

Gold Circuit (2368.TW/2368 TT)

Positive on demand for high-end server & switch

Outperform · Maintained

Price as of May 9 (NT\$)	198.5
12M target price (NT\$)	270.0
Previous target price (NT\$)	275.0
Revised down (%)	1.8
Upside (%)	36.0

Key message

- 1Q24 earnings in line with the lower-end of our forecast.
- 2Q24F sales to grow by single digits QoQ; server demand also on the rise.
- Improving AI server outlook in coming quarters.

Trading data

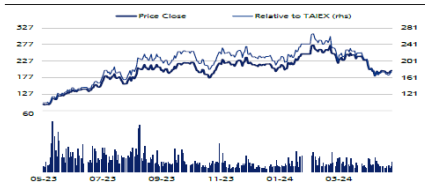
Mkt cap (NT\$bn/US\$mn)	97.63 / 3,012
Outstanding shares (mn)	491.8
Foreign ownership (mn)	95.61
3M avg. daily trading (mn)	6.60
52-week trading range (NT\$)	95.00 -275.0

Performance	3M	6M	12M
Absolute (%)	-20.1	-7.7	104
Relative (%)	-33.7	-30.5	73.3

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	1.50A	2.70A	2.73A	1.83A
2023	0.88A	1.68A	2.39A	2.29A
2024	2.48F	2.76F	3.66F	3.89F

Share price chart



Source: TEJ

Event

Gold Circuit reported 1Q24 EPS of NT\$2.48, missing our forecast of NT\$2.64.

Impact

1Q24 earnings in line with lower-end of our forecast. 1Q24 sales grew 6% QoQ and 43% YoY to NT\$9.07bn, slightly above consensus of NT\$8.9bn. Gross margin was 26.9%, below consensus of 28.2% on lower capacity utilization rate (UTR) and higher costs in February. The weighting of server application sales edged up 3ppts QoQ to 71%, with new platforms Eagle Stream and Genoa combined accounting for 40-50% of server sales, up by single digits QoQ.

2Q24F sales to grow by single digits QoQ on robust server business. Management expects the Taiwan plant to maintain a full UTR in 2Q24F, with the loading rates of Suzhou and Changshou, China (Changshou I and II combined) facilities also rising QoQ to 90% and 80%, respectively. While April sales slipped 1.6% MoM on shipments freight congestion, management guides sales to recover in May,

Improving AI server outlook in coming quarters. The sales weighting of AI server climbed to over 20% in 1Q24, driven by small-batch shipments of OAM PCB to US clients. We expect 800G switch to commence shipments in 2H24F. As the firm ramps up capacity, management estimates monthly output could reach NT\$3.3-3.4bn by 2H24F. The new plant in Thailand will become operational at end-2Q25F and boost monthly output by NT\$300mn.

Valuation & Action

We see as intact the long-term trend of PCB increasing average layer number, driven by AI server and 800G switch server. However, we lower slightly Gold Circuit's 2024-25F earnings by 3% and 0.5% as gross margin is lower than expected. We lower our target price to NT\$270, on 18x 2024-25F average EPS. Maintain Outperform.

Risks

Weak networking PCB demand; pricing pressure from new competition.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$mn)	26,607	32,785	30,044	39,713	47,104
Gross profit (NT\$mn)	6,371	8,728	7,724	12,008	15,482
Operating profit (NT\$mn)	4,128	6,009	5,044	9,114	12,378
Net profit (NT\$mn)	2,927	4,568	3,436	6,293	8,463
EPS (NT\$)	5.41	8.86	6.99	12.79	17.21
Cash DPS (NT\$)	2.20	3.50	3.50	6.00	8.00
EPS growth (%)	41.6	63.7	(21.1)	83.1	34.5
PE (x)	36.7	22.4	28.4	15.5	11.5
PB (x)	9.5	6.8	6.4	5.3	4.2
EV/EBITDA (x)	20.9	14.2	15.6	9.4	7.1
Net debt to equity (%)	5.7	Net cash	Net cash	3.0	Net cash
Dividend yield (%)	1.1	1.8	1.8	3.0	4.0
Return on average equity (%)	28.3	35.5	23.2	37.5	40.6

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 1Q24 results & 2Q24 forecast revisions vs. consensus

NT\$m	1Q24					2Q24F				
	Actual	KGI	Diff. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	9,066	8,914	1.7	8,891	2.0	9,683	9,602	0.8	9,483	2.1
Gross profits	2,436	2,498	(2.5)	2,507	(2.8)	2,708	2,826	(4.2)	2,762	(2.0)
Operating profit	1,726	1,816	(5.0)	1,847	(6.5)	1,993	2,117	(5.9)	2,077	(4.0)
Net income	1,217	1,259	(3.3)	1,274	(4.5)	1,359	1,463	(7.2)	1,435	(5.3)
EPS (NT\$)	2.48	2.56	(3.3)	2.64	(6.2)	2.76	2.98	(7.2)	2.97	(7.0)
Gross margin (%)	26.9	28.0	(1.2)ppts	28.2	(1.3)ppts	28.0	29.4	(1.5)ppts	29.1	(1.2)ppts
OP margin (%)	19.0	20.4	(1.3)ppts	20.8	(1.7)ppts	20.6	22.0	(1.5)ppts	21.9	(1.3)ppts
Net margin (%)	13.4	14.1	(0.7)ppts	14.3	(0.9)ppts	14.0	15.2	(1.2)ppts	15.1	(1.1)ppts

Source: KGI Research, Bloomberg consensus

Figure 2: Breakdown of 2024-25 forecast revisions vs. consensus

NT\$m	2024F					2025F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	39,713	39,760	(0.1)	39,823	(0.3)	47,104	47,396	(0.6)	46,728	0.8
Gross profit	12,008	12,222	(1.8)	11,842	1.4	15,482	15,397	0.5	14,456	N.A.
Operating profit	9,114	9,362	(2.7)	9,026	1.0	12,378	12,293	0.7	11,417	8.4
Net profit	6,293	6,490	(3.0)	6,330	(0.6)	8,463	8,506	(0.5)	8,217	3.0
EPS (NT\$)	12.79	13.20	(3.0)	12.73	0.5	17.21	17.29	(0.5)	16.56	3.9
Gross margin (%)	30.2	30.7	(0.5)ppts	29.7	0.5 ppts	32.9	32.5	0.4 ppts	30.9	1.9 ppts
OP margin (%)	22.9	23.5	(0.6)ppts	22.7	0.3 ppts	26.3	25.9	0.3 ppts	24.4	1.8 ppts
Net margin (%)	15.8	16.3	(0.5)ppts	15.9	(0.1)ppts	18.0	17.9	0.0 ppts	17.6	0.4 ppts

Source: KGI Research, Bloomberg consensus

Figure 3: Server supply chain peer comparison – Valuations

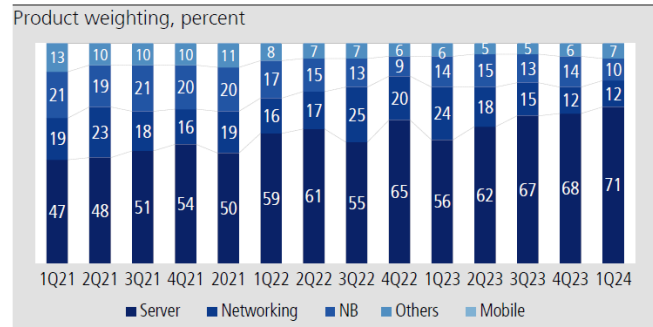
Company	Ticker	Mkt Cap (US\$m)	Price (LCY)	EPS			PE (x)			PB (x)			ROE (%)			Dividend yield (%)		
				2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
Copper foil																		
Co-Tech	8358 TT	494	63.40	2.11	N.A.	N.A.	30.0	N.A.	N.A.	2.7	N.A.	N.A.	8.8	N.A.	N.A.	4.1	N.A.	N.A.
CCL																		
Elite	2383 TT	4,469	422.50	16.35	27.41	31.55	25.8	15.4	13.4	5.4	4.8	4.2	22.5	33.0	33.6	2.4	4.0	4.7
ITEQ	6213 TT	1,191	106.50	1.86	4.67	6.98	57.3	22.8	15.3	2.0	1.9	1.8	3.4	9.1	12.2	1.4	2.7	4.0
TUC	6274 TT	1,570	187.50	3.05	9.80	12.85	61.5	19.1	14.6	4.4	3.7	3.1	7.0	21.2	23.5	2.1	3.4	4.5
Sytech	600183 CH	6,531	20.02	0.50	0.77	0.97	40.0	26.0	20.7	3.4	3.1	2.9	8.5	12.2	14.1	2.2	2.1	2.8
PCB																		
Gold Circuit	2368 TT	3,009	198.50	6.99	12.79	17.21	28.4	15.5	11.5	6.4	5.3	4.2	23.2	37.5	40.6	1.8	3.0	4.0
Tripod	3044 TT	3,856	238.00	11.53	15.33	17.72	20.6	15.5	13.4	2.9	2.5	2.3	14.1	17.5	18.3	3.2	3.7	4.3
ACCL	8155 TT	236	150.00	4.08	9.33	N.A.	36.8	16.1	N.A.	3.6	N.A.	N.A.	9.3	N.A.	N.A.	2.4	N.A.	N.A.
TTM	TTMI US	1,798	17.67	(0.18)	1.49	1.75	N.M.	11.9	10.1	1.2	1.2	1.1	(1.2)	N.A.	N.A.	N.A.	N.A.	N.A.
Shennan Circuits	002916 CH	6,430	90.60	2.73	3.33	4.00	33.2	27.2	22.6	3.5	3.2	2.9	11.0	11.8	12.8	1.0	1.1	1.3
Wus Printed Circuit	002463 CH	8,504	32.14	0.79	1.17	1.45	40.5	27.6	22.1	N.A.	5.3	4.4	N.A.	19.7	20.3	1.6	0.8	0.9

Source: Bloomberg; KGI Research

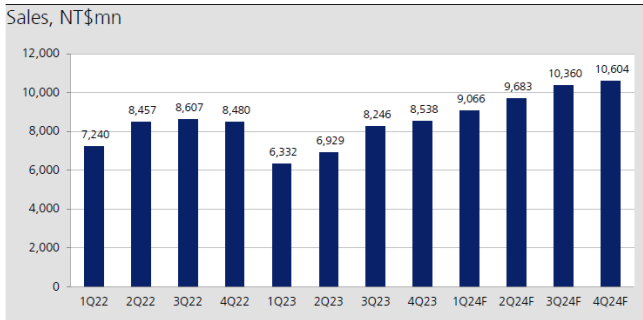
Figure 4: Company profile

Gold Circuit Electronics (GCE), established in September 1981, is the largest networking PCB manufacturer. The company has in recent years shifted product lines toward such high-margin core products as server PCB and networking PCB. In 2022, GCE's revenue breakdown by terminal product applications was server 60%, networking PCB 20%, NB PCB 13%, and others 7%. GCE has such plants as Zhongli plant, Suzhou plant, Changshou plant no.1, and Chang plant no.2, whose maximum monthly production values are NT\$950mn, NT\$1bn, NT\$650mn, and NT\$200mn, respectively.

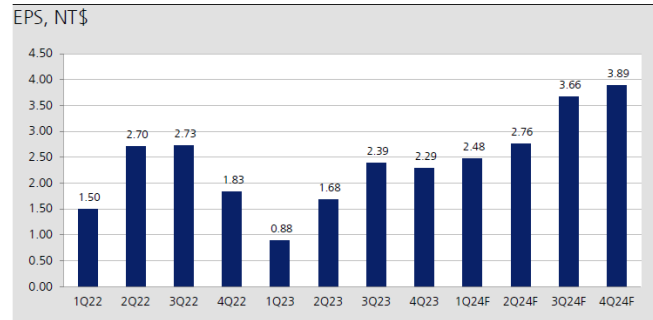
Source: KGI Research

Figure 5: Product mix


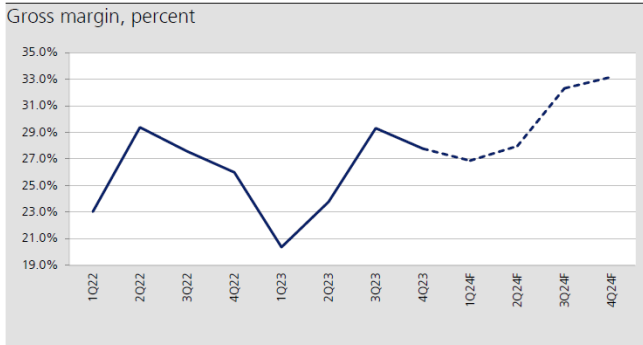
Source: Company; KGI Research

Figure 6: Sales


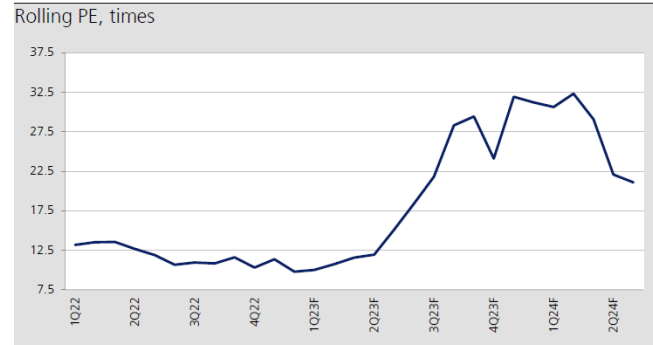
Source: KGI Research

Figure 7: EPS


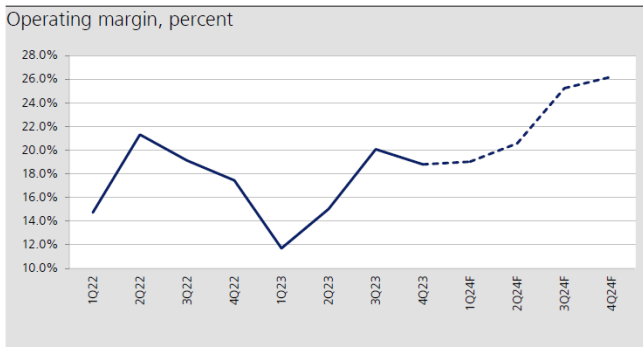
Source: KGI Research

Figure 8: Gross Margin


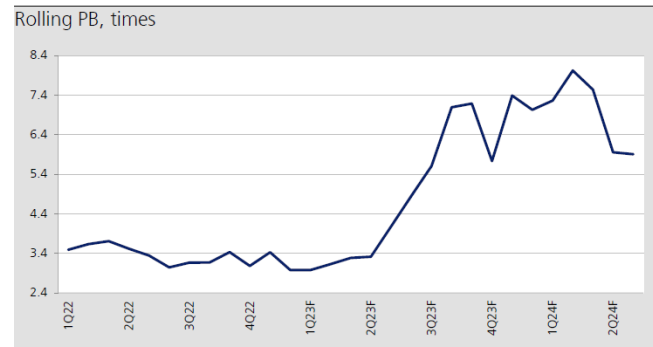
Source: KGI Research

Figure 9: Rolling PE


Source: KGI Research

Figure 10: Operating Margin


Source: KGI Research

Figure 11: Rolling PB


Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
Income statement (NT\$m)											
Revenue	6,332	6,929	8,246	8,538	9,066	9,683	10,360	10,604	30,044	39,713	47,104
Cost of goods sold	(5,042)	(5,282)	(5,829)	(6,167)	(6,630)	(6,975)	(7,012)	(7,087)	(22,320)	(27,705)	(31,622)
Gross profit	1,289	1,647	2,417	2,371	2,436	2,708	3,347	3,517	7,724	12,008	15,482
Operating expenses	(548)	(606)	(760)	(766)	(710)	(715)	(732)	(737)	(2,680)	(2,894)	(3,104)
Operating profit	741	1,041	1,656	1,605	1,726	1,993	2,615	2,780	5,044	9,114	12,378
Depreciation of fixed assets	(231)	(231)	(237)	(242)	(246)	(246)	(246)	(246)	(875)	(984)	(998)
Amortisation of intangible assets	(6)	(6)	(6)	(8)	(5)	(5)	(5)	(5)	(17)	(18)	(19)
EBITDA	978	1,278	1,900	1,855	1,976	2,243	2,866	3,031	5,936	10,116	13,395
Interest income	42	53	48	53	48	48	48	48	196	192	192
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	15	16	24	52	96	15	15	15	107	141	60
Non-operating income	56	70	72	105	144	63	63	63	304	333	252
Interest expense	(32)	(27)	(28)	(31)	(28)	(28)	(28)	(28)	(118)	(112)	(112)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	(115)	127	10	(126)	-	-	-	-	(104)	-	-
Non-operating expenses	(146)	101	(19)	(157)	(28)	(28)	(28)	(28)	(222)	(112)	(112)
Pre-tax profit	651	1,211	1,710	1,553	1,842	2,028	2,650	2,815	5,126	9,335	12,518
Current taxation	(221)	(394)	(546)	(529)	(624)	(669)	(848)	(901)	(1,689)	(3,042)	(4,055)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	430	817	1,164	1,025	1,217	1,359	1,802	1,914	3,436	6,293	8,463
Extraordinary items	0	0	(0)	92	-	-	-	-	-	-	-
Net profit	430	817	1,164	1,117	1,217	1,359	1,802	1,914	3,436	6,293	8,463
EPS (NT\$)	0.88	1.68	2.39	2.29	2.48	2.76	3.66	3.89	6.99	12.79	17.21
Margins (%)											
Gross profit margin	20.4	23.8	29.3	27.8	26.9	28.0	32.3	33.2	25.7	30.2	32.9
Operating margin	11.7	15.0	20.1	18.8	19.0	20.6	25.2	26.2	16.8	22.9	26.3
EBITDA margin	15.4	18.4	23.0	21.7	21.8	23.2	27.7	28.6	19.8	25.5	28.4
Pretax profit margin	10.3	17.5	20.7	18.2	20.3	20.9	25.6	26.5	17.1	23.5	26.6
Net profit margin	6.8	11.8	14.1	13.1	13.4	14.0	17.4	18.1	11.4	15.8	18.0
Sequential growth (%)											
Revenue growth	(25.3)	9.4	19.0	3.5	6.2	6.8	7.0	2.4			
Gross profit growth	(41.5)	27.7	46.7	(1.9)	2.7	11.2	23.6	5.1			
Operating profit growth	(49.9)	40.4	59.1	(3.1)	7.5	15.5	31.2	6.3			
EBITDA growth	(42.9)	30.7	48.7	(2.3)	6.5	13.5	27.8	5.7			
Pretax profit growth	(50.7)	86.0	41.1	(9.2)	18.6	10.1	30.7	6.2			
Net profit growth	(54.5)	89.9	42.4	(4.0)	9.0	11.6	32.7	6.2			
YoY growth (%)											
Revenue growth	(12.6)	(18.1)	(4.2)	0.7	43.2	39.8	25.6	24.2	(8.4)	32.2	18.6
Gross profit growth	(22.7)	(33.7)	1.8	7.6	88.9	64.4	38.5	48.3	(11.5)	55.5	28.9
Operating profit growth	(30.5)	(42.3)	0.6	8.5	132.7	91.4	57.9	73.2	(16.1)	80.7	35.8
EBITDA growth	(23.1)	(36.6)	1.6	8.4	102.1	75.6	50.9	63.3	(13.8)	70.4	32.4
Pretax profit growth	(41.5)	(40.0)	(9.7)	17.5	182.7	67.4	55.0	81.3	(19.4)	82.1	34.1
Net profit growth	(46.9)	(44.0)	(13.8)	18.1	182.9	66.2	54.8	71.4	(24.8)	83.1	34.5

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	24,980	30,041	30,016	35,406	42,122
Current assets	18,162	22,726	22,119	24,673	29,137
Cash & ST securities	3,843	6,017	6,713	4,896	5,973
Inventory	4,822	5,616	5,211	6,450	7,382
Accounts receivable	9,123	10,736	9,839	12,970	15,426
Other current assets	374	357	357	357	357
Non-current assets	6,818	7,314	7,897	10,733	12,985
LT investments	610	621	621	621	621
Net fixed assets	5,679	6,294	6,877	9,713	11,965
Other assets	529	398	398	398	398
Total liabilities	13,578	15,717	14,769	17,090	18,789
Current liabilities	10,274	11,857	12,135	14,052	15,944
Accounts payable	5,502	5,661	5,252	6,501	7,441
Interest bearing ST liabilities	1,594	2,188	3,302	2,893	3,028
Other current liabilities	3,178	4,008	3,581	4,658	5,476
Non-current liabilities	3,304	3,860	2,634	3,038	2,845
Long-term debt	2,874	3,340	2,114	2,518	2,325
Other L-T liabilities	415	517	517	517	517
Total equity	11,402	14,324	15,247	18,316	23,334
Share capital	5,465	4,918	4,918	4,918	4,918
Retained earnings reserve	3,928	7,063	9,204	13,125	18,399
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Growth					
Revenue growth	13.7%	23.2%	(8.4%)	32.2%	18.6%
Operating profit growth	30.5%	45.6%	(16.1%)	80.7%	35.8%
EBITDA growth	26.0%	40.4%	(13.8%)	70.4%	32.4%
Net profit growth	41.6%	56.1%	(24.8%)	83.1%	34.5%
EPS growth	41.6%	63.7%	(21.1%)	83.1%	34.5%
Profitability					
Gross profit margin	23.9%	26.6%	25.7%	30.2%	32.9%
Operating margin	15.5%	18.3%	16.8%	22.9%	26.3%
EBITDA margin	18.4%	21.0%	19.8%	25.5%	28.4%
Net profit margin	11.0%	13.9%	11.4%	15.8%	18.0%
Return on average assets	12.6%	16.6%	11.4%	19.2%	21.8%
Return on average equity	28.3%	35.5%	23.2%	37.5%	40.6%
Stability					
Gross debt to equity	39.2%	38.6%	35.5%	29.5%	22.9%
Net debt to equity	5.7%	Net cash	Net cash	3.0%	Net cash
Interest coverage (x)	61.1	71.4	44.4	84.3	112.8
Interest & ST debt coverage (x)	0.7	0.7	0.6	0.8	0.8
Cash flow interest coverage(x)	35.4	49.2	44.3	37.3	62.8
Cash flow/int. & ST debt (x)	1.4	2.0	1.5	1.4	2.2
Current ratio (x)	1.8	1.9	1.8	1.8	1.8
Quick ratio (x)	1.3	1.4	1.4	1.3	1.4
Net debt (NT\$m)	651	(446)	(1,254)	558	(577)
Per share data					
EPS (NT\$)	5.41	8.86	6.99	12.79	17.21
CFPS (NT\$)	4.42	8.62	10.62	8.49	14.30
BVPS (NT\$)	20.86	29.12	31.00	37.24	47.44
Adj BVPS (NT\$)	21.09	27.78	31.00	37.24	47.44
SPS (NT\$)	49.20	63.59	61.08	80.74	95.77
EBITDA/share (NT\$)	9.07	13.35	12.07	20.57	27.23
Cash DPS (NT\$)	2.20	3.50	3.50	6.00	8.00
Activity					
Sales / avg assets	1.14	1.19	1.00	1.21	1.22
Days receivable	125.2	119.5	119.5	119.5	119.5
Days inventory	87.0	85.2	85.2	85.2	85.2
Days payable	99.2	85.9	85.9	85.9	85.9
Cash cycle	112.9	118.9	118.9	118.9	118.9

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue	26,607	32,785	30,044	39,713	47,104
Cost of goods sold	(20,236)	(24,057)	(22,320)	(27,705)	(31,622)
Gross profit	6,371	8,728	7,724	12,008	15,482
Operating expenses	(2,243)	(2,719)	(2,680)	(2,894)	(3,104)
Operating profit	4,128	6,009	5,044	9,114	12,378
Non-operating income	112	156	304	333	252
Interest income	16	63	196	192	192
Investment income	-	-	-	-	-
Other non-op income	96	94	107	141	60
Non-operating expenses	(186)	195	(222)	(112)	(112)
Interest expense	(67)	(90)	(118)	(112)	(112)
Investment loss	-	-	-	-	-
Other non-op expenses	(119)	286	(104)	-	-
Pre-tax profit	4,054	6,361	5,126	9,335	12,518
Current taxation	(1,122)	(1,820)	(1,689)	(3,042)	(4,055)
Minorities	-	-	-	-	-
Extraordinary items	(6)	28	-	-	-
Net profit	2,927	4,568	3,436	6,293	8,463
EBITDA	4,904	6,883	5,936	10,116	13,395
EPS (NT\$)	5.41	8.86	6.99	12.79	17.21

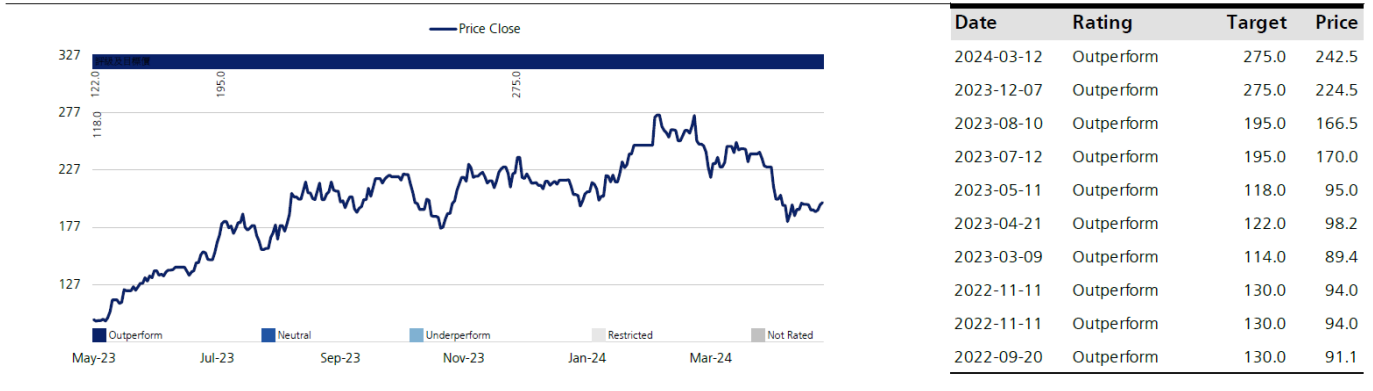
Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	2,390	4,444	5,223	4,173	7,031
Net profit	2,927	4,568	3,436	6,293	8,463
Depreciation & amortisation	776	874	892	1,002	1,017
Decrease in working capital	(2,372)	(2,438)	894	(3,121)	(2,448)
Other operating cash flow	1,058	1,440	-	-	0
Investing cash flow	(831)	(1,357)	(1,475)	(3,838)	(3,269)
Sale of ST investment	-	(13)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(826)	(1,360)	(1,458)	(3,820)	(3,250)
Others investing cashflow	(5)	17	(17)	(18)	(19)
Free cash flow	551	1,349	3,693	186	3,668
Financing cash flow	(2,149)	(816)	(3,052)	(2,152)	(2,686)
Increase in short term debt	(908)	885	-	-	-
Increase in long term loans	(329)	104	(113)	(5)	(59)
New ordinary shares issued	-	(541)	-	-	-
Ordinary dividends paid	(820)	(1,190)	(1,721)	(1,295)	(2,371)
Other financing cashflow	(92)	(75)	(1,218)	(852)	(256)
Forex effects	23	(114)			
Total cash generated	(568)	2,157	696	(1,817)	1,076

ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	8.4%	8.3%	8.9%	7.3%	6.6%
= Operating margin	15.5%	18.3%	16.8%	22.9%	26.3%
1 / (Working capital/revenue	0.2	0.2	0.2	0.2	0.2
+ Net PPE/revenue	0.2	0.2	0.2	0.2	0.3
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.3	2.5	2.2	2.2	2.1
Operating margin	15.5%	18.3%	16.8%	22.9%	26.3%
x Capital turnover	2.3	2.5	2.2	2.2	2.1
x (1 - tax rate)	72.3%	71.4%	67.0%	67.4%	67.6%
= After-tax ROIC	26.3%	32.1%	25.1%	33.5%	37.7%

Source: Company data, KGI Research estimates

Gold Circuit – Recommendation & target price history


Source: TEJ, KGI Research

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