	6,225	7,346	10,589	11,995
Net profit (NT\$mn)	5,493	5,073	5,488	8,377	9,474
EPS (NT\$)	16.50	15.24	16.07	24.52	27.73
Cash DPS (NT\$)	10.00	8.50	10.00	15.00	17.00
EPS growth (%)	45.6	(7.7)	5.4	52.6	13.1
PE (x)	30.0	32.5	30.8	20.2	17.8
PB (x)	8.3	7.5	6.7	5.8	5.1
EV/EBITDA (x)	21.2	23.4	19.9	14.4	12.6
Net debt to equity (%)	Net cash	Net cash	1.0	5.3	Net cash
Dividend yield (%)	2.0	1.7	2.0	3.0	3.4
Return on average equity (%)	30.1	24.3	23.6	31.8	31.3

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 4Q23 results & 1Q24 forecast revisions vs. consensus

NT\$m	4Q23F					1Q24F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	12,882	12,036	7.0	12,327	4.5	12,227	12,036	1.6	11,368	7.6
Gross profits	3,651	3,708	(1.5)	3,755	(2.8)	3,571	3,157	13.1	3,273	9.1
Operating profit	2,451	2,627	(6.7)	2,628	(6.7)	2,484	2,129	16.7	2,246	10.6
Net income	1,986	2,118	(6.2)	2,061	(3.6)	1,977	1,687	17.2	1,693	16.8
EPS (NT\$)	5.81	6.36	(8.6)	6.15	(5.5)	5.79	5.07	14.2	5.14	12.7
Gross margin (%)	28.3	30.8	(2.5)ppts	30.5	(2.1)ppts	29.2	26.2	3.0 ppts	28.8	0.4 ppts
OP margin (%)	19.0	21.8	(2.8)ppts	21.3	(2.3)ppts	20.3	17.7	2.6 ppts	19.8	0.6 ppts
Net margin (%)	15.4	17.6	(2.2)ppts	16.7	(1.3)ppts	16.2	14.0	2.2 ppts	14.9	1.3 ppts

Source: Bloomberg; KGI Research

Figure 2: Breakdown of 2023-24 forecast revisions vs. consensus

NT\$m	2023F					2024F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	41,296	40,450	2.1	40,785	1.3	50,921	47,574	7.0	50,197	1.4
Gross profit	11,333	11,389	(0.5)	11,454	(1.1)	15,175	14,043	8.1	15,277	(0.7)
Operating profit	7,346	7,521	(2.3)	7,538	(2.5)	10,589	9,748	8.6	10,639	(0.5)
Net profit	5,488	5,620	(2.3)	5,563	(1.3)	8,377	7,682	9.0	8,293	1.0
EPS (NT\$)	16.07	16.88	(4.8)	16.58	(3.1)	24.52	23.07	6.3	24.66	(0.6)
Gross margin (%)	27.4	28.2	(0.7)ppts	28.1	(0.6)ppts	29.8	29.5	0.3 ppts	30.4	(0.6)ppts
OP margin (%)	17.8	18.6	(0.8)ppts	18.5	(0.7)ppts	20.8	20.5	0.3 ppts	21.2	(0.4)ppts
Net margin (%)	13.3	13.9	(0.6)ppts	13.6	(0.3)ppts	16.4	16.1	0.3 ppts	16.5	(0.1)ppts

Source: Bloomberg; KGI Research

Figure 3: Peer comparison – Valuations

Company	Ticker	Mkt Cap (US\$m)	Price (LCY)	EPS (LCY)			PE (x)			PB (x)			ROE (%)			Dividend yield (%)		
				2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
EMC	2383 TT	5,229	495.00	15.24	16.07	24.52	32.5	30.8	20.2	7.47	6.73	5.84	24.3	23.6	31.8	1.7	2.0	3.0
TUC	6274 TT	1,312	156.50	4.69	3.16	8.44	33.4	49.6	18.5	3.55	3.64	3.14	10.7	7.1	21.4	2.6	1.6	3.2
ITEQ	6213 TT	1,001	89.20	4.94	1.82	4.87	18.1	49.0	18.3	1.61	1.76	1.57	9.0	3.6	9.5	1.7	1.5	3.3
VENTEC	6672 TT	204	92.50	6.60	N.A.	N.A.	14.0	N.A.	N.A.	2.14	N.A.	N.A.	15.2	N.A.	N.A.	3.9	N.A.	N.A.
Kingboard	1888 HK	1,954	4.90	0.61	0.45	0.79	8.0	10.9	6.2	1.02	N.A.	N.A.	11.2	9.2	15.3	5.3	5.9	10.6

Source: Bloomberg; KGI Research

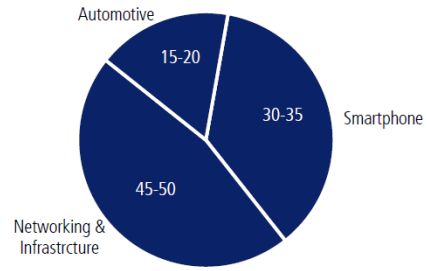
Figure 4: Company profile

Established in 1992, Elite Material Co. (EMC) is one of the four largest producers of CCL in Taiwan, and is the world's largest halogen-free substrate supplier. The firm specializes in production of CCL, PP, and multi-stacked PCB (M/L). In 2022, EMC derived 40-45% of sales from smartphones, 35-40% from networking & infrastructure, and 15-20% from automotive. Monthly capacity is currently 3.85mn sheets of CCL, 13.1mn meters of PP, 800k square feet of M/L, and 40k panels of MCCL.

Source: KGI Research

Figure 5: 2023 product mix

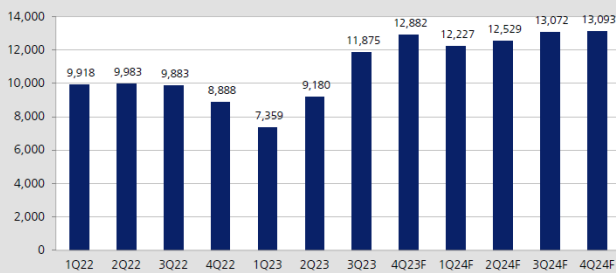
Sales weighting, percent



Source: Company data; KGI Research

Figure 6: Sales

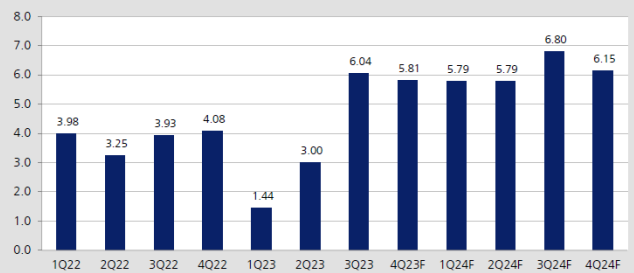
Sales, NT\$m



Source: KGI Research

Figure 7: EPS

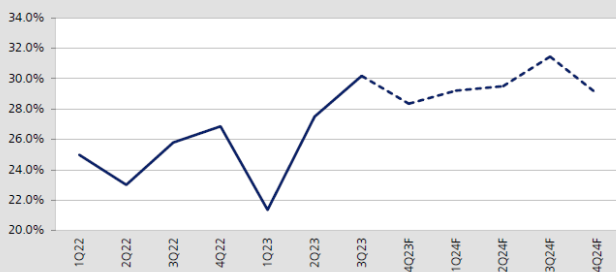
EPS, NT\$



Source: KGI Research

Figure 8: Gross Margin

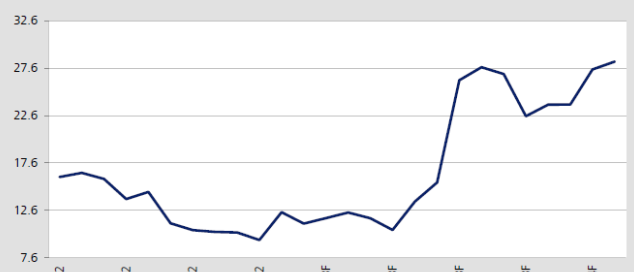
Gross margin, percent



Source: KGI Research

Figure 9: Rolling PE

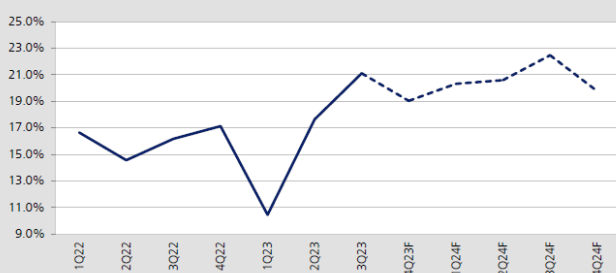
Rolling PE, times



Source: KGI Research

Figure 10: Operating Margin

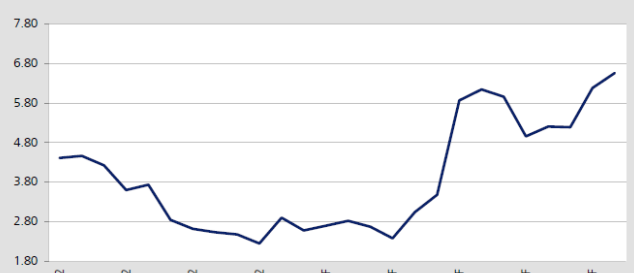
Operating margin, percent



Source: KGI Research

Figure 11: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
Income statement (NT\$mn)											
Revenue	7,359	9,180	11,875	12,882	12,227	12,529	13,072	13,093	41,296	50,921	55,191
Cost of goods sold	(5,787)	(6,655)	(8,290)	(9,231)	(8,656)	(8,833)	(8,961)	(9,296)	(29,964)	(35,746)	(38,559)
Gross profit	1,572	2,525	3,584	3,651	3,571	3,696	4,111	3,797	11,333	15,175	16,632
Operating expenses	(803)	(906)	(1,078)	(1,200)	(1,087)	(1,116)	(1,174)	(1,209)	(3,987)	(4,586)	(4,637)
Operating profit	769	1,619	2,506	2,451	2,484	2,580	2,937	2,588	7,346	10,589	11,995
Depreciation of fixed assets	(264)	(280)	(338)	(218)	(313)	(313)	(313)	(313)	(1,100)	(1,250)	(1,345)
Amortisation of intangible assets	(11)	(12)	(12)	(13)	(12)	(12)	(12)	(12)	(48)	(49)	(50)
EBITDA	1,044	1,911	2,857	2,682	2,809	2,905	3,262	2,913	8,494	11,888	13,390
Interest income	21	30	36	36	36	36	36	36	124	144	144
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	-	-	-	118	45	45	45	45	118	180	180
Non-operating income	21	30	36	154	81	81	81	81	241	324	324
Interest expense	(72)	(85)	(77)	(77)	(77)	(77)	(77)	(77)	(310)	(308)	(308)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	10	24	108	-	-	-	-	-	142	-	-
Non-operating expenses	(62)	(61)	32	(77)	(77)	(77)	(77)	(77)	(168)	(308)	(308)
Pre-tax profit	729	1,588	2,574	2,528	2,488	2,584	2,941	2,592	7,419	10,605	12,011
Current taxation	(249)	(588)	(552)	(542)	(511)	(607)	(618)	(492)	(1,931)	(2,229)	(2,537)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	480	1,000	2,022	1,986	1,977	1,977	2,323	2,100	5,488	8,377	9,474
Extraordinary items	(0)	0	(0)	0	-	-	-	-	-	-	-
Net profit	480	1,000	2,022	1,986	1,977	1,977	2,323	2,100	5,488	8,377	9,474
EPS (NT\$)	1.44	3.00	6.04	5.81	5.79	5.79	6.80	6.15	16.07	24.52	27.73
Margins (%)											
Gross profit margin	21.4	27.5	30.2	28.3	29.2	29.5	31.4	29.0	27.4	29.8	30.1
Operating margin	10.5	17.6	21.1	19.0	20.3	20.6	22.5	19.8	17.8	20.8	21.7
EBITDA margin	14.2	20.8	24.1	20.8	23.0	23.2	25.0	22.2	20.6	23.3	24.3
Pretax profit margin	9.9	17.3	21.7	19.6	20.4	20.6	22.5	19.8	18.0	20.8	21.8
Net profit margin	6.5	10.9	17.0	15.4	16.2	15.8	17.8	16.0	13.3	16.4	17.2
Sequential growth (%)											
Revenue growth	(17.2)	24.7	29.3	8.5	(5.1)	2.5	4.3	0.2			
Gross profit growth	(34.1)	60.6	41.9	1.9	(2.2)	3.5	11.2	(7.6)			
Operating profit growth	(49.5)	110.5	54.8	(2.2)	1.3	3.9	13.8	(11.9)			
EBITDA growth	(39.6)	82.9	49.5	(6.1)	4.7	3.4	12.3	(10.7)			
Pretax profit growth	(52.9)	117.8	62.1	(1.8)	(1.6)	3.9	13.8	(11.9)			
Net profit growth	(64.7)	108.5	102.2	(1.8)	(0.5)	(0.0)	17.5	(9.6)			
YoY growth (%)											
Revenue growth	(25.8)	(8.0)	20.2	44.9	66.1	36.5	10.1	1.6	6.8	23.3	8.4
Gross profit growth	(36.6)	9.9	40.6	53.0	127.2	46.4	14.7	4.0	16.7	33.9	9.6
Operating profit growth	(53.4)	11.4	56.8	61.0	223.0	59.3	17.2	5.6	18.0	44.1	13.3
EBITDA growth	(43.4)	16.7	59.9	55.1	168.9	52.0	14.2	8.6	21.4	40.0	12.6
Pretax profit growth	(56.3)	9.7	57.9	63.2	241.3	62.7	14.2	2.5	17.8	42.9	13.3
Net profit growth	(63.8)	(7.6)	54.7	46.1	312.1	97.6	14.9	5.7	8.2	52.6	13.1

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	36,565	43,382	47,962	57,232	64,875
Current assets	25,844	26,580	28,055	33,170	39,136
Cash & ST securities	6,645	10,444	10,979	12,397	16,606
Inventory	5,465	4,236	4,382	5,214	5,639
Accounts receivable	13,274	11,683	12,476	15,342	16,673
Other current assets	459	217	217	217	217
Non-current assets	10,721	16,803	19,908	24,063	25,739
LT investments	-	-	-	-	-
Net fixed assets	8,469	14,680	17,785	21,940	23,616
Other assets	2,253	2,123	2,123	2,123	2,123
Total liabilities	16,791	21,308	23,461	29,027	32,480
Current liabilities	14,485	15,760	17,533	20,550	22,666
Accounts payable	8,128	6,513	6,738	8,017	8,671
Interest bearing ST liabilities	2,917	5,299	6,616	6,742	7,592
Other current liabilities	3,440	3,947	4,179	5,790	6,403
Non-current liabilities	2,306	5,548	5,928	8,478	9,814
Long-term debt	721	4,218	4,598	7,148	8,484
Other L-T liabilities	1,293	1,019	1,019	1,019	1,019
Total equity	19,774	22,075	24,501	28,205	32,394
Share capital	3,329	3,329	3,329	3,329	3,329
Retained earnings reserve	12,298	13,361	15,788	19,492	23,681
Minority interests	21	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Growth					
Revenue growth	41.5%	0.4%	6.8%	23.3%	8.4%
Operating profit growth	47.8%	(10.1%)	18.0%	44.1%	13.3%
EBITDA growth	44.4%	(8.4%)	21.4%	40.0%	12.6%
Net profit growth	48.9%	(7.7%)	8.2%	52.6%	13.1%
EPS growth	45.6%	(7.7%)	5.4%	52.6%	13.1%
Profitability					
Gross profit margin	26.2%	25.1%	27.4%	29.8%	30.1%
Operating margin	18.0%	16.1%	17.8%	20.8%	21.7%
EBITDA margin	19.8%	18.1%	20.6%	23.3%	24.3%
Net profit margin	14.3%	13.1%	13.3%	16.4%	17.2%
Return on average assets	17.1%	12.7%	12.0%	15.9%	15.5%
Return on average equity	30.1%	24.3%	23.6%	31.8%	31.3%
Stability					
Gross debt to equity	18.4%	43.1%	45.8%	49.2%	49.6%
Net debt to equity	Net cash	Net cash	1.0%	5.3%	Net cash
Interest coverage (x)	91.6	35.2	24.9	35.4	40.0
Interest & ST debt coverage (x)	0.7	0.5	0.5	0.6	0.6
Cash flow interest coverage(x)	52.7	40.7	19.1	23.6	31.7
Cash flow/int. & ST debt (x)	1.3	1.4	0.9	1.0	1.2
Current ratio (x)	1.8	1.7	1.6	1.6	1.7
Quick ratio (x)	1.4	1.4	1.4	1.4	1.5
Net debt (NT\$m)	(3,003)	(926)	234	1,493	(529)
Per share data					
EPS (NT\$)	16.50	15.24	16.07	24.52	27.73
CFPS (NT\$)	12.08	22.52	17.34	21.24	28.59
BVPS (NT\$)	59.33	66.31	73.60	84.72	97.30
Adj BVPS (NT\$)	59.33	66.31	71.72	82.57	94.83
SPS (NT\$)	115.64	116.16	120.89	149.06	161.56
EBITDA/share (NT\$)	22.95	21.03	24.87	34.80	39.20
Cash DPS (NT\$)	10.00	8.50	10.00	15.00	17.00
Activity					
Sales / avg assets	1.20	0.97	0.90	0.97	0.90
Days receivable	125.8	110.3	110.3	110.3	110.3
Days inventory	70.2	53.4	53.4	53.4	53.4
Days payable	104.3	82.1	82.1	82.1	82.1
Cash cycle	91.7	81.6	81.6	81.6	81.6

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue	38,500	38,673	41,296	50,921	55,191
Cost of goods sold	(28,431)	(28,962)	(29,964)	(35,746)	(38,559)
Gross profit	10,069	9,710	11,333	15,175	16,632
Operating expenses	(3,146)	(3,485)	(3,987)	(4,586)	(4,637)
Operating profit	6,923	6,225	7,346	10,589	11,995
Non-operating income	76	62	241	324	324
Interest income	52	62	124	144	144
Investment income	24	-	-	-	-
Other non-op income	-	-	118	180	180
Non-operating expenses	(87)	8	(168)	(308)	(308)
Interest expense	(76)	(184)	(310)	(308)	(308)
Investment loss	(10)	-	-	-	-
Other non-op expenses	(1)	193	142	-	-
Pre-tax profit	6,912	6,296	7,419	10,605	12,011
Current taxation	(1,412)	(1,220)	(1,931)	(2,229)	(2,537)
Minorities	(7)	(3)	-	-	-
Extraordinary items	-	0	-	-	-
Net profit	5,493	5,073	5,488	8,377	9,474
EBITDA	7,642	7,000	8,494	11,888	13,390
EPS (NT\$)	16.50	15.24	16.07	24.52	27.73

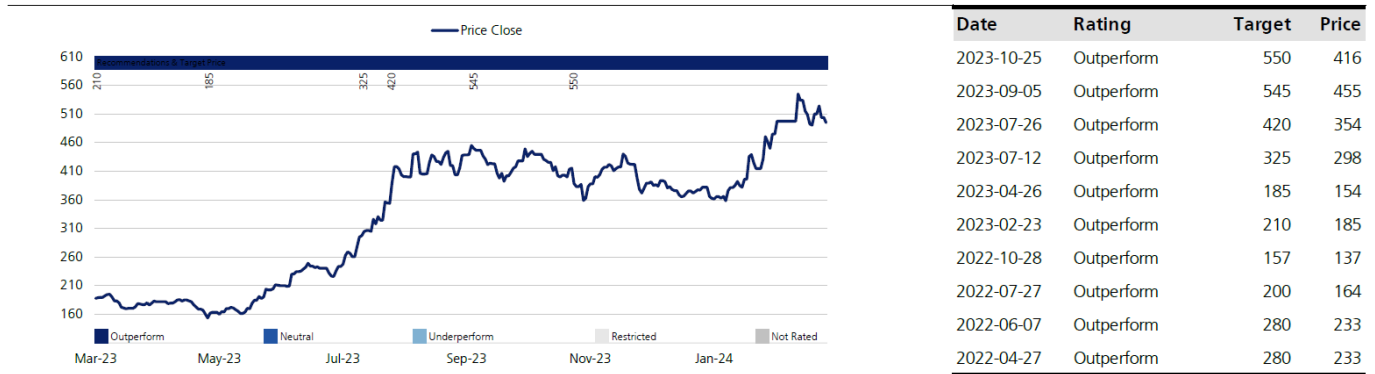
Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	4,022	7,498	5,922	7,257	9,766
Net profit	5,493	5,073	5,488	8,377	9,474
Depreciation & amortisation	719	774	1,148	1,299	1,395
Decrease in working capital	(2,844)	1,353	(714)	(2,419)	(1,103)
Other operating cash flow	652	298	-	(0)	-
Investing cash flow	(2,618)	(6,596)	(4,253)	(5,454)	(3,071)
Sale of ST investment	-	(21)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(2,470)	(6,493)	(4,205)	(5,405)	(3,021)
Others investing cashflow	(148)	(82)	(48)	(49)	(50)
Free cash flow	885	610	1,615	1,790	6,683
Financing cash flow	(420)	2,687	(1,134)	(385)	(2,486)
Increase in short term debt	1,984	2,575	-	-	-
Increase in long term loans	(265)	3,657	1,696	2,676	2,186
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(2,333)	(3,333)	(2,830)	(3,062)	(4,673)
Other financing cashflow	194	(211)	0	0	(0)
Forex effects	(73)	211			
Total cash generated	910	3,802	536	1,418	4,209

ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	8.2%	9.0%	9.7%	9.0%	8.4%
= Operating margin	18.0%	16.1%	17.8%	20.8%	21.7%
1 / (Working capital/revenue	0.2	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.2	0.4	0.4	0.4	0.4
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.3	1.8	1.7	1.7	1.7
Operating margin	18.0%	16.1%	17.8%	20.8%	21.7%
x Capital turnover	2.3	1.8	1.7	1.7	1.7
x (1 - tax rate)	79.6%	80.6%	74.0%	79.0%	78.9%
= After-tax ROIC	32.8%	24.0%	22.2%	28.4%	29.9%

Source: Company data, KGI Research estimates

EMC – Recommendation & target price history


Source: TEJ, KGI Research

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