

Taiwan 2026 strategy

Key message

1. AI investment boom not over yet; Taiex bull market to extend through 2026F.
2. Despite stretched valuations, the AI “arms race” will help suppliers maintain strong earnings growth in 2026. We estimate overall Taiex earnings will grow by 20% YoY in 2026F, up from 14% in 2025F.
3. Taiex index to peak at 33,000 points (21x PE) and trough at 25,000 points (16x PE) in 2026F.
4. Investment strategy – Focus on AI spec upgrade beneficiaries, while balancing portfolios with high-yield domestic consumption stocks and foldable iPhone suppliers.

Top picks

Company	Code	11/21 share price (NT\$)	Target price (NT\$)	Change +/- (%)
TSMC	2330	1,455.0	1,900.0	30.6
Alchip	3661	3,075.0	5,380.0	75.0
MPI	6223	1,910.0	2,430.0	27.2
Kinik	1560	310.0	390.0	25.8
Aspeed	5274	6,355.0	6,890.0	8.4
WEC	2344	58.0	69.0	19.0
Hon Hai	2317	236.5	340.0	43.8
QCI	2382	274.0	385.0	40.5
Wistron	3231	143.0	200.0	39.9
Wiiwynn	6669	4,280.0	5,420.0	26.6
AVC	3017	1,335.0	1,695.0	27.0
Fositek	6805	1,450.0	1,755.0	21.0
DELTA	2308	954.0	1,280.0	34.2
BHI (Bizlink)	3665	1,680.0	1,830.0	8.9
EMC	2383	1,430.0	1,425.0	(0.3)
TUC	6274	416.0	530.0	27.4
Unimicron	3037	171.5	202.0	17.8
N.P.C	8046	269.0	330.0	22.7
Accton	2345	945.0	1,400.0	48.1
SZS	3376	180.5	235.0	30.2
CTBC Holding	2891	43.3	48.0	10.9
BAFANG	2753	192.0	234.0	21.9
Poya	5904	435.5	548.0	25.8

Bull run to continue; US midterm elections & Fed rate cuts are swing factors

AI investment boom not over yet; Taiex bull market to extend through 2026F

Compared to the dot-com era bull run, which lasted almost five years, the current AI frenzy has been around for about three years, suggesting that the uptrend is still in its middle phase and could extend through 2026F. While the surge in AI investment appears rapid, we note that aggregate capex during previous major technological innovations, such as railroads, automobiles, electricity, and information technology, peaked at 2-3% of global GDP. By contrast, the current spending on generative AI accounts for just 0.8% of GDP. In other words, this growth cycle is still in its early stage.

Despite stretched valuations, the AI “arms race” will help suppliers maintain strong earnings growth in 2026F

Although AI plays are trading at high PEs, such valuations are backed by strong fundamentals. In fact, the PEG ratio of Taiwan’s AI supply chain has yet to surpass 1x. We estimate the aggregate earnings of AI plays will grow by 21% YoY in 2026F, following impressive upticks of 35% in 2024 and 43% in 2025F. AI stocks now account for more than 60% of Taiex earnings, and with the ongoing AI arms race, overall Taiex earnings growth is projected to accelerate from 14% in 2025F to 20% in 2026F. While AI infrastructure spending is dominated by large CSPs, increasing participation from neo-cloud firms and sovereign AI initiatives is diversifying and stabilizing order flows. Robust AI orders have driven up trailing four-quarter Taiex earnings for nine consecutive quarters since 4Q23, and we expect this trend to continue through 4Q26F, potentially setting a record of thirteen straight quarters of earnings growth, a clear indication of the structural growth within the industry.

Taiex index to peak at 33,000 points & trough at 25,000 points in 2026F

We estimate that the Taiex index will reach a peak of 33,000 points in 2026F, equivalent to roughly 21x PE, and the trough could be as low as 25,000 points, about 16x PE. Although the AI frenzy should keep the bull market intact, volatility will rise in tandem due to: (1) substantial cumulative gains, and the fact that valuations are approaching historic highs; (2) policy and political uncertainty surrounding the US midterm elections; and (3) potential changes in the US Fed’s rate-cut pace. We expect the Taiex index to repeat a “smile-curve” pattern, featuring continued strength in 1Q26F, followed by healthy corrections in 2Q-3Q26F before closing the year with a renewed upswing.

Investment portfolio

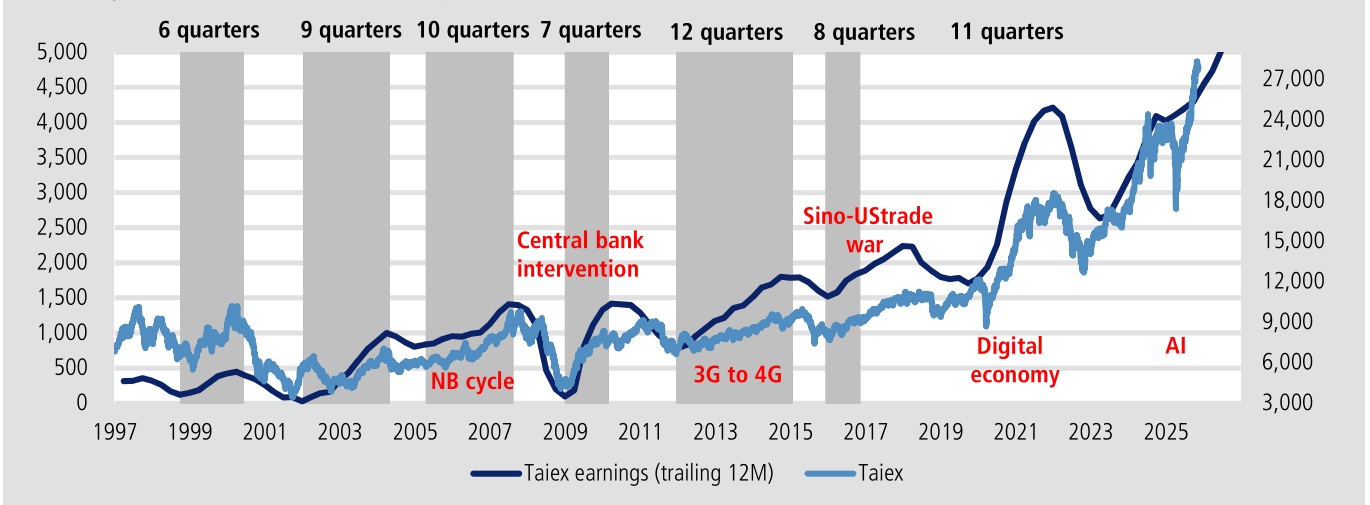
For 2026F, we think investors need to pay attention to two major themes. The first is a broad-based product spec upgrade trend across the AI supply chain, which will drive the industry into a new growth phase, with beneficiaries including foundries, GPU and ASIC designers, advanced packaging (such as CoWoS), and ODMs, as well as testing interface, memory, thermal solution, CCL, ABF substrate, PCB, switch, and power component suppliers amid strong AI computing demand and ongoing GPU platform upgrades. The second is diversification and defensive asset allocation. Innovations in consumer electronics, such as foldable iPhones and smart wearables, will provide growth opportunities, while companies with resilient domestic demand and stable high dividend yields offer a balanced strategy combining growth and income. Overall, investors should strike a balance between growth and resilience against volatility in their portfolios, in the face of market fluctuations. Our recommended stocks are as follows: TSMC (2330 TT), Alchip (3661 TT), MPI (6223 TT), Kinik (1560 TT), Aspeed (5274 TT), Winbond (2344 TT), Hon Hai (2317 TT), Quanta (2382 TT), Wistron (3231 TT), Wiwynn (6669 TT), AVC (3017 TT), Fositek (6805 TT), Delta (2308 TT), Bizlink (3665 TT), Elite Material (2383 TT), TUC (6274 TT), Unimicron (3037 TT), N.P.C (8046 TT), Accton (2345 TT), SZS (3376 TT), CTBC Holding (2891 TT), Bafang Yunji (2753 TT), Poya (5904 TT).

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Figure 1: Robust AI demand to drive Taich earnings up through 4Q26, potentially allowing the index to reach a new high

Taich earnings (6-month lead), NT\$bn (LHS); Taich, points (RHS)



Source: TEJ; compiled & forecasted by KGI Research

Note: Shaded area represents periods when corporate earnings are in cycle.

Figure 2: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		P/B (x)		PE (x)		P/B (x)		P/B (x)		ROE (%)		Cash yield (%)	
								2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
AI supply chain	TSMC	2330 TT	Outperform	1900.0	1,209,353	1455.0	30.6	64.58	76.89	42.7	19.1	22.5	18.9	0.5	1.0	7.3	5.7	35.3	33.6	1.4	1.4
	Alchip	3661 TT	Outperform	5380.0	7,987	3075.0	75.0	66.40	134.46	(16.7)	102.7	46.3	22.9	(2.8)	0.2	6.9	5.7	14.3	27.3	1.1	2.2
	MPI	6223 TT	Outperform	2430.0	5,870	1910.0	27.2	33.29	62.08	36.3	86.5	57.4	30.8	1.6	0.4	19.7	16.2	34.0	57.7	1.0	1.9
	Kinik	1560 TT	Outperform	390.0	1,460	310.0	25.8	8.64	13.02	22.2	50.7	35.9	23.8	1.6	0.5	5.8	4.9	16.9	22.3	1.1	1.6
	Aspeed	5274 TT	Outperform	6890.0	7,700	6355.0	8.4	99.25	137.82	45.9	38.9	64.0	46.1	1.4	1.2	32.5	24.6	57.6	60.8	1.2	1.6
	WEC	2344 TT	Outperform	69.0	8,365	58.0	19.0	1.08	6.64	711.0	517.0	53.9	8.7	0.1	0.0	2.7	2.1	5.2	26.9	0.0	3.4
	Hon Hai	2317 TT	Outperform	340.0	106,400	236.5	43.8	14.68	18.90	33.6	28.8	16.1	12.5	0.5	0.4	1.9	1.8	12.0	14.6	3.3	4.2
	QCI	2382 TT	Outperform	385.0	33,922	274.0	40.5	18.07	21.41	16.7	18.5	15.2	12.8	0.9	0.7	4.5	4.2	30.4	33.8	5.3	6.2
	Wistron	3231 TT	Outperform	200.0	14,577	143.0	39.9	9.19	11.99	59.6	34.5	15.6	11.9	0.3	0.3	2.3	2.0	17.9	19.7	4.0	5.4
	Wiwynn	6669 TT	Outperform	5420.0	25,494	4280.0	26.6	268.87	293.64	119.4	9.2	15.9	14.6	0.1	1.6	7.2	5.9	50.2	44.4	3.5	3.8
	AVC	3017 TT	Outperform	1695.0	16,779	1335.0	27.0	48.71	70.82	131.3	45.4	27.4	18.9	0.2	0.4	13.5	10.0	56.3	60.8	1.8	2.7
	Fositek	6805 TT	Outperform	1755.0	3,186	1450.0	21.0	31.06	58.49	73.5	88.3	46.7	24.8	0.7	0.3	15.0	11.5	35.0	52.7	1.1	2.0
	DELTA	2308 TT	Outperform	1280.0	79,425	954.0	34.2	23.83	32.79	75.7	37.6	40.0	29.1	0.5	0.8	9.5	7.9	25.3	29.7	1.3	1.7
	BHI (Bizlink)	3665 TT	Outperform	1830.0	10,498	1680.0	8.9	46.66	65.97	105.2	42.5	36.0	25.5	0.3	0.6	7.8	6.5	23.0	27.7	1.4	1.9
	EMC	2383 TT	Outperform	1425.0	16,423	1430.0	(0.3)	42.22	64.74	57.6	53.3	33.9	22.1	0.6	0.4	10.6	8.1	36.8	42.9	1.8	2.7
	TUC	6274 TT	Outperform	530.0	3,849	416.0	27.4	12.36	21.54	34.1	74.3	33.7	19.3	1.0	0.3	6.8	5.5	22.3	32.3	1.8	3.1
Foldable smartphones	Unimicron	3037 TT	Outperform	202.0	8,661	171.5	17.8	3.57	9.16	7.5	156.3	48.0	18.7	6.4	0.1	2.7	2.4	5.7	13.5	0.9	2.4
	N.P.C	8046 TT	Outperform	330.0	5,571	269.0	22.7	2.71	11.79	760.1	334.7	99.2	22.8	0.1	0.1	3.8	3.4	3.9	15.8	0.6	2.6
High-yield	Accton	2345 TT	Outperform	1400.0	16,995	945.0	48.1	46.08	55.83	114.9	21.5	20.5	16.9	0.2	0.8	11.3	8.9	61.9	58.7	2.9	3.5
	SZS	3376 TT	Outperform	235.0	1,133	180.5	30.2	1.70	8.70	(75.7)	416.4	106.5	20.8	(1.1)	0.1	2.0	1.9	1.8	9.4	0.7	3.9
High-yield	CTBC Holding	2891 TT	Outperform	48.0	27,270	43.3	10.9	3.70	4.02	1.0	8.5	11.7	10.8	11.2	1.3	1.7	1.5	15.4	15.1	5.2	5.5
	RAFANG	2753 TT	Outperform	234.0	410	192.0	21.9	11.94	12.99	32.1	8.9	16.1	14.8	0.5	1.7	3.4	3.1	21.5	22.0	4.4	4.7
	Poya	5904 TT	Neutral	548.0	1,486	435.5	25.8	29.18	31.72	9.1	8.7	14.9	13.7	1.6	1.6	6.0	5.7	41.5	42.6	5.8	6.3

Source: KGI Research estimates

Unlike the five-year dot-com bull run, the current AI-driven tech rally has lasted only about three years, suggesting it's mid-cycle and likely to extend through 2026F.

The AI investment boom has yet to peak; the bull run which began in 2023 is expected to extend through 2026F

Compared with the five-year bull run leading up to the 2000 dot-com bubble, the current AI-driven tech rally has lasted only about three years, suggesting that the uptrend is still mid-cycle, and likely to continue through 2026F.

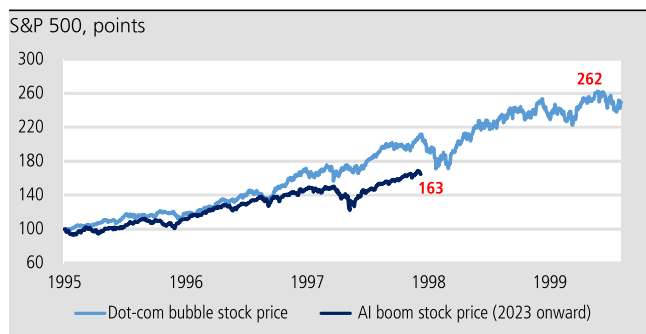
Although the market is concerned about potential overinvestment in AI infrastructure, historical data shows current AI capex remains far below previous technological revolutions. AI infrastructure spending accounts for only about 0.8% of US GDP, versus 2-3% during the peak of railroads, electricity, and the dot-com era. This indicates AI investment is not overheated and still has long-term growth potential. History also suggests that investment in technological revolutions typically takes more than five years to reach its peak and then steadily drive productivity gains. The current AI infrastructure investment curve is only about three years in, meaning AI remains in the early expansion phase, with several years of growth ahead. As capital spending has yet to translate into productivity improvements and corporate earnings accelerations, there is still room for upward movement.

Another concern is whether major CSPs have sufficient operating cash flow to support massive AI capex. Based on our analysis of financial reports, the top-five CSPs' aggregate capex-to-operating cash flow ratio rose from 61% in the previous quarter to 64%, which is manageable. Looking ahead, these CSPs are expected to see 20-30% annual growth in operating cash flow over the next 1-2 years, suggesting the capex ratio is unlikely to hit financial red lines.

In addition, the explosive growth in AI compute demand is driving CSPs to expand data centers. For example, Google's (US) large language models (LLM) processed 10tn tokens per month in May 2024, which had grown to 480tn by May 2025, and surpassed 1,300tn in October 2025, with projections reaching 2,000tn per month in 2026F. ChatGPT's weekly active users also grew from 300mn in early 2024 to 800mn by October 2025, underscoring rapid AI adoption.

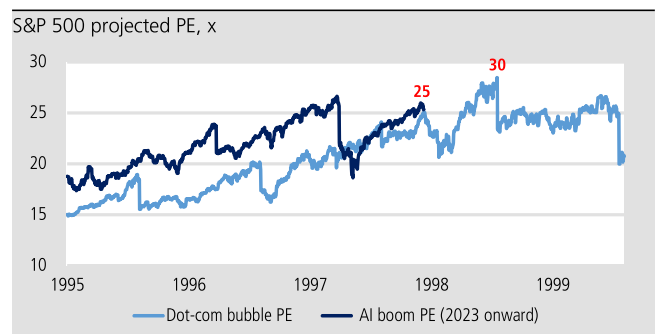
The latest corporate guidance points to accelerating capex trends. Capex by the top-five CSPs is projected at US\$386.9bn in 2025F, with growth revised up from 55% to 59% YoY. For 2026F, capex is expected to reach US\$516bn, with growth upgraded from 22% to 33% YoY. This wave of upward revisions shows no signs of fatigue, confirming that AI infrastructure remains in an early expansion stage.

Figure 3: Current AI valuations roughly at the midpoint of dot-com bubble levels



Source: Bloomberg; KGI Research compiled

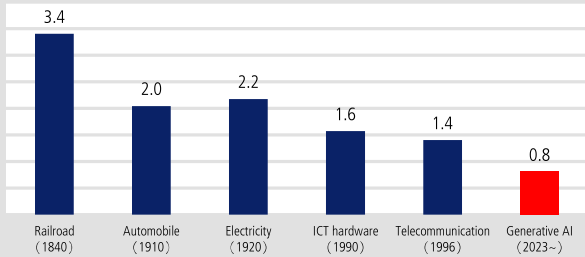
Figure 4: Current AI valuations roughly at the midpoint of dot-com bubble levels



Source: Bloomberg; KGI Research compiled

Figure 5: AI investments as a percentage of global GDP are significantly below the levels seen during the introduction of the railroad, automobile, electricity & internet, suggesting the current investment boom is not overheated and still has substantial room for growth

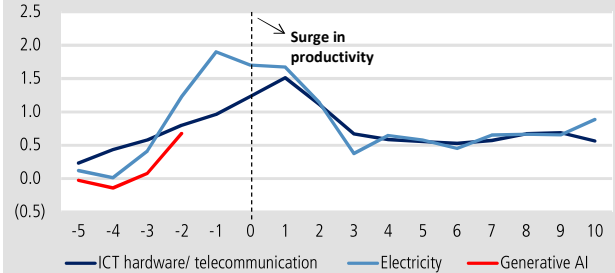
Investment in new technology as a percentage of global GDP at the time of invention, percent



Source: Bloomberg; KGI Research compiled

Figure 6: History suggests the current curve of AI investment has yet to reach the stage of substantial productivity gains, which means there is still substantial upside ahead

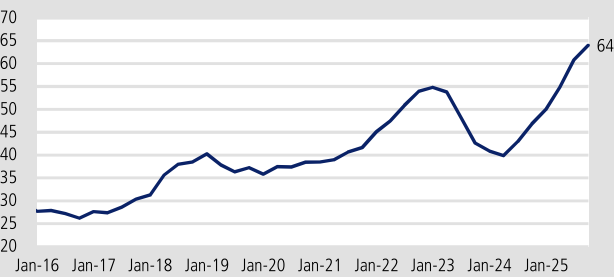
Investment in new technology as a percentage of global GDP at the time of invention, percent



Source: Bloomberg; KGI Research compiled

Figure 7: The average ratio of capex to operating cash flow among major CSPs has risen from 61% to 64% over the past year, which remains manageable

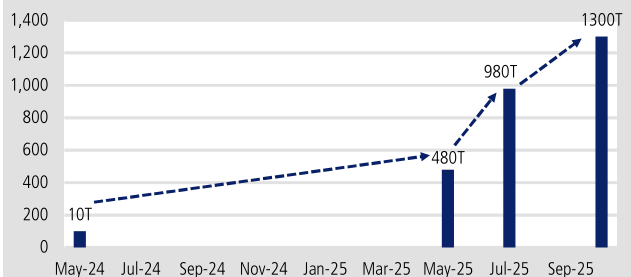
Average ratio of capex to operating cash flow among top-five US CSPs, percent



Source: Bloomberg; KGI Research compiled

Figure 8: Over the past two years, Google's LLM has seen exponential growth in the number of processed tokens each month

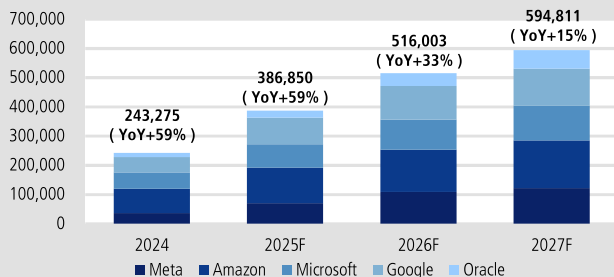
Number of tokens processed by Google's LLM every month, trillion



Source: Google; KGI Research compiled

Figure 9: Large CSPs now guide respective 2025-26F capex growth of 59% & 33% YoY, up from the previous 55% & 22% YoY

Capex guidance of US top-five CSPs, US\$mnn

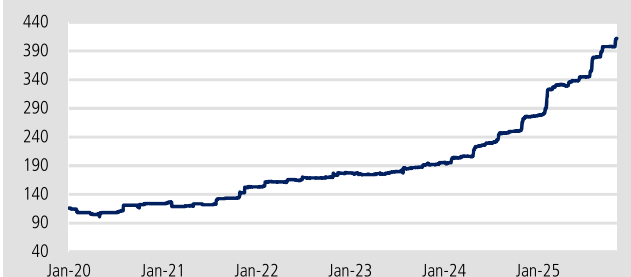


Source: Bloomberg; KGI Research compiled

Note: The top-five CSPs are Amazon, Google, Microsoft, Meta and Oracle

Figure 10: Large US CSPs have been increasing AI capex since 2023, reflecting soaring demand for AI computing power

Capex guidance of US top-five CSPs (one-year forward), US\$bn



Source: Bloomberg; KGI Research compiled

Note: The top five US CSPs are Amazon, Google, Microsoft, Meta and Oracle

We estimate the AI supply chain's earnings will grow by 21% in 2026F, following strong growth of 35% in 2024 and 42% in 2025F, with robust earnings supporting valuation levels.

AI valuations elevated, but earnings growth in the supply chain shows solid momentum, rather than a bubble

While AI stock valuations are high, Taiwan's AI supply chain shows solid earnings growth backed by strong fundamentals, not speculative excess. We estimate AI-related companies' earnings will grow by 21% in 2026F, following 35% in 2024 and by 43% in 2025F. AI firms now contribute over 60% of the Taiex's total earnings, and with the ongoing AI arms race, overall market earnings growth is projected to accelerate from 14% in 2025F to 20% in 2026F. This trend reflects that Taiwan's technology industry is in a structural upcycle, supported by strong fundamentals and reasonable valuations.

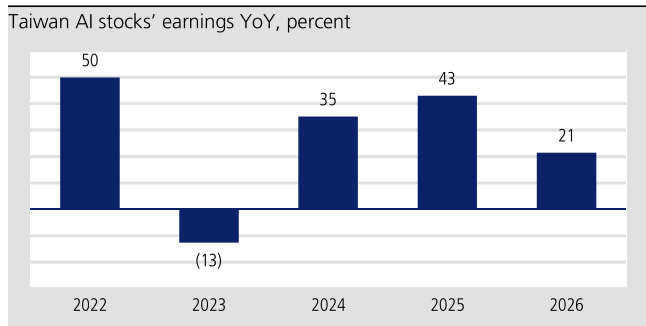
There are comparisons in the market between the AI boom and the dot-com bubble of 2000, citing its "narrative-driven" nature. However, a closer look at financial metrics and industry structure reveals fundamental differences. Today's tech stocks are far healthier than during the dot-com era. For example, S&P 500 tech constituents currently trade at an average PE of 30-40x, well below the 60-70x seen during the bubble. PEG ratios have fallen from 5-10x to around 2x. More importantly, net margins have improved from 10% to 25-30%, and operating cash flow per share has surged from US\$10 to US\$120, indicating ample free cash flow to support AI infrastructure investments.

Since 2023, global CSPs have consistently raised AI-related capex, benefiting Taiwan's supply chain, from wafer foundries and power supplies to thermal modules. New CSP entrants have intensified the arms race, extending order visibility beyond 2026F.

Previously, AI infrastructure was dominated by large CSPs, but smaller players are now actively investing, creating a broader competitive landscape. This not only increases order volumes for Taiwan's supply chain but also diversifies and stabilizes order structures. Sequentially, strong AI orders have driven the Taiex's cumulative earnings (trailing four quarters) up for nine consecutive quarters. If this trend continues through 4Q26F, it will mark a record 13 straight quarters of earnings highs.

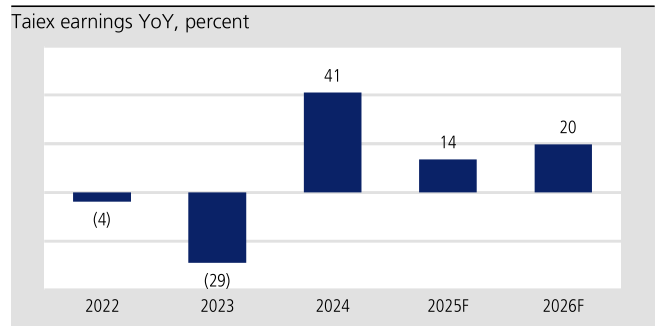
While AI is lifting overall Taiex earnings, it is also accelerating industry divergence. Using 2022, the year ChatGPT debuted, as a baseline, AI stocks' earnings are projected to be 70% higher by 2025F and more than double by 2026F. In contrast, non-AI companies' earnings will reach only 40% of 2022 levels in 2025F and less than 50% in 2026F. This divergence underscores the need for precise stock selection, focusing on companies with AI exposure and strong order visibility.

Figure 11: AI-related stocks to grow earnings by 21% in 2026F, after strong gains of 35% in 2024 and 43% in 2025F



Source: TEJ; compiled & forecasted by KGI Research

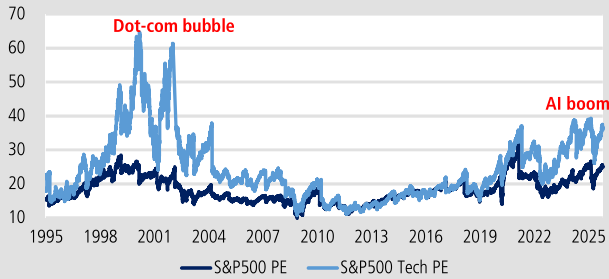
Figure 12: Taiex's overall earnings growth to rise from 14% YoY in 2025F to over 20% in 2026F



Source: TEJ; compiled & forecasted by KGI Research

Figure 13: The AI boom has driven tech valuations to 30-40x PE currently, still well below the 60-70x seen during the dot-com bubble

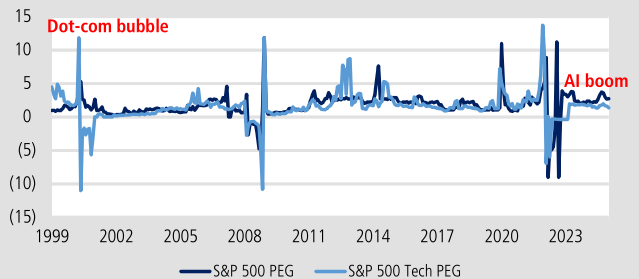
Estimated PE: S&P 500 vs. tech sector, x



Source: Bloomberg; KGI Research compiled

Figure 14: Although AI boom has lifted tech valuations, the current PEG is about 2x, still well below the 5-10x seen during the dot-com bubble

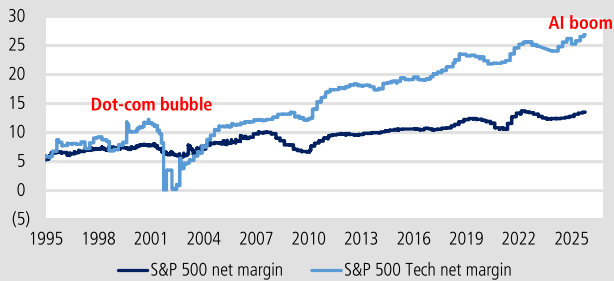
Estimated PEG: S&P 500 vs. tech sector, x



Source: Bloomberg; KGI Research compiled

Figure 15: Tech stocks now boast net margins of 25-30%, far above the 10% seen during the dot-com era, reflecting much stronger fundamentals

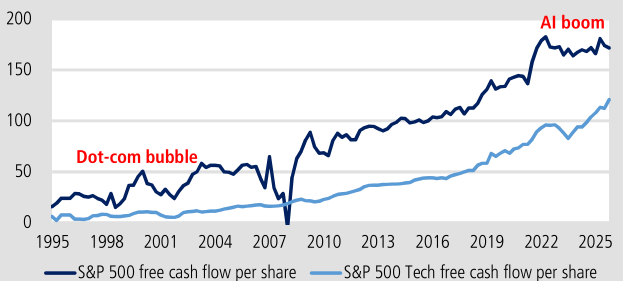
Net profit margin: S&P 500 vs. tech sector, percent



Source: Bloomberg; KGI Research compiled

Figure 16: Today's tech stocks generate operating cash flow per share of US\$120, far above the US\$10 seen during the dot-com era, indicating strong financial support for capex

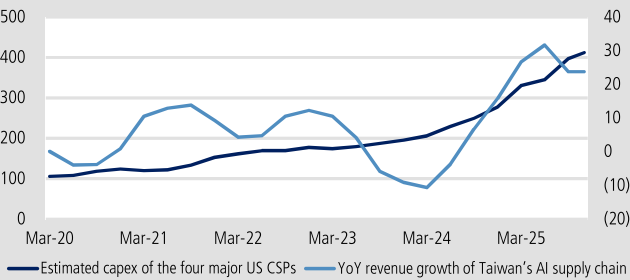
Free cash flow per share: S&P 500 vs. tech sector, US\$



Source: Bloomberg; KGI Research compiled

Figure 17: Upward revisions to capex by major CSPs drive strong demand for Taiwan's AI supply chain

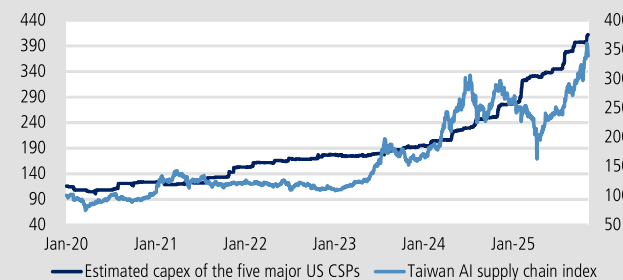
Estimated capex of major US CSPs, US\$bn (LHS); YoY revenue growth of Taiwan's AI supply chain, percent (RHS)



Source: Bloomberg; KGI Research compiled

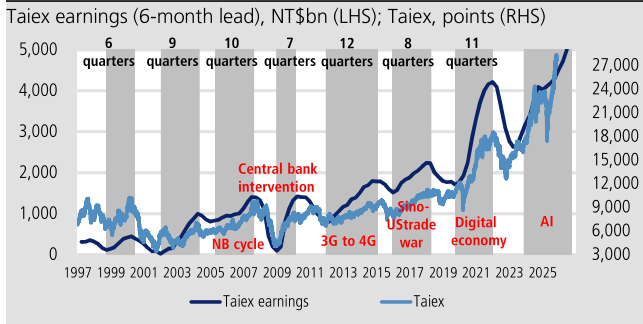
Figure 18: Upward revisions to capex by major CSPs to support the bull run for Taiwan's AI supply chain stocks

Estimated capex of major US CSPs, US\$bn (LHS); Taiwan AI supply chain index, points (RHS)



Source: Bloomberg; KGI Research compiled

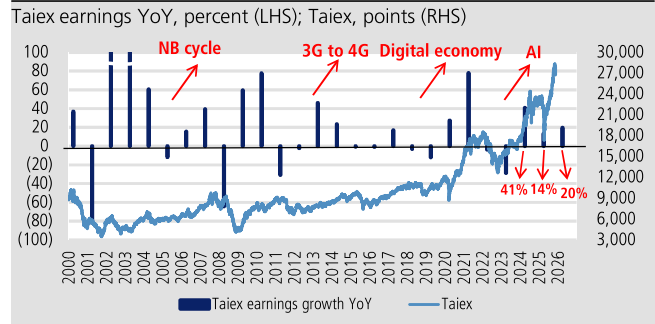
Figure 19: Strong AI demand has pushed Taiex's trailing 12-month earnings to record highs for nine straight quarters through 4Q25F; this continuing into 4Q26F would set a 13-quarter streak



Source: TEJ; compiled & forecasted by KGI Research

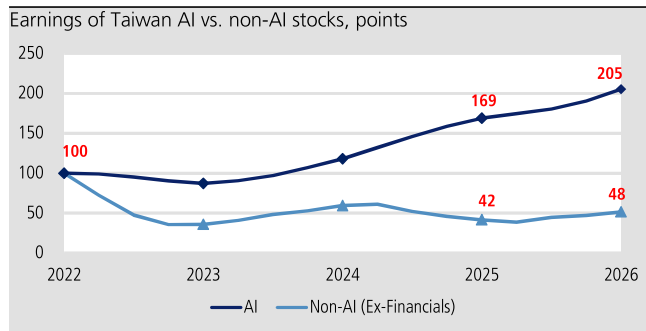
Note: Shaded area represents periods when corporate earnings are in upcycle.

Figure 20: During technological paradigm shifts, Taiex earnings growth has supported bullish sentiment; market to maintain significant growth in 2024-26F



Source: TEJ; compiled & forecasted by KGI Research

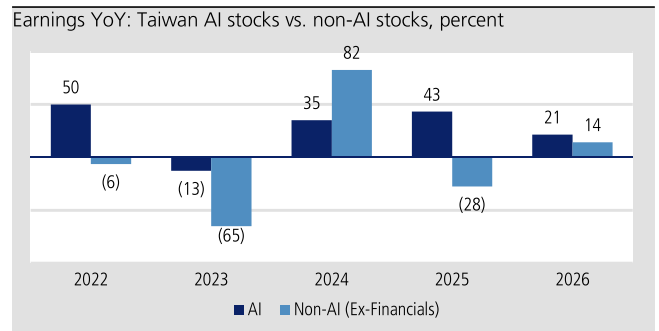
Figure 21: The AI boom is driving Taiwan's AI supply chain earnings to new highs; respective earnings growth of 69% & 105% YoY in 2025-26F relative to 2022 (pre-AI boom)



Source: TEJ; KGI Research compiled

Note: Earnings estimates indexed to a base value of 100 in 2022.

Figure 22: AI stocks to grow earnings by 21% in 2026F, after surging by 35% in 2024 and 43% in 2025F



Source: TEJ; KGI Research compiled

Although the AI frenzy will most likely help the Taiex extend its current bull run into 2026, we note that market volatility will be on the rise, due to policy and political uncertainties stemming from US midterm elections and US Fed rate cuts.

Markets could be more volatile in 2026; investors need to pay close attention to uncertainties stemming from policy & interest rate changes

Although the AI frenzy has helped the Taiex to maintain strong earnings growth, and the index will likely extend its bull run into 2026F, we note that market volatility will be on the rise, due to: (1) substantial cumulative gains, with valuations approaching ceiling levels; (2) policy and political uncertainties stemming from the US midterm elections; and (3) uncertainty about the pace of US Federal Reserve's (Fed) rate cuts.

Since the AI-driven rally began in late-2022, the Taiex has surged by 126%, with AI supply chains, such as the foundry, thermal module, and power management sectors, have posted especially strong gains. While the index remains in an uptrend, the elevated base has significantly reduced market tolerance for disappointing earnings or guidance. If corporate guidance falls short, CSPs fail to raise capex as expected, or AI demand is somehow deferred, we believe short-term profit-taking will be inevitable. Moreover, the market narrative around AI has evolved from "imaginative potential" to "fundamental validation." Companies must continue to deliver tangible profits and cash flows to justify elevated valuations.

2026 marks the second year of the current US presidential term, which coincides with midterm elections. Historically, stock performance in the first half of midterm years tends to be weaker, featuring lower average returns and much higher volatility than in normal times. This is largely due to policy uncertainty, legislative gridlock due to congressional reshuffling, and debates over fiscal direction. In 2026, legislative power will be redistributed between Democrats and Republicans, and we expect market attention to center on three key areas: (1) political contention around the continuity of industry policies,

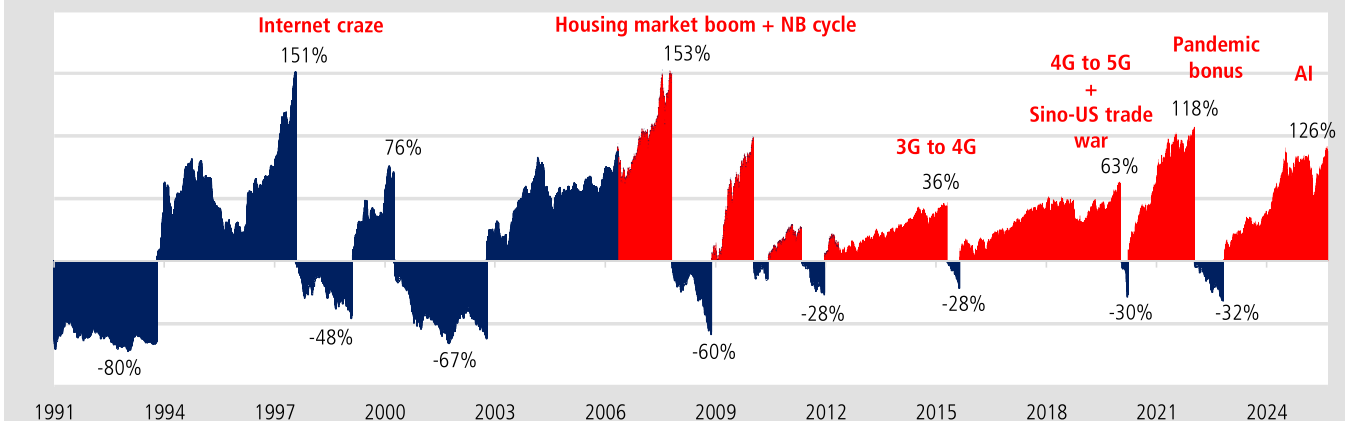
such as AI subsidies, extension of the CHIPS Act, and tax incentives; (2) the scale of fiscal spending. If the US government is under more pressure to rein in deficits, it may cut funding for tech-related subsidies; and (3) trade and tech export policies toward China. Flamboyant political rhetoric during the election may prompt the market to reassess supply chain risks.

Historical patterns suggest that midterm election-related uncertainties are typically priced in in the first half of the year. This is often followed by a post-election rebound as the political landscape becomes clearer in the second half. Should this pattern repeat itself, we can expect a correction in AI-related stocks in 2Q26F, which will then regain strength in 2H26F, driven by updated corporate guidance and renewed capex plans.

The Fed switched to a rate cut cycle in September 2025, and the market generally expects the terminal rate to be close to 3.0%, the long-term neutral range, in 2026F. However, if inflation cools more slowly than anticipated, or if US Treasury yields, in particular long-term ones, rise again (e.g. surpassing 4.8%), the Fed may adopt a “stop-and-go” approach to rate cuts rather than a continuous easing path. This would lead to constant adjustments in market expectations for funding costs, triggering valuation repricing pressure. The share prices of AI companies, which are highly sensitive to valuation assumptions, will be most affected by interest rate fluctuations.

Figure 23: Since the AI-driven rally began in late-2022, the Taiex has surged by 126%

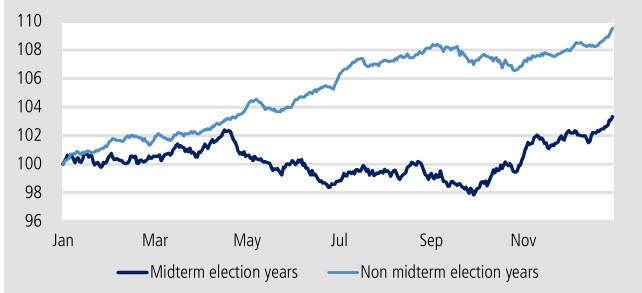
Cumulative gains and losses of the Taiex index over previous boom & bust cycles



Source: Bloomberg; KGI Research

Figure 24: US stock markets tend to be more volatile in midterm election years, especially in the second quarter of the year, due to policy uncertainty

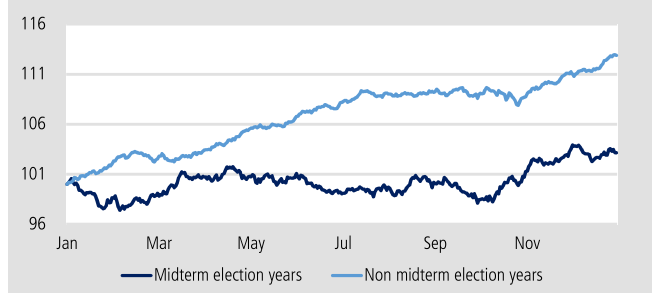
S&P 500 index from 1928 to 2024, point



Source: Bloomberg; KGI Research

Figure 25: US stock markets tend to be more volatile in midterm election years, especially in the second quarter of the year, due to policy uncertainty

S&P 500 index from 1975 to 2024, point



Source: Bloomberg; KGI Research

Figure 26: The benchmark Fed funds rate is still above the neutral level by 75-100bps, and the market expects more rate cuts ahead

US Fed funds rate; neutral interest rate, percent

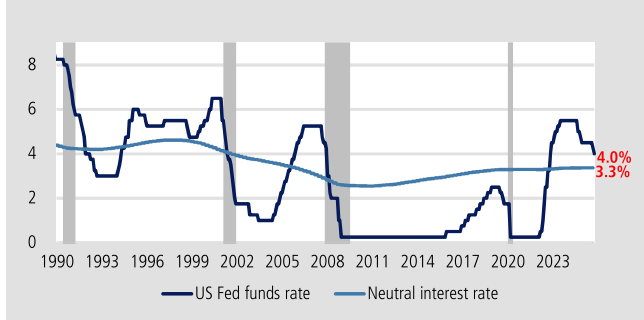


Figure 27: The market generally expects the Fed to reach a terminal rate of 3%, within the long-term neutral range, by 2026F

Market expectations for Fed rate cuts, percent (LHS); 10-year Treasury yield, percent (RHS)

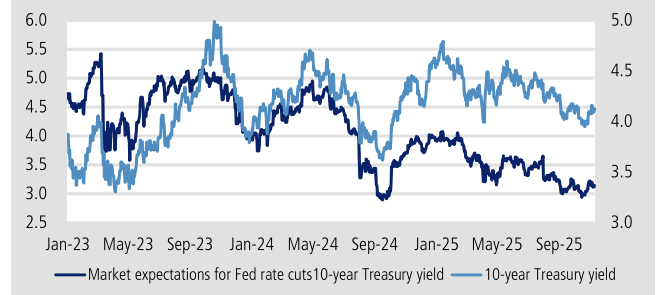


Figure 28: As long as the economy keeps growing, rate cuts prompt market rallies driven by liquidity, and this is what the market expects for 2026F

S&P 500 performance before and after the first Fed rate cut since 1973, point

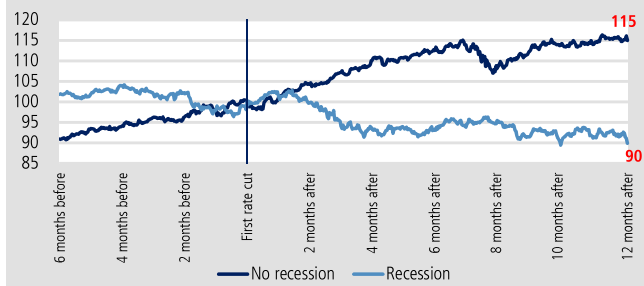


Figure 29: Unpredictability in the pace of rate cuts will lead to constant adjustments in market expectations for funding costs, triggering valuation repricing pressure

10-year US Treasury yield, percent (LHS); Taixex projected PE, x (RHS)

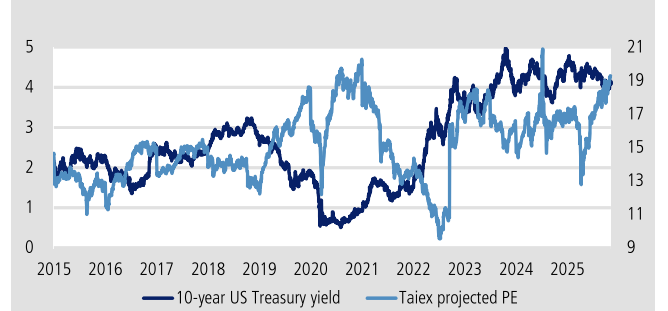


Figure 30: We expect the US economy to lose pace in 2026F, but not to the extent of sinking into recession

Annual US GDP growth forecasts, percent

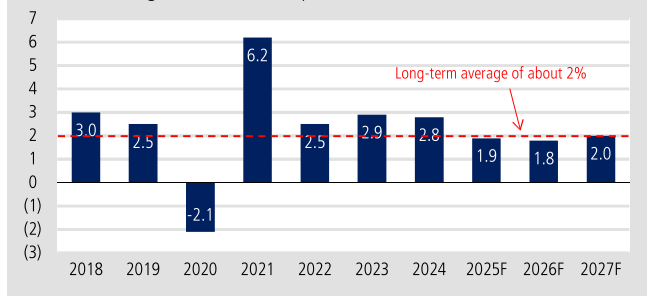
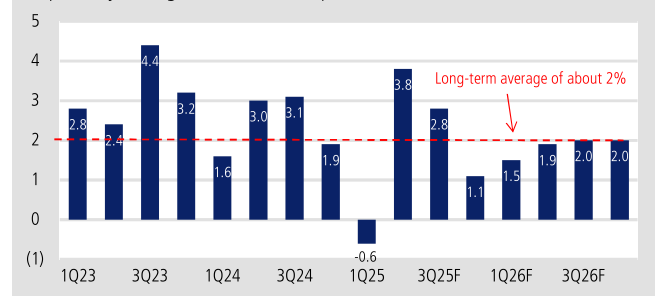


Figure 31: Tariff impacts on US GDP growth to diminish from 1Q26

US quarterly GDP growth forecasts, percent



We expect the Taiex market to continue a bull run into 2026F, extending the growth that began in 2023. The index is expected to reach a high of 33,000 points, while the low could be close to 25,000 points.

Taiex index to peak at 33,000 points and trough at 25,000 points in 2026F

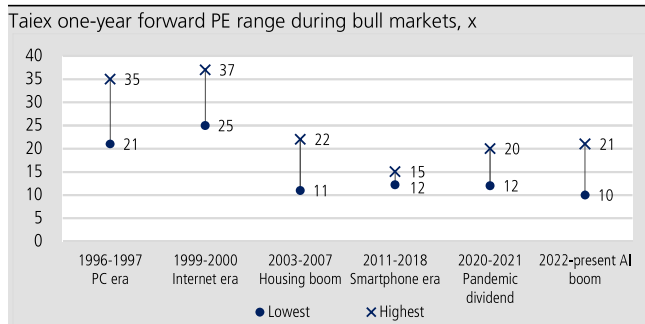
We expect the Taiex market to continue its bull run into 2026F, extending the growth that began in 2023. The index is expected to reach a high of 33,000 points (about 21x PE), while the low could be close to 25,000 points, for 16x PE, in 2026F. Three key drivers will keep valuation at elevated levels, namely: (1) AI and semiconductor capex; (2) US Fed rate cuts; and (3) a broader industrial paradigm shift. Although the Taiex's long-term average PE ratio stands at close to 15x, during periods of structural growth, it is not uncommon for the valuation to rise 1-2 standard deviations above the mean, which corresponds to respective PE ranges of 17-18x and 20-21x.

The Taiex has long been valued at an average 15x PE, but an industry paradigm shift can lead to a sustained re-rating. Previous paradigm shifts, such as the early stage of the internet boom in 1999, the real estate upcycle in 2007, and the wave of digital transformation in 2021, all pushed valuations to 1.5-2 standard deviations above the norm. The rise of the AI era represents the latest paradigm shift, prompting investors to assign higher valuations for the Taiex, allowing PE ratios to stay in the upper half of their historic bands.

Since 1990, in years when the global economy has been stable and recessions are avoided, global stock markets tend to undergo a "smile curve," characterized by strength in the first and fourth quarters and corrections during the second and third quarters. In contrast, during recessionary years or in the presence of black swan events, the pattern often reverses into a "reverse hook," where markets peak in the first half and weaken in the second half of a year.

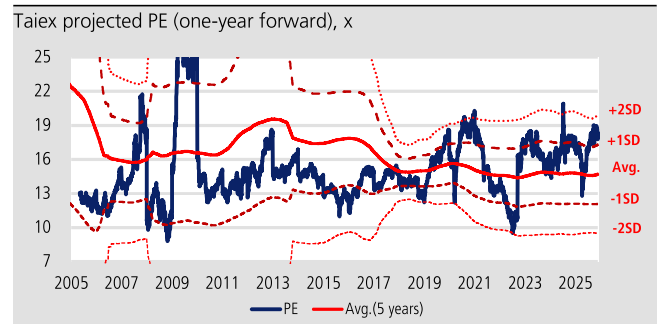
Looking ahead to 2026F, we expect the global economy to remain on a soft-landing path. With AI driving capex growth, the Taiex index is likely to follow the typical "smile curve" pattern: (1) in 1Q26F, the market may extend its rally, helped by upward revisions to corporate guidance and the resumption of Fed rate cuts; (2) in 2Q-3Q26F, the market may undergo a correction of 10-13% due to the US midterm election, policy uncertainty, and adjustments to corporate earnings. This correction should be viewed as a healthy consolidation rather than a trend reversal; and (3) in 4Q26F, as election results are revealed and companies provide new guidance, the market is likely to regain strength.

Figure 32: The Taiex has long been valued at about 15x PE on average, but an industry paradigm shift can lead to a structural re-rating



Source: TEJ; KGI estimates

Figure 33: During paradigm shifts or Fed rate cut cycles, it is not uncommon for Taiex valuations to rise by 1-2 standard deviations above the mean



Source: TEJ; KGI estimates

Figure 34: The Taixex index often consolidates upward in the face of economic expansions or a soft-landing, with seasonal corrections in the second and third quarters

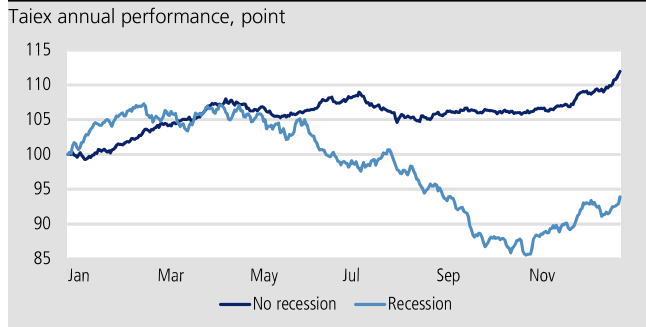


Figure 36: Taixex index & corresponding valuations

12M forward PE	Equivalent index level (points)	2026F PE	Equivalent index level (points)
15x	22,424	15x	23,890
16X	25,414	16X	25,483
20x	29,899	20x	31,854
21X	31,393	21X	33,446
22X	32,888	22X	35,039
23X	34,383	23X	36,632
24X	35,878	24X	38,225

Source: TEJ; KGI Research compiled

AI will remain the primary investment theme for Taixex investors in 2026. However, we believe investors should focus more on companies that boast substantial spec upgrades and low PEG. Within the non-AI space, we recommend memory, foldable iPhone, AI glasses and high-yield stocks.

Figure 35: The Taixex index tends to pull back in the second and third quarters of normal years, creating a smile curve on a full-year basis

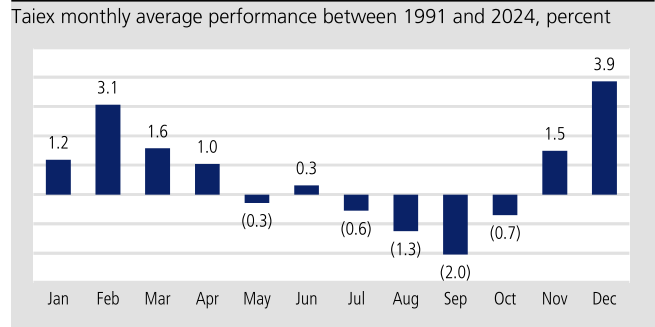


Figure 37: Taixex index & corresponding valuations (based on different scenarios of TSMC (2330 TT, NT\$1,455, OP) share performance) in 2026F

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
TSMC 2026F target PE (x)	16	17	18	20	25	30
TSMC target price (NT\$)	1,230	1,307	1,384	1,538	1,922	2,307
Taixex target (points) - TSMC only	25,796	26,416	27,036	28,276	31,377	34,477
Taixex target (points) - TSMC + non-TSMC	24,999	25,886	26,773	28,546	32,979	37,413

Source: TEJ; KGI Research compiled

Investment portfolio

For 2026F, we think investors need to pay attention to two major themes. The first is a broad-based product spec upgrade trend across the AI supply chain, which will drive the industry into a new growth phase, with beneficiaries including foundries, GPU and ASIC designers, advanced packaging (such as CoWoS), and ODMs, as well as testing interface, memory, thermal solution, CCL, ABF substrate, PCB, switch, and power component suppliers amid strong AI computing demand and ongoing GPU platform upgrades. The second is diversification and defensive asset allocation. Innovations in consumer electronics, such as foldable iPhones and smart wearables, will provide growth opportunities, while companies with resilient domestic demand and stable high dividend yields offer a balanced strategy combining growth and income. Overall, investors should strike a balance between growth and resilience against volatility in their portfolios, in the face of market fluctuations. Our recommended stocks are as follows: TSMC (2330 TT), Alchip (3661 TT), MPI (6223 TT), Kinik (1560 TT), Aspeed (5274 TT), Winbond (2344 TT), Hon Hai (2317 TT), Quanta (2382 TT), Wistron (3231 TT), Wiwynn (6669 TT), AVC (3017 TT), Fositek (6805 TT), Delta (2308 TT), Bizlink (3665 TT), Elite Material (2383 TT), TUC (6274 TT), Unimicron (3037 TT), N.P.C (8046 TT), Accton (2345 TT), SZS (3376 TT), CTBC Holding (2891 TT), Bafang Yunji (2753 TT), Poya (5904 TT).

Figure 38: Taix projected earnings & valuations

Earning (NT\$bn)	2021	2022	2023	2024	2025F	2026F
Taix	3,917	3,771	2,682	3,780	4,293	5,139
Taix excl. TSMC	3,320	2,755	1,844	2,607	2,618	3,146
Tech	1,914	2,147	1,698	2,249	3,040	3,703
Tech excl. TSMC	1,317	1,130	860	1,075	1,366	1,709
TSMC	597	1,017	838	1,173	1,674	1,994
EPS growth (%)						
Taix	78.1	(3.7)	(28.9)	40.9	13.6	19.7
Taix excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.4	20.1
Tech	51.7	12.2	(20.9)	32.4	35.2	21.8
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	27.0	25.2
TSMC	15.2	70.4	(17.5)	39.9	42.7	19.1
P/E (x)						
Taix	22.6	23.5	33.0	23.4	20.6	17.2
Taix excl. TSMC	15.3	18.4	27.5	19.5	19.4	16.1
Tech	35.0	31.2	39.5	29.8	22.1	18.1
Tech excl. TSMC	22.3	26.0	34.1	27.3	21.5	17.2
TSMC	63.3	37.1	45.0	32.2	22.5	18.9

Source: Compiled & forecasted by KGI Research

Figure 39: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		P/B (x)		PE (x)		P/B (x)		P/B (x)		ROE (%)		Cash yield (%)	
								2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
AI supply chain	TSMC	2330 TT	Outperform	1900.0	1,209,353	1455.0	30.6	64.58	76.89	42.7	19.1	22.5	18.9	0.5	1.0	7.3	5.7	35.3	33.6	1.4	1.4
	Alchip	3661 TT	Outperform	5380.0	7,987	3075.0	75.0	66.40	134.46	(16.7)	102.7	46.3	22.9	(2.8)	0.2	6.9	5.7	14.3	27.3	1.1	2.2
	MPI	6223 TT	Outperform	2430.0	5,870	1910.0	27.2	33.29	62.08	36.3	86.5	57.4	30.8	1.6	0.4	19.7	16.2	34.0	57.7	1.0	1.9
	Kinik	1560 TT	Outperform	390.0	1,460	310.0	25.8	8.64	13.02	22.2	50.7	35.9	23.8	1.6	0.5	5.8	4.9	16.9	22.3	1.1	1.6
	Aspeed	5274 TT	Outperform	6890.0	7,700	6355.0	8.4	99.25	137.82	45.9	38.9	64.0	46.1	1.4	1.2	32.5	24.6	57.6	60.8	1.2	1.6
	WEC	2344 TT	Outperform	69.0	8,365	58.0	19.0	1.08	6.64	711.0	517.0	53.9	8.7	0.1	0.0	2.7	2.1	5.2	26.9	0.0	3.4
	Hon Hai	2317 TT	Outperform	340.0	106,400	236.5	43.8	14.68	18.90	33.6	28.8	16.1	12.5	0.5	0.4	1.9	1.8	12.0	14.6	3.3	4.2
	QCI	2382 TT	Outperform	385.0	33,922	274.0	40.5	18.07	21.41	16.7	18.5	15.2	12.8	0.9	0.7	4.5	4.2	30.4	33.8	5.3	6.2
	Wistron	3231 TT	Outperform	200.0	14,577	143.0	39.9	9.19	11.99	59.6	34.5	15.6	11.9	0.3	0.3	2.3	2.0	17.9	19.7	4.0	5.4
	Wiwynn	6669 TT	Outperform	5420.0	25,494	4280.0	26.6	268.87	293.64	119.4	9.2	15.9	14.6	0.1	1.6	7.2	5.9	50.2	44.4	3.5	3.8
	AVC	3017 TT	Outperform	1695.0	16,779	1335.0	27.0	48.71	70.82	131.3	45.4	27.4	18.9	0.2	0.4	13.5	10.0	56.3	60.8	1.8	2.7
	Fositek	6805 TT	Outperform	1755.0	3,186	1450.0	21.0	31.06	58.49	73.5	88.3	46.7	24.8	0.7	0.3	15.0	11.5	35.0	52.7	1.1	2.0
	DELTA	2308 TT	Outperform	1280.0	79,425	954.0	34.2	23.83	32.79	75.7	37.6	40.0	29.1	0.5	0.8	9.5	7.9	25.3	29.7	1.3	1.7
	BHI (Bizlink)	3665 TT	Outperform	1830.0	10,498	1680.0	8.9	46.66	65.97	105.2	42.5	36.0	25.5	0.3	0.6	7.8	6.5	23.0	27.7	1.4	1.9
	EMC	2383 TT	Outperform	1425.0	16,423	1430.0	(0.3)	42.22	64.74	57.6	53.3	33.9	22.1	0.6	0.4	10.6	8.1	36.8	42.9	1.8	2.7
Foldable smartphones	TUC	6274 TT	Outperform	530.0	3,849	416.0	27.4	12.36	21.54	34.1	74.3	33.7	19.3	1.0	0.3	6.8	5.5	22.3	32.3	1.8	3.1
	Unimicron	3037 TT	Outperform	202.0	8,661	171.5	17.8	3.57	9.16	7.5	156.3	48.0	18.7	6.4	0.1	2.7	2.4	5.7	13.5	0.9	2.4
	N.P.C	8046 TT	Outperform	330.0	5,571	269.0	22.7	2.71	11.79	760.1	334.7	99.2	22.8	0.1	0.1	3.8	3.4	3.9	15.8	0.6	2.6
High-yield	AccLion	2345 TT	Outperform	1400.0	16,995	945.0	48.1	46.08	55.83	114.9	21.5	20.5	16.9	0.2	0.8	11.3	8.9	61.9	58.7	2.9	3.5
	SZS	3376 TT	Outperform	235.0	1,133	180.5	30.2	1.70	8.70	(75.7)	416.4	106.5	20.8	(1.1)	0.1	2.0	1.9	1.8	9.4	0.7	3.9
	CTBC Holding	2891 TT	Outperform	48.0	27,270	43.3	10.9	3.70	4.02	1.0	8.5	11.7	10.8	11.2	1.3	1.7	1.5	15.4	15.1	5.2	5.5
High-yield	BAFANG	2753 TT	Outperform	234.0	410	192.0	21.9	11.94	12.99	32.1	8.9	16.1	14.8	0.5	1.7	3.4	3.1	21.5	22.0	4.4	4.7
	Poya	5904 TT	Neutral	548.0	1,486	435.5	25.8	29.18	31.72	9.1	8.7	14.9	13.7	1.6	1.6	6.0	5.7	41.5	42.6	5.8	6.3

Source: KGI Research estimates

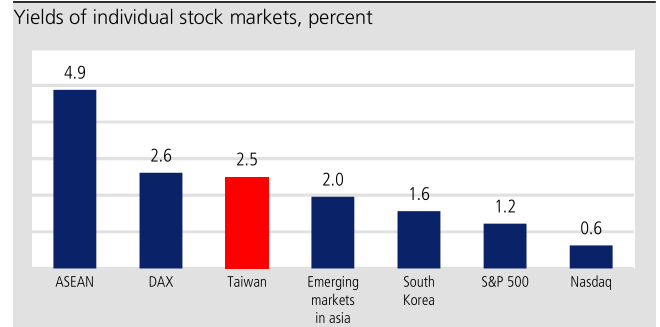
Figure 40: Earnings forecasts & valuations of Taiex constituents

Tech	Earning YoY (%)					Forecast PE (x)		Non-tech	Earning YoY (%)					Forecast PE (x)	
	2022	2023	2024	2025F	2026F	2025F	2026F		2022	2023	2024	2025F	2026F	2025F	2026F
Server EMS	(1.7)	3.7	24.8	38.1	24.1	15.7	13.0	Cement	(50.7)	8.4	27.9	(14.2)	26.9	15.8	12.2
Thermal	34.5	20.5	54.0	115.3	49.7	29.5	18.3	Food	(13.6)	6.8	12.7	(0.3)	26.2	20.7	16.4
Power supply	15.1	2.4	(1.7)	63.9	34.9	32.1	24.2	Petrochemicals	(62.6)	(51.0)	(80.8)	(50.0)	254.1	154.5	37.8
ABF	102.5	(68.1)	(70.1)	67.4	181.3	62.0	20.1	Apparel	32.1	(11.0)	17.3	(16.3)	12.8	20.7	18.6
Optical communication	-	63.4	20.5	42.6	84.2	36.7	19.9	Footwear makers	100.0	(45.2)	18.0	(8.9)	18.0	23.2	19.6
IC design and service	94.8	5.3	29.9	(10.9)	72.0	66.4	37.5	Auto parts	113.5	25.1	44.3	(13.7)	24.3	13.9	11.1
Memory	(36.0)	-	-	-	1610.8	126.8	7.4	Industrial automation	5.2	(14.2)	6.6	2.0	24.2	30.7	21.2
Networking PCB	56.1	(22.8)	59.1	61.3	43.3	32.1	22.4	Bicycle	(12.7)	(44.8)	(88.9)	463.4	44.5	21.7	13.7
Networking	77.3	15.2	15.3	62.3	24.4	17.4	13.1	Container shipping	19.7	(94.4)	631.6	(56.0)	(33.4)	10.3	10.5
CCL	(7.7)	8.2	74.5	57.6	53.3	33.9	22.1	Steel	(73.9)	(90.6)	17.6	-	-	(147.4)	66.5
Tier-one foundry	70.4	(17.5)	39.9	42.7	19.1	22.5	18.9	Tourism	(46.5)	176.4	2.7	1.3	23.3	13.4	10.0
Second-tier foundries	56.3	(30.1)	(22.6)	(23.8)	35.7	15.6	11.5	Food	(40.3)	144.6	(11.9)	(40.1)	130.5	(14.8)	11.0
Handset components	33.9	(37.0)	44.0	(3.8)	24.9	15.2	11.9	Aerospace	127.3	26.8	(0.3)	(27.7)	55.5	37.7	22.6
Telecom	2.6	13.7	13.6	4.2	4.7	26.6	25.5	Airlines	(37.8)	185.5	52.7	(18.3)	(36.6)	8.6	13.3
IC design (handset/consumer electronics)	(2.9)	(32.6)	29.8	(3.2)	14.2	16.2	14.6	Heavy electrical	32.6	48.5	36.9	8.6	21.5	29.5	24.4
Handset EMS	(26.5)	4.1	7.4	(26.6)	24.7	15.5	12.4								
Cloud digital	16.3	17.1	13.1	9.1	19.0	22.0	16.0								

Source: KGI Research estimates

Figure 41: The Taiex's valuation (in relation to earnings) is at a neutral level compared to emerging Asian peers


Source: Bloomberg; KGI Research

Figure 42: The Taiex offers a yield better than more than 50% of global stock markets


Source: Bloomberg; KGI Research

Semiconductor sector

2026 strategy – AI & TSMC are core investment themes

Key message

1. Foundry – TSMC's (2330 TT, NT\$1,455, OP) expansion and local sourcing are the main sector themes.
2. Fabless – Most Taiwanese fabless have missed the AI party.
3. OSAT & testing interface – Backend plays key role in AI chip.
4. Equipment vendors – Looking to grow on TSMC & memory business. .

Impact

Foundry - TSMC expansion & local sourcing are the main sector themes. In 2023-25, AI was the driver underpinning TSMC's (2330 TT, NT\$1,455, OP) business growth, but we expect N2 migration in non-AI applications to contribute significantly going forward. We expect TSMC to at least double N2 capacity in 2026F to 80-100k wafers per month (wpm). Most early adopters of N2 are not AI-related. We also see increased CoWoS demand in 2026-27F following multiple mega AI deals, with upside coming mainly from Nvidia (US) and Broadcom (US). As a result, we continue to see strong capacity expansion by TSMC across advanced packaging and N2, both in Taiwan and the US. We also expect TSMC to pull-in expansion in the US for at least three quarters, and we think it is likely to increase investment in the US once it finds more suitable land for expansion.

Fabless & AI ASIC - Most Taiwanese fabless have missed the AI party. Due to a lack of AI exposure, most of Taiwan's fabless players have missed out on the opportunities presented by AI. Spec upgrades are the only driver for non-AI fabless. We believe the chip design service will benefit from incremental AI ASIC demand and that Alchip (3661 TT, NT\$3,075, OP) will see strong growth from 2H26F due to a low base in 2025F and that it will regain AWS Trainium projects together with Annapurna Labs (US). MediaTek (2454 TT, NT\$1,185, N) will be a key beneficiary of AI ASIC as CSPs are keen to develop their own ASICs and take procurement power back from Broadcom. While we are positive on MediaTek's moves in ASIC, so far progress has been slower than expected, even in 2027F.

OSAT & testing interface - Back-end plays key role in AI chips. The increasing complexity of AI chip design is further driving up demand for wafer sorting (chip probing) and testing (SLT, burn-in and final testing). In addition, Nvidia's AI chips now have a shortened life cycle of 1.0-1.5 years, due to: (1) major CSPs requiring GPUs with stronger computing power, as they are still engaged in the AI arms race; and (2) exponential growth of the number of tokens used for AI inferencing and reasoning. We believe OSAT plays will benefit from incremental testing times and spillover demand as TSMC's CoWoS capacity is insufficient to meet strong demand. With upward revisions of OSAT firms' capex projections, we expect testing interface businesses will also see strong growth continuing due to higher pin counts and longer testing times for AI chips.

Equipment vendors – Looking to grow on TSMC & memory business. Most tier-one equipment vendors will benefit from TSMC's N2 expansion. However, as Taiwanese equipment vendors are limited to backend process, most of them look to benefit from CoWoS capacity expansion rather than that of N2. Regarding N2 migration, we believe Kinik (1560 TT, NT\$310, OP) is the key beneficiary in Taiwan as it is the major diamond disk vendor with estimated market share of 80% in N2. For tier-one equipment vendors at the frontend, we like Lam Research (US) in view of its higher memory and lower China exposure. Most tier-one equipment makers will benefit from TSMC's capacity expansion in 2026-27F. Taiwanese equipment vendors and the related supply chain will benefit from increased local sourcing by TSMC.

Upside from AI & general server; memory a swing factor for PC/ smartphone. Among semiconductor applications, we expect AI to be the primary growth driver, while the recovery of non-AI application will continue at a slow pace. However, we do see strong demand for general server, particularly from CSPs, while that of OEMs remains sluggish. For PC and smartphone, we believe memory is a swing factor with the potential to negatively impact shipments and end market demand.

Stocks for Action

TSMC is our top semiconductor sector pick as it is positioned as the core play in the fruition of AI mega deals. AI remains the tech sector megatrend and we are positive on the growth outlook for both AI ASIC and GPU suppliers. We like Nvidia, Broadcom, MPI (6223 TT, NT\$1,910, OP), Alchip, Aspeed Technology (5274 TT, NT\$6,355, OP) and ADI (US). Aspeed will also benefit from strong demand for general server. We also like Kinik in view of strong N2 ramp. On the other hand, strong AI demand may force major memory players to move toward high-profitability products, thereby crowding out the capacity for conventional memory and legacy products. Under the memory super cycle in Taiwan, we also favor Winbond Electronics (2344 TT, NT\$58.0, OP).

Risks

Over expansion of AI facilities and demand; economic recession.

2026F semiconductor sector outlook

Summary

1. Aside from CSPs, we have seen fresh AI-related demand from AI model developers, the Neo cloud and sovereignty, further escalating the AI infrastructure investment arms race.
2. OpenAI (US) is collaborating with major AI players, committing to a 26GW data center investment, which raises market concerns about circular financing and repeat investment.
3. We believe the AI investment bubble is a long way from bursting point. General server demand growth in 2026 will exceed historical rates, while that of PC and smartphone will be weak.

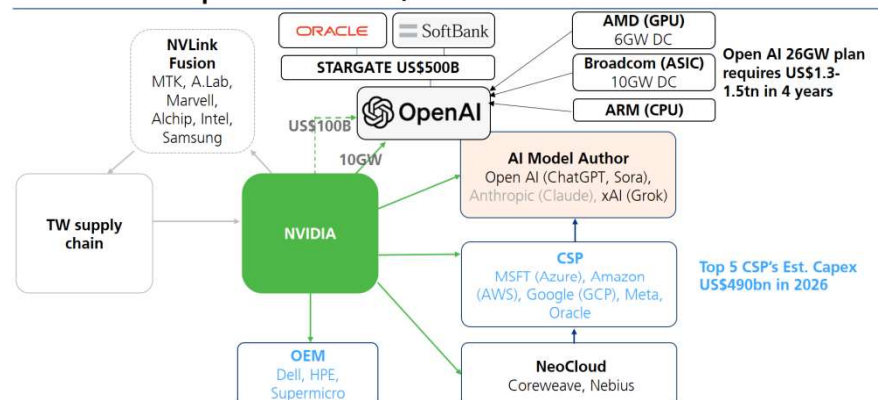
The big picture – An AI bubble, but far away from bursting

AI has driven semiconductor sector growth since 2023, starting with exponential growth of large language model (LLM) development, particularly ChatGPT, followed by skyrocketing GPU demand, with Nvidia at the core of the AI universe by establishing a complete ecosystem for AI deployment.

In 2025, the fourth year of the AI demand surge, we see structural change in Nvidia's client base. In the past three years, CSPs have accounted for at least 70% of Nvidia's GPU demand, the rest being OEMs for small and medium enterprises. The neo cloud (a key service for renting computing power) has been operating for a while, but we see the incremental influence with high demand growth. We also see strong demand for computing power, with exponential growth in the number of tokens required by AI model developers such as OpenAI (ChatGPT, Sora), xAI (US) (Grok), Anthropic (US) (Claude) and Google (US) (Gemini), which has changed the demand structure dramatically. In particular, Open AI has initiated a major AI project (Stargate) with Oracle (US) and Softbank (JP), and also has AI deals with AMD (US), Nvidia, Broadcom and ARM (UK). OpenAI has committed to a 26GW data center investment with Nvidia, AMD and Broadcom over 4-5 years, we estimate at US\$1.3-1.5tn. Some of the investment is supported by Nvidia and AMD, which has raised market concerns about circular financing or repeat investment.

Figure 1: Nvidia+OpenAI Universe

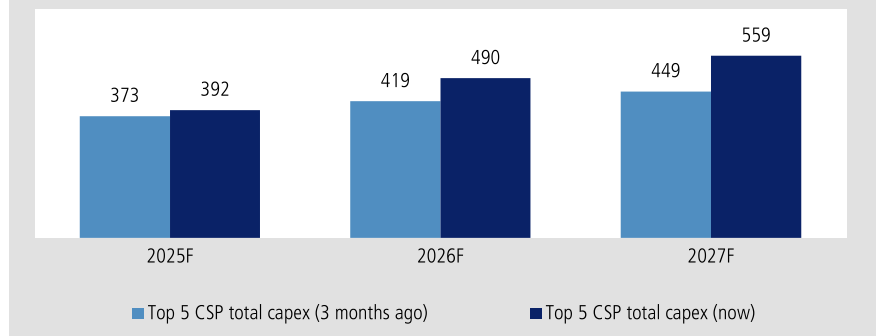
AI: NVIDIA + Open AI Universe, AI Team to the moon?



Source: Company data; KGI Research

Figure 2: 2025-27F top-five CSP capex plans revised up

Capex, US\$bn

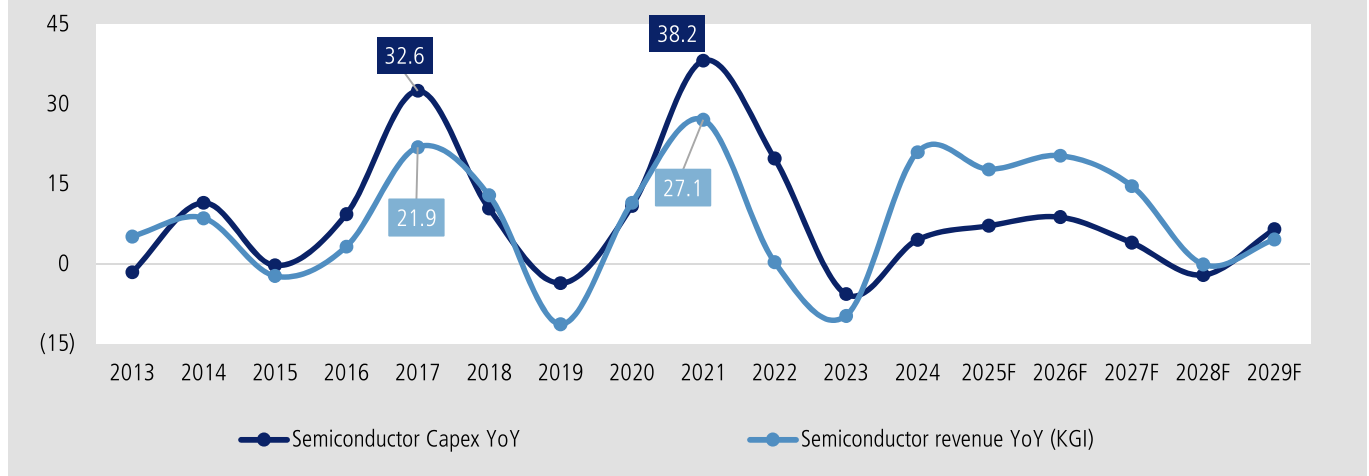


Source: Bloomberg; KGI Research

The top-five CSPs have been aggressive in AI investment expansion in the past three years, and we believe the revision of capex is the major indicator to see if strong AI demand can sustain. We also see exponential growth in token demand since the launch of AI reasoning models, while Nvidia has launched the new concepts of the “AI factory” and AI facilities”, escalating the arms race among CSPs and even AI model developers. Because most CSPs are able to finance investments from internal cash flows, thanks to a growing cloud business, along with anticipated interest rate cuts in 2026F and a leverage level below the dotcom bubble period, we believe that while an AI bubble does exist, it is still a long way from bursting.

Figure 3: Semiconductor sector revenue & capex growth YoY since 2013

Semiconductor capex & revenue growth YoY, percent



Source: Gartner; KGI Research estimates

US tariffs in 2025F and strong AI-related demand growth are changing the semiconductor cycle pattern significantly in 2023-27F. Secular AI demand growth has underpinned semiconductor revenue growth, which has maintained at a high level, while disciplined capex with regard to slow non-AI revenue recovery has resulted in most semiconductor makers seeing higher-than-average cash on hand during the cycle.

Gartner has revised up its revenue growth forecasts for all semiconductor applications in 2026F, with data center seeing the greatest upward revision thanks to AI. However, Gartner significantly revised up its 2026-28F revenue CAGR forecast only for data processing (from 11.6% to 24.5%), while revising down both automotive and industrial revenue forecasts. Consumer and communication forecasts were maintained at a similar level to 2024.

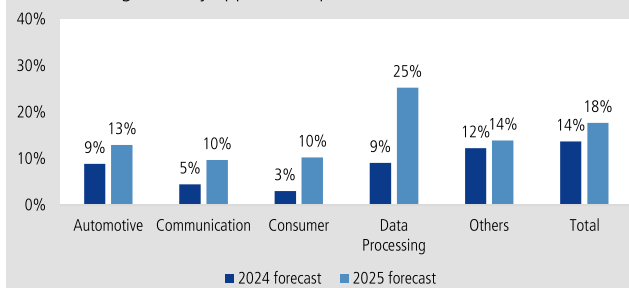
Figure 4: Semiconductor market revenue breakdown by application, CAGR & 2026F growth versus 2024

YoY growth rate		2024	2025F	2026F	2027F	2028F	2023-28F CAGR
Automotive Electronics	2024 forecast	6.6%	15.5%	9.0%	5.7%	4.0%	8.1%
	2025 forecast	2.4%	9.1%	13.0%	7.9%	3.7%	7.2%
Communication Electronics	2024 forecast	20.7%	11.6%	4.5%	-2.9%	-0.6%	6.3%
	2025 forecast	17.7%	8.1%	9.8%	2.1%	-2.9%	6.7%
Consumer Electronics	2024 forecast	10.0%	7.8%	3.1%	2.1%	4.2%	5.4%
	2025 forecast	-0.5%	8.8%	10.3%	5.5%	2.9%	5.3%
Data Processing Electronics	2024 forecast	35.0%	16.6%	9.2%	-0.3%	1.1%	11.6%
	2025 forecast	53.7%	30.8%	25.3%	13.2%	5.1%	24.5%
Industrial and Military/Civil Aerospace Electronics	2024 forecast	-3.5%	13.8%	12.3%	9.7%	9.2%	8.1%
	2025 forecast	-16.2%	8.5%	14.0%	12.1%	7.5%	4.5%
Total	2024 forecast		18.8%	13.8%	7.5%	1.1%	8.5%
	2025 forecast	21.0%	17.8%	17.8%	9.3%	3.2%	13.6%

Source: Gartner; KGI Research

Figure 5: 2026F semiconductor revenue growth revisions

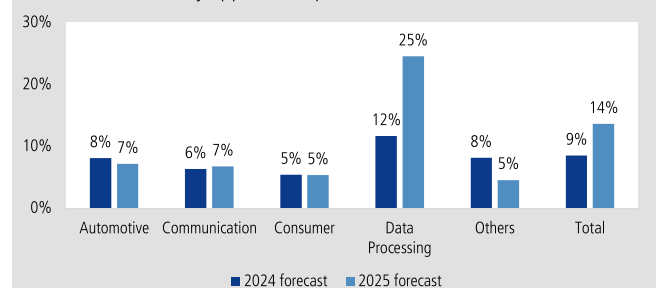
YoY revenue growth by application, percent



Source: Gartner; KGI Research

Figure 6: 2023-28F semiconductor revenue CAGR revisions

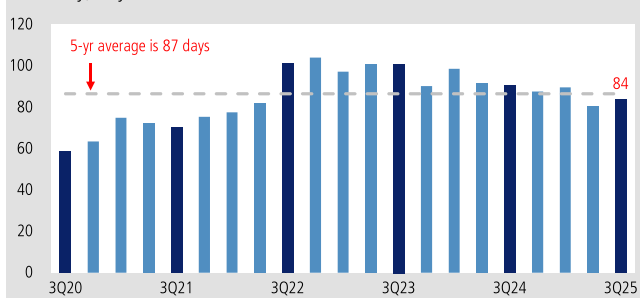
YoY revenue CAGR by application, percent



Source: Gartner; KGI Research

Figure 7: Global foundry inventory

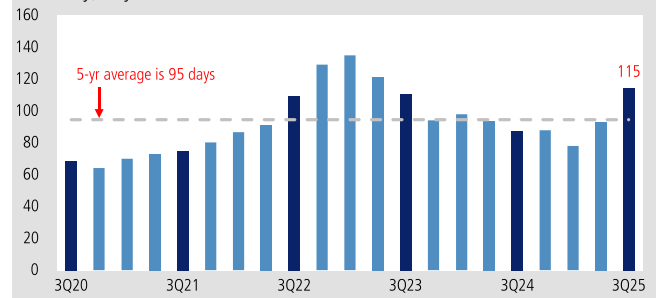
Inventory, days



Source: Bloomberg; TEJ; KGI Research

Figure 8: Global fabless inventory

Inventory, days



Source: Bloomberg; TEJ; KGI Research

2026F outlook by semiconductor sub-sector

Summary

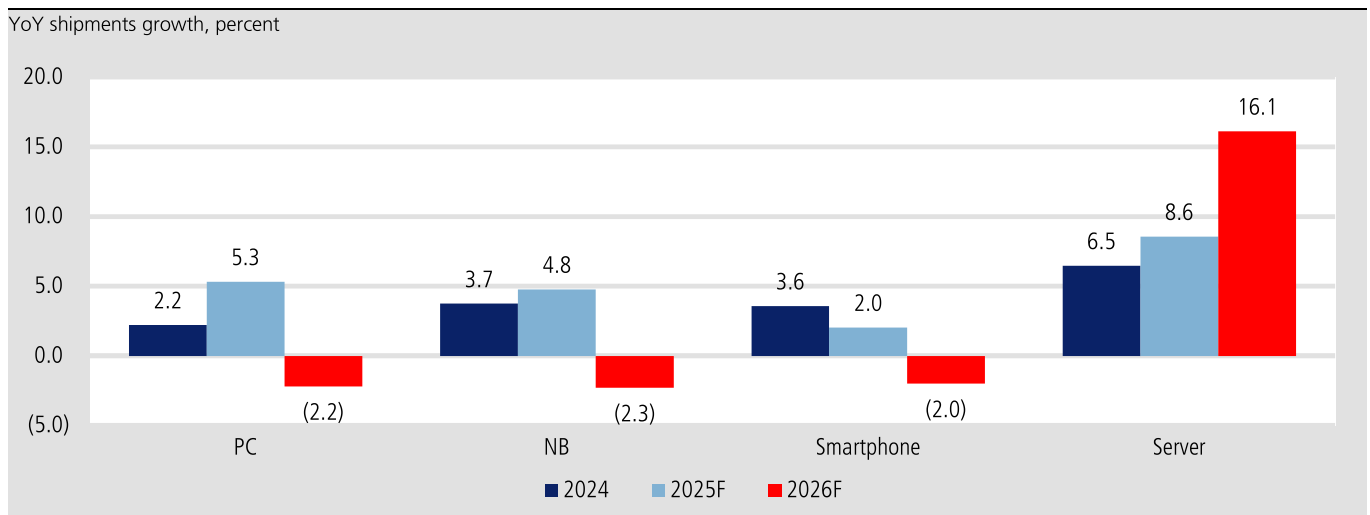
1. While strong AI-related demand is driving TSMC's positive outlook and the solid capex of CSPs, non-AI application semiconductor demand has been overshadowed due to weak consumption recovery globally.
2. We expect the non-AI application semiconductor demand recovery to be moderate in 2026, though memory prices are a swing factor affecting the recovery trend. We expect general server-related demand to see upside at CSPs, based on AI bringing overall infrastructure upgrades and a refresh cycle.
3. We project AI-related demand and TSMC's N2 ramp will keep the firm's N2, N3, N4 and CoWoS utilization rates at high levels through 2026F, while continued upward revisions of CSPs' capex will benefit related equipment and testing interface supply chains.

PC & smartphone – Slow recovery; memory prices another uncertainty

PC demand this year has been better than expected, thanks to stronger education demand and refresh demand on Windows 10 EOL. While there were great expectations for AI PC, this has not come to fruition. We have seen incremental NPU adoption in the PC space, but sales of AI PC with a restricted definition of high computing power have been below expectations, due to: (1) a lack of killer AI applications; (2) compatibility issues of ARM-based PCs; and (3) market positioning with premium pricing.

On the CPU front, with TSMC's help, we believe Intel (US) may slow down erosion of its market share with Arrow Lake and Nova Lake in 2H26F. In general, we expect a lower growth rate for PC sales in 2026F as corporate refresh demand has been largely fulfilled in 2025F and given new uncertainties around memory prices. PC shipments will either be capped by a memory supply shortage or by much higher memory prices impacting consumers' willingness to replace PCs under a limited income growth environment.

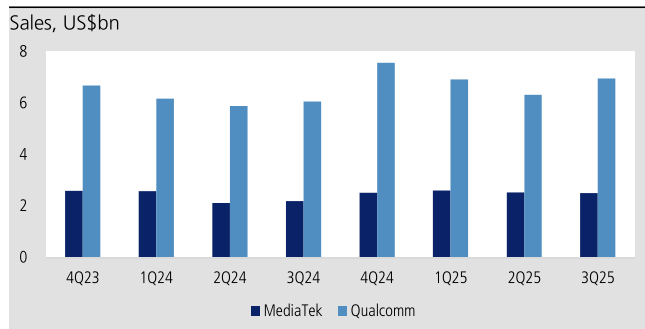
Figure 9: IT hardware devices – NB, PC, smartphone shipments to decline, server shipments to grow in 2026F



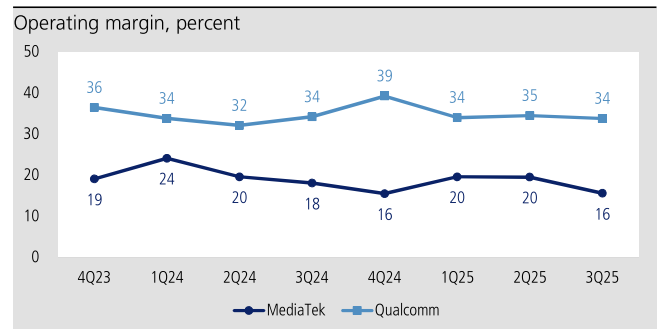
Source: Gartner; KGI Research estimates

For smartphone, we forecast total 2026F smartphone SoC/ AP of 1.26bn units, up 2.5% YoY, which indicates SoC/ AP shipments will likely surpass our sell-through estimate of 1.18bn units and OEMs' sell-in target of 1.2bn units, meaning this phenomenon will have occurred for three years in a row. Significant China smartphone subsidies in 1H25 only pulled-in seasonality instead of boosting demand. We do not expect another round of subsidies to come, and expect sales growth to be driven by upgrade demand.

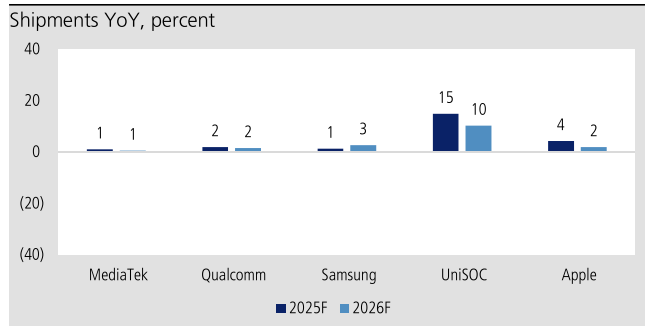
We are positive on both Qualcomm's (US) and MediaTek's moves in N2 migration for flagship SoCs in 2026F, the first time they have achieved the same pace as Apple (US) in adopting leading advanced nodes. However, we expect N2 migration will force both MediaTek and Qualcomm to increase prices by 15-20%, and we are concerned the Android camp might find it difficult to pass through costs to consumers, unlike iPhone. The memory price surge will also likely be a swing factor for smartphone shipments and end-market demand in 2026.

Figure 10: MediaTek vs. Qualcomm smartphone sales


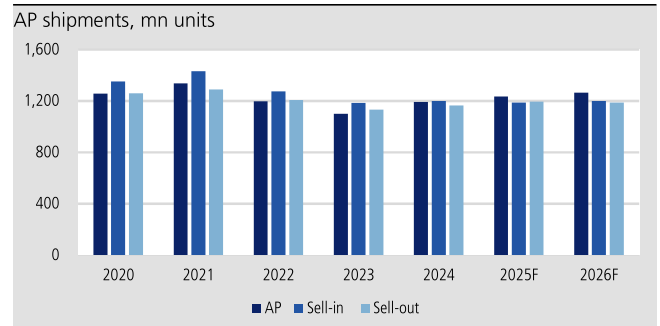
Source: Company data; KGI Research

Figure 11: MediaTek vs. Qualcomm operating margin


Source: Company data; KGI Research

Figure 12: Mobile SoC/ AP shipments growth


Source: KGI Research estimates

Figure 13: AP shipments vs. smartphone (set) shipments


Source: KGI Research estimates

Server – AI still leads growth; general server sales growth on AI & refresh cycle

After several quarters of inventory adjustment and AI crowding out budgets since 2022, general server shipments finally returned to a growth trajectory in 2024. Shipments were driven by sustained strength of CSP-related capex and data-center expansion, as well as continued investment and deployment in global AI infrastructure.

Gartner projects global server shipments will rise from 12.1 units in 2024 to 16.8m units in 2029F, implying a CAGR of 6.8%. In 2025-27F, global shipments are expected to grow a respective 7.7%, 6.3%, and 7.3% YoY to 13.0m, 13.9m, and 14.9m units. As for the crowding-out effect, we believe AI-related supply constraints (e.g. GPU, power, rack assembly) and CSP capex upside are key to smoothing out budget crowding out issues. In addition, as most CSPs have extended depreciation years from four years to six years, we are also facing a turning point in the refresh cycle. We therefore see strong upside to Gartner's forecasts. Lastly, while AI servers have priority status in budgeting, the overall

infrastructure of data centers, including general server, storage and switch, needs to upgrade accordingly to optimize performance.

On the CPU front, AMD continues to expand market share in the server CPU space, from 40% in 2025F to close to 45% in 2026F, thanks to multiple core chip designs and help from TSMC. As for Intel, unlike for PC chips, most of its server CPU chips production still relies on its own foundry, and we believe it is unlikely to see market share contraction reversing until it starts to outsource production to TSMC.

Figure 14: Intel vs. AMD data center sales

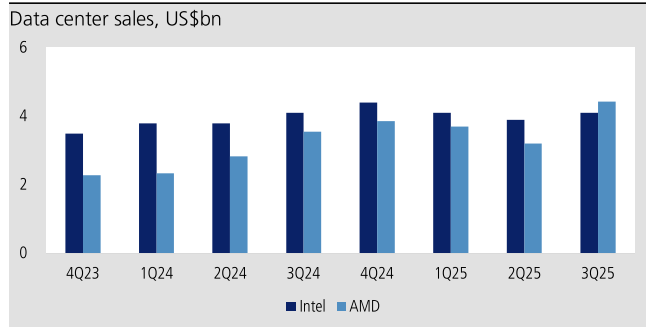
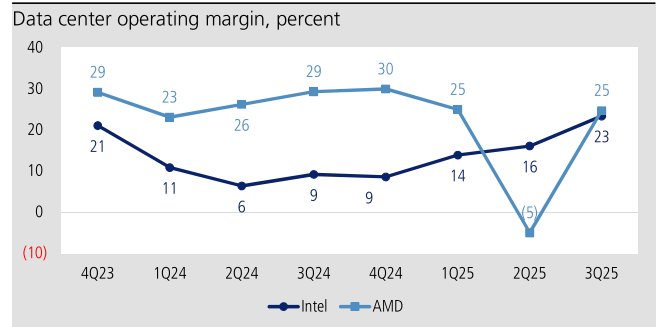


Figure 15: Intel vs. AMD data center operating margin



AI – All the way to the moon . . . ?

Gartner projects global AI server shipments will rise from 1.69m units in 2024 to 3.68m units in 2029F, for a CAGR of 16.8%. Over the same period, general-purpose server shipments are expected to grow at a CAGR of only 4.7%.

Incremental AI inferencing demand and the introduction of reasoning models will drive 2025F exponential token growth, not just by two- or three-fold, but by 40-50x from 2024. Thus, we have seen the top-five CSPs revise up capex outlook almost every quarter since 2024. Meanwhile, recent multiple mega AI deal announcements, particularly by OpenAI, have further pushed FOMO expansion and bolstered supply chain sentiment. In the past two years, the top-five CSPs have accounted for 70% of Nvidia's GPU demand. However, we now see increasing numbers of neo cloud and AI model developers joining the AI infrastructure and resource competitive landscape (e.g. land, power supply), which is redefining the overall demand structure that we have seen persist in the past two years.

Figure 16: Top-four CSP capex revisions post-3Q25 earnings

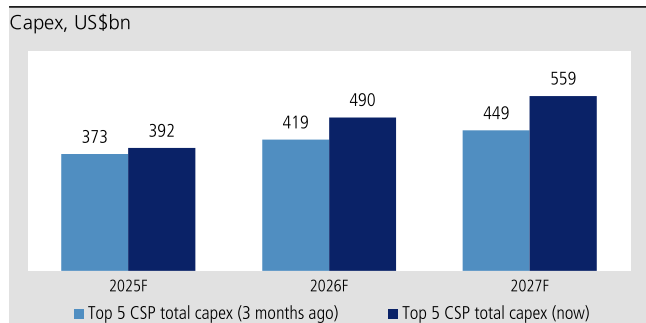
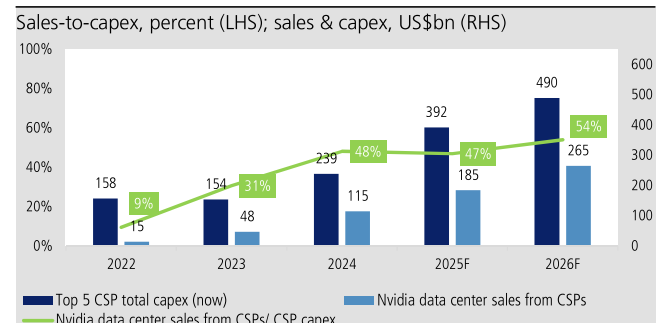


Figure 17: Nvidia's data center sales-to-CSP capex

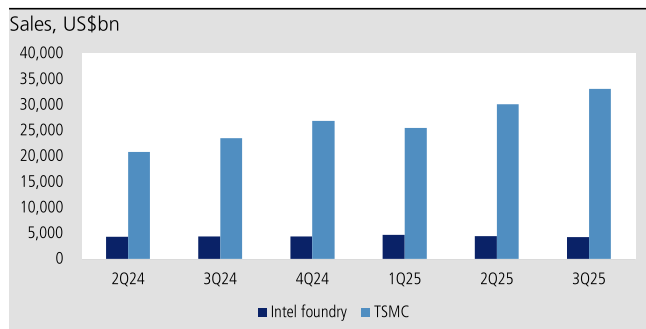


Foundry – TSMC dominates advanced nodes; pricing pressure on mature nodes

While both Samsung (KR) (memory) and Intel (US government support) have recovered recently for different reasons, TSMC maintains technological leadership heading into the N2 era, with active engagement with all key fabless clients. Due to a lack of customer commitment and lower production yields, Samsung's and Intel's N2 capacity expansion are still way behind TSMC's. We forecast TSMC to at least double N2 capacity from 40kwpw by end-2025F to 80-100kwpw by end-2026F, while both Samsung's (SF2) and Intel's (18A) monthly capacity will still be below 20kwpw at end-2026F.

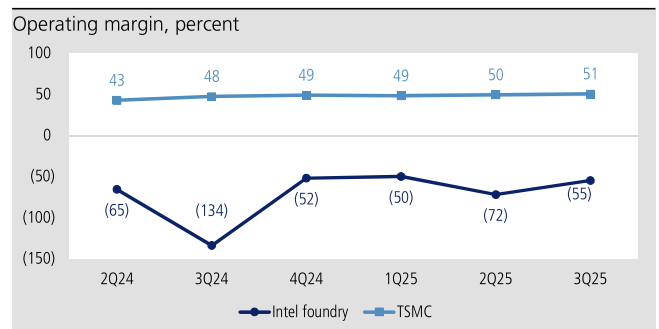
In addition, we expect TSMC's CoWoS capacity to be severely stretched in 2026-27F, further driving up ASP. We also expect the firm to increase N3, N4 and N5 prices by 3-5% in 2026F. For Nvidia, despite all N3 clients migrating to N2, we think Rubin can fill the gap for N3. We expect N3, N4 and N5 supply will be tight next year, while for mature nodes, we see oversupply continuing amid a stabilized price war.

Figure 18: Intel's foundry vs. TSMC's sales



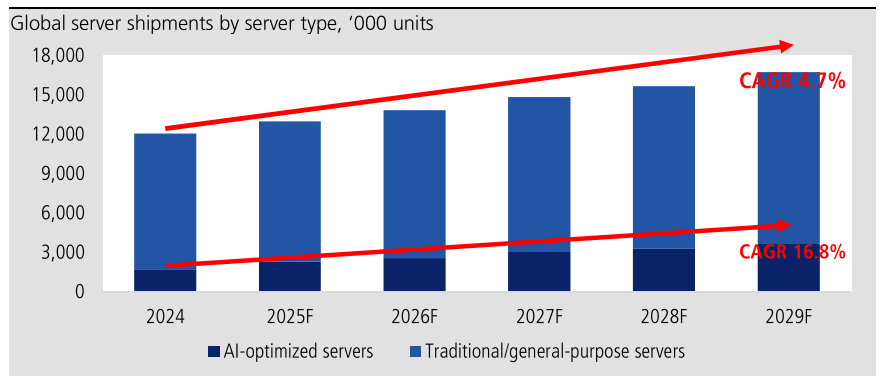
Source: Company data; KGI Research

Figure 19: Intel's foundry vs. TSMC's operating margin



Source: Company data; KGI Research

Figure 20: AI server shipments CAGR exceeds that of general server



Source: Gartner; KGI Research estimates

OSAT – Packaging & testing are important

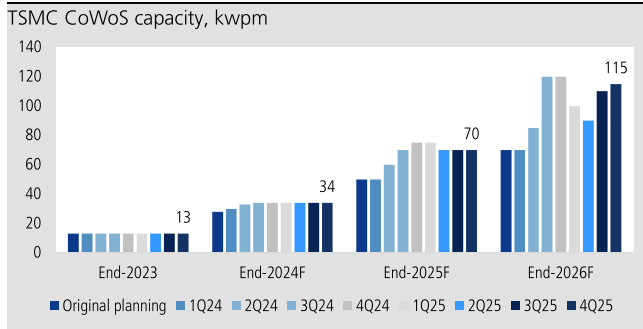
In 2026F, we predict CoWoS will remain the focus for advanced packaging, but not the only focus. Under strong AI-related demand, we forecast TSMC's CoWoS capacity will grow from 70kwpw by end-2025F to 115kwpw by end-2026F. Annual supply could grow from 700k wafers this year to 1,100k wafers in 2026F (up 57% YoY). Among clients, Nvidia and Broadcom are the key growth drivers, followed by AMD, Annapurna Labs (plus Alchip) and others.

Due to insufficient CoWoS capacity, we expect CoPoS (chip-on-panel-on-substrate) will be an alternative for increasing die output from 2H27F or early 2028F. By changing the shape of the interposer (from circular to square), we estimate die output can increase 2-3x depending on the packaging size. We also see strong growth for WMCM and SoIC, which

means that multiple different packaging methodologies will be gaining market attention going forward.

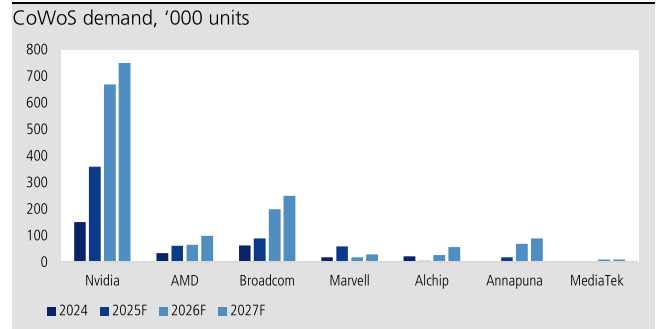
Lastly, due to insufficient resources, we have seen chip probing (CP) testing being increasingly outsourced from TSMC to ASE (3711 TT, NT\$222.5, N) and KYEC (2449 TT, NT\$211.5, NR). In addition, as thermal control migrates from air cooling to liquid cooling, we expect to see limits on demand for burn-in ovens and potential opportunities for market share reshuffles in 2026. However, in general, we see incremental semiconductor testing demand on the AI boom, as well as for packaging, as these are often under-estimated by the market.

Figure 21: KGI CoWoS capacity forecast revisions for TSMC



Source: KGI Research estimates

Figure 22: 2024-27F CoWoS demand forecasts by TSMC client

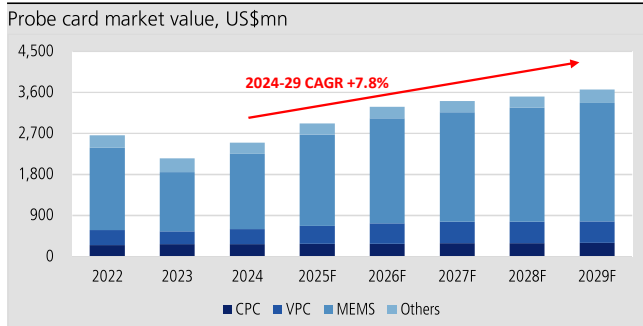


Source: KGI Research estimates

Testing interface – AI/ HPC the long-term growth engine

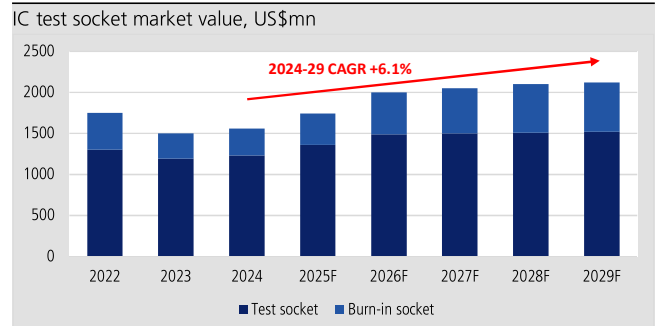
The testing interface market is poised for robust growth in 2026F, building on a strong 2025F driven by strong demand in AI and HPC. According to Yole Group, the global probe card market will grow by 14.1% in 2026F to US\$3.29bn, while the IC test socket market is projected to grow by 8.9% to US\$2.01bn. For the 2024-29F period, the market value CAGRs of the probe card and IC test socket markets are estimated to reach 7.8% and 6.1%, respectively. Notably, the MEMS probe card market is projected to achieve a 9.5% CAGR during the same period, outpacing the overall probe card market. We believe this growth is primarily due to: (1) the predominant use of MEMS probe card for testing AI chips; and (2) as process technology advances to N3 and beyond, traditional cobra (VPC) probes risk causing damage during testing, whereas MEMS probe card offers superior advantages in managing stress.

Figure 23: 2024-29F global probe card market value CAGR



Source: Yole, KGI Research

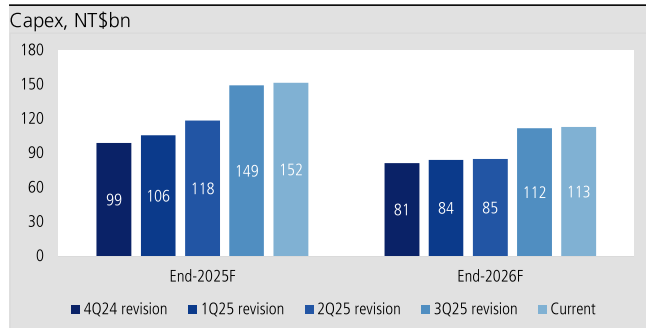
Figure 24: Global IC test socket market value CAGR



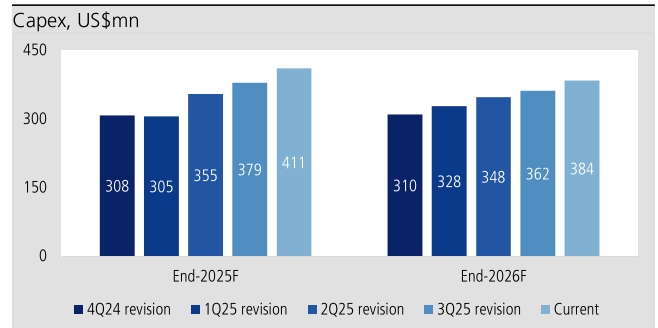
Source: Yole, KGI Research

Notably, the increasing design complexity of AI/ HPC chips demands more stringent testing environments and longer test times, which in turn drives overall test demand. Leading automated test equipment (ATE) vendors Advantest (JP) and Teradyne (US) both confirmed this trend in recent earnings calls. Advantest said that AI GPU and custom ASIC are key growth drivers, with strong demand expected to continue into 2026F. Teradyne said that its AI-driven compute revenue has been significantly higher than expected. We believe this structural trend will be the main growth driver for the testing interface industry for the next 3-5 years. Capital expenditure estimates for both ATE vendors and OSATs are also continuously being revised upward, indicating that with rising AI/ HPC test demand and longer test times, test capacity remains tight.

Looking ahead to 2026-27F, we expect Nvidia's next-generation Rubin AI GPU platform and various AI ASIC projects from major cloud service providers to enter mass production. We believe this trend will significantly benefit test interface suppliers that have established leadership positions and high revenue exposure within the AI supply chain.

Figure 25: OSAT raise 2025-26F capex significantly


Source: Bloomberg, KGI Research

Figure 26: Testing equipment vendors' capex


Source: Bloomberg, KGI Research

Figure 27: AI ASIC product roadmaps of CSPs

Company	Product	Design Service	Actual 1Q25	Actual 2Q25	Actual 3Q25	Expect 4Q25	Expect 1Q26	Expect 2Q26	Expect 3Q26	Expect 4Q26	Expect 1Q27	Expect 2Q27	Expect 3Q27	Expect 4Q27
Google	TPU v5e	Broadcom												
Google	TPU v6e (Trillium)	Broadcom												
Google	TPU v6p (Ironwood)	Broadcom												
Google	TPU v7e	Mediatek												
Google	TPU v7p	Broadcom												
Google	TPU v8	Pending												
AWS	Trainium 2	Marvell												
AWS	Trainium 2.5/R	Marvell												
AWS	Trainium 3	AWS+Alchip												
AWS	Trainium 3 Lite	Marvell (CoWoS @ASE)												
AWS	Trainium 4	AWS+Alchip												
Meta	MTIA	Broadcom												
Meta	MTIA 2	Broadcom												
Meta	MTIA 2.5	Broadcom												
Meta	MTIA 3	Broadcom												
Meta	MTIA 3.5	Marvell												
Meta	MTIA 4	Broadcom												
Microsoft	Maia 100	Microsoft												
Microsoft	Maia 200	Microsoft+GUC(?)												
Microsoft	Maia 300	Marvell												
Open AI	Gen1	Broadcom												
Open AI	Gen2	Broadcom												

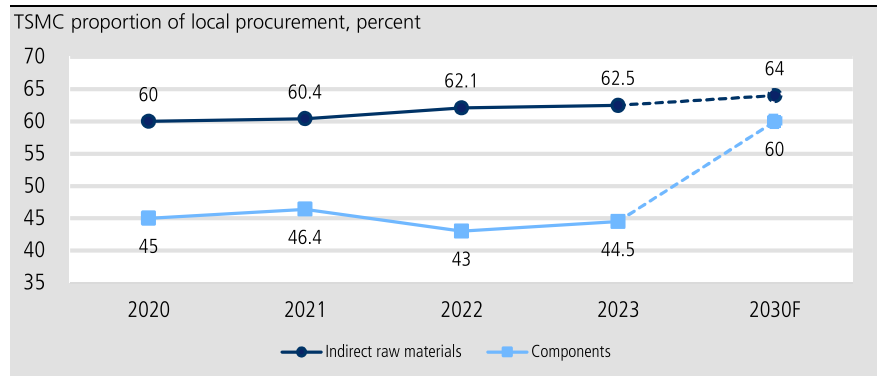
Source: Company data, KGI Research

Semiconductor equipment – Growing with AI & TSMC

As semiconductor manufacturing processes become more complex, the cost of chip production rises exponentially. Therefore, we believe advanced packaging and heterogeneous integration will become the main solutions to satisfy HPC needs and to extend Moore's Law.

We believe most tier-one equipment vendors will benefit from TSMC's N2 expansion. However, Taiwanese equipment vendors are limited to backend process and are should therefore benefit from CoWoS expansion rather than N2. Regarding N2, we believe Kinik will be the key beneficiary in Taiwan as the major diamond disk vendor with estimated market share of 80% in N2. For tier-one equipment vendors at the frontend, we like Lam Research in view of higher memory and lower China exposure. Most tier-one equipment vendors will benefit from TSMC's N2/ CoWoS capacity expansion in 2026F and 2027F, while Taiwanese equipment vendors and the related supply chain will benefit from TSMC's increased local sourcing.

Figure 28: TSMC will continue to increase local sourcing



Source: TSMC, KGI Research

ASIC design service – AI inference to drive mass customization

If we were to describe the 2026F trajectory of CSP's AI ASIC market, "in full bloom" would not be an overstatement. We remain constructive on the AI ASIC outlook in 2026 as all four major US hyperscalers are slated to enter mass production with meaningful AI ASIC programs, and their subsequent iterative roadmaps are becoming clearer. We believe the key drivers behind CSP in-house ASIC are broadly intact, namely hardware autonomy and supply-chain control, cost efficiency and total cost of ownership (TCO) optimization, performance uplift with customized optimization and product differentiation with competitive advantages.

- Hardware autonomy & supply chain control.** Large CSPs aim to raise self-sufficiency in hardware and reduce over-reliance on a single supplier's GPUs. In-house ASICs allow them to diversify hardware sources, lower supply risk, and improve bargaining power with external vendors.
- Cost efficiency & TCO optimization.** By developing their own AI chips, CSPs can materially reduce the TCO of AI infrastructure. Workload-specific ASICs, especially for inference, better match diverse AI tasks and avoid using expensive general-purpose GPUs for everything, improving efficiency and lowering costs.
- Performance uplift & customized optimization.** In-house ASICs use advanced process nodes, advanced packaging, and high-bandwidth memory, with deep optimization for each CSP's applications to deliver higher compute performance and energy efficiency. We also see system-level enhancements in ASIC architectures, such as boosting internal interconnects and external networking from 400Gbps to 800Gbps, and higher in the future, thereby strengthening large-scale cluster

scalability (both scale-up and scale-out).

- **Product differentiation & competitive advantage.** Owning a proprietary AI chip gives CSPs a differentiated edge, as they can offer unique acceleration options within their clouds. For example, Google's tensor processing unit (TPU), with strong cost-performance, has persuaded many customers to adjust software to migrate onto TPUs; AWS likewise uses Trainium to provide more cost-effective AI instances, creating clearer product separation than peers.

Early movers like Google and AWS may have already raised the share of in-house ASICs to above 40% of AI hardware budgets, if not higher; we believe demand for AI ASIC in 2026F (including TPU and Trainium accelerator) should remain robust. Meta (US) is actively pushing for a higher-end training ASIC to reduce future GPU dependence, and its meta training and inference accelerator (MTIA) roadmap now extends beyond 2028F. Microsoft (US), a relatively slow adopter, is slated to mass-produce its MAIA 200 accelerator in 2026F, though volumes will be smaller than those of peers noted above; a more meaningful scale is expected once MAIA 300 enters mass production in 2027F.

On the chip front, iteration cadence is accelerating. We note a 1-1.5-year generational cycle across the four major CSPs, driving continuous refresh and procurement. Architecturally, advanced nodes coupled with larger die sizes will keep lifting per-chip compute and silicon content; HBM capacity and bandwidth upgrades should significantly raise overall ASPs for in-house ASIC. The spread of chiplet architectures expands adjacent needs, such as test and probe card, while increasing design complexity, which elevates the value content in design and reinforces entry barriers for experienced design service providers. Most importantly, CSPs are adopting shorter iteration routes with per-generation upgrades in process, HBM, and packaging, creating sustained ASP/ shipments momentum and more engagement opportunities for designers. We note vendors including Broadcom, Marvell, MediaTek, Alchip, and Global Unichip (3443 TT, NT\$1,965, OP) are winning projects across different CSPs, supporting revenue growth; we think these providers will continue to benefit from the catalysts outlined above, driving growth in ASIC businesses. We summarize CSPs' AI ASIC shipments outlooks below (Figure 29) and roadmaps (Figure 27).

Figure 29: Breakdown of 2023-27F AI accelerator forecasts

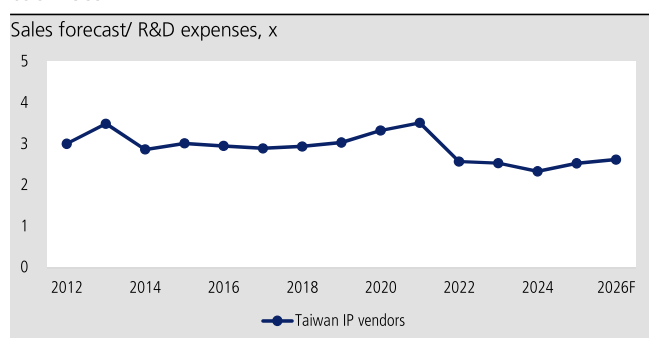
Shipments (k units)	2023	2024	2025F	2026F	2027F
GPU	1,645	4,730	6,453	8,227	8,035
YoY (%)	N.M.	187.5	36.4	27.5	(2.3)
Nvidia	1,450	3,838	5,310	6,827	6,135
- A100	1,450	88	-	-	-
- H100	-	3,218	522	194	-
- B200	-	532	2,873	235	-
- B300	-	-	1,915	2,111	210
- Rubin	-	-	-	4,288	2,625
- Rubin Ultra	-	-	-	-	3,300
AMD	168	490	627	800	1,200
Intel	27	202	16	-	-
Others	-	200	500	600	700
ASIC	2,259	3,984	4,887	8,247	10,762
YoY (%)	N.M.	76.4	22.7	68.7	30.5
AWS Trainium	495	1,225	1,600	2,428	3,360
Google TPU	1,464	2,099	2,527	3,819	4,202
Meta MTIA	-	300	400	700	1,000
MSFT Maia	-	60	60	200	400
Open AI	-	-	-	600	1,000
Others	300	300	300	500	800
AI Accelerator	3,904	8,714	11,340	16,474	18,797
YoY (%)	N.M.	123.2	30.1	45.3	14.1

Source: KGI Estimates

Semiconductor IP vendors – Limited AI exposure, elevated opex

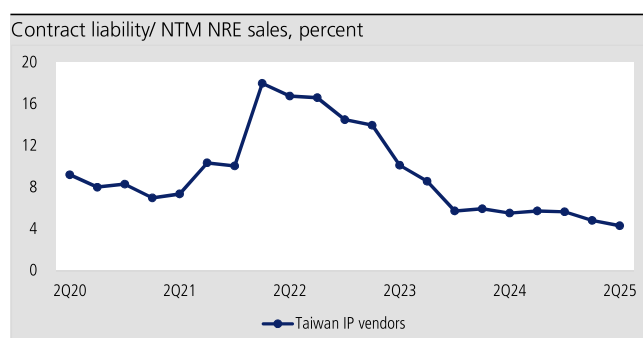
We maintain our conservative view on Taiwanese semiconductor IP vendors, which was originally based on strong NT dollar appreciation as the IP business model – receiving 100% of revenue in US dollars while incurring 100% of operating expenses (primarily R&D personnel) in NT dollars – can cause severe margin pressure in that currency environment. Although the exchange rate environment has since stabilized, we are still conservative on local IP vendors. While it is true that structural demand for IP is accelerating, driven by AI/ HPC and rising chip design complexity, and though we are positive on segments tied to TSMC's advanced process expansion and AI/ HPC, our conservative stance is due to IP vendors' insufficient exposure to advanced nodes and critical AI applications. Furthermore, the IP industry is constrained by high electronic design automation (EDA) tool licensing fees and intensive demand for R&D talent, which dilutes the profitability of Taiwanese players compared to global peers.

Figure 30: IP vendors' R&D efficiency suffers from high EDA tool fees



Source: Bloomberg, KGI Research estimates

Figure 31: Demand for NRE has weakened



Source: Bloomberg, KGI Research estimates

Memory – CSP procurement the key driver in 2026F

On the DRAM front, based on MOU commitments, all four major US CSPs plan YoY procurement increases of over 20% next year, mainly for general server applications. We forecast server DRAM demand to grow 21% YoY in 2026F, with a full-year DRAM supply-demand ratio at 97.4%, implying continued undersupply. As a result, DRAM contract prices are expected to trend upward through end-2026F.

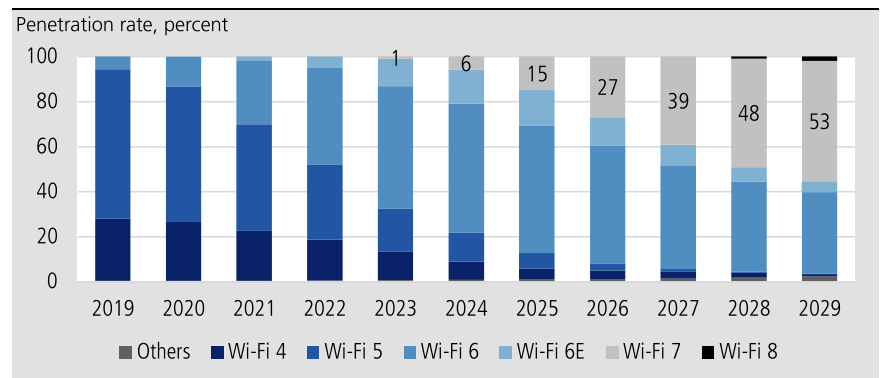
For NAND flash, current CSP procurement of both quad-level cell (QLC) and triple-level cell (TLC) NAND is substantial. We estimate 2026F enterprise SSD orders from US CSPs to grow 100-130% in 2026F, driven by storage server deployment. We forecast eSSD bit demand to rise 61% YoY to 442EB. Supported by strong eSSD demand, we estimate a full-year NAND flash supply-demand ratio tightening to 92.4%, with TLC and QLC wafer prices likely to continue increasing through end-2026F.

Fabless – Opt for stocks more directly leveraged to US CSP data centers & AI themes

Given uncertainty around US tariff plans on China and the impact of China's stimulus measures, Taiwanese IC designers saw significant front-loaded pull-in in 1H25, followed by two consecutive quarters of inventory digestion in 2H25F, creating a softer-than-usual 2H25F after a stronger-than-usual 1H25. By application and seasonality, and based on current supply-chain inventory levels and foundry wafer-in observations, we believe seasonal softness for fabless will persist through 1Q26F for most end markets, with a restocking cycle restarting from late-1Q26F into 2Q26F. Among end markets, we expect PC/ NB-related chips to see the earliest restock in 1Q26F, which should see IC designers with a higher PC/ NB revenue mix perform better in 1Q26F; thereafter, applications should broadly revert to seasonal trajectories.

Taiwanese IC designers' inventory levels are healthy. Post-3Q25 results, while we note some companies tactically building inventory to cope with ongoing macro uncertainty and to enhance shipments flexibility, levels are still not excessive versus the five-year average. Excluding fabless design-service houses, we emphasize that only a handful of Taiwan IC designers are closely tied to US CSP data center/ AI demand. Against a backdrop of still-tepid recovery, local IC designers in non-AI consumer electronics in 2026F (smartphone, PC/ NB, TV) will continue to rely on spec upgrades. In networking, MediaTek, Realtek (2379 TT, NT\$496.5, N), and Airoha (6526 TT, NT\$444.0, OP) should benefit from fiber-access growth driven by FTTH, on backbone/ core network expansion, rising fixed-broadband traffic, and cloud/ streaming-led spec upgrades in indoor AP and home router. Among these, MediaTek and Realtek will also benefit from Wi-Fi 7 upgrades. According to IDC, Wi-Fi 7 penetration in PC and router are projected to reach 27% and 32% in 2025F, rising markedly to 44% and 56% in 2026F. By contrast, smartphone and PC/ NB offer fewer upgrade vectors that materially drive profit growth for IC designers; for the latter, upgrades are still centered on processor-driven high-speed interfaces, primarily USB4, which should support revenue and earnings growth at Parade (4966 TT, NT\$641, N) and ASMedia (5269 TT, NT\$1,220, NR) next year. That said, for most IC designers, risk-reward is currently unattractive; lacking meaningful exposure to CSP data center/ AI themes or related revenue, upward revisions to earnings or share valuations look limited.

Figure 32: Wi-Fi 7 penetration rate to exceed 27% in 2026F



Source: IDC, KGI Research

Aspeed is our top pick in the IC design sector. The company is more directly leveraged to US CSP data center/ AI themes, and we are positive on steady sales growth in general-purpose server and strong growth in AI server, driven by rack-level design trends and rising BMC ASPs due to server-CPU iterations. We forecast a 2024–29F BMC (US dollar) revenue TAM CAGR of above 20%. Our latest supply chain checks also point to upside for general server shipments, which will boost Aspeed's revenue and earnings.

Stocks for action

Foundry

TSMC's share valuation historically leads the semiconductor fundamentals cycle by 2-4 quarters. As we expect the semiconductor sector upcycle to bottom out in 2Q26F, and to return to an uptrend YoY from 2H26F, we believe TSMC's share price will start to reflect this from 4Q25. TSMC is our top pick among global foundry plays and in the semiconductor industry as a whole. Without TSMC, the AI boom and all ensuing mega deals would not have been possible.

Fabless

Aspeed is our top pick in the IC design space. We expect growth to be driven by: (1) strong global demand for general-purpose and AI server in 2026F, the rack-level design trend and the BMC ASP uptrend, driven by successive server CPU iterations, which will collectively drive up BMC dollar-revenue TAM to a five-year CAGR of over 20% in 2024-29F; (2) new product lines in BIC (mini-BMC), PFR security chip and I/O expander, which will structurally raise Aspeed's silicon content per-server motherboard. On the back of Intel's Oak Stream server platform, we estimate Aspeed's dollar-revenue TAM will be more than double that of Eagle Stream platform; and (3) steady expansion of smart AV solutions revenue, supported by smart manufacturing and smart city applications.

Testing interface

We are positive on incremental demand for both probe card and socket on strong AI demand and upgraded specs from higher-pin counts. MPI is our top pick in the testing interface space in view of ASIC demand growth, particularly from client Broadcom, and MPI's gross margin uptrend on an improving product mix.

IP

In 2025, most Taiwanese IP vendors have suffered under a strong NT dollar, with earnings underperforming. In 2026F, we think most local IP vendors will see limited earnings growth due to a lack of new AI projects and little exposure to TSMC's N2 capacity expansion. We expect Taiwanese IP vendors' performance to be muted in 2026.

Equipment & consumables

We expect Taiwanese semiconductor equipment vendors to benefit from TSMC's capacity expansion, though mainly backend advanced packaging players will benefit as frontend equipment is still dominated by overseas tier-one equipment vendors such as ASML (NL), KLA (US), TEL (JP) and Lam Research. We like Lam Research as it benefits from the dual tailwinds of logic process iteration and the memory upgrade cycle. With the growing criticality of etching equipment and around 50% of data center capex allocation to memory purchasing, Lam Research holds a significant advantage over peers due to its high memory exposure. Under N2 capacity expansion, we like Kinik as it is a major diamond disk vendor, with 80%-plus global market share in N2 business.

ASIC

We favor Alchip among ASIC designers as we expect the company's hyperscaler N3 project to garner multiple billions in revenue in 2026-27F and the Chinese automaker's ADAS project will recognize revenue starting 1Q26F (we estimate US\$300-400mn in 2026F). Alchip's N3 cryptocurrency and networking projects will also boost growth, and a N2 networking project is slated for mass production in 2027F.

Memory

Winbond is our top pick in the memory sector. The price rebound in DDR3-4 not only signals a DRAM cyclical recovery, but also marks the end of a prolonged drag on the company's earnings from low DRAM prices. We expect Winbond's long-term investment in customized ultra-bandwidth elements (CUBE) to start bearing fruit in 2026F, becoming a key growth driver for the next phase. Looking ahead, we expect profitability to expand in tandem with growth of the edge AI market. Meanwhile, traditional DRAM, flash, and the Nuvoton (4919 TT, NT\$51.9, NR) business will contribute stable cash flows to Winbond. All told, we believe Winbond is at the inflection point of a structural transformation in business operations.

Outperform·Maintained

Price as of November 20 (NT\$)	1,455
12M target price (NT\$)	1,900
Previous target price (NT\$)	1,900
Unchanged (%)	0.0
Upside (%)	30.6

Key message

1. CoWoS demand revisions upward driven by strong AI demand.
2. N2 migrations will be another key sales growth driver.
3. The early-2027F outlook implies continued strength.

Trading data

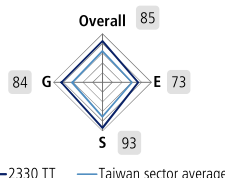
Mkt cap (NT\$bn/US\$m)	37,7321,234,59
Outstanding shares (mn)	25,933
Foreign ownership (mn)	18,935
3M avg. daily trading (mn)	22.92
52-week trading range (NT\$)	785–1,510

Performance	3M	6M	12M
Absolute (%)	28.2	48.8	42
Relative (%)	12.1	21.4	21.1

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	8.70A	9.56A	12.55A	14.45A
2025	13.95A	15.36A	17.44A	17.83F
2026	16.16F	17.23F	21.35F	22.14F

ESG score card



Source: Refinitiv

TSMC

(2330.TW/2330 TT)



Engage on the AI megatrend

Event

Deviating from the track of 2023-2025F, we expect TSMC's sales will not only be driven by AI, but also by N2 migrations in non-AI applications in 2026F.

Impact

CoWoS demand revisions upward driven by strong AI demand. In the past few weeks, we have seen upward revisions to CoWoS demand after AI mega-deals were announced. We now forecast TSMC's CoWoS capacity will increase from 70 thousand wafers per month (kwpm) by end-2025F to 115kwpm by end-2026F, versus our 2Q25 forecast of 90kwpm, with major demand upside from both Nvidia (US) and Broadcom (US). In addition, we expect the CoWoS shortage will become more severe in 2026-27F and drive up ASP. We expect TSMC to increase pricing for N3, N4 and N5 by 3-5% in 2026F.

N2 migrations will be another key growth driver. We are positive on the N2 ramp-up and forecast it will account for 14% of TSMC's 2026F sales, versus N3 only accounting for 6% of sales in its first year, with capacity doubling from 40kwpm at end-2025F to 80-100kwpm by the end of 2026F. Apple (US) is expected to be TSMC's anchor client for N2, accounting for over 50% of capacity, primarily for its A20 processor. Other major clients are expected to include Qualcomm (US) and MediaTek (2454 TT, NT\$1,185, N) for their flagship AP (SDM8950 and D9600), AMD (US) for its Venice server CPU, and Intel (US) for its Nova Lake desktop CPU. With these N3 clients migrating to N2, Nvidia's Rubin demand should fill the gap for N3 capacity.

The early 2027F outlook implies continued strength. Looking into 2027F, we expect the CoWoS shortage to become severe if all of TSMC's clients maintain their current demand levels. We still expect both Google (US) and Amazon Web Services (AWS; US) to be key ASIC players, and OpenAI (US), Meta (US), and Microsoft (US) to post strong growth due to low bases. In general, we expect to see strong N2 and CoWoS demand in 2027F, and new packaging technologies will also start to make meaningful contributions, such as WCMC, SoIC, and early-stage CoPoS. We expect TSMC to maintain at least 20% YoY sales growth in both 2026F and 2027F.

Valuation & Action

TSMC's share valuation historically leads the fundamentals cycle trough by two to four quarters. As we expect YoY sales growth to bottom in 2Q26F and return to a YoY uptrend from 2H26F, we believe the share price will reflect this uptrend from 4Q25F. We maintain our target price of NT\$1,900, based on 20x (upcycle average) 2027F EPS.

Risks

Global economic uncertainties; upside on higher-than-expected price hikes in 2026F.

Key financials and valuations

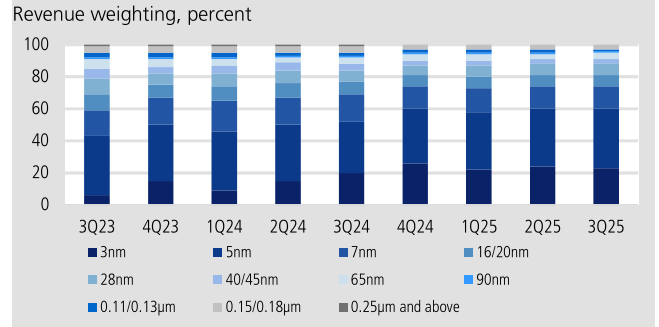
	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$m)	2,161,736	2,894,308	3,773,484	4,606,725	5,719,060
Gross profit (NT\$m)	1,175,111	1,624,354	2,246,332	2,673,927	3,383,988
Operating profit (NT\$m)	921,088	1,324,513	1,889,688	2,270,177	2,882,554
Net profit (NT\$m)	838,498	1,173,268	1,674,359	1,993,598	2,476,881
EPS (NT\$)	32.34	45.25	64.58	76.89	95.53
Cash DPS (NT\$)	13.00	17.00	20.00	20.00	20.00
EPS growth (%)	(17.5)	39.9	42.7	19.1	24.2
PE (x)	45.0	32.2	22.5	18.9	15.2
PB (x)	10.9	8.8	7.3	5.7	4.4
EV/EBITDA (x)	24.8	17.9	13.4	10.9	8.8
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.9	1.2	1.4	1.4	1.4
Return on average equity (%)	26.2	30.3	35.3	33.6	32.4

Source: Company data; KGI Research estimates

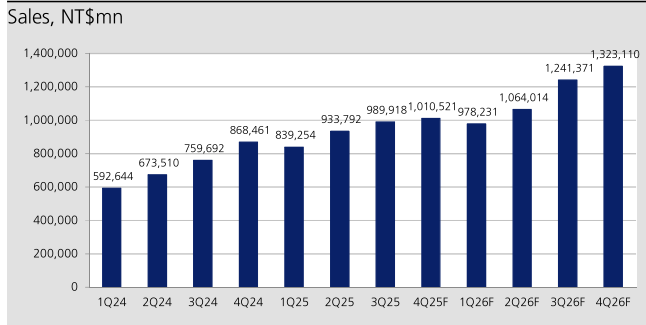
Figure 1: Company profile

Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest dedicated semiconductor foundry, has increased its market share in recent years. Capacity exceeded 16mn 8-inch equivalent wafers in 2013. TSMC operates six advanced 300mm wafer fabs, six 8-inch wafer fabs, and one 6-inch wafer fab, and is building a new 300mm wafer fab. The company provides the following services: wafer manufacturing, wafer probing, assembly and testing, mask production, and design services.

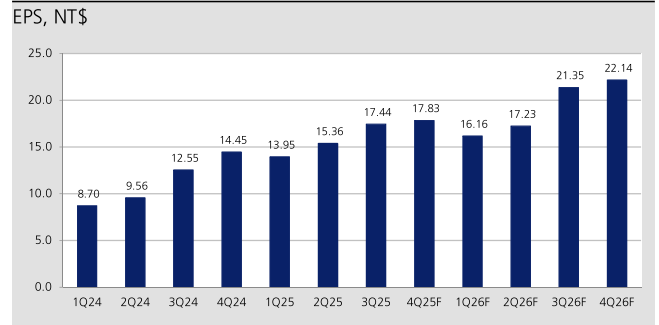
Source: Company data; KGI Research

Figure 2: TSMC wafer revenue by node


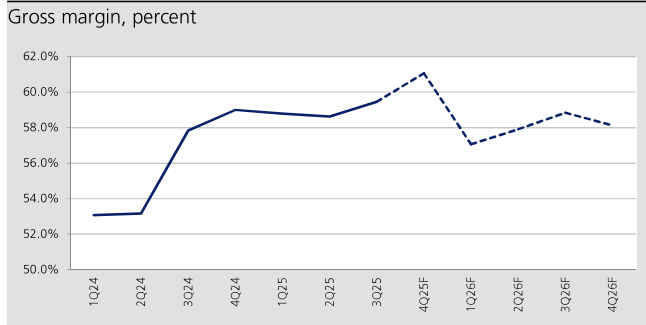
Source: Company data; KGI Research

Figure 3: Sales


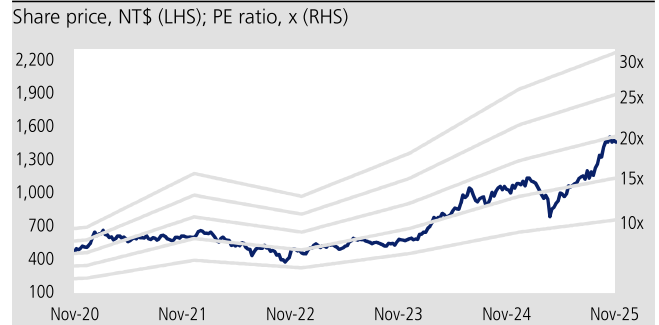
Source: KGI Research

Figure 4: EPS


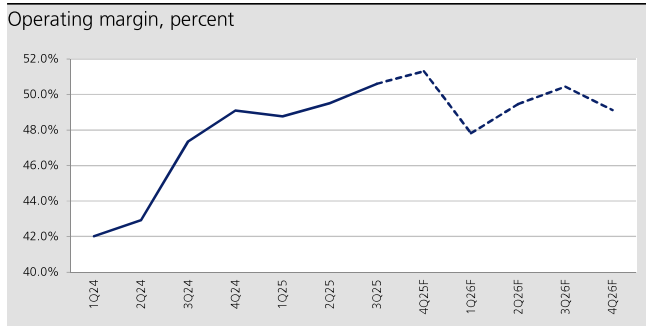
Source: KGI Research

Figure 5: Gross Margin


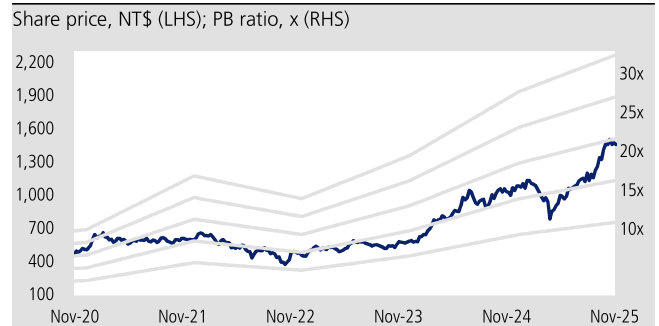
Source: KGI Research

Figure 6: 12M forward PE band


Source: KGI Research

Figure 7: Operating Margin


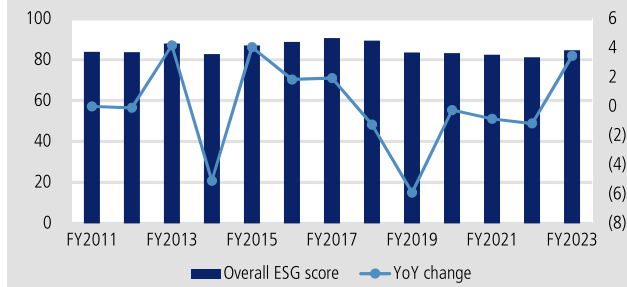
Source: KGI Research

Figure 8: 12M forward PB band


Source: KGI Research

Figure 9: Overall ESG score

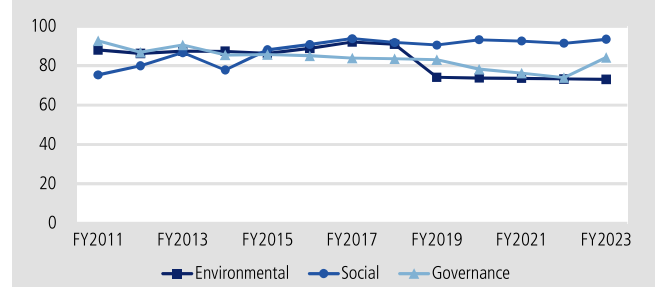
Overall ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; Company data

Figure 10: ESG score by category

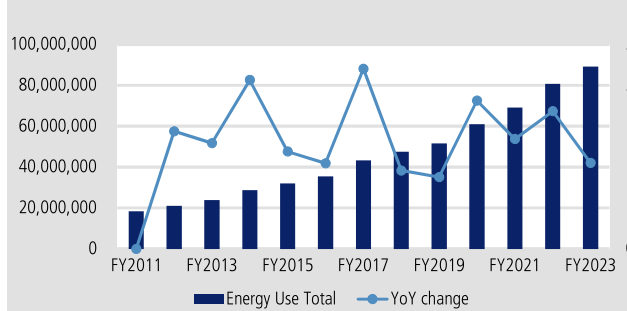
ESG score, points



Source: Refinitiv; Company data

Figure 11: Energy use

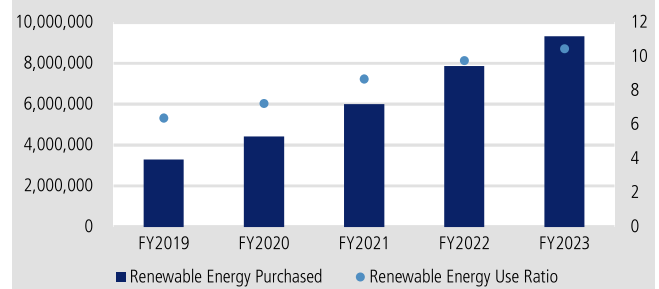
Energy use, gigajoules (LHS); YoY change, percent (RHS)



Source: Refinitiv; Company data

Figure 12: Renewable energy

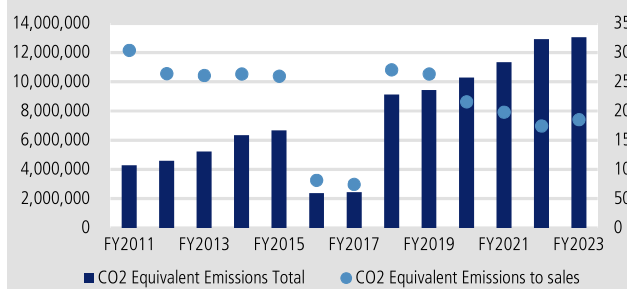
Renewable energy purchased, gigajoules (LHS); renewable energy use ratio, percent (RHS)



Source: Refinitiv; Company data

Figure 13: CO2 equivalent emissions

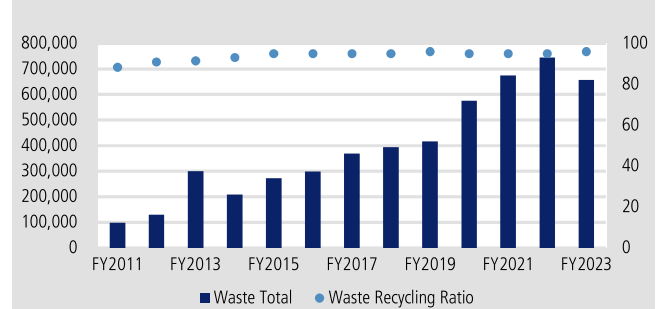
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m (RHS)



Source: Refinitiv; Company data

Figure 14: Waste total

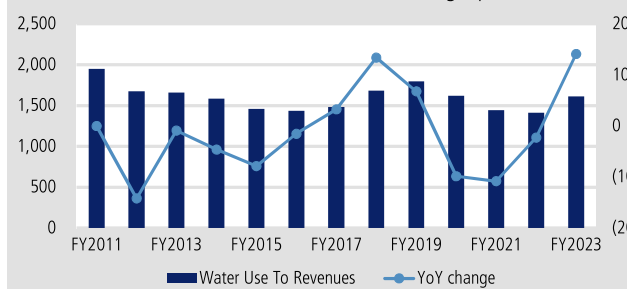
Waste total, mt (LHS); waste recycling ratio, percent (RHS)



Source: Refinitiv; Company data

Figure 15: Water use to revenue

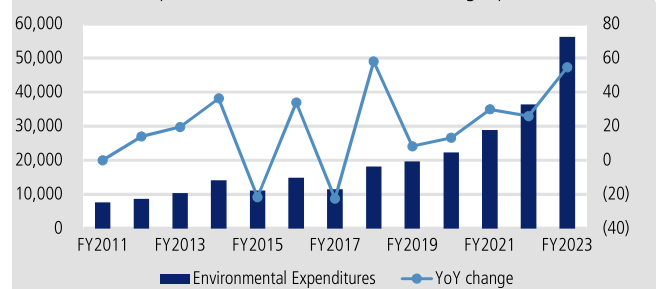
Water use to revenue, m3/ US\$m (LHS); YoY change, percent (RHS)



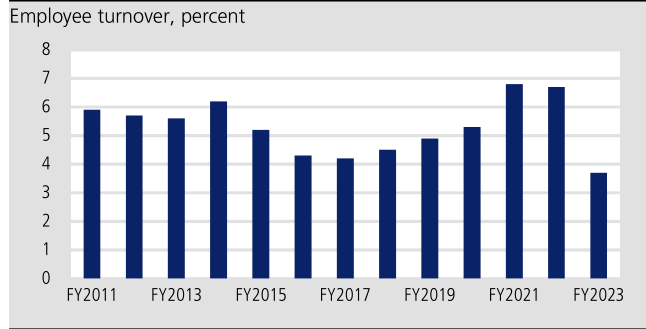
Source: Refinitiv; Company data

Figure 16: Environmental expenditures

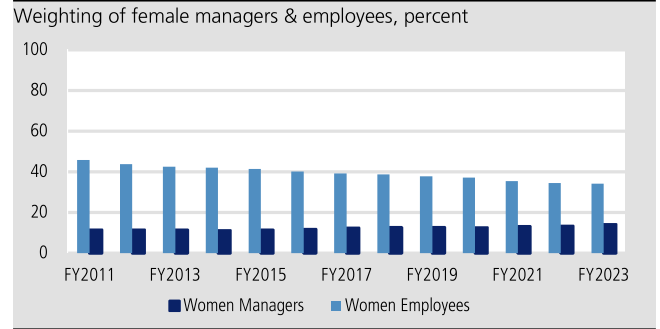
Environmental expenditures, NT\$m (LHS); YoY change, percent (RHS)



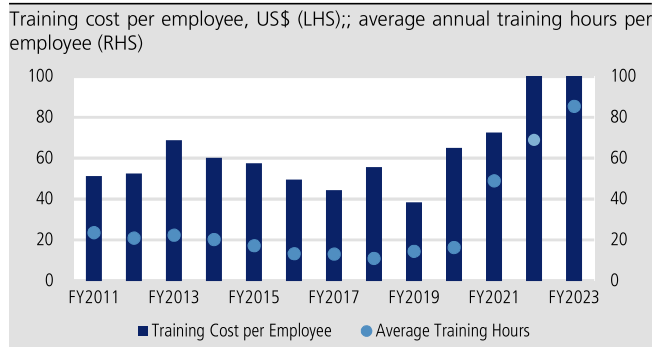
Source: Refinitiv; Company data

Figure 17: Employee turnover


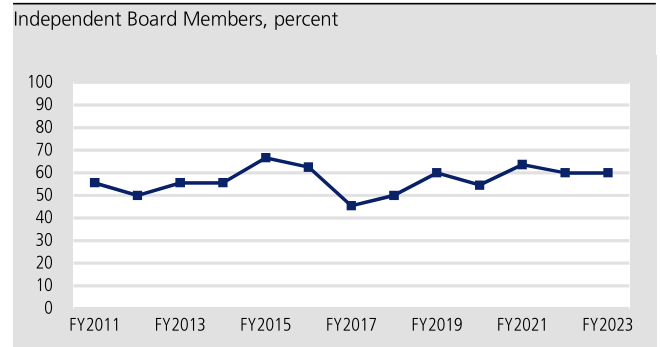
Source: Refinitiv; Company data

Figure 18: Gender diversification


Source: Refinitiv; Company data

Figure 19: Employee training


Source: Refinitiv; Company data

Figure 20: Independent Board Members


Source: Refinitiv; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	839,254	933,792	989,918	1,010,521	978,231	1,064,014	1,241,371	1,323,110	3,773,484	4,606,725	5,719,060
Cost of goods sold	(345,859)	(386,423)	(401,375)	(393,496)	(419,997)	(447,830)	(510,981)	(553,989)	(1,527,153)	(1,932,798)	(2,335,071)
Gross profit	493,395	547,369	588,543	617,024	558,234	616,184	730,390	769,120	2,246,332	2,673,927	3,383,988
Operating expenses	(84,058)	(85,071)	(87,671)	(98,526)	(90,486)	(89,909)	(104,275)	(119,080)	(356,644)	(403,751)	(501,435)
Operating profit	409,337	462,298	500,872	518,498	467,748	526,274	626,114	650,040	1,889,688	2,270,177	2,882,554
Depreciation of fixed assets	(173,005)	(186,007)	(160,693)	(216,264)	(247,289)	(264,251)	(270,294)	(119,318)	(735,969)	(901,151)	(914,244)
Amortisation of intangible assets	(2,134)	(2,051)	(2,095)	(5,522)	(6,125)	(6,468)	(7,170)	1,779	(11,801)	(17,984)	(18,260)
EBITDA	584,476	650,356	663,659	740,285	721,161	796,993	903,578	767,580	2,637,458	3,189,312	3,815,058
Interest income	24,859	25,192	26,180	25,899	25,899	25,899	25,899	25,899	102,131	103,597	80,000
Investment income	1,420	1,633	961	1,424	1,424	1,424	1,424	1,424	5,438	5,696	-
Other non-op income	(0)	0	544	-	-	-	-	-	544	-	-
Non-operating income	26,279	26,825	27,685	27,323	27,323	27,323	27,323	27,323	108,113	109,293	80,000
Interest expense	(2,677)	(3,691)	(2,959)	(2,677)	(2,677)	(2,677)	(2,677)	(2,677)	(12,004)	(10,709)	(10,709)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	213	6,478	(43)	-	-	-	-	-	6,648	-	-
Non-operating expenses	(2,465)	2,787	(3,001)	(2,677)	(2,677)	(2,677)	(2,677)	(2,677)	(5,356)	(10,709)	(10,709)
Pre-tax profit	433,152	491,910	525,556	543,144	492,394	550,920	650,760	674,686	1,992,444	2,368,761	2,951,845
Current taxation	(70,163)	(95,542)	(73,614)	(81,472)	(73,859)	(104,675)	(97,614)	(101,203)	(320,790)	(377,351)	(477,152)
Minorities	831	780	546	547	547	547	547	547	2,705	2,188	2,188
Normalised net profit	363,821	397,148	452,489	462,220	419,082	446,793	553,693	574,030	1,674,359	1,993,598	2,476,881
Extraordinary items	(2,256)	1,125	(187)	-	-	-	-	-	-	-	-
Net profit	361,564	398,273	452,301	462,220	419,082	446,793	553,693	574,030	1,674,359	1,993,598	2,476,881
EPS (NT\$)	13.95	15.36	17.44	17.83	16.16	17.23	21.35	22.14	64.58	76.89	95.53
Margins (%)											
Gross profit margin	58.8	58.6	59.5	61.1	57.1	57.9	58.8	58.1	59.5	58.0	59.2
Operating margin	48.8	49.5	50.6	51.3	47.8	49.5	50.4	49.1	50.1	49.3	50.4
EBITDA margin	69.6	69.6	67.0	73.3	73.7	74.9	72.8	58.0	69.9	69.2	66.7
Pretax profit margin	51.6	52.7	53.1	53.7	50.3	51.8	52.4	51.0	52.8	51.4	51.6
Net profit margin	43.1	42.7	45.7	45.7	42.8	42.0	44.6	43.4	44.4	43.3	43.3
Sequential growth (%)											
Revenue growth	(3.4)	11.3	6.0	2.1	(3.2)	8.8	16.7	6.6			
Gross profit growth	(3.7)	10.9	7.5	4.8	(9.5)	10.4	18.5	5.3			
Operating profit growth	(4.0)	12.9	8.3	3.5	(9.8)	12.5	19.0	3.8			
EBITDA growth	(2.1)	11.3	2.0	11.5	(2.6)	10.5	13.4	(15.1)			
Pretax profit growth	(3.6)	13.6	6.8	3.3	(9.3)	11.9	18.1	3.7			
Net profit growth	(3.5)	10.2	13.6	2.2	(9.3)	6.6	23.9	3.7			
YoY growth (%)											
Revenue growth	41.6	38.6	30.3	16.4	16.6	13.9	25.4	30.9	30.4	22.1	24.1
Gross profit growth	56.9	52.8	34.0	20.4	13.1	12.6	24.1	24.6	38.3	19.0	26.6
Operating profit growth	64.4	59.9	39.2	21.6	14.3	13.8	25.0	25.4	42.7	20.1	27.0
EBITDA growth	43.2	43.2	25.7	24.1	23.4	22.5	36.2	3.7	32.7	20.9	19.6
Pretax profit growth	62.5	59.3	37.2	20.8	13.7	12.0	23.8	24.2	41.5	18.9	24.6
Net profit growth	60.3	60.7	39.1	23.4	15.9	12.2	22.4	24.2	42.7	19.1	24.2

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	5,532,371	6,691,938	7,736,526	9,292,547	11,300,919
Current assets	2,194,033	3,088,352	3,697,183	4,746,845	6,315,626
Cash & ST securities	1,687,644	2,422,020	2,856,769	3,639,771	5,005,102
Inventory	250,997	287,869	352,380	496,103	584,934
Accounts receivable	201,938	272,088	397,425	520,362	634,981
Other current assets	53,453	106,376	90,610	90,610	90,610
Non-current assets	3,338,338	3,603,586	4,039,343	4,545,702	4,985,293
LT investments	129,442	149,040	140,275	145,971	145,971
Net fixed assets	3,064,475	3,234,980	3,681,270	4,181,932	4,621,524
Other assets	144,421	219,565	217,799	217,799	217,799
Total liabilities	2,049,108	2,368,362	2,503,512	2,584,499	2,634,556
Current liabilities	913,583	1,264,525	1,491,108	1,572,096	1,622,153
Accounts payable	57,293	74,227	98,791	139,084	163,989
Interest bearing ST liabilities	9,293	59,858	94,214	94,214	94,214
Other current liabilities	846,997	1,130,441	1,298,104	1,338,798	1,363,950
Non-current liabilities	1,135,525	1,103,837	1,012,403	1,012,403	1,012,403
Long-term debt	918,283	958,429	949,333	949,333	949,333
Other L-T liabilities	188,560	116,653	128,732	128,732	128,732
Total equity	3,483,263	4,323,576	5,233,015	6,708,048	8,666,363
Share capital	259,321	259,327	259,326	259,326	259,326
Retained earnings reserve	2,846,884	3,606,105	4,864,804	6,339,837	8,298,153
Minority interests	24,349	35,031	35,558	35,558	35,558
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(4.5%)	33.9%	30.4%	22.1%	24.1%
Operating profit growth	(17.9%)	43.8%	42.7%	20.1%	27.0%
EBITDA growth	(6.8%)	36.7%	32.7%	20.9%	19.6%
Net profit growth	(17.5%)	39.9%	42.7%	19.1%	24.2%
EPS growth	(17.5%)	39.9%	42.7%	19.1%	24.2%
Profitability					
Gross profit margin	54.4%	56.1%	59.5%	58.0%	59.2%
Operating margin	42.6%	45.8%	50.1%	49.3%	50.4%
EBITDA margin	67.2%	68.7%	69.9%	69.2%	66.7%
Net profit margin	38.8%	40.5%	44.4%	43.3%	43.3%
Return on average assets	16.0%	19.2%	23.2%	23.4%	24.1%
Return on average equity	26.2%	30.3%	35.3%	33.6%	32.4%
Stability					
Gross debt to equity	26.6%	23.6%	19.9%	15.6%	12.0%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	82.6	135.2	167.0	222.2	276.6
Interest & ST debt coverage (x)	1.0	1.0	0.9	1.0	1.0
Cash flow interest coverage(x)	103.5	174.0	193.5	254.1	304.0
Cash flow/wint. & ST debt (x)	58.3	26.0	21.9	25.9	31.0
Current ratio (x)	2.4	2.4	2.5	3.0	3.9
Quick ratio (x)	2.1	2.2	2.2	2.7	3.5
Net debt (NT\$m)	(537,852)	(1,109,340)	(1,543,317)	(2,326,319)	(3,691,650)
Per share data					
EPS (NT\$)	32.34	45.25	64.58	76.89	95.53
CFPS (NT\$)	47.90	70.43	89.58	104.96	125.58
BVPS (NT\$)	133.38	165.37	200.46	257.34	332.87
Adj BVPS (NT\$)	133.40	165.40	200.46	257.34	332.87
SPS (NT\$)	83.37	111.63	145.54	177.67	220.57
EBITDA/share (NT\$)	56.05	76.65	101.72	123.01	147.14
Cash DPS (NT\$)	13.00	17.00	20.00	20.00	20.00
Activity					
Sales / avg assets	0.41	0.47	0.52	0.54	0.56
Days receivable	34.1	34.4	38.4	41.2	40.5
Days inventory	92.9	83.0	84.2	93.7	91.4
Days payable	21.2	21.4	23.6	26.3	25.6
Cash cycle	105.8	96.0	99.1	108.7	106.3

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	2,161,736	2,894,308	3,773,484	4,606,725	5,719,060
Cost of goods sold	(986,625)	(1,269,954)	(1,527,153)	(1,932,798)	(2,335,071)
Gross profit	1,175,111	1,624,354	2,246,332	2,673,927	3,383,988
Operating expenses	(254,022)	(299,840)	(356,644)	(403,751)	(501,435)
Operating profit	921,088	1,324,513	1,889,688	2,270,177	2,882,554
Non-operating income	65,429	92,660	108,113	109,293	80,000
Interest income	60,294	87,213	102,131	103,597	80,000
Investment income	5,119	4,879	5,438	5,696	-
Other non-op income	16	567	544	-	-
Non-operating expenses	(7,723)	(8,874)	(5,356)	(10,709)	(10,709)
Interest expense	(11,999)	(10,495)	(12,004)	(10,709)	(10,709)
Investment loss	-	-	-	-	-
Other non-op expenses	4,276	1,621	6,648	-	-
Pre-tax profit	978,794	1,408,299	1,992,444	2,368,761	2,951,845
Current taxation	(141,404)	(233,407)	(320,790)	(377,351)	(477,152)
Minority	730	836	2,705	2,188	2,188
Extraordinary items	377	(2,460)	-	-	-
Net profit	838,498	1,173,268	1,674,359	1,993,598	2,476,881
EBITDA	1,453,279	1,987,310	2,637,458	3,189,312	3,815,058
EPS (NT\$)	32.34	45.25	64.58	76.89	95.53

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	1,241,967	1,826,177	2,322,753	2,721,364	3,255,992
Net profit	838,498	1,173,268	1,674,359	1,993,598	2,476,881
Depreciation & amortisation	532,191	662,797	747,771	919,135	932,504
Decrease in working capital	324	(90,088)	(165,284)	(226,367)	(178,546)
Other operating cash flow	(129,046)	80,200	65,907	34,998	25,152
Investing cash flow	(906,121)	(864,843)	(1,198,318)	(1,419,798)	(1,372,096)
Sale of ST investment	(55,781)	(54,143)	12,270	-	-
New investments	-	(3,739)	-	-	-
Capital expenditure	(949,817)	(956,007)	(1,307,689)	(1,419,798)	(1,372,096)
Others investing cashflow	99,478	149,045	97,102	-	-
Free cash flow	361,461	712,509	848,438	1,163,517	1,780,205
Financing cash flow	(204,894)	(346,301)	(502,505)	(518,565)	(518,565)
Increase in short term debt	-	-	-	-	-
Increase in long term loans	68,204	55,866	25,260	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(291,722)	(363,055)	(518,558)	(518,565)	(518,565)
Other financing cashflow	18,623	(36,022)	(9,208)	-	-
Forex effects	(8,339)	47,166	(162,694)	-	-
Total cash generated	122,614	662,199	459,237	783,002	1,365,331

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	11.8%	10.4%	9.5%	8.8%	8.8%
= Operating margin	42.6%	45.8%	50.1%	49.3%	50.4%
1 / (Working capital/revenue	(0.2)	(0.2)	(0.1)	(0.1)	(0.0)
+ Net PPE/revenue	1.4	1.1	1.0	0.9	0.8
+ Other assets/revenue)	0.0	0.0	0.1	0.0	0.0
= Capital turnover	0.8	1.0	1.1	1.1	1.2
Operating margin	42.6%	45.8%	50.1%	49.3%	50.4%
x Capital turnover	0.8	1.0	1.1	1.1	1.2
x (1 - tax rate)	85.6%	83.4%	83.9%	84.1%	83.8%
= After-tax ROIC	29.4%	39.7%	47.4%	47.4%	52.3%

Source: Company data; KGI Research estimates



Kinik

(1560.TW/1560 TT)

New sales growth driver to kick in

Outperform • Maintained

Price as of November 20 (NT\$)	310.0
12M target price (NT\$)	390.0
Previous target price (NT\$)	390.0
Unchanged (%)	0.0
Upside (%)	25.8

Key message

1. Diamond disk sales to grow with client expansions; 1Q26F demand to be solid.
2. TSMC (2330 TT, NT\$1,455, OP) will drive diamond disk sales growth; US IDM client ahead of schedule.

Trading data

Mkt cap (NT\$bn/US\$mn)	45.56 / 1,491
Outstanding shares (mn)	147.0
Foreign ownership (mn)	25.73
3M avg. daily trading (mn)	4.25
52-week trading range (NT\$)	165.0–363.0

Performance	3M	6M	12M
Absolute (%)	1.1	8.4	2.8
Relative (%)	-15	-19	-18.1

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	1.77A	1.75A	1.96A	1.64A
2025	1.96A	1.82A	2.24A	2.62F
2026	2.61F	3.17F	3.55F	3.69F

Share price chart



Source: TEJ

Event

We expect Kinik to benefit from TSMC's (2330 TT, NT\$1,455, OP) capacity expansion, aggressive N2 migrations, and robust advanced node demand as it is the main diamond disk (DBU) supplier for chemical mechanical grinding (CMP), with 80% market share for N2 production. A new US IDM client underpins some potential upside.

Impact

DBU sales to grow with client expansions; 1Q26F demand to be solid. Kinik guides 4Q25F DBU and semiconductor materials (SBU) sales to grow QoQ, driven respectively by the firm's main client's N2 ramp-up and demand for special wafer recovery. As a result, we expect a better product mix, with higher DBU and special wafer sales weightings, to drive up gross margin in 4Q25F. Looking into 1Q26F, sales may be negatively impacted by fewer working days. However, 1Q26F demand could remain as strong as in 4Q25F. Kinik guides diamond disk monthly capacity to expand from 45k units currently to nearly 50k units by end-2025F, and 60k units by end-2026F, up 20% YoY. Reclaim wafer monthly capacity may also increase from 330k units currently to 400k units by end-2026F, an increase of 21% YoY.

TSMC to drive DBU sales; US IDM client ahead of schedule. Currently, we expect TSMC to expand N2 capacity from 40kwpm by end-2025F to at least 80kwpm by end-2026F (potentially 100kwpm in a bull case). Kinik will be a key beneficiary, as it is the main DBU supplier for CMP with 80% market share for N2 production. We forecast N2 DBU sales to grow by 300% YoY in 2026F, and account for 6% of DBU sales in 2025F and 18% in 2026F. The firm's products for a US IDM client were qualified in September, and started to ship in small volumes in October, three months ahead of schedule. We expect sales to the US IDM client are likely to grow by at least 50% in 2026F. We forecast DBU sales to grow by 28% YoY in 2026, and SBU sales to grow by nearly 20% YoY with capacity expansions. Abrasion sales continue to suffer from weak machinery demand.

Valuation & Action

We maintain Outperform and a target price of NT\$390, based on 30x 2026F EPS (one standard deviation above the five-year average). We are positive on Kinik's sales growth from TSMC's expansions and increased local sourcing.

Risks

Declining foundry UTR; slower advanced-node capacity ramp ups.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	6,381	7,019	8,177	9,730	10,549
Gross profit (NT\$mn)	1,942	2,188	2,646	3,411	3,791
Operating profit (NT\$mn)	989	1,155	1,356	2,141	2,571
Net profit (NT\$mn)	852	1,035	1,264	1,905	2,276
EPS (NT\$)	5.91	7.10	8.64	13.02	15.56
Cash DPS (NT\$)	4.00	4.00	3.28	4.94	5.90
EPS growth (%)	(32.2)	20.2	21.8	50.6	19.5
PE (x)	52.5	43.7	35.9	23.8	19.9
PB (x)	7.3	6.3	5.8	4.9	4.1
EV/EBITDA (x)	25.2	23.1	19.9	13.9	11.7
Net debt to equity (%)	15.1	0.8	Net cash	Net cash	Net cash
Dividend yield (%)	1.3	1.3	1.1	1.6	1.9
Return on average equity (%)	14.3	15.6	16.9	22.3	22.4

Source: Company data; KGI Research estimates

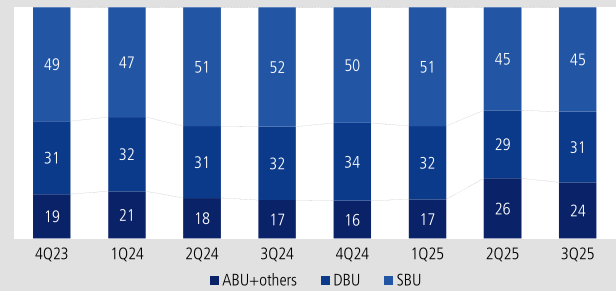
Figure 1: Company profile

Kinik was established in 1953 and is headquartered in Yingge, New Taipei City, Taiwan. The firm started business as a manufacturer of cutting tools and traditional grinding wheels for both rudimentary and precision polishing. In recent years, the firm has extended business to CMP diamond disks for semiconductor applications. Currently, Kinik has three major business units: abrasives (ABU) and others, diamond (DBU), and semiconductor materials (SBU), which accounted for 24%, 31%, and 45% of 3Q25 sales, respectively.

Source: Company data; KGI Research

Figure 2: Sales weighting by business unit

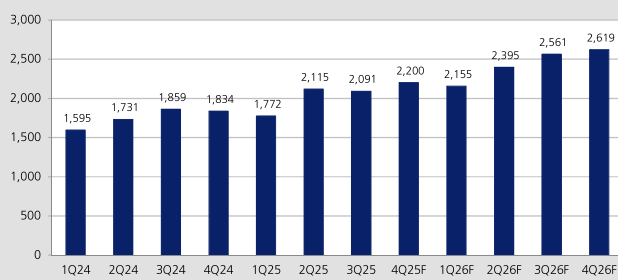
Sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

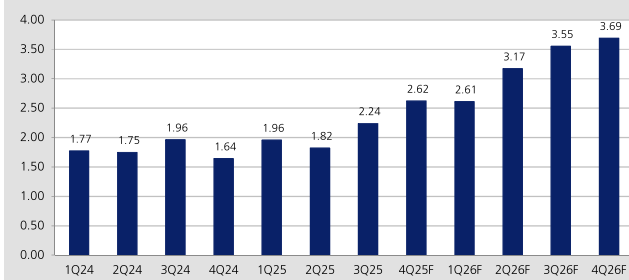
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

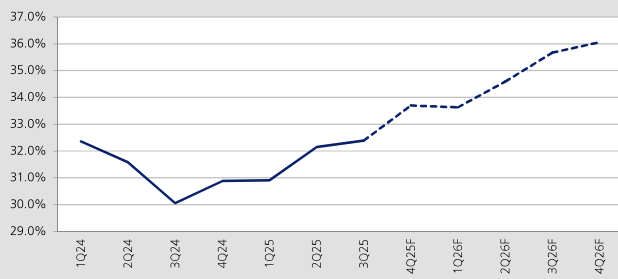
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

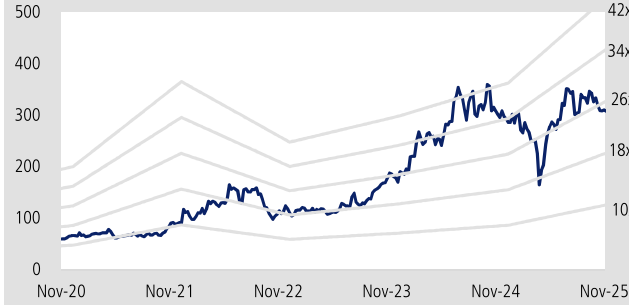
Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

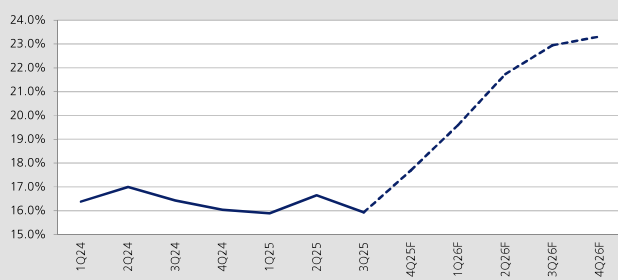
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 7: Operating Margin

Operating margin, percent



Source: KGI Research

Figure 8: 12M forward PB band

Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: TEJ; KGI Research estimates

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	1,772	2,115	2,091	2,200	2,155	2,395	2,561	2,619	8,177	9,730	10,549
Cost of goods sold	(1,224)	(1,435)	(1,414)	(1,459)	(1,430)	(1,567)	(1,648)	(1,675)	(5,532)	(6,319)	(6,758)
Gross profit	548	680	677	741	725	829	913	944	2,646	3,411	3,791
Operating expenses	(266)	(328)	(344)	(352)	(302)	(308)	(326)	(334)	(1,290)	(1,270)	(1,219)
Operating profit	281	352	333	389	422	521	588	611	1,356	2,141	2,571
Depreciation of fixed assets	(141)	(151)	(158)	(188)	(179)	(179)	(179)	(179)	(639)	(715)	(769)
Amortisation of intangible assets	(2)	(3)	(3)	3	-	-	-	-	(5)	-	-
EBITDA	425	506	494	575	601	700	766	789	2,000	2,856	3,340
Interest income	13	12	11	33	18	21	21	23	88	83	106
Investment income	-	9	0	-	-	-	-	-	9	-	-
Other non-op income	19	107	12	55	30	30	30	30	235	120	120
Non-operating income	32	127	23	88	48	51	51	53	333	203	226
Interest expense	(10)	(11)	(13)	(2)	(3)	(3)	(3)	(3)	(25)	(12)	(12)
Investment loss	(2)	(2)	-	-	-	-	-	-	(4)	-	-
Other non-op expenses	14	(129)	74	-	-	-	-	-	(116)	-	-
Non-operating expenses	2	(143)	61	(2)	(3)	(3)	(3)	(3)	(144)	(12)	(12)
Pre-tax profit	315	336	417	476	468	568	636	660	1,544	2,332	2,785
Current taxation	(27)	(55)	(87)	(90)	(84)	(102)	(114)	(119)	(259)	(420)	(501)
Minorities	(3)	(14)	(2)	(2)	(2)	(2)	(2)	(2)	(21)	(7)	(7)
Normalised net profit	286	266	328	384	382	464	520	540	1,264	1,905	2,276
Extraordinary items	(0)	0	(0)	0	(0)	0	0	0	-	0	0
Net profit	286	266	328	384	382	464	520	540	1,264	1,905	2,276
EPS (NT\$)	1.96	1.82	2.24	2.62	2.61	3.17	3.55	3.69	8.64	13.02	15.56
Margins (%)											
Gross profit margin	30.9	32.1	32.4	33.7	33.6	34.6	35.7	36.1	32.4	35.1	35.9
Operating margin	15.9	16.7	15.9	17.7	19.6	21.7	22.9	23.3	16.6	22.0	24.4
EBITDA margin	24.0	23.9	23.6	26.1	27.9	29.2	29.9	30.1	24.5	29.4	31.7
Pretax profit margin	17.8	15.9	19.9	21.6	21.7	23.7	24.8	25.2	18.9	24.0	26.4
Net profit margin	16.1	12.6	15.7	17.4	17.7	19.4	20.3	20.6	15.5	19.6	21.6
Sequential growth (%)											
Revenue growth	(3.4)	19.4	(1.1)	5.2	(2.0)	11.1	6.9	2.3			
Gross profit growth	(3.3)	24.1	(0.4)	9.4	(2.2)	14.3	10.2	3.4			
Operating profit growth	(4.3)	25.1	(5.4)	16.8	8.5	23.3	12.9	3.9			
EBITDA growth	(3.6)	19.2	(2.3)	16.3	4.6	16.4	9.6	3.0			
Pretax profit growth	2.5	6.6	24.0	14.2	(1.8)	21.5	11.9	3.8			
Net profit growth	19.4	(6.8)	23.3	16.8	(0.6)	21.6	12.0	3.9			
YoY growth (%)											
Revenue growth	11.1	22.2	12.5	19.9	21.6	13.3	22.5	19.0	16.5	19.0	8.4
Gross profit growth	6.1	24.3	21.2	30.9	32.4	21.9	34.9	27.4	20.9	28.9	11.1
Operating profit growth	7.7	19.7	9.1	32.3	50.0	47.9	76.4	56.8	17.4	57.9	20.1
EBITDA growth	5.4	15.6	9.3	30.5	41.6	38.2	55.0	37.4	15.4	42.8	16.9
Pretax profit growth	(1.9)	0.8	27.6	54.9	48.3	69.0	52.5	38.7	19.8	51.0	19.4
Net profit growth	11.3	5.0	15.1	60.4	33.5	74.2	58.2	40.6	22.2	50.7	19.5

Source: Company data; KGI Research estimates

Balance sheet

NT\$mn	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	9,863	11,051	12,159	13,661	15,491
Current assets	4,042	5,237	5,553	6,867	8,491
Cash & ST securities	995	2,001	2,726	3,566	5,006
Inventory	1,922	2,049	1,342	1,541	1,615
Accounts receivable	1,078	1,149	1,405	1,680	1,789
Other current assets	47	38	81	81	81
Non-current assets	5,821	5,814	6,605	6,794	7,001
LT investments	1,064	1,125	1,159	1,159	1,159
Net fixed assets	4,239	4,249	4,653	4,842	5,049
Other assets	517	440	792	792	792
Total liabilities	3,391	3,625	4,028	4,097	4,123
Current liabilities	2,251	1,475	1,816	1,886	1,912
Accounts payable	404	417	469	539	565
Interest bearing ST liabilities	955	75	269	269	269
Other current liabilities	891	983	1,078	1,078	1,078
Non-current liabilities	1,140	2,150	2,211	2,211	2,211
Long-term debt	1,014	1,987	1,961	1,961	1,961
Other L-T liabilities	88	130	216	216	216
Total equity	6,472	7,426	8,131	9,564	11,368
Share capital	1,449	1,460	1,465	1,465	1,465
Retained earnings reserve	2,254	2,886	3,647	5,073	6,870
Minority interests	304	292	297	305	312
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(7.6%)	10.0%	16.5%	19.0%	8.4%
Operating profit growth	(30.9%)	16.8%	17.4%	57.9%	20.1%
EBITDA growth	(22.1%)	8.6%	15.4%	42.8%	16.9%
Net profit growth	(31.7%)	21.5%	22.2%	50.7%	19.5%
EPS growth	(32.2%)	20.2%	21.8%	50.6%	19.5%
Profitability					
Gross profit margin	30.4%	31.2%	32.4%	35.1%	35.9%
Operating margin	15.5%	16.5%	16.6%	22.0%	24.4%
EBITDA margin	25.0%	24.7%	24.5%	29.4%	31.7%
Net profit margin	13.4%	14.7%	15.5%	19.6%	21.6%
Return on average assets	8.8%	9.9%	10.9%	14.8%	15.6%
Return on average equity	14.3%	15.6%	16.9%	22.3%	22.4%
Stability					
Gross debt to equity	30.4%	27.8%	27.4%	23.3%	19.6%
Net debt to equity	15.1%	0.8%	Net cash	Net cash	Net cash
Interest coverage (x)	25.8	30.2	64.0	193.4	230.8
Interest & ST debt coverage (x)	0.5	0.9	0.8	0.9	0.9
Cash flow interest coverage(x)	30.2	36.7	116.2	183.4	238.9
Cash flow/int. & ST debt (x)	1.3	13.6	9.7	7.9	10.3
Current ratio (x)	1.8	3.6	3.1	3.6	4.4
Quick ratio (x)	0.9	2.2	2.3	2.8	3.6
Net debt (NT\$mn)	977	61	(494)	(1,335)	(2,775)
Per share data					
EPS (NT\$)	5.91	7.10	8.64	13.02	15.56
CFPS (NT\$)	8.93	11.09	19.49	15.20	19.79
BVPS (NT\$)	42.56	48.88	53.67	63.44	75.75
Adj BVPS (NT\$)	42.75	48.94	53.56	63.29	75.57
SPS (NT\$)	44.22	48.15	55.91	66.51	72.10
EBITDA/share (NT\$)	11.06	11.89	13.67	19.52	22.83
Cash DPS (NT\$)	4.00	4.00	3.28	4.94	5.90
Activity					
Sales / avg assets	0.66	0.67	0.70	0.75	0.72
Days receivable	61.7	59.9	62.7	63.0	61.9
Days inventory	158.1	155.2	88.5	89.0	87.2
Days payable	33.2	31.6	31.0	31.1	30.5
Cash cycle	186.5	183.5	120.3	120.9	118.6

Source: Company data; KGI Research estimates

Profit & loss

NT\$mn	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	6,381	7,019	8,177	9,730	10,549
Cost of goods sold	(4,439)	(4,831)	(5,532)	(6,319)	(6,758)
Gross profit	1,942	2,188	2,646	3,411	3,791
Operating expenses	(953)	(1,033)	(1,290)	(1,270)	(1,219)
Operating profit	989	1,155	1,356	2,141	2,571
Non-operating income	101	110	333	203	226
Interest income	61	62	88	83	106
Investment income	-	-	9	-	-
Other non-op income	40	48	235	120	120
Non-operating expenses	(30)	23	(144)	(12)	(12)
Interest expense	(43)	(44)	(25)	(12)	(12)
Investment loss	(7)	(10)	(4)	-	-
Other non-op expenses	20	77	(116)	-	-
Pre-tax profit	1,060	1,289	1,544	2,332	2,785
Current taxation	(198)	(227)	(259)	(420)	(501)
Minorities	(10)	(27)	(21)	(7)	(7)
Extraordinary items	-	0	0	0	0
Net profit	852	1,035	1,264	1,905	2,276
EBITDA	1,596	1,733	2,000	2,856	3,340
EPS (NT\$)	5.91	7.10	8.64	13.02	15.56

Cash flow

NT\$mn	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	1,289	1,617	2,851	2,223	2,895
Net profit	852	1,035	1,264	1,905	2,276
Depreciation & amortisation	607	578	644	715	769
Decrease in working capital	(38)	(214)	503	(404)	(158)
Other operating cash flow	(132)	218	440	7	7
Investing cash flow	(937)	(462)	(1,526)	(904)	(976)
Sale of ST investment	(394)	(111)	(67)	-	-
New investments	-	-	-	-	-
Capital expenditure	(532)	(349)	(780)	(904)	(976)
Others investing cashflow	(11)	(3)	(679)	-	-
Free cash flow	832	959	1,490	1,163	1,744
Financing cash flow	(489)	(173)	(578)	(479)	(479)
Increase in short term debt	855	(895)	(118)	-	-
Increase in long term loans	(786)	1,257	(6)	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(613)	(640)	(503)	(479)	(479)
Other financing cashflow	56	105	49	-	-
Forex effects	(1)	26	(23)	-	-
Total cash generated	(138)	1,009	724	840	1,440

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	14.9%	14.7%	15.8%	13.1%	11.6%
= Operating margin	15.5%	16.5%	16.6%	22.0%	24.4%
1 / (Working capital/revenue	0.3	0.3	0.2	0.2	0.2
+ Net PPE/revenue	0.7	0.6	0.6	0.5	0.5
+ Other assets/revenue)	0.1	0.1	0.0	0.0	0.0
= Capital turnover	1.0	1.1	1.3	1.4	1.5
Operating margin	15.5%	16.5%	16.6%	22.0%	24.4%
x Capital turnover	1.0	1.1	1.3	1.4	1.5
x (1 - tax rate)	81.3%	82.4%	83.2%	82.0%	82.0%
= After-tax ROIC	12.5%	14.8%	17.9%	25.5%	29.1%

Source: Company data; KGI Research estimates

Alchip Technologies

(3661.TW/3661 TT)

Sales to return to strong growth trajectory in 2Q26F

Outperform · Maintained

Price as of November 20 (NT\$)	3,075
12M target price (NT\$)	5,380
Previous target price (NT\$)	5,380
Unchanged (%)	0.0
Upside (%)	75.0

Key message

1. US hyperscaler project to enter mass production & ramp up in 2Q26F.
2. US hyperscaler 3nm, Chinese-OEM ADAS, cryptocurrency & networking projects driving sales growth.

Trading data

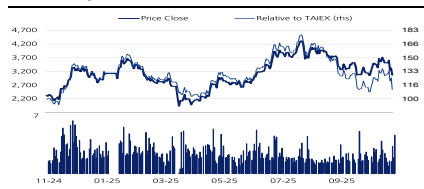
Mkt cap (NT\$bn/US\$mn)	249.2 / 8,154
Outstanding shares (mn)	81.04
Foreign ownership (mn)	44
3M avg. daily trading (mn)	1.57
52-week trading range (NT\$)	1,945 –4,305

Performance	3M	6M	12M
Absolute (%)	-16	7.3	32
Relative (%)	-32.1	-20.1	11.1

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	15.83A	20.05A	22.46A	23.17A
2025	18.13A	16.37A	16.40F	15.51F
2026	16.59F	34.75F	40.08F	43.04F

Share price chart



Source: TEJ

Event

In the IC design service sector, Alchip is our top pick, primarily due to its positive outlook on sales and earnings growth in 2026F, driven by multiple catalysts including US hyperscaler 3nm, Chinese-OEM ADAS, cryptocurrency, and networking projects.

Impact

US hyperscaler project to enter mass production & ramp up in 2Q26F. Management said that a US hyperscaler's 3nm project will enter mass production in 2Q26F - slightly later than expected - though full-year project revenue should be unaffected by the change in start date. Although only part of the production will be executed by Alchip, we expect the company has broadly aligned with the customer on revenue and margin parameters. Management guides the 3nm project's gross margin range should be similar to, or better than, the 7nm project. If the hyperscaler raises demand and secures more wafer allocations, Alchip should enjoy corresponding upside in wafer starts. Our supply-chain checks imply that in 2026F Alchip's executed CoWoS-R orders will account for roughly 30-35% of the hyperscaler's CoWoS-R capacity allocation at its primary foundry partner. We currently expect revenue from this 3nm project to account for about 55-60% of Alchip's 2026F revenue.

US hyperscaler 3nm, Chinese-OEM ADAS, cryptocurrency & networking projects the main sales growth catalysts. Beyond management's indication that the hyperscaler 3nm project will garner "multiple billions" in revenue in 2026-27F, the Chinese automaker's ADAS project should recognize revenue starting in 1Q26F, which we estimate at US\$300-400mn in 2026F. The 3nm cryptocurrency and networking projects will add incremental upside, and a 2nm networking project is slated for mass production in 2027F. Accordingly, we estimate 2026F revenue will grow by 138.0% YoY to NT\$77.6bn with gross margin at 20.6%, at least flat versus 2024, though down 3.9ppts YoY.

Valuation & Action

We now forecast 2026F EPS will grow by 102.5% YoY to NT\$134.46 on a better outlook for the hyperscaler 3nm project. Our target price of NT\$5,380 is based on 40x 2026F EPS. Maintain Outperform.

Risks

Intensifying competition and Sino-US trade restrictions; weakening demand.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	13,725	30,482	51,969	32,626	77,648
Gross profit (NT\$mn)	4,430	6,794	10,201	8,008	16,034
Operating profit (NT\$mn)	2,311	3,761	6,496	4,984	11,914
Net profit (NT\$mn)	1,834	3,325	6,446	5,371	10,887
EPS (NT\$)	25.69	45.47	81.34	66.40	134.46
Cash DPS (NT\$)	12.92	22.71	40.05	33.20	67.23
EPS growth (%)	20.4	77.0	78.9	(18.4)	102.5
PE (x)	119.7	67.6	37.8	46.3	22.9
PB (x)	17.0	12.7	6.3	6.9	5.7
EV/EBITDA (x)	47.6	35.7	22.5	28.3	15.2
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.4	0.7	1.3	1.1	2.2
Return on average equity (%)	15.7	21.4	22.4	14.3	27.3

Source: Company data; KGI Research estimates

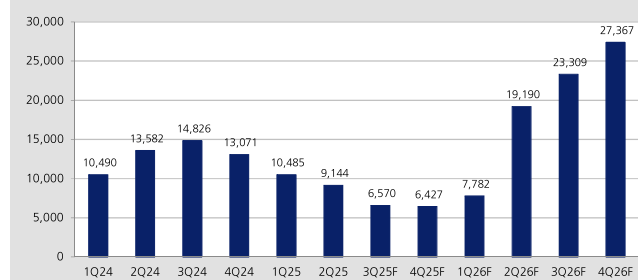
Figure 1: Company profile

Founded in 2003, Alchip specializes in providing high-complexity ASIC/ SoC design (especially back-end design) and manufacturing services. The firm has been a major player in the IC design service arena for years, with a team mainly composed of IC design experts from the Silicon Valley in the US and Japan. Alchip is headquartered in Taipei, with an ASIC manufacturing center in Hsinchu. In keeping with a global deployment strategy, the company has established subsidiaries in China, Japan, and the US.

Source: Company data; KGI Research

Figure 3: Sales

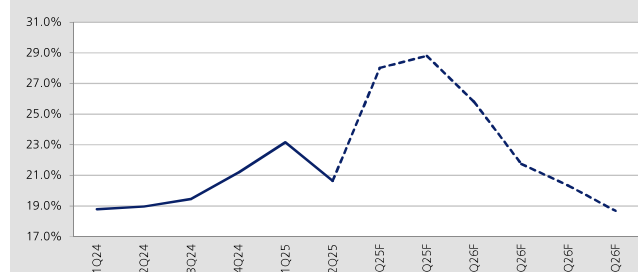
Sales, NT\$m



Source: KGI Research

Figure 7: Gross Margin

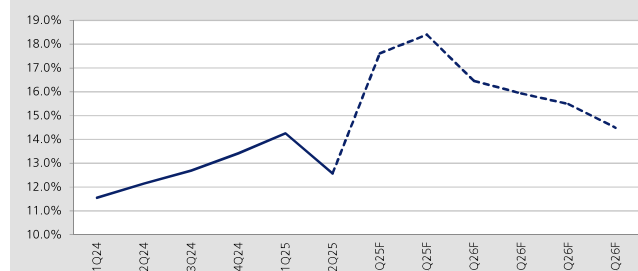
Gross margin, percent



Source: KGI Research

Figure 7: Operating Margin

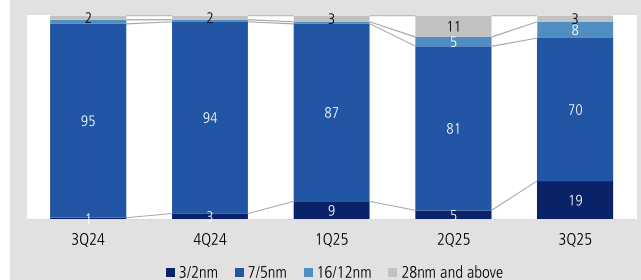
Operating margin, percent



Source: KGI Research

Figure 2: Sales by node

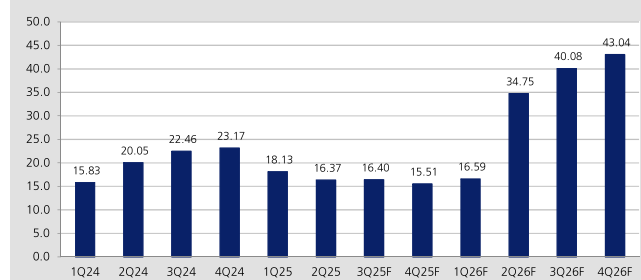
Sales weighting, percent



Source: Company data; KGI Research

Figure 4: EPS

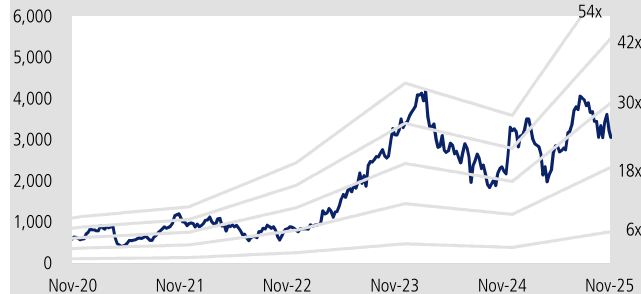
EPS, NT\$



Source: KGI Research

Figure 6: 12M forward PE band

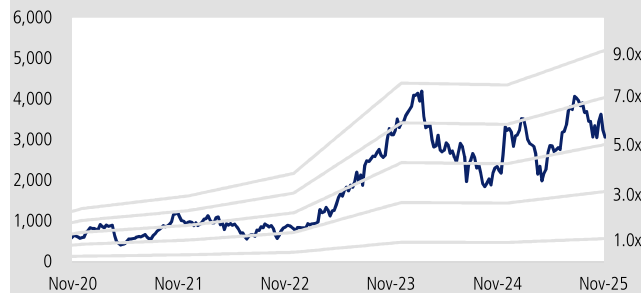
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 8: 12M forward PB band

Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: TEJ; KGI Research estimates

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25F	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	10,485	9,144	6,570	6,427	7,782	19,190	23,309	27,367	51,969	32,626	77,648
Cost of goods sold	(8,056)	(7,257)	(4,729)	(4,576)	(5,774)	(15,016)	(18,571)	(22,254)	(41,768)	(24,618)	(61,614)
Gross profit	2,429	1,887	1,841	1,851	2,009	4,174	4,738	5,113	10,201	8,008	16,034
Operating expenses	(934)	(737)	(684)	(668)	(728)	(1,117)	(1,128)	(1,147)	(3,705)	(3,024)	(4,120)
Operating profit	1,494	1,150	1,157	1,183	1,280	3,057	3,610	3,967	6,496	4,984	11,914
Depreciation of fixed assets	(835)	(585)	(453)	60	(438)	(438)	(438)	(438)	(2,129)	(1,814)	(1,751)
Amortisation of intangible assets	(55)	(80)	(85)	(121)	(92)	(92)	(92)	(92)	(514)	(342)	(366)
EBITDA	2,384	1,815	1,696	1,244	1,810	3,586	4,139	4,496	9,140	7,140	14,032
Interest income	330	411	357	347	347	354	310	264	1,203	1,445	1,274
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	16	13	78	-	-	-	-	-	169	107	-
Non-operating income	346	424	435	347	347	354	310	264	1,372	1,552	1,274
Interest expense	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(9)	(7)	(7)
Investment loss	(18)	(4)	-	-	-	-	-	-	(29)	(22)	-
Other non-op expenses	(28)	31	-	-	-	-	-	-	(22)	3	-
Non-operating expenses	(47)	25	(2)	(2)	(2)	(2)	(2)	(2)	(60)	(26)	(7)
Pre-tax profit	1,793	1,599	1,591	1,528	1,625	3,409	3,918	4,229	7,808	6,511	13,181
Current taxation	(332)	(277)	(276)	(267)	(284)	(597)	(686)	(740)	(1,362)	(1,152)	(2,307)
Minorities	2	1	13	(4)	2	1	13	(4)	(1)	12	12
Normalised net profit	1,464	1,324	1,328	1,256	1,343	2,814	3,245	3,485	6,446	5,371	10,887
Extraordinary items	0	0	0	(0)	0	0	0	(0)	-	0	0
Net profit	1,464	1,324	1,328	1,256	1,343	2,814	3,245	3,485	6,446	5,371	10,887
EPS (NT\$)	18.13	16.37	16.40	15.51	16.59	34.75	40.08	43.04	81.34	66.40	134.46
Margins (%)											
Gross profit margin	23.2	20.6	28.0	28.8	25.8	21.8	20.3	18.7	19.6	24.5	20.6
Operating margin	14.3	12.6	17.6	18.4	16.5	15.9	15.5	14.5	12.5	15.3	15.3
EBITDA margin	22.7	19.9	25.8	19.4	23.3	18.7	17.8	16.4	17.6	21.9	18.1
Pretax profit margin	17.1	17.5	24.2	23.8	20.9	17.8	16.8	15.5	15.0	20.0	17.0
Net profit margin	14.0	14.5	20.2	19.5	17.3	14.7	13.9	12.7	12.4	16.5	14.0
Sequential growth (%)											
Revenue growth	(19.8)	(12.8)	(28.2)	(2.2)	21.1	146.6	21.5	17.4			
Gross profit growth	(12.3)	(22.3)	(2.5)	0.6	8.5	107.8	13.5	7.9			
Operating profit growth	(14.8)	(23.0)	0.6	2.2	8.3	138.8	18.1	9.9			
EBITDA growth	(11.9)	(23.9)	(6.6)	(26.6)	45.4	98.2	15.4	8.6			
Pretax profit growth	(12.3)	(10.8)	(0.5)	(4.0)	6.4	109.7	14.9	7.9			
Net profit growth	(20.3)	(9.6)	0.3	(5.4)	6.9	109.5	15.3	7.4			
YoY growth (%)											
Revenue growth	(0.0)	(32.7)	(55.7)	(50.8)	(25.8)	109.9	254.8	325.8	70.5	(37.2)	138.0
Gross profit growth	23.2	(26.7)	(36.2)	(33.2)	(17.3)	121.2	157.4	176.2	50.1	(21.5)	100.2
Operating profit growth	23.3	(30.3)	(38.5)	(32.6)	(14.3)	165.8	212.0	235.4	72.7	(23.3)	139.0
EBITDA growth	47.3	(17.2)	(35.4)	(54.0)	(24.1)	97.6	144.1	261.3	58.1	(21.9)	96.5
Pretax profit growth	17.0	(19.4)	(29.2)	(25.3)	(9.4)	113.1	146.3	176.9	86.0	(16.6)	102.4
Net profit growth	19.0	(16.6)	(25.9)	(31.6)	(8.2)	112.6	144.4	177.5	93.8	(16.7)	102.7

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	19,738	32,458	50,309	48,753	59,581
Current assets	18,240	29,416	46,184	44,116	52,753
Cash & ST securities	6,806	14,136	29,428	34,666	26,895
Inventory	9,125	11,614	8,661	2,860	13,032
Accounts receivable	1,413	2,437	5,730	2,041	8,277
Other current assets	897	1,229	2,366	4,550	4,550
Non-current assets	1,498	3,042	4,125	4,637	6,828
LT investments	340	580	1,600	2,019	2,019
Net fixed assets	710	1,160	1,775	1,840	4,031
Other assets	447	1,302	750	778	778
Total liabilities	6,736	14,424	10,833	12,916	15,558
Current liabilities	6,608	14,246	10,672	12,768	15,410
Accounts payable	1,938	1,925	1,826	703	3,345
Interest bearing ST liabilities	-	-	-	-	-
Other current liabilities	4,670	12,320	8,845	12,065	12,065
Non-current liabilities	128	178	161	148	148
Long-term debt	-	-	-	-	-
Other L-T liabilities	58	28	29	22	22
Total equity	13,002	18,034	39,477	35,837	44,023
Share capital	719	743	806	809	809
Retained earnings reserve	3,388	6,057	10,685	11,231	19,430
Minority interests	9	20	21	9	(4)
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	31.6%	122.1%	70.5%	(37.2%)	138.0%
Operating profit growth	26.4%	62.8%	72.7%	(23.3%)	139.0%
EBITDA growth	30.1%	32.3%	58.1%	(21.9%)	96.5%
Net profit growth	23.1%	81.3%	93.8%	(16.7%)	102.7%
EPS growth	20.4%	77.0%	78.9%	(18.4%)	102.5%
Profitability					
Gross profit margin	32.3%	22.3%	19.6%	24.5%	20.6%
Operating margin	16.8%	12.3%	12.5%	15.3%	15.3%
EBITDA margin	31.8%	19.0%	17.6%	21.9%	18.1%
Net profit margin	13.4%	10.9%	12.4%	16.5%	14.0%
Return on average assets	11.1%	12.7%	15.6%	10.8%	20.1%
Return on average equity	15.7%	21.4%	22.4%	14.3%	27.3%
Stability					
Gross debt to equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	831.9	687.0	870.5	904.5	1,875.9
Interest & ST debt coverage (x)	1.0	1.0	1.0	1.0	1.0
Cash flow interest coverage(x)	(85.7)	1,520.8	373.9	1,869.7	(110.1)
Cash flow/int. & ST debt (x)	(85.7)	1,520.8	373.9	1,869.7	(110.1)
Current ratio (x)	2.8	2.1	4.3	3.5	3.4
Quick ratio (x)	1.4	1.2	3.5	3.2	2.6
Net debt (NT\$m)	(4,775)	(10,160)	(27,044)	(30,018)	(22,248)
Per share data					
EPS (NT\$)	25.69	45.47	81.34	66.40	134.46
CFPS (NT\$)	(3.44)	127.25	42.37	166.57	(9.56)
BVPS (NT\$)	180.65	242.39	489.23	442.63	543.92
Adj BVPS (NT\$)	182.00	246.32	497.91	442.94	543.75
SPS (NT\$)	192.25	416.80	655.81	403.35	958.99
EBITDA/share (NT\$)	61.20	79.07	115.34	88.27	173.29
Cash DPS (NT\$)	12.92	22.71	40.05	33.20	67.23
Activity					
Sales / avg assets	0.83	1.17	1.26	0.66	1.43
Days receivable	37.6	29.2	40.4	22.8	38.9
Days inventory	358.3	179.0	75.9	42.4	77.2
Days payable	76.1	29.7	16.0	10.4	19.8
Cash cycle	319.8	178.5	100.2	54.8	96.3

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	13,725	30,482	51,969	32,626	77,648
Cost of goods sold	(9,296)	(23,687)	(41,768)	(24,618)	(61,614)
Gross profit	4,430	6,794	10,201	8,008	16,034
Operating expenses	(2,119)	(3,033)	(3,705)	(3,024)	(4,120)
Operating profit	2,311	3,761	6,496	4,984	11,914
Non-operating income	140	433	1,372	1,552	1,274
Interest income	88	353	1,203	1,445	1,274
Investment income	-	-	-	-	-
Other non-op income	53	80	169	107	-
Non-operating expenses	(68)	3	(60)	(26)	(7)
Interest expense	(3)	(6)	(9)	(7)	(7)
Investment loss	-	(15)	(29)	(22)	-
Other non-op expenses	(65)	24	(22)	3	-
Pre-tax profit	2,383	4,198	7,808	6,511	13,181
Current taxation	(550)	(877)	(1,362)	(1,152)	(2,307)
Minorities	1	5	(1)	12	12
Extraordinary items	-	0	0	0	0
Net profit	1,834	3,325	6,446	5,371	10,887
EBITDA	4,369	5,783	9,140	7,140	14,032
EPS (NT\$)	25.69	45.47	81.34	66.40	134.46

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	(246)	9,306	3,358	13,473	(774)
Net profit	1,834	3,325	6,446	5,371	10,887
Depreciation & amortisation	2,058	2,021	2,644	2,155	2,118
Decrease in working capital	(6,750)	(3,996)	99	8,367	(13,766)
Other operating cash flow	2,611	7,955	(5,830)	(2,420)	(12)
Investing cash flow	1,476	(5,118)	(676)	(5,292)	(4,309)
Sale of ST investment	2,787	(2,101)	795	(3,404)	-
New investments	-	(70)	(67)	-	-
Capital expenditure	(1,027)	(2,321)	(1,998)	(2,182)	(3,943)
Others investing cashflow	(284)	(626)	594	294	(366)
Free cash flow	(4,238)	(1,986)	5,594	12,100	(6,128)
Financing cash flow	(766)	1,276	12,855	(1,751)	(2,688)
Increase in short term debt	-	-	-	-	-
Increase in long term loans	-	-	-	-	-
New ordinary shares issued	-	1,998	14,330	-	-
Ordinary dividends paid	(846)	(931)	(1,818)	(1,878)	(2,688)
Other financing cashflow	80	208	343	127	-
Forex effects	462	(79)	1,348	(3,455)	-
Total cash generated	927	5,384	16,885	2,974	(7,771)

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	15.4%	10.0%	7.1%	9.3%	5.3%
= Operating margin	16.8%	12.3%	12.5%	15.3%	15.3%
1 / (Working capital/revenue	0.4	0.0	0.1	(0.1)	0.1
+ Net PPE/revenue	0.1	0.0	0.0	0.1	0.1
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.4	11.3	6.5	(23.7)	5.3
Operating margin	16.8%	12.3%	12.5%	15.3%	15.3%
x Capital turnover	2.4	11.3	6.5	(23.7)	5.3
x (1 - tax rate)	76.9%	79.1%	82.6%	82.3%	82.5%
= After-tax ROIC	31.1%	110.6%	67.4%	(297.8%)	67.4%

Source: Company data; KGI Research estimates

ASPEED Technology

(5274.TWO/5274 TT)

Outperform · Maintained

Price as of November 20 (NT\$)	6,355
12M target price (NT\$)	6,890
Previous target price (NT\$)	6,890
Unchanged (%)	0.0
Upside (%)	8.4

Key message

1. Global general-purpose server shipments to grow by double-digits YoY in 2026F.
2. Catalysts for 2026-27F earnings growth are solid.
3. Securing BT substrates early; gross margin to remain healthy in the near- to mid-term.

Trading data

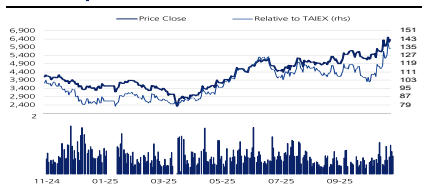
Mkt cap (NT\$bn/US\$mn)	240.2 / 7,861
Outstanding shares (mn)	37.80
Foreign ownership (mn)	22
3M avg. daily trading (mn)	0.31
52-week trading range (NT\$)	2,330 –6,500

Performance	3M	6M	12M
Absolute (%)	34.8	72.9	54.6
Relative (%)	18.7	45.5	33.7

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	10.36A	13.44A	19.30A	24.95A
2025	23.46A	16.65A	32.12A	27.02F
2026	26.69F	32.64F	36.44F	42.04F

Share price chart



Strong growth in general-purpose server shipments opens room for earnings upgrades

Event

ASPEED is our top pick in the IC design space, due to: (1) strong demand for general-purpose servers from US CSPs in 2026F; (2) strong growth in AI server shipments, rack-level designs, and server-CPU iterations; (3) AST2700 helping the firm reclaim first-mover advantages, driving strong BMC earnings growth; and (4) new cloud enterprise products increasing silicon content per server motherboard.

Impact

Global general-purpose server shipments to grow by double-digits YoY in 2026F.

Our supply-chain checks suggest global general-purpose server shipments will rise 10-20% YoY in 2026, versus Gartner's current estimate of 5.6% YoY. The upside should be driven by US CSPs (over 40% of global demand for general-purpose servers). We believe the primary use case will be data storage, consistent with our positive view on the memory sector upcycle, which should in turn lift demand for ASPEED BMCs.

Catalysts for 2026-27F earnings growth are solid. Beyond the more constructive view on general-purpose servers, other catalysts for 2026-27F include: (1) strong growth in AI server shipments and the rack-level design trend, as well as server-CPU iterations boosting BMC ASP (AST2700 ASP is expected to be 60-70% higher than that of AST2600), with AST2700 helping reclaim first mover share advantages, which all support robust BMC earnings growth in 2026-27F; and (2) new cloud enterprise products will raise ASPEED's silicon content per server motherboard over the long term. Based on these factors, we forecast 2026 revenue to rise by 30.6% YoY to NT\$11.7bn.

Securing BT substrates early; gross margin to be healthy in the near- to mid-term.

ASPEED is locking in BT substrate supply early and tightening cost controls to alleviate potential constraints on BMC shipment upside. We believe secured BT substrate volume is sufficient and does not challenge our view on revenue growth. In addition, gross margin will remain healthy in the near- to mid-term as the sales mix skews toward stronger BMC shipments. While the initial ramp-up of AST2700 may dilute margin, the current gross margin baseline is not as weak as previously feared.

Valuation & Action

We estimate 2026-27F EPS will rise by 38.9% and 36.4% YoY to NT\$137.82 and NT\$188.02 respectively. Our target price of NT\$6,890 is based on 50x 2026F EPS. Maintain Outperform. ASPEED is our top pick in the IC design space for 2026F.

Risks

Server shipment growth misses expectations; delayed CPU platform transition; intensifying competition.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	3,130	6,460	8,970	11,718	15,772
Gross profit (NT\$mn)	2,008	4,154	6,122	8,036	10,829
Operating profit (NT\$mn)	1,080	2,918	4,665	6,281	8,642
Net profit (NT\$mn)	1,007	2,571	3,751	5,209	7,107
EPS (NT\$)	26.66	68.04	99.25	137.82	188.02
Cash DPS (NT\$)	20.00	52.00	75.43	104.74	142.89
EPS growth (%)	(52.2)	155.2	45.9	38.9	36.4
PE (x)	238.4	93.4	64.0	46.1	33.8
PB (x)	62.7	42.6	32.5	24.6	18.6
EV/EBITDA (x)	166.0	69.3	44.2	33.5	24.6
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.3	0.8	1.2	1.6	2.2
Return on average equity (%)	24.2	54.3	57.6	60.8	62.8

Source: Company data; KGI Research estimates

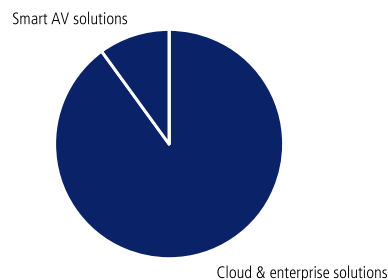
Figure 1: Company profile

Founded in November 2004, ASPEED Technology is a fabless IC design company specializing in system-on-chip (SoC) products under its own “Cloud Enterprise Solutions” and “Smart AV Solutions” segments. Revenue primarily comes from developing and selling proprietary application-specific chips used in server management, remote video transmission, and security control. The company is a global leader in baseboard management controller (BMC) chips, maintaining roughly 70% long-term market share in the server-management chip market.

Source: Company data; KGI Research

Figure 2: 2024 revenue mix

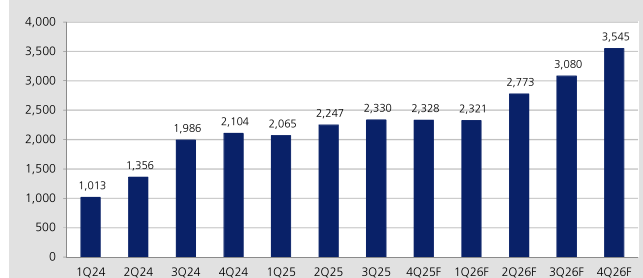
Revenue weighting, percent



Source: TEJ; KGI Research

Figure 3: Sales

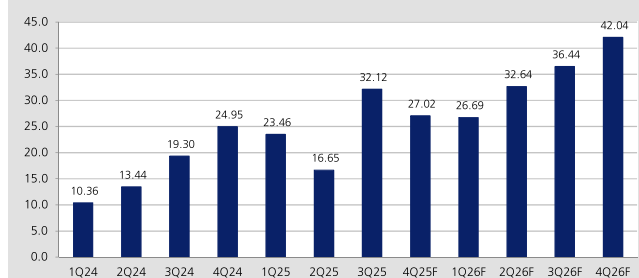
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

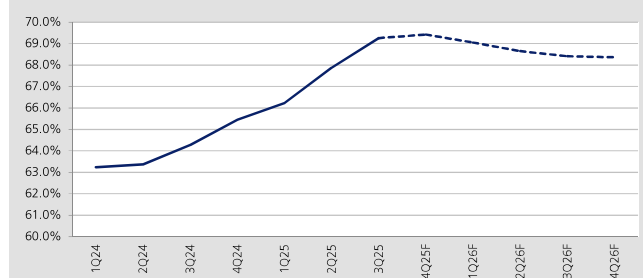
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

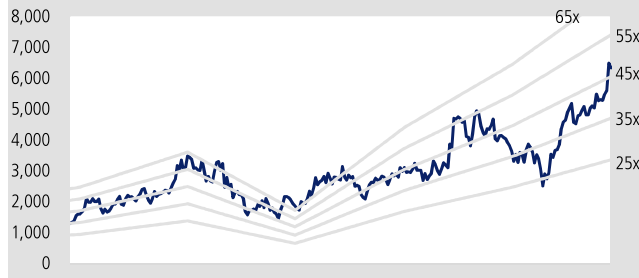
Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

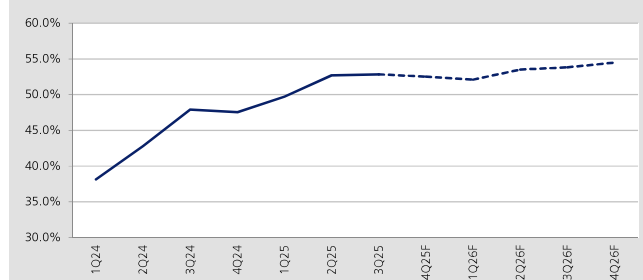
Share price, NT\$ (LHS); PE, x (RHS)



Source: TEJ; KGI Research estimates

Figure 7: Operating Margin

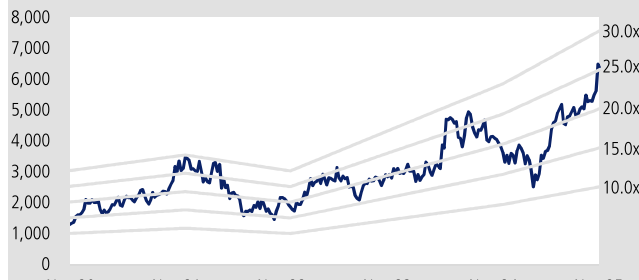
Operating margin, percent



Source: KGI Research

Figure 8: 12M forward PB band

Share price, NT\$ (LHS); PB, x (RHS)



Source: TEJ; KGI Research estimates

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	2,065	2,247	2,330	2,328	2,321	2,773	3,080	3,545	8,970	11,718	15,772
Cost of goods sold	(697)	(722)	(716)	(712)	(718)	(869)	(973)	(1,122)	(2,847)	(3,682)	(4,943)
Gross profit	1,368	1,525	1,614	1,616	1,602	1,903	2,107	2,424	6,122	8,036	10,829
Operating expenses	(341)	(341)	(382)	(394)	(394)	(420)	(450)	(492)	(1,458)	(1,755)	(2,187)
Operating profit	1,027	1,184	1,231	1,222	1,209	1,483	1,657	1,932	4,665	6,281	8,642
Depreciation of fixed assets	(41)	(40)	(39)	(43)	(82)	(84)	(89)	49	(163)	(206)	(270)
Amortisation of intangible assets	(40)	(39)	(39)	(32)	(34)	(34)	(34)	(34)	(148)	(136)	(136)
EBITDA	1,108	1,262	1,309	1,297	1,324	1,602	1,780	1,917	4,976	6,623	9,048
Interest income	26	40	46	36	41	47	53	43	147	183	194
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	15	17	17	18	18	18	18	18	67	72	72
Non-operating income	41	57	63	54	59	65	71	61	214	255	266
Interest expense	(1)	(1)	(6)	(6)	(6)	(6)	(6)	(6)	(14)	(24)	(24)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	38	(453)	218	-	-	-	-	-	(197)	-	-
Non-operating expenses	37	(454)	212	(6)	(6)	(6)	(6)	(6)	(211)	(24)	(24)
Pre-tax profit	1,105	787	1,506	1,270	1,261	1,542	1,722	1,986	4,668	6,512	8,884
Current taxation	(218)	(158)	(292)	(249)	(252)	(308)	(344)	(397)	(917)	(1,302)	(1,777)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	887	629	1,214	1,021	1,009	1,234	1,378	1,589	3,751	5,209	7,107
Extraordinary items	0	0	0	0	0	0	0	0	-	0	0
Net profit	887	629	1,214	1,021	1,009	1,234	1,378	1,589	3,751	5,209	7,107
EPS (NT\$)	23.46	16.65	32.12	27.02	26.69	32.64	36.44	42.04	99.25	137.82	188.02
Margins (%)											
Gross profit margin	66.2	67.9	69.3	69.4	69.0	68.6	68.4	68.4	68.3	68.6	68.7
Operating margin	49.7	52.7	52.9	52.5	52.1	53.5	53.8	54.5	52.0	53.6	54.8
EBITDA margin	53.7	56.2	56.2	55.7	57.1	57.8	57.8	54.1	55.5	56.5	57.4
Pretax profit margin	53.5	35.0	64.6	54.6	54.3	55.6	55.9	56.0	52.0	55.6	56.3
Net profit margin	42.9	28.0	52.1	43.9	43.5	44.5	44.7	44.8	41.8	44.5	45.1
Sequential growth (%)											
Revenue growth	(1.8)	8.8	3.7	(0.1)	(0.3)	19.5	11.1	15.1			
Gross profit growth	(0.7)	11.5	5.8	0.1	(0.9)	18.8	10.7	15.0			
Operating profit growth	2.7	15.3	4.0	(0.8)	(1.1)	22.7	11.7	16.6			
EBITDA growth	4.9	13.9	3.7	(0.9)	2.1	21.0	11.2	7.6			
Pretax profit growth	(4.2)	(28.8)	91.5	(15.7)	(0.7)	22.3	11.7	15.4			
Net profit growth	(5.9)	(29.1)	93.0	(15.9)	(1.2)	22.3	11.7	15.4			
YoY growth (%)											
Revenue growth	103.8	65.7	17.3	10.7	12.4	23.4	32.2	52.3	38.9	30.6	34.6
Gross profit growth	113.4	77.5	26.4	17.4	17.1	24.8	30.6	50.0	47.4	31.3	34.8
Operating profit growth	165.8	104.1	29.4	22.2	17.7	25.3	34.6	58.0	59.8	34.6	37.6
EBITDA growth	144.7	91.4	30.1	22.7	19.5	26.9	36.0	47.8	56.7	33.1	36.6
Pretax profit growth	136.0	24.2	65.3	10.1	14.1	96.0	14.3	56.4	47.4	39.5	36.4
Net profit growth	126.6	23.9	66.5	8.3	13.8	96.1	13.5	55.6	45.9	38.9	36.4

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	4,544	7,726	10,290	12,898	16,222
Current assets	3,423	5,987	8,675	11,196	14,408
Cash & ST securities	1,984	4,011	6,760	8,382	10,861
Inventory	306	357	277	397	488
Accounts receivable	716	1,437	1,522	2,299	2,942
Other current assets	417	181	117	117	117
Non-current assets	1,121	1,739	1,615	1,702	1,814
LT investments	140	400	478	478	478
Net fixed assets	198	355	294	382	493
Other assets	783	984	843	843	843
Total liabilities	710	2,087	2,901	3,151	3,328
Current liabilities	680	1,883	2,732	2,982	3,159
Accounts payable	242	426	412	662	839
Interest bearing ST liabilities	-	-	1,050	1,050	1,050
Other current liabilities	438	1,457	1,270	1,270	1,270
Non-current liabilities	31	204	169	169	169
Long-term debt	-	-	-	-	-
Other L-T liabilities	22	32	16	16	16
Total equity	3,834	5,639	7,388	9,746	12,894
Share capital	378	378	378	378	378
Retained earnings reserve	1,075	2,851	4,353	6,711	9,858
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(39.9%)	106.4%	38.9%	30.6%	34.6%
Operating profit growth	(55.9%)	170.3%	59.8%	34.6%	37.6%
EBITDA growth	(48.5%)	129.1%	56.7%	33.1%	36.6%
Net profit growth	(52.2%)	155.4%	45.9%	38.9%	36.4%
EPS growth	(52.2%)	155.2%	45.9%	38.9%	36.4%
Profitability					
Gross profit margin	64.1%	64.3%	68.3%	68.6%	68.7%
Operating margin	34.5%	45.2%	52.0%	53.6%	54.8%
EBITDA margin	44.3%	49.1%	55.5%	56.5%	57.4%
Net profit margin	32.2%	39.8%	41.8%	44.5%	45.1%
Return on average assets	19.2%	41.9%	41.6%	44.9%	48.8%
Return on average equity	24.2%	54.3%	57.6%	60.8%	62.8%
Stability					
Gross debt to equity	0.0%	0.0%	14.2%	10.8%	8.1%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	123.6	681.8	338.1	271.6	370.2
Interest & ST debt coverage (x)	1.0	1.0	0.8	0.9	0.9
Cash flow interest coverage(x)	53.2	676.0	293.7	203.7	289.1
Cash flow/int. & ST debt (x)	53.2	676.0	3.8	4.6	6.5
Current ratio (x)	5.0	3.2	3.2	3.8	4.6
Quick ratio (x)	4.6	3.0	3.1	3.6	4.4
Net debt (NT\$m)	(1,612)	(3,659)	(5,256)	(6,879)	(9,358)
Per share data					
EPS (NT\$)	26.66	68.04	99.25	137.82	188.02
CFPS (NT\$)	13.74	83.21	107.59	129.71	184.03
BVPS (NT\$)	101.38	149.10	195.45	257.82	341.08
Adj BVPS (NT\$)	101.52	149.22	195.48	257.85	341.12
SPS (NT\$)	82.88	170.93	237.32	310.01	417.25
EBITDA/share (NT\$)	36.68	84.00	131.65	175.21	239.36
Cash DPS (NT\$)	20.00	52.00	75.43	104.74	142.89
Activity					
Sales / avg assets	0.60	1.05	1.00	1.01	1.08
Days receivable	83.5	81.4	61.9	71.6	68.1
Days inventory	99.5	56.7	35.5	39.4	36.1
Days payable	78.7	67.6	52.8	65.6	61.9
Cash cycle	104.3	70.5	44.6	45.4	42.2

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	3,130	6,460	8,970	11,718	15,772
Cost of goods sold	(1,122)	(2,306)	(2,847)	(3,682)	(4,943)
Gross profit	2,008	4,154	6,122	8,036	10,829
Operating expenses	(928)	(1,235)	(1,458)	(1,755)	(2,187)
Operating profit	1,080	2,918	4,665	6,281	8,642
Non-operating income	88	103	214	255	266
Interest income	83	73	147	183	194
Investment income	-	-	-	-	-
Other non-op income	5	29	67	72	72
Non-operating expenses	27	146	(211)	(24)	(24)
Interest expense	(10)	(5)	(14)	(24)	(24)
Investment loss	-	-	-	-	-
Other non-op expenses	37	151	(197)	-	-
Pre-tax profit	1,195	3,167	4,668	6,512	8,884
Current taxation	(188)	(596)	(917)	(1,302)	(1,777)
Minorities	-	-	-	-	-
Extraordinary items	-	(0)	0	0	0
Net profit	1,007	2,571	3,751	5,209	7,107
EBITDA	1,385	3,174	4,976	6,623	9,048
EPS (NT\$)	26.66	68.04	99.25	137.82	188.02

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	519	3,145	4,066	4,903	6,956
Net profit	1,007	2,571	3,751	5,209	7,107
Depreciation & amortisation	306	256	311	342	406
Decrease in working capital	272	(645)	(18)	(648)	(557)
Other operating cash flow	(1,066)	962	22	-	-
Investing cash flow	(0)	(345)	(405)	(429)	(518)
Sale of ST investment	115	(191)	-	-	-
New investments	(46)	-	(166)	-	-
Capital expenditure	(83)	(25)	(308)	(293)	(382)
Others investing cashflow	14	(130)	70	(136)	(136)
Free cash flow	1,227	1,820	3,585	4,289	6,245
Financing cash flow	(1,728)	(781)	(935)	(2,851)	(3,959)
Increase in short term debt	-	-	1,050	-	-
Increase in long term loans	-	-	-	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(1,702)	(756)	(1,967)	(2,851)	(3,959)
Other financing cashflow	(26)	(25)	(19)	-	-
Forex effects	(8)	30	(79)	-	-
Total cash generated	(1,217)	2,048	2,647	1,623	2,479

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue	29.7%	19.1%	16.3%	15.0%	13.9%
- Operating exp./revenue	34.5%	45.2%	52.0%	53.6%	54.8%
= Operating margin	34.5%	45.2%	52.0%	53.6%	54.8%
1 / (Working capital/revenue	0.2	0.0	0.0	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.0	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	3.0	14.0	11.5	7.7	7.2
Operating margin	34.5%	45.2%	52.0%	53.6%	54.8%
x Capital turnover	3.0	14.0	11.5	7.7	7.2
x (1 - tax rate)	84.3%	81.2%	80.4%	80.0%	80.0%
= After-tax ROIC	86.6%	513.4%	479.7%	331.3%	316.4%

Source: Company data; KGI Research estimates

MPI

(6223.TWO/6223 TT)

Outperform · Maintained

Price as of November 20 (NT\$)	1,910
12M target price (NT\$)	2,430
Previous target price (NT\$)	2,430
Unchanged (%)	0.0
Upside (%)	27.2

Key message

1. Co-packaged optics equipment to ship in 2H26F, driving gross margin gains in 2026F.
2. Sustained global ASIC probe card leadership; capacity expansion supports 2027F sales & earnings growth.

Trading data

Mkt cap (NT\$bn/US\$mn)	183.1 / 5,992
Outstanding shares (mn)	95.88
Foreign ownership (mn)	30.18
3M avg. daily trading (mn)	1.98
52-week trading range (NT\$)	494.5 –2,100

Performance	3M	6M	12M
Absolute (%)	70.5	185.5	156.4
Relative (%)	54.4	158.1	135.5

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	4.18A	5.76A	6.89A	7.59A
2025	7.68A	6.67A	9.30A	9.32F
2026	9.84F	12.23F	17.50F	22.51F

Share price chart



Source: TEJ

Probe card capacity ramps up; CPO to boost growth

Event

We are positive on MPI's leading position in AI ASIC probe card and expect co-packaged optics (CPO) equipment to begin contributing to sales and earnings growth from 2H26F. We forecast 2026-27F vertical probe card (VPC) sales will rise by 40-50% YoY, and that a rising sales weighting of MEMS probe card and CPO equipment shipments will boost gross margin.

Impact

CPO equipment to ship in 2H26F, driving gross margin gains in 2026F. We forecast 2026F sales will rise by 42.0% YoY to NT\$18.5bn, primarily because MPI is the sole VPC supplier for US design service vendors, and will significantly benefit from AI ASIC projects. We anticipate sales contribution from CPO-related equipment will start in 2H26F, looking to account for nearly 10% of 2026F sales. Regarding gross margin, given that MEMS probe card ASP is 20-25% higher than traditional VPC probe card, we believe the rising sales weighting of MEMS will boost gross margin. Given the higher gross margin of CPO equipment than the company average and a rising MEMS probe card shipments weighting (from 10% in 2025F to 25% in 2026F), we forecast 2026F gross margin will expand by 3ppts YoY to 59%. We forecast 2026F earnings to rise by 86.5% YoY to NT\$5.9bn, for EPS of NT\$62.08.

Sustained global ASIC probe card leadership; capacity expansion to support 2027F sales & earnings growth. MPI continues to lead globally in AI ASIC probe card and is benefiting from overall ASIC market growth. The company is actively expanding probe card capacity. We estimate total VPC/ MEMS capacity will exceed 4mn pins/ month by end-2026F (vs. 1.2mn for traditional VPC and 2mn for MEMS at the start of next year), supporting sales and earnings growth into 2027F. We believe MPI will continue to benefit in 2027F from next-generation AI ASIC demand and ongoing equipment shipments. We forecast 2027F sales of NT\$21.7bn, up 17.4% YoY, and earnings of NT\$7.2bn, up 23.8% YoY, with EPS at NT\$76.87.

Valuation & Action

We are positive on the firm's leading position in the AI ASIC supply chain, and expect CPO equipment to support incremental sales and earnings growth. Our target price of NT\$2,430 is based on 35x 2026-27F EPS. Maintain Outperform.

Risks

Intensifying competition; weakening demand; global economic recession.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	8,147	10,172	13,007	18,468	21,684
Gross profit (NT\$mn)	3,897	5,561	7,307	10,976	13,099
Operating profit (NT\$mn)	1,471	2,483	3,827	6,925	8,594
Net profit (NT\$mn)	1,312	2,301	3,108	5,850	7,244
EPS (NT\$)	13.92	24.42	32.98	62.08	76.87
Cash DPS (NT\$)	7.50	16.00	19.80	37.20	46.10
EPS growth (%)	8.0	75.4	35.0	88.3	23.8
PE (x)	137.2	78.2	57.9	30.8	24.8
PB (x)	23.6	19.3	19.7	16.2	9.8
EV/EBITDA (x)	75.8	56.3	36.9	21.8	17.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.4	0.8	1.0	1.9	2.4
Return on average equity (%)	18.1	27.2	33.7	57.7	49.1

Source: Company data, KGI Research estimates

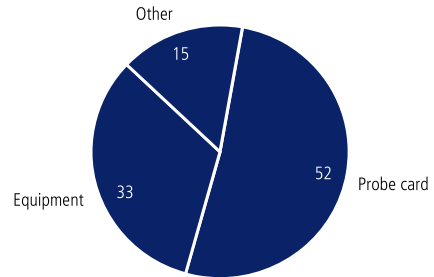
Figure 1: Company profile

MPI was founded in 1995 and is a supplier of probe cards, photonics automation, advanced semiconductor testing, and thermal solutions. The firm provides a comprehensive product range, including cantilever probe card (CPC), vertical probe card (VPC), and MEMS probe card. The firm ranked fourth in the global probe card market in 2023. The firm's 2024 sales mix was probe cards (52%), equipment (33%) and others (15%).

Source: Company data, KGI Research

Figure 2: 2024 product mix

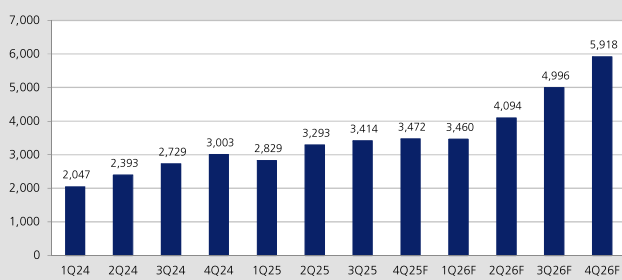
Product weighting, percent



Source: Company data, KGI Research

Figure 3: Sales

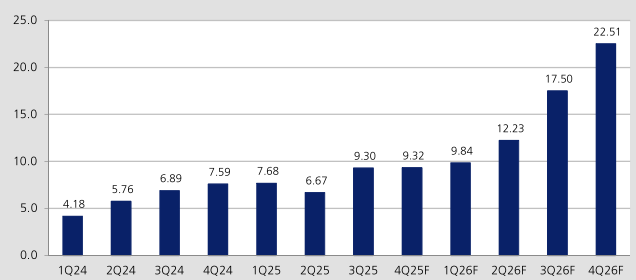
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

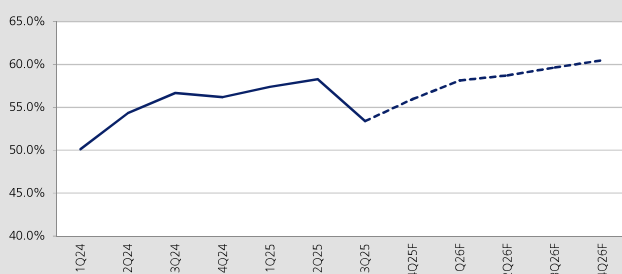
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

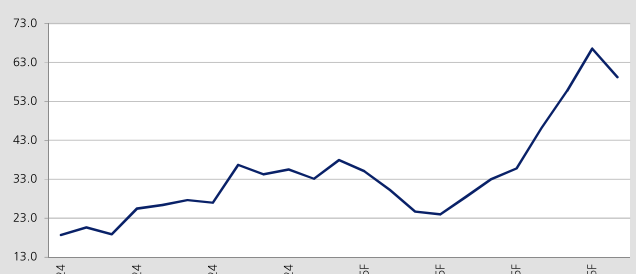
Gross margin, percent



Source: KGI Research

Figure 6: Rolling PE

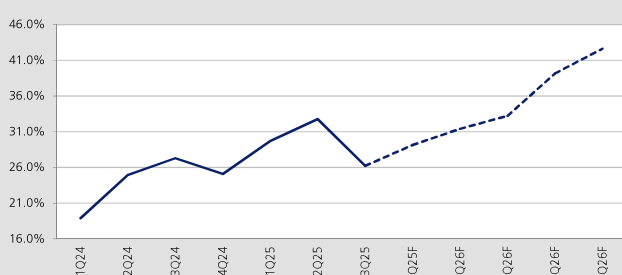
Rolling PE, times



Source: KGI Research

Figure 7: Operating Margin

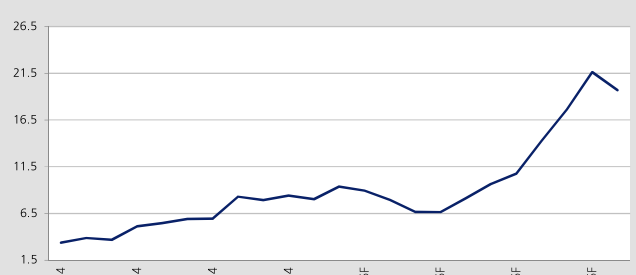
Operating margin, percent



Source: KGI Research

Figure 8: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	2,829	3,293	3,414	3,472	3,460	4,094	4,996	5,918	13,007	18,468	21,684
Cost of goods sold	(1,205)	(1,374)	(1,591)	(1,529)	(1,449)	(1,690)	(2,016)	(2,338)	(5,699)	(7,492)	(8,585)
Gross profit	1,623	1,919	1,822	1,942	2,012	2,405	2,979	3,580	7,307	10,976	13,099
Operating expenses	(783)	(840)	(927)	(931)	(925)	(1,044)	(1,024)	(1,058)	(3,481)	(4,051)	(4,505)
Operating profit	840	1,079	896	1,012	1,087	1,361	1,956	2,522	3,827	6,925	8,594
Depreciation of fixed assets	(134)	(149)	(171)	(184)	(203)	(203)	(203)	(203)	(637)	(813)	(985)
Amortisation of intangible assets	(26)	(35)	(33)	(26)	(27)	(27)	(27)	(27)	(120)	(108)	(108)
EBITDA	1,000	1,263	1,099	1,222	1,317	1,591	2,186	2,752	4,584	7,845	9,687
Interest income	19	20	18	18	22	19	19	20	75	79	85
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	20	26	25	-	-	-	-	-	70	-	-
Non-operating income	38	46	43	18	22	19	19	20	145	79	85
Interest expense	(25)	(13)	(27)	(5)	(5)	(6)	(6)	(6)	(71)	(23)	(25)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	34	(355)	141	30	10	10	10	10	(150)	40	40
Non-operating expenses	9	(368)	114	25	5	4	4	4	(221)	17	15
Pre-tax profit	888	756	1,053	1,055	1,113	1,384	1,979	2,546	3,751	7,021	8,694
Current taxation	(162)	(126)	(176)	(176)	(186)	(231)	(330)	(425)	(640)	(1,171)	(1,451)
Minorities	1	1	-	-	-	-	-	-	1	-	-
Normalised net profit	727	631	877	879	927	1,153	1,649	2,121	3,113	5,850	7,244
Extraordinary items	(3)	(2)	(0)	-	-	-	-	-	(5)	-	-
Net profit	724	628	877	879	927	1,153	1,649	2,121	3,108	5,850	7,244
EPS (NT\$)	7.68	6.67	9.30	9.32	9.84	12.23	17.50	22.51	32.98	62.08	76.87
Margins (%)											
Gross profit margin	57.4	58.3	53.4	56.0	58.1	58.7	59.6	60.5	56.2	59.4	60.4
Operating margin	29.7	32.8	26.2	29.1	31.4	33.2	39.1	42.6	29.4	37.5	39.6
EBITDA margin	35.3	38.4	32.2	35.2	38.1	38.9	43.8	46.5	35.2	42.5	44.7
Pretax profit margin	31.4	23.0	30.8	30.4	32.2	33.8	39.6	43.0	28.8	38.0	40.1
Net profit margin	25.6	19.1	25.7	25.3	26.8	28.2	33.0	35.8	23.9	31.7	33.4
Sequential growth (%)											
Revenue growth	(5.8)	16.4	3.7	1.7	(0.3)	18.3	22.0	18.5			
Gross profit growth	(3.8)	18.2	(5.0)	6.6	3.6	19.5	23.9	20.2			
Operating profit growth	11.6	28.4	(17.0)	12.9	7.4	25.2	43.7	28.9			
EBITDA growth	10.4	26.4	(13.0)	11.2	7.8	20.8	37.4	25.9			
Pretax profit growth	3.7	(14.8)	39.2	0.2	5.5	24.4	43.1	28.6			
Net profit growth	1.2	(13.2)	39.5	0.2	5.5	24.4	43.1	28.6			
YoY growth (%)											
Revenue growth	38.2	37.6	25.1	15.6	22.3	24.3	46.3	70.5	27.9	42.0	17.4
Gross profit growth	58.2	47.6	17.8	15.1	23.9	25.3	63.5	84.3	31.4	50.2	19.3
Operating profit growth	117.3	80.6	20.2	34.3	29.3	26.1	118.3	149.3	54.1	81.0	24.1
EBITDA growth	93.0	72.4	24.5	34.9	31.7	25.9	98.9	125.3	50.8	71.2	23.5
Pretax profit growth	84.0	10.5	36.4	23.2	25.3	83.0	88.0	141.4	34.2	87.2	23.8
Net profit growth	83.8	15.8	34.9	22.9	28.1	83.4	88.1	141.4	35.0	88.3	23.8

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	12,440	16,479	22,015	26,328	29,623
Current assets	6,904	9,505	13,071	16,446	18,529
Cash & ST securities	2,579	3,695	6,189	5,759	8,661
Inventory	2,752	3,477	4,342	6,664	6,143
Accounts receivable	1,338	2,050	2,192	3,673	3,377
Other current assets	235	283	349	349	349
Non-current assets	5,536	6,973	8,944	9,882	11,094
LT investments	1,147	378	487	487	487
Net fixed assets	3,391	4,561	6,575	7,513	8,725
Other assets	997	2,034	1,881	1,881	1,881
Total liabilities	4,819	7,172	12,893	15,188	11,240
Current liabilities	3,105	5,673	8,242	10,537	6,589
Accounts payable	564	766	965	1,483	1,367
Interest bearing ST liabilities	170	858	-	-	-
Other current liabilities	2,372	4,050	7,277	9,054	5,222
Non-current liabilities	1,714	1,498	4,651	4,651	4,651
Long-term debt	1,511	1,305	4,864	4,864	4,864
Other L-T liabilities	97	123	4,466	4,466	4,466
Total equity	7,620	9,307	9,122	11,139	18,383
Share capital	942	942	942	942	942
Retained earnings reserve	3,956	5,502	4,839	6,857	14,101
Minority interests	6	4	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	9.5%	24.9%	27.9%	42.0%	17.4%
Operating profit growth	18.4%	68.7%	54.1%	81.0%	24.1%
EBITDA growth	13.6%	51.4%	50.8%	71.2%	23.5%
Net profit growth	8.1%	75.4%	35.0%	88.3%	23.8%
EPS growth	8.0%	75.4%	35.0%	88.3%	23.8%
Profitability					
Gross profit margin	47.8%	54.7%	56.2%	59.4%	60.4%
Operating margin	18.1%	24.4%	29.4%	37.5%	39.6%
EBITDA margin	24.6%	29.9%	35.2%	42.5%	44.7%
Net profit margin	16.1%	22.6%	23.9%	31.7%	33.4%
Return on average assets	11.2%	15.9%	16.1%	24.2%	25.9%
Return on average equity	18.1%	27.2%	33.7%	57.7%	49.1%
Stability					
Gross debt to equity	22.1%	23.2%	53.3%	43.7%	26.5%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	61.7	92.3	54.1	308.8	345.2
Interest & ST debt coverage (x)	0.9	0.8	1.0	1.0	1.0
Cash flow interest coverage(x)	40.1	68.5	21.2	152.7	357.8
Cash flow/int. & ST debt (x)	5.3	2.4	21.2	152.7	357.8
Current ratio (x)	2.2	1.7	1.6	1.6	2.8
Quick ratio (x)	1.3	1.1	1.1	0.9	1.9
Net debt (NT\$m)	(898)	(1,532)	(1,325)	(895)	(3,797)
Per share data					
EPS (NT\$)	13.92	24.42	32.98	62.08	76.87
CFPS (NT\$)	11.10	22.25	15.91	36.97	95.92
BVPS (NT\$)	80.81	98.72	96.80	118.21	195.09
Adj BVPS (NT\$)	80.81	98.72	96.80	118.21	195.09
SPS (NT\$)	86.46	107.95	138.03	195.99	230.12
EBITDA/share (NT\$)	21.31	32.25	48.64	83.26	102.80
Cash DPS (NT\$)	7.50	16.00	19.80	37.20	46.10
Activity					
Sales / avg assets	0.70	0.70	0.68	0.76	0.78
Days receivable	59.9	73.8	61.5	72.6	56.8
Days inventory	236.4	276.0	278.0	324.7	261.2
Days payable	48.4	60.8	61.8	72.2	58.1
Cash cycle	247.9	289.0	277.7	325.0	259.9

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	8,147	10,172	13,007	18,468	21,684
Cost of goods sold	(4,250)	(4,611)	(5,699)	(7,492)	(8,585)
Gross profit	3,897	5,561	7,307	10,976	13,099
Operating expenses	(2,426)	(3,078)	(3,481)	(4,051)	(4,505)
Operating profit	1,471	2,483	3,827	6,925	8,594
Non-operating income	115	192	145	79	85
Interest income	30	40	75	79	85
Investment income	7	7	-	-	-
Other non-op income	78	145	70	-	-
Non-operating expenses	(5)	120	(221)	17	15
Interest expense	(26)	(31)	(71)	(23)	(25)
Investment loss	-	-	-	-	-
Other non-op expenses	22	151	(150)	40	40
Pre-tax profit	1,582	2,795	3,751	7,021	8,694
Current taxation	(264)	(490)	(640)	(1,171)	(1,451)
Minorities	2	1	1	-	-
Extraordinary items	(9)	(4)	(5)	-	-
Net profit	1,312	2,301	3,108	5,850	7,244
EBITDA	2,008	3,039	4,584	7,845	9,687
EPS (NT\$)	13.92	24.42	32.98	62.08	76.87

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	1,046	2,097	1,500	3,484	9,038
Net profit	1,312	2,301	3,108	5,850	7,244
Depreciation & amortisation	537	556	757	920	1,093
Decrease in working capital	(213)	(1,249)	(571)	(3,287)	702
Other operating cash flow	(590)	488	(1,794)	(0)	0
Investing cash flow	(1,269)	(1,343)	(2,990)	(1,859)	(2,304)
Sale of ST investment	-	-	(7)	-	-
New investments	0	(18)	-	-	-
Capital expenditure	(313)	(1,229)	(3,345)	(1,751)	(2,197)
Others investing cashflow	(956)	(97)	361	(108)	(108)
Free cash flow	1,162	43	(104)	1,545	6,651
Financing cash flow	434	357	3,553	(2,055)	(3,833)
Increase in short term debt	-	660	440	-	-
Increase in long term loans	532	(178)	3,361	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	-	-	-	(2,055)	(3,833)
Other financing cashflow	(97)	(124)	(186)	-	-
Forex effects	(14)	4	432	-	-
Total cash generated	197	1,116	2,494	(430)	2,902

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	29.8%	30.3%	26.8%	21.9%	20.8%
= Operating margin	18.1%	24.4%	29.4%	37.5%	39.6%
1 / (Working capital/revenue	0.2	0.1	(0.1)	0.0	0.2
+ Net PPE/revenue	0.4	0.4	0.5	0.4	0.4
+ Other assets/revenue)	0.0	0.1	0.1	0.1	0.1
= Capital turnover	1.6	1.5	1.9	2.0	1.6
Operating margin	18.1%	24.4%	29.4%	37.5%	39.6%
x Capital turnover	1.6	1.5	1.9	2.0	1.6
x (1 - tax rate)	83.3%	82.5%	82.9%	83.3%	83.3%
= After-tax ROIC	23.9%	29.4%	46.7%	62.4%	52.7%

Source: Company data, KGI Research estimates

IT Hardware

Key message

1. AI server sales will remain the focus of the IT hardware industry in 2026F, with GPU model migrations from Nvidia (US) and AMD (US), and ASIC servers for the top-four CSPs driving AI server demand.
2. We expect 4Q25F GB300 AI server global shipments to reach 11-13k racks and 23-25k racks in 2025F. We forecast 2026F GB/ VR AI server shipments of 55-60k racks on improved production amid strong demand.
3. OpenAI (US) has announced partnerships with major chip suppliers Nvidia and AMD, and a co-design initiative for custom AI chips with Broadcom (US). Total capacity of these projects amounts to 26GW -- 10GW from Nvidia, 6GW from AMD and 10GW from Broadcom. This reaffirms growing AI server demand, not only for Nvidia's GPUs but also for AMD's GPU and ASIC designs, which will benefit Taiwan's AI server supply chain.
4. Given strong 2026F AI demand for both GPU and ASIC solutions, we like Hon Hai Precision (2317 TT), Quanta Computer (2382 TT), Wistron (3231 TT, NT\$, OP), Wiyynn (6669 TT, NT\$, OP), Asia Vital Components (3017 TT), Delta Electronics (2308 TT), Fositek (6805 TT), Bizlink (3665 TT), Elite Material (2383 TT) and Accton (2345 TT).

AI server demand to stay center stage in 2026F

Impact

Robust AI server demand growth to be supported by CSPs' strong capex growth in 2026F.

Consensus recently revised up the forecast for the top-five CSPs' capex for 2025-26F, after earnings calls. We note the top-five CSPs' capex growth for 2025F has been revised up to 64% YoY, versus 2024's 60% YoY to US\$391bn, and 2026F is revised up to 32% YoY, to US\$515.7bn. Among the five hyperscaler CSPs, Meta (US) had the most aggressive upward revision to capex guidance, with the expectation of YoY growth of 88% in 2025F and 55% in 2026F, as the firm said the capex increase in 2026F will be greater than in 2025F. Microsoft (US) guided FY26F (FY ends June) capex growth to be greater than FY25's 45% YoY, translating into 2026F capex growth of 35% YoY versus 2025F's 37% YoY. The consensus 2026F capex forecasts for Google (US), Amazon Web Services (AWS, US) and Oracle (US) were also revised up to growth of 25%, 18% and 33% YoY, respectively, to reflect their strong investments in AI infrastructure, training models and new AI applications. CSPs expect the AI hardware shortage to continue through 4Q25-2026F (Microsoft said at least to 1H26F, Google said lasting through 4Q25-2026F, and AWS said it will work to expand capacity). We see this as a positive sign for AI server demand over the next year. Based on their combined capex-to-cash-flow ratio of 64%, and improving free cash flow (FCF) in 3Q25 amid growing capex, CSP financials remain healthy. We expect solid AI demand in 2026F to grow overall server shipments by 10% YoY, with the training AI server weighting growing from 9-10% in 2025 to nearly 15% in 2026F.

GB-series AI server demand to grow QoQ in 4Q25F but ASIC AI demand will decline QoQ; positive 2026F GPU & ASIC server demand unchanged.

In 4Q25F, we expect GB200/ 300 server shipments to grow QoQ, with total shipments of 11-13k racks, up from 6-7k racks in 3Q25. However, AWS' ASIC AI server shipments may enter a transition period before the next-generation Trainium 2.5/ 3 systems enter mass production in 1Q26F and 2H26F, respectively. We expect GB and Vera Rubin (VR)-series AI server rack shipments to grow from 23-25k in 2025F to 55-60k in 2026F. We also expect greater shipment volumes of ASIC models for AWS, Google and Meta in 2026F. Thus, the GB-series supply chain will benefit from sales growth in 4Q25F-2026F, and ASIC supply chain sales growth will be triggered after 2Q26F. Among GB/ VR AI server racks in 2026F, we anticipate Dell (US), and Oracle (US) will receive a combined 40-50% of total shipments, with their main clients being xAI (US), Coreweave (US), OpenAI (US), and the Stargate project. The other 50-60% of GB/ VR demand will be from hyperscaler CSPs for their AI training models. GB300 will be the key AI server sales growth driver in 2026F, while VR-series models will come on stream in late 2H26F. Key upgrades to components in GB300 racks will be rising quick disconnect (QD) adoption and upgrades to power supplies, liquid cooling, and PCB/ CCL. As for the VR-series systems, we also anticipate rising liquid cooling, power supply and CCL/ PCB content value due to the higher thermal design power (TDP), of close to 220kW per rack, compared to the 136kW in a GB300 rack and 120kW in a GB200 rack.

OpenAI to take center stage for AI investments & partnerships with chip suppliers.

We have recently seen several AI investment announcements, mainly surrounding OpenAI, along with solid sovereign AI demand from the Stargate US project, and others in Europe. OpenAI's partnerships thus far are with major chip suppliers Nvidia and AMD, along with a co-design initiative for custom AI chips with Broadcom (US). The total capacity of these projects amounts to 26GW – 10GW with Nvidia, 6GW with AMD and 10GW with Broadcom. Per Nvidia's comments and our understanding, 10GW of data center capacity that is breaking ground in 2H26F will likely require 3-4mn Rubin GPU units, versus Nvidia's annual GPU shipments in 2025F of 5.5mn units. The agreement with AMD spans several generations of Instinct GPUs and totals 6GW, with the first 1GW of MI450 (TDP 2.5kw per chip) GPUs to be deployed at rack-level in 2H26F, equivalent to 3.5-4k MI450 racks. The collaboration with Broadcom is to deploy 10GW of OpenAI-designed AI accelerators. The ASIC project will deploy up to 10GW of capacity, aims to roll out in 2H26F, and finalize by end-2029F. On the infrastructure side, OpenAI also announced several new initiatives, including progress on the Stargate US project and the "Stargate for Countries" program. These developments highlight growing interest in sovereign AI and expected strong demand from active users. In September, OpenAI, along with Oracle and SoftBank (JP), revealed plans to build five new AI data centers, three by Oracle across Texas, New Mexico, and the Midwest, and two by SoftBank and OpenAI. Oracle's sites alone represent over US\$300bn in infrastructure investment and a total capacity of 4.5GW over the next five years. Aside from OpenAI's ambitious data center build-out plan, there are multiple new sovereign AI projects globally. This reaffirms growing demand for AI server manufacturers, not only for Nvidia's GPUs, but also for AMD's GPUs and ASIC designs, which will benefit Taiwan's AI server supply chain. As OpenAI's demand relies on Oracle and Microsoft's AI servers' support, we expect the related supply chain to benefit. With growing demand for Oracle, likely doubling in 2026F, Oracle will diversify its suppliers in 2026F, such as L11 assembler Hon Hai (2317 TT, NT\$236.5, OP), adding Quanta Computer (2382 TT, NT\$274, OP), Wistron (3231 TT, NT\$143, OP) and Wiwynn (6669 TT, NT\$4,280, OP), as well as liquid cooling suppliers Auras (3324 TT, NT\$934, OP), Asia Vital Components (AVC; 3017 TT, NT\$1,335, OP), and Delta Electronics (2308 TT, NT\$954, OP), AI server chassis maker Chenbro Micom (8210 TT, NT\$956, OP) power supply play Lite-On (2301 TT, NT\$160, OP), and rail kit provider King Slide Works (2059 TT, NT\$3,630, OP).

Rising memory prices to dampen PC & smartphone demand in 2026F. Aside from solid AI server demand, some US CSPs, such as Microsoft and AWS, will have robust general server demand in 2026F, according to our channel checks. We thus expect around 10% YoY growth for overall general server demand in 2026. Coupled with AI server shipments growth of 70-80% YoY, we expect global server shipments to grow by 16% YoY in 2026F, stronger than the 7% YoY growth in 2025F. However, as significant memory price increases are expected through 4Q26F, we think PC and smartphone demand may be negatively impacted as brands may transfer the memory cost to prices. As we forecast DDR5 die contract prices to double YoY, from US\$8.9 in 4Q25F to US\$17.2 in 4Q26F, and NAND flash prices to grow by 60-70% YoY over the same period, and as DRAM and NAND flash costs account for 15-20% of a PC's BOM cost and 10-15% of a smartphone's, we expect PC and smartphone demand to decline by around 2% YoY in 2026F, after 5% YoY shipments growth for PCs and 2% YoY for smartphones in 2025F. Commercial PC shipments should outperform consumer and Chromebook demand in 2026F, as consumers usually are more price sensitive to price increases. We also expect iPhone demand to outgrow the overall smartphone industry in 2026F, with expected shipments growing by 1% YoY to 240mn units, given their higher weighting of premium models and relatively low cost pressure, as well as Apple's (US) long-term contracts with memory vendors. Relatively strong iPhone demand in 2026F will also reflect new model launches, including iPhone 6e in 1H26F, and the foldable iPhone in 2H26F. We thus expect the Apple supply chain to benefit in 2026F, such as Hon Hai, the key MacBook, iPhone and foldable smartphone assembler; foldable smartphone hinge play Shin Zu Shing (SZS; 3376 TT, NT\$180.5, OP), lens supplier Largan Precision (3008 TT, NT\$2,145, OP),

flexible PCB maker Zhen Ding Technology (ZDT; 4958 TT, NT\$141, OP) and Compeq Manufacturing (2313 TT, NT\$79.7, OP) will be also be beneficiaries.

Sectors to benefit from AI server demand growth. The five sectors which will benefit the most from GB300, VR200, and ASIC AI server demand include the liquid cooling, power supply, PCB/ CCL substrates, networking and ODM firms, by means of: (1) for the thermal sector, we expect GB300, VR200 and ASIC upgrades will trigger liquid cooling adoption and a content value increase of more than 20% in GB300 AI servers over the GB200 models, mainly for cold plates and QD in 2026F; (2) for the power supply sector, as Rubin GPU thermal design power (TDP) is 2.3kW, compared to the 1.4kW in GB300 models, the mainstream power supply unit (PSU) design is upgraded to 12kW in VR200 racks, up from 5.5kW in GB300 racks, and battery backup unit (BBU) content value will grow accordingly; (3) for the PCB sector, as AI servers integrate more GPUs and CPUs, and cabinet chip density increases, substrates and PCB architectures will need more layers to meet higher signal interconnection density and power distribution requirements. Therefore, we anticipate that in 2026F, substrate sizes will increase to 100×91mm, and PCB layers will rise from 20+ layers to 30+ layers. Copper foils will adopt lower roughness HVL P4 copper, and fiberglass cloth will move towards low-DK and quartz cloth, driving copper-clad board specifications toward ultra-low signal loss (M9); (4) the data center-related networking sector will benefit from the continued development of AI and machine learning (ML) by large North American data center customers, and demand for high-end 800GbE and 1.6TbE switches is expected to increase at an accelerated pace. Products related to AI accelerator cards will also see strong sales growth. Regarding beneficiaries related to Nvidia, we are optimistic that in the scale-out segment, 800GbE will become the mainstream switch standard in 2026F, and from 2H26F, there will be a steady transition to 1.6TbE-related products; (5) for ODMs, GB-series AI rack shipments will double YoY in 2026F, and L10 suppliers for the VR-series will narrow to three ODMs – Hon Hai, Quanta and Wistron – taking market share from smaller GB L10 assemblers like Gigabyte (2376 TT, NT\$248, OP), Super Micro Computer (US), and Wiwynn. We forecast these assemblers' sales will grow significantly in 2026F on growing AI server rack demand and ASP. Furthermore, in the mechanical part sector, rail kit content value for GB300 and the VR series will grow on their adoption in power trays and the top-of-rack (TOR), and see further growth on rail kit adoption in power racks in the next generation. Some ASIC server racks are require noise-cancellation racks beside server racks, and coupled with the larger size of open rack wide (ORW) racks, will boost the content value of mechanical parts in an AI server rack.

Stocks for Action

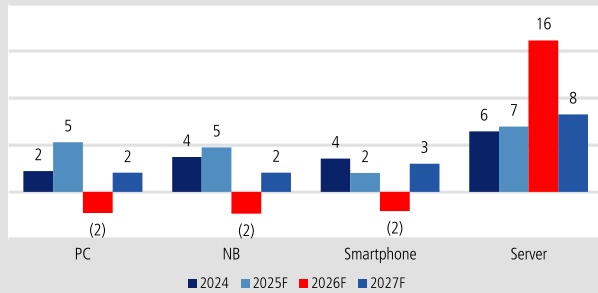
Solid CSP 2025-26F capex growth, coupled with several new investments by OpenAI in chip suppliers and sovereign projects, implies rising global AI server demand, which will benefit Taiwan's AI supply chain. We anticipate the AI server supply chain's sales and earnings growth to continue outperforming, while general server demand from Microsoft and AWS will also boost earnings in 2026F. Our top picks among IT hardware industry include: (1) ODMs Hon Hai, Wistron, Quanta, and Wiwynn; (2) liquid cooling and power supply firms AVC, Fositek, Delta, and Bizlink; (3) PCB/CCL firms Elite Material (2383 TT, NT\$1,430, OP), Taiwan Union Technology (6274 TT, NT\$416, OP), substrate firm Unimicron (3037 TT, NT\$160, OP) ; and (4) networking play Accton (2345 TT, NT\$945, OP).

Risks

Slower-than-expected demand; higher production or financing costs.

Figure 1: On rising memory prices, we expect global PC & smartphone shipments to fall by 2% in 2026F, but server shipments to see 16% growth

Shipments YoY growth, percent



Source: Gartner; KGI Research estimates

Figure 2: AI server sales will boost overall server sales growth to 16% YoY in 2026F

Shipments (mn)	2024	2025F	2026F	2027F
PC	247.6	260.8	255.0	260.2
Smartphone	1,226.5	1,251.3	1,225.9	1,262.6
iPhone	225.9	236.8	240.0	247.2
Android	1,000.5	1,014.4	985.9	1,015.4
Server	12.1	12.9	15.0	16.3
General server	11.4	11.7	12.9	13.3
AI server	0.7	1.2	2.1	3.0
YoY (%)	2024	2025F	2026F	2027F
PC	2.2	5.3	(2.2)	2.0
Smartphone	3.6	2.0	(2.0)	3.0
iPhone	(2.0)	4.8	1.3	3.0
Android	4.9	1.4	(2.8)	3.0
Server	6.5	7.0	16.2	8.3
General server	2.4	3.0	9.9	3.0
AI server	186.3	70.3	76.3	40.0

Source: Gartner; KGI Research estimates

Figure 3: Upward revisions to top-four US CSPs' capex in 2025F to 64% YoY growth, after over 60% YoY growth in 2024

Capex (US\$m)	1Q25	2Q25	3Q25	4Q25F	2023	2024	2025F	2026F	2027F
Meta (Facebook)	12,941	16,538	18,829	21,736	27,266	37,256	70,044	108,373	121,072
Amazon	25,019	32,183	35,095	32,703	48,133	82,999	121,782	144,264	163,769
Microsoft	16,745	17,079	19,394	22,846	35,202	55,552	76,133	106,411	121,969
Google	17,197	22,446	23,953	27,819	32,251	52,535	91,415	114,615	127,750
Oracle	5,862	9,080	8,502	8,173	6,935	10,745	31,643	42,061	61,874
US hyperscale subtotal	77,764	97,326	105,773	110,153	149,787	239,087	391,016	515,724	596,434
YoY (%)	1Q25	2Q25	3Q25	4Q25F	2023	2024	2025F	2026F	2027F
Meta (Facebook)	102.2	102.3	128.0	50.7	(13.3)	36.6	88.0	54.7	11.7
Amazon	67.6	82.7	55.2	17.5	(17.5)	72.4	46.7	18.5	13.5
Microsoft	52.9	23.1	30.0	44.6	42.1	57.8	37.0	39.8	14.6
Google	43.2	70.2	83.4	94.9	2.4	62.9	74.0	25.4	11.5
Oracle	250.2	224.5	269.2	105.9	3.8	54.9	194.5	32.9	47.1
US Hyperscale subtotal	69.2	74.9	72.9	44.4	2.6	59.6	63.5	31.9	15.6
QoQ (%)	1Q25	2Q25	3Q25	4Q25F	2023	2024	2025F	2026F	2027F
Meta (Facebook)	(10.3)	27.8	13.9	15.4					
Amazon	(10.1)	28.6	9.0	(6.8)					
Microsoft	6.0	2.0	13.6	17.8					
Google	20.5	30.5	6.7	16.1					
Oracle	47.7	54.9	(6.4)	(3.9)					
US Hyperscale subtotal	1.9	25.2	8.7	4.1					

Note: Capex figures exclude finance leases

Source: Company data; Bloomberg; KGI Research

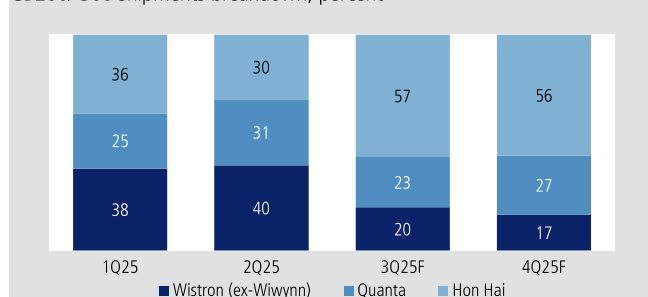
Figure 4: Consensus expects CSPs' capex growth to be revised up to over 63% YoY in 2025F and 29% in 2026F

Capex, US\$m	2021	2022	2023	2024	2025F	2026F	2027F
Meta	18,567	31,431	27,266	37,256	70,044	108,373	121,072
Amazon	55,396	58,321	48,133	82,999	121,782	144,264	163,769
Microsoft	23,216	24,768	35,202	55,552	76,133	106,411	121,969
Google	24,640	31,485	32,251	52,535	91,415	114,615	127,750
Oracle	3,118	6,678	6,935	10,745	31,643	42,061	61,874
Baidu	1,689	1,586	1,580	1,130	1,578	1,575	1,569
Alibaba	8,311	5,014	4,477	10,542	18,253	17,570	19,499
Tencent	4,808	4,611	3,017	9,675	12,392	12,798	13,651
Hyperscale subtotal	139,745	163,894	158,861	260,433	423,239	547,667	631,153
Apple	10,388	11,692	9,564	9,995	13,605	15,151	16,406
IBM	2,062	1,346	1,245	1,048	1,474	1,570	1,600
Coreweave	N.A.	72	2,943	8,702	14,969	25,840	19,558
Nebius	606	750	1,073	808	4,200	9,262	9,181
Dell	2,796	3,003	2,756	2,652	2,742	3,050	3,177
Salesforce	717	798	736	658	721	813	898
Netflix	525	408	349	440	586	618	671
Enterprise subtotal	17,094	18,069	18,666	24,302	38,297	56,305	51,490
Total	156,838	181,962	177,527	284,736	461,537	603,972	682,643
YoY growth, percent	2021	2022	2023	2024	2025F	2026F	2027F
Meta	22.8	69.3	(13.3)	36.6	88.0	54.7	11.7
Amazon	58.1	5.3	(17.5)	72.4	46.7	18.5	13.5
Microsoft	32.0	6.7	42.1	57.8	37.0	39.8	14.6
Google	10.6	27.8	2.4	62.9	74.0	25.4	11.5
Oracle	70.1	114.2	3.8	54.9	194.5	32.9	47.1
Baidu	129.1	(6.1)	(0.4)	(28.5)	39.7	(0.2)	(0.4)
Alibaba	30.3	(39.7)	(10.7)	135.5	73.1	(3.7)	11.0
Tencent	(15.9)	(4.1)	(34.6)	220.7	28.1	3.3	6.7
Hyperscale subtotal	33.5	17.3	(3.1)	63.9	62.5	29.4	15.2
Apple	19.4	12.6	(18.2)	4.5	36.1	11.4	8.3
IBM	(21.2)	(34.7)	(7.5)	(15.8)	40.6	6.6	1.9
Coreweave	N.M.	N.M.	3,964.9	195.7	72.0	72.6	(24.3)
Nebius	77.7	23.7	43.2	(24.7)	420.0	120.5	(0.9)
Dell	34.3	7.4	(8.2)	(3.8)	3.4	11.2	4.2
Salesforce	1.0	11.3	(7.8)	(10.6)	9.5	12.8	10.5
Netflix	5.4	(22.3)	(14.5)	26.1	33.4	5.5	8.5
Enterprise subtotal	14.3	5.7	3.3	30.2	57.6	47.0	(8.6)
Total	31.1	16.0	(2.4)	60.4	62.1	30.9	13.0

Source: Company data; Bloomberg; KGI Research

Figure 5: Wistron shipped the most GB200 servers among Taiwan ODMs in 1H25; Hon Hai to be dominant in 2H25F

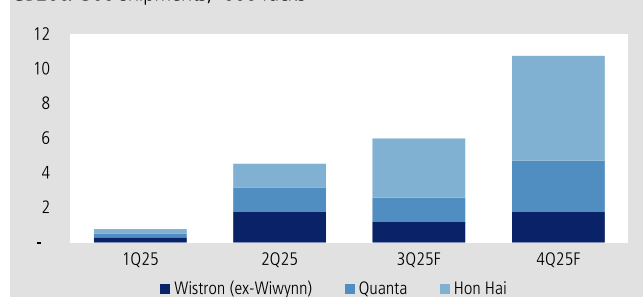
GB200/ 300 shipments breakdown, percent



Source: Company data; KGI Research estimates

Figure 6: GB200 server shipments accelerated in 3Q25F, with the GB300 entering mass production in 4Q25F

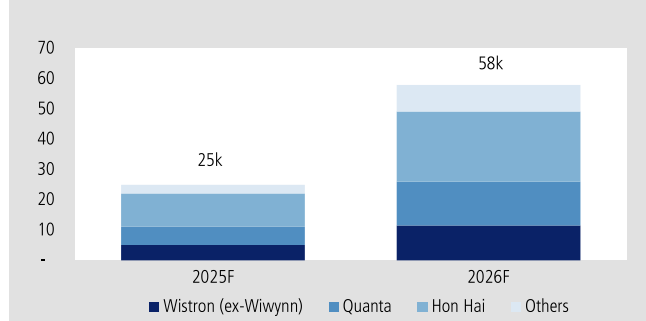
GB200/ 300 shipments, '000 racks



Source: Company data; KGI Research estimates

Figure 7: GB200/ 300 shipments to reach 23-25k racks in 2025F; 2026F shipments potentially up to 55-60k racks

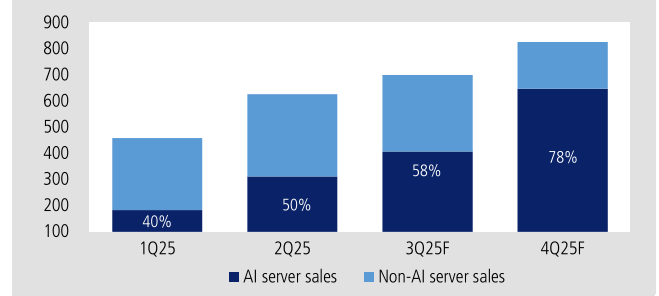
GB200/ 300 shipments, '000 racks



Source: Company data; KGI Research estimates

Figure 8: Hon Hai's AI server sales grew in 3Q25F, but were lower than the company's guidance

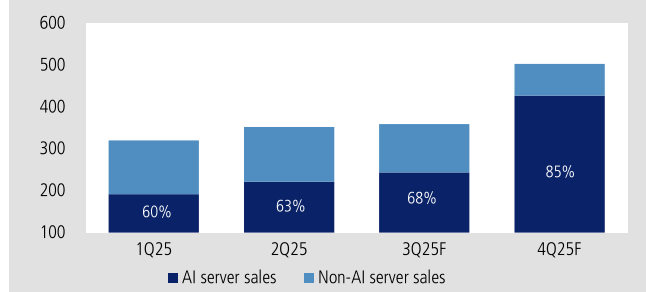
Hon Hai AI server/ non-AI server revenue, NT\$bn; AI server sales/ total server sales weighting, percent



Source: Company data; KGI Research estimates

Figure 9: Quanta's AI server sales relatively flat QoQ in 3Q25F on the GB200 & GB300 transitions

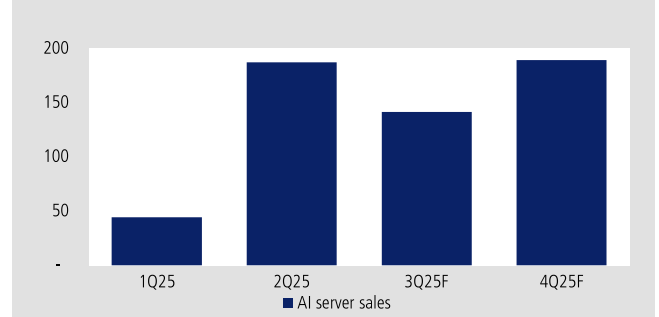
Quanta AI server/ non-AI server revenue, NT\$bn; AI server sales/ total server sales weighting, percent



Source: Company data; KGI Research estimates

Figure 10: Wistron's AI server sales to Dell declined QoQ in 3Q25F, on a model transition

Wistron (ex-Wiwynn) AI server revenue, NT\$bn



Source: Company data; KGI Research estimates

Figure 11: 2025F GB AI server shipments of 23-25k racks; 2026F GB/ VR server rack shipments up to 55-60k

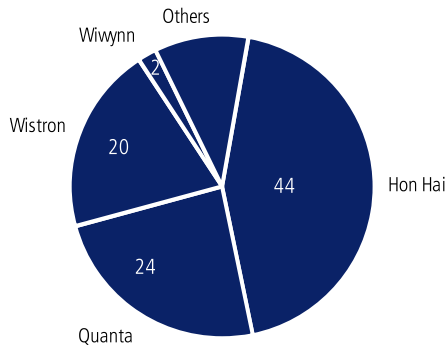
	2025F GB200/300		2026F GB/VR		Drivers	ODM				
		%		%						
Chip shipments (mn units)	4.5-4.6 (Blackwell)		5.9-6 (B: 2.1 + R: 3.8-3.9)							
AI server shipments (k racks)										
	2-3	8	5-7	9	Training cloud	★	★			
	1-3	6	5-7	9	Training cloud	★	★			
	4-6	20	10-13	19	OpenAI	★	★			
	3-5	14	7-10	13	Self-used cloud	★	★			
	7-9	28	12-15	23	OpenAI, Stargate	★	★	★	★	
	5-6	20	11-13	21	xAI, Coreweave			★		
 	~1.5	4	2-5	5	xAI, Coreweave Neocloud Sovereign				★	★
Total (2025F --> 2026F)	25	100	58	100		11 --> 23	6 --> 15	5 --> 11	~1 --> 5	~1 --> 4

Note: Google will be Hon Hai's client for the Vera Rubin generation

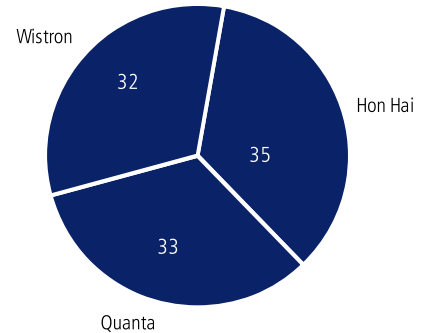
Source: Industry information; KGI Research estimates

Figure 12: VR L10 supplier market share will become more concentrated in Hon Hai, Quanta & Wistron

GB200/300 L10 supplier share (%)



VR L10 supplier share (%)



Source: Industry information; KGI Research estimates

Figure 13: OpenAI announces several partnerships with chip suppliers, with total capacity of 26GW

Partnership	Expected capacity	Expected shipment (rack)	Timeline	Project details	Announcement Date
NVIDIA	10GW	40-50k VR144 racks (4-5k racks per GW)	Starting from 2H26F	<ul style="list-style-type: none"> - OpenAI will deploy at least 10 GW of NVIDIA systems for its AI infrastructure, with the first GW to be the Vera Rubin platform - Nvidia plans to invest up to US\$100bn in OpenAI to support this deployment 	9/22
AMD	6GW	21-24k MI450 racks (3.5-4k racks per GW)	Starting from 2H26F	<ul style="list-style-type: none"> - OpenAI will use AMD's chips to build next-gen AI infrastructure. - The agreement includes 6 GW of computing power, with 1 GW to be deployed in 2H26F, using the upcoming rack-level Instinct MI450. - OpenAI has the option to acquire up to 10% of AMD via warrants tied to deployment and stock price milestones 	10/7
Broadcom	10GW	-	2H26-2029F	<ul style="list-style-type: none"> - OpenAI and Broadcom will collaborate on a 10GW ASIC project that include rack-level solution and utilize Ethernet for scale-up and scale-out. - The deployment is target to start in 2H26 and complete by end of 2029F. 	10/13







Source: OpenAI; KGI Research

Figure 14: GB300 server mass production after 4Q25F; Trainium 2.5 mass production after 1Q26F

		2021	2022	2023	2024	1H25	2H25F	1H26F	2H26F	1H27F	2H27F
GPU	NVIDIA		A 100	H100	H200	GB200		GB300		VR200	VR300
	AMD		MI100	MI250X	MI300X	MI325X		MI350X		MI400 series	MI500
ASIC	amazon		Trainium	Inferntia2		Trainium2			Trainium2.5/3		Trainium4
	Meta				MTIA		MTIA 2/2.5		MTIA 3		MTIA 4
	Google		TPU v4	TPU v5		TPU v6		TPU v7		TPU v8	
	Microsoft					Maia 100				Maia 200	







Source: Industry information; KGI Research estimates

Figure15: GB300 & VR200 racks all have significant component spec upgrades to power supplies, thermal components, PCB, CCL & switches

Components	GB300	VR200	VR200 CPX
 Power	<ul style="list-style-type: none"> ▶ Mainstream power shelf: 33kW, stackable up to 8-10L (GB200: 6-8L) ▶ BBU adoption higher than GB200 	<ul style="list-style-type: none"> ▶ Mainstream power shelf: 72kW, some designs adopt power rack ▶ BBU adoption higher than GB300 	<ul style="list-style-type: none"> ▶ Mainstream specs same as VR200, but total wattage demand increases by 50% ▶ BBU adoption higher than GB300
 Cooling	<ul style="list-style-type: none"> ▶ Cooling plate (CP): 9 more plates per rack than GB200 (+7%) ▶ QD: 180 more per rack than GB200 (+100%), mainly in switch tray ▶ CP+QD value: +15% per rack vs. GB200 	<ul style="list-style-type: none"> ▶ CP: GPU/CPU count similar to GB300, but concentrated among 2-3 suppliers; will increase the demand for several small CP ▶ QD: Similar to GB300 ▶ CP+QD value: Same or slightly lower per rack vs. GB300 	<ul style="list-style-type: none"> ▶ CP count exceeds GB300/VR200 by 3 plates (2 large, 1 small) ▶ QD per compute layer: +12 vs. GB300/VR200 (+120%); each rack contains 576 QD ▶ CP+QD value: +20-30% per rack vs. VR200
 Chassis/Rack/Rail	<ul style="list-style-type: none"> ▶ Width & depth increased; chassis ASP higher than GB200 ▶ Standardized rack; content little changed ▶ Rails extended to power tray, TOR 	<ul style="list-style-type: none"> ▶ Chassis ASP higher than GB300. ▶ Standardized rack; content little changed ▶ Rails extended to power tray, BBU tray & power rack standalone cabinets 	<ul style="list-style-type: none"> ▶ More mechanical parts in CPX versions; per-layer chassis ASP increases ▶ Standardized rack; content little changed ▶ Rails: CPX design adds one extra rail per tray
 PCB / CCL	<ul style="list-style-type: none"> ▶ Computing tray- 5/12/5 HDI 22L, material M8+M4 SW tray-22L HLC, M8 	<ul style="list-style-type: none"> ▶ Computing tray- 6/12/6 HDI 24L, upgrade from 22L to 24L, copper foil upgraded to HVLP4. ▶ SW tray-26L HLC (upgrade), M8, HVLP4 	<ul style="list-style-type: none"> ▶ Computing tray- 6/12/6 HDI 24L, N8, HVLP4 ▶ Each compute tray adds midplace*1(44L), CPX*4 (5/12/5, 22L HDI) PCB, all upgraded to M9 material ▶ SW tray-22L upgraded to 32L.
 Switch	<ul style="list-style-type: none"> ▶ Scale-up: Maintain NVLink 5 ▶ NIC: Upgrade to ConnectX-8 ▶ Scale-out: Same as GB200, using Spectrum 5 (51.2Tbps). 	<ul style="list-style-type: none"> ▶ Scale-up: Upgrade from NVLink 5 to NVLink 6 ▶ NIC: Upgrade from ConnectX-8 to ConnectX-9 SuperNIC ▶ Scale-out: Upgrade from Spectrum 5 (51.2Tbps) to Spectrum 6 (102Tbps) ▶ Introduces Spectrum-X switches with CPO support 	<ul style="list-style-type: none"> ▶ Scale-up: NVLink6 ▶ NIC: Maintain ConnectX-9 SuperNIC ▶ Scale-out: Spectrum 6 (102Tbps) ▶ Likely to adopt more CPO-based versions of Spectrum-X
 System assembly	<ul style="list-style-type: none"> ▶ Rack price +20% vs GB200 (GPU main) 	<ul style="list-style-type: none"> ▶ L10 assembly concentrated among Foxconn, Quanta, Wistron ▶ GPU power consumption rises, but cost-optimized versions are expected post mass production 	

Source: Industry information; KGI Research estimates

Figure 16: AWS Teton 3's power supply, cooling, PCB/CCL, and switches also have significant spec upgrade.

Components	Teton 2.5	Teton 3
 Power	<ul style="list-style-type: none"> ▶ Mainstream power shelf: 33kW, some designs adopt power rack ▶ BBU adoption high 	<ul style="list-style-type: none"> ▶ Mainstream power shelf: 72kW, power rack adoption increases ▶ BBU adoption high
 Cooling	<ul style="list-style-type: none"> ▶ Adds water-cooled version compared to previous generation ▶ QD: Each compute layer has 12 more than GB300/VR200 (+120%); each rack contains 456 QD 	<ul style="list-style-type: none"> ▶ Larger volume of water-cooled versions expected
 Chassis/Rack/Rail	<ul style="list-style-type: none"> ▶ Water-cooled chassis ASP higher than air-cooled ▶ Standardized rack; content little changed ▶ Custom rail design; water cooling increases complexity 	<ul style="list-style-type: none"> ▶ Water-cooled versions have more mechanical components; ASP higher than air-cooled versions ▶ Standardized rack; content little changed ▶ Custom rail design; water cooling increases complexity
 PCB / CCL	<ul style="list-style-type: none"> ▶ 26L ▶ M8 (copper foil uses HVLP2) 	<ul style="list-style-type: none"> ▶ 26L ▶ M8 (copper foil uses HVLP4)
 Switch	<ul style="list-style-type: none"> ▶ Scale-up: Copper cable remains mainstream ▶ Switch specs: Mainly 400/800GbE 	<ul style="list-style-type: none"> ▶ Possible adoption of 1.6TbE switches
 System assembly	<ul style="list-style-type: none"> ▶ Water-cooled rack ASP will rise 	

Source: Industry information; KGI Research estimates

Figure 17: Comparison – Cloud peer valuations

Sector	Company	Ticker	Market cap. (US\$mn)	Share price (LCY)	Rating	Target Price (LCY)	EPS (LCY)		EPS YoY (%)		PE (x)		PB (x)		ROE (%)		Cash yield (%)	
							2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2024	2025F
ODM	Hon Hai	2317 TT	105,952	236.5	Outperform	340.0	14.68	18.90	33.4	28.8	16.1	12.5	1.9	1.8	12.0	14.6	2.5	3.3
	Inventec	2356 TT	4,799	41.7	Neutral	47.0	2.51	2.92	23.8	16.3	16.6	14.3	2.0	2.0	12.5	14.1	4.1	4.8
	Quanta	2382 TT	33,954	274.0	Outperform	385.0	18.07	21.41	16.7	18.5	15.2	12.8	4.5	4.2	30.4	33.8	4.7	5.3
	Wistron	3231 TT	14,591	143.0	Outperform	200.0	9.19	11.99	50.4	30.5	15.6	11.9	2.3	2.0	17.9	19.7	2.7	4.0
	Wynn	6669 TT	25,518	4,280.0	Outperform	5,420.0	268.87	293.64	112.4	9.2	15.9	14.6	7.2	5.9	50.2	44.4	1.7	3.5
	Gigabyte Tech	2376 TT	5,343	248.0	Outperform	320.0	17.73	21.35	18.0	20.4	14.0	11.6	3.0	2.8	21.6	24.9	4.7	5.7
	Asustek Computer	2357 TT	13,654	573.0	Outperform	800.0	53.34	53.25	26.2	(0.2)	10.7	10.8	1.5	1.5	14.5	14.0	5.9	7.4
	Asrock	3515 TT	987	249.0	Outperform	355.0	15.00	23.64	42.3	57.6	16.6	10.5	3.0	2.6	18.9	26.6	2.1	3.0
Socket/ Connector/cable	Lotes	3533 TT	4,369	1,210.0	Outperform	1,660.0	70.97	92.23	(14.3)	30.0	17.0	13.1	3.4	3.0	21.0	24.3	3.4	2.9
	Bizlink Holding	3665 TT	10,508	1,680.00	Outperform	1,830.00	46.66	65.97	83.7	41.4	36.0	25.5	7.8	6.5	23.0	27.7	0.7	1.4
	Aces	3605 TT	308	62.70	Outperform	82.00	4.28	5.47	70.1	28.0	14.7	11.5	1.3	1.2	9.6	11.6	1.2	2.1
	Argosy*	3217 TT	480	166.0	Not rated	N.A.	12.58	15.07	11.8	19.8	13.2	11.0	3.1	2.9	23.9	27.2	5.3	6.0
	Alltop	3526 TT	508	243.0	Outperform	300.0	16.91	20.31	0.6	20.2	14.4	12.0	4.1	4.1	28.8	34.6	6.8	7.0
Rail kit	King Slide Works	2059 TT	11,098	3,630.0	Outperform	4,815.0	92.92	140.53	43.9	51.2	39.1	25.8	13.3	10.5	37.5	45.6	0.9	1.3
Thermal module	Sunonwealth	2421 TT	1,662	189.5	Outperform	200.0	8.09	11.79	48.2	45.8	23.4	16.1	6.1	5.5	26.8	35.7	2.0	3.0
	Auras	3324 TT	2,750	934.0	Outperform	1,255.0	30.41	54.15	43.2	78.1	30.7	17.2	8.2	6.6	28.5	42.3	1.1	1.5
	AVC	3017 TT	16,626	1,335.0	Outperform	1,695.0	48.71	70.82	129.7	45.4	27.4	18.9	13.5	10.0	56.3	60.8	0.7	1.8
	Kaori	8996 TT	1,505	513.0	Outperform	476.0	8.98	16.25	37.0	80.9	57.1	31.6	12.6	10.1	22.9	35.4	0.8	1.2
Heat spreader	Jentech*	3653 TT	12,174	2,655.0	Not rated	N.A.	37.67	55.58	56.0	47.5	70.5	47.8	20.4	16.4	31.9	36.8	0.5	0.7
BBU	Simplo Tech	6121 TT	2,044	344.5	Outperform	420.0	28.92	30.01	0.1	3.8	11.9	11.5	1.7	1.6	14.3	14.2	6.0	6.0
	AES-KY	6781 TT	3,741	1,365.0	Outperform	1,725.0	38.54	50.26	51.8	30.4	35.4	27.2	7.1	6.3	21.2	24.6	0.9	1.4
Chassis	Chenbro	8210 TT	3,711	956.0	Outperform	1,240.0	27.62	43.50	72.1	57.5	34.6	22.0	13.1	10.1	42.2	53.1	0.8	1.5
BMC	Aspeed Tech	5274 TT	7,707	6,355.0	Outperform	6,890.0	99.25	137.82	45.9	38.9	64.0	46.1	32.5	24.6	57.6	60.8	0.8	1.2
Silicon photonics	Land Mark Opto	3081 TT	1,291	435.0	Neutral	450.0	4.32	12.82	N.M.	196.9	100.7	33.9	10.5	9.6	10.4	29.3	0.1	0.8
CCL	Iteq	6213 TT	1,234	106.0	Outperform	136.0	3.83	6.25	68.9	63.3	27.7	17.0	1.9	1.8	6.8	10.9	1.7	2.3
	Elite Material	2383 TT	16,403	1,430.0	Outperform	1,425.0	42.22	64.74	51.8	53.3	33.9	22.1	10.6	8.1	36.8	42.9	1.2	1.8
ABF	Unimicron Tech	3037 TT	8,478	171.5	Outperform	202.0	3.57	9.16	6.9	156.3	48.0	18.7	2.7	2.4	5.7	13.5	0.9	0.9
PCB	Gold Circuit	2368 TT	9,057	574.0	Restricted	N.A.	18.42	26.40	59.7	43.3	31.2	21.7	11.6	8.9	39.6	46.4	1.0	1.6
Power	Delta	2308 TT	79,501	954.0	Outperform	1,280.0	23.83	32.79	75.7	37.6	40.0	29.1	9.5	7.9	25.3	29.7	0.7	1.3
	Lite-On Tech	2301 TT	11,892	160.0	Outperform	212.0	6.77	8.43	29.8	24.6	23.6	19.0	4.1	3.8	17.2	21.0	2.8	3.1
	Chicony Power	6412 TT	1,157	90.0	Not rated	N.A.	5.51	7.43	(33.9)	34.8	16.3	12.1	2.6	2.4	15.4	22.6	6.7	6.0
	AcBel Polytech*	6282 TT	1,099	39.9	Not rated	N.A.	N.M.	N.M.	N.M.	N.A.	N.A.	N.A.	N.A.	N.A.	N.M.	N.M.	0.0	N.A.
Foundry	TSMC	2330 TT	1,210,522	1,455.0	Outperform	1,900.0	64.58	76.89	42.7	19.1	22.5	18.9	7.3	5.7	35.3	33.6	1.2	1.4
Design service	Alchip Tech	3661 TT	7,994	3,075.0	Outperform	5,380.0	66.40	134.46	(18.4)	102.5	46.3	22.9	6.9	5.7	14.3	27.3	1.3	1.1
	Global Unichip	3443 TT	8,448	1,965.0	Neutral	1,400.0	28.88	33.45	12.2	15.8	68.0	58.7	17.3	15.3	29.2	27.6	0.8	0.9
Networking	Luxnet	4979 TT	895	198.0	Outperform	250.0	5.40	9.94	42.6	84.2	36.7	19.9	7.0	5.2	20.1	28.8	0.8	1.1
	Accton Tech	2345 TT	17,012	945.0	Outperform	1,400.0	46.08	55.83	114.5	21.1	20.5	16.9	11.3	8.9	61.9	58.7	1.3	2.9

* Bloomberg consensus

Source: Bloomberg; KGI Research estimates

PCB sector

Key messages

1. Higher chip density in server racks is driving both PCB quantity and quality upgrades.
2. AI server PCB adopting multi-layer designs and advanced materials, with M9 technology beginning to emerge.
3. Rising chip density in AI server is also driving larger ABF substrate sizes, tightening ABF substrate supply by 2026F.

High-speed, multi-layer AI server trend drives substrate & PCB upgrades

Impact

Higher server rack chip density driving PCB quantity & quality upgrades. As AI servers integrate more GPUs and CPUs, increasing rack chip density, PCB and substrate architectures will need additional layers by 2026F to support higher signal interconnect and power distribution requirements. The transition is expected from GB200/ 300 rack (Oberon) to Rubin Ultra rack (Kyber), with PCB count rising from 64 to 149, alongside widespread adoption of multi-layer board and advanced HDI technology. Prismark projects a 2024-29F PCB market CAGR of 6.9%, led by server and storage PCB at 15.6%, with technology-specific growth of 18+ ML at 21.7% and HDI at 25.5%.

Riding adoption of high-speed, multi-layer PCB in AI server. We expect PCB layer counts for Nvidia's (US) 2026 Vera Rubin (VR) server to rise, with compute trays including more than 24 layers of 6-N-6 HDI, while the switch tray PCB layer count is set to increase from 22L to 32L. The PCB layer count for a US CSP's ASIC server will be at least 30L, all featuring low-roughness HVLP4 copper foil. In addition, we predict that the PCBs of VR CPX (CPX and mid-plane) and 1.6T switch will both adopt M9 CCL. Prismark estimates that the shipment areas of ultra-low-loss (M7) and extreme-low-loss (M8) CCL will grow at respective 2024-29F CAGRs of 26% and 34%.

Rising AI server chip density is driving larger ABF substrate sizes, tightening ABF substrate supply by 2026F. We expect Rubin and Rubin Ultra ABF substrate to further increase in size to 100 × 91 mm² and 153 × 77.5 mm², with layer counts rising from 12-14L to 18-20L. Considering yield and layout efficiency, the required production area will be 5-10 times that of PC substrate (40 × 40 mm², 8-10L). Driven by AI demand for advanced ABF substrate, we expect a rapid tightening of ABF substrate supply by 2026F. We estimate oversupply will narrow to less than 8% next year; and with the substrate shortage intensifying, ABF prices are likely to increase earlier than expected in 4Q25F, with structural supply-demand dynamics further driving price hikes in 2H26F. We forecast respective ABF price increases of 2%, 2-3%, 3-4%, and 3-4% in 1Q-4Q26.

Stocks for Action

We are positive on the trend toward high-speed, multi-layer AI server driving demand and spec upgrades for substrate and PCB. Companies that are well positioned to benefit from this trend are substrate maker Unimicron Technology (3037 TT, NT\$171.5, OP), and upstream copper-clad laminate suppliers Elite Material (EMC; 2383 TT, NT\$1430, OP) and Taiwan Union Technology (TUC; 6274 TT, NT\$416, OP).

Risks

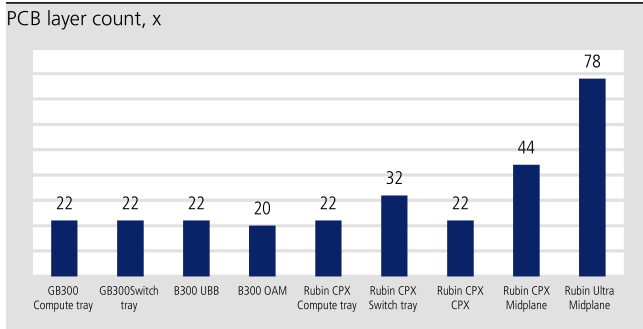
Weaker-than-expected market demand; industry oversupply pressures prices.

Figure 1: Within the server & data storage PCB segment, the fastest-growing technologies are 18+ multilayer (ML) boards and high-density interconnect (HDI) boards

Production value (US\$m)	Commodity	4-6 ML	8-16 ML	18+ ML	HDI	FPC	Total
2020	169	792	1,985	547	367	528	4,388
2021	202	909	2,605	701	459	562	5,438
2022	218	973	2,796	733	515	633	5,868
2023	179	804	2,326	777	530	561	5,177
2024E	248	1,000	2,757	1,433	1,284	603	7,324
2025F	298	1,088	3,335	2,339	2,558	635	10,252
2029F	312	1,391	3,985	3,826	3,997	768	14,280
2024-2029 CAGR (%)	4.7	6.8	7.6	21.7	25.5	4.9	14.3

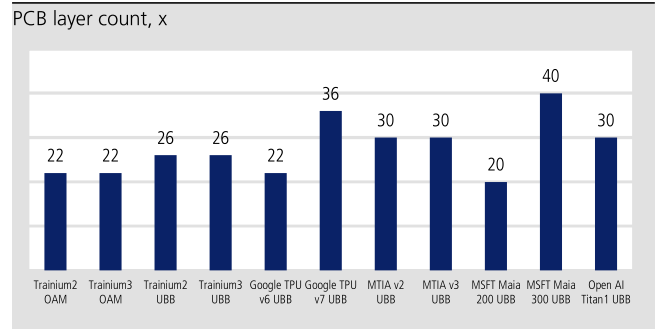
Source: Prismark; KGI Research

Figure 2: Nvidia PCB layer count continues to increase, M9 materials debut



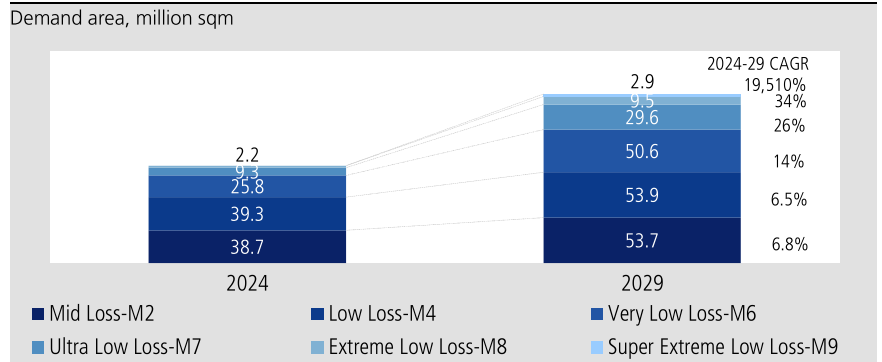
Source: KGI Research

Figure 3: 2026 CSP ASIC PCB layer counts start at 30



Source: KGI Research

Figure 4: High speed CCL demand forecast



Source: Prismark; KGI Research

Networking sector

2026 networking sector outlook – Data center demand to be the core sales growth catalyst, supported by diverse growth drivers

Key message

1. Our top picks are companies exposed to data center demand.
2. Telecom demand continues to recover, while other growth drivers are diverse but difficult to generalize.

Impact

Our top picks are companies exposed to data center demand. We believe that in 2026F, the networking industry will be driven by bandwidth upgrade needs in data centers. Since our industry report 'Multiple sales growth drivers in 2H25F,' consensus has raised 2026 demand forecasts for 800GbE and 1.6TbE optical transceiver modules through 4Q25F. We expect that with this surge in optical transceiver demand, 800GbE switches will be the mainstream standard with the strongest demand in 2026F, while 1.6TbE switches will steadily move from the validation stage to mass production during 2H25–2026F. We also expect global switch vendors to release related products in 2026F. Among Taiwanese companies, we favor Accton (2345 TT, NT\$945, OP) for its leading position in the switch industry, significant growth in AI accelerator card sales during 2H25–2026F, and potential entry into the rack market. In Taiwan's optical communication sector, our preferred plays include LandMark Optoelectronics (3081 TT, NT\$435, N), which has benefited from a surge in silicon photonics transceiver demand, LuxNet (4979 TT, NT\$198, OP), with back-end process capabilities and as a beneficiary of rising ZR transceiver demand. and Elite Advanced Laser (3450 TT, NT\$226, OP), which stands to benefit from increased EML packaging demand.

Telecom demand is recovering, but other growth drivers are diverse & difficult to generalize. We expect telecom-related networking products such as DOCSIS 4.0, 10GPON, Wi-Fi 7, and FWA to see higher demand in 2026F as operators upgrade network speeds. Beyond traditional networking equipment, products like national defense communication systems, enterprise and cyber security switches, and edge AI-related IoT devices and central office equipment, also present compelling thematic opportunities with rising demand. Since suppliers for these products are relatively specialized, overall industry demand is not driven by a single product type. We see key beneficiaries as follows: Zyxel Group (3704 TT, NT\$34.35, OP) for national defense communication, Wistron NeWeb (6285 TT, NT\$98.2, N) for enterprise and campus switches, Arcadyan Technology (3596 TT, NT\$186, OP) for security switches; and Sercomm (5388 TT, NT\$80.5, OP) for edge AI-IoT and central office equipment.

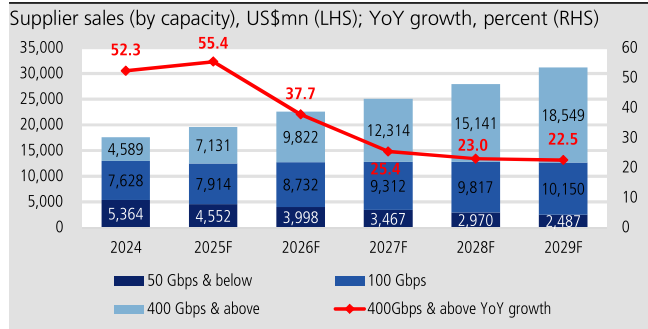
Stocks for Action

Regarding 2026F networking sector investments, we are upbeat on companies exposed to data center demand. Within telecom and consumer networking products, aside from relatively consistent demand for CPE, growth drivers vary across segments, with individual companies offering distinct themes. Considering EPS growth potential and industry positioning, we maintain our top picks on switch demand driven by data center bandwidth upgrades, with Accton as our preferred stock.

Risks

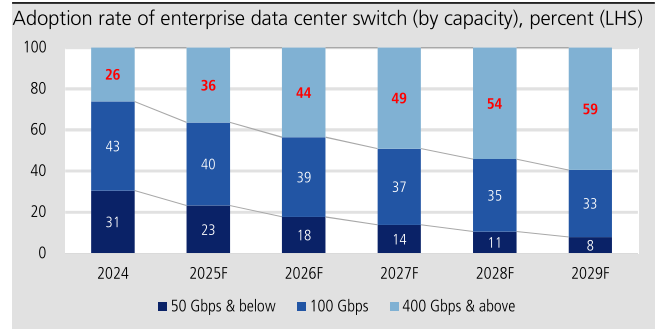
Disappointing adoption of high-speed switches and demand from data centers.

Figure 1: Market size of 400Gbps enterprise data center switches to grow by 41.8% YoY in 2026F



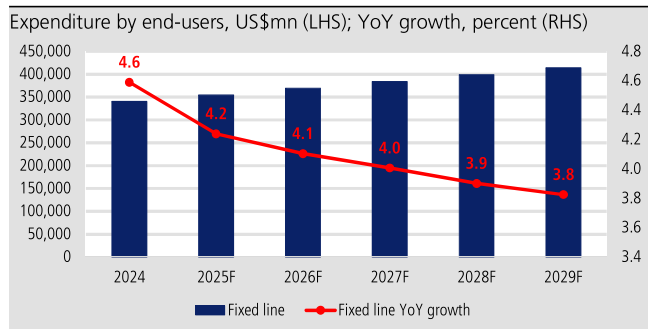
Source: Gartner; KGI Research

Figure 2: Adoption of 400Gbps enterprise data center switches is still rising



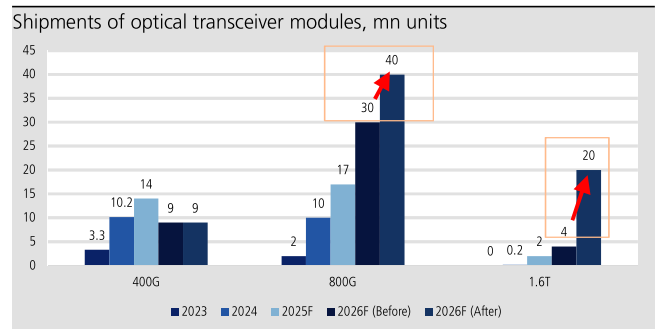
Source: Gartner; KGI Research

Figure 3: Market size of fixed line broadband to grow by 4.1% YoY in 2026F



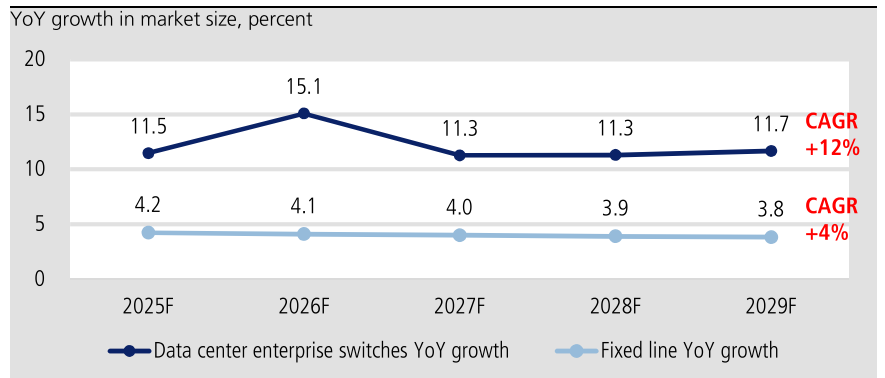
Source: Gartner; KGI Research

Figure 4: Demand for 800G & 1.6T optical transceiver modules significantly revised upward for 2026F



Source: KGI estimates

Figure 5: Enterprise data center switch market to substantially outgrow fixed line broadband in 2025-29F



Source: Gartner; KGI Research

Figure 6: Peer valuation comparison - Networking

Company	Code	Market cap (US\$ mn)	Share price (LCY)	EPS (LCY)		EPS growth (%)		Revenue (NT\$ mn)		Revenue growth (%)		PER (x)		PBR (x)	
				2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
Accton	2345 TT	17,084	945	46.1	55.8	114	21	247,076	300,589	124	22	20.5	16.9	11.3	8.9
Alpha Networks*	3380 TT	499	28.6	1.84	1.2	356	-35	26,735	24,921	25	-7	15.5	23.8	1.6	N.M.
Arcadyan	3596 TT	1,320	186	12.6	16.0	12	27	52,777	58,472	8	11	14.7	11.6	2.4	2.3
Zyxel Group	3704 TT	456	34.4	1.59	2.66	13	67	25,843	26,567	0	3	21.6	12.9	1.2	1.1
Gemtek	4906 TT	359	26.1	-0.52	1.80	N.A.	N.A.	17,059	18,939	-33	11	N.A.	14.4	0.9	0.9
Sercomm	5388 TT	779	80.5	4.57	7.63	-41	67	53,201	63,656	-6	20	17.6	10.5	1.4	1.3
Wistron NeWeb Corp	6285 TT	1,532	98.2	6.12	7.74	-16	26	112,744	122,442	2	9	16.0	12.7	1.4	1.4
Peer Average												17.7	14.7	2.9	2.7

Source: Bloomberg; KGI estimates (*Bloomberg estimates)

Figure 7: Peer valuation comparison – Optical communication

Company	Code	Market cap (US\$ mn)	Share price (LCY)	EPS (LCY)		EPS CAGR (%)		Revenue (NT\$mn)		Revenue CAGR (%)		PER (x)		PBR (x)	
				2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
VPEC*	2455 TT	864	145.0	3.23	5.15	-11	59	3,241	3,450	20	6	44.9	28.2	8.0	7.1
LandMark Optoelectr	3081 TT	1,297	435.0	4.32	12.82	N.A.	197	1,208	2,170	14	80	100.7	33.9	10.5	9.6
Browave	3163 TT	619	238.5	N.A.	N.A.	N.A.	N.A.	1,941	N.A.	0	N.A.	N.M.	N.M.	N.M.	N.M.
TrueLight	3234 TT	129	36.00	N.A.	N.A.	N.A.	N.A.	574	N.A.	0	N.A.	N.M.	N.M.	N.M.	N.M.
FOCI	3363 TT	1,190	356.5	0.78	2.71	N.A.	247	1,364	2,105	0	54	457	131.5	14.7	13.7
Elite Advanced Laser*	3450 TT	1,061	226.0	6.72	11.97	76	78	7,568	8,974	40	19	33.7	18.9	6.9	6.2
Apac Opto Electronics	4908 TT	183	72.7	N.A.	N.A.	N.A.	N.A.	936	N.A.	0	N.A.	N.M.	N.M.	N.M.	N.M.
PCL Technologies*	4977 TT	270	104.5	4.78	N.A.	57	N.A.	1,092	N.A.	0	N.A.	21.8	N.M.	2.2	N.M.
LuxNet*	4979 TT	898	198.0	5.40	9.94	43	84	3,451	4,554	17	32	36.7	19.9	7.0	5.2
GCS Holdings	4991 TT	594	162.0	0.19	5.38	N.A.	2,808	1,750	2,171	0	24	875.7	30.1	6.1	5.0
Jess-Link Products	6197 TT	557	141.5	N.A.	N.A.	N.A.	N.A.	6,765	N.A.	0	N.A.	N.M.	N.M.	N.M.	N.M.
Ezconn	6442 TT	2,753	1,105.0	19.33	31.26	35	62	6,410	11,371	0	77	57.2	35.3	17.2	12.4
ShunSIn Technology Hold	6451 TT	486	140.5	N.A.	N.A.	N.A.	N.A.	5,188	N.A.	0	N.A.	N.M.	N.M.	N.M.	N.M.
FIC Global	3701 TT	229	30.10	N.A.	N.A.	N.A.	N.A.	13,102	N.A.	0	N.A.	N.M.	N.M.	N.M.	N.M.
Peer Average												203.5	42.6	9.1	8.4

Source: Bloomberg; KGI estimates (*KGI estimates)

Outperform · Maintained

Price as of November 20 (NT\$)	954
12M target price (NT\$)	1,280
Previous target price (NT\$)	1,280
Unchanged (%)	0.0
Upside (%)	34.2

Key message

1. Significant power architecture migration will drive a server power revenue CAGR of 57% in 2025-27F for Delta.
2. We believe the firm's sidecar market share will remain above 50% in 2026F, with further content upside.
3. We forecast 2025-27F EPS CAGR of 34%.

Trading data

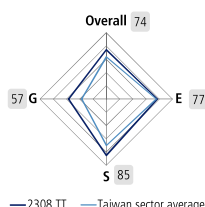
Mkt cap (NT\$bn/US\$mn)	2,478 / 81,083
Outstanding shares (mn)	2,598
Foreign ownership (mn)	1,705
3M avg. daily trading (mn)	11.37
52-week trading range (NT\$)	280.5 – 1,075

Performance	3M	6M	12M
Absolute (%)	52.6	161	146.8
Relative (%)	36.5	133.6	125.9

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	2.22A	3.83A	4.75A	2.76A
2025	3.94A	5.37A	7.16A	7.36F
2026	6.84F	7.95F	9.02F	8.98F

ESG score card



Source: TEJ

Delta Electronics

(2308.TW/2308 TT)



Still heating up in the AI frenzy

Event

We believe Delta Electronics will see robust earnings growth in coming years riding on AI server power architecture upgrade trends, supported by an undisputed leading position in both power supply and liquid cooling fields. We project a data center revenue weighting of 45%, 55% and 61% in 2025-27F, respectively, from 29% in 2024.

Impact

Unquestioned dominance in power supply field. The rapid iteration of AI accelerator is driving up thermal design power (TDP) per server rack, while Delta's MW-scale rack is just around the corner, with a clear power architecture migration pathway from the current 48V to HVDC, either 800V or $\pm 400V$. We see Delta's standalone power rack gaining traction starting 2026F, which consists of power shelves, battery backup units (BBU), super capacitors and power distribution units (PDU), boosting AC-DC power content to US\$200k per VR200 rack and over US\$450k for Rubin Ultra, up significantly from US\$45-50k for the incumbent GB200. We also believe Delta's DC-DC converter business will likely get back on a growth trajectory next year thanks to rising adoption in ASIC server rack. We project a server power revenue CAGR of 57% in 2025-2027F, with sales contribution of 23%, 30% and 37%, respectively.

Liquid cooling market share to be maintained in 2026F. Delta has been the leading liquid-to-air sidecar supplier to multiple tier-1 US CSPs, and we believe the firm will maintain a 50%-plus market share in 2026F thanks to rising shipments to a tier-1 US CSP. In view of strong demand, the firm is building up liquid cooling system capacity in Thailand, while expanding in Taiwan and the US. We forecast liquid cooling system revenue of NT\$46.8bn, NT\$85.0bn and NT\$99.0bn in 2025-27F, respectively, and see upside on Delta's unrivaled mass production capabilities compared to peers.

2025-27F EPS CAGR of 34%. Management said integrated system offerings such as power rack, sidecar and solid state transformer (SST) may not necessarily be gross margin accretive due to increasing component outsourcing, and that future operating margin expansion will be more dependent on revenue scale. Long term, Delta is confident it can maintain its first mover advantage with intensive R&D efforts, and will be positioned for new technology developments, including SST, fuel cell and energy storage system (ESS). We project 2025-27F operating margins of 15.2%, 16.9% and 17.9%.

Valuation & Action

We rate Delta Outperform and assign a 12M target price of NT\$1,280, based on 30x 2027F EPS, versus the historical PE band of 14-35x.

Risks

Macro headwinds.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	401,227	421,148	551,668	692,476	862,650
Gross profit (NT\$mn)	117,213	136,580	189,648	244,335	308,504
Operating profit (NT\$mn)	40,950	47,652	83,764	117,116	154,375
Net profit (NT\$mn)	33,393	35,229	61,898	85,172	110,712
EPS (NT\$)	12.86	13.56	23.83	32.79	42.62
Cash DPS (NT\$)	6.43	7.00	12.00	16.50	21.50
EPS growth (%)	2.2	5.5	75.7	37.6	30.0
PE (x)	74.2	70.3	40.0	29.1	22.4
PB (x)	12.4	10.8	9.5	7.9	6.5
EV/EBITDA (x)	47.6	39.8	25.9	19.3	15.1
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.7	0.7	1.3	1.7	2.3
Return on average equity (%)	17.3	16.4	25.3	29.7	31.8

Source: Company data; KGI Research estimates

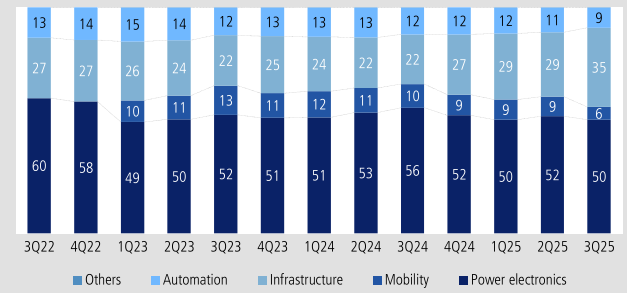
Figure 1: Company profile

Established in 1971, Delta Electronics is a leading global supplier of electronics components. Some of its products command significant global market share. Post the acquisition of Delta Electronics (Thailand) in April 2019, the firm now operates production facilities in China, Taiwan, Thailand, India, and Slovakia. Power electronics, mobility, automation, and infrastructure accounted for a respective 50%, 6%, 9% and 35% of 3Q25 revenue.

Source: KGI Research

Figure 2: Revenue mix

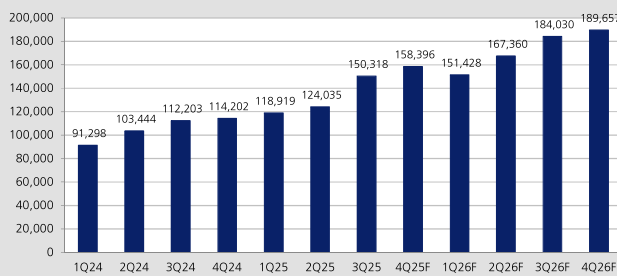
Revenue breakdown, percent



Source: KGI Research

Figure 3: Revenue

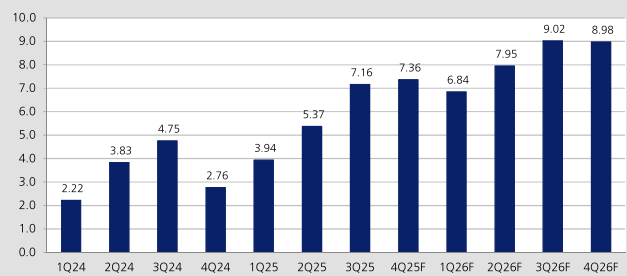
Revenue, NT\$m



Source: KGI Research

Figure 4: EPS

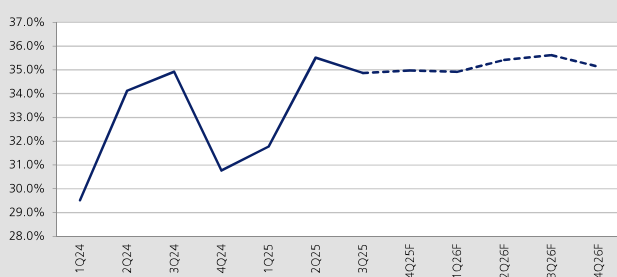
EPS, NT\$



Source: KGI Research

Figure 5: Gross margin

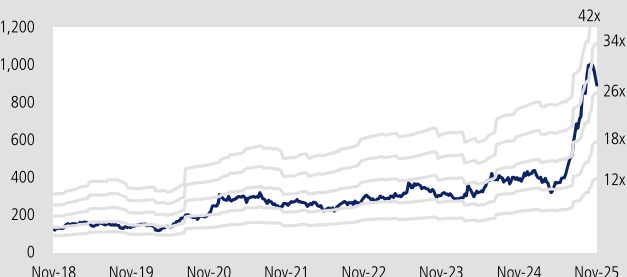
Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

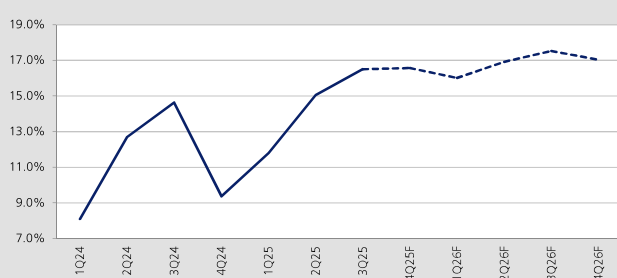
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: KGI Research

Figure 7: Operating margin

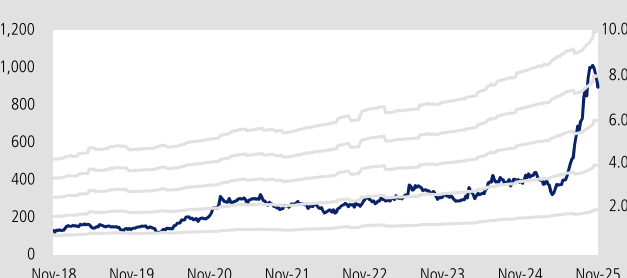
Operating margin, percent



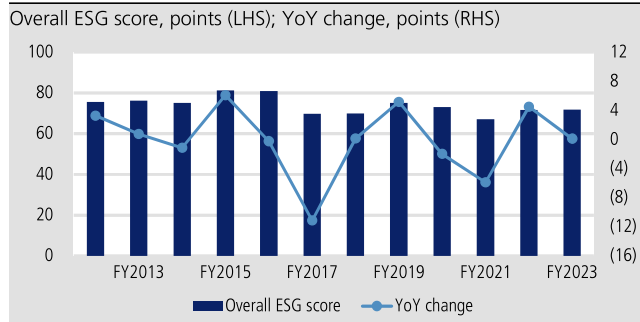
Source: KGI Research

Figure 8: 12M forward PB band

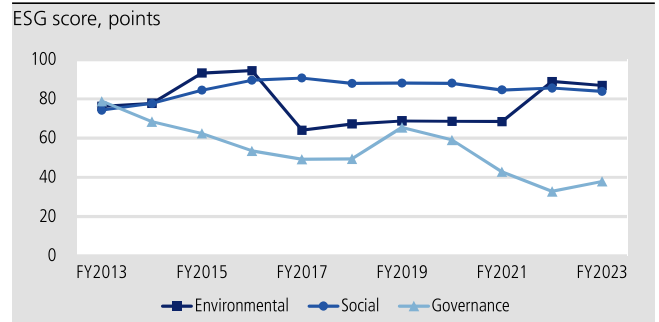
Share price, NT\$ (LHS); PE ratio, x (RHS)



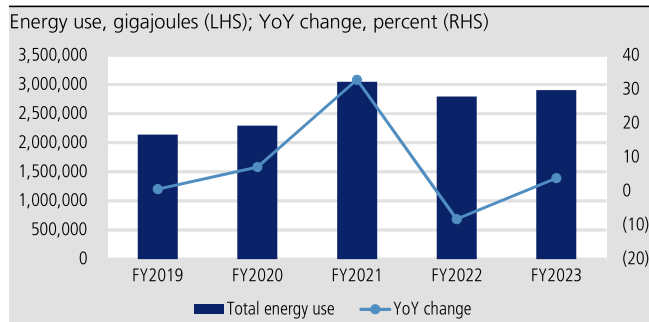
Source: KGI Research

Figure 9: Overall ESG score


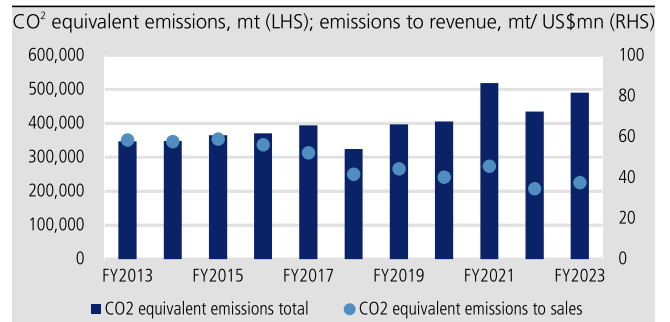
Source: Refinitiv; KGI Research; Company data

Figure 10: ESG score by category


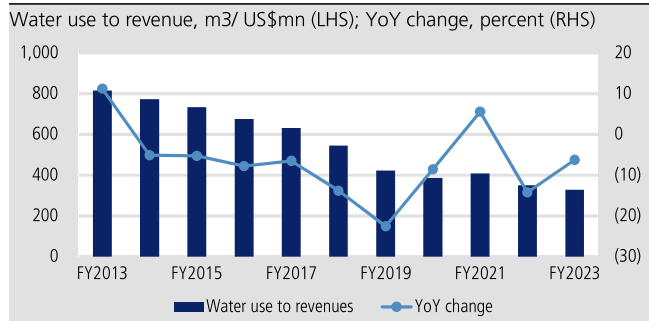
Source: Refinitiv; KGI Research; Company data

Figure 11: Energy use


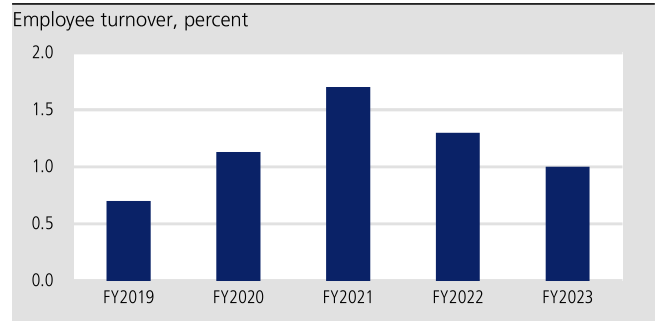
Source: Refinitiv; KGI Research; Company data

Figure 12: CO² equivalent emissions


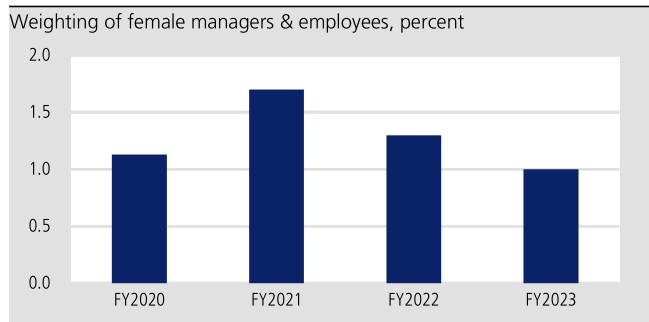
Source: Refinitiv; KGI Research; Company data

Figure 13: Water use to revenue


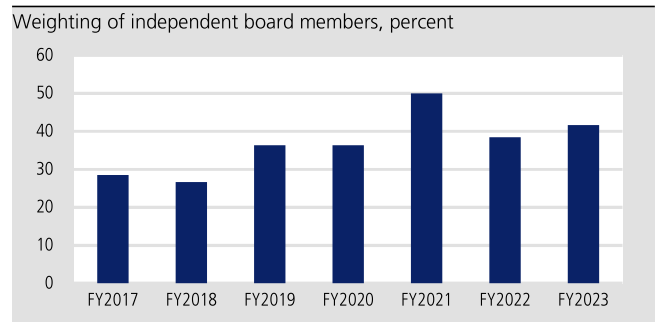
Source: Refinitiv; KGI Research; Company data

Figure 14: Employee turnover


Source: Refinitiv; KGI Research; Company data

Figure 15: Gender diversification


Source: Refinitiv; KGI Research; Company data

Figure 16: Independent board members


Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv, KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	118,919	124,035	150,318	158,396	151,428	167,360	184,030	189,657	551,668	692,476	862,650
Cost of goods sold	(81,131)	(79,986)	(97,902)	(103,001)	(98,560)	(108,082)	(118,476)	(123,022)	(362,020)	(448,141)	(554,146)
Gross profit	37,788	44,049	52,416	55,395	52,867	59,278	65,554	66,635	189,648	244,335	308,504
Operating expenses	(23,752)	(25,380)	(27,607)	(29,145)	(28,620)	(30,962)	(33,309)	(34,328)	(105,885)	(127,219)	(154,129)
Operating profit	14,036	18,669	24,809	26,250	24,248	28,316	32,244	32,307	83,764	117,116	154,375
Depreciation of fixed assets	(5,820)	(5,798)	(6,863)	(7,000)	(7,140)	(7,283)	(7,428)	(7,577)	(25,481)	(29,427)	(31,853)
Amortisation of intangible assets	(1,013)	(948)	(901)	(960)	(960)	(960)	(960)	(960)	(3,821)	(3,840)	(3,840)
EBITDA	20,869	25,415	32,572	34,210	32,347	36,559	40,633	40,844	113,066	150,383	190,068
Interest income	824	1,039	933	1,017	1,075	1,144	1,092	1,106	3,813	4,417	5,103
Investment income	93	106	270	30	100	120	280	35	499	535	580
Other non-op income	1,106	1,250	1,090	1,000	1,100	1,100	1,100	1,100	4,446	4,400	4,800
Non-operating income	2,022	2,395	2,293	2,047	2,275	2,364	2,472	2,241	8,757	9,352	10,483
Interest expense	(511)	(527)	(612)	(597)	(567)	(539)	(512)	(512)	(2,246)	(2,129)	(2,047)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	115	(966)	493	-	-	-	-	-	(357)	-	-
Non-operating expenses	(395)	(1,492)	(119)	(597)	(567)	(539)	(512)	(512)	(2,603)	(2,129)	(2,047)
Pre-tax profit	15,663	19,571	26,983	27,701	25,956	30,142	34,204	34,037	89,918	124,339	162,812
Current taxation	(3,620)	(4,237)	(6,062)	(6,094)	(5,710)	(6,631)	(7,525)	(7,488)	(20,013)	(27,355)	(35,819)
Minorities	(1,812)	(1,386)	(2,316)	(2,493)	(2,466)	(2,863)	(3,249)	(3,233)	(8,007)	(11,812)	(16,281)
Normalised net profit	10,231	13,948	18,606	19,113	17,780	20,647	23,430	23,315	61,898	85,172	110,712
Extraordinary items	(0)	0	0	-	-	-	-	-	-	-	-
Net profit	10,231	13,948	18,606	19,113	17,780	20,647	23,430	23,315	61,898	85,172	110,712
EPS (NT\$)	3.94	5.37	7.16	7.36	6.84	7.95	9.02	8.98	23.83	32.79	42.62
Margins (%)											
Gross profit margin	31.8	35.5	34.9	35.0	34.9	35.4	35.6	35.1	34.4	35.3	35.8
Operating margin	11.8	15.1	16.5	16.6	16.0	16.9	17.5	17.0	15.2	16.9	17.9
EBITDA margin	17.5	20.5	21.7	21.6	21.4	21.8	22.1	21.5	20.5	21.7	22.0
Pretax profit margin	13.2	15.8	18.0	17.5	17.1	18.0	18.6	17.9	16.3	18.0	18.9
Net profit margin	8.6	11.2	12.4	12.1	11.7	12.3	12.7	12.3	11.2	12.3	12.8
Sequential growth (%)											
Revenue growth	4.1	4.3	21.2	5.4	(4.4)	10.5	10.0	3.1			
Gross profit growth	7.5	16.6	19.0	5.7	(4.6)	12.1	10.6	1.6			
Operating profit growth	31.2	33.0	32.9	5.8	(7.6)	16.8	13.9	0.2			
EBITDA growth	19.9	21.8	28.2	5.0	(5.4)	13.0	11.1	0.5			
Pretax profit growth	59.2	25.0	37.9	2.7	(6.3)	16.1	13.5	(0.5)			
Net profit growth	42.5	36.3	33.4	2.7	(7.0)	16.1	13.5	(0.5)			
YoY growth (%)											
Revenue growth	30.3	19.9	34.0	38.7	27.3	34.9	22.4	19.7	31.0	25.5	24.6
Gross profit growth	40.2	24.8	33.7	57.7	39.9	34.6	25.1	20.3	38.9	28.8	26.3
Operating profit growth	89.8	42.2	51.1	145.3	72.8	51.7	30.0	23.1	75.8	39.8	31.8
EBITDA growth	57.7	31.2	43.8	96.5	55.0	43.8	24.7	19.4	55.6	33.0	26.4
Pretax profit growth	78.7	30.2	52.7	181.5	65.7	54.0	26.8	22.9	75.2	38.3	30.9
Net profit growth	77.5	40.2	50.8	166.3	73.8	48.0	25.9	22.0	75.7	37.6	30.0

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	457,747	531,898	614,587	699,791	802,866
Current assets	259,958	310,925	385,373	463,308	561,497
Cash & ST securities	92,620	121,793	153,053	196,098	233,273
Inventory	76,227	83,856	92,352	104,177	133,923
Accounts receivable	79,380	89,921	121,576	144,642	175,910
Other current assets	11,732	15,355	18,392	18,392	18,392
Non-current assets	197,788	220,973	229,215	236,482	241,369
LT investments	3,505	8,503	4,186	4,721	5,301
Net fixed assets	98,002	115,710	127,414	137,987	146,134
Other assets	96,282	96,760	97,615	93,775	89,935
Total liabilities	215,011	252,332	299,470	318,860	337,801
Current liabilities	126,085	152,283	187,006	206,396	225,338
Accounts payable	53,539	69,223	84,044	103,434	122,375
Interest bearing ST liabilities	5,875	8,121	21,655	21,655	21,655
Other current liabilities	66,671	74,939	81,307	81,307	81,307
Non-current liabilities	88,927	100,049	112,464	112,464	112,464
Long-term debt	51,420	56,309	66,855	66,855	66,855
Other L-T liabilities	34,951	41,523	43,209	43,209	43,209
Total equity	242,735	279,565	315,117	380,931	465,065
Share capital	25,975	25,975	25,975	25,975	25,975
Retained earnings reserve	83,904	98,433	142,045	194,905	261,791
Minority interests	43,572	49,478	55,263	67,075	83,357
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	4.4%	5.0%	31.0%	25.5%	24.6%
Operating profit growth	(1.2%)	16.4%	75.8%	39.8%	31.8%
EBITDA growth	3.6%	16.2%	55.6%	33.0%	26.4%
Net profit growth	2.2%	5.5%	75.7%	37.6%	30.0%
EPS growth	2.2%	5.5%	75.7%	37.6%	30.0%
Profitability					
Gross profit margin	29.2%	32.4%	34.4%	35.3%	35.8%
Operating margin	10.2%	11.3%	15.2%	16.9%	17.9%
EBITDA margin	15.6%	17.3%	20.5%	21.7%	22.0%
Net profit margin	8.3%	8.4%	11.2%	12.3%	12.8%
Return on average assets	7.6%	7.1%	10.8%	13.0%	14.7%
Return on average equity	17.3%	16.4%	25.3%	29.7%	31.8%
Stability					
Gross debt to equity	23.6%	23.0%	28.1%	23.2%	19.0%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	42.5	34.2	41.0	59.4	80.5
Interest & ST debt coverage (x)	0.9	0.8	0.8	0.8	0.9
Cash flow interest coverage(x)	60.7	47.1	36.1	53.6	58.6
Cash flow/int. & ST debt (x)	10.1	7.5	3.4	4.8	5.1
Current ratio (x)	2.1	2.0	2.1	2.2	2.5
Quick ratio (x)	1.5	1.5	1.6	1.7	1.9
Net debt (NT\$m)	(30,161)	(53,029)	(60,644)	(103,689)	(140,864)
Per share data					
EPS (NT\$)	12.86	13.56	23.83	32.79	42.62
CFPS (NT\$)	27.37	28.06	31.23	43.97	46.21
BVPS (NT\$)	76.67	88.58	100.04	120.83	146.95
Adj BVPS (NT\$)	76.67	88.58	100.04	120.83	146.95
SPS (NT\$)	154.46	162.13	212.38	266.59	332.10
EBITDA/share (NT\$)	24.08	27.98	43.53	57.89	73.17
Cash DPS (NT\$)	6.43	7.00	12.00	16.50	21.50
Activity					
Sales / avg assets	0.91	0.85	0.96	1.05	1.15
Days receivable	72.2	78.1	80.4	76.2	74.4
Days inventory	98.0	107.9	93.1	84.8	88.2
Days payable	68.8	89.0	84.7	84.2	80.6
Cash cycle	101.4	97.0	88.8	76.8	82.0

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	401,227	421,148	551,668	692,476	862,650
Cost of goods sold	(284,013)	(284,567)	(362,020)	(448,141)	(554,146)
Gross profit	117,213	136,580	189,648	244,335	308,504
Operating expenses	(76,263)	(88,928)	(105,885)	(127,219)	(154,129)
Operating profit	40,950	47,652	83,764	117,116	154,375
Non-operating income	6,519	8,163	8,757	9,352	10,483
Interest income	2,070	3,407	3,813	4,417	5,103
Investment income	222	438	499	535	580
Other non-op income	4,227	4,319	4,446	4,400	4,800
Non-operating expenses	1,173	(4,499)	(2,603)	(2,129)	(2,047)
Interest expense	(1,171)	(1,547)	(2,246)	(2,129)	(2,047)
Investment loss	-	(73)	-	-	-
Other non-op expenses	2,344	(2,879)	(357)	-	-
Pre-tax profit	48,642	51,316	89,918	124,339	162,812
Current taxation	(9,762)	(10,925)	(20,013)	(27,355)	(35,819)
Minorities	(5,488)	(5,163)	(8,007)	(11,812)	(16,281)
Extraordinary items	-	0	-	-	-
Net profit	33,393	35,229	61,898	85,172	110,712
EBITDA	62,540	72,668	113,066	150,383	190,068
EPS (NT\$)	12.86	13.56	23.83	32.79	42.62

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	71,086	72,895	81,116	114,215	120,035
Net profit	33,393	35,229	61,898	85,172	110,712
Depreciation & amortisation	21,590	25,016	29,302	33,267	35,693
Decrease in working capital	2,466	(2,538)	(25,533)	(15,502)	(42,072)
Other operating cash flow	13,638	15,188	15,449	11,277	15,701
Investing cash flow	(33,502)	(40,360)	(46,072)	(40,000)	(40,000)
Sale of ST investment	213	(334)	-	-	-
New investments	89	(213)	(75)	-	-
Capital expenditure	(27,830)	(33,430)	(39,523)	(40,000)	(40,000)
Others investing cashflow	(5,974)	(6,383)	(6,474)	-	-
Free cash flow	24,945	22,634	25,545	65,275	70,194
Financing cash flow	(10,478)	(11,118)	6,118	(31,171)	(42,859)
Increase in short term debt	874	(1,417)	(488)	-	-
Increase in long term loans	9,452	8,552	24,568	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(27,455)	(16,702)	(18,183)	(31,171)	(42,859)
Other financing cashflow	6,651	(1,550)	221	-	-
Forex effects	(1,198)	8,586	(9,467)	-	-
Total cash generated	25,909	30,003	31,695	43,044	37,175

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	19.0%	21.1%	19.2%	18.4%	17.9%
= Operating margin	10.2%	11.3%	15.2%	16.9%	17.9%
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.2	0.3	0.2	0.2	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.7	2.6	2.6	2.9	3.0
Operating margin	10.2%	11.3%	15.2%	16.9%	17.9%
x Capital turnover	2.7	2.6	2.6	2.9	3.0
x (1 - tax rate)	79.9%	78.7%	77.7%	78.0%	78.0%
= After-tax ROIC	21.9%	22.7%	31.2%	38.9%	42.2%

Source: Company data; KGI Research estimates

Outperform · Maintained

Price as of November 20 (NT\$)	236.5
12M target price (NT\$)	340.0
Previous target price (NT\$)	340.0
Unchanged (%)	0.0
Upside (%)	43.8

Key message

1. We forecast GB/ VR AI server rack shipments of 23k units will drive sales growth of 43% YoY in 2026F.
2. Nvidia (US) has requested just three L10 suppliers for the Vera Rubin generation; being one of them, Hon Hai will maintain its dominant position in the market.
3. We expect modular data center business model & vertical integration efforts to support stable margins in 2026F.

Trading data

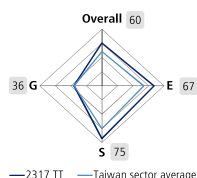
Mkt cap (NT\$bn/US\$mn)	3,320 /
Outstanding shares (mn)	14,037
Foreign ownership (mn)	5,477
3M avg. daily trading (mn)	45.66
52-week trading range (NT\$)	112.5 –262.0

Performance	3M	6M	12M
Absolute (%)	18	53.6	14.8
Relative (%)	1.9	26.2	-6.1

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	1.59A	2.53A	3.55A	3.34A
2025	3.03A	3.19A	4.15A	4.31F
2026	3.29F	3.70F	4.68F	7.23F

ESG score card



Source: Refinitiv

Hon Hai Precision

(2317.TW/2317 TT)



AI server to drive growth in 2026F

Event

AI server is set to drive Hon Hai's 2026F revenue and earnings, as we expect the company to maintain an over 40% GB/ VR L10 assembly market share and added-value will increase by offering modular data center (MDC) services in the Ohio (US) factory under a JV with Softbank (JP). Also, Apple's (US) launch of a foldable iPhone in 2H26F and build-out of its AI data centers for Apple Intelligence will boost earnings in the next few years.

Impac

Bright 2026F outlook. With expect global GB/ VR AI server shipments of up to 55-60k racks in 2026F, vs. 23-25k racks in 2025F on CSPs' and OpenAI's (US) aggressive data center build-out pipeline. We expect Hon Hai to secure an over 40% market share. It has gained new clients and projects in the growing AI server market. Main clients are currently Oracle (US) and Microsoft (US) for GB AI server, while Meta (US) will be a new client for GB300 and Google (US) for VR AI server in 2H26F. Given clients' strong AI server demand in 2026F, we forecast the company's GB/ VR shipments to grow from 10-11k racks this year to around 23k racks in 2026F, maintaining its leading position in the assembly market with improving production yields and efficiency, and to see 2026F sales growth of 43%. It has diversified its AI server product offering, including module, baseboard, compute and switch tray, rack and some components, as well as different AI models (GPU, ASIC). We believe vertical integration efforts will mitigate margin dilution from GB AI server shipments and help keep gross and operating margins stable/ improving on sales scale leverage. We thus forecast operating margin to stay flat YoY at 3.1% in 2026F, despite a gross margin decline of 0.5ppts. In the Vera Rubin generation, Nvidia (US) has requested only three L10 suppliers, Hon Hai being one of them, aside from Wistron (3231 TT, NT\$143, OP) and Quanta (2382 TT, NT\$274, OP), highlighting its dominant position in the AI server market.

Becoming a MDC solutions provider. The OpenAI and Softbank (JP) agreement has pledged to construct a 1.5GW MDC, with Hon Hai supplying server rack and other components as well as integration work, leveraging Teco's (1504 TT, NT\$96.1, N) experience in electrical equipment and engineering. The MDC business model marks Hon Hai's migration from L11 rack assembler to L11-plus integrator; we estimate this will add NT\$1.0-1.2 EPS (0.75-1GW under the 50%-owned JV) in 2026F, boosting EPS to NT\$18.9, up 29% YoY. We also see assembly orders for foldable iPhone in 2H26F and AI data center for Apple Intelligence in the coming five years boosting earnings in 2027F.

Valuation & Action

On growing competitiveness in the AI server market, we rate Hon Hai Outperform. Our target price is NT\$340, based on 18x 2026F EPS.

Risks

Slow EV orders; weakening global demand; NT dollar appreciation; tariff impacts.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	6,626,997	6,162,221	6,859,615	7,854,229	11,229,813
Gross profit (NT\$mn)	400,085	387,947	428,946	483,926	631,632
Operating profit (NT\$mn)	173,788	166,528	200,607	246,715	344,746
Net profit (NT\$mn)	141,483	142,098	152,705	203,953	262,604
EPS (NT\$)	10.21	10.25	11.01	14.68	18.90
Cash DPS (NT\$)	5.30	5.40	5.80	7.75	9.97
EPS growth (%)	1.6	0.4	7.4	33.4	28.8
PE (x)	23.2	23.1	21.5	16.1	12.5
PB (x)	2.3	2.2	2.0	1.9	1.8
EV/EBITDA (x)	10.5	10.2	10.0	8.4	7.1
Net debt to equity (%)	Net cash	Net cash	Net cash	1.8	13.3
Dividend yield (%)	2.2	2.3	2.5	3.3	4.2
Return on average equity (%)	10.0	9.7	9.7	12.0	14.6

Source: Company data, KGI Research estimates

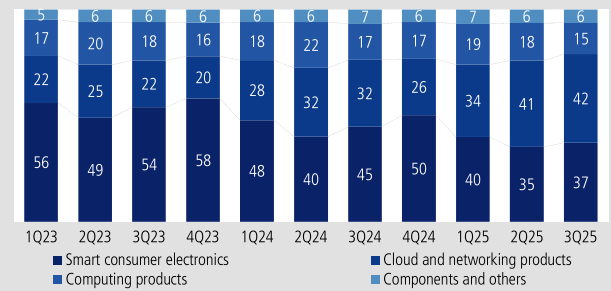
Figure 1: Company profile

Founded in 1974, Hon Hai Precision is the world's largest electronic manufacturing service (EMS) company, principally engaged in the assembly and production of computers, consumer electronics, servers, and networking equipment. It also has several investment arms spanning semiconductors, machinery modules, and industrial internet. The firm operates businesses domestically and overseas.

Source: Company data; KGI Research

Figure 2: Sales by segment

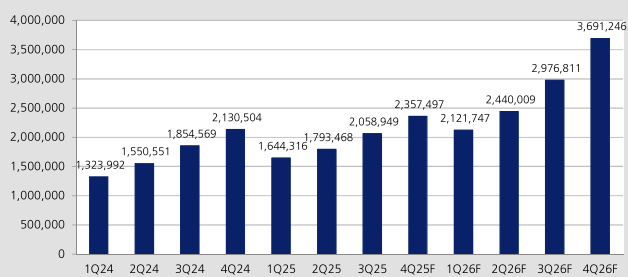
Sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

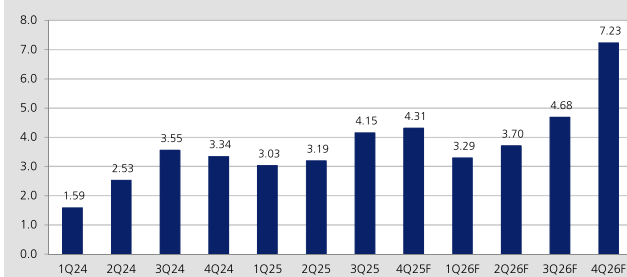
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

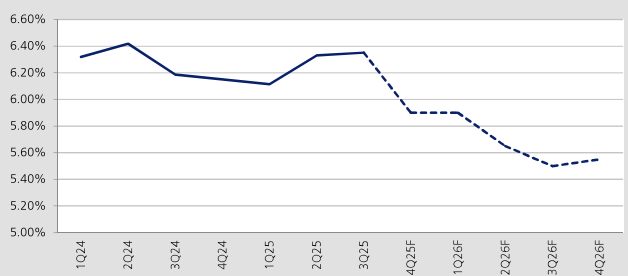
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

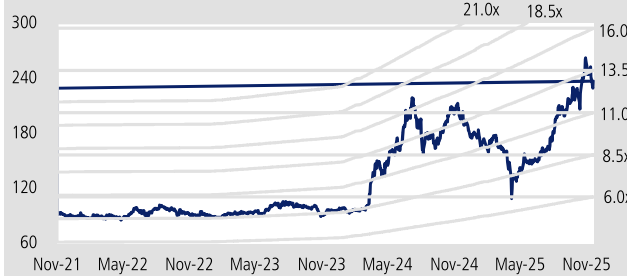
Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

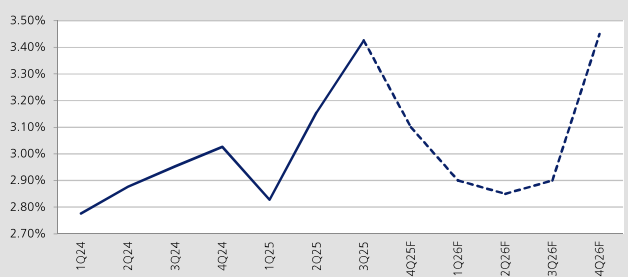
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: KGI Research

Figure 7: Operating Margin

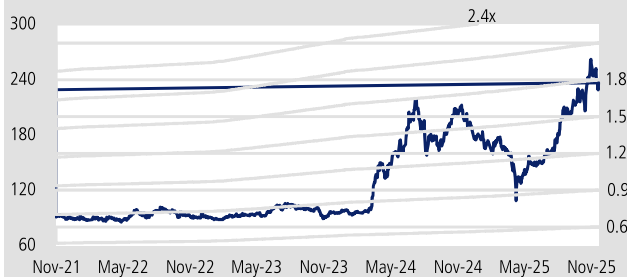
Operating margin, percent



Source: KGI Research

Figure 8: 12M forward PB band

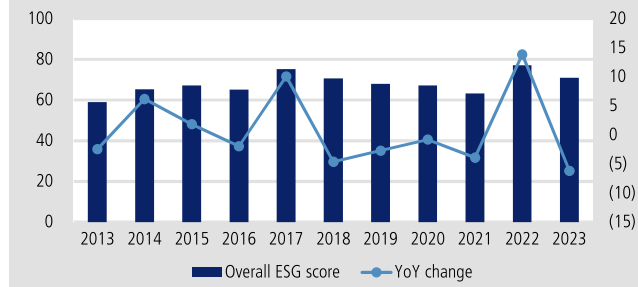
Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: KGI Research

Figure 9: Overall ESG score

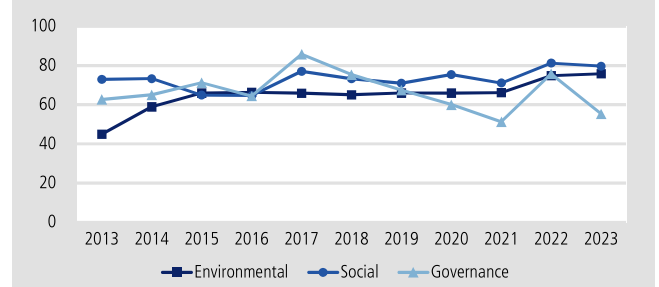
ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; Company data

Figure 10: ESG score

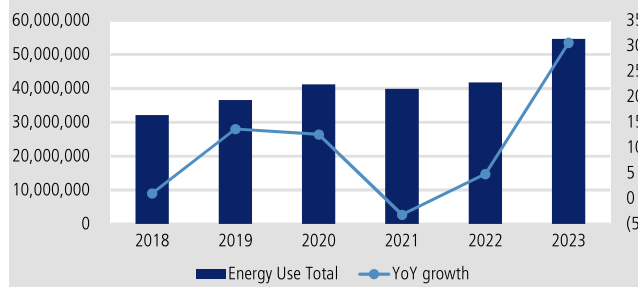
ESG score, points



Source: Refinitiv; Company data

Figure 11: Energy use

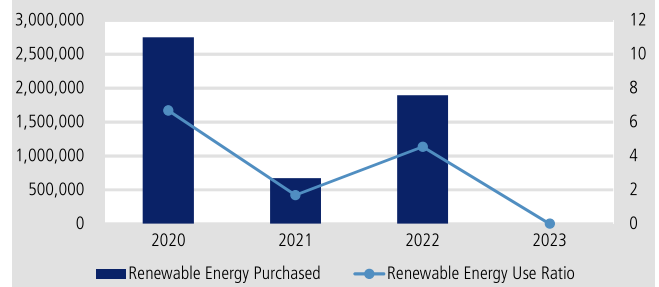
Energy use, gigajoules (LHS); YoY growth, percent (RHS)



Source: Refinitiv; Company data

Figure 12: Renewable energy

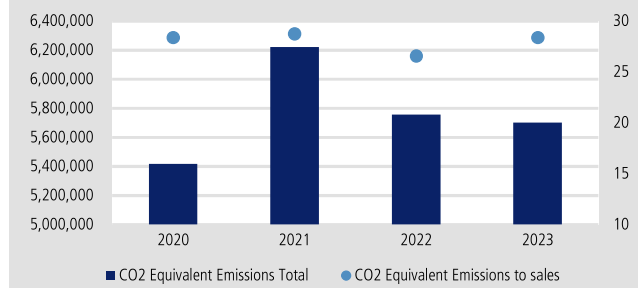
Energy use, gigajoules (LHS); use ratio, percent (RHS)



Source: Refinitiv; Company data

Figure 13: CO2 equivalent emissions

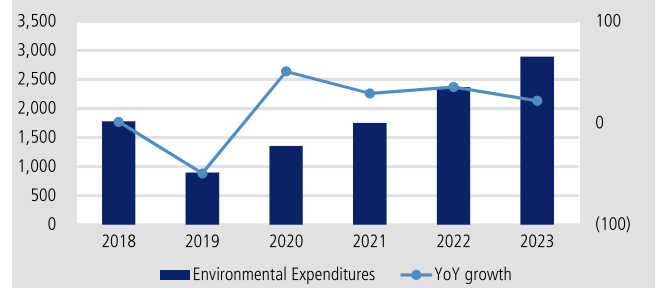
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m (RHS)



Source: Refinitiv; Company data

Figure 14: Environmental expenditures

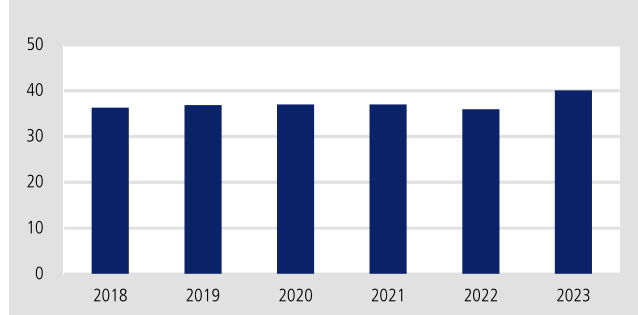
Environmental expenditures, NT\$m (LHS); YoY growth rate, percent (RHS)



Source: Refinitiv; Company data

Figure 15: Gender diversification

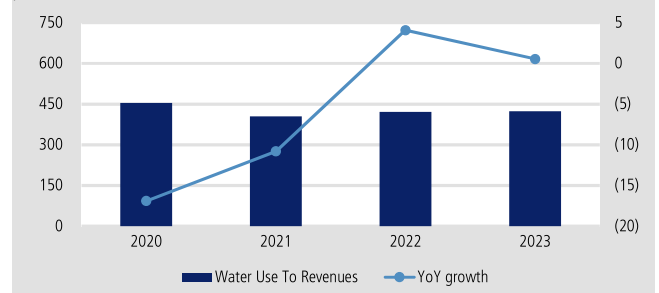
Female employees, percent



Source: Refinitiv; Company data

Figure 16: Water use to revenue

Water use to revenue, cubic meters/ US\$m (LHS); YoY growth rate, percent (RHS)



Source: Refinitiv; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	1,644,316	1,793,468	2,058,949	2,357,497	2,121,747	2,440,009	2,976,811	3,691,246	6,859,615	7,854,229	11,229,813
Cost of goods sold	(1,543,767)	(1,679,939)	(1,928,192)	(2,218,404)	(1,996,564)	(2,302,149)	(2,813,087)	(3,486,382)	(6,430,670)	(7,370,303)	(10,598,181)
Gross profit	100,548	113,529	130,757	139,092	125,183	137,861	163,725	204,864	428,946	483,926	631,632
Operating expenses	(54,048)	(56,933)	(60,220)	(66,010)	(63,652)	(68,320)	(77,397)	(77,516)	(228,339)	(237,212)	(286,886)
Operating profit	46,500	56,596	70,536	73,082	61,531	69,540	86,328	127,348	200,607	246,715	344,746
Depreciation of fixed assets	(22,620)	(22,562)	(24,079)	(36,552)	(28,012)	(28,012)	(28,012)	(28,012)	(84,290)	(105,814)	(112,047)
Amortisation of intangible assets	(902)	(922)	(872)	(1,085)	(1,329)	(1,329)	(1,329)	(1,329)	(3,591)	(3,780)	(5,316)
EBITDA	70,021	80,081	95,488	110,719	90,872	98,881	115,668	156,689	288,489	356,309	462,110
Interest income	8,131	7,652	7,118	8,190	7,154	7,154	7,154	7,154	45,577	31,091	28,615
Investment income	6,498	1,983	5,665	(1,146)	1,400	1,400	1,400	1,400	6,506	13,000	5,600
Other non-op income	5,525	7,644	13,348	(2,016)	2,750	2,750	2,750	2,750	17,684	24,500	11,000
Non-operating income	20,153	17,278	26,131	5,028	11,304	11,304	11,304	11,304	69,767	68,591	45,215
Interest expense	(7,533)	(8,725)	(9,774)	(7,561)	(8,429)	(8,429)	(8,429)	(8,429)	(36,795)	(33,593)	(33,716)
Investment loss	-	-	-	(2,000)	(500)	(500)	(500)	(500)	(12,183)	(2,000)	(2,000)
Other non-op expenses	-	-	-	(3,000)	(875)	(875)	(875)	(875)	(9,521)	(3,000)	(3,500)
Non-operating expenses	(7,533)	(8,725)	(9,774)	(12,561)	(9,804)	(9,804)	(9,804)	(9,804)	(58,499)	(38,593)	(39,216)
Pre-tax profit	59,120	65,149	86,893	65,549	63,031	71,040	87,827	128,848	211,875	276,712	350,746
Current taxation	(13,287)	(15,613)	(20,863)	(4,197)	(11,976)	(14,208)	(17,405)	(23,053)	(40,196)	(53,959)	(66,642)
Minorities	(3,726)	(5,176)	(8,358)	(1,540)	(5,375)	(5,375)	(5,375)	(5,375)	(18,974)	(18,800)	(21,500)
Normalised net profit	42,108	44,361	57,673	59,812	45,680	51,457	65,048	100,420	152,705	203,953	262,604
Extraordinary items	(0)	(0)	0	0	-	-	-	-	-	-	-
Net profit	42,108	44,361	57,673	59,812	45,680	51,457	65,048	100,420	152,705	203,953	262,604
EPS (NT\$)	3.03	3.19	4.15	4.31	3.29	3.70	4.68	7.23	11.01	14.68	18.90
Margins (%)											
Gross profit margin	6.1	6.3	6.4	5.9	5.9	5.7	5.5	5.6	6.3	6.2	5.6
Operating margin	2.8	3.2	3.4	3.1	2.9	2.9	2.9	3.5	2.9	3.1	3.1
EBITDA margin	4.3	4.5	4.6	4.7	4.3	4.1	3.9	4.2	4.2	4.5	4.1
Pretax profit margin	3.6	3.6	4.2	2.8	3.0	2.9	3.0	3.5	3.1	3.5	3.1
Net profit margin	2.6	2.5	2.8	2.5	2.2	2.1	2.2	2.7	2.2	2.6	2.3
Sequential growth (%)											
Revenue growth	(22.8)	9.1	14.8	14.5	(10.0)	15.0	22.0	24.0			
Gross profit growth	(23.3)	12.9	15.2	6.4	(10.0)	10.1	18.8	25.1			
Operating profit growth	(27.9)	21.7	24.6	3.6	(15.8)	13.0	24.1	47.5			
EBITDA growth	(23.0)	14.4	19.2	16.0	(17.9)	8.8	17.0	35.5			
Pretax profit growth	(6.6)	10.2	33.4	(24.6)	(3.8)	12.7	23.6	46.7			
Net profit growth	(9.1)	5.3	30.0	3.7	(23.6)	12.6	26.4	54.4			
YoY growth (%)											
Revenue growth	24.2	15.7	11.0	10.7	29.0	36.0	44.6	56.6	11.3	14.5	43.0
Gross profit growth	20.2	14.1	14.0	6.1	24.5	21.4	25.2	47.3	10.6	12.8	30.5
Operating profit growth	26.5	26.9	28.8	13.3	32.3	22.9	22.4	74.3	20.5	23.0	39.7
EBITDA growth	22.8	24.9	25.0	21.7	29.8	23.5	21.1	41.5	15.0	23.5	29.7
Pretax profit growth	81.9	34.6	28.4	3.5	6.6	9.0	1.1	96.6			
Net profit growth	91.3	26.6	16.9	29.1	8.5	16.0	12.8	67.9	7.5	33.6	28.8

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	4,133,974	3,939,789	4,394,500	4,675,238	5,382,504
Current assets	3,200,506	3,035,966	3,375,765	3,596,383	4,295,274
Cash & ST securities	1,084,732	1,350,230	1,315,992	1,242,897	958,277
Inventory	939,022	730,765	835,016	959,649	1,379,934
Accounts receivable	1,098,690	872,270	1,141,418	1,310,499	1,873,725
Other current assets	78,062	82,700	83,338	83,338	83,338
Non-current assets	933,469	903,823	1,018,734	1,078,855	1,087,231
LT investments	435,825	393,134	406,269	407,203	407,626
Net fixed assets	362,405	393,967	468,838	528,024	535,977
Other assets	135,239	116,722	143,628	143,628	143,628
Total liabilities	2,483,443	2,253,545	2,542,911	2,708,508	3,270,229
Current liabilities	2,113,814	1,909,335	2,174,818	2,363,586	2,917,102
Accounts payable	1,068,941	893,119	1,133,052	1,302,169	1,872,464
Interest bearing ST liabilities	647,194	648,993	642,783	635,394	587,670
Other current liabilities	397,678	367,222	398,982	426,023	456,968
Non-current liabilities	369,630	344,211	368,094	344,923	353,126
Long-term debt	301,017	271,625	287,793	264,622	272,825
Other L-T liabilities	51,151	55,874	56,380	56,380	56,380
Total equity	1,650,531	1,686,244	1,851,588	1,966,729	2,112,276
Share capital	138,630	138,630	138,907	138,907	138,907
Retained earnings reserve	925,890	987,704	1,024,330	1,120,672	1,244,718
Minority interests	199,986	193,135	206,386	225,186	246,686
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	10.6%	(7.0)%	11.3%	14.5%	43.0%
Operating profit growth	16.7%	(4.2)%	20.5%	23.0%	39.7%
EBITDA growth	11.5%	0.3%	15.0%	23.5%	29.7%
Net profit growth	1.6%	0.4%	7.5%	33.6%	28.8%
EPS growth	1.6%	0.4%	7.4%	33.4%	28.8%
Profitability					
Gross profit margin	6.0%	6.3%	6.3%	6.2%	5.6%
Operating margin	2.6%	2.7%	2.9%	3.1%	3.1%
EBITDA margin	3.8%	4.1%	4.2%	4.5%	4.1%
Net profit margin	2.1%	2.3%	2.2%	2.6%	2.3%
Return on average assets	3.5%	3.5%	3.7%	4.5%	5.2%
Return on average equity	10.0%	9.7%	9.7%	12.0%	14.6%
Stability					
Gross debt to equity	57.4%	54.6%	50.3%	45.8%	40.7%
Net debt to equity	Net cash	Net cash	Net cash	1.8%	13.3%
Interest coverage (x)	6.4	3.9	6.8	9.2	11.4
Interest & ST debt coverage (x)	0.2	0.2	0.2	0.3	0.3
Cash flow interest coverage(x)	3.2	6.8	4.5	5.3	(1.1)
Cash flow/int. & ST debt (x)	0.2	0.6	0.2	0.3	(0.1)
Current ratio (x)	1.5	1.6	1.6	1.5	1.5
Quick ratio (x)	1.1	1.2	1.2	1.1	1.0
Net debt (NT\$m)	(114,115)	(277,044)	(6,533)	36,003	281,103
Per share data					
EPS (NT\$)	10.21	10.25	11.01	14.68	18.90
CFPS (NT\$)	7.91	32.14	11.97	12.81	(2.65)
BVPS (NT\$)	104.63	107.70	118.44	125.37	134.30
Adj BVPS (NT\$)	104.65	107.72	118.58	125.37	134.30
SPS (NT\$)	478.09	444.56	494.43	565.43	808.44
EBITDA/share (NT\$)	18.05	18.10	20.79	25.65	33.27
Cash DPS (NT\$)	5.30	5.40	5.80	7.75	9.97
Activity					
Sales / avg assets	1.65	1.53	1.65	1.73	2.23
Days receivable	60.5	51.7	60.9	60.9	60.9
Days inventory	55.0	46.2	47.5	47.5	47.5
Days payable	62.7	56.5	64.5	64.5	64.5
Cash cycle	52.9	41.4	43.9	43.9	43.9

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	6,626,997	6,162,221	6,859,615	7,854,229	11,229,813
Cost of goods sold	(6,226,912)	(5,774,274)	(6,430,670)	(7,370,303)	(10,598,181)
Gross profit	400,085	387,947	428,946	483,926	631,632
Operating expenses	(226,297)	(221,419)	(228,339)	(237,212)	(286,886)
Operating profit	173,788	166,528	200,607	246,715	344,746
Non-operating income	64,268	114,525	69,767	68,591	45,215
Interest income	43,303	81,700	45,577	31,091	28,615
Investment income	11,063	5,222	6,506	13,000	5,600
Other non-op income	9,902	27,603	17,684	24,500	11,000
Non-operating expenses	(50,544)	(88,829)	(58,499)	(38,593)	(39,216)
Interest expense	(34,736)	(65,543)	(36,795)	(33,593)	(33,716)
Investment loss	-	(18,952)	(12,183)	(2,000)	(2,000)
Other non-op expenses	(15,808)	(4,334)	(9,521)	(3,000)	(3,500)
Pre-tax profit	187,511	192,224	211,875	276,712	350,746
Current taxation	(36,440)	(37,435)	(40,196)	(53,959)	(66,642)
Minorities	(9,589)	(12,691)	(18,974)	(18,800)	(21,500)
Extraordinary items	-	(0)	0	-	-
Net profit	141,483	142,098	152,705	203,953	262,604
EBITDA	250,248	250,934	288,489	356,309	462,110
EPS (NT\$)	10.21	10.25	11.01	14.68	18.90

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	109,708	445,553	166,029	177,950	(36,848)
Net profit	141,483	142,098	152,705	203,953	262,604
Depreciation & amortisation	76,460	84,406	87,882	109,594	117,364
Decrease in working capital	(197,434)	247,995	(105,479)	(124,597)	(413,216)
Other operating cash flow	89,199	(28,946)	30,921	(11,000)	(3,600)
Investing cash flow	(45,440)	(137,874)	(300,046)	(158,714)	(122,140)
Sale of ST investment	29,944	(132,622)	(215,737)	-	-
New investments	(45,351)	23,845	(3,713)	10,066	3,177
Capital expenditure	(97,935)	(111,745)	(136,339)	(165,000)	(120,000)
Others investing cashflow	67,902	82,647	55,743	(3,780)	(5,316)
Free cash flow	(45,440)	349,020	5,021	14,822	(141,924)
Financing cash flow	(87,872)	(160,638)	(164,072)	(92,332)	(125,632)
Increase in short term debt	23,682	(74,237)	(25,783)	(40,000)	(40,000)
Increase in long term loans	7,242	27,361	(8,480)	9,440	480
New ordinary shares issued	(7,763)	4,805	-	-	-
Ordinary dividends paid	(79,026)	(80,722)	(83,134)	(80,572)	(107,612)
Other financing cashflow	(32,006)	(37,845)	(46,675)	18,800	21,500
Forex effects	26,512	(11,704)	37,534		
Total cash generated	2,909	135,336	(260,555)	(73,096)	(284,620)

ROIC

	Dec-22A				
1 - COGS/revenue					
- Operating exp./revenue	3.4%	3.6%	3.3%	3.0%	2.6%
= Operating margin	2.6%	2.7%	2.9%	3.1%	3.1%
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.1	0.1	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	6.4	7.4	6.7	6.7	7.2
Operating margin	2.6%	2.7%	2.9%	3.1%	3.1%
x Capital turnover	6.4	7.4	6.7	6.7	7.2
x (1 - tax rate)	80.6%	80.5%	81.0%	80.5%	81.0%
= After-tax ROIC	13.5%	16.1%	16.0%	16.9%	17.8%

Source: Company data, KGI Research estimates

Outperform · Maintained

Price as of November 20 (NT\$)	274.0
12M target price (NT\$)	385.0
Previous target price (NT\$)	385.0
Unchanged (%)	0.0
Upside (%)	40.5

Key message

1. GB300 the AI server sales growth driver in 2026F, with more meaningful ASIC AI contribution in 2H26F.
2. Despite margin dilution from higher AI server mix, robust AI server demand will drive strong earnings growth, with 2026F EPS up 18% YoY to NT\$21.41.
3. Quanta plans to double AI server capacity by 4Q26F and expand production sites to meet surging demand and client requirements.

Trading data

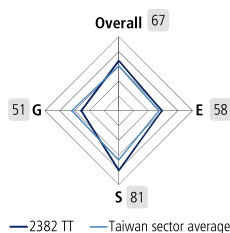
Mkt cap (NT\$bn/US\$mn)	1,058 / 34,630
Outstanding shares (mn)	3,863
Foreign ownership (mn)	904
3M avg. daily trading (mn)	15.26
52-week trading range (NT\$)	178.5 –309.5

Performance	3M	6M	12M
Absolute (%)	5.6	2.8	-7.3
Relative (%)	-10.5	-24.6	-28.2

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	3.13A	3.92A	4.32A	4.12A
2025	5.06A	4.37A	4.26A	4.38F
2026	4.04F	4.52F	5.72F	7.13F

ESG score card



Source: Refinitiv; KGI

Quanta Computer

(2382.TW/2382 TT)



Triple-digit AI server sales growth in 2026F

Event

We forecast demand for Quanta's AI server will grow by triple digits YoY in 2026F on strong CSP demand. With a diversified clientele, we see Quanta capturing growing demand for GPU/ ASIC AI sever in 2026F, given its product design capabilities, production flexibilities and financial health.

Impact

GB300 driving 2026F AI server sales. Quanta's strong client roster, including Meta (US), Google (US), Amazon (US), Microsoft (US), and Oracle (US), indicates its competitive product design capabilities, manufacturing track record, and financial health. Based on our forecasts of global GB AI server shipments 55-60k racks in 2026F, up from 23-25k racks in 2025F, we anticipate Quanta will ship 12-14k racks in 2026F (up from 5-6k racks in 2025F), boosting server sales by NT\$750-850bn, with AI server sales growth in the triple digits YoY. Near term, we think 1Q26F GB300 shipments growth will increase QoQ. Besides robust GB200/ GB300 AI server demand, the company has ASIC AI server projects on hand, and expects to see a more meaningful ASIC sales contribution in 2H26F.

Strong earnings growth despite margin dilution. As the company guides flat general server sales, low-single-digit growth for EV, and moderate NB shipments in 2026F, we expect the AI server sales weighting to rise further to 60-65% in 2026F, while NB will come down to less than 20%. Higher AI server sales weighting will cause gross margin dilution, while operating margin aims to be stable on operating leverage. Thus, we estimate gross margin to fall 1.3ppts YoY to 5.8%, and operating margin to come down 0.5ppts YoY to 3.6% in 2026F. AI server will continue to be the main earnings growth driver, boosting 2026F EPS to NT\$21.41, up 18% YoY, and even higher in 2027F.

Capacity expansion to meet strong demand. Backed by strong demand and higher order visibilities from clients, the firm guides AI capacity to double by 4Q26F, with 2026F capex continuing to grow from NT\$20bn in 2025F. Production sites have been diversified, with servers mainly produced in Taiwan, Thailand, the US (California and Tennessee), and Germany; NB is manufactured in China, Vietnam, and Thailand; and EV is produced in Mexico and Germany. Based on client requests, Quanta will expand server capacity in Mexico, and enter mass production in 1Q26F. Diversified production sites offer clients production flexibility with competitiveness.

Valuation & Action

Our target price of NT\$385 is based on 18x 2026F EPS. On growing AI server sales and EPS in 2025-26F, we maintain Outperform.

Risks

Weak NB demand; low AI server margin; weak EV and auto sales.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	1,280,429	1,085,611	1,410,756	2,044,694	2,955,229
Gross profit (NT\$mn)	70,915	84,883	110,760	143,751	170,817
Operating profit (NT\$mn)	31,189	43,550	61,622	83,804	105,538
Net profit (NT\$mn)	28,957	39,676	59,702	69,663	82,524
EPS (NT\$)	7.51	10.29	15.49	18.07	21.41
Cash DPS (NT\$)	6.00	9.00	13.00	14.43	17.09
EPS growth (%)	(14.0)	37.0	50.5	16.7	18.5
PE (x)	36.5	26.6	17.7	15.2	12.8
PB (x)	6.3	5.7	4.8	4.5	4.2
EV/EBITDA (x)	27.3	19.2	15.3	11.2	9.8
Net debt to equity (%)	28.0	Net cash	28.9	17.5	63.8
Dividend yield (%)	2.2	3.3	4.7	5.3	6.2
Return on average equity (%)	17.5	22.3	29.2	30.4	33.8

Source: Company data, KGI Research estimates

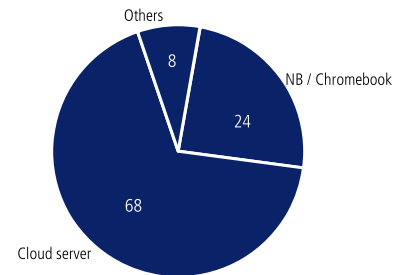
Figure 1: Company profile

Established in 1988, Quanta Computer is the world's second largest NB ODM, with shipment volume of 45.9mn units and global market share of 24-25% in 2024. Its major clients include the top six global NB brands, such as Apple (US) and HP (US). The company has over 30k employees worldwide. It is currently expanding into other businesses, including servers, all-in-one (AIO) PCs, wearables, and AI. Cloud business is expected to be a long-term sales growth driver. In 2024, non-NB business accounted for 71% of sales, vs. 59-60% in 2023.

Source: KGI Research

Figure 2: 1Q-3Q25 NB sales weighting fell below 25%; server rose to 65-70%

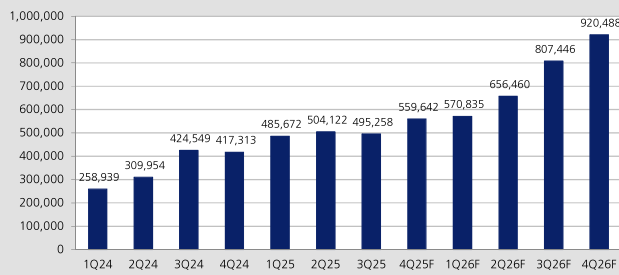
1-3Q25 sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

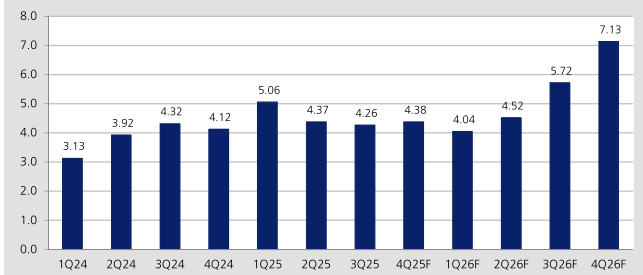
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

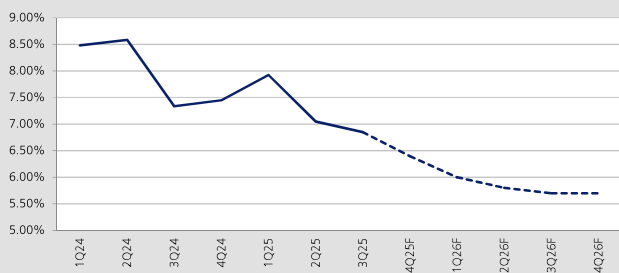
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

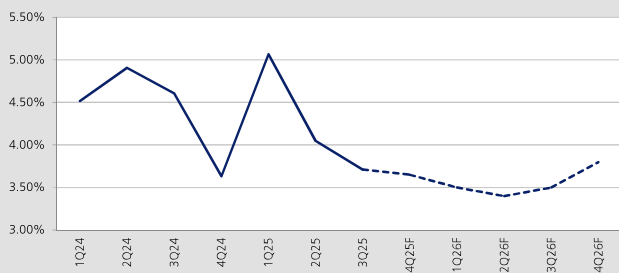
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 7: Operating Margin

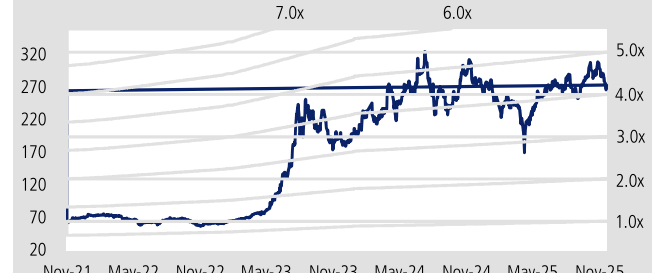
Operating margin, percent



Source: KGI Research

Figure 8: 12M forward PB band

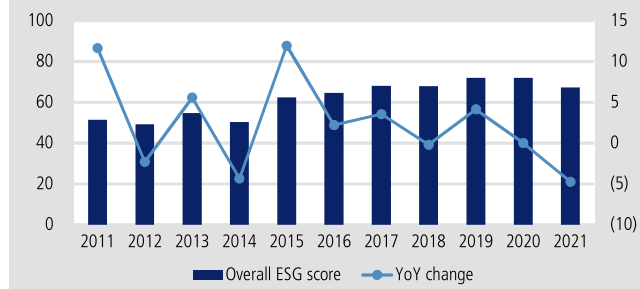
Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 9: Overall ESG score

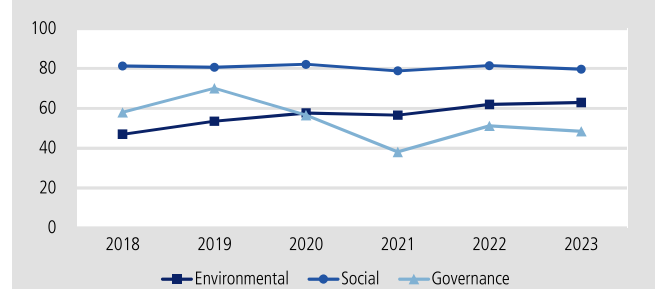
ESG score (LHS); YoY change, point (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 10: ESG scores

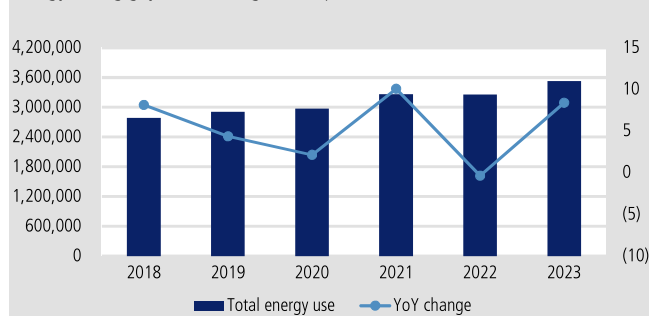
ESG score



Source: Refinitiv; KGI Research; Company data

Figure 11: Energy Use

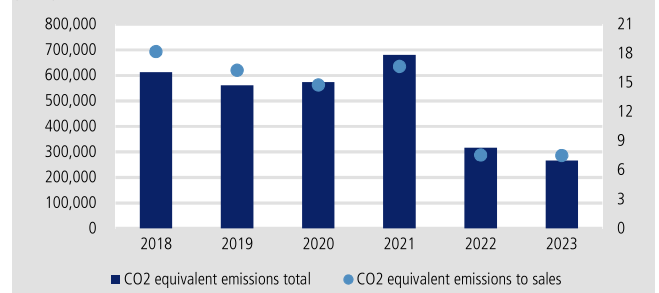
Energy use, gigajoules; YoY growth, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 12: CO2 equivalent emissions

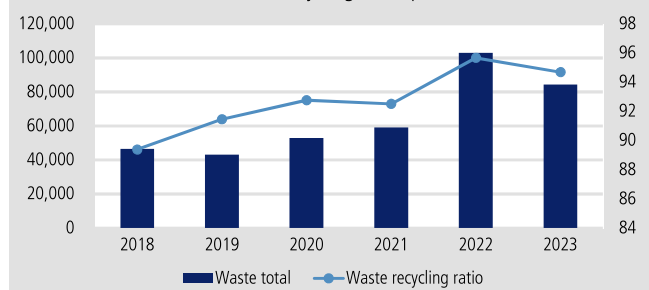
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt per US\$m (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 13: Waste total

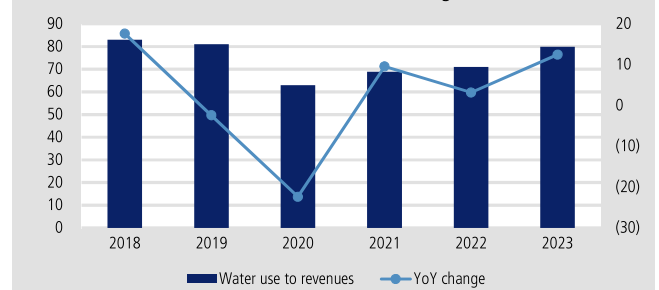
Waste total, metric tons; waste recycling ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 14: Water use to revenue

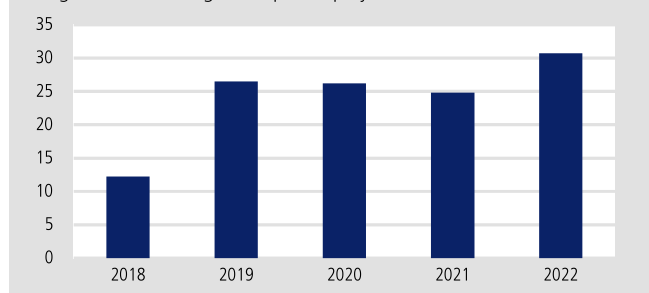
Water use to revenue, cubic meters/ US\$m; YoY growth (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 15: Employee training

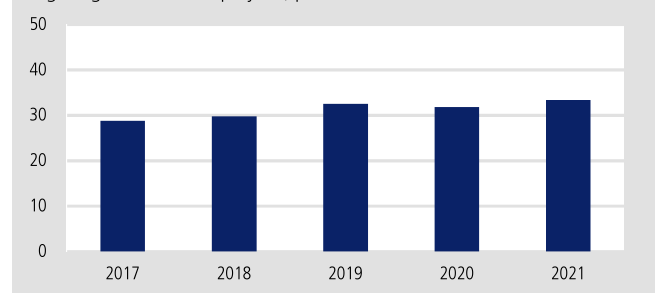
Average annual training hours per employee



Source: Refinitiv; KGI Research; Company data

Figure 16: Gender diversification

Weighting of female employees, percent



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	485,672	504,122	495,258	559,642	570,835	656,460	807,446	920,488	1,410,756	2,044,694	2,955,229
Cost of goods sold	(447,189)	(468,588)	(461,340)	(523,825)	(536,585)	(618,385)	(761,421)	(868,020)	(1,299,996)	(1,900,943)	(2,784,412)
Gross profit	38,483	35,533	33,918	35,817	34,250	38,075	46,024	52,468	110,760	143,751	170,817
Operating expenses	(13,882)	(15,130)	(15,544)	(15,390)	(14,271)	(15,755)	(17,764)	(17,489)	(49,138)	(59,947)	(65,279)
Operating profit	24,600	20,403	18,374	20,427	19,979	22,320	28,261	34,979	61,622	83,804	105,538
Depreciation of fixed assets	(2,670)	(2,630)	(2,766)	(5,028)	(4,551)	(4,551)	(4,551)	(4,551)	(10,111)	(13,094)	(18,203)
Amortisation of intangible assets	(363)	(335)	(303)	(724)	(431)	(431)	(431)	(431)	(1,567)	(1,725)	(1,725)
EBITDA	27,634	23,368	21,443	26,178	24,961	27,302	33,243	39,961	73,301	98,623	125,466
Interest income	1,411	2,038	1,361	1,538	1,570	1,570	1,570	1,570	9,743	6,348	6,280
Investment income	20	-	-	30	13	13	13	13	210	50	50
Other non-op income	1,664	1,432	3,214	3,690	1,125	1,125	1,125	1,125	6,283	10,000	4,500
Non-operating income	3,095	3,470	4,574	5,258	2,708	2,708	2,708	2,708	16,236	16,398	10,830
Interest expense	(2,413)	(2,251)	(2,035)	(2,142)	(2,329)	(2,329)	(2,329)	(2,329)	(7,288)	(8,841)	(9,315)
Investment loss	(14)	(5)	(5)	(26)	(13)	(13)	(13)	(13)	(39)	(50)	(50)
Other non-op expenses	(0)	(0)	(0)	(1,000)	(113)	(113)	(113)	(113)	2,637	(1,000)	(450)
Non-operating expenses	(2,426)	(2,256)	(2,040)	(3,169)	(2,454)	(2,454)	(2,454)	(2,454)	(4,691)	(9,891)	(9,815)
Pre-tax profit	25,269	21,617	20,909	22,516	20,233	22,573	28,514	35,232	73,167	90,311	106,553
Current taxation	(5,572)	(4,541)	(4,279)	(5,476)	(4,451)	(4,966)	(6,273)	(7,538)	(12,884)	(19,869)	(23,229)
Minorities	(199)	(215)	(198)	(168)	(200)	(200)	(200)	(200)	(581)	(780)	(800)
Normalised net profit	19,498	16,861	16,431	16,872	15,582	17,407	22,041	27,494	59,702	69,663	82,524
Extraordinary items	0	0	0	(0)	-	-	-	-	-	-	-
Net profit	19,498	16,861	16,431	16,872	15,582	17,407	22,041	27,494	59,702	69,663	82,524
EPS (NT\$)	5.06	4.37	4.26	4.38	4.04	4.52	5.72	7.13	15.49	18.07	21.41
Margins (%)											
Gross profit margin	7.9	7.0	6.8	6.4	6.0	5.8	5.7	5.7	7.9	7.0	5.8
Operating margin	5.1	4.0	3.7	3.7	3.5	3.4	3.5	3.8	4.4	4.1	3.6
EBITDA margin	5.7	4.6	4.3	4.7	4.4	4.2	4.1	4.3	5.2	4.8	4.2
Pretax profit margin	5.2	4.3	4.2	4.0	3.5	3.4	3.5	3.8	5.2	4.4	3.6
Net profit margin	4.0	3.3	3.3	3.0	2.7	2.7	2.7	3.0	4.2	3.4	2.8
Sequential growth (%)											
Revenue growth	16.4	3.8	(1.8)	13.0	2.0	15.0	23.0	14.0			
Gross profit growth	23.8	(7.7)	(4.5)	5.6	(4.4)	11.2	20.9	14.0			
Operating profit growth	62.3	(17.1)	(9.9)	11.2	(2.2)	11.7	26.6	23.8			
EBITDA growth	52.3	(15.4)	(8.2)	22.1	(4.6)	9.4	21.8	20.2			
Pretax profit growth	42.3	(14.5)	(3.3)	7.7	(10.1)	11.6	26.3	23.6			
Net profit growth	22.8	(13.5)	(2.5)	2.7	(7.7)	11.7	26.6	24.7			
YoY growth (%)											
Revenue growth	87.6	62.6	16.7	34.1	17.5	30.2	63.0	64.5	30.0	44.9	44.5
Gross profit growth	75.3	33.5	9.0	15.3	(11.0)	7.2	35.7	46.5	30.5	29.8	18.8
Operating profit growth	110.3	34.2	(6.0)	34.8	(18.8)	9.4	53.8	71.2	41.5	36.0	25.9
EBITDA growth	89.8	28.8	(4.5)	44.3	(9.7)	16.8	55.0	52.6	33.3	34.5	27.2
Pretax profit growth	73.9	10.3	(1.7)	26.8	(19.9)	4.4	36.4	56.5	41.4	23.4	18.0
Net profit growth	61.6	11.5	(1.2)	6.3	(20.1)	3.2	34.1	63.0	50.5	16.7	18.5

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	816,134	690,120	932,446	1,090,417	1,357,341
Current assets	733,270	610,448	840,694	991,789	1,256,977
Cash & ST securities	214,499	218,726	201,099	306,750	264,189
Inventory	225,856	123,764	261,886	286,443	419,569
Accounts receivable	283,992	259,907	371,246	392,133	566,756
Other current assets	8,923	8,051	6,463	6,463	6,463
Non-current assets	82,864	79,672	91,753	98,628	100,364
LT investments	4,353	5,449	7,903	7,872	7,812
Net fixed assets	63,225	60,820	67,061	73,967	75,764
Other assets	15,286	13,404	16,789	16,789	16,789
Total liabilities	639,610	496,228	702,141	845,399	1,095,018
Current liabilities	628,591	483,013	638,699	774,478	1,024,590
Accounts payable	213,514	168,322	282,782	338,524	495,854
Interest bearing ST liabilities	249,525	158,797	179,540	254,061	336,554
Other current liabilities	165,552	155,893	176,377	181,893	192,182
Non-current liabilities	11,019	13,215	63,442	70,921	70,428
Long-term debt	4,525	5,931	50,983	58,461	57,969
Other L-T liabilities	3,732	5,413	9,192	9,192	9,192
Total equity	176,523	193,892	230,306	245,018	262,323
Share capital	38,626	38,626	38,626	38,626	38,626
Retained earnings reserve	71,674	76,586	111,059	124,992	141,496
Minority interests	7,365	7,685	8,020	8,800	9,600
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	13.4%	(15.2%)	30.0%	44.9%	44.5%
Operating profit growth	(16.3%)	39.6%	41.5%	36.0%	25.9%
EBITDA growth	(9.5%)	33.2%	33.3%	34.5%	27.2%
Net profit growth	(14.0%)	37.0%	50.5%	16.7%	18.5%
EPS growth	(14.0%)	37.0%	50.5%	16.7%	18.5%
Profitability					
Gross profit margin	5.5%	7.8%	7.9%	7.0%	5.8%
Operating margin	2.4%	4.0%	4.4%	4.1%	3.6%
EBITDA margin	3.2%	5.1%	5.2%	4.8%	4.2%
Net profit margin	2.3%	3.7%	4.2%	3.4%	2.8%
Return on average assets	3.8%	5.3%	7.4%	6.9%	6.7%
Return on average equity	17.5%	22.3%	29.2%	30.4%	33.8%
Stability					
Gross debt to equity	143.9%	85.0%	100.1%	127.6%	150.4%
Net debt to equity	28.0%	Net cash	28.9%	17.5%	63.8%
Interest coverage (x)	10.3	6.8	11.0	11.2	12.4
Interest & ST debt coverage (x)	0.1	0.2	0.3	0.2	0.2
Cash flow interest coverage(x)	2.6	13.9	(4.8)	10.7	(5.1)
Cash flow/int. & ST debt (x)	0.0	0.7	(0.2)	0.4	(0.1)
Current ratio (x)	1.2	1.3	1.3	1.3	1.2
Quick ratio (x)	0.8	1.0	0.9	0.9	0.8
Net debt (NT\$m)	49,412	(12,506)	66,531	42,880	167,441
Per share data					
EPS (NT\$)	7.51	10.29	15.49	18.07	21.41
CFPS (NT\$)	2.96	32.25	(9.17)	24.59	(12.44)
BVPS (NT\$)	43.79	48.21	57.55	61.15	65.43
Adj BVPS (NT\$)	43.89	48.29	57.67	61.28	65.57
SPS (NT\$)	332.19	281.55	366.00	530.47	766.69
EBITDA/share (NT\$)	10.71	14.26	19.02	25.59	32.55
Cash DPS (NT\$)	6.00	9.00	13.00	14.43	17.09
Activity					
Sales / avg assets	1.67	1.44	1.74	2.02	2.41
Days receivable	81.0	87.4	96.3	70.0	70.0
Days inventory	68.2	45.1	73.7	55.0	55.0
Days payable	64.4	61.4	79.6	65.0	65.0
Cash cycle	84.7	71.1	90.4	60.0	60.0

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	1,280,429	1,085,611	1,410,756	2,044,694	2,955,229
Cost of goods sold	(1,209,514)	(1,000,728)	(1,299,996)	(1,900,943)	(2,784,412)
Gross profit	70,915	84,883	110,760	143,751	170,817
Operating expenses	(39,725)	(41,339)	(49,138)	(59,947)	(65,279)
Operating profit	31,189	43,550	61,622	83,804	105,538
Non-operating income	13,977	16,785	16,236	16,398	10,830
Interest income	5,018	10,620	9,743	6,348	6,280
Investment income	496	33	210	50	50
Other non-op income	8,462	6,131	6,283	10,000	4,500
Non-operating expenses	(4,385)	(8,603)	(4,691)	(9,891)	(9,815)
Interest expense	(4,370)	(8,915)	(7,288)	(8,841)	(9,315)
Investment loss	(15)	(45)	(39)	(50)	(50)
Other non-op expenses	-	356	2,637	(1,000)	(450)
Pre-tax profit	40,781	51,731	73,167	90,311	106,553
Current taxation	(11,058)	(11,243)	(12,884)	(19,869)	(23,229)
Minorities	(765)	(812)	(581)	(780)	(800)
Extraordinary items	-	0	0	-	-
Net profit	28,957	39,676	59,702	69,663	82,524
EBITDA	41,292	54,986	73,301	98,623	125,466
EPS (NT\$)	7.51	10.29	15.49	18.07	21.41

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	11,415	124,333	(35,330)	94,779	(47,966)
Net profit	28,957	39,676	59,702	69,663	82,524
Depreciation & amortisation	10,103	11,437	11,678	14,819	19,928
Decrease in working capital	(63,213)	80,499	(130,646)	10,298	(150,419)
Other operating cash flow	35,567	(7,279)	23,935	0	-
Investing cash flow	(14,143)	(37,612)	(12,290)	(21,695)	(21,664)
Sale of ST investment	1,560	(29,080)	681	-	-
New investments	(19)	(30)	91	31	61
Capital expenditure	(16,892)	(8,832)	(13,132)	(20,000)	(20,000)
Others investing cashflow	1,208	330	70	(1,725)	(1,725)
Free cash flow	(48,850)	115,553	(82,896)	68,759	(69,685)
Financing cash flow	31,295	(114,205)	28,917	32,566	27,070
Increase in short term debt	34,188	(47,522)	(3,117)	80,000	80,000
Increase in long term loans	24,293	(41,138)	68,806	2,000	2,000
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(26,009)	(23,765)	(34,691)	(50,214)	(55,730)
Other financing cashflow	(1,177)	(1,780)	(2,081)	780	800
Forex effects	13,813	81	5,462		
Total cash generated	42,380	(27,403)	(13,242)	105,650	(42,561)

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	3.1%	3.8%	3.5%	2.9%	2.2%
= Operating margin	2.4%	4.0%	4.4%	4.1%	3.6%
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.0	0.1	0.0	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	6.2	8.3	5.6	8.5	7.7
Operating margin	2.4%	4.0%	4.4%	4.1%	3.6%
x Capital turnover	6.2	8.3	5.6	8.5	7.7
x (1 - tax rate)	72.9%	78.3%	82.4%	78.0%	78.2%
= After-tax ROIC	11.1%	26.0%	20.3%	27.1%	21.5%

Source: Company data, KGI Research estimates

AVC

(3017.TW/3017 TT)

Riding on a liquid cooling tide from a dominant position

Outperform · Maintained

Price as of November 20 (NT\$)	1,335
12M target price (NT\$)	1,695
Previous target price (NT\$)	1,695
Unchanged (%)	0.0
Upside (%)	27.0

Key message

1. In 2026F, Asia Vital Components will maintain its dominant market position in Blackwell and Vera Rubin thermal products, with rising liquid-cooling content value.
2. Rising ASIC AI sales are expected in 2026F, due to strong demand and more diversified product offerings, alongside thinned competition.
3. The adoption of slim vapor chambers in foldable iPhones may bring some earnings upside in 2H26F.

Trading data

Mkt cap (NT\$bn/US\$mn)	524 / 17,129
Outstanding shares (mn)	392.1
Foreign ownership (mn)	192.0
3M avg. daily trading (mn)	5.68
52-week trading range (NT\$)	340.5 – 1,550

Performance	3M	6M	12M
Absolute (%)	32.8	123.2	100.5
Relative (%)	16.7	95.8	79.6

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	4.08A	5.08A	6.02A	6.03A
2025	8.28A	10.30A	13.67A	16.48F
2026	13.72F	15.22F	18.38F	23.50F

Share price chart



Source: TEJ

Event

We have a strong outlook on Asia Vital Components' (AVC) 2026F sales and earnings, driven by growing liquid cooling demand for GPU and ASIC AI servers. iPhone slim vapor chambers (slim VC), especially for the high-ASP foldable iPhone, will be another 2026F earnings booster.

Impact

Strong liquid cooling sales growth to continue in 2026F. We expect AI server computing performance increases to trigger a wave of liquid cooling adoption in 2026-27F. Nvidia's (US) GB300 is designed for an NVL72 AI server rack with a fully liquid-cooled design for compute and switch trays. Liquid cooling content value in GB300 AI server racks will increase by 10-20% over GB200 designs, given increased cold plate and quick dis-connector (QD, under subsidiary Fositek (6805 TT, NT\$, OP)) counts in switch trays. AVC will maintain a dominant supplier share (over 50% of shipments) for GB300 cold plates to US CSPs. Although in 2H26F, the Vera Rubin (VR) generation may see some cold plate pricing pressure, we think that due to rising cold plate and QD counts in VR compute trays, content value per VR200 rack should be higher compared to GB300 racks. We have also learned that Nvidia (US) has requested that AVC design a microchannel cold plate (MCCP) for Rubin GPUs, scheduled to launch in 2H26F. On Blackwell (GB)/ VR AI server rack shipments growth, from 23-25k racks in 2025F to 55-60k racks in 2026F, AVC's liquid-cooling sales and margins will expand.

Strong ASIC AI server demand & chassis, rack sales growth to fuel 2026F server sales. AVC currently offers thermal products for US ASIC AI clients, including AWS, Meta, Microsoft, which contributed 20-30% of the firm's total AI server sales in 3Q25. AVC will add Google (US) as a new ASIC client in 2026F. As liquid cooling adoption in ASIC AI servers is increasing for a new server generation in 2026F, alongside more customized designs for ASIC products, liquid cooling sales will grow, boosting gross margin. Furthermore, mechanical sales (chassis, racks, and noise cancellation rack) will expand on strong demand from clients, which will be met by a capacity expansion in Vietnam. The firm's overall server sales weighting will thus grow to 66% in 2026F, from 58% in 2025F.

Bright 2026F earnings outlook with potential upside from iPhone slim VC. AVC is the supplier of the iPhone 17 Pro's slim VC, and Apple (US)'s new foldable iPhone and iPad, to be launched in 2H26F, will be another sales booster for AVC, and contribute around 10% of 2026F sales. We believe these positive factors will boost AVC's 2026F EPS by 45% YoY to NT\$70.82, with improved margins. The firm's strong design capability, manufacturing quality, and integrated product offerings all fortify AVC's dominant market position.

Valuation & Action

Maintain Outperform, with a target price of NT\$1,695, based on 24x 2026F EPS.

Risks

Weak PC demand; NT dollar appreciation; rising raw material costs.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	56,017	59,194	71,761	138,340	200,138
Gross profit (NT\$mn)	10,850	12,388	16,870	35,552	52,786
Operating profit (NT\$mn)	6,306	7,421	10,823	26,512	40,398
Net profit (NT\$mn)	4,162	5,305	8,172	18,904	27,486
EPS (NT\$)	11.78	14.11	21.21	48.71	70.82
Cash DPS (NT\$)	5.42	7.00	10.00	24.35	35.40
EPS growth (%)	43.5	19.7	50.4	129.7	45.4
PE (x)	113.3	94.6	62.9	27.4	18.8
PB (x)	30.4	23.2	18.0	13.5	10.0
EV/EBITDA (x)	63.4	59.7	42.0	19.3	13.1
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.4	0.5	0.7	1.8	2.7
Return on average equity (%)	29.8	28.3	32.1	56.3	60.8

Source: Company data, KGI Research estimates

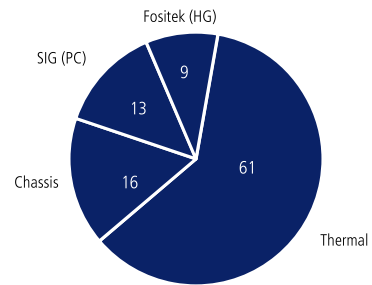
Figure 1: Company profile

Established in 1991, Asia Vital Components (AVC) is primarily a thermal solutions provider for 3C (17% of 2024 sales), servers (36%), networking (12%), and others (4%). Thermal products include thermal modules, cooling fans, and VC. Thermal (module and cooling fan) business contributed 54% of 2024 revenue. AVC also provides chassis and cabinets (13% of 2024 sales), system assemblies and manufacturer interface peripherals (21%), and hinges (11%) from subsidiary Fositek (6805 TT, NT\$1,450, OP).

Source: KGI Research

Figure 2: The thermal module, fan, & chassis sales weighting rose to 77% in 1-3Q25

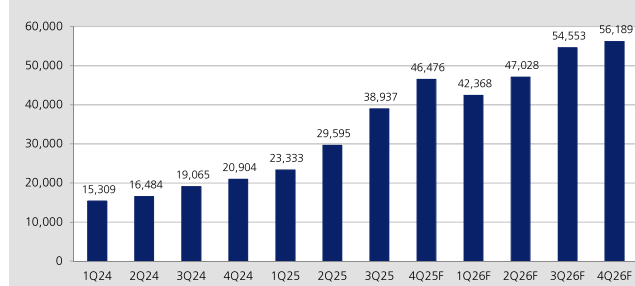
1-3Q25 sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

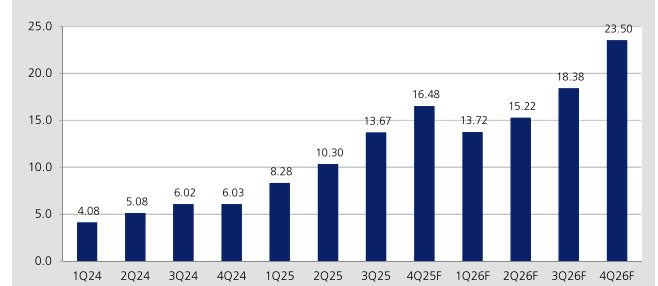
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

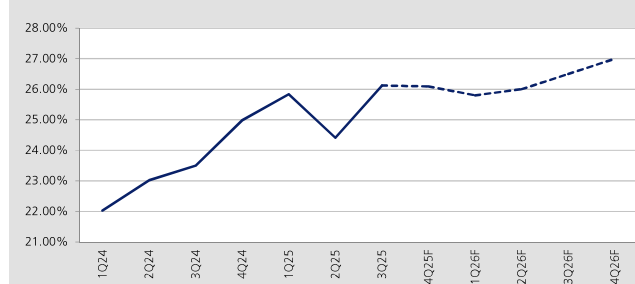
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

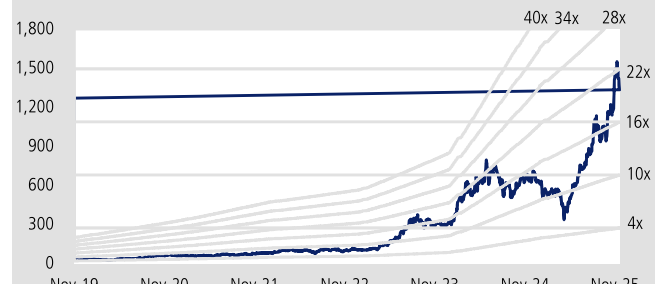
Gross margin, percent



Source: KGI Research

Figure 6: Rolling PE

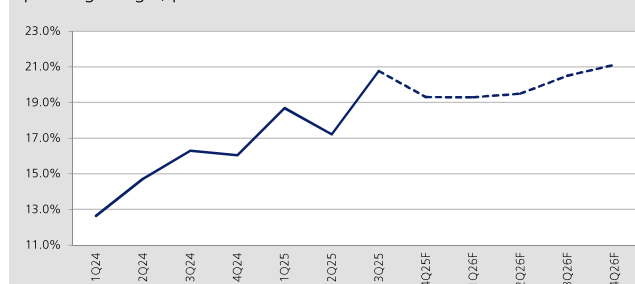
Rolling PE, times



Source: KGI Research

Figure 7: Operating Margin

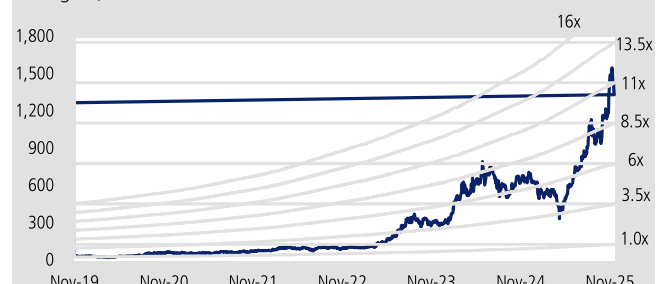
Operating margin, percent



Source: KGI Research

Figure 8: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	23,333	29,595	38,937	46,476	42,368	47,028	54,553	56,189	71,761	138,340	200,138
Cost of goods sold	(17,305)	(22,370)	(28,765)	(34,348)	(31,437)	(34,801)	(40,096)	(41,018)	(54,891)	(102,788)	(147,353)
Gross profit	6,028	7,224	10,172	12,128	10,931	12,227	14,457	15,171	16,870	35,552	52,786
Operating expenses	(1,667)	(2,130)	(2,086)	(3,157)	(2,754)	(3,057)	(3,273)	(3,304)	(6,048)	(9,040)	(12,388)
Operating profit	4,361	5,095	8,085	8,971	8,177	9,171	11,183	11,867	10,823	26,512	40,398
Depreciation of fixed assets	(748)	(727)	(815)	(489)	(821)	(821)	(821)	(821)	(2,384)	(2,779)	(3,282)
Amortisation of intangible assets	(13)	(13)	(16)	(37)	(20)	(20)	(20)	(20)	(78)	(79)	(79)
EBITDA	5,122	5,835	8,916	9,497	9,017	10,011	12,024	12,707	13,285	29,370	43,759
Interest income	107	178	136	122	119	119	119	119	553	544	475
Investment income	-	-	-	30	8	8	8	8	54	30	30
Other non-op income	335	810	178	177	345	345	345	345	1,641	1,500	1,380
Non-operating income	442	988	315	329	471	471	471	471	2,248	2,074	1,885
Interest expense	(138)	(144)	(151)	(120)	(140)	(140)	(140)	(140)	(439)	(553)	(561)
Investment loss	(44)	(42)	(18)	105	-	-	-	-	(46)	-	-
Other non-op expenses	-	0	(13)	(87)	(50)	(50)	(50)	(50)	(234)	(100)	(200)
Non-operating expenses	(182)	(187)	(183)	(101)	(190)	(190)	(190)	(190)	(720)	(653)	(761)
Pre-tax profit	4,620	5,896	8,217	9,199	8,458	9,451	11,464	12,148	12,352	27,933	41,522
Current taxation	(1,110)	(1,624)	(2,307)	(2,276)	(2,537)	(2,835)	(3,439)	(2,004)	(3,159)	(7,318)	(10,816)
Minorities	(296)	(274)	(570)	(569)	(597)	(708)	(892)	(1,023)	(1,020)	(1,710)	(3,220)
Normalised net profit	3,214	3,997	5,339	6,354	5,323	5,908	7,133	9,121	8,172	18,904	27,486
Extraordinary items	0	(0)	0	0	-	-	-	-	-	-	-
Net profit	3,214	3,997	5,339	6,354	5,323	5,908	7,133	9,121	8,172	18,904	27,486
EPS (NT\$)	8.28	10.30	13.67	16.48	13.72	15.22	18.38	23.50	21.21	48.71	70.82
Margins (%)											
Gross profit margin	25.8	24.4	26.1	26.1	25.8	26.0	26.5	27.0	23.5	25.7	26.4
Operating margin	18.7	17.2	20.8	19.3	19.3	19.5	20.5	21.1	15.1	19.2	20.2
EBITDA margin	22.0	19.7	22.9	20.4	21.3	21.3	22.0	22.6	18.5	21.2	21.9
Pretax profit margin	19.8	19.9	21.1	19.8	20.0	20.1	21.0	21.6	17.2	20.2	20.7
Net profit margin	13.8	13.5	13.7	13.7	12.6	12.6	13.1	16.2	11.4	13.7	13.7
Sequential growth (%)											
Revenue growth	11.6	26.8	31.6	19.4	(8.8)	11.0	16.0	3.0			
Gross profit growth	15.4	19.8	40.8	19.2	(9.9)	11.9	18.2	4.9			
Operating profit growth	30.1	16.8	58.7	11.0	(8.9)	12.2	21.9	6.1			
EBITDA growth	26.9	13.9	52.8	6.5	(5.1)	11.0	20.1	5.7			
Pretax profit growth	26.3	27.6	39.4	12.0	(8.1)	11.7	21.3	6.0			
Net profit growth	37.5	24.4	33.6	19.0	(16.2)	11.0	20.7	27.9			
YoY growth (%)											
Revenue growth	52.4	79.5	104.2	122.3	81.6	58.9	40.1	20.9	21.2	92.8	44.7
Gross profit growth	78.7	90.4	127.0	132.2	81.3	69.2	42.1	25.1	36.2	110.7	48.5
Operating profit growth	125.4	109.9	160.2	167.6	87.5	80.0	38.3	32.3	45.8	145.0	52.4
EBITDA growth	105.5	93.2	138.6	135.3	76.1	71.6	34.9	33.8	41.7	121.1	49.0
Pretax profit growth	98.3	100.9	139.7	151.4	83.1	60.3	39.5	32.1	53.9	126.1	48.7
Net profit growth	105.5	105.3	129.8	171.8	65.6	47.8	33.6	43.6	54.1	131.3	45.4

Source: Company data, KGI Research estimates

Balance sheet

NT\$mn	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	60,474	71,667	99,906	141,316	186,104
Current assets	45,486	54,892	76,092	112,614	152,973
Cash & ST securities	21,640	29,091	31,999	31,960	38,424
Inventory	17,360	17,235	33,397	62,711	89,900
Accounts receivable	4,730	6,533	7,767	15,014	21,721
Other current assets	1,756	2,033	2,929	2,929	2,929
Non-current assets	14,988	16,775	23,813	28,702	33,131
LT investments	524	664	1,432	1,600	1,811
Net fixed assets	9,694	11,350	13,805	18,526	22,744
Other assets	4,770	4,760	8,576	8,576	8,576
Total liabilities	43,051	45,820	66,433	96,681	124,507
Current liabilities	32,880	36,833	58,288	86,787	115,175
Accounts payable	14,082	18,773	28,884	54,235	77,750
Interest bearing ST liabilities	7,970	7,583	13,130	10,702	11,285
Other current liabilities	10,828	10,478	16,275	21,850	26,140
Non-current liabilities	10,171	8,987	8,145	9,894	9,332
Long-term debt	6,589	5,377	3,349	5,099	4,536
Other L-T liabilities	2,555	2,740	2,835	2,835	2,835
Total equity	17,423	25,847	33,473	44,635	61,598
Share capital	3,533	3,833	3,883	3,883	3,883
Retained earnings reserve	9,280	12,893	18,300	27,752	41,495
Minority interests	1,927	3,817	4,602	6,312	9,532
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	18.3%	5.7%	21.2%	92.8%	44.7%
Operating profit growth	30.6%	17.7%	45.8%	145.0%	52.4%
EBITDA growth	25.3%	16.9%	41.7%	121.1%	49.0%
Net profit growth	43.5%	27.4%	54.1%	131.3%	45.4%
EPS growth	43.5%	19.7%	50.4%	129.7%	45.4%
Profitability					
Gross profit margin	19.4%	20.9%	23.5%	25.7%	26.4%
Operating margin	11.3%	12.5%	15.1%	19.2%	20.2%
EBITDA margin	14.3%	15.8%	18.5%	21.2%	21.9%
Net profit margin	7.4%	9.0%	11.4%	13.7%	13.7%
Return on average assets	7.5%	8.0%	9.5%	15.7%	16.8%
Return on average equity	29.8%	28.3%	32.1%	56.3%	60.8%
Stability					
Gross debt to equity	83.6%	50.1%	49.2%	35.4%	25.7%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	24.8	19.5	29.1	51.5	75.0
Interest & ST debt coverage (x)	0.4	0.5	0.5	0.7	0.8
Cash flow interest coverage(x)	32.5	23.8	21.9	19.0	36.4
Cash flow/int. & ST debt (x)	1.1	1.3	0.7	0.9	1.7
Current ratio (x)	1.4	1.5	1.3	1.3	1.3
Quick ratio (x)	0.9	1.0	0.7	0.6	0.5
Net debt (NT\$mn)	(5,490)	(13,997)	(13,445)	(14,085)	(20,527)
Per share data					
EPS (NT\$)	11.78	14.11	21.21	48.71	70.82
CFPS (NT\$)	25.02	27.45	25.00	27.12	52.65
BVPS (NT\$)	43.86	57.47	74.36	98.71	134.10
Adj BVPS (NT\$)	43.86	58.58	74.93	98.75	134.16
SPS (NT\$)	158.55	157.41	186.24	356.47	515.70
EBITDA/share (NT\$)	22.70	24.93	34.48	75.68	112.75
Cash DPS (NT\$)	5.42	7.00	10.00	24.35	35.40
Activity					
Sales / avg assets	1.01	0.90	0.84	1.15	1.22
Days receivable	30.8	40.3	39.6	39.6	39.6
Days inventory	140.3	134.4	222.7	222.7	222.7
Days payable	113.8	146.4	192.6	192.6	192.6
Cash cycle	57.3	28.3	69.7	69.7	69.7

Source: Company data, KGI Research estimates

Profit & loss

NT\$mn	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	56,017	59,194	71,761	138,340	200,138
Cost of goods sold	(45,167)	(46,806)	(54,891)	(102,788)	(147,353)
Gross profit	10,850	12,388	16,870	35,552	52,786
Operating expenses	(4,544)	(4,967)	(6,048)	(9,040)	(12,388)
Operating profit	6,306	7,421	10,823	26,512	40,398
Non-operating income	869	1,416	2,248	2,074	1,885
Interest income	88	388	553	544	475
Investment income	37	55	54	30	30
Other non-op income	744	974	1,641	1,500	1,380
Non-operating expenses	(686)	(812)	(720)	(653)	(761)
Interest expense	(272)	(434)	(439)	(553)	(561)
Investment loss	(4)	(26)	(46)	-	-
Other non-op expenses	(410)	(353)	(234)	(100)	(200)
Pre-tax profit	6,489	8,025	12,352	27,933	41,522
Current taxation	(1,871)	(2,211)	(3,159)	(7,318)	(10,816)
Minorities	(456)	(510)	(1,020)	(1,710)	(3,220)
Extraordinary items	-	0	(0)	-	-
Net profit	4,162	5,305	8,172	18,904	27,486
EBITDA	8,022	9,375	13,285	29,370	43,759
EPS (NT\$)	11.78	14.11	21.21	48.71	70.82

Cash flow

NT\$mn	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	8,840	10,324	9,632	10,523	20,435
Net profit	4,162	5,305	8,172	18,904	27,486
Depreciation & amortisation	1,716	1,954	2,463	2,858	3,361
Decrease in working capital	(3,224)	2,231	(8,951)	(11,209)	(10,382)
Other operating cash flow	6,186	834	7,948	(30)	(30)
Investing cash flow	(4,194)	(3,907)	(7,669)	(7,716)	(7,760)
Sale of ST investment	(42)	(27)	(72)	-	-
New investments	-	(50)	(226)	(138)	(182)
Capital expenditure	(3,666)	(3,657)	(4,540)	(7,500)	(7,500)
Others investing cashflow	(485)	(173)	(2,832)	(79)	(79)
Free cash flow	(743)	5,840	(3,052)	3,636	15,275
Financing cash flow	2,082	872	200	(2,845)	(6,211)
Increase in short term debt	2,360	573	2,619	-	-
Increase in long term loans	1,927	(2,078)	720	(679)	21
New ordinary shares issued	-	2,850	-	-	-
Ordinary dividends paid	(1,519)	(1,915)	(2,683)	(3,877)	(9,452)
Other financing cashflow	(686)	1,441	(456)	1,710	3,220
Forex effects	406	(381)	803		
Total cash generated	7,134	6,908	2,967	(39)	6,463

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	8.1%	8.4%	8.4%	6.5%	6.2%
= Operating margin	11.3%	12.5%	15.1%	19.2%	20.2%
1 / (Working capital/revenue	(0.0)	(0.1)	(0.0)	0.0	0.1
+ Net PPE/revenue	0.2	0.2	0.2	0.1	0.1
+ Other assets/revenue)	0.0	0.0	0.1	0.0	0.0
= Capital turnover	5.5	6.2	4.3	5.1	5.3
Operating margin	11.3%	12.5%	15.1%	19.2%	20.2%
x Capital turnover	5.5	6.2	4.3	5.1	5.3
x (1 - tax rate)	71.2%	72.5%	74.4%	73.8%	74.0%
= After-tax ROIC	44.3%	56.7%	47.9%	72.0%	79.7%

Source: Company data, KGI Research estimates



FTSE4Good TIP Taiwan ESG Index stock

Company update

Notebook ODM · Taiwan

Wistron

(3231.TW/3231 TT)



Outperform · Maintained

Price as of November 20 (NT\$)	143.0
12M target price (NT\$)	200.0
Previous target price (NT\$)	200.0
Unchanged (%)	0.0
Upside (%)	39.9

Key message

1. Robust AI investment cycle and ramp up of GB/ VR-series rack shipments will boost Wistron's server sales growth in 2026F.
2. Stronger AI server demand from Dell (US) and Oracle (US) to drive robust 2026F earnings growth; we estimate 2026F EPS to grow 30% YoY to NT\$11.99.

Trading data

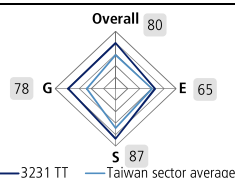
Mkt cap (NT\$bn/US\$mn)	454.8 / 14,881
Outstanding shares (mn)	3,180
Foreign ownership (mn)	945
3M avg. daily trading (mn)	23.41
52-week trading range (NT\$)	74.70 –156.0

Performance	3M	6M	12M
Absolute (%)	26	30.6	25.4
Relative (%)	9.9	3.2	4.5

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2023	0.06A	1.16A	1.67A	1.18A
2024	1.24A	1.55A	1.47A	1.86A
2025	1.85A	2.20A	2.36A	2.74F

ESG score card



Source: Refinitiv; KGI Research

AI server sales growth to accelerate further in 2026F

Event

AI server will remain the focus of the IT hardware industry in 2026F. We expect surging GB/ VR rack demand will boost Wistron's AI server sales and earnings growth next year.

Impact

Robust AI server demand supported by CSP capex & OpenAI-led investments. We expect global AI server demand to stay strong as the market forecasts capex growth of the top-five CSPs of 64% this year and 32% in 2026F, driven by aggressive investments in AI infrastructure, model training and applications. In addition, OpenAI's (US) multi-vendor partnerships with Nvidia (US), AMD (US) and Broadcom (US), along with large-scale sovereign AI and data center projects, point to sizeable incremental AI compute capacity and tight GPU supply persisting into 2026F. Given solid AI server demand from CSPs and OpenAI, we estimate global GB/ VR-series rack shipments will grow from 23-25k units in 2025F to 55-60k racks next year. Wistron will also benefit from main clients Dell (US) and Oracle (US), which will see GB/ VR orders grow strongly to a combined market share of 40-50% in 2026F.

Stronger AI server demand from Dell & Oracle to drive robust 2026F earnings growth. On the back of solid demand from xAI (US) and CoreWeave (US), we forecast Dell's GB300 AI server demand will grow from 5-6k racks this year to 10-12k racks in 2026F, boosting Wistron's sales as Dell's sole L10 supplier. Wistron has also secured new Oracle L10 server orders (sales recognition will exclude GPU and CPU), which will ship to Wiyynn (6669 TT, NT\$4,280, OP) for L11 assembly. We forecast Oracle will be another strong demander of GB-series rack, at 12-15k units in 2026F. In addition, in the Vera Rubin generation (launch in 2H26F), Wistron is one of two Bianca suppliers, and Nvidia has requested only three major L10 suppliers, Wistron being one of them. This will see Wistron make further gains in L10 market share in 2026-27F. These factors will boost Wistron's sales (excluding Wiyynn) to rise by 80-100% next year, per our estimate. Along with Wiyynn's 2026F YoY sales growth of 30-40% on GB rack and ASIC server, we forecast Wistron's total server sales to grow 50-60% YoY next year. Thus, its server sales weighting will rise from 71% in 2025F to 79%, boosting both sales and earnings growth. We estimate 2026F EPS to grow 30% YoY to NT\$11.99.

Valuation & Action

On a strong 2026F server business outlook, driven by solid Dell demand and new orders from Oracle, we maintain Outperform on Wistron, with a target price of NT\$200, based on 17x fully-diluted 2026F EPS.

Risks

Weaker-than-expected demand; competition in the AI server market.

Key financials and valuations

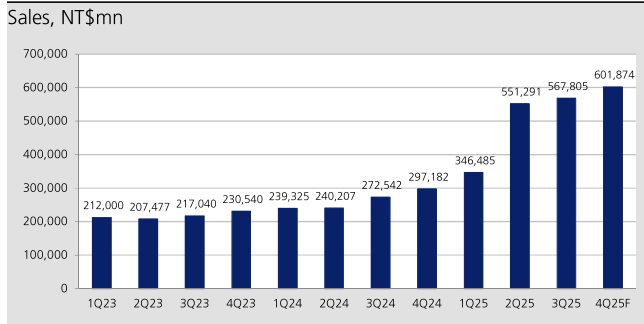
	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	984,619	867,057	1,049,256	2,067,455	2,837,330
Gross profit (NT\$mn)	69,729	68,983	84,091	131,994	162,722
Operating profit (NT\$mn)	27,472	27,390	38,979	76,553	101,458
Net profit (NT\$mn)	11,162	11,472	17,446	27,849	37,445
EPS (NT\$)	4.01	4.08	6.11	9.19	11.99
Cash DPS (NT\$)	2.60	2.60	3.80	5.77	7.76
EPS growth (%)	6.6	1.7	49.8	50.4	30.5
PE (x)	35.7	35.0	23.4	15.6	11.9
PB (x)	4.3	4.0	3.1	2.3	2.0
EV/EBITDA (x)	12.8	11.9	11.1	7.6	7.0
Net debt to equity (%)	62.2	40.2	26.6	34.2	45.1
Dividend yield (%)	1.8	1.8	2.7	4.0	5.4
Return on average equity (%)	12.8	11.4	14.7	17.9	19.7

Source: Company data, KGI Research estimates

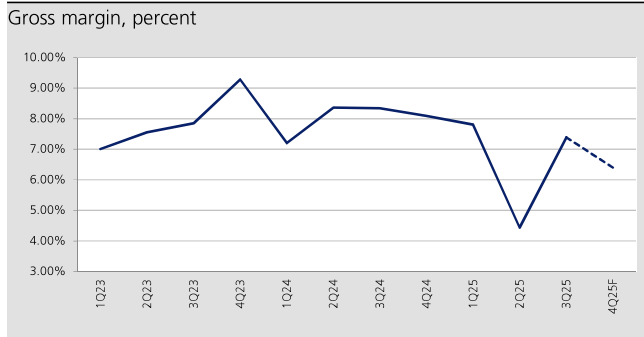
Figure 1: Company profile

Spun off from Acer (2353 TT, NT\$28.25, NR) in 2001, Wistron is a design, manufacturing & service (DMS) company. Product development is focused on information and communication technology, notebooks, desktops, servers, storage, industrial automation, networking, and communications. Wistron is the third-largest notebook maker in Taiwan, trailing Quanta Computer (2382 TT, NT\$274, OP) and Compal Electronics (2324 TT, NT\$29.4, NR), with NB shipments of 21.2mn units and global market share of 10% in 2022. It is also the most diversified NB ODM in Taiwan.

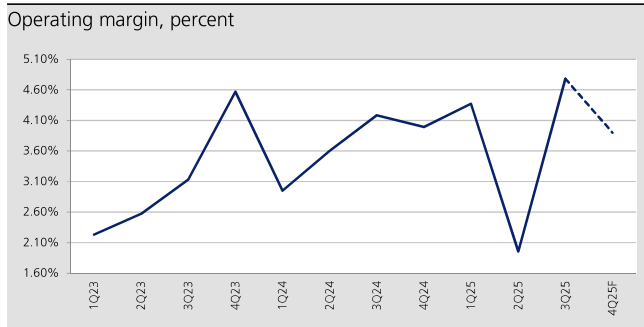
Source: KGI Research

Figure 3: Sales


Source: KGI Research

Figure 5: Gross Margin


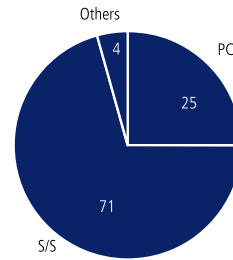
Source: KGI Research

Figure 7: Operating Margin


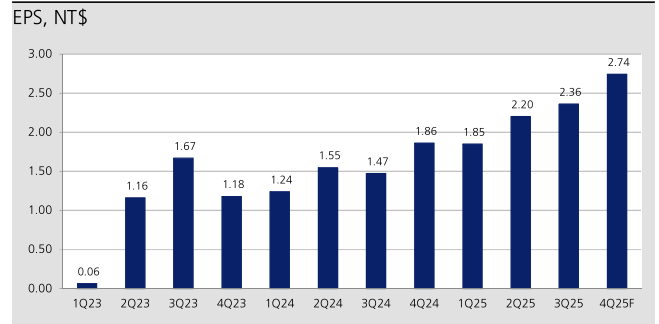
Source: KGI Research

Figure 2: Sales are broadly diversified

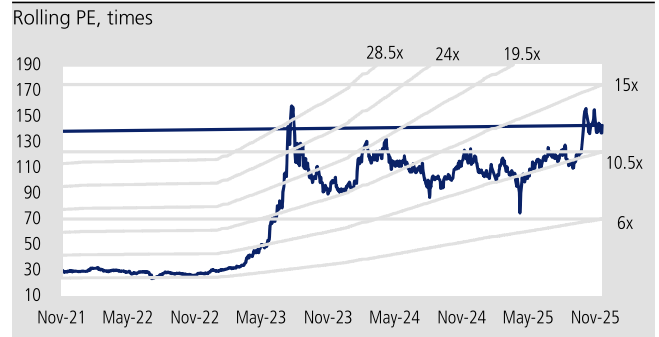
Sales weighting in 1-3Q25, percent



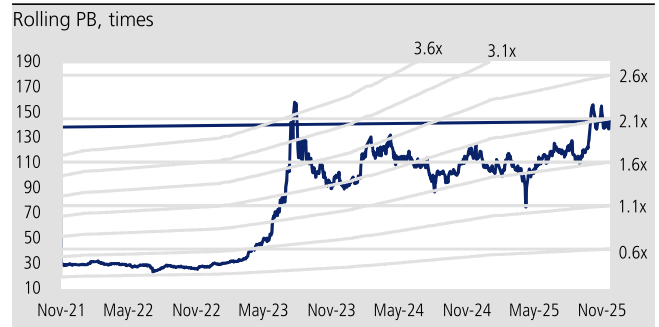
Source: Company data; KGI Research

Figure 4: EPS


Source: KGI Research

Figure 6: Rolling PE


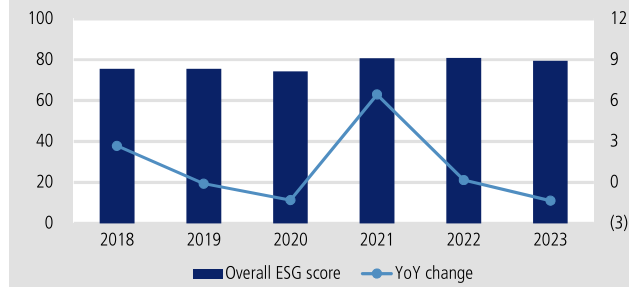
Source: KGI Research

Figure 8: Rolling PB


Source: KGI Research

Figure 9: Overall ESG score

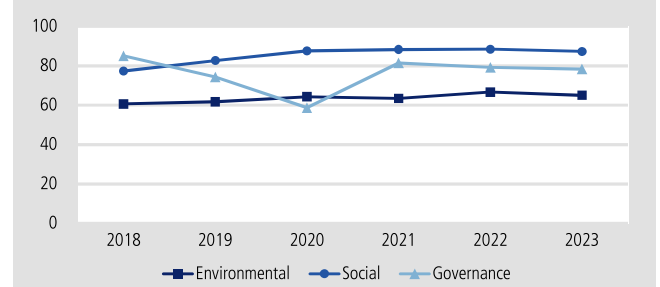
ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 10: ESG scores

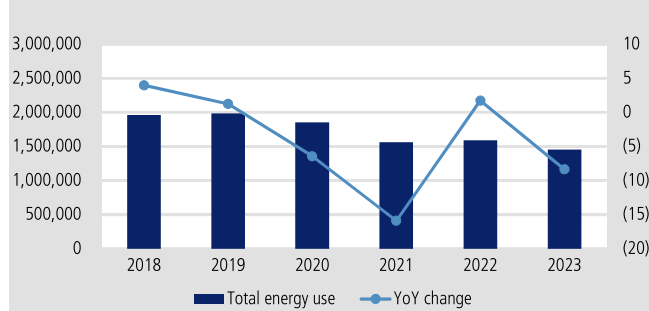
ESG score, points



Source: Refinitiv; KGI Research; Company data

Figure 11: Energy use

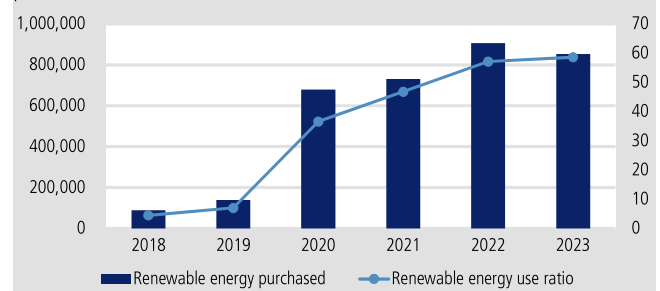
Energy use, gigajoules (LHS); YoY growth, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 12: Renewable energy

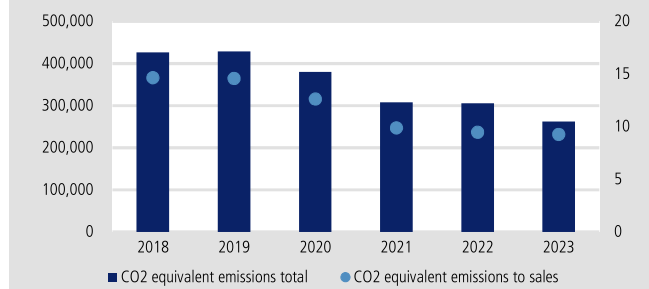
Renewable energy purchased, gigajoules (LHS); renewable energy use ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 13: CO2 equivalent emissions

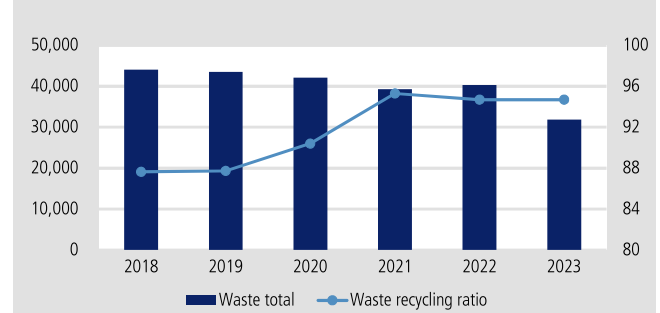
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m (RHS);



Source: Refinitiv; KGI Research; Company data

Figure 14: Waste total

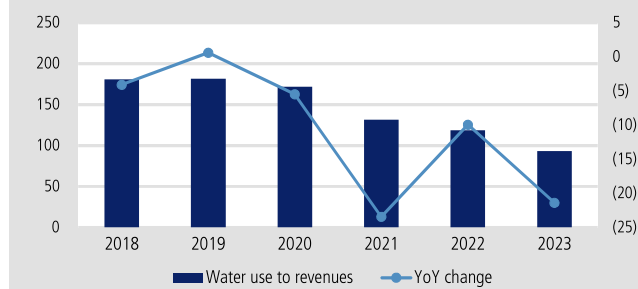
Waste total, mt (LHS); waste recycling ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 15: Water use to revenue

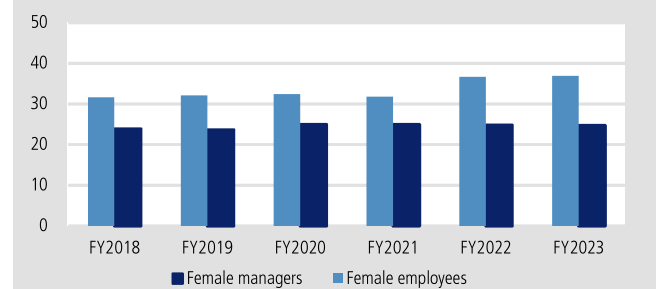
Water use to revenue, m3/ US\$m (LHS); YoY growth, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 16: Gender diversification

Weighting of female managers & employees, percent



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-24A	Jun-24A	Sep-24A	Dec-24A	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$mn)											
Revenue	239,325	240,207	272,542	297,182	346,485	551,291	567,805	601,874	1,049,256	2,067,455	2,837,330
Cost of goods sold	(222,095)	(220,124)	(249,798)	(273,149)	(319,430)	(526,838)	(525,840)	(563,354)	(965,165)	(1,935,462)	(2,674,608)
Gross profit	17,230	20,083	22,745	24,033	27,056	24,453	41,965	38,520	84,091	131,994	162,722
Operating expenses	(10,171)	(11,431)	(11,336)	(12,175)	(11,906)	(13,666)	(14,822)	(15,047)	(45,112)	(55,441)	(61,264)
Operating profit	7,059	8,652	11,409	11,858	15,150	10,787	27,142	23,473	38,979	76,553	101,458
Depreciation of fixed assets	(2,659)	(2,676)	(2,671)	(2,765)	(2,729)	(2,858)	(3,152)	(2,728)	(10,770)	(11,467)	(13,387)
Amortisation of intangible assets	(113)	(124)	(118)	(121)	(123)	(143)	(157)	(48)	(476)	(472)	(472)
EBITDA	9,832	11,452	14,198	14,743	18,001	13,789	30,451	26,250	50,225	88,491	115,316
Interest income	905	649	819	850	700	715	656	688	3,223	2,758	2,697
Investment income	88	278	119	133	160	87	244	9	617	500	400
Other non-op income	2,050	1,553	215	1,709	1,087	9,538	144	(770)	5,528	10,000	4,500
Non-operating income	3,043	2,479	1,154	2,692	1,947	10,340	1,044	(73)	9,368	13,258	7,597
Interest expense	(2,095)	(2,006)	(2,020)	(1,896)	(2,290)	(2,984)	(5,008)	(4,410)	(8,018)	(14,693)	(16,218)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	-	-	(354)	-	-	-	(1,140)	1,240	(354)	100	(1,500)
Non-operating expenses	(2,095)	(2,006)	(2,374)	(1,896)	(2,290)	(2,984)	(6,148)	(3,170)	(8,371)	(14,593)	(17,718)
Pre-tax profit	8,007	9,125	10,189	12,654	14,807	18,143	22,038	20,230	39,975	75,218	91,337
Current taxation	(1,799)	(2,052)	(2,293)	(3,195)	(3,638)	(4,406)	(5,518)	(4,115)	(9,339)	(17,676)	(21,464)
Minorities	(2,684)	(2,661)	(3,697)	(4,148)	(5,838)	(7,234)	(9,114)	(7,507)	(13,191)	(29,693)	(32,428)
Normalised net profit	3,524	4,412	4,199	5,311	5,331	6,504	7,406	8,608	17,446	27,849	37,445
Extraordinary items	0	0	(0)	0	(0)	(0)	(0)	0	-	-	-
Net profit	3,524	4,412	4,199	5,311	5,331	6,504	7,406	8,608	17,446	27,849	37,445
EPS (NT\$)	1.24	1.55	1.47	1.86	1.85	2.20	2.36	2.74	6.11	9.19	11.99
Margins (%)											
Gross profit margin	7.2	8.4	8.3	8.1	7.8	4.4	7.4	6.4	8.0	6.4	5.7
Operating margin	2.9	3.6	4.2	4.0	4.4	2.0	4.8	3.9	3.7	3.7	3.6
EBITDA margin	4.1	4.8	5.2	5.0	5.2	2.5	5.4	4.4	4.8	4.3	4.1
Pretax profit margin	3.3	3.8	3.7	4.3	4.3	3.3	3.9	3.4	3.8	3.6	3.2
Net profit margin	1.5	1.8	1.5	1.8	1.5	1.2	1.3	1.4	1.7	1.3	1.3
Sequential growth (%)											
Revenue growth	3.8	0.4	13.5	9.0	16.6	59.1	3.0	6.0			
Gross profit growth	(19.5)	16.6	13.3	5.7	12.6	(9.6)	71.6	(8.2)			
Operating profit growth	(33.0)	22.6	31.9	3.9	27.8	(28.8)	151.6	(13.5)			
EBITDA growth	(27.9)	16.5	24.0	3.8	22.1	(23.4)	120.8	(13.8)			
Pretax profit growth	12.4	14.0	11.7	24.2	17.0	22.5	21.5	(8.2)			
Net profit growth	5.6	25.2	(4.8)	26.5	0.4	22.0	13.9	16.2			
YoY growth (%)											
Revenue growth	12.9	15.8	25.6	28.9	44.8	129.5	108.3	102.5	21.0	97.0	37.2
Gross profit growth	16.0	28.1	33.5	12.2	57.0	21.8	84.5	60.3	21.9	57.0	23.3
Operating profit growth	49.5	62.2	67.9	12.6	114.6	24.7	137.9	98.0	42.3	96.4	32.5
EBITDA growth	26.9	36.1	42.7	8.2	83.1	20.4	114.5	78.0	26.4	76.2	30.3
Pretax profit growth	204.8	47.7	21.4	77.7	84.9	98.8	116.3	59.9	64.4	88.2	21.4
Net profit growth	1927.8	35.4	(10.7)	59.2	51.3	47.4	76.4	62.1	52.1	59.6	34.5

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	432,908	452,391	589,841	888,845	1,094,161
Current assets	342,986	361,461	480,212	760,654	962,280
Cash & ST securities	75,023	79,577	84,825	127,361	95,525
Inventory	156,889	119,720	190,697	307,553	425,006
Accounts receivable	100,230	121,337	190,483	311,534	427,543
Other current assets	10,843	40,828	14,206	14,206	14,206
Non-current assets	89,922	90,929	109,629	128,191	131,881
LT investments	15,256	18,849	21,109	21,137	20,214
Net fixed assets	51,515	46,598	57,284	75,818	80,431
Other assets	23,151	25,482	31,236	31,236	31,236
Total liabilities	314,255	323,628	403,055	627,207	775,044
Current liabilities	286,725	288,252	349,587	579,978	723,101
Accounts payable	108,802	119,358	177,016	312,855	432,334
Interest bearing ST liabilities	119,807	100,438	87,033	175,872	193,759
Other current liabilities	58,116	68,455	85,538	91,251	97,008
Non-current liabilities	27,530	35,376	53,468	47,229	51,943
Long-term debt	20,389	26,525	42,493	36,154	40,767
Other L-T liabilities	4,079	4,000	3,973	4,072	4,174
Total equity	118,653	128,763	186,785	261,638	319,117
Share capital	29,016	28,998	28,964	28,964	28,964
Retained earnings reserve	-	-	35,408	46,548	61,526
Minority interests	22,770	24,539	53,998	83,691	116,119
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	14.2%	(11.9%)	21.0%	97.0%	37.2%
Operating profit growth	67.8%	(0.3%)	42.3%	96.4%	32.5%
EBITDA growth	52.1%	2.0%	26.4%	76.2%	30.3%
Net profit growth	6.6%	2.8%	52.1%	59.6%	34.5%
EPS growth	6.6%	1.7%	49.8%	50.4%	30.5%
Profitability					
Gross profit margin	7.1%	8.0%	8.0%	6.4%	5.7%
Operating margin	2.8%	3.2%	3.7%	3.7%	3.6%
EBITDA margin	4.0%	4.6%	4.8%	4.3%	4.1%
Net profit margin	1.1%	1.3%	1.7%	1.3%	1.3%
Return on average assets	2.4%	2.6%	3.3%	3.8%	3.8%
Return on average equity	12.8%	11.4%	14.7%	17.9%	19.7%
Stability					
Gross debt to equity	118.2%	98.6%	69.3%	81.0%	73.5%
Net debt to equity	62.2%	40.2%	26.6%	34.2%	45.1%
Interest coverage (x)	5.1	3.8	6.0	6.1	6.6
Interest & ST debt coverage (x)	0.1	0.1	0.3	0.2	0.3
Cash flow interest coverage(x)	8.9	5.5	0.7	(4.3)	(3.9)
Cash flow/int. & ST debt (x)	0.4	0.4	0.1	(0.3)	(0.3)
Current ratio (x)	1.2	1.3	1.4	1.3	1.3
Quick ratio (x)	0.6	0.8	0.8	0.8	0.7
Net debt (NT\$m)	73,858	51,731	49,645	89,609	143,945
Per share data					
EPS (NT\$)	4.01	4.08	6.11	9.19	11.99
CFPS (NT\$)	19.20	17.15	2.01	(20.73)	(20.21)
BVPS (NT\$)	33.22	35.94	45.85	61.44	70.09
Adj BVPS (NT\$)	34.62	37.07	46.53	58.75	65.03
SPS (NT\$)	353.71	308.38	367.69	682.53	908.91
EBITDA/share (NT\$)	13.99	14.13	17.60	29.21	36.94
Cash DPS (NT\$)	2.60	2.60	3.80	5.77	7.76
Activity					
Sales / avg assets	2.12	1.96	2.01	2.80	2.86
Days receivable	37.2	51.1	66.4	55.0	55.0
Days inventory	62.6	54.8	72.3	58.0	58.0
Days payable	43.4	54.6	67.1	59.0	59.0
Cash cycle	56.3	51.2	71.6	54.0	54.0

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	984,619	867,057	1,049,256	2,067,455	2,837,330
Cost of goods sold	(914,890)	(798,074)	(965,165)	(1,935,462)	(2,674,608)
Gross profit	69,729	68,983	84,091	131,994	162,722
Operating expenses	(42,257)	(41,593)	(45,112)	(55,441)	(61,264)
Operating profit	27,472	27,390	38,979	76,553	101,458
Non-operating income	8,152	8,555	9,368	13,258	7,597
Interest income	1,990	2,520	3,223	2,758	2,697
Investment income	816	811	617	500	400
Other non-op income	5,346	5,225	5,528	10,000	4,500
Non-operating expenses	(10,913)	(11,625)	(8,371)	(14,593)	(17,718)
Interest expense	(5,988)	(8,757)	(8,018)	(14,693)	(16,218)
Investment loss	-	-	-	-	-
Other non-op expenses	(4,925)	(2,868)	(354)	100	(1,500)
Pre-tax profit	24,711	24,321	39,975	75,218	91,337
Current taxation	(5,693)	(6,055)	(9,339)	(17,676)	(21,464)
Minorities	(7,855)	(6,794)	(13,191)	(29,693)	(32,428)
Extraordinary items	-	(0)	0	-	-
Net profit	11,162	11,472	17,446	27,849	37,445
EBITDA	38,947	39,735	50,225	88,491	115,316
EPS (NT\$)	4.01	4.08	6.11	9.19	11.99

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	53,440	48,219	5,750	(62,780)	(63,081)
Net profit	11,162	11,472	17,446	27,849	37,445
Depreciation & amortisation	11,475	12,345	11,246	11,938	13,858
Decrease in working capital	15,137	12,616	(62,106)	(102,067)	(113,983)
Other operating cash flow	15,666	11,787	39,164	(500)	(400)
Investing cash flow	(16,739)	(14,665)	(20,094)	(30,000)	(17,149)
Sale of ST investment	352	3,499	(1,834)	-	-
New investments	(395)	(1,229)	2,173	472	1,323
Capital expenditure	(13,609)	(12,961)	(16,593)	(30,000)	(18,000)
Others investing cashflow	(3,087)	(3,974)	(3,840)	(472)	(472)
Free cash flow	33,685	32,104	(38,057)	(62,038)	(40,982)
Financing cash flow	(48,366)	(23,205)	12,855	135,315	48,394
Increase in short term debt	(37,371)	(17,834)	(18,995)	80,000	20,000
Increase in long term loans	(10,176)	5,145	17,792	2,500	2,500
New ordinary shares issued	-	-	-	27,289	-
Ordinary dividends paid	(6,257)	(7,401)	(7,462)	(10,997)	(16,710)
Other financing cashflow	5,325	(3,682)	20,707	36,522	42,603
Forex effects	7,849	(646)	5,329		
Total cash generated	(3,817)	9,704	3,840	42,536	(31,836)

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	4.3%	4.8%	4.3%	2.7%	2.2%
= Operating margin	2.8%	3.2%	3.7%	3.7%	3.6%
1 / (Working capital/revenue	0.1	0.1	0.1	0.1	0.1
+ Net PPE/revenue	0.1	0.1	0.1	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	6.3	6.0	5.4	6.7	6.7
Operating margin	2.8%	3.2%	3.7%	3.7%	3.6%
x Capital turnover	6.3	6.0	5.4	6.7	6.7
x (1 - tax rate)	77.0%	75.1%	76.6%	76.5%	76.5%
= After-tax ROIC	13.4%	14.1%	15.4%	18.9%	18.4%

Source: Company data, KGI Research estimates

Bizlink

(3665.TW/3665 TT)



A key HVDC play certified by Nvidia

Event

We think Bizlink has risen to become a global tier-1 cable play, with a comprehensive product range of both data and power offerings for high-performance computing (HPC) applications. On top of rising adoption of active electrical cable (AEC) in GPU server racks, we foresee power cable sales playing an increasing role in the firm's growth in the coming years due to the trend of AI server power architecture upgrades. We project HPC to represent 37%, 50% and 57% of 2025-27F revenue, with a 2024-27F CAGR of 93%.

Impact

Announced as 800V HVDC industry partner by Nvidia. We foresee rising Nvidia (US) GPU server rack shipments in 2026F and substantial power architecture upgrades in the VR200 generation, with higher thermal design power (TDP) to serve as the main 2026F revenue growth driver for power cables. We see AC power whips upgrading from 60A in GB200/300 series to 100A+ in the VR200, and note potential horizontal busbar (HBB) adoption for side-power rack designs. The firm is working closely with Nvidia and power supply plays regarding HVDC technology, and expects initial rollout of $\pm 400V$ system by 2H26F. We project HPC power cable sales weighting of 27% in 2026F, up from 19% in 2025F and 9% in 2024.

More upside for AEC TAM in 2025-26F. We believe Credo (US), the AEC partner of Bizlink, will likely maintain its lead in the AEC market due to: (1) leading SerDes IP; (2) integration of cables and re-timers; and (3) better product reliability versus competition. We project AEC will represent 11% and 16% of 2025-26F revenue, respectively, as we foresee major hyperscalers will adopting AEC for GB300 racks, and the firm should command a high allocation rate for a key ASIC customer.

Improving the non-HPC outlook in 2026F. Management is more positive on the semiconductor production equipment (SPE) segment, based on the N2 ramp up by TSMC (2330 TT, NT\$1,460, OP), and guides automotive and automation demand as having bottomed out. Humanoid robots could be another long-term sales growth catalyst due to the firm's collaboration with top non-Chinese vendors, and the announced acquisition of XFS Communications (CN) aims to strengthen the firm's foothold in the optical market.

Valuation & Action

Maintain Outperform on Bizlink with a 12M target price of NT\$1,830, based on 25x 2026-27F fully-diluted EPS, vs. historical PE band of 8x-28x. We like the firm's rising role within the AI supply chain, with comprehensive offerings covering both power and data applications, and expect an EPS CAGR of 50% in 2024-27F to support share price appreciation.

Risks

Economic slowdown; weaker-than-expected contributions from new growth engines.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	51,052	54,080	70,925	88,250	107,338
Gross profit (NT\$mn)	12,587	15,253	22,850	29,835	36,965
Operating profit (NT\$mn)	4,237	6,566	12,700	17,814	22,690
Net profit (NT\$mn)	2,317	4,396	9,023	12,855	16,582
EPS (NT\$)	14.37	25.41	46.66	65.97	85.06
Cash DPS (NT\$)	8.83	12.00	23.00	32.00	42.00
EPS growth (%)	(42.6)	76.9	83.7	41.4	28.9
PE (x)	116.9	66.1	36.0	25.5	19.8
PB (x)	11.2	8.8	7.8	6.5	5.4
EV/EBITDA (x)	42.9	32.3	20.9	15.6	12.3
Net debt to equity (%)	29.4	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.5	0.7	1.4	1.9	2.5
Return on average equity (%)	9.8	14.5	23.0	27.7	29.7

Source: Company data; KGI Research estimates

Outperform · Maintained

Price as of November 20 (NT\$)	1,680
12M target price (NT\$)	1,830
Previous target price (NT\$)	1,830
Unchanged (%)	0.0
Upside (%)	8.9

Key message

1. Bizlink has risen to become a global tier-1 cable play thanks to its comprehensive offerings for high-performance computing.
2. We expect rising active electrical cable (AEC) adoption and AI server power architecture upgrade to drive 2024-27F HPC revenue CAGR of 93%.
3. We project a 2024-27F EPS CAGR of 50%.

Trading data

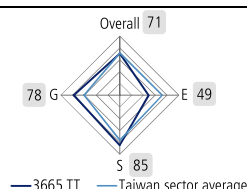
Mkt cap (NT\$bn/US\$mn)	327.5 / 10,717
Outstanding shares (mn)	195.0
Foreign ownership (mn)	89
3M avg. daily trading (mn)	4.74
52-week trading range (NT\$)	375.5 – 1,680

Performance	3M	6M	12M
Absolute (%)	81.6	180	180.5
Relative (%)	65.5	152.6	159.6

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	3.56A	6.13A	7.07A	8.31A
2025	8.41A	10.54A	13.51A	14.14F
2026	13.77F	15.61F	17.06F	19.49F

ESG score card



Source: Refinitiv, KGI securities

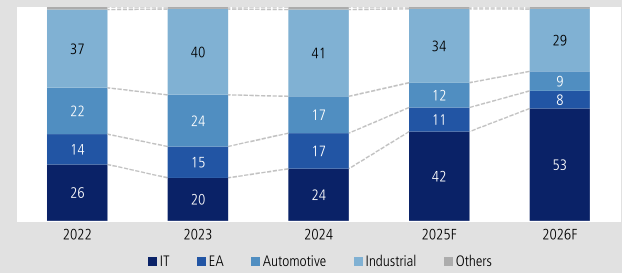
Figure 1: Company profile

Established in 1996 and headquartered in California, Bizlink listed in Taiwan in 2011. The company produces cable assemblies, wire harnesses, and connectors, with applications in the industrial control, automotive, medical, and solar sectors, among others. These markets require small quantities of a wide variety of products with high technological entry barriers. The firm acquired Leoni's (DE) electrical appliance (EA) assembly business in May 2017, adding power cables to its portfolio, and consolidated Leoni's industrial business group (INBG) in January 2022.

Source: KGI Research

Figure 2: Industrial is the largest segment after INBG acquisition

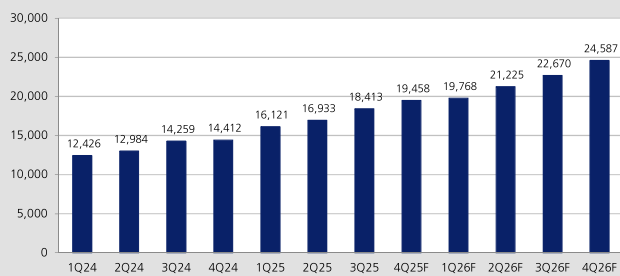
Sales weighting by application, percent



Source: KGI Research

Figure 3: Sales

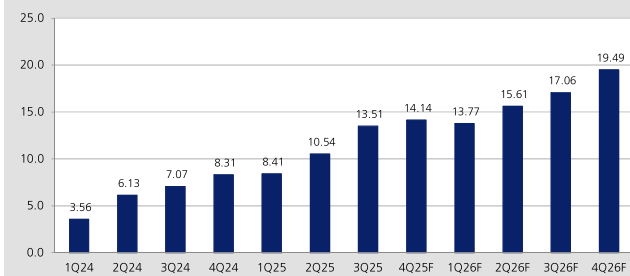
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

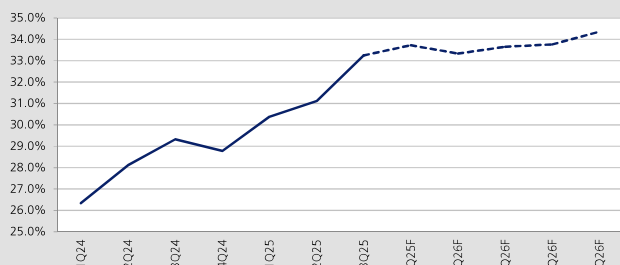
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

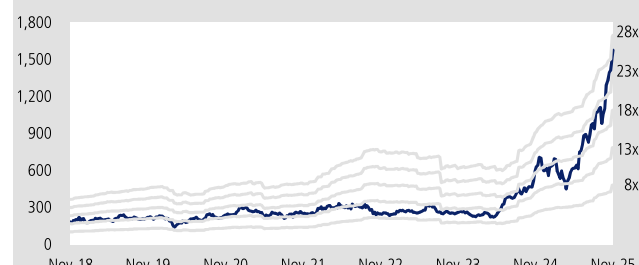
Gross margin, percent



Source: KGI Research

Figure 6: 12-month forward PE band

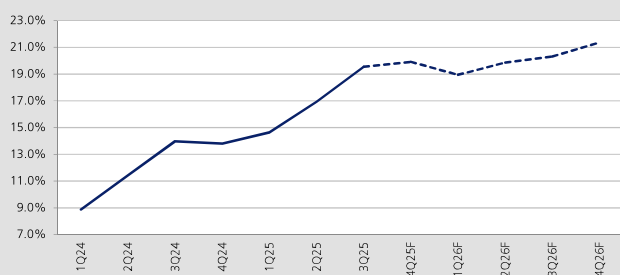
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: KGI Research

Figure 7: Operating Margin

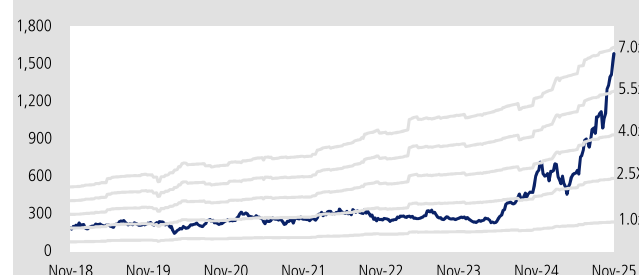
Operating margin, percent



Source: KGI Research

Figure 8: 12-month forward PB band

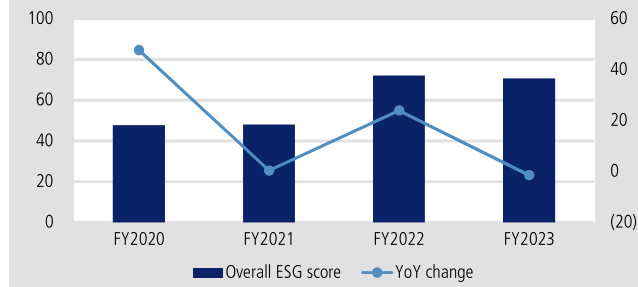
Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: KGI Research

Figure 9: Overall ESG score

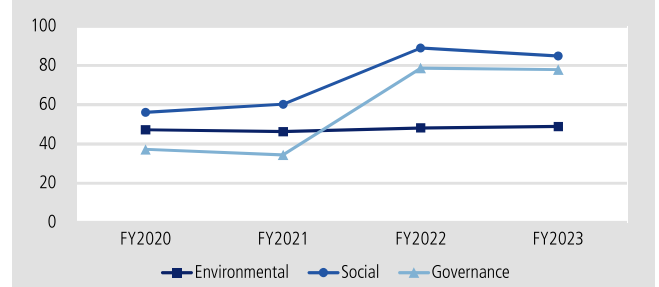
Overall ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 10: ESG score by category

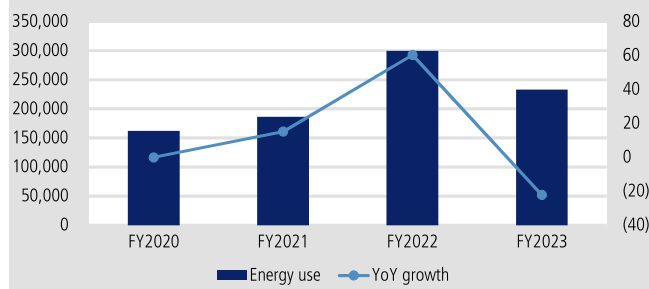
ESG score, points



Source: Refinitiv; KGI Research; Company data

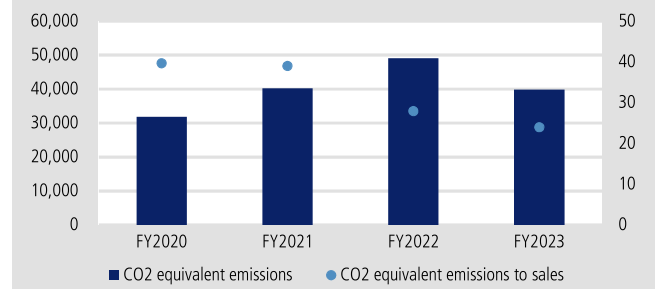
Figure 11: Energy use

Energy use, gigajoules (LHS); YoY change, percent (RHS)



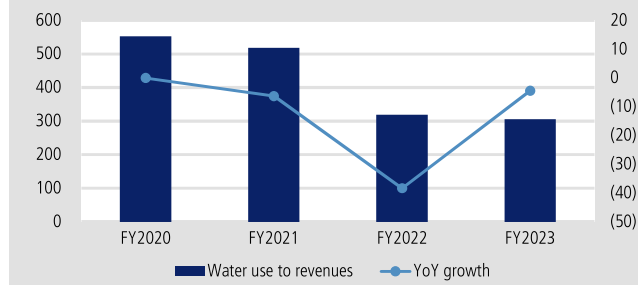
Source: Refinitiv; KGI Research; Company data

Figure 12: CO² equivalent emissions

CO² equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m (RHS)


Source: Refinitiv; KGI Research; Company data

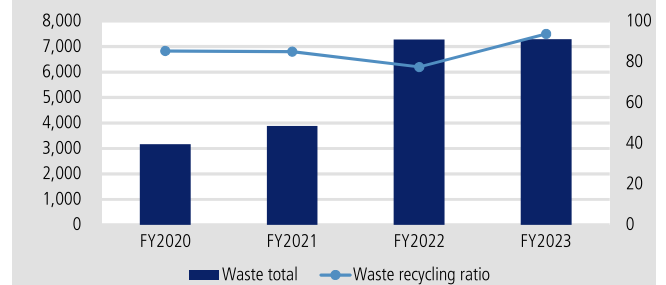
Figure 13: Water use to revenue

Water use to revenue, m³/ US\$m (LHS); YoY change, percent (RHS)


Source: Refinitiv; KGI Research; Company data

Figure 14: Waste total

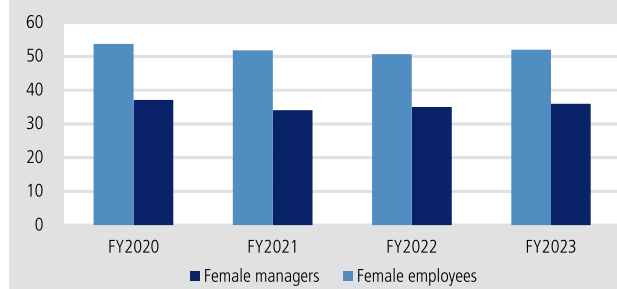
Waste total, mt (LHS); waste recycling ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 15: Gender diversification

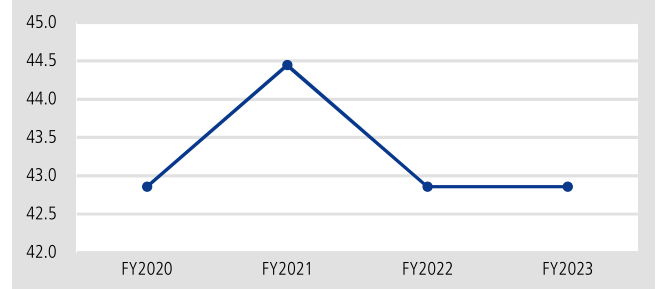
Weighting of female managers & employees, percent



Source: Refinitiv; KGI Research; Company data

Figure 16: Independent board members

Weighting of independent board members, percent



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	16,121	16,933	18,413	19,458	19,768	21,225	22,670	24,587	70,925	88,250	107,338
Cost of goods sold	(11,224)	(11,664)	(12,290)	(12,897)	(13,178)	(14,082)	(15,016)	(16,140)	(48,075)	(58,415)	(70,373)
Gross profit	4,897	5,269	6,123	6,561	6,590	7,143	7,655	8,447	22,850	29,835	36,965
Operating expenses	(2,537)	(2,402)	(2,526)	(2,685)	(2,847)	(2,929)	(3,049)	(3,196)	(10,150)	(12,021)	(14,275)
Operating profit	2,360	2,867	3,597	3,876	3,743	4,214	4,605	5,251	12,700	17,814	22,690
Depreciation of fixed assets	(487)	(500)	(517)	(513)	(530)	(540)	(550)	(560)	(2,017)	(2,179)	(2,339)
Amortisation of intangible assets	(121)	(124)	(123)	(125)	(124)	(124)	(124)	(124)	(494)	(497)	(497)
EBITDA	2,969	3,491	4,237	4,514	4,398	4,878	5,279	5,935	15,211	20,490	25,526
Interest income	72	71	64	116	121	125	123	121	356	489	596
Investment income	-	-	3	-	-	5	-	-	7	5	5
Other non-op income	29	38	28	30	30	30	30	30	121	120	120
Non-operating income	102	109	95	146	151	160	153	151	484	614	721
Interest expense	(131)	(121)	(163)	(230)	(221)	(212)	(212)	(212)	(661)	(858)	(849)
Investment loss	(0)	(4)	(2)	-	-	-	-	-	(4)	-	-
Other non-op expenses	(61)	(126)	(60)	(40)	(20)	(20)	(20)	(20)	(305)	(80)	-
Non-operating expenses	(192)	(250)	(226)	(270)	(241)	(232)	(232)	(232)	(970)	(938)	(849)
Pre-tax profit	2,270	2,726	3,467	3,752	3,653	4,141	4,526	5,170	12,214	17,490	22,561
Current taxation	(658)	(702)	(837)	(994)	(968)	(1,097)	(1,199)	(1,370)	(3,191)	(4,635)	(5,979)
Minorities	(0)	1	(1)	-	-	-	-	-	(0)	-	-
Normalised net profit	1,612	2,024	2,629	2,758	2,685	3,044	3,326	3,800	9,023	12,855	16,582
Extraordinary items	(0)	(0)	0	-	-	-	-	-	-	-	-
Net profit	1,612	2,024	2,629	2,758	2,685	3,044	3,326	3,800	9,023	12,855	16,582
EPS (NT\$)	8.41	10.54	13.51	14.14	13.77	15.61	17.06	19.49	46.66	65.97	85.06
Margins (%)											
Gross profit margin	30.4	31.1	33.3	33.7	33.3	33.7	33.8	34.4	32.2	33.8	34.4
Operating margin	14.6	16.9	19.5	19.9	18.9	19.9	20.3	21.4	17.9	20.2	21.1
EBITDA margin	18.4	20.6	23.0	23.2	22.2	23.0	23.3	24.1	21.4	23.2	23.8
Pretax profit margin	14.1	16.1	18.8	19.3	18.5	19.5	20.0	21.0	17.2	19.8	21.0
Net profit margin	10.0	12.0	14.3	14.2	13.6	14.3	14.7	15.5	12.7	14.6	15.4
Sequential growth (%)											
Revenue growth	11.9	5.0	8.7	5.7	1.6	7.4	6.8	8.5			
Gross profit growth	18.1	7.6	16.2	7.2	0.4	8.4	7.2	10.4			
Operating profit growth	18.7	21.5	25.5	7.8	(3.4)	12.6	9.3	14.0			
EBITDA growth	14.7	17.6	21.4	6.5	(2.6)	10.9	8.2	12.4			
Pretax profit growth	8.5	20.1	27.2	8.2	(2.6)	13.4	9.3	14.2			
Net profit growth	3.6	25.6	29.8	4.9	(2.6)	13.4	9.3	14.2			
YoY growth (%)											
Revenue growth	29.7	30.4	29.1	35.0	22.6	25.3	23.1	26.4	31.1	24.4	21.6
Gross profit growth	49.6	44.4	46.4	58.2	34.6	35.6	25.0	28.7	49.8	30.6	23.9
Operating profit growth	114.3	93.3	80.5	94.8	58.6	47.0	28.0	35.5	93.4	40.3	27.4
EBITDA growth	83.2	71.6	67.3	74.4	48.1	39.7	24.6	31.5	73.3	34.7	24.6
Pretax profit growth	144.6	83.6	91.2	79.3	60.9	51.9	30.6	37.8	93.3	43.2	29.0
Net profit growth	177.6	102.0	109.1	77.2	66.5	50.4	26.5	37.8	105.2	42.5	29.0

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	54,683	60,915	75,606	86,001	98,744
Current assets	31,891	33,668	47,232	56,100	67,473
Cash & ST securities	12,430	10,795	19,359	21,648	26,557
Inventory	10,103	11,232	12,835	15,499	18,214
Accounts receivable	8,383	10,473	13,157	16,771	20,521
Other current assets	974	1,168	1,882	2,182	2,182
Non-current assets	22,792	27,247	28,373	29,902	31,270
LT investments	885	1,071	916	921	926
Net fixed assets	12,143	14,677	16,026	18,047	19,908
Other assets	9,765	11,500	11,431	10,934	10,436
Total liabilities	30,086	24,698	33,352	35,377	37,776
Current liabilities	13,717	16,795	16,346	18,371	20,769
Accounts payable	4,744	6,239	7,493	9,518	11,916
Interest bearing ST liabilities	4,532	5,014	3,943	3,943	3,943
Other current liabilities	4,441	5,542	4,910	4,910	4,910
Non-current liabilities	16,368	7,903	17,006	17,006	17,006
Long-term debt	13,322	4,703	13,865	13,865	13,865
Other L-T liabilities	2,150	2,461	2,472	2,472	2,472
Total equity	24,597	36,217	42,253	50,624	60,968
Share capital	1,633	1,896	1,950	1,950	1,950
Retained earnings reserve	6,842	9,723	16,863	25,234	35,578
Minority interests	12	8	8	8	8
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(5.0%)	5.9%	31.1%	24.4%	21.6%
Operating profit growth	(23.6%)	55.0%	93.4%	40.3%	27.4%
EBITDA growth	(15.4%)	39.5%	73.3%	34.7%	24.6%
Net profit growth	(39.6%)	89.7%	105.2%	42.5%	29.0%
EPS growth	(42.6%)	76.9%	83.7%	41.4%	28.9%
Profitability					
Gross profit margin	24.7%	28.2%	32.2%	33.8%	34.4%
Operating margin	8.3%	12.1%	17.9%	20.2%	21.1%
EBITDA margin	12.3%	16.2%	21.4%	23.2%	23.8%
Net profit margin	4.5%	8.1%	12.7%	14.6%	15.4%
Return on average assets	4.3%	7.6%	13.2%	15.9%	18.0%
Return on average equity	9.8%	14.5%	23.0%	27.7%	29.7%
Stability					
Gross debt to equity	72.6%	26.8%	42.1%	35.2%	29.2%
Net debt to equity	29.4%	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	4.0	8.8	19.5	21.4	27.6
Interest & ST debt coverage (x)	0.3	0.5	0.7	0.8	0.8
Cash flow interest coverage(x)	6.4	8.5	10.3	13.1	18.1
Cash flow/int. & ST debt (x)	1.3	1.2	1.5	2.3	3.2
Current ratio (x)	2.3	2.0	2.9	3.1	3.2
Quick ratio (x)	1.6	1.3	2.1	2.2	2.4
Net debt (NT\$m)	7,227	(458)	(1,386)	(3,675)	(8,584)
Per share data					
EPS (NT\$)	14.37	25.41	46.66	65.97	85.06
CFPS (NT\$)	46.16	39.93	35.14	57.85	78.72
BVPS (NT\$)	150.54	191.02	216.69	259.63	312.68
Adj BVPS (NT\$)	152.41	209.27	218.47	259.74	312.68
SPS (NT\$)	316.48	312.56	366.78	452.86	550.57
EBITDA/share (NT\$)	39.00	50.73	78.66	105.15	130.93
Cash DPS (NT\$)	8.83	12.00	23.00	32.00	42.00
Activity					
Sales / avg assets	0.94	0.94	1.04	1.09	1.16
Days receivable	59.9	70.9	67.7	69.4	69.8
Days inventory	95.9	105.9	97.4	96.8	94.5
Days payable	45.0	58.8	56.9	59.5	61.8
Cash cycle	110.8	117.9	108.3	106.7	102.4

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	51,052	54,080	70,925	88,250	107,338
Cost of goods sold	(38,465)	(38,828)	(48,075)	(58,415)	(70,373)
Gross profit	12,587	15,253	22,850	29,835	36,965
Operating expenses	(8,350)	(8,687)	(10,150)	(12,021)	(14,275)
Operating profit	4,237	6,566	12,700	17,814	22,690
Non-operating income	563	568	484	614	721
Interest income	349	426	356	489	596
Investment income	7	9	7	5	5
Other non-op income	207	133	121	120	120
Non-operating expenses	(1,357)	(816)	(970)	(938)	(849)
Interest expense	(1,166)	(815)	(661)	(858)	(849)
Investment loss	(6)	(0)	(4)	-	-
Other non-op expenses	(185)	(1)	(305)	(80)	-
Pre-tax profit	3,442	6,318	12,214	17,490	22,561
Current taxation	(1,132)	(1,928)	(3,191)	(4,635)	(5,979)
Minorities	7	6	(0)	-	-
Extraordinary items	-	0	-	-	-
Net profit	2,317	4,396	9,023	12,855	16,582
EBITDA	6,291	8,777	15,211	20,490	25,526
EPS (NT\$)	14.37	25.41	46.66	65.97	85.06

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	7,446	6,909	6,796	11,274	15,347
Net profit	2,317	4,396	9,023	12,855	16,582
Depreciation & amortisation	2,054	2,211	2,511	2,676	2,836
Decrease in working capital	2,877	(314)	(4,611)	(4,253)	(4,066)
Other operating cash flow	198	616	(127)	(5)	(5)
Investing cash flow	(4,575)	(4,377)	(3,605)	(4,200)	(4,200)
Sale of ST investment	(1,382)	1,045	-	-	-
New investments	-	-	(33)	-	-
Capital expenditure	(2,942)	(3,265)	(3,493)	(4,200)	(4,200)
Others investing cashflow	(251)	(2,157)	(79)	-	-
Free cash flow	4,422	2,794	3,295	6,819	10,750
Financing cash flow	(942)	(2,943)	6,599	(4,484)	(6,239)
Increase in short term debt	1,893	1,130	-	-	-
Increase in long term loans	(1,935)	(2,085)	9,159	-	-
New ordinary shares issued	1,150	-	-	-	-
Ordinary dividends paid	(1,564)	(1,470)	(2,278)	(4,448)	(6,236)
Other financing cashflow	(486)	(518)	(283)	(37)	(3)
Forex effects	201	(41)	(771)	(300)	-
Total cash generated	2,130	(452)	9,018	2,290	4,909

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	16.4%	16.1%	14.3%	13.6%	13.3%
= Operating margin	8.3%	12.1%	17.9%	20.2%	21.1%
1 / (Working capital/revenue	0.2	0.2	0.2	0.2	0.2
+ Net PPE/revenue	0.2	0.3	0.2	0.2	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.2	2.1	2.2	2.3	2.4
Operating margin	8.3%	12.1%	17.9%	20.2%	21.1%
x Capital turnover	2.2	2.1	2.2	2.3	2.4
x (1 - tax rate)	67.1%	69.5%	73.9%	73.5%	73.5%
= After-tax ROIC	12.4%	17.5%	29.2%	33.9%	37.4%

Source: Company data; KGI Research estimates



FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of November 20 (NT\$)	4,280
12M target price (NT\$)	5,420
Previous target price (NT\$)	5,420
Unchanged (%)	0.0
Upside (%)	26.6

Key message

1. ASIC AI server sales growth in 2026-27F driven by AWS demand, with capacity scaling to 7-8k racks/ month by 2H26F.
2. Diversified client and model mix will support 2026F sales growth of 34% YoY, with AI server share rising to 65-70% despite margin dilution.
3. Strong AI server demand and expanded global production footprint support continued EPS growth in 2026-27F, reaching NT\$293.64 and NT\$361.69.

Trading data

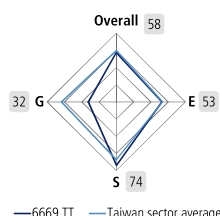
Mkt cap (NT\$bn/US\$mn)	795 / 26,026
Outstanding shares (mn)	185.8
Foreign ownership (mn)	64
3M avg. daily trading (mn)	1.65
52-week trading range (NT\$)	1,570—4,720

Performance	3M	6M	12M
Absolute (%)	43.4	86.1	105.8
Relative (%)	31.5	63.3	89.3

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	26.92A	26.85A	34.36A	37.92A
2025	52.70A	65.23A	82.92A	68.02F
2026	58.98F	72.99F	73.60F	88.07F

ESG score card



Source: Refinitiv; KGI Research

Wiwynn

(6669.TW/6669 TT)



Diversified AI server portfolio in GPU/ ASIC in 2026F

Event

We believe Wiwynn's growing presence in ASIC and GPU AI server thanks to new client and project wins will be the main catalyst for growing AI server sales in 2026F, boosting EPS.

Impact

Robust ASIC AI server demand supported by chip shipments. We are positive on Wiwynn's ASIC AI server sales trends in 2026-27F. Currently, the company's key ASIC AI server client is Amazon Web Service (AWS, US), which accounts for the bulk of its AI server sales, while Meta (US) will contribute more in 2026F. AWS has a positive 2026F demand outlook, as Trainium chip shipments will rise to 2.43mn units in 2026F (up 43% YoY), and further increase to 3.4mn units in 2027F (up 38% YoY). However, near term, we think ASIC AI server shipments may enter a transition period in 4Q25-1Q26F, and will resume growth as the next-model Trainium 2.5/3 system will be in mass production in 1Q26F-2H26F. We believe Wiwynn will remain a key AWS ASIC L11 assembler, with capacity planned to rise to 7-8k racks per month in 2H26F, up from 2k racks per month in 1H25 and 4k racks per month in 4Q25F, to meet strong client demand.

Diversified AI server client & model mix in 2026-27F. The company has added Oracle (US) as a new client in 4Q25 for GB200 AI server models (L11 assembly). We estimate total GB200/ 300 AI server demand from Oracle at 13-15k racks in 2026F, with Wiwynn's share being around 20%. Combined with order developments in ASIC AI server, Nvidia's (US) GB/ VR and AMD's (US) Helios AI server racks to Meta (US), we expect new clients and projects to fuel Wiwynn's 2026F sales to grow 34% YoY. Therefore, we expect the AI server sales weighting to go up to 65-70% in 2026F (vs. 45-55% in 2025F). Despite a higher GB200/ 300 AI server sales weighting in 2026F diluting gross margin, continued strong sales of ASIC AI server could mitigate the impact. Thus, we expect gross margin to come down 1.3ppts YoY to 7.2% and operating margin 1.1ppts to 5.8% in 2026F. We forecast 2026F EPS of NT\$293.64, up 9% YoY. On rising AI server demand in 2027F, we also think Wiwynn has strong competitiveness in rack level assembly. The company will further diversify production sites in Taiwan, Mexico, Malaysia and the US, to improve both competitiveness and flexibility. We expect sales and EPS to continue growing in 2027F, and forecast EPS of NT\$361.69.

Valuation & Action

We rate Wiwynn Outperform on growing AI server sales and strong EPS. Our target price of NT\$5,420 is based on 17x fully-diluted 2026-27F average EPS.

Risks

Weak general server demand; NT dollar appreciation; tariff uncertainties.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	241,901	360,541	903,701	1,210,181	1,477,176
Gross profit (NT\$mn)	22,657	37,400	76,226	86,931	104,797
Operating profit (NT\$mn)	15,871	28,099	62,426	70,651	86,554
Net profit (NT\$mn)	12,044	22,776	49,967	54,571	67,217
EPS (NT\$)	68.88	126.57	268.87	293.64	361.69
Cash DPS (NT\$)	42.00	74.00	147.88	161.50	198.93
EPS growth (%)	(15.0)	83.7	112.4	9.2	23.2
PE (x)	62.1	33.8	15.9	14.6	11.8
PB (x)	17.7	9.0	7.2	5.9	4.8
EV/EBITDA (x)	42.6	24.7	11.9	10.7	8.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	1.0	1.7	3.5	3.8	4.6
Return on average equity (%)	29.7	34.9	50.2	44.4	44.7

Source: Company data, KGI Research estimates

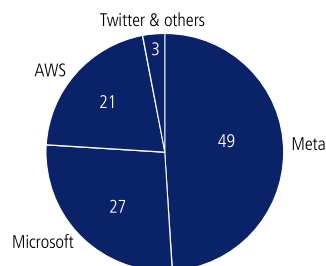
Figure 1: Company profile

Wiwynn, an affiliate of Wistron (3231 TT, NT\$143, OP; 37.68% stake), is a data center-related firm. Wiwynn has benefitted from data center expansion by major CSP clients, as it is a pure hyperscaler data center hardware and solutions provider. We expect growing data traffic, rising computing performance requirements for AI, autonomous driving, and AR/VR to continue to drive sales and earnings growth. Major clients are Microsoft (US), Meta (US), and Amazon Web Services (US) for servers, storage, and AI servers.

Source: KGI Research

Figure 2: Microsoft, Meta, & AWS represent bulk of sales

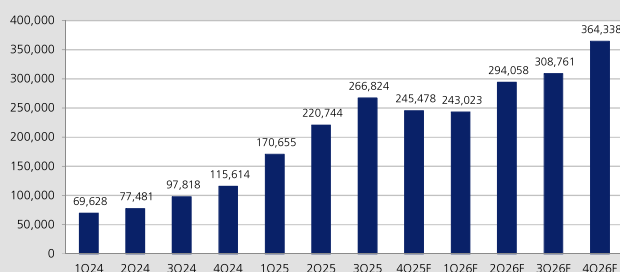
2024 sales weighting by client, percent



Source: Company data; KGI Research

Figure 3: Sales

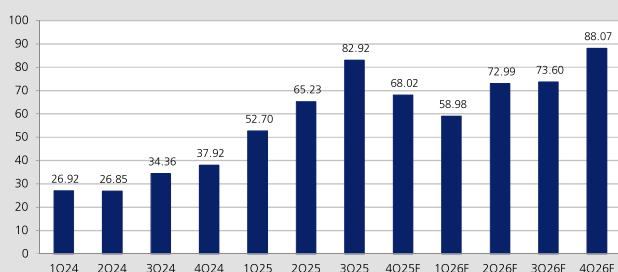
Sales, NT\$mn



Source: KGI Research

Figure 4: EPS

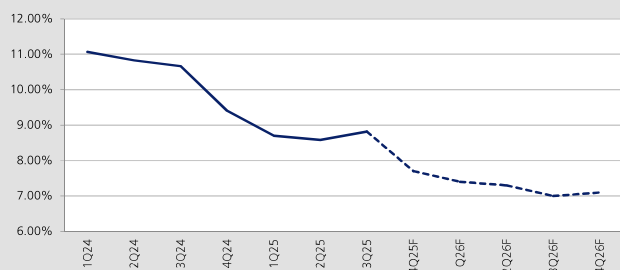
EPS, NT\$



Source: KGI Research

Figure 5: Gross margin

Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

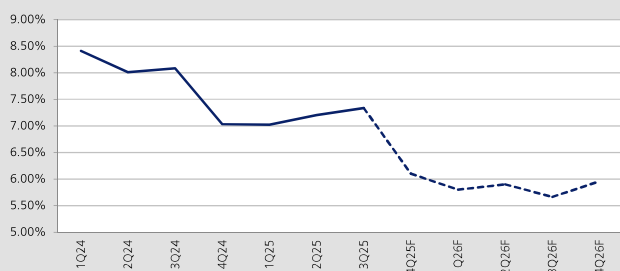
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 7: Operating margin

Operating margin, percent



Source: KGI Research

Figure 8: 12M forward PB band

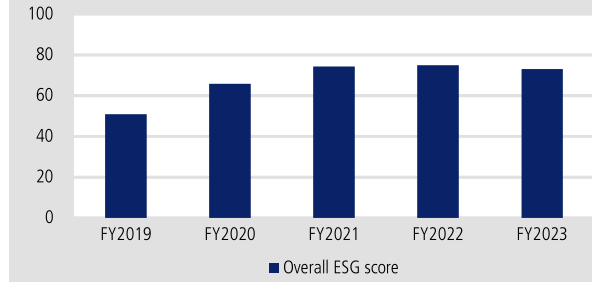
Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 9: Overall ESG score

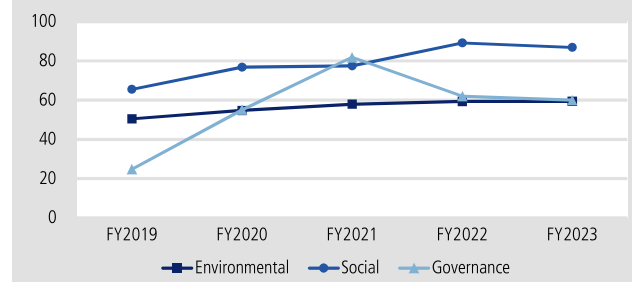
Overall ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 10: ESG score by category

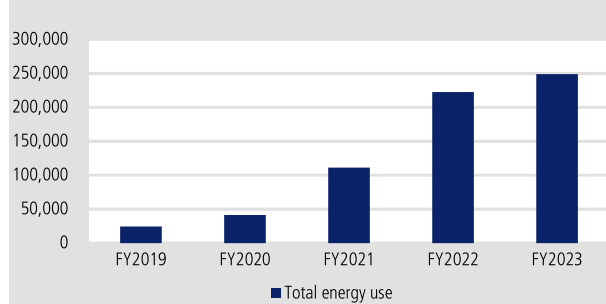
ESG score, points



Source: Refinitiv; KGI Research; Company data

Figure 11: Energy use

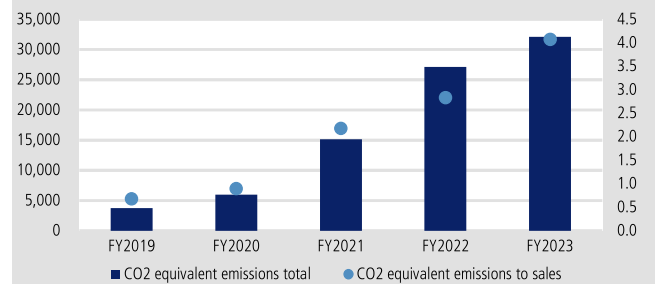
Energy use, gigajoules (LHS); YoY change, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 12: CO2 equivalent emissions

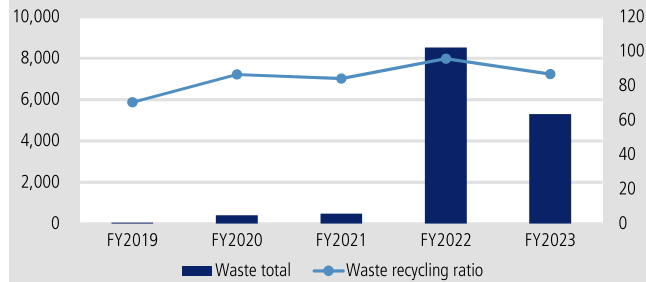
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$mn (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 13: Waste total

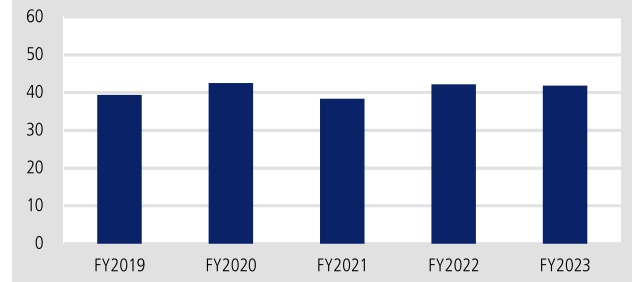
Waste total, mt (LHS); waste recycling ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 14: Gender diversity

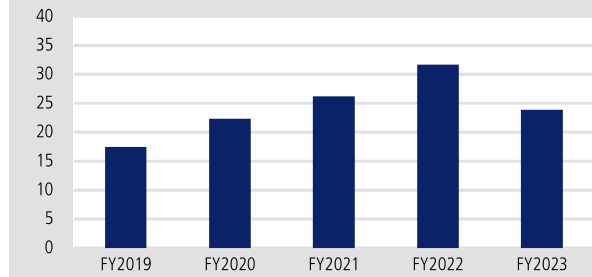
Weighting of female employees, percent



Source: Refinitiv; KGI Research; Company data

Figure 15: Employee training

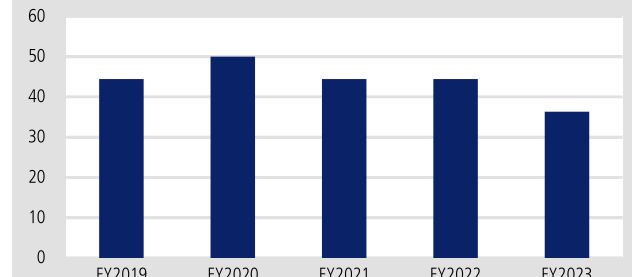
Average annual training hours per employee



Source: Refinitiv; KGI Research; Company data

Figure 16: Independent board members

Weighting of independent board members, percent



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	170,655	220,744	266,824	245,478	243,023	294,058	308,761	364,338	903,701	1,210,181	1,477,176
Cost of goods sold	(155,806)	(201,800)	(243,292)	(226,576)	(225,040)	(272,592)	(287,148)	(338,470)	(827,475)	(1,123,250)	(1,372,380)
Gross profit	14,849	18,943	23,532	18,902	17,984	21,466	21,613	25,868	76,226	86,931	104,797
Operating expenses	(2,869)	(3,044)	(3,960)	(3,928)	(3,888)	(4,117)	(4,122)	(4,153)	(13,801)	(16,281)	(18,242)
Operating profit	11,981	15,899	19,572	14,974	14,095	17,349	17,491	21,715	62,426	70,651	86,554
Depreciation of fixed assets	(506)	(563)	(639)	(509)	(693)	(693)	(693)	(693)	(2,217)	(2,774)	(3,334)
Amortisation of intangible assets	(52)	(58)	(68)	12	(33)	(33)	(33)	(33)	(166)	(133)	(133)
EBITDA	12,538	16,521	20,279	15,471	14,822	18,076	18,218	22,441	64,809	73,557	90,021
Interest income	244	266	319	183	223	223	223	223	1,013	893	866
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	1,009	201	1,135	205	63	63	63	63	2,550	250	330
Non-operating income	1,253	468	1,454	389	286	286	286	286	3,563	1,143	1,196
Interest expense	(694)	(636)	(664)	(575)	(634)	(634)	(634)	(634)	(2,569)	(2,537)	(2,486)
Investment loss	(16)	(11)	(11)	(12)	(13)	(13)	(13)	(13)	(50)	(50)	(50)
Other non-op expenses	(0)	(0)	(0)	(120)	(33)	(33)	(33)	(33)	(120)	(130)	(130)
Non-operating expenses	(710)	(647)	(675)	(708)	(679)	(679)	(679)	(679)	(2,739)	(2,717)	(2,666)
Pre-tax profit	12,523	15,720	20,351	14,655	13,702	16,956	17,098	21,321	63,250	69,077	85,085
Current taxation	(2,730)	(3,598)	(4,940)	(2,014)	(2,740)	(3,391)	(3,420)	(4,955)	(13,282)	(14,506)	(17,868)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	9,793	12,122	15,411	12,641	10,962	13,565	13,678	16,366	49,967	54,571	67,217
Extraordinary items	(0)	0	0	(0)	-	-	-	-	-	-	-
Net profit	9,793	12,122	15,411	12,641	10,962	13,565	13,678	16,366	49,967	54,571	67,217
EPS (NT\$)	52.70	65.23	82.92	68.02	58.98	72.99	73.60	88.07	268.87	293.64	361.69
Margins (%)											
Gross profit margin	8.7	8.6	8.8	7.7	7.4	7.3	7.0	7.1	8.4	7.2	7.1
Operating margin	7.0	7.2	7.3	6.1	5.8	5.9	5.7	6.0	6.9	5.8	5.9
EBITDA margin	7.3	7.5	7.6	6.3	6.1	6.1	5.9	6.2	7.2	6.1	6.1
Pretax profit margin	7.3	7.1	7.6	6.0	5.6	5.8	5.5	5.9	7.0	5.7	5.8
Net profit margin	5.7	5.5	5.8	5.1	4.5	4.6	4.4	4.5	5.5	4.5	4.6
Sequential growth (%)											
Revenue growth	47.6	29.4	20.9	(8.0)	(1.0)	21.0	5.0	18.0			
Gross profit growth	36.6	27.6	24.2	(19.7)	(4.9)	19.4	0.7	19.7			
Operating profit growth	47.3	32.7	23.1	(23.5)	(5.9)	23.1	0.8	24.1			
EBITDA growth	42.8	31.8	22.7	(23.7)	(4.2)	22.0	0.8	23.2			
Pretax profit growth	42.6	25.5	29.5	(28.0)	(6.5)	23.7	0.8	24.7			
Net profit growth	39.0	23.8	27.1	(18.0)	(13.3)	23.7	0.8	19.7			
YoY growth (%)											
Revenue growth	145.1	184.9	172.8	112.3	42.4	33.2	15.7	48.4	150.7	33.9	22.1
Gross profit growth	92.7	125.8	125.6	73.8	21.1	13.3	(8.2)	36.9	103.8	14.0	20.6
Operating profit growth	104.6	156.2	147.6	84.2	17.7	9.1	(10.6)	45.0	122.2	13.2	22.5
EBITDA growth	100.9	148.6	140.4	76.2	18.2	9.4	(10.2)	45.1	115.3	13.5	22.4
Pretax profit growth	112.2	153.3	156.3	66.9	9.4	7.9	(16.0)	45.5	119.4	9.2	23.2
Net profit growth	108.0	158.3	143.5	79.4	11.9	11.9	(11.2)	29.5	119.4	9.2	23.2

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	88,845	190,679	282,591	342,094	406,598
Current assets	79,195	173,683	249,862	305,188	366,077
Cash & ST securities	37,495	48,329	64,259	54,864	60,656
Inventory	30,179	86,211	124,688	169,257	206,797
Accounts receivable	10,363	37,649	59,421	79,574	97,129
Other current assets	1,158	1,494	1,494	1,494	1,494
Non-current assets	9,650	16,996	32,729	36,905	40,521
LT investments	159	709	659	609	559
Net fixed assets	5,626	9,163	24,946	29,172	32,839
Other assets	3,865	7,124	7,124	7,124	7,124
Total liabilities	46,611	102,476	171,903	206,848	241,106
Current liabilities	36,494	76,364	148,401	182,477	217,024
Accounts payable	20,169	53,585	90,682	123,096	150,398
Interest bearing ST liabilities	2,884	6,125	27,335	26,465	26,755
Other current liabilities	13,441	16,654	30,384	32,916	39,871
Non-current liabilities	10,117	26,112	23,502	24,372	24,082
Long-term debt	8,443	22,004	19,394	20,264	19,974
Other L-T liabilities	486	852	852	852	852
Total equity	42,234	88,203	110,688	135,245	165,493
Share capital	1,748	1,858	1,858	1,858	1,858
Retained earnings reserve	-	-	22,485	47,042	77,290
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(17.4%)	49.0%	150.7%	33.9%	22.1%
Operating profit growth	(11.0%)	77.1%	122.2%	13.2%	22.5%
EBITDA growth	(9.3%)	78.4%	115.3%	13.5%	22.4%
Net profit growth	(15.0%)	89.1%	119.4%	9.2%	23.2%
EPS growth	(15.0%)	83.7%	112.4%	9.2%	23.2%
Profitability					
Gross profit margin	9.4%	10.4%	8.4%	7.2%	7.1%
Operating margin	6.6%	7.8%	6.9%	5.8%	5.9%
EBITDA margin	7.0%	8.3%	7.2%	6.1%	6.1%
Net profit margin	5.0%	6.3%	5.5%	4.5%	4.6%
Return on average assets	13.6%	16.3%	21.1%	17.5%	18.0%
Return on average equity	29.7%	34.9%	50.2%	44.4%	44.7%
Stability					
Gross debt to equity	26.8%	31.9%	42.2%	34.6%	28.2%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	17.2	24.2	25.6	28.2	35.2
Interest & ST debt coverage (x)	0.8	0.8	0.7	0.7	0.7
Cash flow interest coverage(x)	24.2	(16.1)	11.4	9.9	17.3
Cash flow/int. & ST debt (x)	6.0	(2.7)	1.0	0.9	1.5
Current ratio (x)	2.2	2.3	1.7	1.7	1.7
Quick ratio (x)	1.3	1.1	0.8	0.7	0.7
Net debt (NT\$m)	(26,168)	(20,200)	(17,530)	(8,135)	(13,928)
Per share data					
EPS (NT\$)	68.88	126.57	268.87	293.64	361.69
CFPS (NT\$)	131.89	(111.11)	157.38	135.71	231.06
BVPS (NT\$)	241.56	474.62	595.61	727.75	890.51
Adj BVPS (NT\$)	241.56	490.15	595.61	727.75	890.51
SPS (NT\$)	1,383.55	2,003.57	4,862.77	6,511.92	7,948.61
EBITDA/share (NT\$)	96.50	167.29	348.73	395.81	484.40
Cash DPS (NT\$)	42.00	74.00	147.88	161.50	198.93
Activity					
Sales / avg assets	2.72	2.58	3.82	3.87	3.95
Days receivable	15.6	38.2	24.0	24.0	24.0
Days inventory	50.2	97.6	55.0	55.0	55.0
Days payable	33.6	60.7	40.0	40.0	40.0
Cash cycle	32.3	75.2	39.0	39.0	39.0

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	241,901	360,541	903,701	1,210,181	1,477,176
Cost of goods sold	(219,244)	(323,141)	(827,475)	(1,123,250)	(1,372,380)
Gross profit	22,657	37,400	76,226	86,931	104,797
Operating expenses	(6,787)	(9,301)	(13,801)	(16,281)	(18,242)
Operating profit	15,871	28,099	62,426	70,651	86,554
Non-operating income	909	2,120	3,563	1,143	1,196
Interest income	456	1,219	1,013	893	866
Investment income	-	-	-	-	-
Other non-op income	454	901	2,550	250	330
Non-operating expenses	(1,336)	(1,389)	(2,739)	(2,717)	(2,666)
Interest expense	(953)	(1,242)	(2,569)	(2,537)	(2,486)
Investment loss	(64)	(68)	(50)	(50)	(50)
Other non-op expenses	(319)	(79)	(120)	(130)	(130)
Pre-tax profit	15,444	28,830	63,250	69,077	85,085
Current taxation	(3,400)	(6,054)	(13,282)	(14,506)	(17,868)
Minorities	-	-	-	-	-
Extraordinary items	-	(0)	-	-	-
Net profit	12,044	22,776	49,967	54,571	67,217
EBITDA	16,873	30,103	64,809	73,557	90,021
EPS (NT\$)	68.88	126.57	268.87	293.64	361.69

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	23,060	(19,993)	29,248	25,220	42,940
Net profit	12,044	22,776	49,967	54,571	67,217
Depreciation & amortisation	1,002	2,005	2,383	2,907	3,467
Decrease in working capital	8,928	(47,806)	(23,153)	(32,307)	(27,794)
Other operating cash flow	1,087	3,032	50	50	50
Investing cash flow	(4,696)	(5,655)	(18,166)	(7,133)	(7,133)
Sale of ST investment	-	(581)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(4,886)	(4,891)	(18,000)	(7,000)	(7,000)
Others investing cashflow	190	(183)	(166)	(133)	(133)
Free cash flow	17,300	(28,670)	10,381	19,281	36,918
Financing cash flow	(7,115)	36,316	4,848	(27,482)	(30,014)
Increase in short term debt	393	940	18,600	-	-
Increase in long term loans	1,500	16,945	-	-	-
New ordinary shares issued	-	27,068	-	-	-
Ordinary dividends paid	(8,742)	(7,343)	(13,752)	(27,482)	(30,014)
Other financing cashflow	(265)	(1,294)	-	-	-
Forex effects	13	166			
Total cash generated	11,263	10,834	15,930	(9,395)	5,793

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	2.8%	2.6%	1.5%	1.3%	1.2%
= Operating margin	6.6%	7.8%	6.9%	5.8%	5.9%
1 / (Working capital/revenue					
+ Net PPE/revenue	0.0	0.2	0.1	0.1	0.1
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	16.2	5.5	9.9	9.7	9.9
Operating margin	6.6%	7.8%	6.9%	5.8%	5.9%
x Capital turnover	16.2	5.5	9.9	9.7	9.9
x (1 - tax rate)	78.0%	79.0%	79.0%	79.0%	79.0%
= After-tax ROIC	82.7%	33.8%	54.2%	44.7%	45.7%

Source: Company data; KGI Research estimates

Fositek

(6805.TW/6805 TT)

Riding rising liquid-cooling demand, driven by AI servers

Outperform·Maintained

Price as of November 20 (NT\$)	1,450
12M target price (NT\$)	1,755
Previous target price (NT\$)	1,755
Unchanged (%)	0.0
Upside (%)	21.0

Key message

1. Rising AI compute demand is accelerating liquid cooling adoption across GPU and ASIC racks. Increasing AI rack shipments with rising QD usage per rack will benefit Fositek's earnings growth in 2026F.
2. Surging QD and rail kit sales will boost its server sales weighting from 36% in 2025F to 54% in 2026F, driving gross margin and EPS YoY growth in 2026F.

Trading data

Mkt cap (NT\$bn/US\$mn)	99.40 / 3,253
Outstanding shares (mn)	68.55
Foreign ownership (mn)	11.85
3M avg. daily trading (mn)	2.09
52-week trading range (NT\$)	375.5 –1,560

Performance	3M	6M	12M
Absolute (%)	45	146.6	71.6
Relative (%)	28.9	119.2	50.7

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	3.27A	3.74A	4.87A	6.02A
2025	5.20A	4.82A	10.02A	11.02F
2026	10.73F	12.71F	16.02F	19.03F

Share price chart



Source: TEJ

Event

We expect surging GPU/ASIC AI server shipments in 2026. With higher quick disconnect (QD) usage in GB300/VR200 and ASIC AI server racks, Fositek will be a key beneficiary of the AI server uptrend.

Impact

Rising liquid cooling adoption across GPU & ASIC AI server racks to increase QD usage. We expect rising AI server shipments in 2026, with GB/VR rack shipments to grow from 23-25k units in 2025F to 55-60k in 2026F, and ASIC servers for the top four CSPs will also grow significantly. Both will continue to drive liquid cooling adoption in 2026-27F. Nvidia's (US) GB300, which will enter mass production in 4Q25-1Q26F, is designed for an NVL72 AI server rack with fully liquid-cooled compute and switch trays. The switch tray alone carries 180 QD units, versus zero in the GB200. That is, QD usage per GB300 rack will double from 180 units in the GB200 to 360 units in the GB300. The VR200 and VR CPX design, which will launch in 2H26F, also utilize a liquid-cooling solution, so QD usage per rack will further increase to 648 units. In addition, AMD's (US) MI400-series Helios racks (72 GPUs; 2026F) and MI500-series AI racks (144 GPUs; 2027F) will also adopt liquid cooling. As for ASIC AI solutions, Amazon Web Services (AWS; US) will introduce liquid-cooling designs for some Trainium2.5 and Trainium3 chips (versus the air-cooled Trainium2), with QD content per rack to reach 456 units, higher than the GB300 rack (360 units). Other CSPs are also adopting liquid-cooling designs for their ASIC servers. We therefore expect Fositek to benefit from a cross-platform surge in QD adoption.

To ride QD adoption uptrend in 2026F. We expect Fositek to benefit from ramp-up of GB300/VR200 and ASIC racks in 2026F. Currently, Fositek has shipped QD modules for GB200/300 racks and switch tray QDs, and it is now under certification for QDs in GB/VR compute trays and AMD racks, providing sales upside for 2026F. QDs for ASIC AI racks will also be a key growth driver in 2026F. As for rail kits, the firm will begin shipping ASIC server rail kits in 4Q25-1Q26F, and it has penetrated a reference vendor list for GB300/VR200 racks, which may start to ship in 2026. Surging QD and rail kits sales will boost its server sales weighting from 36% in 2025F to 54% in 2026F, expanding gross margin from 25.5% in 2025F to 29.5% in 2026F. We forecast 2026 EPS will rise 88% YoY to NT\$58.49.

Valuation & Action

We expect Fositek to be a key beneficiary of rising GPU and ASIC AI server demand due to surging rack shipments and higher QD adoption per rack. Our rating is Outperform with a target price at NT\$1,755, based on 30x 2026F EPS.

Risks

Slow adoption of foldable smartphones; weak server demand.

Key financials and valuations

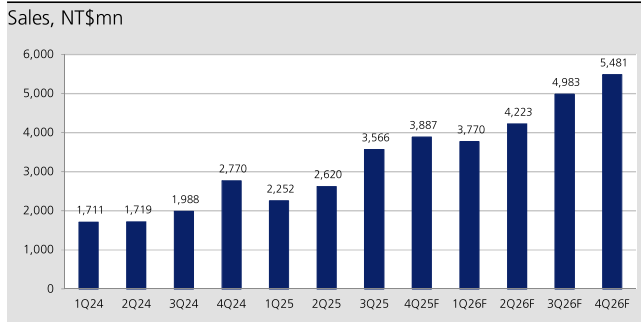
	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	5,014	5,644	8,188	12,325	18,456
Gross profit (NT\$mn)	1,166	1,318	1,827	3,161	5,437
Operating profit (NT\$mn)	775	881	1,197	2,510	4,566
Net profit (NT\$mn)	564	628	1,227	2,129	4,010
EPS (NT\$)	9.33	10.18	17.90	31.06	58.49
Cash DPS (NT\$)	4.00	5.50	8.00	15.53	29.24
EPS growth (%)	0.5	9.1	75.8	73.5	88.3
PE (x)	155.4	142.4	81.0	46.7	24.8
PB (x)	36.7	21.6	17.9	15.0	11.5
EV/EBITDA (x)	95.3	83.4	66.2	31.0	17.5
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.3	0.4	0.6	1.1	2.0
Return on average equity (%)	25.3	18.0	24.2	35.0	52.7

Source: Company data, KGI Research estimates

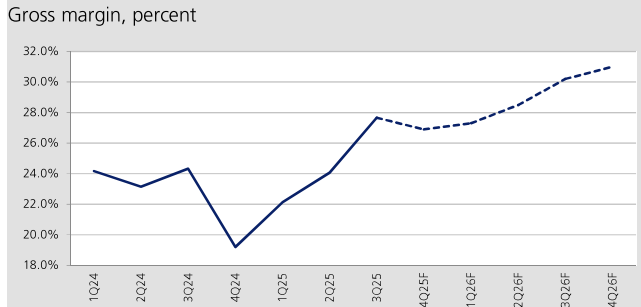
Figure 1: Company profile

Fositek was founded in 2001 and listed on the TWSE in 2023. The firm specializes in hinge manufacturing, with major applications being foldable smartphones (83% of 2024 sales), NB (11%), servers (5%), and others (1%).

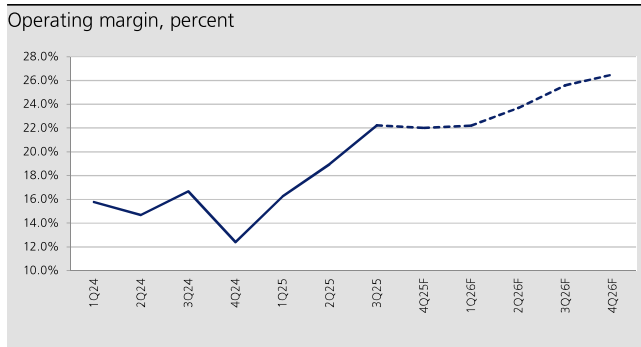
Source: KGI Research

Figure 3: Sales


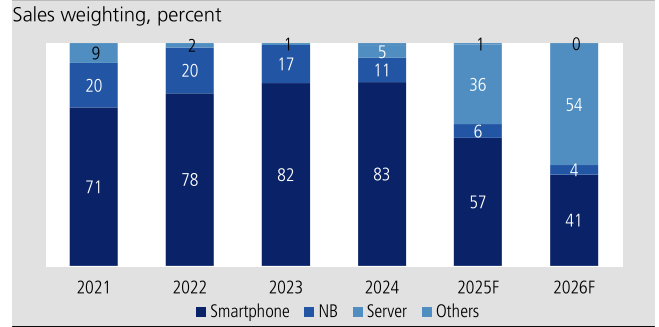
Source: KGI Research

Figure 5: Gross Margin


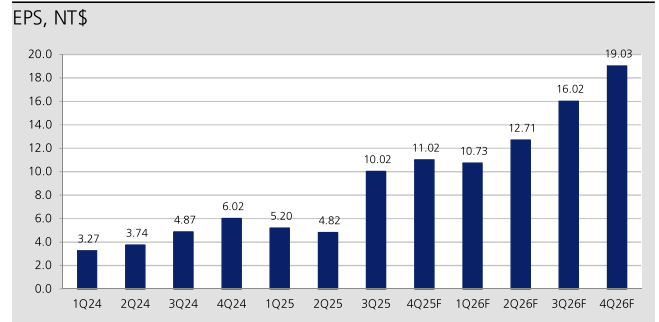
Source: KGI Research

Figure 7: Operating Margin


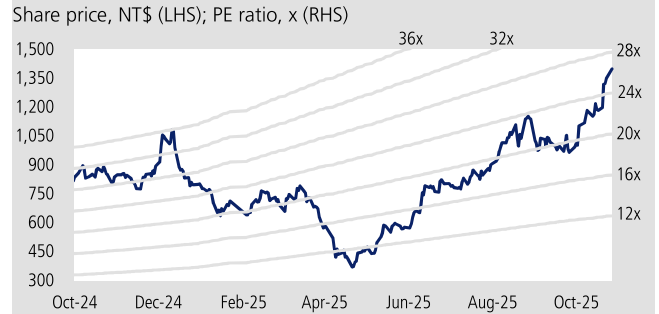
Source: KGI Research

Figure 2: Server sales weighting to rise in 2024-26F


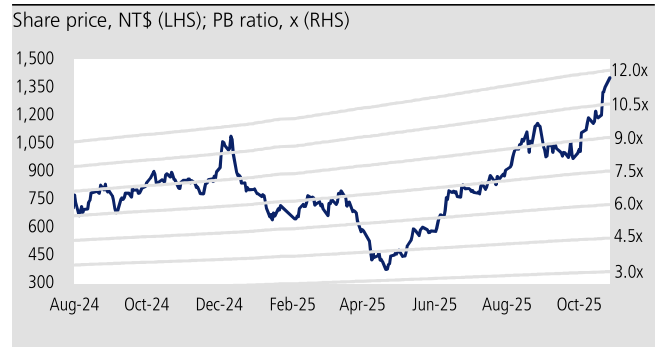
Source: Company data; KGI Research

Figure 4: EPS


Source: KGI Research

Figure 6: 12M forward PE band


Source: TEJ; KGI Research estimates

Figure 8: 12M forward PB band


Source: TEJ; KGI Research estimates

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	2,252	2,620	3,566	3,887	3,770	4,223	4,983	5,481	8,188	12,325	18,456
Cost of goods sold	(1,753)	(1,990)	(2,579)	(2,841)	(2,741)	(3,019)	(3,478)	(3,782)	(6,361)	(9,164)	(13,020)
Gross profit	498	631	986	1,046	1,029	1,203	1,505	1,699	1,827	3,161	5,437
Operating expenses	(133)	(134)	(194)	(190)	(192)	(203)	(229)	(247)	(630)	(651)	(871)
Operating profit	366	497	793	855	837	1,001	1,276	1,452	1,197	2,510	4,566
Depreciation of fixed assets	(70)	(71)	(74)	(232)	(134)	(134)	(134)	(134)	(188)	(447)	(537)
Amortisation of intangible assets	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(8)	(11)	(11)
EBITDA	438	570	869	1,090	974	1,138	1,412	1,589	1,394	2,968	5,113
Interest income	18	18	10	26	21	21	21	21	64	71	82
Investment income	-	-	1	(1)	-	-	-	-	-	-	-
Other non-op income	41	18	7	105	43	43	43	43	170	171	170
Non-operating income	58	36	18	129	63	63	63	63	234	242	252
Interest expense	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(12)	(14)	(14)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	-	(135)	22	(87)	(8)	(8)	(8)	(8)	75	(200)	(30)
Non-operating expenses	(3)	(138)	19	(92)	(11)	(11)	(11)	(11)	63	(214)	(44)
Pre-tax profit	420	395	830	893	889	1,053	1,327	1,504	1,495	2,538	4,773
Current taxation	(64)	(64)	(143)	(137)	(153)	(182)	(229)	(200)	(267)	(409)	(764)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	357	330	687	756	736	871	1,098	1,305	1,227	2,129	4,010
Extraordinary items	(0)	(0)	0	0	-	-	-	-	-	-	-
Net profit	357	330	687	756	736	871	1,098	1,305	1,227	2,129	4,010
EPS (NT\$)	5.20	4.82	10.02	11.02	10.73	12.71	16.02	19.03	17.90	31.06	58.49
Margins (%)											
Gross profit margin	22.1	24.1	27.7	26.9	27.3	28.5	30.2	31.0	22.3	25.6	29.5
Operating margin	16.2	19.0	22.2	22.0	22.2	23.7	25.6	26.5	14.6	20.4	24.7
EBITDA margin	19.5	21.8	24.4	28.1	25.8	26.9	28.3	29.0	17.0	24.1	27.7
Pretax profit margin	18.7	15.1	23.3	23.0	23.6	24.9	26.6	27.4	18.3	20.6	25.9
Net profit margin	15.8	12.6	19.3	19.4	19.5	20.6	22.0	23.8	15.0	17.3	21.7
Sequential growth (%)											
Revenue growth	(18.7)	16.4	36.1	9.0	(3.0)	12.0	18.0	10.0			
Gross profit growth	(6.3)	26.5	56.4	6.0	(1.6)	16.9	25.0	12.9			
Operating profit growth	6.5	35.8	59.6	7.9	(2.1)	19.6	27.5	13.9			
EBITDA growth	11.2	30.1	52.3	25.5	(10.7)	16.8	24.2	12.5			
Pretax profit growth	(11.6)	(6.1)	110.4	7.5	(0.4)	18.4	26.1	13.3			
Net profit growth	(13.7)	(7.3)	108.0	10.0	(2.7)	18.4	26.1	18.8			
YoY growth (%)											
Revenue growth	31.6	52.4	79.3	40.3	67.4	61.2	39.7	41.0	45.1	50.5	49.8
Gross profit growth	20.5	58.5	103.9	96.6	106.5	90.8	52.5	62.5	38.6	73.0	72.0
Operating profit growth	35.5	96.7	139.0	149.1	128.9	101.5	60.9	69.9	36.0	109.6	81.9
EBITDA growth	42.0	92.9	119.9	176.6	122.2	99.5	62.6	45.7	37.6	113.0	72.3
Pretax profit growth	29.9	24.6	119.3	87.7	111.4	166.7	59.9	68.5	64.0	69.8	88.1
Net profit growth	59.2	28.9	105.6	83.0	106.3	163.7	59.9	72.6	95.5	73.5	88.3

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	5,704	8,930	12,758	12,886	16,828
Current assets	5,272	8,464	11,664	11,939	16,117
Cash & ST securities	3,902	5,898	6,336	6,633	9,789
Inventory	882	999	2,902	2,511	3,032
Accounts receivable	447	1,462	2,163	2,532	3,034
Other current assets	41	106	263	263	263
Non-current assets	431	466	1,094	947	711
LT investments	-	-	71	71	71
Net fixed assets	312	359	758	611	375
Other assets	119	107	264	264	264
Total liabilities	3,318	4,335	7,212	6,275	8,212
Current liabilities	2,701	3,830	6,533	5,596	7,533
Accounts payable	1,455	2,744	5,093	3,640	4,637
Interest bearing ST liabilities	703	440	430	430	430
Other current liabilities	542	646	1,009	1,525	2,465
Non-current liabilities	617	505	679	679	679
Long-term debt	258	-	-	-	-
Other L-T liabilities	309	457	535	535	535
Total equity	2,386	4,595	5,546	6,611	8,616
Share capital	605	686	686	686	686
Retained earnings reserve	976	1,329	2,076	3,140	5,145
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	(0.1%)	12.6%	45.1%	50.5%	49.8%
Operating profit growth	(4.2%)	13.7%	36.0%	109.6%	81.9%
EBITDA growth	(4.8%)	13.8%	37.6%	113.0%	72.3%
Net profit growth	5.8%	11.3%	95.5%	73.5%	88.3%
EPS growth	0.5%	9.1%	75.8%	73.5%	88.3%
Profitability					
Gross profit margin	23.3%	23.3%	22.3%	25.6%	29.5%
Operating margin	15.5%	15.6%	14.6%	20.4%	24.7%
EBITDA margin	17.8%	17.9%	17.0%	24.1%	27.7%
Net profit margin	11.3%	11.1%	15.0%	17.3%	21.7%
Return on average assets	10.7%	8.6%	11.3%	16.6%	27.0%
Return on average equity	25.3%	18.0%	24.2%	35.0%	52.7%
Stability					
Gross debt to equity	40.3%	9.6%	7.8%	6.5%	5.0%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	30.4	32.4	129.0	176.5	331.1
Interest & ST debt coverage (x)	0.5	0.7	0.8	0.9	0.9
Cash flow interest coverage(x)	81.7	42.0	120.7	79.9	313.3
Cash flow/int. & ST debt (x)	3.2	2.6	3.2	2.6	10.2
Current ratio (x)	2.0	2.2	1.8	2.1	2.1
Quick ratio (x)	1.6	1.9	1.3	1.7	1.7
Net debt (NT\$m)	(2,880)	(5,458)	(5,906)	(6,203)	(9,358)
Per share data					
EPS (NT\$)	9.33	10.18	17.90	31.06	58.49
CFPS (NT\$)	38.34	19.76	20.55	16.86	66.09
BVPS (NT\$)	39.47	67.03	80.91	96.44	125.68
Adj BVPS (NT\$)	39.47	74.53	80.91	96.44	125.68
SPS (NT\$)	82.94	91.54	119.43	179.78	269.22
EBITDA/share (NT\$)	14.72	16.43	20.33	43.29	74.58
Cash DPS (NT\$)	4.00	5.50	8.00	15.53	29.24
Activity					
Sales / avg assets	0.95	0.77	0.76	0.96	1.24
Days receivable	32.6	94.5	96.7	75.0	60.0
Days inventory	83.6	84.3	167.0	100.0	85.0
Days payable	138.1	231.5	293.1	145.0	130.0
Cash cycle	(21.8)	(52.7)	(29.4)	30.0	15.0

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	5,014	5,644	8,188	12,325	18,456
Cost of goods sold	(3,848)	(4,326)	(6,361)	(9,164)	(13,020)
Gross profit	1,166	1,318	1,827	3,161	5,437
Operating expenses	(391)	(437)	(630)	(651)	(871)
Operating profit	775	881	1,197	2,510	4,566
Non-operating income	98	92	234	242	252
Interest income	13	30	64	71	82
Investment income	-	-	-	-	-
Other non-op income	85	62	170	171	170
Non-operating expenses	(38)	(61)	63	(214)	(44)
Interest expense	(28)	(29)	(12)	(14)	(14)
Investment loss	-	-	-	-	-
Other non-op expenses	(9)	(32)	75	(200)	(30)
Pre-tax profit	835	911	1,495	2,538	4,773
Current taxation	(271)	(283)	(267)	(409)	(764)
Minorities	-	-	-	-	-
Extraordinary items	-	(0)	(0)	-	-
Net profit	564	628	1,227	2,129	4,010
EBITDA	890	1,013	1,394	2,968	5,113
EPS (NT\$)	9.33	10.18	17.90	31.06	58.49

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	2,318	1,218	1,409	1,156	4,531
Net profit	564	628	1,227	2,129	4,010
Depreciation & amortisation	115	132	196	458	547
Decrease in working capital	1,227	145	(447)	(1,431)	(26)
Other operating cash flow	412	314	433	-	0
Investing cash flow	(119)	(182)	(664)	(311)	(311)
Sale of ST investment	-	-	(72)	-	-
New investments	-	-	-	-	-
Capital expenditure	(106)	(189)	(541)	(300)	(300)
Others investing cashflow	(13)	7	(51)	(11)	(11)
Free cash flow	1,755	688	183	822	4,046
Financing cash flow	(214)	1,071	(422)	(548)	(1,065)
Increase in short term debt	118	16	20	-	-
Increase in long term loans	(41)	(567)	-	-	-
New ordinary shares issued	-	1,835	-	-	-
Ordinary dividends paid	(272)	(242)	(377)	(548)	(1,065)
Other financing cashflow	(19)	28	(65)	(0)	(0)
Forex effects	2	(49)	114		
Total cash generated	1,986	2,058	438	297	3,156

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	7.8%	7.7%	7.7%	5.3%	4.7%
= Operating margin	15.5%	15.6%	14.6%	20.4%	24.7%
1 / (Working capital/revenue	(0.1)	(0.1)	(0.1)	0.0	(0.0)
+ Net PPE/revenue	0.1	0.1	0.1	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	(18.1)	(12.8)	157.1	15.0	(55.8)
Operating margin	15.5%	15.6%	14.6%	20.4%	24.7%
x Capital turnover	(18.1)	(12.8)	157.1	15.0	(55.8)
x (1 - tax rate)	67.6%	68.9%	82.1%	83.9%	84.0%
= After-tax ROIC	(188.7%)	(138.2%)	1886.5%	256.8%	(1160.0%)

Source: Company data, KGI Research estimates

Elite Material

(2383.TW/2383 TT)



Outperform · Maintained

Price as of November 20 (NT\$)	1,430
12M target price (NT\$)	1,425
Previous target price (NT\$)	1,425
Unchanged (%)	0.0
Downside (%)	0.3

Key message

1. Elite Material stands to benefit from the adoption of high-speed, multi-layer PCB in AI server.
2. Management guides a flat-to-moderate-decline in 4Q25 sales, which is ahead of consensus.
3. 1Q26F sales could grow QoQ, bucking unfavorable seasonality; M9 materials to boost 2H26F gross profit.

Trading data

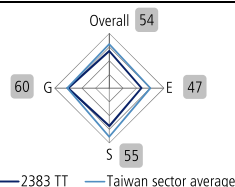
Mkt cap (NT\$bn/US\$mn)	512 / 16,766
Outstanding shares (mn)	358.3
Foreign ownership (mn)	155
3M avg. daily trading (mn)	3.92
52-week trading range (NT\$)	407.0 – 1,470

Performance	3M	6M	12M
Absolute (%)	24.3	111.5	219.6
Relative (%)	8.2	84.1	198.7

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	5.76A	7.08A	7.30A	7.69A
2025	10.01A	10.02A	11.19A	11.70F
2026	11.77F	14.63F	17.19F	21.15F

ESG score card



Source: Refinitiv; KGI Research

Riding increasing adoption of high-speed, multi-layer PCB

Event

We expect Elite Material (EMC) to benefit from the adoption of high-speed, multi-layer PCB in AI servers.

Impact

Riding adoption of high-speed, multi-layer PCB in AI server. We expect PCB layer counts for Nvidia's (US) 2026 Vera Rubin (VR) server to rise, with compute trays including more than 24 layers of 6-N-6 HDI, while the switch tray PCB layer count is set to increase from 22L to 32L. The PCB layer count for a US CSP's ASIC server will be at least 30L, all featuring low-roughness HVLP4 copper foil. In addition, we predict that the PCBs of VR CPX (CPX and mid-plane) and 1.6T switch will both adopt M9 CCL. Prismark estimates that the shipment areas of ultra-low-loss (M7) and extreme-low-loss (M8) CCL will grow at respective 2024-29F CAGRs of 26% and 34%.

Guidance of flat-to-moderate-decline QoQ in 4Q25F sales is ahead of consensus.

We raise 4Q25F sales by 0.4% to a 0.4% QoQ decline, and expect gross margin to dip slightly QoQ to 30.0%, as we assume sales of networking infrastructure products will grow QoQ. While AWS undergoes their product transition, demand for GPU, other ASIC and 800G switches will rise. Automotive sales may pick up QoQ on resumption of pull-in demand from US clients. However, mobile device sales will most likely fall QoQ, as the peak season of inventory build-up is over.

1Q26F sales could grow QoQ against unfavorable seasonality; M9 materials to boost 2H26F gross profit. We expect: (1) PCB for VR200 NVL 144 CPX racks and mid-planes to upgrade to M9 materials in 2H26F, although the PCB for CPX is not finalized yet. For reference, the client is running tests on M8.5 and M9. PCB for 1.6Tb switches may also use M9; (2) raw material supply (fiberglass fabric and copper foil) won't be an issue, as the firm has secured quantities sufficient to fulfill all orders in advance and completed certification of alternative suppliers; and (3) 2025-26F capex to be unchanged at a respective NT\$11bn and NT\$15bn, in order to boost monthly capacity to 5.85mn and 7.50mn units by the end of each respective year.

Valuation & Action

We believe the firm will benefit from increasing adoption of high-speed, multi-layer PCB by AI server makers, and thus maintain a rating of Outperform, with a target price of NT\$1,425, based on 2026F PE of 22x.

Risks

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

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	38,673	41,296	64,377	94,367	124,200
Gross profit (NT\$mn)	9,710	11,333	17,970	28,516	40,041
Operating profit (NT\$mn)	6,225	7,346	12,152	19,354	29,500
Net profit (NT\$mn)	5,073	5,488	9,578	15,096	23,148
EPS (NT\$)	15.24	16.35	27.81	42.22	64.74
Cash DPS (NT\$)	8.50	10.00	17.00	25.33	38.85
EPS growth (%)	(7.7)	7.3	70.1	51.8	53.3
PE (x)	93.8	87.5	51.4	33.9	22.1
PB (x)	21.6	18.3	14.1	10.6	8.1
EV/EBITDA (x)	67.9	55.6	35.5	24.4	16.4
Net debt to equity (%)	Net cash	2.7	4.5	10.7	13.9
Dividend yield (%)	0.6	0.7	1.2	1.8	2.7
Return on average equity (%)	24.3	22.5	30.9	36.8	42.9

Source: Company data; KGI Research estimates

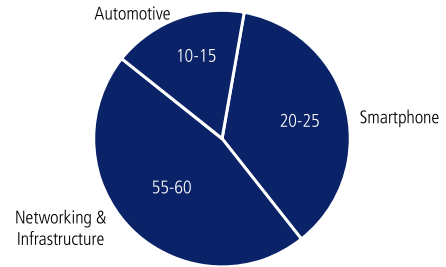
Figure 1: Company profile

Established in 1992, Elite Material (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 2024, EMC derived 20-25% of sales from smartphones, 55-60% from networking & infrastructure, and 10-15% from automotive. Monthly capacity is currently 5.85mn sheets of CCL.

Source: KGI Research

Figure 2: 2024 product mix

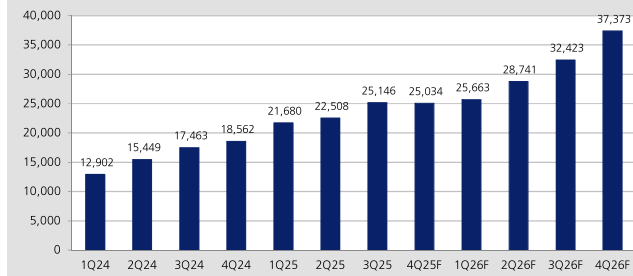
Sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

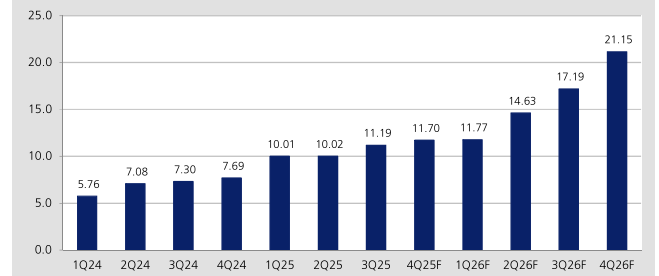
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

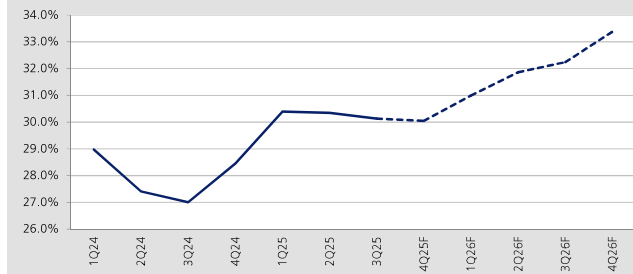
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

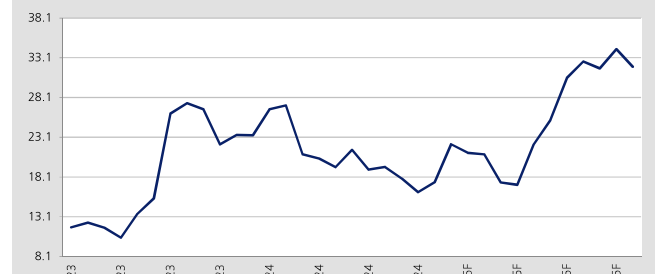
Gross margin, percent



Source: KGI Research

Figure 6: Rolling PE

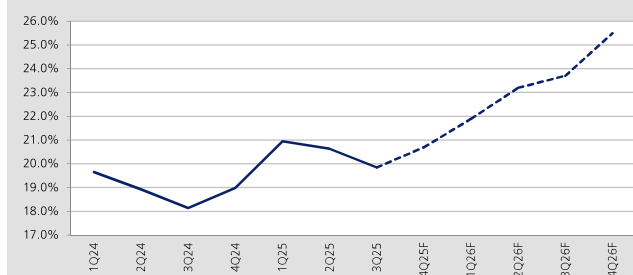
Rolling PE, times



Source: KGI Research

Figure 7: Operating Margin

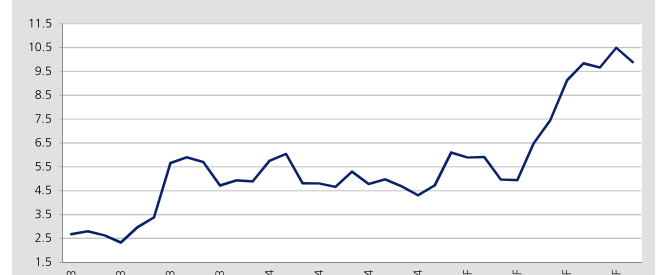
Operating margin, percent



Source: KGI Research

Figure 8: Rolling PB

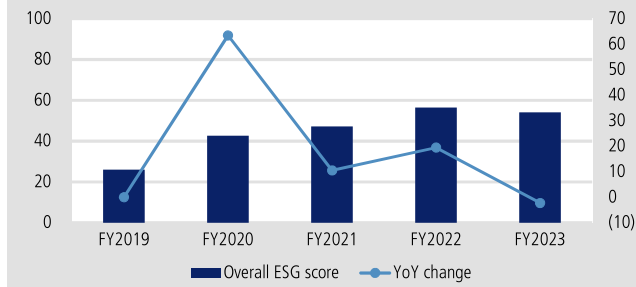
Rolling PB, times



Source: KGI Research

Figure 9: Overall ESG score

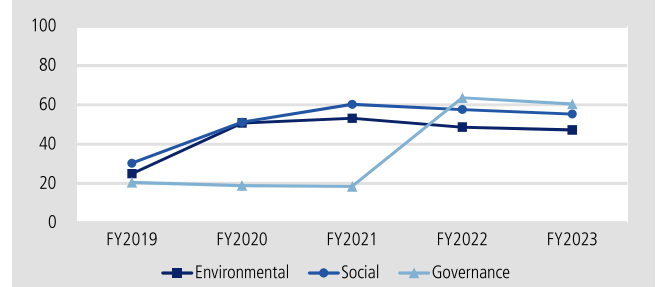
Overall ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 10: ESG score by category

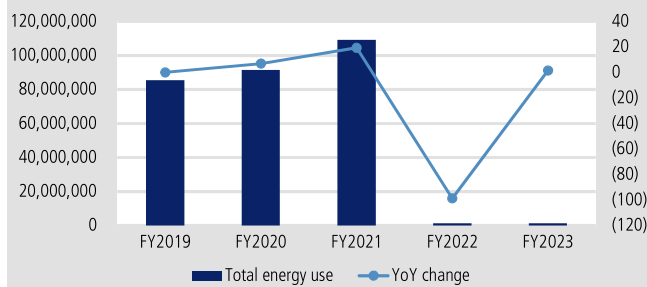
ESG score, points



Source: Refinitiv; KGI Research; Company data

Figure 11: Energy use

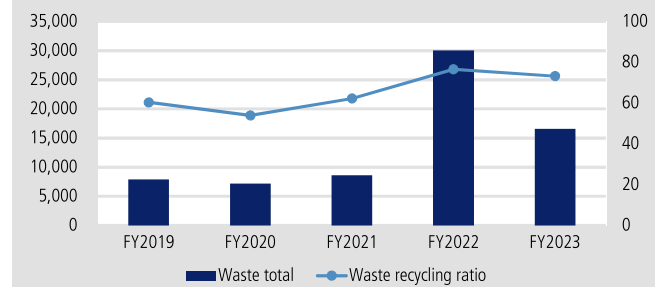
Energy use, gigajoules (LHS); YoY change, percent (RHS)



Source: Refinitiv; KGI Research; Company data

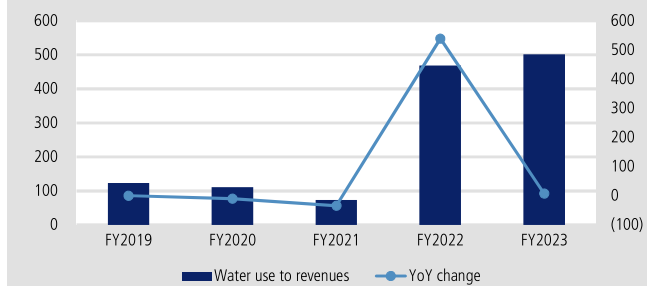
Figure 12: Waste total

Waste total, mt (LHS); waste recycling ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

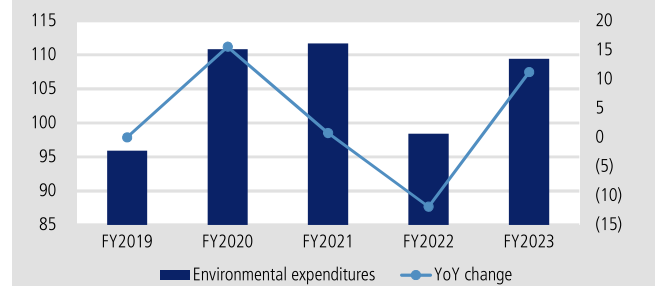
Figure 13: Water use to revenue

Water use to revenue, m³/US\$m (LHS); YoY change, percent (RHS)


Source: Refinitiv; KGI Research; Company data

Figure 14: Environmental expenditures

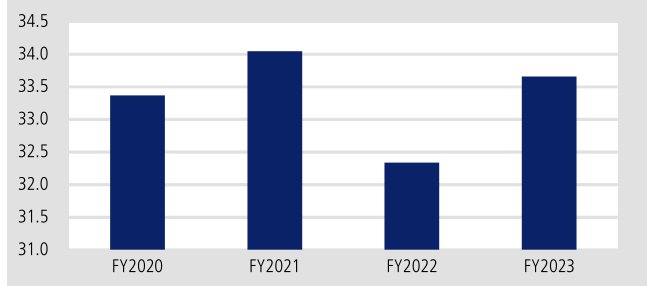
Environmental expenditures, NT\$m (LHS); YoY change, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 15: Employee turnover

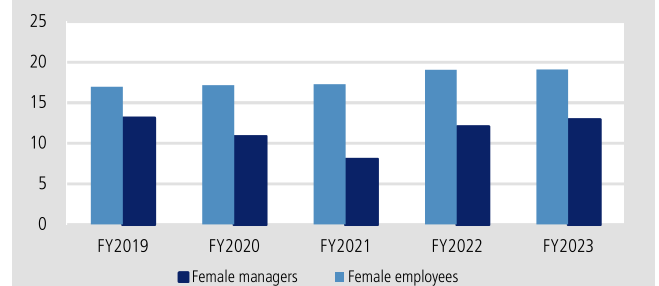
Employee turnover, percent



Source: Refinitiv; KGI Research; Company data

Figure 16: Gender diversification

Weighting of female managers & employees, percent



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	21,680	22,508	25,146	25,034	25,663	28,741	32,423	37,373	64,377	94,367	124,200
Cost of goods sold	(15,090)	(15,678)	(17,570)	(17,514)	(17,709)	(19,583)	(21,971)	(24,897)	(46,407)	(65,852)	(84,159)
Gross profit	6,590	6,829	7,576	7,520	7,954	9,158	10,453	12,477	17,970	28,516	40,041
Operating expenses	(2,051)	(2,186)	(2,586)	(2,340)	(2,336)	(2,490)	(2,767)	(2,948)	(5,818)	(9,162)	(10,541)
Operating profit	4,540	4,644	4,990	5,180	5,618	6,668	7,686	9,528	12,152	19,354	29,500
Depreciation of fixed assets	(454)	(433)	(425)	(446)	(513)	(513)	(513)	(513)	(1,714)	(1,758)	(2,052)
Amortisation of intangible assets	(14)	(14)	(13)	(22)	(17)	(17)	(17)	(17)	(55)	(62)	(66)
EBITDA	5,008	5,090	5,428	5,648	6,147	7,197	8,216	10,058	13,921	21,174	31,618
Interest income	43	66	77	77	77	77	77	77	144	262	308
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	-	-	-	160	90	90	90	90	-	160	360
Non-operating income	43	66	77	237	167	167	167	167	144	422	668
Interest expense	(108)	(114)	(123)	(123)	(123)	(123)	(123)	(123)	(459)	(467)	(490)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	192	(128)	177	-	-	-	-	-	297	241	-
Non-operating expenses	85	(243)	54	(123)	(123)	(123)	(123)	(123)	(162)	(226)	(490)
Pre-tax profit	4,667	4,467	5,121	5,295	5,662	6,712	7,731	9,573	12,133	19,550	29,678
Current taxation	(1,200)	(989)	(1,157)	(1,112)	(1,455)	(1,483)	(1,585)	(2,010)	(2,564)	(4,459)	(6,534)
Minorities	2	0	-	1	1	1	1	1	9	3	4
Normalised net profit	3,469	3,478	3,964	4,184	4,208	5,230	6,147	7,563	9,578	15,095	23,148
Extraordinary items	0	0	1	-	-	-	-	-	-	1	-
Net profit	3,469	3,478	3,965	4,184	4,208	5,230	6,147	7,563	9,578	15,096	23,148
EPS (NT\$)	10.01	10.02	11.19	11.70	11.77	14.63	17.19	21.15	27.81	42.22	64.74
Margins (%)											
Gross profit margin	30.4	30.3	30.1	30.0	31.0	31.9	32.2	33.4	27.9	30.2	32.2
Operating margin	20.9	20.6	19.8	20.7	21.9	23.2	23.7	25.5	18.9	20.5	23.8
EBITDA margin	23.1	22.6	21.6	22.6	24.0	25.0	25.3	26.9	21.6	22.4	25.5
Pretax profit margin	21.5	19.8	20.4	21.1	22.1	23.4	23.8	25.6	18.8	20.7	23.9
Net profit margin	16.0	15.5	15.8	16.7	16.4	18.2	19.0	20.2	14.9	16.0	18.6
Sequential growth (%)											
Revenue growth	16.8	3.8	11.7	(0.4)	2.5	12.0	12.8	15.3			
Gross profit growth	24.8	3.6	10.9	(0.7)	5.8	15.1	14.1	19.4			
Operating profit growth	28.8	2.3	7.5	3.8	8.4	18.7	15.3	24.0			
EBITDA growth	25.7	1.6	6.6	4.1	8.8	17.1	14.1	22.4			
Pretax profit growth	38.5	(4.3)	14.6	3.4	6.9	18.5	15.2	23.8			
Net profit growth	31.0	0.3	14.0	5.5	0.6	24.3	17.5	23.0			
YoY growth (%)											
Revenue growth	68.0	45.7	44.0	34.9	18.4	27.7	28.9	49.3	55.9	46.6	31.6
Gross profit growth	76.3	61.3	60.7	42.4	20.7	34.1	38.0	65.9	58.6	58.7	40.4
Operating profit growth	79.0	58.8	57.6	47.0	23.7	43.6	54.0	83.9	65.4	59.3	52.4
EBITDA growth	70.4	50.9	49.7	41.7	22.7	41.4	51.4	78.1	61.0	52.1	49.3
Pretax profit growth	78.6	50.1	61.3	57.1	21.3	50.3	51.0	80.8	63.5	61.1	51.8
Net profit growth	75.3	42.8	57.6	58.0	21.3	50.4	55.0	80.8	74.5	57.6	53.3

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	43,382	53,427	76,080	102,972	134,929
Current assets	26,580	33,675	51,494	69,139	88,139
Cash & ST securities	10,444	9,259	14,989	16,475	19,708
Inventory	4,236	6,135	9,437	13,429	17,162
Accounts receivable	11,683	17,327	25,897	38,065	50,099
Other current assets	217	955	1,171	1,171	1,171
Non-current assets	16,803	19,752	24,586	33,833	46,790
LT investments	-	6	18	18	18
Net fixed assets	14,680	16,655	21,387	30,634	43,591
Other assets	2,123	3,092	3,181	3,181	3,181
Total liabilities	21,308	26,617	40,986	56,081	74,018
Current liabilities	15,760	23,073	30,182	41,517	54,040
Accounts payable	6,513	10,489	15,963	22,714	29,029
Interest bearing ST liabilities	5,299	7,866	7,781	8,971	10,224
Other current liabilities	3,947	4,718	6,438	9,832	14,787
Non-current liabilities	5,548	3,544	10,804	14,564	19,978
Long-term debt	4,218	2,109	8,772	12,531	17,946
Other L-T liabilities	1,019	1,137	1,397	1,397	1,397
Total equity	22,075	26,809	35,094	46,892	60,911
Share capital	3,329	3,432	3,466	3,466	3,466
Retained earnings reserve	13,361	15,864	21,128	26,935	35,840
Minority interests	-	-	(17)	(21)	(25)
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	0.4%	6.8%	55.9%	46.6%	31.6%
Operating profit growth	(10.1%)	18.0%	65.4%	59.3%	52.4%
EBITDA growth	(8.4%)	23.6%	61.0%	52.1%	49.3%
Net profit growth	(7.7%)	8.2%	74.5%	57.6%	53.3%
EPS growth	(7.7%)	7.3%	70.1%	51.8%	53.3%
Profitability					
Gross profit margin	25.1%	27.4%	27.9%	30.2%	32.2%
Operating margin	16.1%	17.8%	18.9%	20.5%	23.8%
EBITDA margin	18.1%	20.9%	21.6%	22.4%	25.5%
Net profit margin	13.1%	13.3%	14.9%	16.0%	18.6%
Return on average assets	12.7%	11.3%	14.8%	16.9%	19.5%
Return on average equity	24.3%	22.5%	30.9%	36.8%	42.9%
Stability					
Gross debt to equity	43.1%	37.2%	47.2%	45.9%	46.2%
Net debt to equity	Net cash	2.7%	4.5%	10.7%	13.9%
Interest coverage (x)	35.2	24.3	27.4	42.9	61.5
Interest & ST debt coverage (x)	0.5	0.5	0.6	0.7	0.7
Cash flow interest coverage(x)	40.7	9.1	15.8	16.1	32.3
Cash flow/int. & ST debt (x)	1.4	0.4	0.9	0.8	1.5
Current ratio (x)	1.7	1.5	1.7	1.7	1.6
Quick ratio (x)	1.4	1.2	1.4	1.3	1.3
Net debt (NT\$m)	(926)	716	1,565	5,028	8,463
Per share data					
EPS (NT\$)	15.24	16.35	27.81	42.22	64.74
CFPS (NT\$)	22.52	8.61	21.09	21.00	44.23
BVPS (NT\$)	66.31	78.12	101.29	135.34	175.79
Adj BVPS (NT\$)	66.31	79.86	101.93	131.21	170.43
SPS (NT\$)	116.16	123.01	186.89	263.94	347.38
EBITDA/share (NT\$)	21.03	25.76	40.41	59.22	88.43
Cash DPS (NT\$)	8.50	10.00	17.00	25.33	38.85
Activity					
Sales / avg assets	0.97	0.85	0.99	1.05	1.04
Days receivable	110.3	153.1	147.2	147.2	147.2
Days inventory	53.4	74.7	74.4	74.4	74.4
Days payable	82.1	127.8	125.9	125.9	125.9
Cash cycle	81.6	100.1	95.8	95.8	95.8

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	38,673	41,296	64,377	94,367	124,200
Cost of goods sold	(28,962)	(29,964)	(46,407)	(65,852)	(84,159)
Gross profit	9,710	11,333	17,970	28,516	40,041
Operating expenses	(3,485)	(3,987)	(5,818)	(9,162)	(10,541)
Operating profit	6,225	7,346	12,152	19,354	29,500
Non-operating income	62	121	144	599	668
Interest income	62	121	144	262	308
Investment income	-	-	-	-	-
Other non-op income	-	-	-	337	360
Non-operating expenses	8	(47)	(162)	(403)	(490)
Interest expense	(184)	(319)	(459)	(467)	(490)
Investment loss	-	-	-	-	-
Other non-op expenses	193	271	297	64	-
Pre-tax profit	6,296	7,420	12,133	19,550	29,678
Current taxation	(1,220)	(1,931)	(2,564)	(4,459)	(6,534)
Minorities	(3)	-	9	4	4
Extraordinary items	-	(0)	0	0	-
Net profit	5,073	5,488	9,578	15,096	23,148
EBITDA	7,000	8,648	13,921	21,174	31,618
EPS (NT\$)	15.24	16.35	27.81	42.22	64.74

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	7,498	2,890	7,263	7,507	15,814
Net profit	5,073	5,488	9,578	15,096	23,148
Depreciation & amortisation	774	1,302	1,769	1,820	2,118
Decrease in working capital	1,353	(4,019)	(5,974)	(9,409)	(9,452)
Other operating cash flow	298	118	1,890	(0)	-
Investing cash flow	(6,596)	(4,057)	(5,901)	(11,067)	(15,075)
Sale of ST investment	(21)	-	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(6,493)	(3,281)	(5,867)	(11,005)	(15,009)
Others investing cashflow	(82)	(776)	(34)	(62)	(66)
Free cash flow	610	(612)	(543)	(3,716)	596
Financing cash flow	2,687	109	4,116	5,046	2,494
Increase in short term debt	2,575	1,441	(820)	-	-
Increase in long term loans	3,657	1,512	8,386	4,949	6,668
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(3,333)	(2,830)	(3,439)	(5,894)	(9,288)
Other financing cashflow	(211)	(15)	(11)	5,991	5,115
Forex effects	211	(126)	251		
Total cash generated	3,802	(1,185)	5,729	1,486	3,233

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue	9.0%	9.7%	9.0%	9.7%	8.5%
- Operating exp./revenue	16.1%	17.8%	18.9%	20.5%	23.8%
= Operating margin	16.1%	17.8%	18.9%	20.5%	23.8%
1 / (Working capital/revenue	0.1	0.2	0.2	0.2	0.2
+ Net PPE/revenue	0.4	0.4	0.3	0.3	0.4
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	1.8	1.6	1.8	1.8	1.8
Operating margin	16.1%	17.8%	18.9%	20.5%	23.8%
x Capital turnover	1.8	1.6	1.8	1.8	1.8
x (1 - tax rate)	80.6%	74.0%	78.9%	77.2%	78.0%
= After-tax ROIC	24.0%	20.6%	26.8%	29.2%	33.6%

Source: Company data; KGI Research estimates

Unimicron

(3037.TW/3037 TT)



Outperform · Maintained

Price as of November 20 (NT\$)	171.5
12M target price (NT\$)	202.0
Previous target price (NT\$)	202.0
Unchanged (%)	0.0
Upside (%)	17.8

Key message

1. Rising AI server chip density drives larger ABF substrates, tightening ABF substrate supply by 2026F
2. 4Q25F substrate price hikes to continue; gross margin is expected to recover.
3. Glass cloth shortages to ease in 1H26F.

Trading data

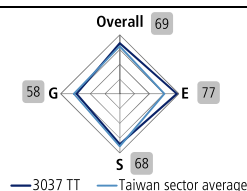
Mkt cap (NT\$bn/US\$m)	270.2 / 8,842
Outstanding shares (mn)	1,576
Foreign ownership (mn)	563
3M avg. daily trading (mn)	29.14
52-week trading range (NT\$)	70.40 –178.5

Performance	3M	6M	12M
Absolute (%)	28.5	70.6	8.9
Relative (%)	12.4	43.2	-12

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	1.60A	1.05A	0.66A	0.04A
2025	0.60A	0.02A	1.44A	1.52F
2026	1.68F	2.09F	2.35F	3.04F

ESG score card



Source: Refinitiv; KGI Securities

Rising AI server chip density drives larger ABF substrates

Event

We expect Unimicron Technology to benefit from the adoption of high-speed, multi-layer PCB in AI servers.

Impact

Rising AI server chip density drives larger ABF substrates, tightening ABF substrate supply by 2026F. We expect Rubin and Rubin Ultra ABF substrates to increase in size to 100 × 91 mm² and 153 × 77.5 mm², with layer counts rising from 12-14L to 18-20L. Considering yield and layout efficiency, the required production area will be 5-10 times that of PC substrates (40 × 40 mm², 8-10L). Driven by AI demand for advanced ABF substrates, we expect a rapid tightening of ABF substrate supply by 2026F. We estimate oversupply will narrow to less than 8% next year; and with the substrate shortage intensifying, ABF prices are likely to increase earlier than we had expected in 4Q25F, with structural supply-demand dynamics further driving price hikes in 2H26F. We forecast respective ABF price increases of 2%, 2-3%, 3-4%, and 3-4% in 1Q-4Q26.

4Q25F substrate price hikes to continue; gross margin is expected to recover. We forecast 3Q25 utilization rates for substrates, HDI and PCB of 80-85%, 85-90% and 60%, respectively. HDI sales are expected to increase by double digits QoQ as production line adjustments are completed. Due to glass cloth shortages, we believe that prices for certain BT substrates using T-glass increased by more than double-digit percentages in 3Q25. ABF substrate prices, originally expected to increase in 1H26F, have started rising earlier in 4Q25, overtaking the upward price acceleration of BT substrates.

1H26F glass cloth shortage eases. Other important information is as follows: (1) as downstream manufacturers adopt T-glass cloth as a substitute, belief in easing shortages has become a consensus. With production lines coming online in 1Q26F, supply constraints will be partially alleviated. We expect quarterly ABF price increases of over 2% starting from 1Q26F, with greater increases in 2H26F due to structural supply-demand convergence; (2) the expansion progress of the ABF Guangfu plant is in line with expectations, and is projected to continue in 2026F. The Yangmei plant is steadily ramping up utilization, with contributions to revenue from 2H25F; and (3) the new product introduction (NPI) specifications for large substrates in 2025F are 120×150mm. For CPO and optical module substrates, the NPI specifications are also trending toward larger formats, at 120×150mm and 110×110mm, respectively.

Valuation & Action

With AI driving demand for high-end ABF substrates, the supply-demand imbalance is improving at a faster pace. Under glass cloth shortage impacts, ABF price increases are expected to begin earlier than expected. We maintain Outperform with a target price of NT\$202, based on 22x 2026F EPS.

Risks

Oversupply drags earnings.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$m)	104,036	115,373	131,501	165,962	206,312
Gross profit (NT\$m)	20,302	16,315	18,441	30,663	41,055
Operating profit (NT\$m)	8,729	4,984	6,717	17,071	25,132
Net profit (NT\$m)	11,980	5,082	5,464	14,007	20,375
EPS (NT\$)	7.88	3.34	3.57	9.16	13.32
Cash DPS (NT\$)	3.00	1.50	1.61	4.12	5.99
EPS growth (%)	(60.7)	(57.6)	6.9	156.3	45.5
PE (x)	21.8	51.3	48.0	18.7	12.9
PB (x)	2.9	2.8	2.7	2.4	2.1
EV/EBITDA (x)	9.0	10.4	9.3	6.1	4.6
Net debt to equity (%)	Net cash	0.0	1.1	Net cash	Net cash
Dividend yield (%)	1.7	0.9	0.9	2.4	3.5
Return on average equity (%)	13.6	5.5	5.7	13.5	17.5

Source: Company data; KGI Research estimates

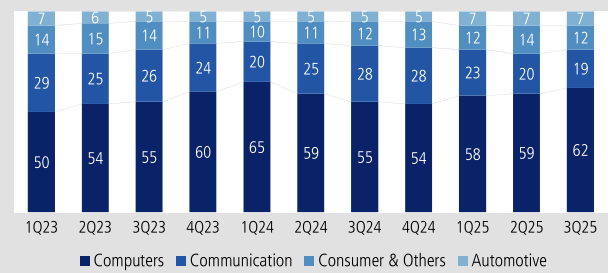
Figure 1: Company profile

Founded in 1990, Unimicron is a PCB and IC carrier maker headquartered in Taoyuan, Taiwan. The company expanded its market share through a number of M&As, and became the world's largest PCB supplier after merging with Phoenix Precision in 2009. 2024 sales by technology were IC carrier 6%, HDI 24%, PCB 10%, and FPCB and other 4%. By application, computer manufacturing was 58%, communications 26%, consumer & other 14%, and automotive 6%.

Source: KGI Research

Figure 2: Sales mix

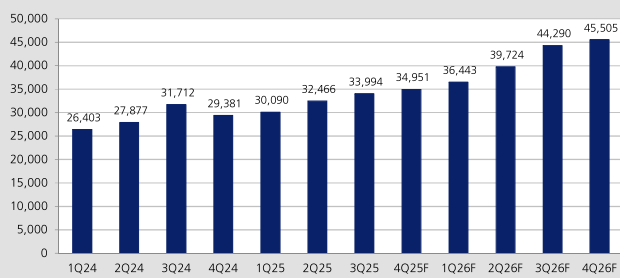
Sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

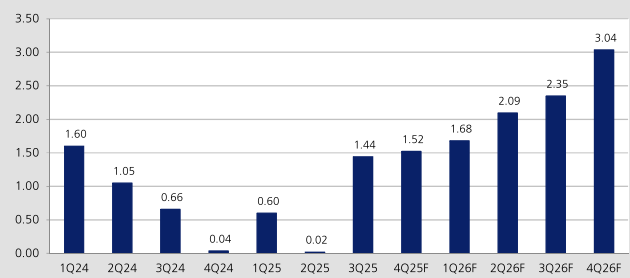
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

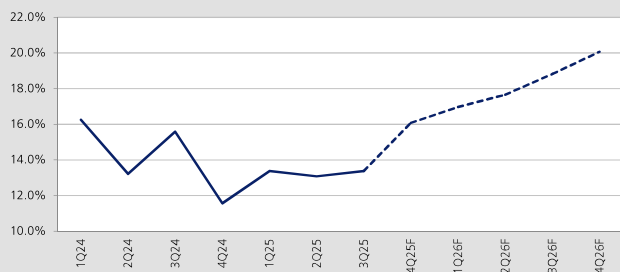
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

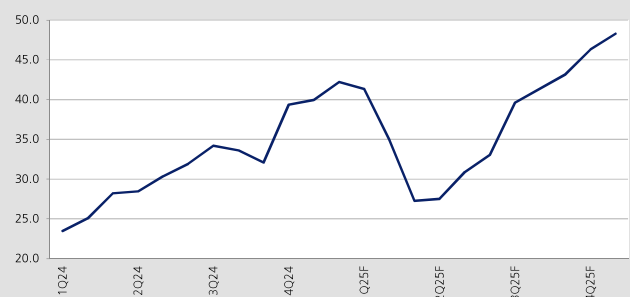
Gross margin, percent



Source: KGI Research

Figure 6: Rolling PE

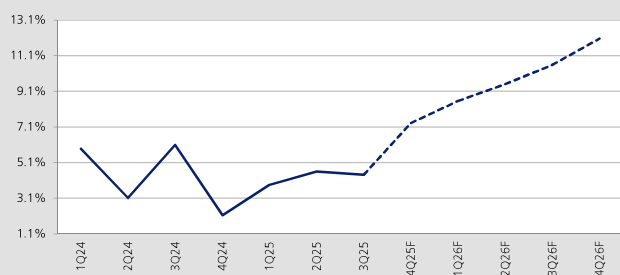
Rolling PE, times



Source: KGI Research

Figure 7: Operating Margin

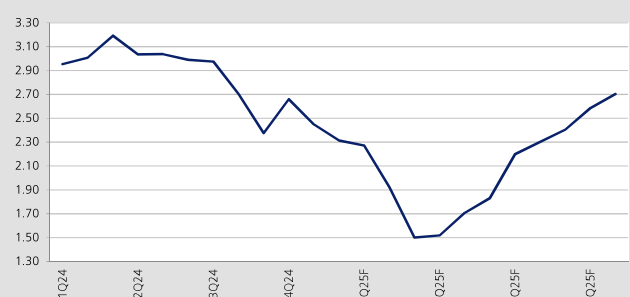
Operating margin, percent



Source: KGI Research

Figure 8: Rolling PB

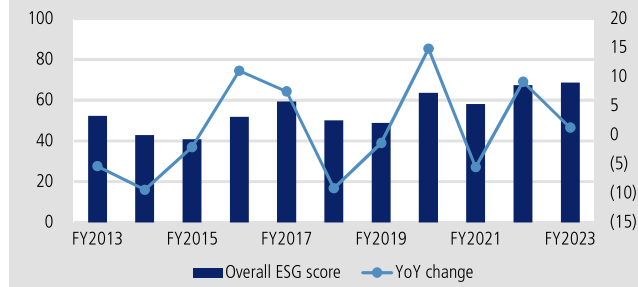
Rolling PB, times



Source: KGI Research

Figure 9: Overall ESG score

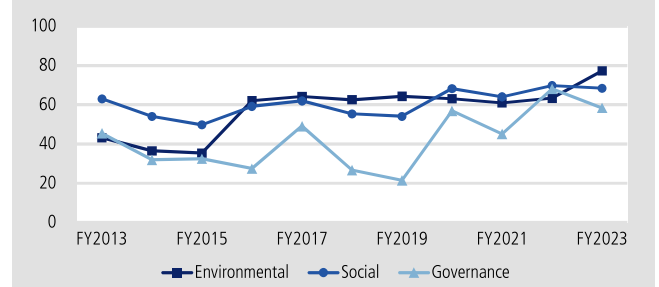
Overall ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 10: ESG score by category

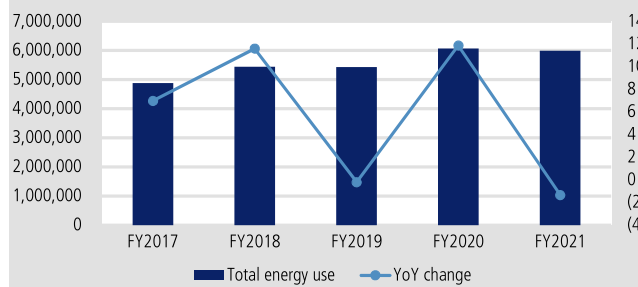
ESG score, points



Source: Refinitiv; KGI Research; Company data

Figure 11: Energy use

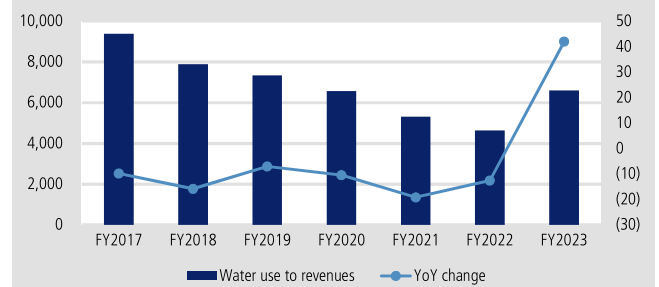
Energy use, gigajoules (LHS); YoY change, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 12: Water use to revenue

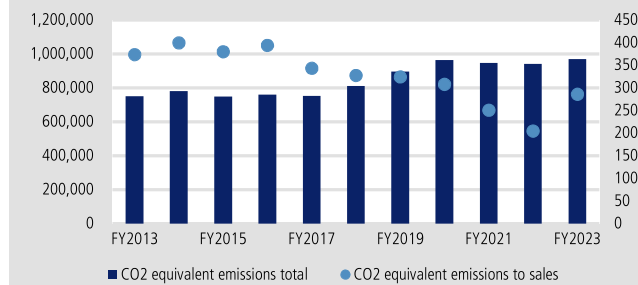
Water use to revenue, m3/ US\$m (LHS); YoY change, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 13: CO2 equivalent emissions

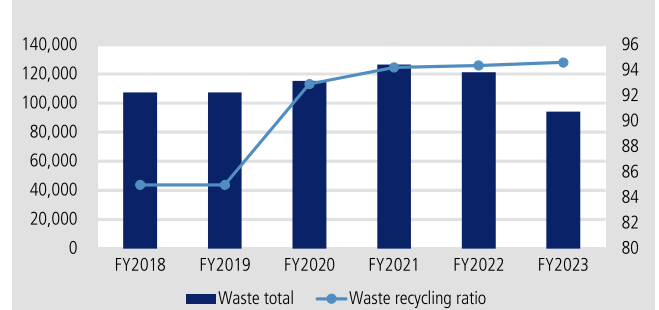
CO2 equivalent emissions, mt (LHS); emissions to revenue, mt/ US\$m (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 14: Waste total

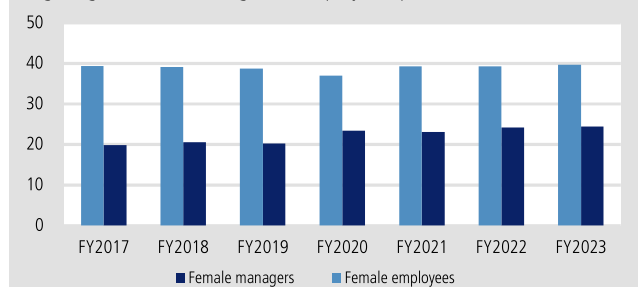
Waste total, mt (LHS); waste recycling ratio, percent (RHS)



Source: Refinitiv; KGI Research; Company data

Figure 15: Gender diversification

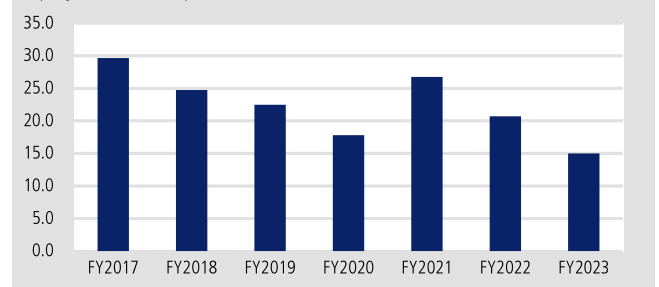
Weighting of female managers & employees, percent



Source: Refinitiv; KGI Research; Company data

Figure 16: Employee turnover

Employee turnover, percent



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$mn)											
Revenue	30,090	32,466	33,994	34,951	36,443	39,724	44,290	45,505	131,501	165,962	206,312
Cost of goods sold	(26,063)	(28,221)	(29,446)	(29,330)	(30,259)	(32,711)	(35,956)	(36,374)	(113,060)	(135,299)	(165,258)
Gross profit	4,026	4,246	4,549	5,621	6,184	7,014	8,334	9,131	18,441	30,663	41,055
Operating expenses	(2,867)	(2,750)	(3,045)	(3,062)	(3,066)	(3,237)	(3,645)	(3,644)	(11,724)	(13,592)	(15,923)
Operating profit	1,159	1,496	1,504	2,559	3,118	3,777	4,690	5,487	6,717	17,071	25,132
Depreciation of fixed assets	(4,469)	(4,489)	(4,594)	(4,450)	(5,000)	(5,000)	(5,000)	(5,000)	(18,002)	(20,000)	(21,585)
Amortisation of intangible assets	(118)	(110)	(105)	(177)	(129)	(129)	(129)	(129)	(510)	(515)	(520)
EBITDA	5,746	6,094	6,203	7,186	8,247	8,906	9,818	10,616	25,229	37,586	47,237
Interest income	331	345	283	329	329	329	329	329	1,288	1,316	1,316
Investment income	51	6	1	-	-	-	-	-	58	-	-
Other non-op income	273	183	253	250	150	150	150	150	959	600	600
Non-operating income	655	534	536	579	479	479	479	479	2,305	1,916	1,916
Interest expense	(228)	(284)	(290)	(182)	(182)	(182)	(182)	(182)	(983)	(728)	(728)
Investment loss	(19)	(19)	(2)	-	-	-	-	-	(40)	-	-
Other non-op expenses	(302)	(1,384)	1,169	(100)	(100)	(100)	(100)	(100)	(617)	(400)	(400)
Non-operating expenses	(549)	(1,687)	878	(282)	(282)	(282)	(282)	(282)	(1,640)	(1,128)	(1,128)
Pre-tax profit	1,266	343	2,918	2,856	3,315	3,974	4,887	5,684	7,383	17,859	25,920
Current taxation	(450)	(97)	(496)	(514)	(729)	(755)	(1,222)	(1,023)	(1,556)	(3,729)	(5,422)
Minorities	(9)	(231)	(256)	(16)	(16)	(16)	(75)	(16)	(512)	(123)	(123)
Normalised net profit	807	16	2,166	2,326	2,570	3,203	3,590	4,645	5,314	14,007	20,375
Extraordinary items	108	14	29	-	-	-	-	-	150	-	-
Net profit	915	30	2,194	2,326	2,570	3,203	3,590	4,645	5,464	14,007	20,375
EPS (NT\$)	0.60	0.02	1.44	1.52	1.68	2.09	2.35	3.04	3.57	9.16	13.32
Margins (%)											
Gross profit margin	13.4	13.1	13.4	16.1	17.0	17.7	18.8	20.1	14.0	18.5	19.9
Operating margin	3.9	4.6	4.4	7.3	8.6	9.5	10.6	12.1	5.1	10.3	12.2
EBITDA margin	19.1	18.8	18.2	20.6	22.6	22.4	22.2	23.3	19.2	22.6	22.9
Pretax profit margin	4.2	1.1	8.6	8.2	9.1	10.0	11.0	12.5	5.6	10.8	12.6
Net profit margin	3.0	0.1	6.5	6.7	7.1	8.1	8.1	10.2	4.2	8.4	9.9
Sequential growth (%)											
Revenue growth	2.4	7.9	4.7	2.8	4.3	9.0	11.5	2.7			
Gross profit growth	18.5	5.4	7.1	23.6	10.0	13.4	18.8	9.6			
Operating profit growth	83.1	29.0	0.5	70.2	21.8	21.1	24.2	17.0			
EBITDA growth	12.0	6.1	1.8	15.8	14.8	8.0	10.2	8.1			
Pretax profit growth	364.1	(72.9)	750.6	(2.1)	16.1	19.9	23.0	16.3			
Net profit growth	1531.3	(96.8)	7312.1	6.0	10.5	24.6	12.1	29.4			
YoY growth (%)											
Revenue growth	14.0	16.5	7.2	19.0	21.1	22.4	30.3	30.2	14.0	26.2	24.3
Gross profit growth	(6.2)	15.3	(8.0)	65.4	53.6	65.2	83.2	62.4	13.0	66.3	33.9
Operating profit growth	(25.4)	72.3	(22.1)	304.2	169.0	152.5	211.9	114.4	34.8	154.1	47.2
EBITDA growth	1.9	18.5	(1.6)	40.0	43.5	46.1	58.3	47.7	13.6	49.0	25.7
Pretax profit growth	(62.0)	(83.7)	96.8	947.2	161.9	1058.4	67.5	99.0	2.7	141.9	45.1
Net profit growth	(62.4)	(98.1)	120.1	4048.4	181.0	10717.6	63.6	99.7	7.5	156.3	45.5

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	216,006	230,847	241,593	267,449	293,715
Current assets	86,579	86,869	95,041	122,387	152,125
Cash & ST securities	52,948	43,972	46,621	63,548	80,496
Inventory	10,927	14,863	17,010	20,356	24,863
Accounts receivable	18,567	23,617	26,992	34,065	42,348
Other current assets	4,137	4,418	4,418	4,418	4,418
Non-current assets	129,426	143,978	146,552	145,062	141,590
LT investments	14,327	17,152	17,126	17,134	17,145
Net fixed assets	109,483	120,536	123,136	121,638	118,155
Other assets	5,616	6,291	6,291	6,291	6,291
Total liabilities	119,721	131,260	137,361	150,688	163,053
Current liabilities	44,247	58,382	68,024	74,104	83,979
Accounts payable	11,286	15,117	17,301	20,704	25,288
Interest bearing ST liabilities	5,874	10,871	18,156	16,976	19,392
Other current liabilities	27,086	32,394	32,566	36,424	39,299
Non-current liabilities	75,474	72,878	69,338	76,584	79,074
Long-term debt	24,807	32,905	29,364	36,611	39,101
Other L-T liabilities	49,188	37,984	37,984	37,984	37,984
Total equity	96,284	99,587	104,232	116,761	130,662
Share capital	15,251	15,300	15,300	15,300	15,300
Retained earnings reserve	51,043	49,729	52,727	60,409	71,585
Minority interests	5,624	6,322	6,834	6,957	7,080
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(25.9%)	10.9%	14.0%	26.2%	24.3%
Operating profit growth	(77.0%)	(42.9%)	34.8%	154.1%	47.2%
EBITDA growth	(52.1%)	(6.8%)	13.6%	49.0%	25.7%
Net profit growth	(59.6%)	(57.6%)	7.5%	156.3%	45.5%
EPS growth	(60.7%)	(57.6%)	6.9%	156.3%	45.5%
Profitability					
Gross profit margin	19.5%	14.1%	14.0%	18.5%	19.9%
Operating margin	8.4%	4.3%	5.1%	10.3%	12.2%
EBITDA margin	22.9%	19.3%	19.2%	22.6%	22.9%
Net profit margin	11.5%	4.4%	4.2%	8.4%	9.9%
Return on average assets	5.5%	2.3%	2.3%	5.5%	7.3%
Return on average equity	13.6%	5.5%	5.7%	13.5%	17.5%
Stability					
Gross debt to equity	31.9%	44.0%	45.6%	45.9%	44.8%
Net debt to equity	Net cash	0.0%	1.1%	Net cash	Net cash
Interest coverage (x)	25.6	10.1	8.5	25.5	36.6
Interest & ST debt coverage (x)	0.7	0.4	0.3	0.5	0.6
Cash flow interest coverage(x)	49.5	13.1	21.0	37.8	47.1
Cash flow/int. & ST debt (x)	4.8	0.9	1.1	1.6	1.7
Current ratio (x)	2.0	1.5	1.4	1.7	1.8
Quick ratio (x)	1.7	1.2	1.1	1.4	1.5
Net debt (NT\$m)	(22,178)	23	1,118	(9,743)	(21,785)
Per share data					
EPS (NT\$)	7.88	3.34	3.57	9.16	13.32
CFPS (NT\$)	20.34	6.77	13.52	17.98	22.40
BVPS (NT\$)	59.45	60.96	63.66	71.77	80.77
Adj BVPS (NT\$)	59.66	61.31	63.66	71.77	80.77
SPS (NT\$)	68.47	75.84	85.95	108.47	134.85
EBITDA/share (NT\$)	15.68	14.60	16.49	24.57	30.87
Cash DPS (NT\$)	3.00	1.50	1.61	4.12	5.99
Activity					
Sales / avg assets	0.48	0.52	0.56	0.65	0.74
Days receivable	65.1	74.9	74.9	74.9	74.9
Days inventory	47.6	54.9	54.9	54.9	54.9
Days payable	49.2	55.9	55.9	55.9	55.9
Cash cycle	63.6	74.0	74.0	74.0	74.0

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	104,036	115,373	131,501	165,962	206,312
Cost of goods sold	(83,735)	(99,058)	(113,060)	(135,299)	(165,258)
Gross profit	20,302	16,315	18,441	30,663	41,055
Operating expenses	(11,573)	(11,331)	(11,724)	(13,592)	(15,923)
Operating profit	8,729	4,984	6,717	17,071	25,132
Non-operating income	2,300	2,338	2,305	1,916	1,916
Interest income	1,370	1,280	1,288	1,316	1,316
Investment income	52	49	58	-	-
Other non-op income	877	1,010	959	600	600
Non-operating expenses	4,355	(134)	(1,640)	(1,128)	(1,128)
Interest expense	(625)	(786)	(983)	(728)	(728)
Investment loss	(124)	(21)	(40)	-	-
Other non-op expenses	5,104	673	(617)	(400)	(400)
Pre-tax profit	15,384	7,188	7,383	17,859	25,920
Current taxation	(3,350)	(1,765)	(1,556)	(3,729)	(5,422)
Minorities	(245)	(474)	(512)	(123)	(123)
Extraordinary items	191	132	150	-	-
Net profit	11,980	5,082	5,464	14,007	20,375
EBITDA	23,826	22,215	25,229	37,586	47,237
EPS (NT\$)	7.88	3.34	3.57	9.16	13.32

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	30,900	10,294	20,678	27,506	34,274
Net profit	11,980	5,082	5,464	14,007	20,375
Depreciation & amortisation	15,097	17,231	18,512	20,515	22,105
Decrease in working capital	12,508	(5,229)	(3,338)	(7,016)	(8,205)
Other operating cash flow	(8,685)	(6,791)	40	-	-
Investing cash flow	(21,099)	(29,230)	(21,127)	(19,024)	(18,633)
Sale of ST investment	(1,391)	(3,050)	-	-	-
New investments	(29)	-	(15)	(7)	(11)
Capital expenditure	(22,938)	(26,128)	(20,602)	(18,502)	(18,102)
Others investing cashflow	3,259	(52)	(510)	(515)	(520)
Free cash flow	11,041	(10,865)	(637)	7,988	15,152
Financing cash flow	(18,060)	8,336	3,098	8,445	1,307
Increase in short term debt	(5,312)	4,827	-	-	-
Increase in long term loans	(898)	8,388	3,745	6,066	4,905
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(12,190)	(4,575)	(2,295)	(2,467)	(6,324)
Other financing cashflow	341	(303)	1,647	4,846	2,726
Forex effects	(341)	1,494	-	-	-
Total cash generated	(8,600)	(9,106)	2,649	16,927	16,948

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	11.1%	9.8%	8.9%	8.2%	7.7%
= Operating margin	8.4%	4.3%	5.1%	10.3%	12.2%
1 / (Working capital/revenue	(0.0)	(0.0)	(0.0)	0.0	0.0
+ Net PPE/revenue	1.1	1.0	0.9	0.7	0.6
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	1.0	1.0	1.1	1.3	1.6
Operating margin	8.4%	4.3%	5.1%	10.3%	12.2%
x Capital turnover	1.0	1.0	1.1	1.3	1.6
x (1 - tax rate)	78.2%	75.5%	78.9%	79.1%	79.1%
= After-tax ROIC	6.5%	3.2%	4.3%	10.9%	15.9%

Source: Company data; KGI Research estimates



Taiwan Union Technology

(6274.TW/6274 TT)

Outperform · Maintained

Price as of November 20 (NT\$)	416
12M target price (NT\$)	530
Previous target price (NT\$)	530
Unchanged (%)	0
Upside (%)	27.4

Key message

1. Firm is riding on the adoption of high-speed, multi-layer PCB in AI server.
2. Penetration of the supply chain of a US AI ASIC server project will spur sales growth.
3. Upgrades to 800G switch continues; PCB for 1.6T switch is advancing toward 50-layer stack architectures.

Trading data

Mkt cap (NT\$bn/US\$mn)	118.8 / 3,887
Outstanding shares (mn)	288.7
Foreign ownership (mn)	81.40
3M avg. daily trading (mn)	23.42
52-week trading range (NT\$)	117.0 –411.5

Performance	3M	6M	12M
Absolute (%)	29.8	157.2	165.5
Relative (%)	17	131.5	144.8

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	1.66A	2.55A	2.77A	2.59A
2025	2.43A	2.36A	3.58A	4.13F
2026	4.21F	4.93F	5.94F	6.46F

Share price chart



Source: TEJ

Beneficiary of high-speed & multi-layer PCB for AI

Event

Taiwan Union Technology (TUC) is riding on the adoption of high-speed, multi-layer PCB in AI server.

Impact

Riding adoption of high-speed, multi-layer PCB in AI server. We expect PCB layer counts for Nvidia's (US) 2026 Vera Rubin (VR) servers to rise, with compute trays including more than 24 layers of 6-N-6 HDI, while the switch tray's PCB layer count is set to increase from 22L to 32L. The PCB layer count for a US CSP's ASIC server will be at least 30L, all featuring low-roughness HVLP4 copper foil. In addition, we predict that the PCBs of the VR CPX (CPX and mid-plane) and 1.6T switch will both adopt M9 CCL. Prismark estimates that the shipment areas of ultra-low-loss (M7) and extreme-low-loss (M8) CCL will grow at respective 2024-29F CAGRs of 26% and 34%.

US AI ASIC server sales to spur sales growth. TUC entered the supply chain of a US CSP's second-generation (T2) ASIC server project in 3Q25 as a UBB supplier, and we expect the firm to win more than 20% of orders for T3 ASIC server. As the UBB of the T3 ASIC server will use HVLP4 copper foil, the unit cost of CCL will rise by at least 20%, which in turn should boost the combined sales weighting of M7 and M8 CCL from 35% in 2025F to 48% and 59% in 2026-27F, respectively.

Upgrades to 800G switch continues; PCB for 1.6T switch advancing toward 50-layer stack architectures. We expect the switch industry adoption rate of 800G switch to increase to 30-40% by 2026F. Under the multi-layer high-speed trend across 400G, 800G, and 1.6T switch in 2H26F, we project PCB layer counts to reach 20–30 layers for 400G, 36-48 layers for 800G, and 50-plus layers for 1.6T. Coupled with advanced materials (M7, M8, M9) use, we estimate the ASP of CCL in each switch generation to rise by more than 40–50%. We forecast TUC's switch-related revenue weighting to grow from 19% in 2025F to 26% in 2026F and 37% in 2027F.

Valuation & Action

As we expect TUC to benefit from the trend of increasing PCB layer counts and material upgrades in AI server via entry into the supply chain of a US AI ASIC server project, we maintain Outperform with a target price of NT\$530, based on 20x 2026-27F average EPS.

Risks

Poor client demand; rivals take lead.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	16,003	23,070	29,858	40,246	52,445
Gross profit (NT\$mn)	3,159	5,342	7,055	10,953	15,318
Operating profit (NT\$mn)	1,424	3,332	4,534	7,790	11,267
Net profit (NT\$mn)	823	2,604	3,493	6,089	8,881
EPS (NT\$)	3.05	9.56	12.36	21.54	31.42
Cash DPS (NT\$)	4.01	6.50	7.41	12.92	18.85
EPS growth (%)	(35.0)	213.6	29.3	74.3	45.9
PE (x)	135.0	43.0	33.3	19.1	13.1
PB (x)	9.6	7.9	6.7	5.5	4.4
EV/EBITDA (x)	57.7	29.1	20.3	12.9	9.3
Net debt to equity (%)	Net cash	Net cash	Net cash	4.3	7.1
Dividend yield (%)	1.0	1.6	1.8	3.1	4.6
Return on average equity (%)	7.0	20.1	22.3	32.3	37.9

Source: Company data, KGI Research estimates

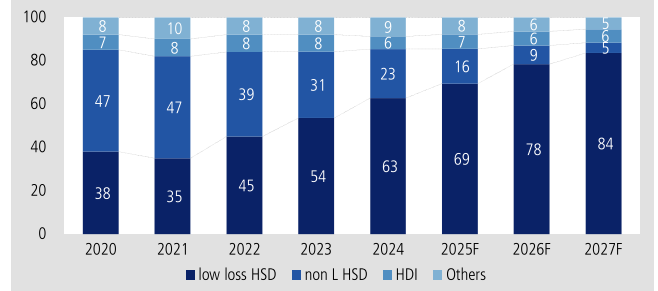
Figure 1: Company profile

Founded in May 1974, Taiwan Union Technology is one of the four major copper-clad laminate suppliers in Taiwan. The company is located in Zhubei City, Hsinchu County, and was listed on the Taiwan Stock Exchange in December 2003. In 2024, its product mix consisted of HSD low-loss (63%), HSD non-low-loss (23%), HDI (6%), and others (9%). The company currently has a copper-clad laminate production capacity of approximately 2.3mn sheets, pre-preg capacity of 45,000 rolls, and lamination outsourcing of 1.55mn square feet per month (inner layers).

Source: KGI Research

Figure 2: Sales mix

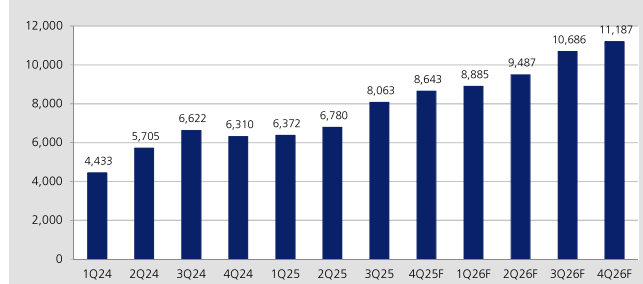
Sales weighting, percent



Source: KGI Research

Figure 3: Sales

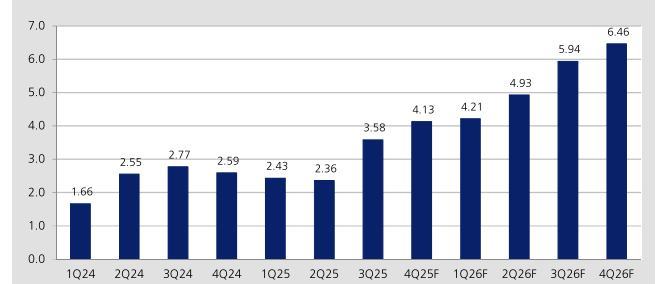
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

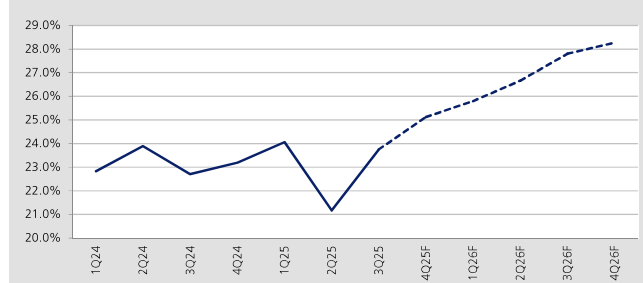
EPS, NT\$



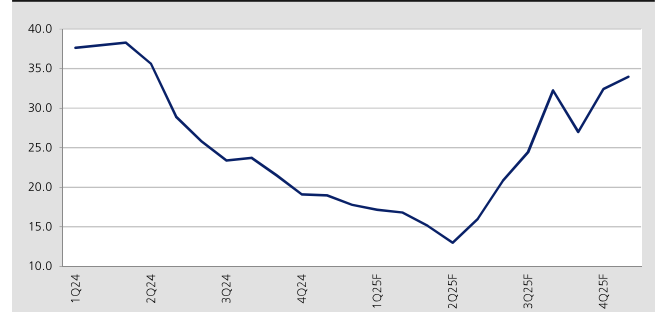
Source: KGI Research

Figure 5: Gross Margin

Gross margin, percent



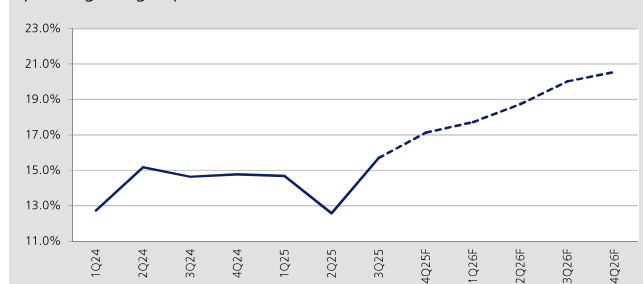
Source: KGI Research

Figure 6: Rolling PE


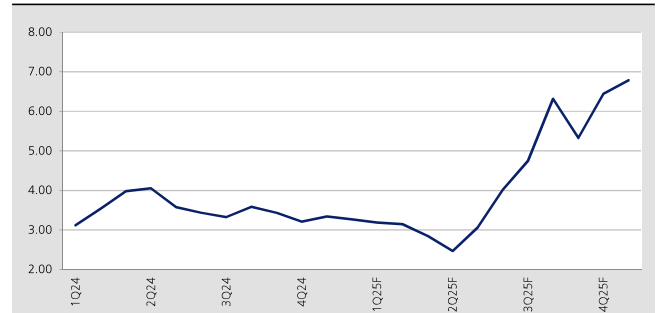
Source: KGI Research

Figure 7: Operating Margin

Operating Margin, percent



Source: KGI Research

Figure 8: Rolling PB


Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	6,372	6,780	8,063	8,643	8,885	9,487	10,686	11,187	29,858	40,246	52,445
Cost of goods sold	(4,839)	(5,345)	(6,148)	(6,471)	(6,593)	(6,958)	(7,716)	(8,025)	(22,804)	(29,292)	(37,127)
Gross profit	1,533	1,435	1,915	2,172	2,292	2,529	2,970	3,162	7,055	10,953	15,318
Operating expenses	(598)	(583)	(649)	(691)	(717)	(752)	(831)	(864)	(2,521)	(3,163)	(4,052)
Operating profit	935	853	1,266	1,481	1,575	1,777	2,139	2,299	4,534	7,790	11,267
Depreciation of fixed assets	(108)	(104)	(106)	(838)	(319)	(319)	(319)	(319)	(1,155)	(1,278)	(1,403)
Amortisation of intangible assets	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(4)	(4)
EBITDA	1,045	957	1,373	2,319	1,895	2,098	2,460	2,619	5,694	9,072	12,674
Interest income	33	31	24	31	31	31	31	31	119	124	124
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	-	-	-	-	-	-	-	-	-	-	-
Non-operating income	33	31	24	31	31	31	31	31	119	124	124
Interest expense	(16)	(15)	(21)	(15)	(15)	(15)	(15)	(15)	(66)	(60)	(60)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	(18)	(29)	49	-	(3)	(3)	(3)	(3)	2	(12)	(12)
Non-operating expenses	(34)	(44)	28	(15)	(18)	(18)	(18)	(18)	(65)	(72)	(72)
Pre-tax profit	935	840	1,318	1,497	1,588	1,790	2,152	2,312	4,589	7,842	11,319
Current taxation	(263)	(188)	(315)	(329)	(397)	(397)	(474)	(485)	(1,095)	(1,753)	(2,438)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	672	652	1,003	1,167	1,191	1,393	1,679	1,826	3,493	6,089	8,881
Extraordinary items	0	(0)	(0)	-	-	-	-	-	-	-	-
Net profit	672	652	1,003	1,167	1,191	1,393	1,679	1,826	3,493	6,089	8,881
EPS (NT\$)	2.43	2.36	3.58	4.13	4.21	4.93	5.94	6.46	12.36	21.54	31.42
Margins (%)											
Gross profit margin	24.1	21.2	23.7	25.1	25.8	26.7	27.8	28.3	23.6	27.2	29.2
Operating margin	14.7	12.6	15.7	17.1	17.7	18.7	20.0	20.5	15.2	19.4	21.5
EBITDA margin	16.4	14.1	17.0	26.8	21.3	22.1	23.0	23.4	19.1	22.5	24.2
Pretax profit margin	14.7	12.4	16.3	17.3	17.9	18.9	20.1	20.7	15.4	19.5	21.6
Net profit margin	10.5	9.6	12.4	13.5	13.4	14.7	15.7	16.3	11.7	15.1	16.9
Sequential growth (%)											
Revenue growth	1.0	6.4	18.9	7.2	2.8	6.8	12.6	4.7			
Gross profit growth	4.7	(6.4)	33.4	13.4	5.5	10.4	17.5	6.5			
Operating profit growth	0.4	(8.9)	48.4	17.0	6.4	12.9	20.4	7.4			
EBITDA growth	0.1	(8.3)	43.4	69.0	(18.3)	10.7	17.3	6.5			
Pretax profit growth	(0.6)	(10.2)	56.9	13.6	6.1	12.8	20.2	7.4			
Net profit growth	(4.7)	(3.0)	53.8	16.4	2.0	17.0	20.5	8.8			
YoY growth (%)											
Revenue growth	43.7	18.9	21.8	37.0	39.4	39.9	32.5	29.4	29.4	34.8	30.3
Gross profit growth	51.5	5.3	27.4	48.4	49.5	76.2	55.1	45.6	32.1	55.3	39.9
Operating profit growth	65.7	(1.6)	30.6	58.8	68.3	108.5	69.0	55.3	36.1	71.8	44.6
EBITDA growth	53.9	(2.3)	26.9	122.3	81.4	119.1	79.2	12.9	50.5	59.3	39.7
Pretax profit growth	56.4	(4.4)	37.0	59.2	69.8	113.2	63.3	54.5	35.9	70.9	44.3
Net profit growth	48.7	(6.0)	33.0	65.6	77.2	113.7	67.5	56.4	34.1	74.3	45.9

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	19,420	25,878	29,068	34,162	40,410
Current assets	14,618	20,264	23,402	28,559	34,954
Cash & ST securities	5,657	7,037	6,434	6,149	6,115
Inventory	2,061	3,189	4,113	5,284	6,697
Accounts receivable	6,713	9,460	12,277	16,548	21,565
Other current assets	187	577	577	577	577
Non-current assets	4,801	5,614	5,666	5,603	5,456
LT investments	9	-	-	-	-
Net fixed assets	4,520	4,339	4,391	4,328	4,181
Other assets	273	1,275	1,275	1,275	1,275
Total liabilities	7,840	11,541	12,121	13,409	14,343
Current liabilities	5,548	7,873	8,604	8,553	8,999
Accounts payable	3,787	5,499	5,499	5,499	5,499
Interest bearing ST liabilities	603	962	1,693	1,643	2,089
Other current liabilities	1,157	1,412	1,412	1,412	1,412
Non-current liabilities	2,292	3,668	3,518	4,855	5,343
Long-term debt	2,106	3,449	3,299	4,636	5,124
Other L-T liabilities	187	219	219	219	219
Total equity	11,580	14,337	16,947	20,754	26,067
Share capital	2,715	2,760	2,760	2,760	2,760
Retained earnings reserve	5,236	6,487	7,570	9,458	12,211
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	(13.4%)	44.2%	29.4%	34.8%	30.3%
Operating profit growth	(4.9%)	133.9%	36.1%	71.8%	44.6%
EBITDA growth	(3.8%)	100.8%	50.5%	59.3%	39.7%
Net profit growth	(34.7%)	216.3%	34.1%	74.3%	45.9%
EPS growth	(35.0%)	213.6%	29.3%	74.3%	45.9%
Profitability					
Gross profit margin	19.7%	23.2%	23.6%	27.2%	29.2%
Operating margin	8.9%	14.4%	15.2%	19.4%	21.5%
EBITDA margin	11.8%	16.4%	19.1%	22.5%	24.2%
Net profit margin	5.1%	11.3%	11.7%	15.1%	16.9%
Return on average assets	4.2%	11.5%	12.7%	19.3%	23.8%
Return on average equity	7.0%	20.1%	22.3%	32.3%	37.9%
Stability					
Gross debt to equity	23.4%	30.8%	29.5%	30.3%	27.7%
Net debt to equity	Net cash	Net cash	Net cash	4.3%	7.1%
Interest coverage (x)	58.3	65.5	70.0	131.7	189.6
Interest & ST debt coverage (x)	0.7	0.8	0.7	0.8	0.8
Cash flow interest coverage(x)	41.4	12.5	(6.1)	(19.7)	(19.7)
Cash flow/int. & ST debt (x)	1.8	0.6	(0.2)	(0.7)	(0.5)
Current ratio (x)	2.6	2.6	2.7	3.3	3.9
Quick ratio (x)	2.3	2.2	2.2	2.7	3.1
Net debt (NT\$m)	(2,249)	(1,869)	(685)	887	1,855
Per share data					
EPS (NT\$)	3.05	9.56	12.36	21.54	31.42
CFPS (NT\$)	4.15	2.40	(1.44)	(4.18)	(4.17)
BVPS (NT\$)	42.65	51.95	61.40	75.20	94.45
Adj BVPS (NT\$)	42.87	52.63	59.95	73.42	92.21
SPS (NT\$)	59.25	84.70	105.62	142.37	185.53
EBITDA/share (NT\$)	6.98	13.89	20.14	32.09	44.83
Cash DPS (NT\$)	4.01	6.50	7.41	12.92	18.85
Activity					
Sales / avg assets	0.82	1.02	1.09	1.27	1.41
Days receivable	153.1	150.1	150.1	150.1	150.1
Days inventory	58.6	65.8	65.8	65.8	65.8
Days payable	107.6	113.5	88.0	68.5	54.1
Cash cycle	104.1	102.4	127.9	147.4	161.9

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	16,003	23,070	29,858	40,246	52,445
Cost of goods sold	(12,844)	(17,729)	(22,804)	(29,292)	(37,127)
Gross profit	3,159	5,342	7,055	10,953	15,318
Operating expenses	(1,735)	(2,010)	(2,521)	(3,163)	(4,052)
Operating profit	1,424	3,332	4,534	7,790	11,267
Non-operating income	127	143	119	124	124
Interest income	127	143	119	124	124
Investment income	-	-	-	-	-
Other non-op income	-	-	-	-	-
Non-operating expenses	(1)	(97)	(65)	(72)	(72)
Interest expense	(27)	(52)	(66)	(60)	(60)
Investment loss	-	-	-	-	-
Other non-op expenses	26	(45)	2	(12)	(12)
Pre-tax profit	1,550	3,378	4,589	7,842	11,319
Current taxation	(726)	(773)	(1,095)	(1,753)	(2,438)
Minorities	-	-	-	-	-
Extraordinary items	-	(0)	(0)	-	-
Net profit	823	2,604	3,493	6,089	8,881
EBITDA	1,885	3,784	5,694	9,072	12,674
EPS (NT\$)	3.05	9.56	12.36	21.54	31.42

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	1,120	653	(408)	(1,182)	(1,179)
Net profit	823	2,604	3,493	6,089	8,881
Depreciation & amortisation	461	452	1,160	1,282	1,407
Decrease in working capital	(98)	(2,165)	(5,062)	(8,553)	(11,467)
Other operating cash flow	(66)	(238)	-	-	-
Investing cash flow	(244)	(1,106)	(1,212)	(1,219)	(1,259)
Sale of ST investment	244	(69)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(634)	(1,172)	(1,208)	(1,215)	(1,255)
Others investing cashflow	145	135	(4)	(4)	(4)
Free cash flow	481	(320)	(1,662)	(2,442)	(2,480)
Financing cash flow	(1,641)	1,376	1,017	2,116	2,405
Increase in short term debt	123	359	-	-	-
Increase in long term loans	(834)	1,995	580	1,288	934
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(1,077)	(1,090)	(1,090)	(1,090)	(1,090)
Other financing cashflow	146	112	1,527	1,919	2,561
Forex effects	(166)	399			
Total cash generated	(932)	1,322	(603)	(285)	(34)

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	10.8%	8.7%	8.4%	7.9%	7.7%
= Operating margin	8.9%	14.4%	15.2%	19.4%	21.5%
1 / (Working capital/revenue	0.3	0.3	0.3	0.4	0.4
+ Net PPE/revenue	0.3	0.2	0.1	0.1	0.1
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	1.8	2.0	1.9	1.9	1.9
Operating margin	8.9%	14.4%	15.2%	19.4%	21.5%
x Capital turnover	1.8	2.0	1.9	1.9	1.9
x (1 - tax rate)	53.1%	77.1%	76.1%	77.6%	78.5%
= After-tax ROIC	8.7%	21.8%	22.2%	28.9%	32.5%

Source: Company data; KGI Research estimates



FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of November 20 (NT\$)	945
12M target price (NT\$)	1,400
Previous target price (NT\$)	1,400
Unchanged (%)	0.0
Upside (%)	48.1

Key message

- 800GbE switches are set to be the mainstream in 2026F, with 1.6TbE products positioned ahead of the curve.
- Improving industry position.

Trading data

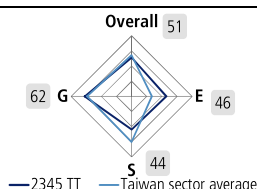
Mkt cap (NT\$bn/US\$m)	530 / 17,350
Outstanding shares (mn)	561
Foreign ownership (mn)	324
3M avg. daily trading (mn)	4.11
52-week trading range (NT\$)	435.0 – 1,150

Performance	3M	6M	12M
Absolute (%)	-1.2	34.2	51.2
Relative (%)	-17.3	6.8	30.3

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	4.02A	4.62A	4.75A	8.10A
2025	9.17A	9.00A	14.00A	13.80F
2026	12.08F	13.55F	14.88F	15.32F

ESG score card



Source: Refinitiv

Accton Technology

(2345.TW/2345 TT)



Tailwinds from AI & ML industry developments in 2026F

Event

We are bullish on Accton Technology's prospects in 2026F, driven by the AI and machine learning (ML) industry, which is expected to result in: (1) upgrades to high-end data center switches; (2) the iteration and renewal of AI accelerator card-related products. Furthermore, the rack solutions segment is poised to become the company's next growth driver.

Impact

800GbE switches are set to be the mainstream in 2026F, with 1.6TbE products positioned ahead of the curve. Recent industry research indicates that foreign optical transceiver and switch vendors expect significant 800GbE optical transceiver sales growth YoY in 2026F. This robust transceiver demand is expected to boost 800GbE data center switch demand significantly in 2026F, replacing 400GbE as the mainstream specification, while 1.6TbE switches will hit the market gradually. Leveraging the firm's deep expertise in high-end switches, Accton's 800GbE products moved from pilot runs to mass production in 2024-25. Given strong AI/ ML demand, we believe the switch upgrade cycle from 400GbE, through 800GbE to 1.6TbE, may be shortened. Having pioneered 1.6TbE switch R&D, we believe Accton is positioned to maintain technological leadership as the market evolves from 800GbE to 1.6TbE.

Improving industry position. We are bullish on Accton's AI accelerator card products, which, after a product transition phase in 4Q25-1Q26F, are expected to resume shipments in 2Q26F, resulting in significantly higher full-year 2026F revenue. We also anticipate rack solutions will move from the R&D stage to pilot runs and field testing in 2026F. Since the ASP of rack products is significantly higher than for switches, successful shipments will provide additional upside to revenue. Furthermore, Accton's Taoyuan capacity is expected to expand in 2026F to meet increased demand, and the company is already developing R&D projects related to co-packaged optics (CPO). We are bullish on Accton's strong sales growth from high-end data center switches and AI accelerator cards in 2026F, with rack solutions and CPO development serving as future growth drivers. We forecast 2026F revenue at NT\$300.6bn and EPS of NT\$55.8.

Valuation & Action

Accton is our top pick in the networking sector for 2026F, with a rating of Outperform and a target price of NT\$1,400, derived from 25x 2026F EPS.

Risks

Intensifying competition; slow adoption of high-speed switches; component shortages.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$m)	77,205	84,188	110,425	247,076	300,589
Gross profit (NT\$m)	16,518	19,263	22,791	45,149	54,991
Operating profit (NT\$m)	9,633	11,501	13,601	32,821	40,437
Net profit (NT\$m)	8,166	8,920	12,000	25,784	31,325
EPS (NT\$)	14.64	15.99	21.49	46.08	55.83
Cash DPS (NT\$)	7.50	10.00	12.00	27.00	33.00
EPS growth (%)	73.4	9.2	34.4	114.5	21.1
PE (x)	64.6	59.1	44.0	20.5	16.9
PB (x)	25.9	21.0	14.6	11.3	8.9
EV/EBITDA (x)	49.3	40.7	28.2	12.6	10.4
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.8	1.1	1.3	2.9	3.5
Return on average equity (%)	45.4	39.1	39.0	61.9	58.7

Source: Company data; KGI Research estimates

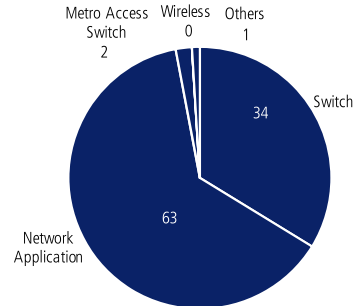
Figure 1: Company profile

Founded in 1988, Accton Technology manufactures telecom and enterprise networking devices. It is based in China (Shenzhen) and Taiwan (headquarters in Hsinchu), and supplies a spectrum of solutions to advanced networking, IT and telecom operators. Accton's sales mix in 1Q-3Q25 was switches (34%), network applications (63%), metro access switch (2%), wireless (0%) and broadband access & other (1%).

Source: Company data; KGI Research

Figure 2: 1Q-3Q25 sales mix

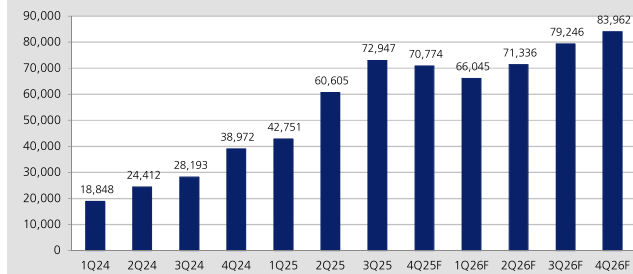
Sales weighting, percent



Source: Company data; KGI Research

Figure 3: Sales

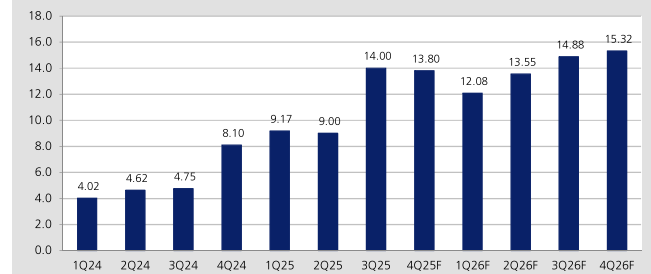
Sales, NT\$mn



Source: KGI Research

Figure 4: EPS

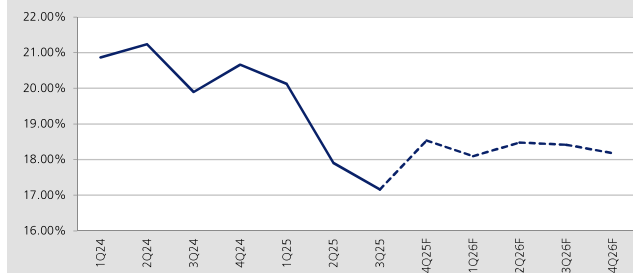
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

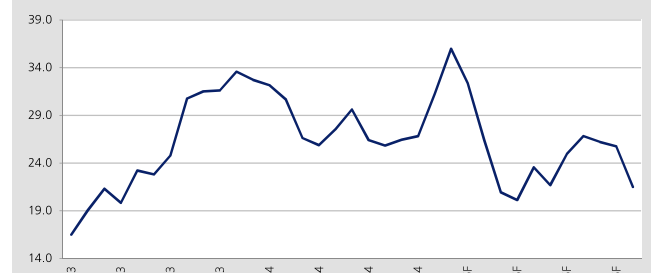
Gross margin, percent



Source: KGI Research

Figure 6: Rolling PE

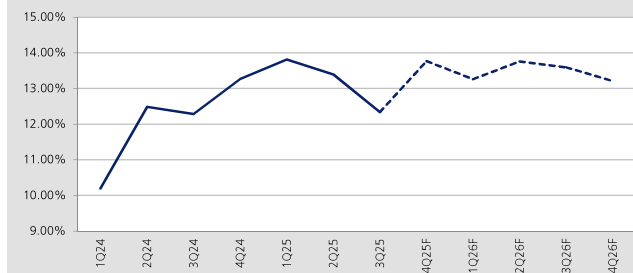
Rolling PE, times



Source: KGI Research

Figure 7: Operating Margin

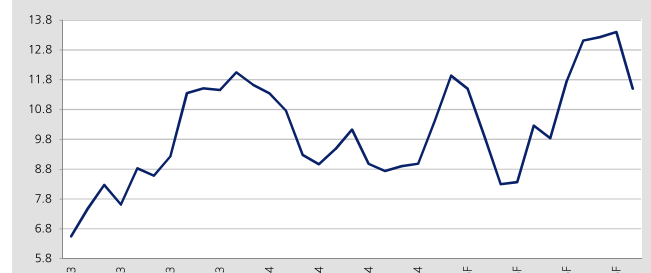
Operating margin, percent



Source: KGI Research

Figure 8: Rolling PB

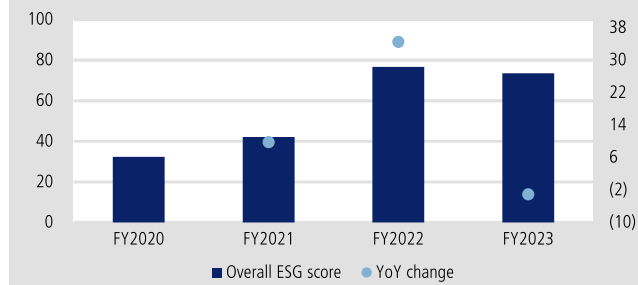
Rolling PB, times



Source: KGI Research

Figure 9: Overall ESG score

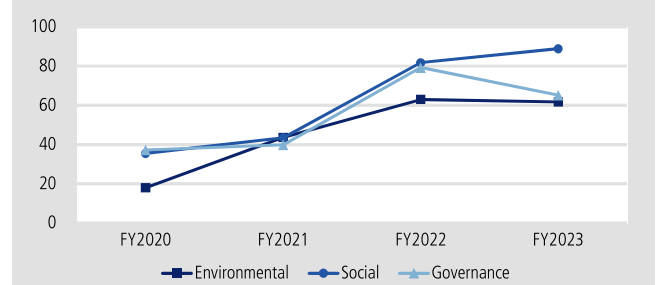
Overall ESG score, points (LHS); YoY change, points (RHS)



Source: Refinitiv; Company data

Figure 10: ESG score by category

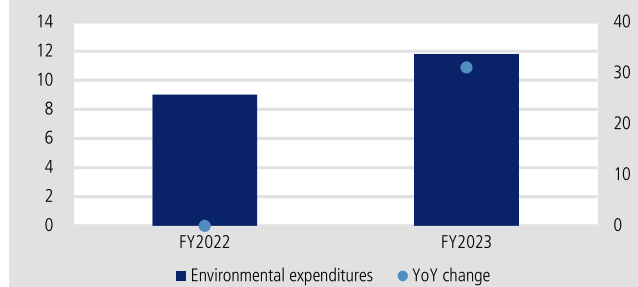
ESG score, points



Source: Refinitiv; Company data

Figure 11: Environmental Expenditures

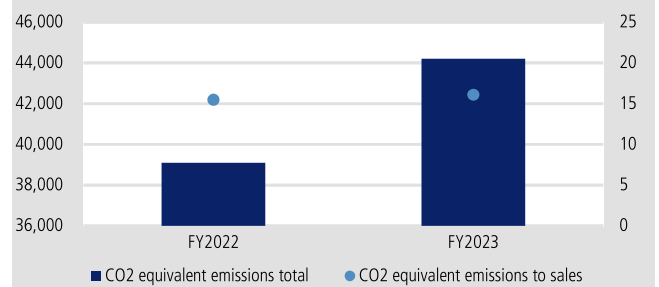
Environmental expenditures, NT\$m (LHS); YoY change, percent (RHS)



Source: Refinitiv; Company data

Figure 12: CO2 Equivalent Emissions

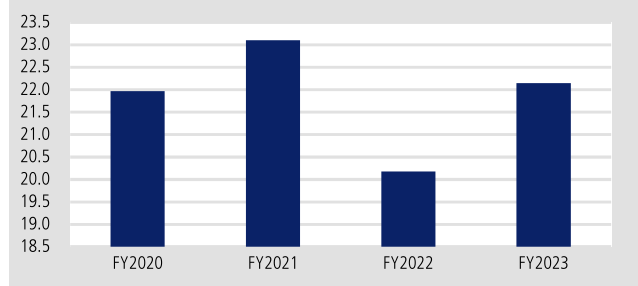
CO2 equivalent emissions, mt (LHS); emissions to sales, mt/ US\$m (RHS)



Source: Refinitiv; Company data

Figure 13: Employees Turnover

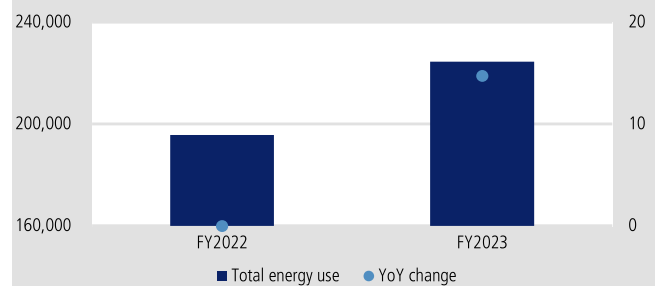
Employee turnover, percent



Source: Refinitiv; Company data

Figure 14: Energy use

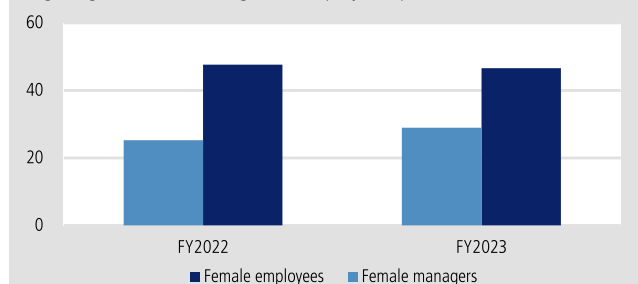
Energy use, gigajoules (LHS); YoY change, percent (RHS)



Source: Refinitiv; Company data

Figure 15: Gender diversification

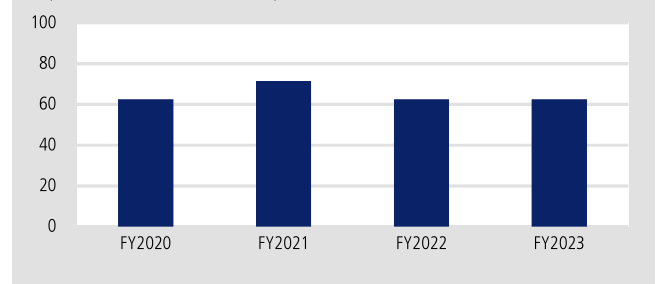
Weighting of female managers & employees, percent



Source: Refinitiv; Company data

Figure 16: Independent Board Members

Independent Board Members, percent



Source: Refinitiv; Company data

Figure 17: Comparison of ESG scores of communications & networking peers

Rank	Company Name	Country	ESG Combined Score	Rank	Company Name	Country	ESG Combined Score
1	Telefonaktiebolaget LM Ericsson	SE	85.05	49	Basler AG	DE	43.06
2	Dormakaba Holding AG	CH	82.97	50	Netas Telekomunikasyon AS	TR	42.66
3	Juniper Networks Inc	US	77.89	51	Avaya Holdings Corp	US	40.97
4	OKI Electric Industry Co Ltd	JP	76.32	52	Yealink Network Technology Co Ltd	CN	40.93
5	Zhejiang Dahua Technology Co Ltd	CN	74.34	53	Viavi Solutions Inc	US	40.35
6	Allegion PLC	IE	73.26	54	Aviat Networks Inc	US	39.94
7	ADVA Optical Networking SE	DE	71.38	55	Shenzhen Sunway Communication Co Ltd	CN	38.36
8	HMS Networks AB	SE	69.43	56	Extreme Networks Inc	US	37.99
9	Vtech Holdings Ltd	HK	68.19	57	Sonim Technologies Inc	US	36.34
10	Ascom Holding AG	CH	67.77	58	Digi International Inc	US	35.48
11	Spirent Communications plc	GB	65.66	59	Ituran Location and Control Ltd	IL	35.39
12	Kapsch Trafficcom AG	AT	64.79	60	Sensys Gatso Group AB	SE	35.13
13	Ciena Corp	US	64.47	61	InterDigital Inc	US	32.98
14	Huber+Suhner AG	CH	63.92	62	Comtech Telecommunications Corp	US	32.67
15	NETGEAR Inc	US	63.91	63	Teleste Oyj	FI	32.00
16	Arista Networks Inc	US	63.38	64	TESSCO Technologies Inc	US	28.74
17	Hangzhou Hikvision Digital Technology Co Ltd	CN	63.28	65	Ceragon Networks Ltd	IL	28.50
18	Sierra Wireless Inc	CA	62.59	66	Aferian PLC	GB	28.44
19	China Railway Signal & Communication Corp Ltd	CN	61.32	67	Net Insight AB	SE	27.80
20	Foxconn Industrial Internet Co Ltd	CN	60.24	68	Genasys Inc	US	27.60
21	Infinera Corp	US	58.99	69	Ovzon AB (publ)	SE	27.06
22	CommScope Holding Company Inc	US	58.63	70	Clavister Holding AB	SE	24.97
23	Ribbon Communications Inc	US	58.48	71	Kaile Science and Technology Co Ltd Hubei	CN	24.58
24	Plantronics Inc	US	57.94	72	Beijing BDStar Navigation Co Ltd	CN	24.47
25	Motorola Solutions Inc	US	57.86	73	Quarterhill Inc	CA	24.44
26	Fiberhome Telecommunication Technologies Co Ltd	CN	57.72	74	ADT Inc	US	23.65
27	Viasat Inc	US	55.42	75	Zhongji Innolight Co Ltd	CN	22.61
28	Cisco Systems Inc	US	55.29	76	Vivint Smart Home Inc	US	22.08
29	Maxar Technologies Inc	US	54.61	77	Inseego Corp	US	21.44
30	Lumentum Holdings Inc	US	54.56	78	Calix Inc	US	21.10
31	Bittium Oyj	FI	54.53	79	8x8 Inc	US	20.90
32	ADTRAN Inc	US	53.08	80	EchoStar Corp	US	19.86
33	Taiwan Secom Co Ltd	TW	52.78	81	Evertz Technologies Ltd	CA	19.24
34	Garmin Ltd	CH	50.64	82	Silicom Ltd	IL	17.94
35	Nokia Oyj	FI	50.20	83	Wrap Technologies Inc	US	15.90
36	Harmonic Inc	US	50.19	84	Ubiquiti Inc	US	15.02
37	Batm Advanced Communications Ltd	IL	49.91	85	EMCORE Corp	US	14.89
38	Iteris Inc	US	48.89	86	Airgain Inc	US	14.75
39	TomTom NV	NL	48.27	87	KMW Co Ltd	KR	14.44
40	PCTEL Inc	US	47.11	88	Audinate Group Ltd	AU	14.22
41	Hytera Communications Corp Ltd	CN	47.02	89	Casa Systems Inc	US	14.02
42	ZTE Corp	CN	46.92	90	London Security PLC	GB	13.48
43	KVH Industries Inc	US	45.76	91	S1 Corp	KR	12.71
44	Cambium Networks Corp	US	45.50	92	Fujian Star-net Communication Co Ltd	CN	11.32
45	Belden Inc	US	45.35	93	NAPCO Security Technologies Inc	US	9.46
46	Clearfield Inc	US	44.87	94	Tianjin 712 Communication & Broadcasting Co Ltd	CN	7.71
47	Accton Technology Corp	TW	44.52	95	Irisity AB (publ)	SE	6.99
48	Frequents AG	AT	44.11				

Source: Refinitiv

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$mn)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; Company data

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	42,751	60,605	72,947	70,774	66,045	71,336	79,246	83,962	110,425	247,076	300,589
Cost of goods sold	(34,103)	(49,741)	(60,428)	(57,655)	(54,093)	(58,154)	(64,653)	(68,699)	(87,634)	(201,927)	(245,598)
Gross profit	8,647	10,864	12,518	13,119	11,952	13,182	14,593	15,263	22,791	45,149	54,991
Operating expenses	(2,698)	(2,739)	(3,518)	(3,374)	(3,195)	(3,365)	(3,820)	(4,174)	(9,176)	(12,328)	(14,554)
Operating profit	5,905	8,116	9,001	9,745	8,757	9,817	10,773	11,089	13,601	32,821	40,437
Depreciation of fixed assets	(330)	(349)	(408)	(560)	(501)	(501)	(501)	(501)	(1,071)	(1,647)	(2,004)
Amortisation of intangible assets	(26)	(64)	(43)	3	(32)	(32)	(32)	(32)	(91)	(129)	(129)
EBITDA	6,262	8,529	9,452	10,302	9,290	10,350	11,307	11,622	14,764	34,597	42,569
Interest income	252	244	230	200	100	100	100	100	870	925	400
Investment income	-	-	-	-	-	-	-	-	17	-	-
Other non-op income	20	47	4	20	20	20	20	20	104	90	80
Non-operating income	272	290	234	220	120	120	120	120	991	1,016	480
Interest expense	(27)	(23)	(26)	(25)	(50)	(50)	(50)	(50)	(87)	(100)	(200)
Investment loss	(2)	-	-	(0)	(0)	(0)	(0)	(0)	(3)	(2)	(1)
Other non-op expenses	134	(1,771)	499	(20)	(150)	(150)	(150)	(150)	632	(1,158)	(600)
Non-operating expenses	105	(1,793)	473	(45)	(200)	(200)	(200)	(200)	541	(1,261)	(801)
Pre-tax profit	6,282	6,613	9,708	9,920	8,677	9,737	10,693	11,009	15,134	32,576	40,116
Current taxation	(1,160)	(1,596)	(1,888)	(2,182)	(1,909)	(2,142)	(2,352)	(2,422)	(3,135)	(6,827)	(8,825)
Minorities	6	15	7	7	9	9	8	8	1	35	35
Normalised net profit	5,127	5,032	7,827	7,745	6,777	7,604	8,349	8,595	12,000	25,784	31,325
Extraordinary items	(0)	(0)	0	0	0	0	0	0	-	0	0
Net profit	5,127	5,032	7,827	7,745	6,777	7,604	8,349	8,595	12,000	25,784	31,325
EPS (NT\$)	9.17	9.00	14.00	13.80	12.08	13.55	14.88	15.32	21.49	46.08	55.83
Margins (%)											
Gross profit margin	20.1	17.9	17.2	18.5	18.1	18.5	18.4	18.2	20.6	18.3	18.3
Operating margin	13.8	13.4	12.3	13.8	13.3	13.8	13.6	13.2	12.3	13.3	13.5
EBITDA margin	14.6	14.1	13.0	14.6	14.1	14.5	14.3	13.8	13.4	14.0	14.2
Pretax profit margin	14.7	10.9	13.3	14.0	13.1	13.6	13.5	13.1	13.7	13.2	13.3
Net profit margin	12.0	8.3	10.7	10.9	10.3	10.7	10.5	10.2	10.9	10.4	10.4
Sequential growth (%)											
Revenue growth	9.7	41.8	20.4	(3.0)	(6.7)	8.0	11.1	6.0			
Gross profit growth	6.9	26.2	15.3	4.8	(8.9)	10.3	10.7	4.6			
Operating profit growth	14.2	37.4	10.9	8.3	(10.1)	12.1	9.7	2.9			
EBITDA growth	13.7	36.2	10.8	9.0	(9.8)	11.4	9.2	2.8			
Pretax profit growth	11.0	5.3	46.8	2.2	(12.5)	12.2	9.8	3.0			
Net profit growth	13.3	(1.9)	55.5	(1.0)	(12.5)	12.2	9.8	3.0			
YoY growth (%)											
Revenue growth	126.8	148.3	158.7	81.6	54.5	17.7	8.6	18.6	31.2	123.8	21.7
Gross profit growth	119.9	109.5	123.2	62.7	38.2	21.3	16.6	16.3	18.2	98.2	21.8
Operating profit growth	207.4	166.3	159.9	88.5	48.3	21.0	19.7	13.8	18.3	141.3	23.2
EBITDA growth	188.1	157.2	150.8	87.1	48.4	21.3	19.6	12.8	18.5	134.3	23.0
Pretax profit growth	125.1	95.9	193.4	75.3	38.1	47.2	10.2	11.0	29.0	115.3	23.1
Net profit growth	128.5	94.9	195.3	71.2	32.2	51.1	6.7	11.0	34.5	114.9	21.5

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	46,061	56,576	86,320	139,723	168,689
Current assets	41,883	49,991	70,639	123,139	151,404
Cash & ST securities	15,015	24,333	25,465	26,757	35,252
Inventory	12,788	13,551	19,371	44,757	54,437
Accounts receivable	13,139	11,119	20,763	46,584	56,674
Other current assets	940	989	5,041	5,041	5,041
Non-current assets	4,178	6,584	15,681	16,584	17,285
LT investments	142	316	6,018	6,065	6,137
Net fixed assets	1,804	3,181	5,445	6,302	6,931
Other assets	2,232	3,086	4,217	4,217	4,217
Total liabilities	25,633	31,388	50,032	92,792	108,985
Current liabilities	21,568	29,080	46,920	89,660	106,047
Accounts payable	12,478	13,681	25,955	59,969	72,939
Interest bearing ST liabilities	926	434	476	268	275
Other current liabilities	8,164	14,964	20,489	29,423	32,833
Non-current liabilities	4,065	2,308	3,112	3,132	2,937
Long-term debt	2,605	538	281	301	106
Other L-T liabilities	293	389	987	987	987
Total equity	20,428	25,188	36,289	46,931	59,704
Share capital	5,601	5,604	5,611	5,611	5,611
Retained earnings reserve	11,169	15,100	22,004	32,682	45,489
Minority interests	-	-	(38)	(73)	(107)
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	29.5%	9.0%	31.2%	123.8%	21.7%
Operating profit growth	77.0%	19.4%	18.3%	141.3%	23.2%
EBITDA growth	69.1%	18.6%	18.5%	134.3%	23.0%
Net profit growth	73.6%	9.2%	34.5%	114.9%	21.5%
EPS growth	73.4%	9.2%	34.4%	114.5%	21.1%
Profitability					
Gross profit margin	21.4%	22.9%	20.6%	18.3%	18.3%
Operating margin	12.5%	13.7%	12.3%	13.3%	13.5%
EBITDA margin	13.6%	14.8%	13.4%	14.0%	14.2%
Net profit margin	10.6%	10.6%	10.9%	10.4%	10.4%
Return on average assets	20.1%	17.4%	16.8%	22.8%	
Return on average equity	45.4%	39.1%	39.0%	61.9%	58.7%
Stability					
Gross debt to equity	17.3%	3.9%	2.1%	1.2%	0.6%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	152.0	161.8	174.0	326.4	201.6
Interest & ST debt coverage (x)	0.9	1.0	1.0	1.0	1.0
Cash flow interest coverage(x)	142.9	251.8	113.7	103.6	
Cash flow/int. & ST debt (x)	9.8	36.3	17.6	28.2	
Current ratio (x)	1.9	1.7	1.5	1.4	1.4
Quick ratio (x)	1.3	1.3	1.1	0.9	0.9
Net debt (NT\$m)	(5,164)	(13,099)	(17,359)	(18,840)	(27,523)
Per share data					
EPS (NT\$)	14.64	15.99	21.49	46.08	55.83
CFPS (NT\$)	17.43	32.93	17.80	18.53	
BVPS (NT\$)	36.47	44.95	64.74	83.77	106.59
Adj BVPS (NT\$)	36.62	45.14	65.04	84.01	106.59
SPS (NT\$)	138.40	150.88	197.71	441.61	535.70
EBITDA/share (NT\$)	18.82	22.32	26.44	61.84	75.87
Cash DPS (NT\$)	7.50	10.00	12.00	27.00	33.00
Activity					
Sales / avg assets	1.90	1.64	1.55	2.19	
Days receivable	62.1	48.2	68.8	68.8	68.8
Days inventory	76.9	76.2	80.9	80.9	80.9
Days payable	75.0	76.9	108.4	108.4	108.4
Cash cycle	64.0	47.5	41.3	41.3	41.3

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	77,205	84,188	110,425	247,076	300,589
Cost of goods sold	(60,687)	(64,926)	(87,634)	(201,927)	(245,598)
Gross profit	16,518	19,263	22,791	45,149	54,991
Operating expenses	(6,886)	(7,762)	(9,176)	(12,328)	(14,554)
Operating profit	9,633	11,501	13,601	32,821	40,437
Non-operating income	279	727	991	1,016	480
Interest income	179	639	870	925	400
Investment income	13	15	17	-	-
Other non-op income	87	72	104	90	80
Non-operating expenses	365	(496)	541	(1,261)	(801)
Interest expense	(68)	(73)	(87)	(100)	(200)
Investment loss	(1)	(3)	(3)	(2)	(1)
Other non-op expenses	434	(420)	632	(1,158)	(600)
Pre-tax profit	10,276	11,732	15,134	32,576	40,116
Current taxation	(2,110)	(2,812)	(3,135)	(6,827)	(8,825)
Minorities	-	-	1	35	35
Extraordinary items	-	(0)	(0)	0	0
Net profit	8,166	8,920	12,000	25,784	31,325
EBITDA	10,499	12,455	14,764	34,597	42,569
EPS (NT\$)	14.64	15.99	21.49	46.08	55.83

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	9,723	18,371	9,942	10,369	
Net profit	8,166	8,920	12,000	25,784	31,325
Depreciation & amortisation	867	953	1,163	1,776	2,133
Decrease in working capital	(1,670)	2,131	(3,784)	(17,193)	
Other operating cash flow	2,361	6,366	564	2	(33,457)
Investing cash flow	(6,104)	(5,666)	262	(2,682)	(2,835)
Sale of ST investment	(5,159)	(3,967)	2,957	-	-
New investments	(30)	-	(98)	(49)	(73)
Capital expenditure	(952)	(2,245)	(2,762)	(2,503)	(2,632)
Others investing cashflow	36	546	164	(129)	(129)
Free cash flow	5,838	9,509	5,309	7,893	
Financing cash flow	(1,282)	(7,056)	(6,215)	(6,395)	(15,329)
Increase in short term debt	-	137	(38)		
Increase in long term loans	2,325	(2,701)	(301)	(188)	(188)
New ordinary shares issued	-	-	-		
Ordinary dividends paid	(3,346)	(4,185)	(5,582)	(6,172)	(15,106)
Other financing cashflow	(261)	(307)	(295)	(35)	(35)
Forex effects	101	(275)	635		
Total cash generated	2,438	5,375	4,623	1,292	

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	8.9%	9.2%	8.3%	5.0%	4.8%
= Operating margin	12.5%	13.7%	12.3%	13.3%	13.5%
1 / (Working capital/revenue	0.1	(0.0)	(0.0)	0.0	0.0
+ Net PPE/revenue	0.0	0.0	0.0	0.0	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	9.3	95.8	22.5	17.6	16.7
Operating margin	12.5%	13.7%	12.3%	13.3%	13.5%
x Capital turnover	9.3	95.8	22.5	17.6	16.7
x (1 - tax rate)	79.5%	76.0%	79.3%	79.0%	78.0%
= After-tax ROIC	92.2%	994.8%	220.0%	185.1%	174.9%

Source: Company data; KGI Research estimates

Foldable smartphones

Foldable iPhones to boost foldable smartphone shipments growth in 2026-27F

Key message

1. We expect global foldable smartphone shipments to grow by more than 30% YoY in 2026-27F, driven by Apple's foldable iPhone launch.
2. The Apple supply chain will benefit from the foldable iPhone launch, especially hinge supplier Shin Zu Shing. Other beneficiaries include AVC and ZDT on spec upgrades, as well as Hon Hai and Largan on iPhone shipments growth.

Impact

Solid foldable smartphone shipments growth in 2025-27F. According to Gartner, global foldable smartphone shipments grew by 46% YoY to 27.53mn units in 1Q-3Q25. Samsung (KR) is the biggest brand in the segment, with the firm's shipments rising by 28% YoY to 13.01mn units in 1Q-3Q25, for market share of 47%, down from 52% in 2024. Huawei (CN) ranked second in market share with 23.5%, with the firm's foldable smartphone shipments growing the most, 84% YoY, to 6.47mn units in 1Q-3Q25, surpassing the full-year total of 5.31mn units in 2024. Other brands with stellar shipments growth are Xiaomi (CN; up 161% YoY) driven by hot sales of the Xiaomi MIX Flip 2 (clamshell model), and Google (US; up 104% YoY) on sales of the Pixel 10 Pro Fold. Foldable smartphone designs have become much thinner. Huawei debuted the first tri-fold model, the Mate XT, in 3Q24, and Samsung may launch the Galaxy Z TriFold in 4Q25F; Xiaomi is also considering launching a tri-fold model. We forecast global foldable smartphone shipments to grow by 36% YoY to 36.3mn units in 2025F, and 29% YoY to 46.8mn units in 2026F. Apple's (US) foldable iPhone launch in 2H26F will boost overall industry shipments in 2026-27F, and will make the firm the second largest brand in 2027F, with market share of 23%, exceeding Huawei. We forecast global foldable smartphone shipments to grow by 33% YoY to 62mn units, with a market penetration rate of 4.8%.

Foldable iPhone launch to boost foldable smartphone demand. Apple is expected to launch a foldable iPhone in 2H26F. Foldable iPhones may be an inward folding model with a 7.74 inch OLED display main screen, and a 5.49 inch cover screen. We forecast foldable iPhone shipments to reach 6mn in 2026F and 13-15mn units in 2027F, implying that Apple's foldable phone weighting will reach 5-6% in 2027F, versus the 20% foldable weightings of Huawei (CN) and 8-10% of Samsung (KR), which means there is upside potential to Apple's foldable smartphone weighting. We believe foldable iPhones will drive global foldable smartphone demand growth of 30% YoY in 2026-27F. The foldable iPhone supply chain will benefit from increased sales, especially hinge suppliers. Shin Zu Shing (SZS; 3376 TT, NT\$180.5, OP) is one of two hinge suppliers, with the other being Amphenol (US). We forecast SZS' foldable smartphone hinge sales weighting to be 42% in 2026F and 55% in 2027F. Other spec upgrades of the foldable iPhone include: (1) two vapor chambers (VC) per unit; (2) 20-24 units of flexible PCB per unit, up from 17 units for current iPhone models; and (3) a 5,700-5,800mAh battery, an upgrade from the 5,088mAh spec of the iPhone 17 Pro Max. We expect the Apple supply chain to benefit in 2026-27F, and Hon Hai Precision (2317 TT, NT\$236.5, OP) to be the primary assembler. Other beneficiaries include foldable smartphone hinge play SZS, lens supplier Largan Precision (3008 TT, NT\$2,145, OP), VC provider Asia Vital Components (AVC; 3017 TT, NT\$1,335, OP), and flexible PCB makers Zhen Ding Technology (ZDT; 4958 TT, NT\$141,N).

Stocks for Action

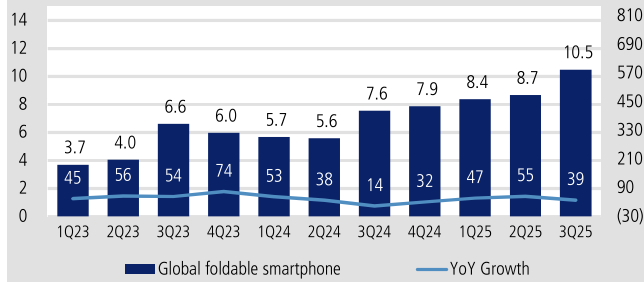
Our top pick in the foldable iPhone supply chain is SZS, given that the foldable iPhone will account for over 50% of the firm's sales and drive solid earnings growth in 2026-27F. Other beneficiaries include AVC and ZDT on spec upgrades, as well as Hon Hai and Largan on iPhone shipments growth.

Risks

Delays in product launches; weak consumer demand; rising component prices.

Figure 1: Global foldable smartphone shipments grew by 40-50% YoY in 1Q-3Q25F

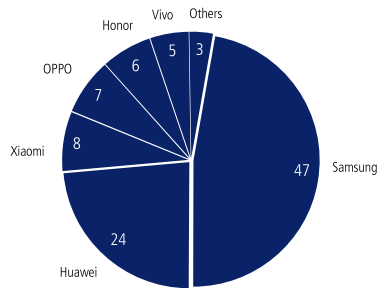
Global foldable smartphone shipments, mn units (LHS); YoY, percent (RHS)



Source: Gartner; KGI Research

Figure 3: Samsung dominated the foldable smartphone market in 1Q-3Q25

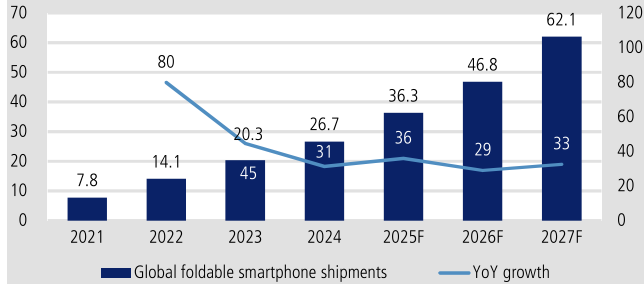
Foldable smartphone shipments market share by brand, percent



Source: Gartner; KGI Research

Figure 5: Global foldable smartphone shipments to grow rapidly in 2025-27F, outperforming the smartphone industry

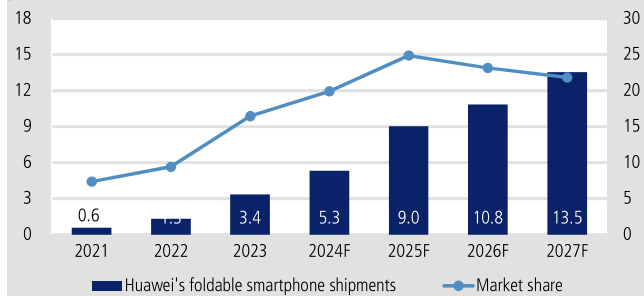
Global foldable smartphone shipments, mn units (LHS); YoY, percent (RHS)



Source: Gartner; KGI Research estimates

Figure 7: Huawei's foldable smartphone market share will stay above 20% in 2026-27F

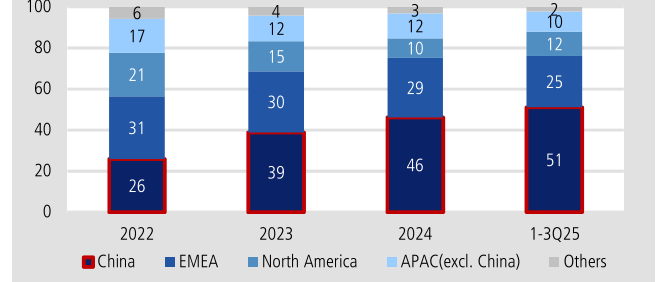
Huawei's foldable smartphone shipments, mn units (LHS); market share, percent (RHS)



Source: Gartner; KGI Research estimates

Figure 2: Greater China & Europe are major foldable smartphone markets

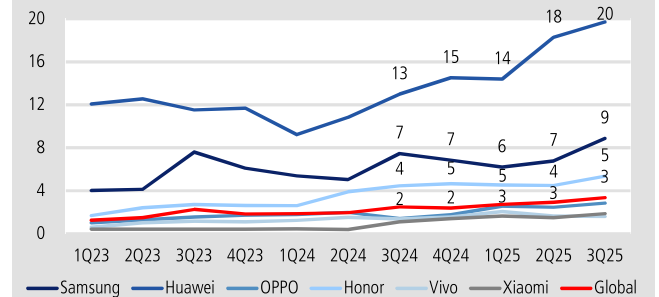
Global foldable smartphone market share by region, percent



Source: Gartner; KGI Research

Figure 4: Huawei, Samsung and OPPO (CN) have highest foldable smartphone shipments weightings in the industry

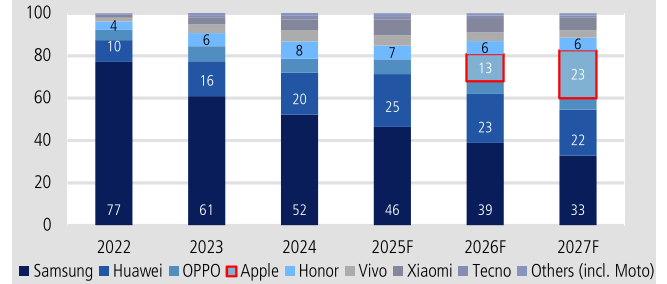
Shipments weighting of foldable smartphone by brand, percent



Source: Gartner; KGI Research

Figure 6: Apple will become the second-largest foldable smartphone brand in 2027F

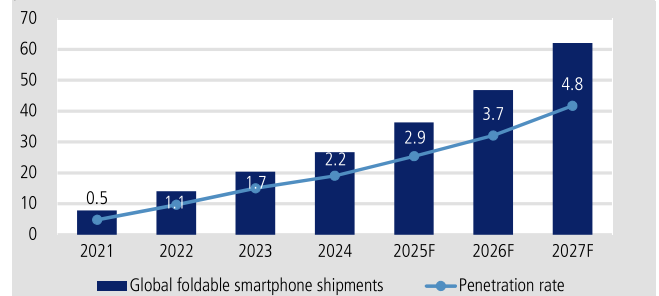
Foldable smartphone market share by brand, percent



Source: Gartner; KGI Research estimates

Figure 8: Foldable smartphone adoption is rising, and will reach 5% in 2027F

Global foldable smartphone shipments, mn units (LHS); adoption rate, percent (RHS)



Source: Gartner; KGI Research estimates

Figure 9: Foldable iPhones will increase sales for hinges, thermal solutions, FPCB, & lens plays, as well as assemblers

Spec differences	Hinge	Vapor chamber (VC)	FPCB	Lens	ODM
Current iPhone	No hinge	Current Pro models use 1 VC	17 pcs	Pro models adopt triple cameras (48MP)	Similar design to previous models
Foldable iPhone	Hinge design adopted	Foldable models use 2 VCs	20-24 pcs	Quad-camera design	Higher assembly complexity
Content value - per iPhone (US\$)					
Current iPhone	0	4	25-28	10-15	750-770
Foldable iPhone	90	8	33-37	10-15	1,100-1,300
Key beneficiaries - Taiwan	Shin Zu Shing	AVC	ZDT	Largan	Hon Hai
Foldable iPhone sales contribution (%)					
2026F	36-37	<5	1.8	<5	<5
2027F	50-51	<5	4.0	<5	<5

Source: KGI Research estimates

Figure 10: Peer comparison – Valuations

Company	Ticker	Market cap. (US\$mn)	Share price (LCY)	Rating	Target Price (LCY)	EPS (LCY)		EPS YoY (%)		PE (x)		PB (x)		ROE (%)		Cash yield (%)	
						2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2024	2025F
Shin Zu Shing	3376 TT	1,134	180.5	Outperform	235.0	1.70	8.70	(76.3)	413.1	106.5	20.8	2.0	1.9	1.8	9.4	3.3	0.7
Fositek	6805 TT	3,189	1,450.0	Outperform	1,755.0	31.06	58.49	73.5	88.3	46.7	24.8	15.0	11.5	35.0	52.7	0.6	1.1
Jarlllytec*	3548 TT	187	86.0	Not rated	N.A.	2.99	5.75	(65.8)	92.6	28.8	15.0	1.1	1.0	N.M.	N.M.	0.0	N.A.
Asia Vital Components	3017 TT	16,626	1,335.0	Outperform	1,695.0	48.71	70.82	129.7	45.4	27.4	18.9	13.5	10.0	56.3	60.8	0.7	1.8
Zhen Ding Tech	4958 TT	4,785	141.0	Neutral	155.0	9.07	11.91	(6.2)	31.4	15.6	11.8	1.3	1.2	8.2	10.7	3.4	3.2
Largan Precision	3008 TT	9,185	2,145.0	Outperform	2,980.0	157.66	185.95	(18.8)	17.9	13.6	11.5	1.4	1.3	11.0	12.0	4.5	3.7
Hon Hai	2317 TT	105,952	236.5	Outperform	340.0	14.68	18.90	33.4	28.8	16.1	12.5	1.9	1.8	12.0	14.6	2.5	3.3

*Bloomberg consensus.

Source: Bloomberg; KGI Research estimates

Figure 11: Global foldable smartphone shipments by brand

Vendor	Global foldable smartphone shipments															
	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	2021	2022	2023	2024	1-3Q25
Samsung	2.4	2.2	4.4	3.4	3.2	2.7	4.3	3.7	3.7	3.91	5.4	6.9	9.9	12.4	13.9	13.0
Huawei	0.5	0.8	0.8	1.2	1.1	1.2	1.2	1.8	2.0	2.31	2.1	0.6	1.3	3.4	5.3	6.5
OPPO	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.6	0.60	0.8	0.0	0.6	1.4	1.7	2.0
Honor	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.6	0.54	0.7	0.0	0.5	1.3	2.2	1.8
Vivo	0.1	0.2	0.2	0.2	0.3	0.4	0.3	0.4	0.5	0.41	0.4	0.0	0.2	0.8	1.4	1.4
Xiaomi	0.1	0.1	0.2	0.2	0.2	0.2	0.5	0.6	0.7	0.62	0.8	0.1	0.2	0.6	1.4	2.1
Lenovo	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.13	0.1	0.2	0.1	0.3	0.4	0.4
Google	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.13	0.2	0.0	0.0	0.2	0.3	0.4
Tecno Telecom	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.01	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.0	0.0	0.0
Total	3.7	4.0	6.6	6.0	5.7	5.6	7.6	7.9	8.4	8.7	10.5	7.8	12.9	20.3	26.7	27.5
	YoY (%)															
Samsung	7.4	3.4	36.0	45.8	32.4	22.1	(2.5)	11.2	14.8	44.6	26.2	N.A.	43.8	24.8	12.4	27.5
Huawei	399.1	432.4	58.5	124.4	106.6	57.9	47.2	46.5	89.7	92.4	72.2	N.A.	129.7	152.7	58.6	84.4
OPPO	192.3	154.3	127.2	100.7	62.3	41.9	(7.3)	2.5	43.3	29.7	95.4	N.A.	2,825.7	133.5	19.8	54.1
Honor	189.8	122.4	151.1	141.9	67.3	79.3	67.8	76.5	66.0	1.0	4.4	N.A.	N.A.	146.3	73.1	17.6
Vivo	N.A.	1,026.6	164.6	131.4	112.2	75.4	39.4	54.7	76.4	11.0	24.6	N.A.	N.A.	286.9	64.8	34.4
Xiaomi	510.6	1,042.0	123.0	101.2	36.2	13.0	173.4	251.4	281.0	285.1	71.8	N.A.	44.1	214.5	128.9	160.8
Lenovo	20.8	192.7	277.8	317.4	275.2	119.5	32.1	24.4	41.4	42.0	27.3	N.A.	(55.6)	209.9	67.6	36.4
Google	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	103.6
Tecno Telecom	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	(2.0)
Other	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	(63.3)	(100.0)	N.A.	287.7
Total	44.8	56.1	53.7	74.2	53.3	38.3	14.4	31.5	47.4	54.8	38.9	N.A.	64.7	57.9	31.2	46.2
	QoQ (%)															
Samsung	5.0	(8.2)	99.1	(24.1)	(4.6)	(15.3)	58.9	(13.4)	(1.5)	6.7	38.7					
Huawei	(5.7)	47.4	10.4	46.2	(13.2)	12.6	2.9	45.5	12.4	14.2	(7.9)					
OPPO	27.3	18.9	28.5	3.1	2.9	4.0	(16.0)	14.0	43.9	(5.9)	26.5					
Honor	31.3	40.4	26.0	4.2	(9.2)	50.5	17.8	9.6	(14.7)	(8.4)	21.9					
Vivo	30.6	56.4	15.6	(2.1)	19.8	29.3	(8.1)	8.7	36.6	(18.7)	3.1					
Xiaomi	54.1	7.9	20.0	0.8	4.3	(10.5)	190.4	29.6	13.1	(9.6)	29.6					
Lenovo	(0.1)	73.3	89.8	26.9	(10.2)	1.4	14.2	19.5	2.1	1.9	2.4					
Google	N.A.	N.A.	21.4	3.0	(16.0)	17.3	25.2	27.7	21.9	3.3	17.3					
Tecno Telecom	N.A.	N.A.	N.A.	156.6	70.6	(3.7)	0.7	4.8	(5.7)	3.5	(6.5)					
Other	(100.0)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.					
Total	7.9	9.2	63.2	(9.4)	(5.1)	(1.5)	35.0	4.2	6.4	3.5	21.1					
	Global market share (%)															
Samsung	65.1	54.8	66.8	56.0	56.3	48.3	56.9	47.3	43.8	45.2	51.7	88.3	77.1	60.9	52.2	47.3
Huawei	14.0	18.8	12.7	20.6	18.8	21.5	16.4	22.9	24.2	26.7	20.3	7.4	10.3	16.5	19.9	23.5
OPPO	7.3	8.0	6.3	7.2	7.8	8.2	5.1	5.6	7.6	6.9	7.2	0.3	4.8	7.1	6.5	7.2
Honor	5.7	7.3	5.7	6.5	6.2	9.5	8.3	8.7	7.0	6.2	6.2	0.0	4.0	6.2	8.2	6.5
Vivo	3.7	5.3	3.7	4.0	5.1	6.7	4.5	4.7	6.1	4.8	4.1	0.0	1.7	4.1	5.2	4.9
Xiaomi	3.5	3.5	2.6	2.9	3.1	2.9	6.2	7.7	8.1	7.1	7.6	1.7	1.5	3.0	5.3	7.6
Lenovo	0.7	1.1	1.2	1.7	1.6	1.7	1.4	1.6	1.6	1.5	1.3	2.3	0.6	1.2	1.6	1.5
Google	0.0	1.3	1.0	1.1	1.0	1.1	1.1	1.3	1.5	1.5	1.4	0.0	0.0	0.9	1.1	1.5
Tecno Telecom	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Gartner; KGI Research



Shin Zu Shing

(3376.TW/3376 TT)

Outperform · Maintained

Price as of November 20 (NT\$)	180.5
12M target price (NT\$)	235.0
Previous target price (NT\$)	235.0
Unchanged (%)	0.0
Upside (%)	30.2

Key message

- AirPod and MacBook launches to drive 2026F YoY consumer sales growth.
- Solid earnings growth in 2026-27F on foldable iPhone sales.

Trading data

Mkt cap (NT\$bn/US\$mn)	35.33 /
Outstanding shares (mn)	192.5
Foreign ownership (mn)	52.23
3M avg. daily trading (mn)	6.92
52-week trading range (NT\$)	168.0 –296.5

Performance	3M	6M	12M
Absolute (%)	-18	-4	-4
Relative (%)	-34.1	-31.4	-24.9

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	1.68A	2.18A	1.77A	1.53A
2025	1.13A	(0.46)A	0.59A	0.45F
2026	0.82F	1.29F	2.66F	3.93F

Share price chart



Source: TEJ

Key beneficiary of foldable iPhone demand in 2026-27F

Event

Apple (US) may launch foldable iPhones in 2H26F, and become the second-biggest foldable smartphone brand, with 23% market share in 2027F. This will drive stellar earnings growth for Shin Zu Shing (SZS) in 2026-27F.

Impact

Consumer sales to recover in 2026F. We have learned there has been solid demand for the AirPods Pro 3 since launch at end-3Q25F, and Apple may debut new AirPods models, including an affordable model and a premium model, which will likely boost AirPods shipments growth YoY in 2026F, after single-digit YoY growth in 2025F. This will trigger growth in SZS' wearable sales to YoY in 2026F. In addition, Apple launched a MacBook Pro featuring M5 chips in October, and will debut the MacBook Air (M5), as well as another affordable model in 2026F, which we estimate will boost MacBook shipments growth to a single-digit percentage YoY in 2026F, outperforming the industry overall (down 2% YoY). We thus expect SZS' notebook, wearables, and overall sales to grow YoY in 2026F, and EPS to grow by 413% YoY to NT\$8.70, with higher margins thanks to stronger NB sales.

Key beneficiary of the foldable iPhone launch in 2026-27F. Apple may launch foldable smartphones in 2H26F. Foldable iPhones may be an inward folding model. We forecast foldable iPhone shipments to reach 6mn in 2026F and 13-15mn units in 2027F, implying that Apple's foldable phone weighting will reach 5-6% in 2027F, versus the 20% foldable weightings of Huawei (CN) and 8-10% of Samsung (KR), which means there is upside potential to Apple's foldable smartphone weighting. As SZS is one of the firm's two hinge suppliers (the other being Amphenol (US)), we believe foldable iPhone orders will lead to a surge in sales and earnings in 2026-27F. With a 50-60% order allocation, we forecast SZS' foldable smartphone hinge sales weighting to be 42% in 2026F and 55% in 2027F. We forecast this will result in EPS growing to NT\$12-13 in 2027F, up 40-50% YoY.

Valuation & Action

SZS is one of the key beneficiaries of foldable smartphone launches, resulting in our expectation of solid earnings growth in 2026-27F. Our rating is Maintained at Outperform, with a target price at NT\$235, based on 27x. 2026F EPS.

Risks

Delayed launch of foldable iPhone; weak consumer demand; Taiwan labor constraints.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue (NT\$mn)	11,825	10,068	13,327	10,939	19,512
Gross profit (NT\$mn)	2,502	1,805	2,462	1,587	3,576
Operating profit (NT\$mn)	1,559	909	1,253	293	1,966
Net profit (NT\$mn)	1,659	807	1,359	330	1,703
EPS (NT\$)	8.68	4.30	7.15	1.70	8.70
Cash DPS (NT\$)	6.00	4.00	6.00	1.35	6.96
EPS growth (%)	42.7	(50.5)	66.4	(76.3)	413.1
PE (x)	20.8	42.0	25.2	106.5	20.8
PB (x)	2.1	2.2	2.0	2.0	1.9
EV/EBITDA (x)	12.4	17.2	14.9	25.4	9.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	3.3	2.2	3.3	0.7	3.9
Return on average equity (%)	10.6	5.1	8.1	1.8	9.4

Source: Company data, KGI Research estimates

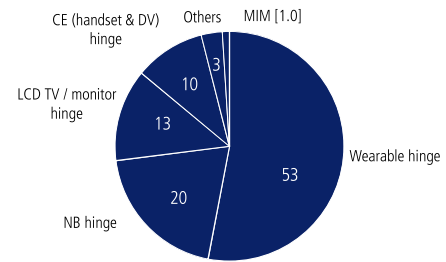
Figure 1: Company profile

Shin Zu Shing (SZS) has been the world's leading NB hinge maker since 1999. Its global market share in 2022 was around 10%. In 2024, notebook hinges accounted for 20% of consolidated sales, LCD monitor hinges 13%, wearables 53%, 3C hinges 10%, MIM 1%, and others at 3%. SZS operates an R&D center in Taiwan and production facilities in Taiwan, and also in Suzhou, Shenzhen, and Sichuan, in China.

Source: KGI Research

Figure 2: Wearable hinges account for the bulk of sales

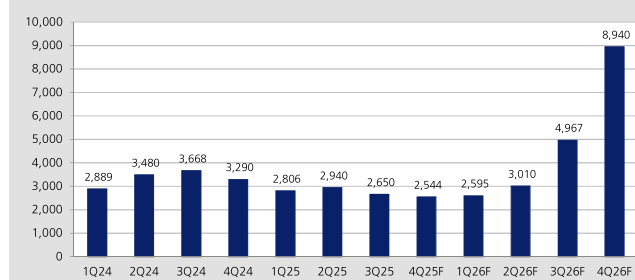
Sales weighting in 2024, percent



Source: Company data; KGI Research

Figure 3: Sales

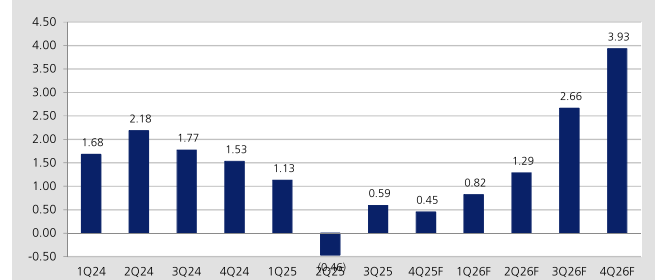
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

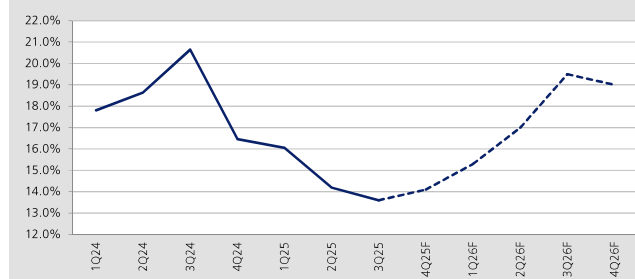
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

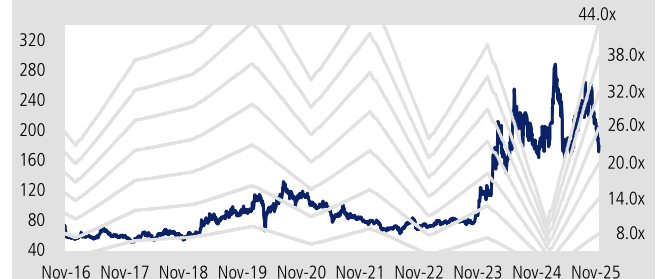
Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

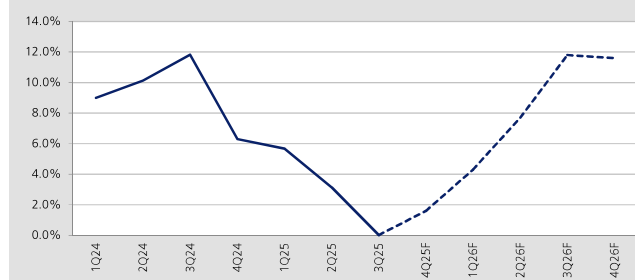
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 7: Operating Margin

Operating margin, percent



Source: KGI Research

Figure 8: 12M forward PB band

Share price, NT\$ (LHS); PB ratio, x (RHS)



Source: TEJ; KGI Research estimates

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-24A	Dec-25F	Dec-26F
Income statement (NT\$mn)											
Revenue	2,806	2,940	2,650	2,544	2,595	3,010	4,967	8,940	13,327	10,939	19,512
Cost of goods sold	(2,355)	(2,523)	(2,290)	(2,185)	(2,198)	(2,498)	(3,998)	(7,241)	(10,865)	(9,353)	(15,936)
Gross profit	450	417	361	359	397	512	968	1,699	2,462	1,587	3,576
Operating expenses	(291)	(325)	(360)	(318)	(285)	(280)	(382)	(662)	(1,209)	(1,294)	(1,609)
Operating profit	159	92	1	41	112	232	586	1,037	1,253	293	1,966
Depreciation of fixed assets	(139)	(128)	(132)	(392)	(212)	(212)	(212)	(212)	(542)	(790)	(850)
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-	-
EBITDA	298	220	132	432	324	444	799	1,250	1,795	1,083	2,816
Interest income	31	32	26	29	30	30	30	30	130	117	120
Investment income	-	9	7	4	5	5	5	5	15	20	20
Other non-op income	98	45	167	51	75	75	75	75	601	360	300
Non-operating income	128	86	199	84	110	110	110	110	746	497	440
Interest expense	(4)	(5)	(6)	(6)	(5)	(5)	(5)	(5)	(29)	(21)	(22)
Investment loss	(5)	(8)	(12)	(3)	-	-	-	-	(14)	(28)	-
Other non-op expenses	-	(197)	-	(3)	(5)	(5)	(5)	(5)	(82)	(200)	(20)
Non-operating expenses	(9)	(210)	(18)	(13)	(10)	(10)	(10)	(10)	(124)	(249)	(42)
Pre-tax profit	279	(32)	181	112	211	331	686	1,137	1,875	541	2,365
Current taxation	(63)	(58)	(66)	(24)	(51)	(80)	(165)	(367)	(516)	(211)	(662)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	215	(90)	116	88	161	252	521	769	1,359	330	1,703
Extraordinary items	0	0	(0)	(0)	-	-	-	-	-	-	-
Net profit	215	(90)	116	88	161	252	521	769	1,359	330	1,703
EPS (NT\$)	1.13	(0.46)	0.59	0.45	0.82	1.29	2.66	3.93	7.15	1.70	8.70
Margins (%)											
Gross profit margin	16.1	14.2	13.6	14.1	15.3	17.0	19.5	19.0	18.5	14.5	18.3
Operating margin	5.7	3.1	0.0	1.6	4.3	7.7	11.8	11.6	9.4	2.7	10.1
EBITDA margin	10.6	7.5	5.0	17.0	12.5	14.8	16.1	14.0	13.5	9.9	14.4
Pretax profit margin	9.9	(1.1)	6.8	4.4	8.1	11.0	13.8	12.7	14.1	4.9	12.1
Net profit margin	7.7	(3.1)	4.4	3.5	6.2	8.4	10.5	8.6	10.2	3.0	8.7
Sequential growth (%)											
Revenue growth	(14.7)	4.8	(9.9)	(4.0)	2.0	16.0	65.0	80.0			
Gross profit growth	(16.9)	(7.4)	(13.6)	(0.5)	10.7	28.9	89.3	75.4			
Operating profit growth	(23.1)	(42.1)	(99.4)	7697.8	174.1	107.7	152.9	76.9			
EBITDA growth	(12.9)	(26.3)	(39.9)	226.8	(25.1)	37.1	79.7	56.5			
Pretax profit growth	(43.8)	(111.5)		(38.1)	88.0	56.9	106.9	65.8			
Net profit growth	(28.1)	(141.7)		(23.7)	81.7	56.9	106.9	47.6			
YoY growth (%)											
Revenue growth	(2.9)	(15.5)	(27.8)	(22.7)	(7.5)	2.4	87.4	251.4	32.4	(17.9)	78.4
Gross profit growth	(12.5)	(35.7)	(52.4)	(33.8)	(11.9)	22.7	168.6	373.5	36.4	(35.6)	125.3
Operating profit growth	(38.8)	(73.8)	(99.9)	(80.3)	(29.9)	151.4	112173.0	2447.7	37.9	(76.7)	572.0
EBITDA growth	(25.5)	(54.8)	(76.6)	26.2	8.6	101.9	503.6	189.0	19.2	(39.7)	160.0
Pretax profit growth	(30.4)	(106.1)	(59.8)	(77.3)	(24.2)		277.8	911.6	61.2	(71.2)	337.5
Net profit growth	(31.6)	(121.9)	(65.4)	(70.5)	(25.5)		349.9	770.6	68.4	(75.7)	416.4

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Total assets	21,440	21,552	23,268	22,233	25,188
Current assets	12,636	12,600	13,784	12,597	15,582
Cash & ST securities	6,464	6,579	6,159	6,178	6,500
Inventory	1,666	1,622	1,946	1,680	2,620
Accounts receivable	4,364	4,110	5,376	4,424	6,147
Other current assets	142	289	303	315	315
Non-current assets	8,804	8,952	9,484	9,636	9,606
LT investments	2,756	3,351	3,322	3,314	3,334
Net fixed assets	5,759	5,364	5,674	5,834	5,784
Other assets	289	237	488	488	488
Total liabilities	5,560	5,999	5,300	4,199	6,813
Current liabilities	4,967	5,530	4,093	3,236	5,769
Accounts payable	1,688	2,594	2,897	2,501	4,017
Interest bearing ST liabilities	1,781	1,820	-	364	283
Other current liabilities	1,498	1,117	1,196	371	1,470
Non-current liabilities	593	468	1,207	963	1,044
Long-term debt	-	-	731	488	569
Other L-T liabilities	531	437	454	454	454
Total equity	15,880	15,553	17,969	18,034	18,375
Share capital	1,877	1,877	1,957	1,957	1,957
Retained earnings reserve	9,673	9,872	10,665	10,731	11,072
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Revenue growth	(2.6%)	(14.9%)	32.4%	(17.9%)	78.4%
Operating profit growth	(1.1%)	(41.7%)	37.9%	(76.7%)	572.0%
EBITDA growth	(0.8%)	(31.2%)	19.2%	(39.7%)	160.0%
Net profit growth	41.9%	(51.3%)	68.4%	(75.7%)	416.4%
EPS growth	42.7%	(50.5%)	66.4%	(76.3%)	413.1%
Profitability					
Gross profit margin	21.2%	17.9%	18.5%	14.5%	18.3%
Operating margin	13.2%	9.0%	9.4%	2.7%	10.1%
EBITDA margin	18.5%	15.0%	13.5%	9.9%	14.4%
Net profit margin	14.0%	8.0%	10.2%	3.0%	8.7%
Return on average assets	7.8%	3.8%	6.1%	1.4%	7.2%
Return on average equity	10.6%	5.1%	8.1%	1.8%	9.4%
Stability					
Gross debt to equity	11.2%	11.7%	4.1%	4.7%	4.6%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	203.5	50.8	65.6	26.4	109.2
Interest & ST debt coverage (x)	0.6	0.4	1.0	0.6	0.9
Cash flow interest coverage(x)	136.8	90.4	22.1	95.2	63.4
Cash flow/int. & ST debt (x)	0.9	1.1	22.1	5.3	4.6
Current ratio (x)	2.5	2.3	3.4	3.9	2.7
Quick ratio (x)	2.2	2.0	2.9	3.4	2.2
Net debt (NT\$m)	(1,501)	(800)	(1,376)	(1,275)	(1,597)
Per share data					
EPS (NT\$)	8.68	4.30	7.15	1.70	8.70
CFPS (NT\$)	8.02	11.24	3.38	10.40	7.08
BVPS (NT\$)	84.58	82.84	91.79	92.13	93.87
Adj BVPS (NT\$)	83.08	82.84	94.57	92.72	93.87
SPS (NT\$)	61.86	53.62	70.14	56.24	99.67
EBITDA/share (NT\$)	11.45	8.02	9.45	5.57	14.39
Cash DPS (NT\$)	6.00	4.00	6.00	1.35	6.96
Activity					
Sales / avg assets	0.55	0.47	0.59	0.48	0.82
Days receivable	134.7	149.0	147.6	147.6	115.0
Days inventory	65.2	71.6	65.6	65.6	60.0
Days payable	66.1	114.6	97.6	97.6	92.0
Cash cycle	133.8	106.1	115.6	115.6	83.0

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Revenue	11,825	10,068	13,327	10,939	19,512
Cost of goods sold	(9,323)	(8,263)	(10,865)	(9,353)	(15,936)
Gross profit	2,502	1,805	2,462	1,587	3,576
Operating expenses	(942)	(896)	(1,209)	(1,294)	(1,609)
Operating profit	1,559	909	1,253	293	1,966
Non-operating income	849	271	746	497	440
Interest income	62	137	130	117	120
Investment income	0	19	15	20	20
Other non-op income	787	115	601	360	300
Non-operating expenses	(140)	(17)	(124)	(249)	(42)
Interest expense	(11)	(23)	(29)	(21)	(22)
Investment loss	(5)	-	(14)	(28)	-
Other non-op expenses	(124)	7	(82)	(200)	(20)
Pre-tax profit	2,268	1,163	1,875	541	2,365
Current taxation	(609)	(356)	(516)	(211)	(662)
Minorities	-	-	-	-	-
Extraordinary items	-	0	(0)	-	-
Net profit	1,659	807	1,359	330	1,703
EBITDA	2,188	1,506	1,795	1,083	2,816
EPS (NT\$)	8.68	4.30	7.15	1.70	8.70

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Operations cash flow	1,532	2,110	642	2,024	1,386
Net profit	1,659	807	1,359	330	1,703
Depreciation & amortisation	629	597	542	790	850
Decrease in working capital	(481)	1,257	(1,287)	896	(1,147)
Other operating cash flow	(274)	(552)	27	8	(20)
Investing cash flow	(2,530)	(1,592)	(1,106)	(950)	(800)
Sale of ST investment	(196)	(1,333)	(124)	-	-
New investments	-	(80)	-	-	-
Capital expenditure	(196)	(118)	(666)	(950)	(800)
Others investing cashflow	(2,138)	(61)	(315)	-	-
Free cash flow	1,092	2,367	(503)	914	319
Financing cash flow	(909)	(1,135)	(294)	(1,055)	(264)
Increase in short term debt	515	39	(1,820)	120	-
Increase in long term loans	-	-	964	-	-
New ordinary shares issued	-	-	1,360	-	-
Ordinary dividends paid	(962)	(1,126)	(751)	(1,175)	(264)
Other financing cashflow	(42)	(47)	(47)	(0)	(0)
Forex effects	190	(45)	246		
Total cash generated	(1,717)	(663)	(512)	19	322

ROIC

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	8.0%	8.9%	9.1%	11.8%	8.2%
= Operating margin	13.2%	9.0%	9.4%	2.7%	10.1%
1 / (Working capital/revenue	0.3	0.2	0.3	0.3	0.2
+ Net PPE/revenue	0.5	0.5	0.4	0.5	0.3
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	1.3	1.3	1.4	1.1	2.0
Operating margin	13.2%	9.0%	9.4%	2.7%	10.1%
x Capital turnover	1.3	1.3	1.4	1.1	2.0
x (1 - tax rate)	73.2%	69.4%	72.5%	61.0%	72.0%
= After-tax ROIC	13.0%	8.1%	9.6%	1.8%	14.7%

Source: Company data, KGI Research estimates

Consumer sector

Favor domestic consumption plays with steady earnings

Key message

1. In light of subdued wage growth, sticky inflation, and a cooling job market, US consumers are bracing for weakening purchasing power.
2. China's retail and food & beverage sales growth have been decelerating. With an ongoing deflation spiral, consumer spending is likely to remain subdued into 2026.
3. Amid a slowing consumption outlook in the US and China, we prefer consumer companies focusing on domestic demand and catering to the daily needs of local consumers. Our top picks include Bafang Yunji (2753 TT, NT\$192, O) and Poya International (5904 TT, NT\$435.5, N).

Impact

Weakening US consumption power bodes ill for discretionary spending. We are seeing increasing signs of weakening US consumer purchasing power in light of subdued wage growth, sticky inflation, and a cooling labor market, boding ill for discretionary spending and clouding the order outlook for Taiwan's export-oriented industries, spanning window coverings and apparel/footwear to bicycles. While US retail sales have been resilient, households are becoming increasingly cautious about discretionary purchases amid mounting macro uncertainties and elevated living costs after higher import tariffs. With US inflation rising, real wage growth has been decelerating for three consecutive months. The US labor market is also showing clear signs of fatigue, with non-farm payrolls having fallen sharply and the unemployment rate trending higher to nearly a four-year peak in August.

On top of weakening macro data, US retail and wholesale inventory turnover YoY growth has been narrowing, suggesting cautious restocking and weak end-demand visibility heading into 2026. Our analysis of US sports brands' inventories shows combined inventory turnover has returned to YoY growth and is now above the historical average, highlighting subdued end-demand and potential destocking risks. Our bottom-up checks indicate even affluent US consumers are tightening their belts, with Nien Made's (8464 TT, NT\$365.5, O) custom-made window coverings having seen a substantial sales decline. Despite client inventory being well below average, Tong Yang Industry (1319 TT, NT\$99.0, O), a major auto component manufacturer, has seen cautious pull-in demand in light of higher US tariffs, suggesting that consumers are cutting back on non-essential purchases.

China consumption headwinds. Consumer sentiment in China remains subdued as a housing market slowdown has weighed on household confidence, which tends to dampen non-essential purchases. Retail sales growth has been decelerating for four consecutive months, while food & beverage sales have seen muted growth. Despite extremely low inflation, income growth has been limited, keeping real purchasing power muted. The deflation spiral has weighed on business and profitability of Taiwan companies catering to domestic Chinese consumers year-to-date, and the outlook remains challenging for 2026. With high youth unemployment, younger consumers will be compelled to cut back on spending. We believe the broader consumption headwinds and intensifying competition in China underscores our continued caution over Taiwan's consumer stocks with exposure to the China market.

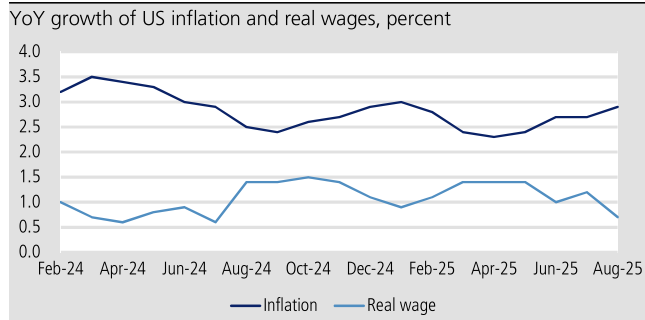
We favor consumer stocks focused on domestic demand & essentials. Amid muted consumption outlooks in the US and China, we believe consumer companies focusing on domestic demand and staple consumption, such as mass market restaurant chains or retail outlets that sell daily necessities, are better positioned to weather external weakness. We favor consumer firms with limited exposure to forex swings and global macro uncertainty, which tend to generate steady earnings with sustained cash dividend payout amid external volatility.

Stocks for Action

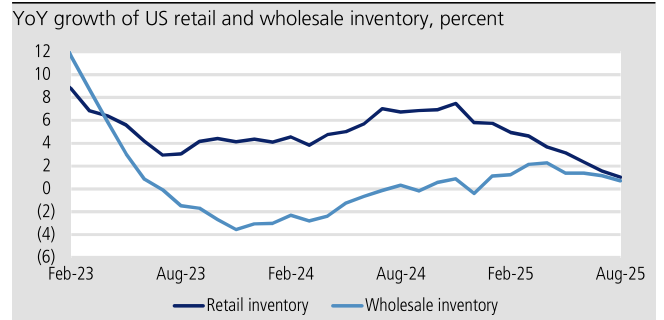
In light of subdued consumption outlooks in the US and China, we prefer consumer companies that focus on the domestic market and cater to the daily needs of local consumers. Our top picks include Bafang Yunji (2753 TT, NT\$192, O) and Poya International (5904 TT, NT\$435.5, N), with respective target prices of NT\$234 and NT\$548.

Risks

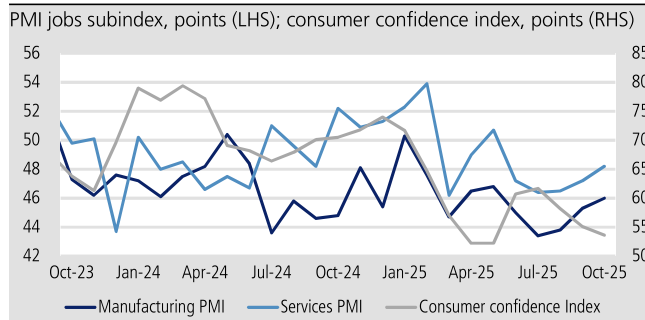
Upside risks include cooling US inflation and intensifying China stimulus measures.

Figure 1: US consumer purchasing power is weakening


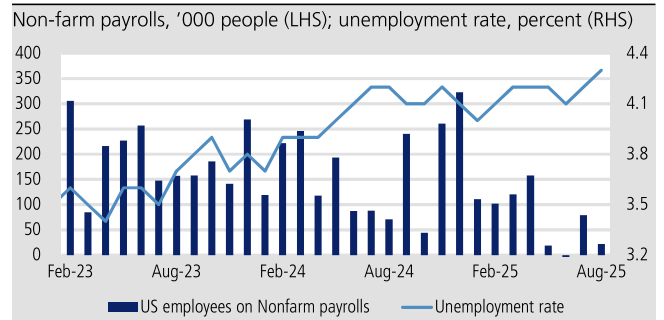
Source: Bloomberg; KGI Research

Figure 2: Slowing inventory growth points to cautious restocking


Source: Bloomberg; KGI Research

Figure 3: US consumer confidence index has declined further


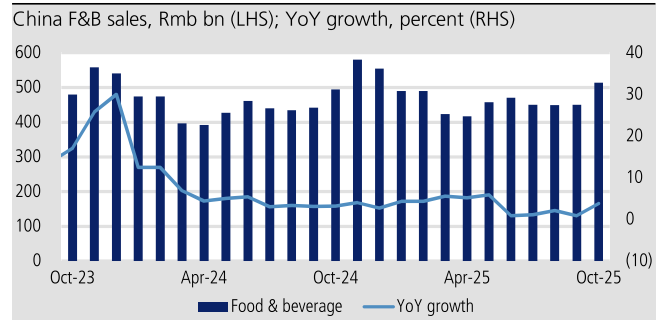
Source: Bloomberg; KGI Research

Figure 4: US job market continues to ease


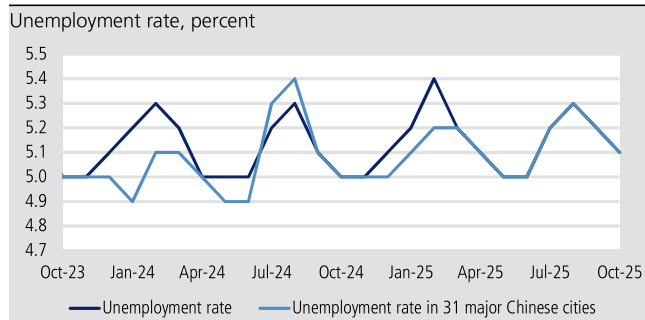
Source: Bloomberg; KGI Research

Figure 5: China retail sales growth is decelerating

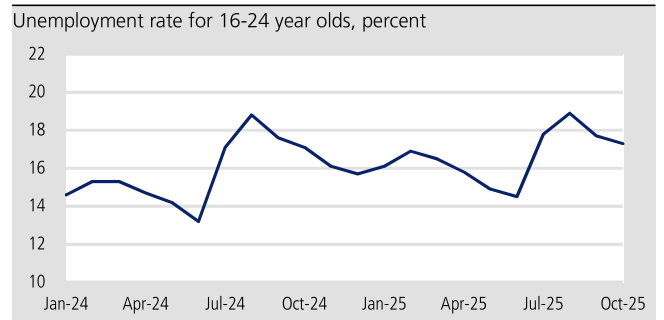

Source: Wind; KGI Research

Figure 6: China F&B sales growth is slowing


Source: Wind; KGI Research

Figure 7: China unemployment rate is stable


Source: Wind; KGI Research

Figure 8: High unemployment bodes ill for consumption


Source: Wind; KGI Research



Bafang Yunji

(2753.TW/2753 TT)

Compelling blend of value & growth

Outperform·Maintained

Price as of November 20 (NT\$)	192.0
12M target price (NT\$)	234.0
Previous target price (NT\$)	234.0
Unchanged (%)	0.0
Upside (%)	21.9

Key message

- Two Taiwan flagship brands have seen customer traffic growth, underpinning 3Q25 sales growth YoY and QoQ.
- US sales rose 13% YoY in 3Q25; more store openings to drive faster growth in 4Q25F.
- We expect operating margin to extend YoY expansion, driving share price upside.

Trading data

Mkt cap (NT\$bn/US\$mn)	12.80 / 418.7
Outstanding shares (mn)	66.65
Foreign ownership (mn)	9.17
3M avg. daily trading (mn)	0.42
52-week trading range (NT\$)	145.0 –217.0

Performance	3M	6M	12M
Absolute (%)	-1.8	-2.5	29.7
Relative (%)	-17.9	-29.9	8.8

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2024	2.36A	2.10A	2.18A	2.41A
2025	2.93A	2.89A	3.53A	3.22F
2026	3.14F	3.15F	3.28F	3.43F

Share price chart



Source: TEJ

Event

We believe Bafang Yunji International is the best proxy for our consumer investment theme, which focuses on firms catering to domestic demand and daily needs. We expect the firm's core operations in Taiwan to sustain solid sales growth in 2H25-2026, while faster US store ramp-up will drive a turnaround and underpin margin expansion.

Impact

Solid Taiwan operations. The firm has seen foot traffic growth for its two major brands in Taiwan, Bafang Yunji (dumplings) and Liang She Han Pork Ribs, which are outshining local restaurant chains thanks to a revamped menu and new product launches. The firm opened nine new stores for the two brands in 3Q25, driving revenue up by 1.3% QoQ and 7.4% YoY in 3Q25. We expect store additions and customer traffic to underpin YoY and QoQ sales growth in 4Q25. To expand its customer reach, the firm entered the e-commerce market this month, selling its flagship beef noodles on Taiwan's top online shopping platform Momo.com (8454 TT, NT\$228.5, N), which will not only create a new revenue stream, but also strengthen consumer engagement with the brand, which will be positive for margins.

US turnaround in sight. US sales rose 13% YoY in 3Q25, up from a 10% increase in 1H25, and we forecast growth will accelerate to 29% YoY in 4Q25 thanks to the addition of three new stores. With US operating margin currently at around 10%, and central kitchen utilization to improve in tandem with additional store openings, the firm maintains its goal of bringing California operations to breakeven by year-end. Looking ahead, the firm will open its first store in Texas in December, expand into Arizona next year, and roll out a new quick-service store format where food is precooked rather than made to order, which will help increase turnover and improve profitability due to reduced front-end staffing, boding well for the firm's long-term margin outlook in the US.

Operating margin expansion to drive share upside. 3Q25 EPS rose 62% YoY and 22% QoQ to NT\$3.53, above consensus and our forecast by a respective 21% and 16% thanks to higher-than-expected margins. Operating margin topped a nearly five-year peak of 12.8%, driven by higher sales and gross margin upticks. We believe improving US profitability, on the back of faster store ramp-ups, will drive further operating margin expansion next year. We forecast an earnings CAGR of 9.5% for 2025-27, and expect the firm to maintain its dividend payout ratio of 70%, sustaining yield of 4-5%.

Valuation & Action

We see a compelling risk-reward profile for the firm in light of sustained foot traffic and further operating margin expansion. We believe growing US sales and profitability could underpin valuation upside. We maintain Outperform and our target price of NT\$234, based on PE of 18x.

Risks

Delay of new store openings; rising raw material prices.

Key financials and valuations

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (NT\$mn)	7,340	8,028	8,768	9,363	10,089
Gross profit (NT\$mn)	2,553	2,778	3,117	3,316	3,584
Operating profit (NT\$mn)	669	722	1,015	1,070	1,184
Net profit (NT\$mn)	554	602	837	866	953
EPS (NT\$)	8.35	9.05	12.56	13.00	14.31
Cash DPS (NT\$)	7.00	8.00	8.79	9.10	10.01
EPS growth (%)	(16.5)	8.4	38.8	3.5	10.1
PE (x)	23.0	21.2	15.3	14.8	13.4
PB (x)	3.8	3.6	3.3	3.1	2.9
EV/EBITDA (x)	9.2	8.7	5.8	5.0	4.1
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	3.6	4.2	4.6	4.7	5.2
Return on average equity (%)	16.6	17.3	22.6	21.9	22.6

Source: Company data; KGI Research estimates

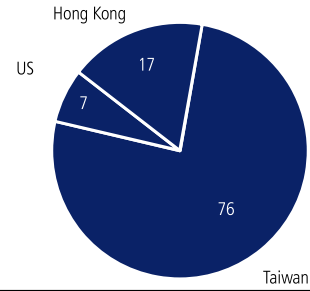
Figure 1: Company profile

Established in 2000, Bafang Yunji International is a multi-brand chain restaurant operator with a total of 1,380 outlets in Taiwan, Hong Kong, and the US as of September 2025. The flagship Bafang Yunji dumpling brand represents the lion's share of sales at 75%, followed by Liang She Han Pork Ribs at 23%. The majority of the firm's stores are franchised. Taiwan contributed 76% of sales in 2024, while Hong Kong accounted for 17%, with the remainder from the US.

Source: KGI Research

Figure 2: Taiwan is the largest sales contributor

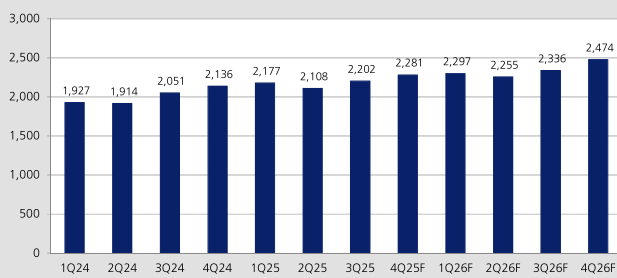
2024 sales by region, percent



Source: KGI Research

Figure 3: Sales

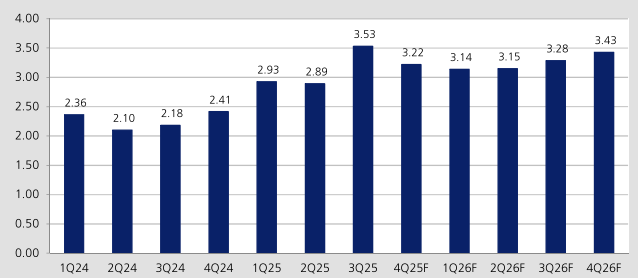
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

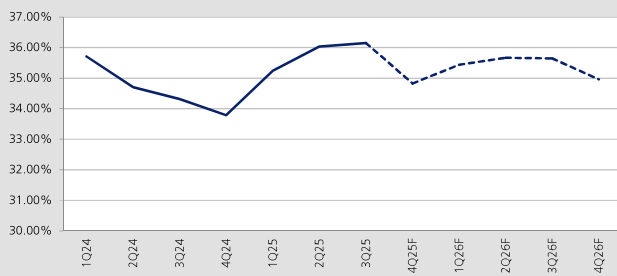
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

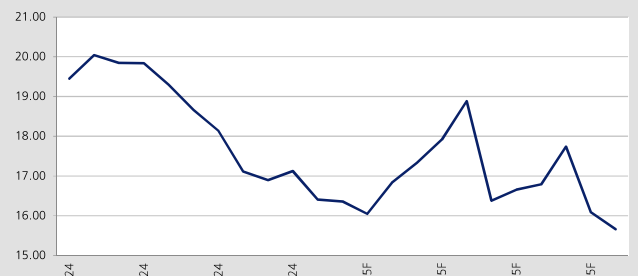
Gross margin, percent



Source: KGI Research

Figure 6: Rolling PE

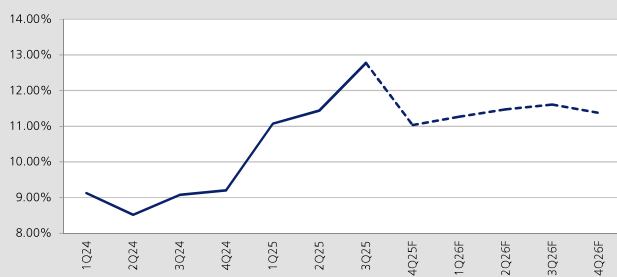
Rolling PE, times



Source: KGI Research

Figure 7: Operating Margin

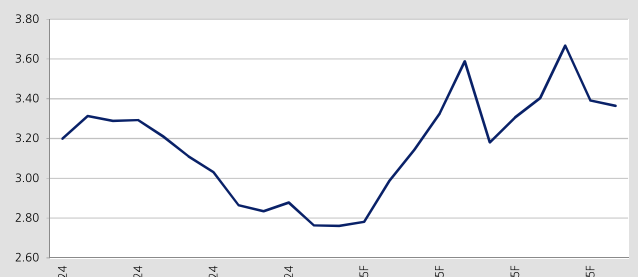
Operating margin, percent



Source: KGI Research

Figure 8: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-25A	Jun-25A	Sep-25A	Dec-25F	Mar-26F	Jun-26F	Sep-26F	Dec-26F	Dec-25F	Dec-26F	Dec-27F
Income statement (NT\$m)											
Revenue	2,177	2,108	2,202	2,281	2,297	2,255	2,336	2,474	8,768	9,363	10,089
Cost of goods sold	(1,410)	(1,348)	(1,406)	(1,486)	(1,483)	(1,451)	(1,503)	(1,609)	(5,651)	(6,047)	(6,505)
Gross profit	767	759	796	794	814	804	833	865	3,117	3,316	3,584
Operating expenses	(526)	(518)	(515)	(542)	(555)	(546)	(562)	(584)	(2,102)	(2,246)	(2,400)
Operating profit	241	241	281	252	259	259	271	281	1,015	1,070	1,184
Depreciation of fixed assets	(196)	(188)	(186)	(492)	(300)	(300)	(300)	(300)	(1,063)	(1,199)	(1,345)
Amortisation of intangible assets	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(5)	(5)	(5)
EBITDA	438	431	469	745	560	560	572	583	2,083	2,275	2,534
Interest income	1	4	3	11	6	6	6	6	18	25	33
Investment income	-	-	-	0	0	0	0	0	0	0	0
Other non-op income	11	11	11	12	12	13	12	14	46	51	48
Non-operating income	13	15	14	23	18	19	18	20	64	76	81
Interest expense	(12)	(13)	(16)	(1)	(10)	(10)	(10)	(10)	(42)	(42)	(42)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	(7)	(10)	9	(8)	(8)	(8)	(8)	(8)	(16)	(32)	(32)
Non-operating expenses	(19)	(23)	(7)	(9)	(18)	(18)	(18)	(18)	(58)	(74)	(74)
Pre-tax profit	235	233	288	265	259	260	271	283	1,022	1,073	1,192
Current taxation	(46)	(49)	(58)	(57)	(56)	(56)	(58)	(61)	(210)	(231)	(262)
Minorities	6	9	5	6	6	6	6	6	26	24	24
Normalised net profit	195	193	235	214	209	210	219	228	837	866	953
Extraordinary items	(0)	0	0	(0)	-	-	-	-	-	-	-
Net profit	195	193	235	214	209	210	219	228	837	866	953
EPS (NT\$)	2.93	2.89	3.53	3.22	3.14	3.15	3.28	3.43	12.56	13.00	14.31
Margins (%)											
Gross profit margin	35.2	36.0	36.1	34.8	35.4	35.7	35.6	35.0	35.6	35.4	35.5
Operating margin	11.1	11.4	12.8	11.0	11.3	11.5	11.6	11.4	11.6	11.4	11.7
EBITDA margin	20.1	20.4	21.3	32.7	24.4	24.8	24.5	23.5	23.8	24.3	25.1
Pretax profit margin	10.8	11.1	13.1	11.6	11.3	11.5	11.6	11.4	11.7	11.5	11.8
Net profit margin	9.0	9.1	10.7	9.4	9.1	9.3	9.4	9.2	9.5	9.3	9.5
Sequential growth (%)											
Revenue growth	1.9	(3.2)	4.5	3.5	0.7	(1.8)	3.6	5.9			
Gross profit growth	6.3	(1.0)	4.8	(0.2)	2.5	(1.2)	3.5	3.9			
Operating profit growth	22.6	0.0	16.7	(10.5)	2.8	0.0	4.8	3.7			
EBITDA growth	11.7	(1.6)	8.8	58.8	(24.8)	0.0	2.2	1.8			
Pretax profit growth	18.7	(0.8)	23.5	(7.8)	(2.6)	0.4	4.4	4.5			
Net profit growth	21.4	(1.2)	22.1	(8.8)	(2.5)	0.4	4.3	4.3			
YoY growth (%)											
Revenue growth	13.0	10.1	7.4	6.8	5.5	7.0	6.1	8.5	9.2	6.8	7.8
Gross profit growth	11.5	14.3	13.2	10.0	6.1	5.9	4.6	8.9	12.2	6.4	8.1
Operating profit growth	37.1	47.9	51.2	28.1	7.4	7.3	(3.6)	11.8	40.7	5.4	10.7
EBITDA growth	21.8	22.1	23.8	89.8	27.8	29.9	22.0	(21.8)	40.4	9.2	11.4
Pretax profit growth	14.6	33.9	60.4	34.1	10.1	11.4	(5.8)	6.7	35.0	5.0	11.1
Net profit growth	24.1	38.2	62.2	33.6	7.2	9.0	(6.9)	6.5	39.0	3.5	10.1

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total assets	6,181	6,723	7,155	7,432	7,778
Current assets	2,148	1,994	2,768	3,384	4,255
Cash & ST securities	1,555	1,321	2,052	2,630	3,455
Inventory	247	299	323	345	371
Accounts receivable	205	208	228	243	262
Other current assets	140	166	166	166	166
Non-current assets	4,033	4,730	4,387	4,048	3,523
LT investments	4	14	14	14	14
Net fixed assets	2,379	2,879	2,537	2,197	1,673
Other assets	1,651	1,837	1,837	1,837	1,837
Total liabilities	2,732	2,907	3,114	3,154	3,239
Current liabilities	1,609	1,658	1,868	1,907	1,992
Accounts payable	240	264	285	304	328
Interest bearing ST liabilities	306	187	191	190	190
Other current liabilities	1,063	1,207	1,393	1,413	1,474
Non-current liabilities	1,123	1,250	1,246	1,247	1,246
Long-term debt	30	27	23	24	24
Other L-T liabilities	74	88	88	88	88
Total equity	3,449	3,816	4,041	4,277	4,539
Share capital	665	666	666	666	666
Retained earnings reserve	1,278	1,362	1,613	1,873	2,159
Minority interests	67	242	217	193	169
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Growth					
Revenue growth	8.0%	9.4%	9.2%	6.8%	7.8%
Operating profit growth	(15.1%)	7.9%	40.7%	5.4%	10.7%
EBITDA growth	(6.1%)	9.4%	40.4%	9.2%	11.4%
Net profit growth	(16.2%)	8.6%	39.0%	3.5%	10.1%
EPS growth	(16.5%)	8.4%	38.8%	3.5%	10.1%
Profitability					
Gross profit margin	34.8%	34.6%	35.6%	35.4%	35.5%
Operating margin	9.1%	9.0%	11.6%	11.4%	11.7%
EBITDA margin	18.5%	18.5%	23.8%	24.3%	25.1%
Net profit margin	7.6%	7.5%	9.5%	9.3%	9.5%
Return on average assets	9.2%	9.3%	12.1%	11.9%	12.5%
Return on average equity	16.6%	17.3%	22.6%	21.9%	22.6%
Stability					
Gross debt to equity	9.7%	5.6%	5.3%	5.0%	4.7%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	23.7	19.2	25.5	26.7	29.6
Interest & ST debt coverage (x)	0.7	0.8	0.8	0.8	0.8
Cash flow interest coverage(x)	38.3	33.7	45.2	49.2	54.7
Cash flow/int. & ST debt (x)	3.6	6.1	8.1	8.9	9.8
Current ratio (x)	1.3	1.2	1.5	1.8	2.1
Quick ratio (x)	1.2	1.0	1.3	1.6	1.9
Net debt (NT\$m)	(468)	(748)	(1,480)	(2,057)	(2,883)
Per share data					
EPS (NT\$)	8.35	9.05	12.56	13.00	14.31
CFPS (NT\$)	18.38	21.06	28.24	30.80	34.24
BVPS (NT\$)	50.86	53.62	57.39	61.29	65.58
Adj BVPS (NT\$)	50.95	53.70	57.39	61.29	65.58
SPS (NT\$)	110.58	120.65	131.57	140.49	151.38
EBITDA/share (NT\$)	20.45	22.30	31.26	34.13	38.03
Cash DPS (NT\$)	7.00	8.00	8.79	9.10	10.01
Activity					
Sales / avg assets	1.22	1.24	1.26	1.28	1.33
Days receivable	10.2	9.5	9.5	9.5	9.5
Days inventory	18.9	20.8	20.8	20.8	20.8
Days payable	18.3	18.4	18.4	18.4	18.4
Cash cycle	10.8	11.9	11.9	11.9	11.9

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue	7,340	8,028	8,768	9,363	10,089
Cost of goods sold	(4,787)	(5,250)	(5,651)	(6,047)	(6,505)
Gross profit	2,553	2,778	3,117	3,316	3,584
Operating expenses	(1,884)	(2,056)	(2,102)	(2,246)	(2,400)
Operating profit	669	722	1,015	1,070	1,184
Non-operating income	67	71	64	76	81
Interest income	30	16	18	25	33
Investment income	0	0	0	0	0
Other non-op income	37	55	46	51	48
Non-operating expenses	(12)	(36)	(58)	(74)	(74)
Interest expense	(32)	(42)	(42)	(42)	(42)
Investment loss	-	-	-	-	-
Other non-op expenses	20	6	(16)	(32)	(32)
Pre-tax profit	724	757	1,022	1,073	1,192
Current taxation	(140)	(166)	(210)	(231)	(262)
Minorities	16	11	26	24	24
Extraordinary items	(46)	(0)	-	-	-
Net profit	554	602	837	866	953
EBITDA	1,357	1,484	2,083	2,275	2,534
EPS (NT\$)	8.35	9.05	12.56	13.00	14.31

Cash flow

NT\$m	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Operations cash flow	1,220	1,401	1,882	2,053	2,282
Net profit	554	602	837	866	953
Depreciation & amortisation	689	763	1,068	1,205	1,350
Decrease in working capital	(4)	(45)	(23)	(18)	(22)
Other operating cash flow	(19)	81	(0)	(0)	(0)
Investing cash flow	(373)	(315)	(725)	(865)	(825)
Sale of ST investment	488	385	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(995)	(791)	(720)	(860)	(820)
Others investing cashflow	134	92	(5)	(5)	(5)
Free cash flow	224	485	1,126	1,161	1,427
Financing cash flow	(734)	(960)	(426)	(610)	(630)
Increase in short term debt	272	(120)	-	-	-
Increase in long term loans	(4)	(4)	-	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(498)	(465)	(400)	(586)	(606)
Other financing cashflow	(504)	(370)	(26)	(24)	(24)
Forex effects	(0)	32			
Total cash generated	114	159	731	577	826

ROIC

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
1 - COGS/revenue					
- Operating exp./revenue	25.7%	25.6%	24.0%	24.0%	23.8%
= Operating margin	9.1%	9.0%	11.6%	11.4%	11.7%
1 / (Working capital/revenue	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
+ Net PPE/revenue	0.3	0.4	0.3	0.2	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	3.7	3.3	4.6	6.0	10.2
Operating margin	9.1%	9.0%	11.6%	11.4%	11.7%
x Capital turnover	3.7	3.3	4.6	6.0	10.2
x (1 - tax rate)	80.7%	78.1%	79.4%	78.5%	78.0%
= After-tax ROIC	27.2%	23.5%	42.5%	54.0%	93.2%

Source: Company data; KGI Research estimates

Financial sector

Financial sector to continue to benefit from US rate cuts & sustained positive yield curve in 2026F

Key message

1. Banks – In 2026F, continued US Fed rate cuts should help banks lower US dollar funding costs, improve bond valuations, and sustain wealth management fee growth momentum, offsetting the decline in FX swap income.
2. Life Insurers – TW-ICS capital concerns to ease in 2026F, but IFRS17 impact on net worth, CSM, and profitability remain uncertain.
3. For 2026, our top picks among financial stocks are SinoPac FHC (2890 TT, NT\$27.05, OP) and CTBC FHC (2891 TT, NT\$43.15, OP). For life insurance-centric FHCs, based on earnings, distributable surplus, and capital strength, Cathay FHC (2882 TT, NT\$64.4, N) and Fubon FHC (2881 TT, NT\$89.7, N) rank ahead of TS FHC (2887 TT, NT\$18.55, N).

Impact

Banks – Core earnings momentum to sustain in 2026F. The US Fed restarted its rate cut cycle in September, but FOMC members remain divided on the December path, reducing the likelihood of another 25bps cut this year. The pace of Fed cuts in 2026 will depend on US inflation and unemployment trends. Continued rate cuts should lower banks' US dollar funding costs, boost corporate FCY lending, and lift FCY bond valuations. Taiwan's supply chain relocation overseas will further support FCY lending. We forecast 2026 loan growth will remain in mid-single digits, with 1H26 NIM flat or slightly higher versus 2025, driven by lower US dollar funding costs, higher US dollar lending, and stronger bond yield income, while net interest income (NII) will maintain at least mid-single-digit growth (vs. 14% YoY in 1Q-3Q25). Whether Taiwan's central bank will cut the rediscount rate will hinge on the impact of US tariffs, slower 2026F GDP growth (2.5-3%), real estate measures, and NT dollar trends. If rate cuts resume in 1H26F, banks' NIM and NII growth will gradually soften. Meanwhile, US rate-cut expectations and the AI boom will continue to drive capital flows into overseas bonds, funds, and structured notes, supporting at least mid-single digit growth in wealth management fees. However, narrowing US-Taiwan rate spreads will push CS swap points below 2%, likely reducing FX swap income by 20-30%. Banks' NPL ratio stayed at a low 0.15% in 3Q25, but SME and overseas NPL trends warrant attention. Credit costs in 2026 may exceed 2025 levels (1Q-3Q25 at 0.2%), but the impact on profitability will remain manageable.

Life insurers – TW-ICS capital concerns to ease in 2026; IFRS17 impact on net worth, CSM & profitability still uncertain. The FSC introduced transitional measures in October to support life insurers' adoption of TW-ICS, easing future capital-raising pressure. For insurers with RBC ratios above 250%, including Cathay Life (CL), Fubon Life (FL), and Taiwan Life (TL), the target TW-ICS interest rate is estimated at above 125%. However, CL, FL, and TL noted that IFRS17 adoption on January 1, 2026 will impact net worth based on: (1) year-end 2025 interest rates (affecting bond reclassification from AC to FVOCI); (2) fair value of liabilities; and (3) contractual service margin (CSM) amounts. Most insurers plan to reclassify equity investments from FVTPL + overlay approach to FVOCI to reduce monthly valuation volatility. However, FVOCI equity gains are excluded from net profit. Therefore, 2026F profitability will hinge on: (1) CSM amortization; (2) the spread between pre-hedging recurring yield and liability cost; (3) realized bond gains (linked to US rate cuts); (4) hedging costs; and (5) reserve amortization and other operating expenses. IFRS17 adoption is expected to lower liability costs by 50-100bps and hedging costs of 1-1.5%, reflecting lower CS costs, adequate FX reserves to cushion against unhedged currency risk, and prospective FSC approval of FX accounting adjustments to allow lower hedge ratios. Capital gains on FVOCI equities will be recorded under retained earnings, which remain the basis for dividend payouts, subject to future ICS ratio requirements set by the FSC.

2025 dividend outlook – Banks & brokerages to outperform life insurers. Considering 2025 earnings growth, capital adequacy, and recovery in other equity items driving special reserve reversals into distributable earnings, we estimate CTBC FHC (2891 TT, NT\$43.15, OP), SinoPac FHC (2890 TT, NT\$27.05, OP), First FHC (2892 TT, NT\$28.35, N), Yuanta FHC (2885 TT, NT\$35.95, N), and E.Sun FHC (2884 TT, NT\$30.15, N) will deliver average cash dividend growth of 11%. In contrast, Cathay FHC (2882 TT, NT\$64.4, N) and Fubon FHC (2881 TT, NT\$89.7, N) may cut cash dividends by 10-20% YoY, reflecting a projected earnings decline of over 15%, including a one-time 30% provision for FX reserves at year-end. Given SinoPac FHC and CTBC FHC's 2025F cash dividend yields are above the 3.95% average and their earnings growth continues into 2026F, we recommend investors accumulate positions ahead of the 2Q26 ex-dividend season.

Stocks for Action

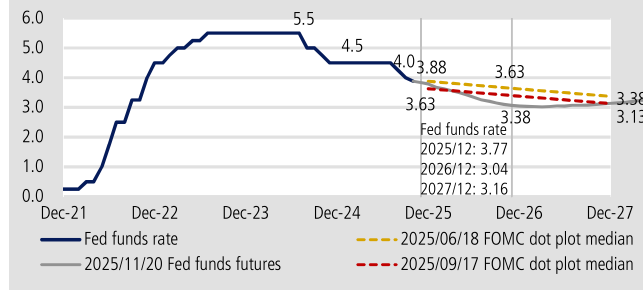
For 2026, our top picks among financial stocks are SinoPac FHC and CTBC FHC. For life insurance-centric FHCs, based on earnings, distributable surplus, and capital strength, Cathay FHC and Fubon FHC rank ahead of TS FHC (2887 TT, NT\$18.55, N). If Taiwan's central bank initiates a rate cut cycle in 1H26 and China's delinquency rates remain stable, investors should continue to monitor leasing companies such as Chailease (5871 TT, NT\$101.5, OP) for margin recovery, asset quality improvement, and high dividend yield opportunities.

Risks

Underwhelming Fed rate cuts or renewed tightening cycle; higher bank credit costs.

Figure 1: Fed's 25bps rate cut in October eased US dollar funding costs; odds of another 25bps rate cut in 2025 fall amid FOMC split, vs. market expectation of 75-100bps cuts through 2026

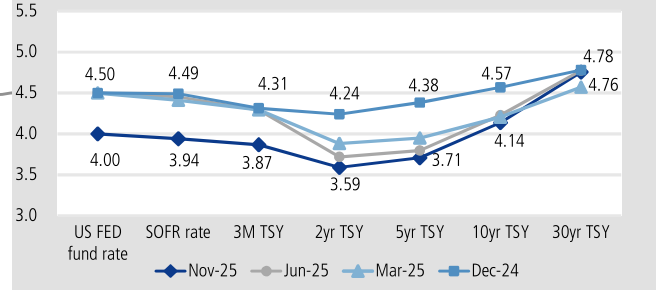
Federal funds rate and interest rate futures, percent



Source: Bloomberg; KGI Research

Figure 2: In November, US 10-year Treasury yield rebounded to 4.1%, while 30-year rose to 4.8%, which is negative for long-term bond valuations; if yields fall below end-2024 levels of 4.57% & 4.78%, it may impact bond valuation losses & prompt reversal of special reserves

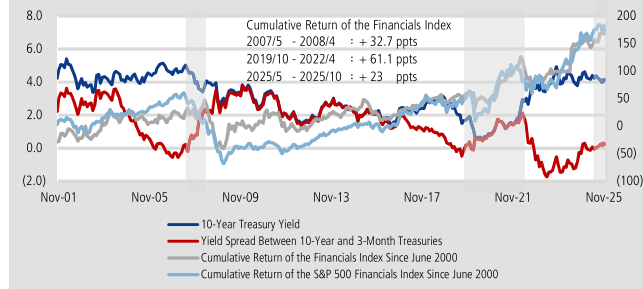
US Treasury yield, percent



Source: Bloomberg; KGI Research

Figure 3: 10-year minus 3-month Treasury bond spread turned positive three times since 2000, resulting in positive financial subindex returns in May 2007, October 2019, & May 2025

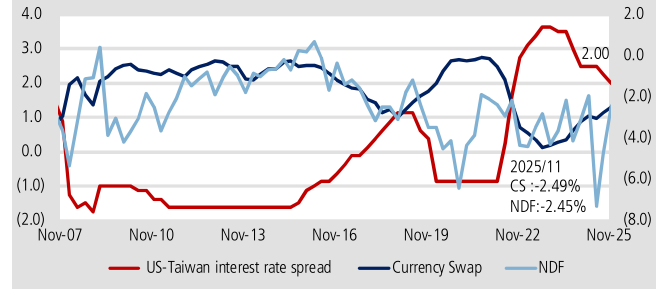
10-year Treasury yield, 10Y-3M yield spread, percent (LHS); accumulated return on financial sub-index & S&P 500 financials index, percent (RHS)



Source: Bloomberg; KGI Research

Figure 4: In November, CS swap points fell to 2.49%, down 28bps from 3Q25, reflecting narrowing US-Taiwan interest rate to 2%; we expect a further fall to 2% on a 50-75bps US-Taiwan spread contraction in 2026, reducing life insurers' hedging costs, but weighing on banks' FX swap income

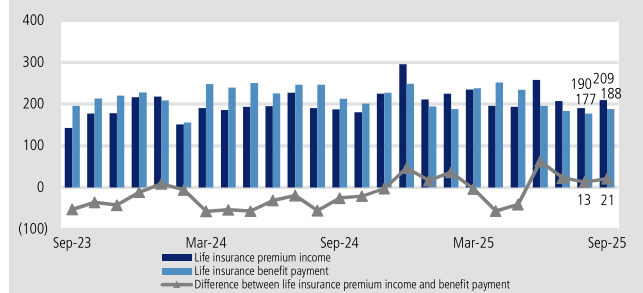
Spread between US federal funds rate & Taiwan's rediscount rate, percent (LHS); CS and NDF hedging costs, percent (RHS)



Source: Bloomberg; KGI Research

Figure 5: January-September premium income momentum rebounded, as policyholders' willingness to purchase interest-sensitive & investment-linked life insurance grew

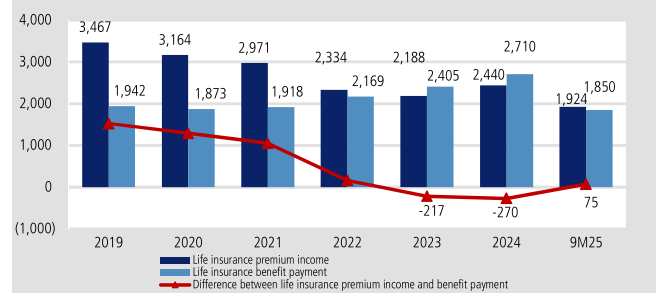
Life insurance premiums & payments, NT\$bn



Source: Insurance Bureau; KGI Research

Figure 6: Premium-benefit difference was positive NT\$75bn in January-September, versus negative NT\$200bn+ in both 2023 & 2024, indicating sharp slowdown in policy surrenders

Life insurance premiums & payments, NT\$bn



Source: Insurance Bureau; KGI Research

Figure 7: After adopting the new FX reserve rule & temporary liability measures in 2Q25, life insurers' FX reserves rebounded significantly, leaving most with sufficient buffers for potential 2026 FX losses

Ticker	Company	Proxy & Open	FX reserves (NT\$mn)					Expected NT dollar appreciation covered by FX reserve
			2Q25	1Q25	2Q25	3Q25	Oct-25	
2882 TT	Cathay Life	21.4	38,624	56,400	55,800	60,000		around 27-28 NT dollar
2881 TT	Fubon Life	18.1	26,169	51,581	77,000	85,000		around 26.5-27 NT dollar
2891 TT	Taiwan Life	16.0	14,017	3,400	17,600	17,500		around 28-29 NT dollar
2887 TT	Shin Kong Life	33.2	59,330	61,700	74,000	80,000		around 27 NT dollar
2887 TT	Taishin Life	N/A	1,750	2,000	N/A	N/A		N/A
2885 TT	Yuanta Life	N/A	3,361	3,322	N/A	N/A		N/A
2867 TT	Mercuries Life	N/A	15,332	17,450	N/A	N/A		N/A
2883 TT	Kgi Life	31.5	39,030	2,441	N/A	N/A		N/A
5874 TT	Nan Shan Life	N/A	32,151	25,119	N/A	N/A		N/A

Source: Company data; KGI Research

Figure 8: During the transition period, capital adequacy is assessed using ICS base & target ratios

Threshold	ICS Base Ratio	ICS Target Ratio and Excess Handling
RBC ≥ 250%		
(based on 2Q25 or 3Q25 financial report)	Capped at 125%	Excess amount to be adjusted in own capital; must be linearly amortized to zero within 5 years
RBC < 250%	Capped at RBC × 50%	

Source: Company data; KGI Research

Figure 9: We estimate most life insurers with capital adequacy ratios above 250% will align with ICS target ratio of over 125% on January 1, 2026

FHC/Life insurance ticker	Company	2Q25 RBC (%)	The cap of ICS Reference Ratio (%) (Based 2Q25 RBC ratio)	ICS target ratios (%)
2882 TT	Cathay Life	328.5	125	140-150
2881 TT	Fubon Life	404.8	125	
2883 TT	KGI Life	346.9	125	
2891 TT	Taiwan Life	323.0	125	
5874 TT	Nan Shan Life	276.2	125	
2885 TT	Yuanta Life	415.0	125	
2892 TT	First Life	358.8	125	
5859 TT	Farglory Life	333.4	125	
2876 TT	Hontai Life Insurance	250.1	125	
2887 TT	Taishin Life	458.1	125	
2888 TT	Shin Kong Life	204.9	102	
5873 TT	TransGlobe Life	212.2	106	
2867 TT	Mercuries Life	154.3	77	

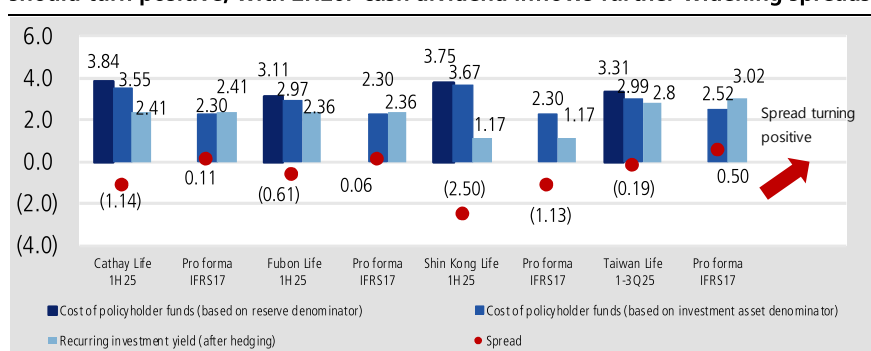
Source: Company data; KGI Research

Figure 10: We expect major life insurers' CSM balances & amortization to grow post-IFRS 17 adoption, though final balances will depend on net asset value & liability fair value at January 1, 2026 transition

NT\$ million	1H25 CSM	2025 Target	1H25 CSM / 2025 Target	Estimated CSM Balance	Annual Amortization	Amortization Growth
Cathay Life	46,900	70,000	67.0%	KGI estimated 450,000-500,000	Assumed 5-10%	10-15%
Fubon Life	30,000	50,000	60.0%	KGI estimated 220,000-280,000	Assumed 5-10%	15-20%
Taiwan Life	8,000 (1-3Q25)	13,000	61.5% (1-3Q25)	Exceeding 120,000	7-8%	more than 15%
Shin Kong Life	40,300 (post-merger with Taishin FHC, of which Taishin Life accounts for 8,000)	60,000	53.8% (Shin Kong)	Estimated 180,000 (post-merger with Taishin FHC)	7%	more than 20%

Source: Company data; KGI Research

Figure 11: Post-IFRS 17, recurring hedge-adjusted spreads after liability costs should turn positive, with 2H26F cash dividend inflows further widening spreads



Note: We assume cost of liability will drop to 2.3% for Cathay Life, Fubon Life, and Shin Kong Life when adopting IFRS 17, compared to 2.52% for Taiwan Life.

Source: Company data; KGI Research

Figure 12: Post-IFRS 17, life insurers will remove FVTPL + overlay approaches for assets & value insurance liabilities at current interest rates; most plan to reclassify equity investments currently under FVTPL + overlay to FVOCI to avoid excessive monthly valuation volatility impacting profits

Category	IFRS 9 (Before Transition)	IFRS 17 (After Transition)
Assets	FVTPL : Stocks, bonds, funds, and derivatives for hedging purposes FVTPL (Overlay Approach): Stocks and bonds FVOCI AC : Bonds	FVTPL : Derivatives, structured products, equity funds, and PE funds FVOCI : Stocks, bonds, bond ETFs (look-through approach) AC : Bonds FVTPL (Overlay Approach) discontinued
Liabilities	Insurance liabilities (measured using locked-in discount rates under IFRS 4)	Insurance contract liabilities (measured on a current basis under IFRS 17) • CSM : Contractual Service Margin • BEL : Best Estimate Liabilities (present value of future cash flows) • Risk Adjustment : Adjustment for non-financial risks
Equity — Current Year Retained Earnings (Profit or Loss)	Gains or losses on disposal of stocks and bonds under FVTPL (Overlay Approach) Dividend income from equity instruments under FVOCI	Gains or losses on disposal of stocks, funds, and bonds under FVTPL Dividend income from equity instruments under FVOCI
Equity — Realized Gains or Losses	Realized capital gains from disposal of equity instruments under FVOCI	Realized capital gains from disposal of equity instruments under FVOCI
Other Comprehensive Income (OCI)	Valuation changes in debt and equity instruments under FVOCI and FVTPL (Overlay Approach)	Valuation changes in debt and equity instruments under FVOCI

Source: Company data; KGI Research

Figure 13: Post-IFRS 17, FVOCI equity gains will be excluded from net profit; therefore, life insurers' 2026F profitability will depend on: (1) CSM amortization; (2) spread between pre-hedging recurring yield & liability cost; (3) realized bond gains driven by US rate cuts; (4) hedging costs; & (5) reserve amortization & other operating expenses

Income Statement	Current Framework (IFRS 9)	Post-Transition (IFRS 17, 2026)
Insurance premium-related revenue	Underwriting Result (Mortality, Expense Variances) Revenue: Premium income Expenses: Claims, benefits, and changes in insurance liabilities	Insurance Service Result Revenue: Release of CSM and Risk Adjustment (RA) Expenses: Expected and actual claims and operating expenses
Investment Income (Spread)	Revenue: Net investment gains and losses interest income; FVTPL gains and losses (including Overlay Approach); derecognition gains on AC assets; investment property revaluation Dynamic gains/losses Realized FVOCI gains and losses (debt instruments and equity dividends) foreign exchange gains/losses; changes in FX valuation reserves Reclassification gains or losses under the Overlay Approach	Financial Result: Net investment gains and losses interest income; FVTPL gains and losses; derecognition gains on AC assets; investment property revaluation gains/losses realized FVOCI gains and losses (debt instruments and equity dividends) foreign exchange gains/losses; changes in FX valuation reserves
Other	Fee income, financing costs, and operating expenses	Other Operating Results: Fee income from investment-linked products financing and issuance costs other operating expenses
Net Income	Total profit or loss for the period	Total profit or loss for the period
Other Comprehensive Income (OCI)	Changes in fair value of debt and equity instruments under FVTPL (Overlay Approach) and FVOCI	Changes in fair value of FVOCI debt and equity instruments Insurance finance income or expenses (impact of changes in the discount rate on insurance liabilities)
Retained Earnings		Realized capital gains on disposal of FVOCI equity instruments (previously reclassified from FVTPL under the Overlay Approach), which may be used as a source of dividend distribution

Source: Company data; KGI Research

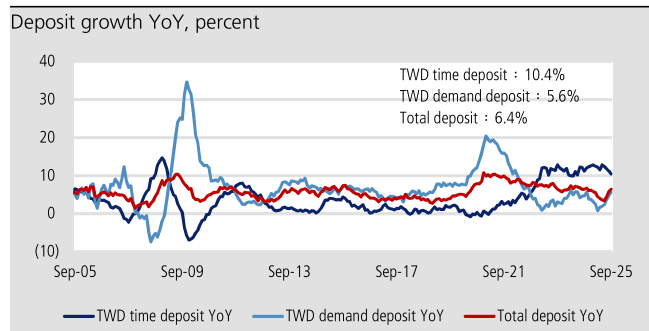
Figure 14: Most banks saw NIM rebound in 3Q25; we estimate 1H26 NIM will be flat or slightly higher versus 2025, driven by lower US dollar funding costs, higher US dollar lending, & stronger bond yield income

Percent (%)	3Q24	2Q25	3Q25	3Q25 QoQ	3Q25 YoY	2025F/2026F NIM guidance
2891 TT CTBC	1.41	1.50	1.59	0.09	0.18	The revised 2025F net interest margin (NIM) is expected to reach the upper end of 1.63–1.66%
2882 TT Cathay	1.61	1.57	-	-	-	2025F NIM stay at 1.55%
5876 TT SCSB	1.26	1.11	1.20	0.09	(0.06)	Expect the 4Q25 net interest margin (NIM) to remain at the 1.18% level seen in the first three quarters, and the 2026F NIM is expected to stay at no less than 1.2%
2884 TT E.Sun	1.28	1.29	1.31	0.02	0.03	4Q25F NIM is projected to reach up to 1.33%; the 2026F NIM is expected to increase by 3–5 bps
2887 TT Taishin	1.27	1.29	-	-	-	YoY NIM increase of 6-8 bps to 1.3%-1.32% in 2025F
2881 TT Fubon	1.16	1.21	-	-	-	Maintain a YoY NIM increase of 3-5 bps in 2025F
2890 TT Sinopac	1.01	1.23	1.30	0.07	0.29	The 2025F NIM is expected to exceed 1.34%, while the 2026F NIM is expected to remain stable or edge higher.
2886 TT Mega	0.93	0.95	-	-	-	NIM projected to reach 1% in 2025F
2885 TT Yuanta	0.89	0.97	1.01	0.04	0.12	NIM in 4Q25F up 1-2bps, and average NIM in 2026F will stay at above 1%
2892 TT First	0.68	0.71	-	-	-	NIM (including FX) to be maintained at 1.03%-1.04% in 2025F
2880 TT Hua Nan	0.70	0.75	0.71	0.04	0.12	If the Fed cuts interest rates by 25 bps, 2025F NIM would increase by 1 bp
Avg.	1.11	1.14	-	-	-	

Note: Only CTBC Bank, SCSB, E.Sun Bank, SinoPac Bank, Yuanta Bank, and Hua Nan Bank reported 3Q25 NIM

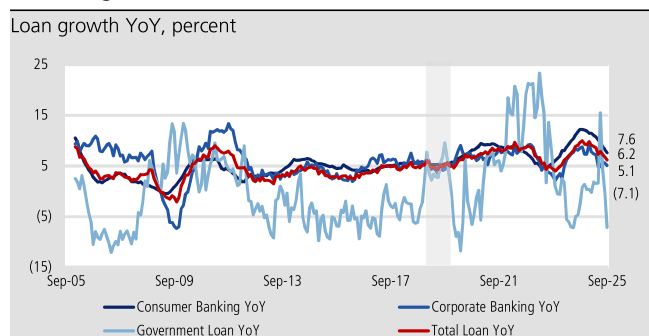
Source: Company data; KGI Research

Figure 15: In September, overall bank deposit growth accelerated to 6.4% YoY, driven by slower FCY deposit decline (down 1.0% YoY) & strong NT dollar deposit growth (up 7.7% YoY), with latter term deposits up 10.4% YoY



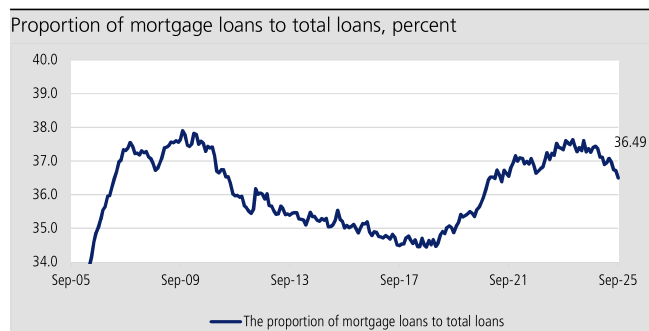
Source: Central Bank of ROC (Taiwan); TEJ; KGI Research

Figure 17: In September, loan growth slowed to 6.2% YoY; consumer loans fell to 7.6%, corporate loans edged down to 5.1%, & government loans declined 7.1% YoY



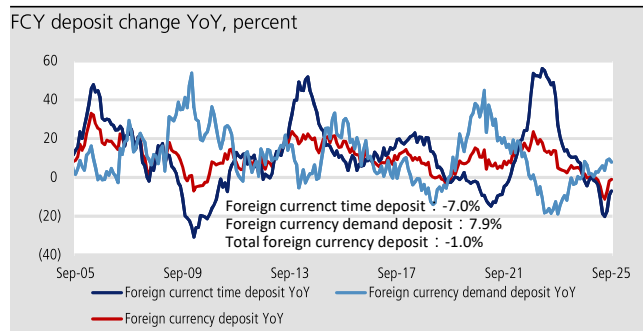
Source: TEJ; KGI Research

Figure 19: August 2024 mortgage loans 37.4% of property loans, prompting a RRR rise by 25bps in September 2024 & a seventh round of credit controls; Taiwan's real estate loan ratio declined to 36.49% in September 2025



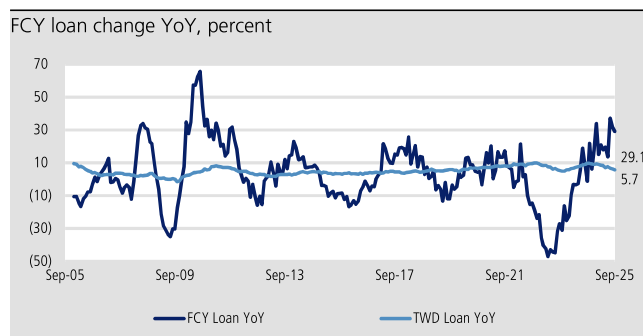
Source: Taiwan's central bank; KGI Research

Figure 16: Since March, heightened market volatility & NT dollar appreciation drove FCY deposit declines; by September 2025, FCY time deposit contraction eased, while demand deposit growth slowed to 7.9% YoY



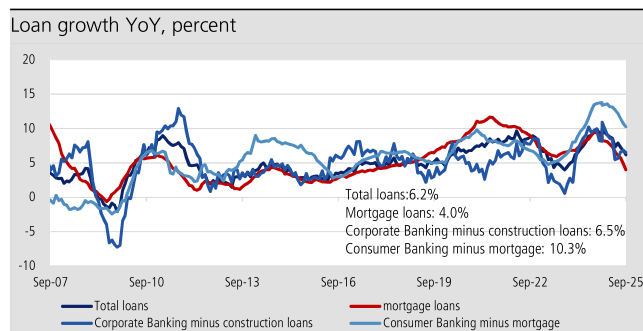
Source: Central Bank of ROC (Taiwan); TEJ; KGI Research

Figure 18: In September, FCY loan growth slowed to 29.1% YoY



Source: TEJ; KGI Research

Figure 20: Since 3Q24, central bank's housing curbs have worked, slowing real estate loan growth to 4.0% YoY by September 2025



Source: Taiwan's central bank; KGI Research

Figure 21: Major banks saw 1Q-3Q25 fee income growth decelerate to 11% YoY off a high base (on recognition of one-off income from Taiwan High Speed Rail)

Bank fee income, NT\$m				
NT\$m FHC Ticker	Banks	2024	YoY (%)	1-3Q25 YoY (%)
2891 TT	CTBC Bank	49,769	27.1	41,412 10.2
2881 TT	Taipei Fubon Bank	15,974	19.6	13,574 0.9
2882 TT	Cathay Bank	27,973	34.2	26,196 24.6
2884 TT	E.Sun Bank	24,456	28.2	19,476 9.9
2887 TT	Taishin Bank	14,573	23.8	12,943 16.4
2880 TT	Hua Nan Bank	11,863	31.6	10,734 16.8
2892 TT	First Bank	11,990	34.1	9,708 9.1
2890 TT	SinoPac Bank	9,193	32.1	9,134 15.3
5880 TT	TCB	10,250	34.5	7,859 (3.2)
2885 TT	Yuanta Bank	6,112	34.7	5,678 20.8
2886 TT	Mega Bank	9,356	24.8	6,575 (10.4)
	Total	191,507	28.7	163,289 11.0

Source: Company data; KGI Research

Figure 22: In 1Q-3Q25, wealth management income growth slowed to 11.2% YoY at E.Sun, 17.9% at SinoPac, and 18.4% at Yuanta Bank, while CTBC Bank's growth rose to 9%

Wealth management fee income, NT\$m				
NT\$m Ticker	Bank	2024	YoY (%)	1-3Q25 YoY (%)
2891 TT	CTBC Bank	25,058	39.9	19,859 9.0
2881 TT	Fubon Bank	16,437	35.5	0 (100.0)
2882 TT	Cathay Bank	15,985	40.9	0 (100.0)
2884 TT	E.Sun Bank	13,499	44.8	10,872 11.2
2887 TT	Taishin Bank	9,715	26.6	0 (100.0)
2880 TT	Hua Nan Bank	7,949	40.1	0 (100.0)
2892 TT	First Bank	7,282	42.8	0 (100.0)
2890 TT	SinoPac Bank	5,832	38.8	5,832 17.9
5880 TT	Taiwan Cooperative Bank	5,712	37.5	0 (100.0)
2885 TT	Yuanta Bank	5,424	37.1	5,021 18.4
2886 TT	Mega Bank	3,650	27.8	0 (100.0)
	Total	116,543	38.2	41,584 (53.3)

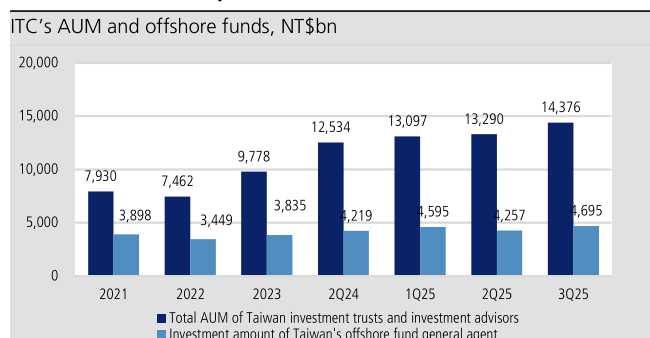
Source: Company data; KGI Research

Figure 23: 2026 FHC asset rankings may shift on mergers, with SinoPac & TS FHC seeing the biggest profit synergies

FHC	1H25 Assets (NT\$m)	Ratio (%)	Ranking	5-year average ROE (2020-2024) (%)	1H25 Annualized ROE(A) (%)	Ranking
Cathay FHC	13,786,757	19.1	1	4.9	10.9	5
Fubon FHC	11,902,139	16.5	2	12.4	11.4	4
CTBC FHC	8,830,232	12.2	3	7.7	14.9	1
Taiwan FHC	7,212,891	10.0	4	2.6	1.5	14
Cooperative FHC	5,273,047	7.3	5	4.8	7.7	11
First FHC	4,808,110	6.7	6	5.3	10.5	7
Mega FHC	4,572,867	6.3	7	5.1	10.0	9
Hua Nan FHC	4,186,254	5.8	8	8.8	10.7	6
E. Sun FHC	4,166,759	5.8	9	6.4	13.4	2
Yuanta FHC	3,876,074	5.4	10	7.0	10.5	8
KGI FHC	3,825,516	5.3	11	6.7	3.8	12
TS FHC	3,394,189	4.7	12	5.5	9.3	10
SinoPac FHC	3,071,972	4.3	13	5.9	12.4	3
Waterland FHC	407,016	0.6	14	5.1	2.8	13
TS FHC + Shin Kong Bank + Shin Kong Life + MasterLink Securities	8,482,612	11.8	4			
Sinopac FHC + Kings Town Bank + CL Securities	3,446,354	4.8	12			
E. Sun FHC + Mercuries Life	5,712,439	7.9	6			
Total	72,100,931	100.0		6.8	10.7	

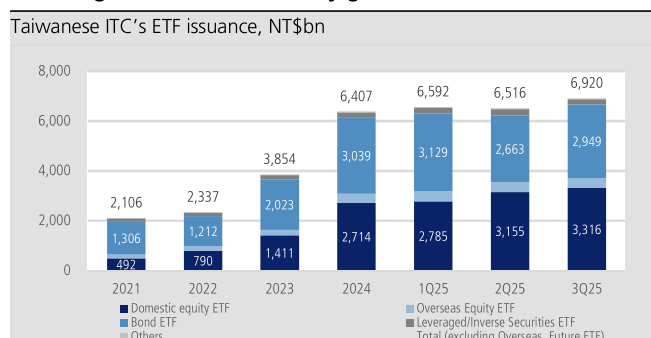
Source: TEJ; KGI Research

Figure 24: Taiwan Investment Trust's AUM growth slowed in 2Q25 on tariff concerns, but hit record highs in 2H25 as Taiex reached new peaks



Source: Securities Investment Trust & Consulting Association; KGI Research

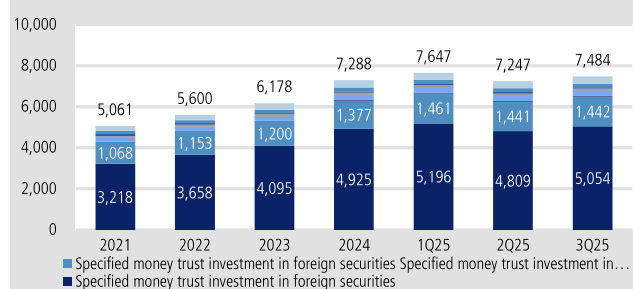
Figure 25: In 1H25, NT dollar appreciation weighed on high-dividend funds & bond ETFs, but since 2H25, record Taiex highs have driven steady growth in domestic ETFs



Source: Securities Investment Trust & Consulting Association; KGI Research

Figure 26: Of money trust businesses (ex. brokerage houses & ITC), domestic & foreign marketable securities investments rebounded in 3Q25; expected US rate cuts & AI boom should drive 2026 inflows into overseas bonds, funds, & structured notes sold by banks

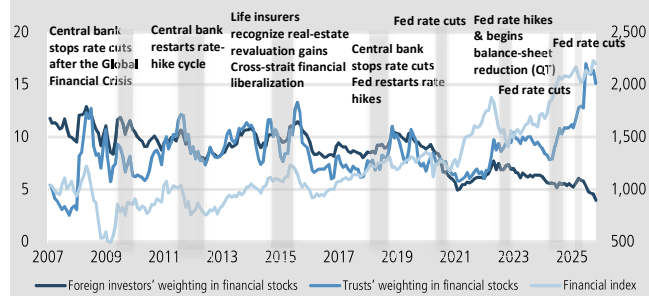
Money trusts by banks and brokerage houses, NT\$bn



Source: Trust Association; KGI Research

Figure 28: Foreign holdings of financial shares have shrunk since 2022 to below 5%, versus ITC holdings rising to 15%, along with stronger financial subindex; stabilizing earnings & dividends after IFRS 17 adoption in 2026 could spur a rebound in foreign holdings

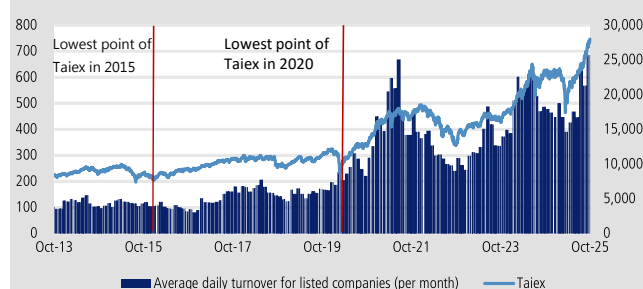
Foreign and ITC holdings of financial shares, percent (LHS); financial subindex, NT\$ (RHS)



Source: TEJ; KGI Research

Figure 27: In October, Taiex hit record high, lifting January-October average daily turnover to NT\$505.7bn, narrowing YoY decline to 7.7%; US rate cuts in 2026F to keep capital markets active, with turnover above NT\$500bn

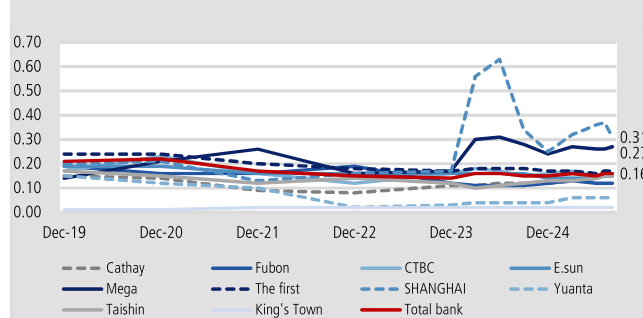
Taiex & TPEx daily average turnover, NT\$bn (LHS); Taiex, points (RHS)



Source: Trust Association; KGI Research

Figure 29: NPL ratio in September edged down to 0.15%; Shanghai Commercial & Savings Bank (0.3%) & Mega International Commercial Bank (0.26%) stayed above peers

NPL ratio, percent



Source: TEJ; KGI Research

Figure 30: While Cathay & Fubon FHCs saw other equity holdings rebound significantly, insurance-centric FHCs' 2025 dividend payout level still depends on need to allocate 30% of 2025 earnings to FX reserves by year-end, as well as impact of capital market volatility in 4Q25 on net worth; bank- & securities-centric FHCs expected to deliver stronger 2025 dividend growth than life insurance peers

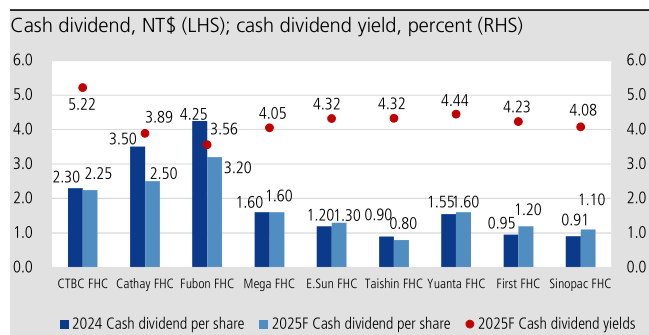
NT\$mn		2024 undistributed earnings	4Q24 other equity interest	1-3Q25 net profit	3Q25 other equity interest*	Reversal (Increase) in special reserve in 3Q25	1-3Q25 available distributed earnings*	2025F Cash dividend per share (NT\$)	vs.2024 Cash dividend per share (NT\$)	2025F Cash dividend YoY growth	Sep 25 Double Leverage Ratio%	2025F Cash dividend yields
Ticker	Company											
2881 TT	Fubon FHC	340,157	(6,216)	90,905	(41,953)	(35,737)	386,235	3.20	4.25	-25%	117.67	3.58%
2891 TT	CTBC FHC	75,343	(29,882)	60,760	(35,861)	(5,978)	124,049	2.25	2.30	-2%	123.52	5.20%
2885 TT	Yuanta FHC	78,787	8,114	26,695	16,269	-	102,813	1.60	1.55	3%	113.81	4.44%
2886 TT	Mega FHC	56,211	1,282	28,285	14,795	-	81,668	1.60	1.60	0%	118.03	4.04%
2882 TT	Cathay FHC	15,155	(57,995)	74,622	(75,105)	(17,110)	65,205	2.50	3.50	-29%	121.40	3.86%
2890 TT	Sinopac FHC	27,500	(5,691)	20,544	(4,426)	1,265	47,255	1.10	0.91	21%	111.15	4.07%
2892 TT	First FHC	18,685	(7,953)	19,909	28,527	5,846	42,450	1.30	1.25	4%	119.45	4.51%
2880 TT	Hua Nan FHC	26,179	22,539	21,699	(2,106)	-	45,708	1.20	0.95	26%	114.39	4.24%
5880 TT	Cooperative FHC	21,193	(7,899)	16,357	(1,356)	6,544	42,458	0.70	0.70	0%	118.49	2.91%
2884 TT	E.Sun FHC	8,322	5,559	26,203	4,660	-	31,905	1.30	1.20	8%	115.57	4.30%
2887 TT	TS FHC	4,720	(116)	26,043	(8,366)	(8,250)	19,909	0.80	0.90	-11%	116.32	4.31%
2889 TT	Waterland FHC	1	820	1,707	2,889	-	1,537	0.30	0.30	0%	117.69	1.89%

Note 1: We assume 3Q25 net worth changes were affected only by: (1) unrealized gains/ losses on financial assets; (2) 3Q25 net profit

Note2: *2025 forecasts and dividend payouts of FHCs not in our coverage are based on Bloomberg consensus forecasts and past payout ratios.

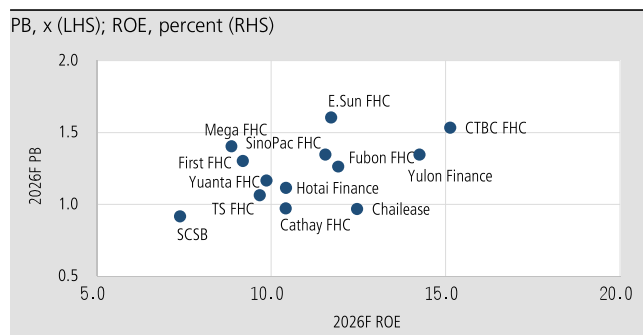
Source: Company data; TEJ; KGI Research

Figure 31: We estimate CTBC FHC & SinoPac FHC will offer higher 2025 cash dividend yield than peers' 3.95%



Source: Company data; TEJ; KGI Research

Figure 32: PB of life insurance-centric FHCs still lower than those of bank- & securities-centric FHCs; IFRS 17 adoption to cut life insurers' net worth, bringing PB closer to bank- & securities FHCs



Source: Company data; TEJ; KGI Research

Figure 33: Valuations – FHCs & banks

Company	Code	Rating	Target price	Market cap	Share price	PB (x)		PE (x)		ROE (%)		Net profit (NT\$ mn)		EPS growth (%)		BVPS (NT\$)		Cash yield (%)		Cash dividend (NT\$)	
						2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2024A	2025F
CTBC FHC	2891 TT	Outperform	48.0	24,814	43.30	1.7	1.5	11.7	10.8	15.4	15.1	72,781	78,933	0.9	8.5	24.90	28.23	5.2	5.5	2.30	2.25
SinoPac FHC	2890 TT	Outperform	30.0	9,701	27.05	1.5	1.3	14.8	12.4	11.5	11.5	26,574	31,626	4.6	19.0	17.74	20.06	4.1	4.6	0.91	1.10
E.Sun FHC	2884 TT	Neutral	31.0	15,891	30.20	1.8	1.6	14.8	14.6	12.7	11.7	33,070	33,452	25.2	1.2	16.50	18.82	4.3	4.5	1.20	1.30
First FHC	2892 TT	Neutral	31.0	12,822	28.30	1.4	1.3	15.0	14.9	9.7	9.2	26,451	26,655	4.3	0.8	19.66	21.73	4.2	4.4	0.95	1.20
Mega FHC	2886 TT	Neutral	42.0	19,274	39.65	1.5	1.4	16.9	16.6	9.3	8.9	34,772	35,384	0.0	1.8	25.63	28.23	4.0	4.2	1.60	1.60
Bank FHC peer average						1.6	1.4	14.6	13.9	11.3	11.1			7.0	6.2			4.2	4.6		
Fubon FHC	2881 TT	Neutral	94.0	34,389	89.30	1.5	1.3	12.9	11.5	11.4	11.9	94,613	105,822	(37.3)	11.8	59.30	70.65	3.6	4.0	4.25	3.20
Cathay FHC	2882 TT	Neutral	69.0	27,351	64.70	1.2	1.0	12.1	10.4	9.9	10.4	78,165	91,431	(29.1)	17.0	53.25	66.44	3.9	4.6	3.50	2.50
TS FHC	2887 TT	Neutral	18.0	12,386	18.55	1.2	1.1	15.7	11.5	10.2	9.7	29,453	39,947	(23.4)	35.6	15.82	17.42	4.3	5.1	0.90	0.80
Insurance FHC peer average						1.3	1.1	13.6	11.2	10.5	10.7			(29.9)	21.5			3.9	4.6		
Yuanta FHC	2885 TT	Neutral	39.0	12,441	36.05	1.3	1.2	13.1	12.5	10.6	9.9	35,510	37,270	(0.9)	5.0	27.51	30.90	4.4	4.6	1.55	1.60
Securities FHC peer average						1.3	1.2	13.1	12.5	10.6	9.9			(0.9)	5.0			4.4	4.6		
SCSB	5876 TT	Neutral	48.0	6,443	39.65	1.0	0.9	13.4	12.9	7.3	7.4	14,350	14,917	6.5	4.0	39.96	43.19	4.8	5.0	1.80	1.90
Taiwan financials peer average						1.5	1.3	13.9	13.0	10.9	10.7			(2.9)	7.7			4.3	4.6		
Yulon Finance	9941 TT	Neutral	103.0	1,670	93.90	1.5	1.3	12.2	11.2	13.0	12.9	4,469	4,838	(13.0)	8.7	63.77	72.59	4.2	4.5	4.38	3.90
Hotai Finance	6592 TT	Neutral	78.0	1,234	61.60	1.2	1.1	13.7	12.9	11.1	10.4	3,247	3,406	1.6	5.6	49.72	55.18	4.5	4.7	3.00	2.80
Chailase	5871 TT	Outperform	125.0	5,996	101.50	1.1	1.0	8.5	8.0	12.5	12.5	19,803	21,020	(13.7)	7.0	92.47	104.76	5.4	5.7	6.10	5.50
Taiwan leasing peer average						1.3	1.1	11.4	10.7	12.2	11.9			(8.4)	7.1			4.7	5.0		

Source: Bloomberg; KGI Research (based on November 20, 2025 closing price)

Outperform · Maintained

Price as of November 20 (NT\$)	43.30
12M target price (NT\$)	48.00
Previous target price (NT\$)	48.00
Unchanged (%)	0.0
Upside (%)	10.9

Key message

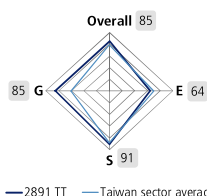
- 3Q25 FHC net profit grew 16% YoY, allowing January-October FHC earnings growth to turn positive at 6% YoY. We estimate the 2025F FHC cash yield will be 5.2%-5.4%.
- 3Q25 NIM edged up 9bps QoQ. Management expects 2025F adjusted NIM to be maintained at 1.63-1.66%.
- With improving unrealized investment losses in 3Q25, boosting forex reserves to NT\$17.5bn as of end-October, the firm expects to withstand NT\$/US\$ appreciation to nearly NT\$29.

Trading data

Mkt cap (NT\$bn/US\$mn)	851 / 27,840
Outstanding shares (mn)	19,650
Foreign ownership (mn)	6,377
3M avg. daily trading (mn)	22.93
52-week trading range (NT\$)	34.00–44.95

Performance	3M	6M	12M
Absolute (%)	1.4	3.7	13.8
Relative (%)	-14.7	-23.7	-7.1

ESG score card



Source: Refinitiv; KGI Research

CTBC FHC

(2891.TW/2891 TT)



Solid 2026F core earnings growth; 2025F cash dividend yield to exceeds peers'

Event

CTBC FHC saw 3Q25 net profit grow by 16% YoY, boosting 1Q-3Q25 ROE to 17.5%.

Impact

Insurance earnings rebounded in 3Q25; 2025F cash yield to surpass 5%. FHC 3Q25 net profit arrived at NT\$24.92bn, up 16% YoY and 56% QoQ, with CTBC Bank's earnings rising by 9% YoY, but falling 0.2% QoQ. Taiwan Life's (TL) 3Q25 earnings soared by 551% QoQ and 31.5% YoY to NT\$10.52bn, on adoption of the new forex reserve mechanism and a temporary regulatory relaxation of policy reserves to mitigate forex loss impacts. January-October FHC earnings growth turned positive, to 6% YoY, with bank earnings growth widening to 15% YoY, offsetting a 7.4% decline in insurance profits. As management targets a 2025F payout ratio above 60%, we estimate the FHC will be able to pay a 2025F cash dividend of NT\$2.25-2.3 per share, implying a cash yield of 5.2-5.4%, well above the FHC peer average of 3.85%.

NIM uptick continued in 3Q25. CTBC Bank's 3Q25 NIM edged up 9bps QoQ to 1.59%, or 1.67% including forex swap income, on lower FCY funding costs. Management expects 2025F adjusted NIM to be maintained at 1.63-1.66%, without disclosing 2026F NIM guidance. We expect 2026F NIM will be above 1.59% amid lower funding costs and an improving FCY loan-to-deposit ratio. 3Q25 fee income growth accelerated to 11.8% YoY, as wealth management fee income picked up on robust sales of structural notes and bancassurance products. 1Q-3Q25 credit costs dropped by 2bps YoY to 31bps.

TL benefitted from rebounding investment returns in 3Q25. TL's investment return averaged 4.06% in 1Q-3Q25, with the YoY decline narrowing to 46bps, mainly thanks to higher realized capital gains and easing of hedging costs to 1.58%. In 3Q25, TL's unrealized losses from financial assets were reduced by NT\$17.2bn, as unrealized gains from stock holdings increased to NT\$14bn. With a forex reserve balance of NT\$17.5bn as of end-October, TL expects to withstand NT\$/US\$ appreciation to around NT\$29. Management set an ICS target rate of around 125% and expects cumulative CSM of over NT\$120bn in 2026F. As management guides the cost of liabilities to drop to 2.52% when adopting IFRS17, we expect post-hedging recurring yield to be above liability costs by more than 40bps. However, the impact of adopting IFRS17 on TL's net worth will depend on the reclassification of AC amounts to FVOCI amounts.

Valuation & Action

We expect CTBC Bank to maintain NII growth in 2025-26 amid lower FCY funding costs and growing demand for FCY loans, driven by supply chain relocation. Meanwhile, TL may also see earnings growth in 2026F on CSM and improving investment yields. With 2025F FHC cash yield set to exceed 5%, we recommend Outperform with a sum-of-the-parts target price of NT\$48, equivalent to 1.8x 2025-26F average BVPS.

Risks

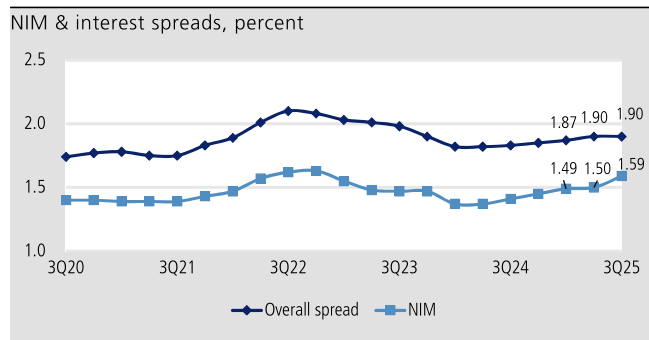
Low investment yields for life insurance unit; surging bank credit costs.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Net revenue (NT\$mn)	139,252	136,576	189,410	225,183	246,238
Provision charges (NT\$mn)	(20,803)	17,016	(8,628)	(41,054)	(46,836)
PPOP (NT\$mn)	67,852	49,918	96,717	124,639	141,485
Net profit (NT\$mn)	31,279	56,081	72,028	72,781	78,933
EPS (NT\$)	1.60	2.86	3.67	3.70	4.02
BVPS (NT\$)	17.34	20.98	23.14	24.90	28.23
Cash DPS (NT\$)	1.00	1.80	2.30	2.25	2.40
EPS growth (%)	(42.6)	78.9	28.5	0.9	8.5
Net profit growth (%)	(42.3)	79.3	28.4	1.0	8.5
PE (x)	27.1	15.2	11.8	11.7	10.8
PB (x)	2.5	2.1	1.9	1.7	1.5
Dividend yield (%)	2.3	4.2	5.3	5.2	5.5
Return on average equity (%)	8.5	14.9	16.6	15.4	15.1
Return on average assets (%)	0.4	0.7	0.8	0.8	0.8

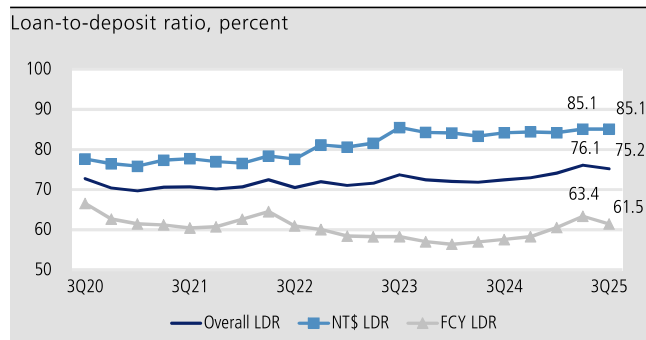
Source: Company data; KGI Research estimates

Figure 1: In 3Q25, CTBC Bank's NIM widened by 9ps QoQ to 1.59%, reflecting reduced FCY funding costs, thanks to a US Fed rate cut; 1Q-3Q25 NIM (including forex swap income), rose 2bp to 1.65% from 1H25's 1.63%



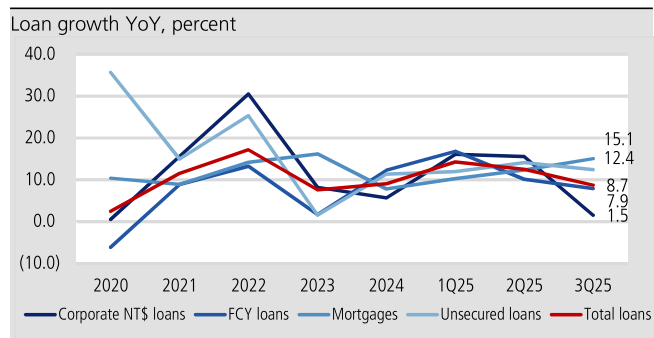
Source: Company data; KGI Research

Figure 2: 3Q25 loan-to-deposit ratio down 9 bps QoQ to 75.2%, with FCY down to 61.5%



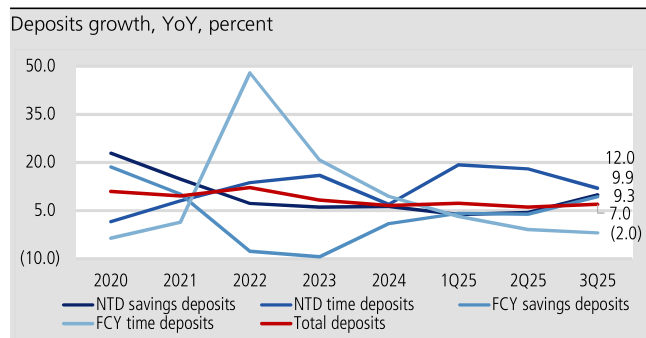
Source: Company data; KGI Research

Figure 3: 3Q25 loan growth decelerated to 8.7% YoY, on a mortgages loan rebound to 15%, offsetting FCY & corporate NT\$ loans declining to 7.9% & 12.4% YoY, respectively



Source: Company data; KGI Research

Figure 4: Deposit growth increased to 7% YoY in 3Q25, with NT dollar term deposit growth declining by 2.9% QoQ, and a 7.4% QoQ rise in FCY deposits



Source: Company data; KGI Research

Figure 5: Fee growth accelerated to 11.8% YoY in 3Q25, as wealth management fee income picked up on robust sales of structured notes & bancassurance products

NT\$m	2024	YoY (%)	1-3Q25	YoY (%)	Weighting (%)
Wealth management business	25,058	39.9	19,859	9.0	48.0
Credit card business	7,067	28.3	5,562	7.1	13.4
Retail banking business	3,420	6.4	2,701	6.2	6.5
Corporate business	6,315	21.3	6,167	19.8	14.9
Overseas subsidiaries	2,190	16.8	1,711	3.5	4.1
Lottery center	5,721	4.9	5,412	12.3	13.1
Total net fee income	49,769	27.1	41,412	10.2	100.0

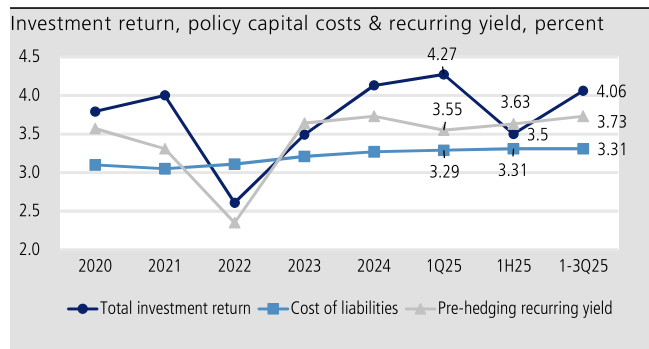
Source: Company data; KGI Research

Figure 6: In 1Q-3Q25, TL's FYP growth picked up to 36.9% YoY, with 1Q-3Q25 CSM of above NT\$8bn, accounting for more than 60% of the 2025F CSM target; management anticipates cumulative CSM of over NT\$120bn by 2026F, with a release rate of 7-8% each year

NT\$m	2024	YoY (%)	1-3Q25	YoY (%)	Weighting (%)
FYP breakdown					
Traditional	463	(39.6)	9,496	2,619.0	19.2
Interest crediting annuity & UL	38,664	(1.8)	26,682	(7.7)	53.9
Investment-linked	7,337	65.2	11,708	128.1	23.7
Health, accidents and others	2,319	(51.8)	1,584	(8.8)	3.2
Total FYP	48,795	(1.2)	49,468	36.9	100.0
Total FYPE	21,345	(4.3)	15,916	(5.6)	

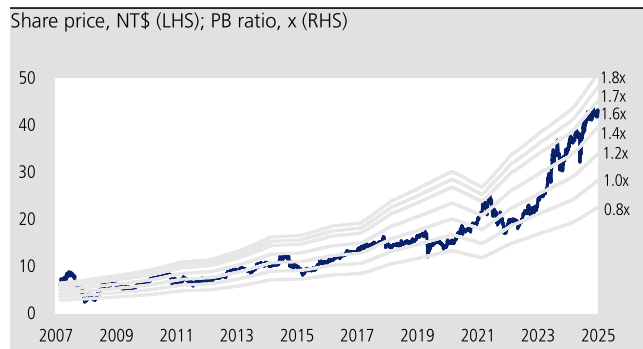
Source: Company data; KGI Research

Figure 7: In 1Q-3Q25, TL's investment return arrived at 4.06%, with the YoY decline narrowing to 46bps, thanks to higher realized capital gains & hedging costs easing to 1.58%



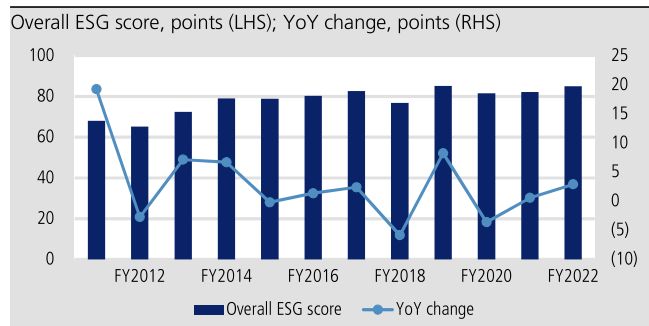
Source: Company data; KGI Research

Figure 8: CTBC FHC's 12M rolling PB



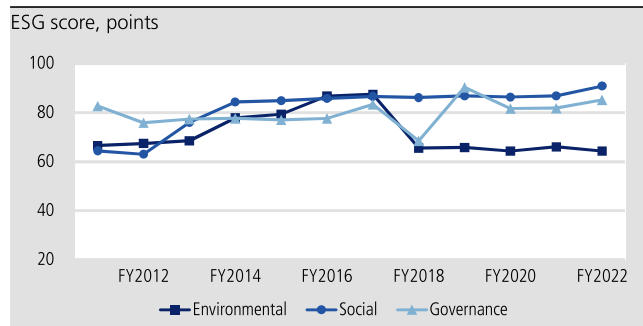
Source: TEJ; KGI Research

Figure 9: Overall ESG score



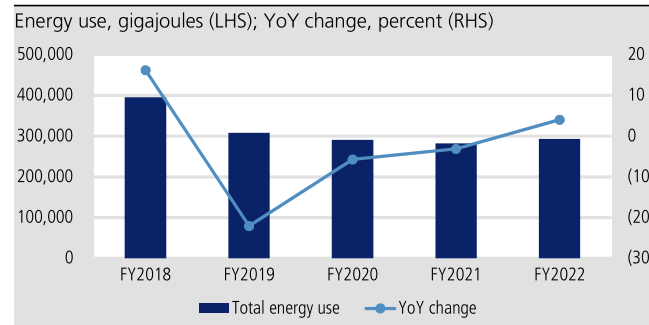
Source: Refinitiv; KGI Research; Company data

Figure 10: ESG score by category



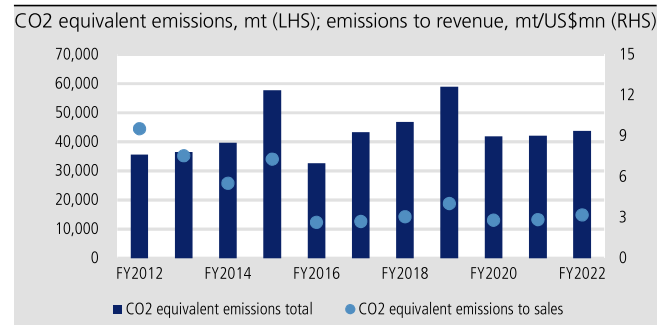
Source: Refinitiv; KGI Research; Company data

Figure 11: Energy use



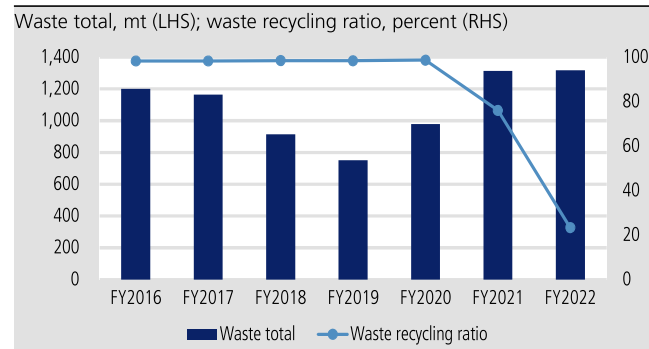
Source: Refinitiv; KGI Research; Company data

Figure 12: CO2 equivalent emissions



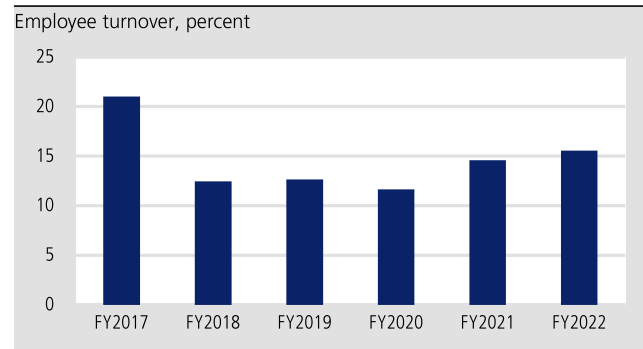
Source: Refinitiv; KGI Research; Company data

Figure 13: Waste total



Source: Refinitiv; KGI Research; Company data

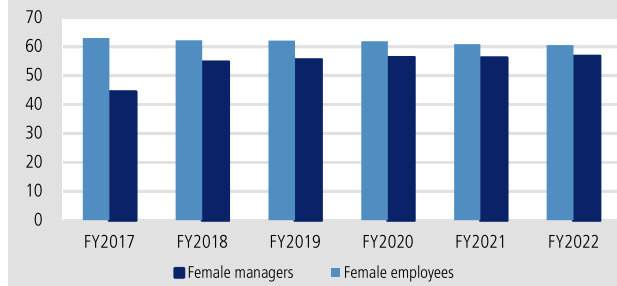
Figure 14: Employee turnover



Source: Refinitiv; KGI Research; Company data

Figure 15: Gender diversification

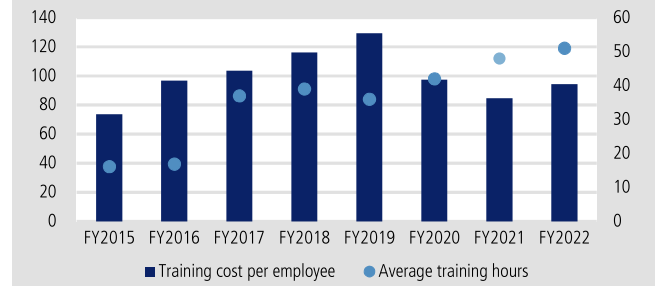
Weighting of female managers & employees, percent



Source: Refinitiv; KGI Research; Company data

Figure 16: Employee training

Training cost per employee, US\$ (LHS); average annual training hours per employee (RHS)



Source: Refinitiv; KGI Research; Company data

ESG chart definition

Item	Definition	Remarks
Energy use	<p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' 	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased 	
Renewable energy use ratio	Renewable energy to total energy used	
CO2 equivalent emissions	<p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	Emissions up markedly since 2015 on huge staff and business growth. Target to cut carbon dioxide emissions by 3.5% during 2021-23.
CO2 equivalent emissions to sales	<p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) 	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered 	Waste treatment spending was around NT\$4.2mn in 2020. Target to cut total waste by 3.5% during 2021-23 from 2020.
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste 	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered 	No water withdrawal from underground. Water at office buildings and business outlets is for staff and customer use only. As such, no negative effect on water sources. Target to cut total water use by 3.5% during 2021-23.
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures 	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving 	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 	Percentage of women managers is 56.29% and that of middle and top women managers has risen 2-3% from 2019.
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked 	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research

Balance Sheet - CTBC Bank					
NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Gross Loans to Customers	3,263,278	3,512,541	3,829,824	4,191,509	4,533,925
Net Loans & Advances	3,210,623	3,456,021	3,768,167	4,125,149	4,458,682
Due from banks & call loans	495,635	557,120	468,715	525,399	527,504
Investments FVOCI or AC	1,422,667	1,568,169	1,760,914	1,637,436	1,650,575
Other Interest Earning Assets	170,638	191,077	194,729	215,704	216,577
Cash and equivalents	83,114	76,977	69,392	74,072	74,369
Long-term equity investments	3,112	3,588	3,504	3,251	3,251
Property investments					
Net Fixed Assets	62,633	62,455	62,430	61,953	61,953
Other Non-Interest Earning Assets	2,196	1,934	2,472	2,129	2,147
Total Non-Interest Earning Assets	77,610	88,837	93,666	93,487	93,487
Total Assets	5,537,173	6,046,297	6,473,093	6,785,830	7,135,974
Due to banks and call loans from banks	114,197	111,977	135,724	86,168	85,740
Deposits from mutual loans accounts	4,614,616	5,000,082	5,331,303	5,677,380	5,970,276
Other Interest Bearing Liabilities	348,194	432,768	456,470	437,506	435,336
Total Interest-Bearing Liabilities	5,077,006	5,544,827	5,923,497	6,201,054	6,491,353
Reserve for operation					
Other Non-Interest Bearing Liabilities	99,158	120,157	129,388	133,623	133,623
Total Non-Interest Bearing Liabilities	99,158	120,157	129,388	133,623	133,623
Total Liabilities	5,176,165	5,664,984	6,052,884	6,334,678	6,624,976
Common Stocks	147,962	147,962	158,017	171,285	171,285
Retained earnings reserve	179,290	198,403	218,913	235,118	296,600
Capital Reserve	29,872	30,140	30,534	31,002	31,002
Other Reserves	-19,434	-18,713	-13,600	-14,935	-16,571
Shareholders' Funds	337,691	357,791	393,863	422,470	482,315
Minority interests	23,317	23,521	26,345	28,683	28,683
Preferred shareholders funds					
Total Equity	361,008	381,312	420,208	451,152	510,998
Total Liabilities & Equity	5,537,173	6,046,297	6,473,093	6,785,830	7,135,974

Profit & Loss - CTBC Bank					
NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Interest Income	105,888	163,590	185,131	194,449	198,257
Interest Expense	30,802	85,811	107,165	100,436	94,699
Interest Net Revenue	75,086	77,779	77,966	94,013	103,558
Commissions & Fees	34,748	39,171	49,769	54,601	57,209
Trading Income	9,873	21,497	26,488	22,464	19,276
Other non-interest income	(940)	(651)	(213)	(397)	(325)
Non Interest Income	43,681	60,016	76,043	76,668	76,160
Total Operating Income	118,767	137,795	154,009	170,681	179,718
Operating Expenses	63,151	76,007	80,237	88,555	92,764
Pre-Provision Operating Profit (PPOP)	55,615	61,788	73,772	82,126	86,954
Total Provision Charges	8,178	8,764	10,945	12,959	12,880
Pre-tax Profit	47,438	53,025	62,827	69,167	74,074
Current taxation	8,359	10,238	12,085	11,986	12,593
Ordinary Income	38,479	42,787	50,743	57,181	61,481
Consolidated net income	38,479	42,787	50,743	57,181	61,481
Minorities	1,337	1,454	1,319	1,227	777
Net Profit	37,142	41,333	49,424	55,953	60,705
Dividends	0	0	0	0	0
Retained earning reserve	37,142	41,333	49,424	55,954	60,705
Normalised Net Profit	37,142	41,333	49,424	55,953	60,705
EPS	2.60	2.89	3.21	3.34	3.59
ROE (ave.)	11.76%	12.30%	13.59%	14.01%	13.59%
NPL Ratio	0.48%	0.52%	0.48%	0.47%	0.44%
Coverage Ratio	332%	310%	331%	337%	374%
Credit cost	0.27%	0.25%	0.28%	0.31%	0.28%
Cost-income Ratio	53.17%	55.16%	52.10%	51.88%	51.62%
NIM	1.57%	1.49%	1.40%	1.54%	1.60%
Loan to Deposit Ratio	70.72%	70.25%	71.84%	73.83%	75.94%
Fee Growth	-7.6%	12.7%	27.1%	9.7%	4.8%
PPOP Growth	-7.6%	12.7%	27.1%	9.7%	4.8%
Net Profit Growth	24.7%	11.3%	19.6%	13.2%	8.5%

CTCB FHC Earning Breakdown					
NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
CTCB Bank	37,142	41,333	49,424	55,953	60,705
Taiwan Life Insurance	(3,407)	12,382	21,475	15,947	17,701
CTCB FHC	31,279	56,081	72,028	72,781	78,933

Source: Company data; KGI Research estimates

Balance Sheet - Taiwan Life					
NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Cash & Cash equivalents	83,936	68,912	68,985	107,059	108,828
Equities - Domestic	185,440	200,736	206,955	203,823	207,193
Equities - International	0	0	0	0	0
Bonds - Domestic	177,632	171,216	151,767	150,294	144,407
Bonds - International	1,182,912	1,182,768	1,180,629	1,220,882	1,249,435
Mortgage loans	44,896	45,264	43,362	47,353	48,136
Policy loans	25,376	25,584	25,623	26,765	27,207
Real estate	97,600	106,272	110,376	113,235	115,107
Total investments	1,952,000	1,968,000	1,971,000	2,058,822	2,092,855
Non-investment assets	249,925	276,868	273,310	211,613	211,613
Total Assets	2,201,925	2,244,868	2,244,310	2,270,435	2,304,468
Reserve for insurance operations & liabilities	1,863,023	1,846,206	1,834,803	1,835,975	1,864,272
Other financial liabilities	245,336	256,846	246,169	245,860	245,860
Total Liabilities	2,108,360	2,103,052	2,080,972	2,081,835	2,110,132
Common Stocks	62,267	62,267	62,267	62,267	62,267
Preferred Stocks	0	0	0	0	0
Capital Reserve	33,960	34,041	34,101	34,155	34,155
Retained earnings reserve	43,193	55,043	74,138	89,203	106,903
Other Reserves	-45,855	-9,535	-7,168	2,975	-8,989
Total Equity	93,566	141,816	163,338	188,600	194,336

Profit & Loss - Taiwan Life					
NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Gross written premium (GWP)	129,939	131,465	139,439	147,823	170,606
- First year premium	57,486	49,384	48,795	64,145	71,122
Net earned premium (NEP)	126,389	127,787	135,492	143,843	166,410
Net claims	-173,954	-189,491	-175,770	-140,925	-158,668
Underwriting costs & commissions	-11,751	-15,782	-14,723	-15,638	-18,767
Net commission	2,082	1,955	2,125	2,019	2,221
Net change in policyholder reserves	-11,257	26,979	3,581	-24,914	-28,297
Investment income	73,481	67,932	81,178	58,821	67,598
Other operating expenses	-6,149	-7,666	-7,520	-7,706	-8,737
Net non-operating expenses	-257	-476	-798	-876	-920
Operating Expenses	-6,406	-8,142	-8,317	-8,582	-9,657
Pre-Tax Income	-1,377	11,348	23,599	14,406	20,823
Income Tax Expense	-2,030	1,034	-2,124	1,539	-3,123
Net Profit	-3,407	12,382	21,475	15,947	17,701
EPS	-0.55	1.99	3.45	2.56	2.84
ROAE	-2.7%	10.5%	14.1%	9.1%	9.2%
BVPS	15.03	22.78	26.23	30.29	31.21
Net Profit Growth	-114.7%	-463.4%	73.4%	-25.7%	11.0%
FYP Growth	-46.1%	-14.1%	-1.2%	31.5%	10.9%

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Gross loans to customers	3,337,444	3,586,511	3,902,915	4,238,862	4,582,060
Net loans & advances	3,280,389	3,524,919	3,835,335	4,172,502	4,506,818
Due from banks & call loans	496,635	557,120	468,715	525,399	527,504
FVOCI and DAC	3,138,115	3,371,241	3,655,962	3,448,065	3,538,911
Other interest earning assets	-	-	0	0	0
Cash and equivalents	133,811	125,943	107,976	181,131	183,197
Long-term equity investments	15,748	18,667	20,951	3,251	3,251
Net fixed assets	49,024	49,608	49,522	55,509	67,472
Total intangible assets	39,265	39,212	40,096	31,747	32,001
Other non-interest earning assets	-	-	-	-	-
Total non-interest earning assets	805,354	850,855	879,598	1,023,803	1,042,074
Total assets	7,720,493	8,304,135	8,839,610	9,169,769	9,615,306
Due to banks and call loans from banks	294,743	317,585	374,995	279,715	278,328
Deposits from mutual loans accounts	4,582,271	4,976,248	5,312,280	5,650,977	5,942,511
Other interest bearing liabilities	225,353	313,882	365,265	309,081	307,548
Total interest-bearing liabilities	5,102,367	5,607,715	6,052,540	6,239,773	6,528,386
Reserve for operation	1,866,524	1,834,999	1,871,869	1,897,024	2,053,400
Other non-interest bearing liabilities	358,780	396,075	404,850	484,898	420,112
Total non-interest bearing liabilities	2,225,304	2,231,074	2,276,718	2,381,922	2,473,512
Total liabilities	7,327,671	7,838,789	8,329,258	8,621,695	9,001,898
Common stocks	195,841	196,229	196,203	196,504	196,504
Proceeds - new issued	-	-	-	-	-
Share capital	195,841	196,229	196,203	196,504	196,504
Retained earnings reserve	183,405	217,831	251,682	277,502	356,435
Capital and other reserves	(39,749)	(2,310)	6,063	15,315	1,715
Shareholders' funds	339,497	411,750	453,948	489,321	554,655
Minority interests	23,326	23,596	26,404	28,754	28,754
Preferred shareholders funds	29,999	29,999	29,999	29,999	29,999
Total equity	392,822	465,345	510,352	548,074	613,408
Total liabilities & equity	7,720,493	8,304,135	8,839,610	9,169,769	9,615,306

Key ratios

	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Growth					
Net interest income growth	16.9%	3.9%	1.0%	12.7%	8.2%
Operating profit growth	(40.3%)	(26.4%)	93.8%	28.9%	13.5%
Net profit growth	(42.3%)	79.3%	28.4%	1.0%	8.5%
EPS growth	(42.6%)	78.9%	28.5%	0.9%	8.5%
Profitability					
Return on average assets	0.4%	0.7%	0.8%	0.8%	0.8%
Return on average equity	8.5%	14.9%	16.6%	15.4%	15.1%
Per share data					
EPS (NT\$)	1.60	2.86	3.67	3.70	4.02
BVPS (NT\$)	17.34	20.98	23.14	24.90	28.23
Cash DPS (NT\$)	1.00	1.80	2.30	2.25	2.40

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24A	Dec-25F	Dec-26F
Interest income	159,819	220,387	243,919	254,636	261,453
Interest expense	(32,701)	(88,320)	(110,550)	(104,371)	(98,830)
Net interest revenue	127,117	132,066	133,370	150,265	162,623
Commissions & fees [net]	27,468	28,599	41,736	46,593	48,821
Net insurance income	(47,486)	(62,128)	(41,086)	(25,870)	(32,878)
Trading income	42,755	32,702	60,311	31,300	39,556
Other non-interest income	(10,603)	5,337	(4,921)	22,894	28,117
Non interest income	12,135	4,510	56,040	74,917	83,615
Net revenue	139,252	136,576	189,410	225,183	246,238
Operating expenses	(71,401)	(86,658)	(92,692)	(100,543)	(104,753)
Operating profit	67,852	49,918	96,717	124,639	141,485
Charge for bad debts	(8,986)	(9,674)	(12,115)	(13,377)	(12,880)
Provision bad debts on credit card	-	-	-	-	-
Provision of insurance duty	(11,816)	26,690	3,487	(27,677)	(33,956)
Provision charges	(20,803)	17,016	(8,628)	(41,054)	(46,836)
Pre-tax profit	47,049	66,934	88,090	83,585	94,650
Current taxation	(14,436)	(9,360)	(14,726)	(10,113)	(15,716)
Ordinary income	32,613	57,574	73,364	73,473	78,933
Consolidated net income	32,613	57,574	73,364	73,473	78,933
Minorities	(1,334)	(1,493)	(1,336)	(691)	-
Net profit	31,279	56,081	72,028	72,781	78,933
Dividends	(19,584)	(35,320)	(45,203)	(44,213)	(47,161)
Retained earnings reserve	11,695	20,762	26,826	28,568	31,773
Normalised net profit	31,279	56,081	72,028	72,781	78,933

Source: Company data; KGI Research estimates

Biotech sector

Companies with US production are our top picks

Key message

1. Tailwinds for US biotech sector include rate cuts, low valuations, & M&A
2. Taiwan biotech investment strategy – Look for beneficiaries of government policy & cross-sector alliances.
3. Industry focus – Breakthroughs in six areas.

Impact

Tailwinds for US biotech sector include rate cuts, low valuations, & M&A. The US biotech sector is riding multiple tailwinds. The upcoming rate cut cycle is particularly supportive for long-duration assets, such as biotech products, as lower discount rates increase the present value of future cash flows from drug pipelines. Historic data also suggest that biotech stock performance tends to be at its best 6-12 months after the first rate cut. Valuations across the health care industry are also extremely attractive, with the relative average forward PE currently in the fifth percentile of the historic band. In addition, large pharmaceutical firms will face a loss of exclusivity (LoE) for some of products, worth US\$177bn in 2025-30F, and this explains why big names are engaging in M&A, as they are looking for external assets to replenish pipelines. For mid- and small-cap biotech firms, this is an excellent opportunity to monetize assets.

Taiwan biotech investment strategy – Look for beneficiaries of government policy & cross-sector alliances. The TWSE has named biotech the next-generation emerging sector, and aims to expand its share of Taix market cap from 1% to 2% over the next three years, with a longer-term target of 5%. To achieve this, working with the tech sector is crucial as it will bring in additional capital. Several leading tech firms have already made noticeable moves into biotech investment. For instance, Delta Electronics acquired ACT Genomics (unlisted), a genetic testing company, and Hon Hai Precision invested in EirGenix (6589 TT, NT\$72.4, OP), a biologics CDMO and biosimilar developer, and cellular therapy provider Pell Biomed. Hermes-Epitek is a shareholder of Heron, a boron neutron therapy developer.

Industry focus – Breakthroughs in six areas. Taiwan's biotech sector is pursuing six strategic breakthroughs. The first is the development of internationally competitive antibody drugs, with companies such as Oneness Biotech (4743 TT, NT\$58.9, OP), TaiMed (4147 TT, NT\$66.1, OP), AP Biosciences (6945 TT, NT\$108.5, NR), and Hanchor Bio as key players. The second is establishment of manufacturing capacity in the US and integration into global supply chains, where Lotus Pharmaceutical (1795 TT, NT\$284.5, OP), Bora Pharmaceuticals (6472 TT, NT\$526, OP), and Tanvex are leading. The third focus is breakthrough drugs with exclusivity, represented by PharmaEssentia (6446 TT, NT\$475.5, OP). The fourth is the pursuit of blue-ocean indications and high-value medical devices, with TCM Biotech (4169 TT, NT\$194.5, OP), Medeon Biodesign (6499 TT, NT\$92.6, OP), and United Orthopedic (4129 TT, NT\$114.5, OP) as notable examples. The fifth area for strategic breakthrough is enhancement of capital efficiency through cross-sector alliances and new technology platforms, with Heron and Pell Biomed as representative firms. Last but not least, AI and digital health care, where EverFortune AI is emerging as a key player.

Stocks for Action

Our top pick is Lotus Pharmaceutical, to which we assign an Outperform rating and target price of NT\$600.

Risks

Disappointing operating and unblinded trial results.

Appendix: KGI universe valuation table

Valuation table

Ticker	Company	Recommendation	Mkt cap (US\$m)	TargetPrice (NT\$)	Price (NT\$)	Up/down (%)	EPS (NT\$)			PE (x)		PB (x)		YIELD (%)	
							2024	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
1216	Uni-President	Outperform	13,658.7	92.0	75.00	22.7	3.64	3.63	4.58	20.7	16.4	3.0	2.9	3.8	4.0
1319	OTN	Outperform	1,876.8	120.0	99.00	21.2	7.40	6.10	7.44	16.2	13.3	2.1	2.0	5.1	5.6
1476	ECLAT	Neutral	3,697.8	470.0	420.50	11.8	24.20	19.80	23.48	21.2	17.9	3.8	3.6	3.3	3.9
1477	Makalot	Neutral	2,304.8	256.0	291.50	(12.2)	16.68	14.48	15.04	20.1	19.4	4.8	4.7	4.5	4.6
1503	SEEC	Outperform	2,788.5	220.0	167.00	31.7	5.81	7.33	8.91	22.8	18.7	2.5	2.5	3.6	4.2
1504	Teco	Neutral	7,319.7	125.0	96.10	30.1	2.73	2.45	2.93	39.2	32.8	2.7	2.6	2.1	2.6
1513	CHEM	Outperform	2,434.9	177.0	151.00	17.2	7.33	7.61	8.86	19.8	17.0	3.7	3.5	3.3	3.6
1519	FE	Neutral	7,481.9	530.0	739.00	(28.3)	14.93	18.15	21.98	40.7	33.6	20.9	17.4	1.8	2.0
1560	Kinik	Outperform	1,460.3	390.0	310.00	25.8	7.10	8.64	13.02	35.9	23.8	5.8	4.9	1.1	1.6
1563	SAI	Outperform	304.0	104.0	41.10	153.0	3.30	5.77	#N/A	7.1	N.A.	1.0	#N/A	7.8	#N/A
1590	Airtac	Neutral	5,782.1	1020.0	902.00	13.1	38.12	40.51	46.38	22.3	19.4	3.5	3.3	2.5	3.1
1736	JHT	Outperform	1,439.2	235.0	148.00	58.8	8.02	8.06	10.07	18.4	14.7	3.4	3.0	2.0	2.0
1795	Lotus Pharm	Outperform	2,434.0	600.0	284.50	110.9	19.35	20.03	28.91	14.2	9.8	2.9	2.2	0.0	0.0
2002	CSC	Neutral	8,951.7	23.1	17.75	30.1	0.13	0.49	0.63	36.5	28.3	0.9	0.9	2.2	2.8
2014	Chung Hung	Neutral	653.4	18.1	14.20	27.5	(0.62)	0.16	0.66	86.4	21.4	1.4	1.3	0.0	10.6
2049	Hiwin	Neutral	2,114.8	195.0	186.50	4.6	5.57	4.78	8.14	39.0	22.9	1.7	1.7	1.1	1.9
2059	King Slide	Outperform	11,087.4	4815.0	3,630.00	32.6	64.59	92.92	140.53	39.1	25.8	13.3	10.5	1.3	2.0
2301	LTC	Outperform	11,880.9	212.0	160.00	32.5	5.21	6.77	8.43	23.6	19.0	4.1	3.8	3.1	3.8
2303	UMC	Underperform	17,967.7	38.0	44.65	(14.9)	3.80	2.88	3.93	15.5	11.4	1.5	1.4	6.4	6.4
2308	DELTA	Outperform	79,424.9	1280.0	954.00	34.2	13.56	23.83	32.79	40.0	29.1	9.5	7.9	1.3	1.7
2313	COMPEQ MANUFACT	Outperform	3,044.5	108.0	79.70	35.5	4.70	5.37	7.17	14.8	11.1	2.1	1.9	3.4	4.5
2317	Hon Hai	Outperform	106,400.0	340.0	236.50	43.8	11.01	14.68	18.90	16.1	12.5	1.9	1.8	3.3	4.2
2330	TSMC	Outperform	1,209,353.3	1900.0	1,455.00	30.6	45.25	64.58	76.89	22.5	18.9	7.3	5.7	1.4	1.4
2344	WEC	Outperform	8,365.4	69.0	58.00	19.0	0.14	1.08	6.64	53.9	8.7	2.7	2.1	0.0	3.4
2345	Accton	Outperform	16,995.4	1400.0	945.00	48.1	21.49	46.08	55.83	20.5	16.9	11.3	8.9	2.9	3.5
2348	Hiyes	Neutral	384.6	86.0	79.00	8.9	14.43	4.45	13.17	17.8	6.0	1.4	1.3	3.5	11.9
2356	Inventec	Neutral	4,794.8	47.0	41.70	12.7	2.03	2.51	2.92	16.6	14.3	2.0	2.0	4.8	5.6
2357	Asustek	Outperform	13,641.1	800.0	573.00	39.6	42.27	53.34	53.25	10.7	10.8	1.5	1.5	7.4	7.4
2368	GCE	Restricted	9,314.0	-	574.00	-	11.54	18.42	26.40	31.2	21.7	11.6	8.9	1.6	2.3
2376	Gigabyte	Outperform	5,324.7	320.0	248.00	29.0	15.03	17.73	21.35	14.0	11.6	3.0	2.8	5.7	6.9
2377	MSI	Neutral	2,789.1	117.0	103.00	13.6	8.04	6.49	8.98	15.9	11.5	1.6	1.5	3.9	5.4
2379	RT	Neutral	8,161.4	585.0	496.50	17.8	29.82	29.88	32.50	16.6	15.3	5.1	4.7	5.1	5.6
2382	QCI	Outperform	33,921.8	385.0	274.00	40.5	15.49	18.07	21.41	15.2	12.8	4.5	4.2	5.3	6.2
2383	EMC	Outperform	16,423.0	1425.0	1,430.00	(0.3)	27.81	42.22	64.74	33.9	22.1	10.6	8.1	1.8	2.7
2385	Chicony	Neutral	2,923.3	143.0	120.00	19.2	12.43	10.54	11.00	11.4	10.9	1.9	1.8	7.0	7.3
2395	ACL	Outperform	7,766.4	340.0	280.00	21.4	10.45	10.81	11.34	25.9	24.7	4.6	4.5	3.1	3.3
2408	NTC	Outperform	15,443.5	180.0	155.50	15.8	(1.64)	1.23	20.98	126.8	7.4	2.9	2.2	0.0	6.7
2409	AUO	Neutral	2,697.1	12.6	11.15	13.0	(0.40)	0.49	0.50	22.7	22.5	0.6	0.6	0.0	0.0
2412	CHT	Neutral	32,820.0	122.0	132.00	(7.6)	4.80	4.92	5.07	26.8	26.0	2.7	2.7	3.7	3.8
2421	SUNON	Outperform	1,660.8	200.0	189.50	5.5	5.46	8.09	11.79	23.4	16.1	6.1	5.5	3.0	4.4
2454	MediaTek	Neutral	60,917.8	1300.0	1,185.00	9.7	66.92	65.97	76.63	18.0	15.5	4.9	4.6	5.7	5.7
2455	VPEC	Outperform	859.3	160.0	145.00	10.3	3.63	3.23	5.15	44.9	28.2	8.0	7.1	1.9	3.0
2467	C Sun	Outperform	889.3	243.0	177.00	37.3	4.80	5.24	8.67	33.8	20.4	6.1	5.4	2.8	4.0
2474	Catcher	Neutral	4,217.8	211.0	211.00	0.0	19.40	10.79	12.43	19.6	17.0	0.8	0.8	4.1	4.7
2528	CROWELL	Neutral	405.5	33.5	29.15	14.9	3.26	4.47	6.94	6.5	4.2	1.5	1.3	9.2	14.3
2542	Highwealth	Neutral	2,573.6	44.0	36.95	19.1	3.13	2.37	7.02	15.6	5.3	1.4	1.4	5.8	16.2
2603	EMC	Neutral	12,664.1	200.0	182.50	9.6	64.87	33.20	27.85	5.5	6.6	0.6	0.6	11.0	9.3
2606	U-MING	Neutral	1,541.2	61.0	56.90	7.2	5.54	3.83	3.93	14.9	14.5	1.2	1.1	4.7	4.9
2609	YMTC	Underperform	5,775.4	45.0	51.60	(12.8)	18.38	4.07	3.55	12.7	14.5	0.5	0.5	3.1	2.7
2610	CAL	Neutral	3,753.7	21.0	19.25	9.1	2.38	2.13	1.49	9.0	12.9	1.2	1.1	3.9	2.7
2612	CMT	Outperform	334.8	67.0	52.90	26.7	5.13	5.76	5.68	9.2	9.3	0.7	0.7	5.5	5.3
2615	WANHAI	Underperform	7,357.1	73.0	81.80	(10.8)	16.89	9.79	9.10	8.4	9.0	0.8	0.8	2.4	2.2
2618	EVAAIR	Neutral	5,841.8	37.0	33.75	9.6	5.37	4.19	2.51	8.1	13.5	1.3	1.3	5.6	3.3
2634	AIDC	Neutral	1,443.0	48.0	47.80	0.4	2.30	0.95	1.91	50.6	25.1	2.4	2.3	1.2	2.4
2637	Wisdom	Neutral	1,559.8	66.0	65.20	1.2	8.08	4.70	4.34	13.9	15.0	0.9	0.9	4.3	4.3
2645	EGAT	Outperform	1,680.8	186.0	140.00	32.9	4.90	5.48	7.43	25.5	18.8	3.9	3.8	3.5	4.8
2707	GFRT	Outperform	779.9	274.0	191.00	43.5	10.57	12.48	13.07	15.3	14.6	4.8	4.6	5.6	5.8
2723	Gourmet	Outperform	348.5	92.0	60.40	52.3	3.28	(1.42)	5.73	N.M.	10.5	1.0	1.0	0.0	7.6
2727	Wowprime	Neutral	580.6	254.0	214.50	18.4	15.66	16.92	18.17	12.7	11.8	3.8	3.7	7.1	7.6
2739	My Humble House	Outperform	104.0	84.0	35.45	137.0	5.39	5.07	5.52	7.0	6.4	1.6	1.4	0.0	6.2
2748	FDC	Outperform	146.5	70.0	43.20	62.0	3.13	3.91	4.32	11.1	10.0	1.5	1.4	6.3	7.0
2753	BAFANG	Outperform	410.1	234.0	192.00	21.9	9.05	11.94	12.99	16.1	14.8	3.4	3.1	4.4	4.7
2762	World Gym	Outperform	286.7	96.0	79.50	20.8	3.19	3.06	4.58	26.0	17.4	3.1	3.4	7.5	7.7
2881	Fubon Financial	Neutral	40,091.6	94.0	89.30	5.3	10.77	6.92	7.74	12.9	11.5	1.5	1.3	3.6	4.0
2882	Cathay Holdings	Neutral	30,419.8	69.0	64.70	6.6	7.29	5.33	6.23	12.1	10.4	1.2	1.0	3.9	4.6
2884	E.S.F.H	Neutral	15,655.6	31.0	30.20	2.6	1.63	2.04	2.07	14.8	14.6	1.8	1.6	4.3	4.5

Source: KGI Research

Valuation table

Ticker	Company	Recommendation	Mkt cap (US\$m)	TargetPrice (NT\$)	Price (NT\$)	Up/down (%)	EPS (NT\$)			PE (x)		PB (x)		YIELD (%)	
							2024	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
2885	Yuanta Group	Neutral	15,403.5	39.0	36.05	8.2	2.77	2.74	2.88	13.1	12.5	1.3	1.2	4.4	4.6
2886	Mega FHC	Neutral	18,850.7	42.0	39.65	5.9	2.35	2.34	2.39	16.9	16.6	1.5	1.4	4.0	4.2
2887	TAISHINHOLDINGS	Neutral	14,784.4	18.0	18.55	(3.0)	1.39	1.18	1.61	15.7	11.5	1.2	1.1	4.3	5.1
2890	SINOPACHOLDINGS	Outperform	12,564.6	30.0	27.05	10.9	1.75	1.83	2.18	14.8	12.4	1.5	1.3	4.1	4.6
2891	CTBC Holding	Outperform	27,270.4	48.0	43.30	10.9	3.64	3.70	4.02	11.7	10.8	1.7	1.5	5.2	5.5
2892	FFHC	Neutral	13,042.9	31.0	28.30	9.5	1.81	1.89	1.90	15.0	14.9	1.4	1.3	4.2	4.4
2912	PCSC	Outperform	7,797.2	303.0	234.00	29.5	11.10	11.88	13.36	19.7	17.5	5.4	4.9	3.8	3.8
3008	Largan	Outperform	9,175.9	2980.0	2,145.00	38.9	194.17	157.66	185.95	13.6	11.5	1.4	1.3	3.7	4.3
3017	AVC	Outperform	16,779.1	1695.0	1,335.00	27.0	21.21	48.71	70.82	27.4	18.9	13.5	10.0	1.8	2.7
3023	Sinbon	Outperform	1,627.4	336.0	211.50	58.9	14.70	15.31	18.33	13.8	11.5	3.1	2.8	5.1	6.1
3034	Novatek	Neutral	7,664.9	440.0	393.00	12.0	33.43	28.08	30.14	14.0	13.0	3.5	3.3	6.0	6.4
3035	Faraday	Neutral	1,377.9	160.0	165.00	(3.0)	4.04	1.95	5.36	84.7	30.8	3.5	3.2	0.9	2.4
3036	WT	Neutral	5,413.7	148.0	134.00	10.4	8.13	9.86	12.36	13.6	10.8	1.4	1.2	3.7	4.6
3037	Unimicron	Outperform	8,660.7	202.0	171.50	17.8	3.34	3.57	9.16	48.0	18.7	2.7	2.4	0.9	2.4
3044	Tripod	Outperform	5,188.7	340.0	308.00	10.4	15.95	19.42	22.67	15.9	13.6	3.2	2.9	4.0	4.6
3045	TWM	Neutral	12,888.2	112.0	108.00	3.7	4.57	4.73	4.89	22.8	22.1	4.7	4.7	4.3	4.5
3081	LandMark	Neutral	1,290.0	450.0	435.00	3.4	(0.59)	4.32	12.82	100.7	33.9	10.5	9.6	0.8	2.1
3105	Win	Neutral	1,610.2	90.0	118.50	(24.1)	1.81	0.06	2.12	2028.0	55.8	1.4	1.4	0.0	1.0
3131	GPTC	Outperform	1,343.8	2090.0	1,435.00	45.6	29.07	42.98	59.64	33.4	24.1	8.0	6.9	2.3	3.2
3189	Kinsus	Outperform	2,042.5	168.0	139.50	20.4	0.11	3.75	7.65	37.2	18.2	1.9	1.8	1.3	2.7
3231	Wistron	Outperform	14,576.9	200.0	143.00	39.9	6.11	9.19	11.99	15.6	11.9	2.3	2.0	4.0	5.4
3293	IGS	Outperform	6,774.1	900.0	750.00	20.0	32.14	37.69	45.15	19.9	16.6	11.8	10.6	4.3	5.1
3324	AURAS	Outperform	2,779.7	1255.0	934.00	34.4	21.23	30.41	54.15	30.7	17.2	8.2	6.6	1.5	2.8
3376	SZS	Outperform	1,132.5	235.0	180.50	30.2	7.15	1.70	8.70	106.5	20.8	2.0	1.9	0.7	3.9
3380	Alpha	Neutral	496.6	34.0	28.60	18.9	0.40	1.84	#N/A	15.5	N.A.	1.6	#N/A	6.3	#N/A
3443	GUC	Outperform	8,440.2	2270.0	1,965.00	15.5	25.75	27.20	38.86	72.2	50.6	20.7	16.8	0.9	1.2
3450	ELASER	Outperform	1,055.3	360.0	226.00	59.3	3.82	6.72	11.97	33.7	18.9	6.9	6.2	2.0	3.5
3481	INX	Neutral	3,188.0	12.5	12.45	0.4	0.76	(0.28)	0.27	N.M.	46.2	0.4	0.4	0.0	0.0
3491	UMT	Outperform	997.3	545.0	461.00	18.2	8.59	8.25	15.53	55.9	29.7	10.7	8.9	1.4	2.6
3515	ASRock	Outperform	986.0	355.0	249.00	42.6	10.54	15.00	23.64	16.6	10.5	3.0	2.6	3.0	4.8
3526	Alltop	Outperform	508.8	300.0	243.00	23.5	16.80	16.91	20.31	14.4	12.0	4.1	4.1	7.0	8.4
3533	Lotes	Outperform	4,364.3	1660.0	1,210.00	37.2	82.77	70.97	92.23	17.0	13.1	3.4	3.0	2.9	3.8
3583	Scientech	Outperform	804.6	480.0	312.50	53.6	11.54	19.11	#N/A	16.4	N.A.	4.2	#N/A	3.0	#N/A
3587	ma-tek	Outperform	402.9	240.0	187.50	28.0	10.39	11.96	16.48	15.7	11.4	2.4	2.2	4.3	5.9
3592	Raydium	Neutral	513.0	300.0	211.00	42.2	27.67	20.55	21.89	10.3	9.6	1.6	1.5	7.8	8.3
3596	Arcadyan	Outperform	1,313.7	240.0	186.00	29.0	11.28	12.63	15.99	14.7	11.6	2.4	2.3	4.8	5.6
3605	Aces	Outperform	320.6	82.0	62.70	30.8	2.51	4.28	5.47	14.7	11.5	1.3	1.2	2.1	2.6
3661	Alchip	Outperform	7,986.8	5380.0	3,075.00	75.0	81.34	66.40	134.46	46.3	22.9	6.9	5.7	1.1	2.2
3665	BHI (Bizlink)	Outperform	10,497.9	1830.0	1,680.00	8.9	25.41	46.66	65.97	36.0	25.5	7.8	6.5	1.4	1.9
3702	WPG	Outperform	3,498.0	87.0	65.00	33.8	4.07	7.25	#N/A	9.0	N.A.	1.2	#N/A	8.3	#N/A
3704	Zyxel Group	Outperform	455.2	40.0	34.35	16.4	1.41	1.59	2.66	21.6	12.9	1.2	1.1	0.9	2.3
3711	ASEH	Neutral	31,662.6	230.0	222.50	3.4	7.52	8.56	13.38	26.0	16.6	2.9	2.7	2.4	2.7
4129	UOC	Outperform	353.9	132.0	114.50	15.3	4.74	5.77	#N/A	19.8	N.A.	2.9	#N/A	5.6	#N/A
4147	TMB	Outperform	578.8	192.0	66.10	190.5	(0.75)	(0.73)	#N/A	N.M.	N.A.	4.7	#N/A	0.0	#N/A
4438	QVE	Outperform	299.2	136.0	82.30	65.2	3.89	8.98	#N/A	9.2	N.A.	1.0	#N/A	7.9	#N/A
4572	DPI	Neutral	185.9	156.0	145.00	7.6	7.29	4.02	6.22	36.1	23.3	2.6	2.5	2.2	3.5
4743	Oneness Biotech	Outperform	905.1	308.0	58.90	422.9	(2.44)	(1.26)	#N/A	N.M.	N.A.	2.1	#N/A	0.0	#N/A
4904	Far EasTone	Neutral	10,713.1	91.0	92.70	(1.8)	3.56	3.75	3.96	24.8	23.4	3.7	3.7	4.0	4.3
4906	GEMTEK	Outperform	357.0	27.0	26.05	3.6	1.56	(0.52)	1.80	N.M.	14.4	0.9	0.9	1.9	5.8
4915	Primax	Neutral	1,264.0	88.0	83.70	5.1	5.61	6.21	6.78	13.5	12.3	1.9	1.9	5.9	6.5
4938	Pegatron	Neutral	6,155.3	86.0	71.60	20.1	6.34	4.63	5.74	15.5	12.5	0.9	0.9	4.2	5.3
4958	ZDT	Neutral	4,780.4	155.0	141.00	9.9	9.67	9.07	11.91	15.6	11.8	1.3	1.2	3.2	4.2
4966	Parade	Neutral	1,644.8	765.0	641.00	19.3	32.55	36.22	42.43	17.7	15.1	2.5	2.3	2.8	2.8
4968	RichWave	Outperform	402.0	240.0	136.00	76.5	1.73	2.68	6.85	50.8	19.9	4.6	3.9	1.0	2.6
4977	PCL	Neutral	268.6	120.0	104.50	14.8	3.28	4.78	#N/A	21.8	N.A.	2.2	#N/A	4.3	#N/A
4979	LuxNet	Outperform	893.8	250.0	198.00	26.3	3.79	5.40	9.94	36.7	19.9	7.0	5.2	1.1	2.0
5263	Brogent	Neutral	213.3	113.0	94.30	19.8	1.10	(2.27)	3.76	N.M.	25.1	1.7	1.7	0.0	3.2
5274	Aspeed	Outperform	7,699.9	6890.0	6,355.00	8.4	68.04	99.25	137.82	64.0	46.1	32.5	24.6	1.2	1.6
5289	InnoDisk	Outperform	1,586.1	500.0	524.00	(4.6)	12.20	16.84	25.15	31.1	20.8	6.0	5.0	1.6	2.4
5347	VIS	Neutral	5,374.7	100.0	89.80	11.4	4.21	4.32	4.35	20.8	20.7	2.4	2.4	5.0	5.0
5388	SerComm	Outperform	785.3	115.0	80.50	42.9	7.74	4.57	7.63	17.6	10.5	1.4	1.3	3.7	5.6
5871	Chailease	Outperform	5,567.6	125.0	101.50	23.2	13.31	11.90	12.74	8.5	8.0	1.1	1.0	5.4	5.7
5876	SCSB	Neutral	6,178.3	45.0	39.65	13.5	2.78	3.09	3.18	12.8	12.5	1.0	0.9	4.8	5.0
5904	Poya	Neutral	1,485.8	548.0	435.50	25.8	26.74	29.18	31.72	14.9	13.7	6.0	5.7	5.8	6.3
6121	SMP	Outperform	2,042.4	420.0	344.50	21.9	28.88	28.92	30.01	11.9	11.5	1.7	1.6	6.0	6.2

Source: KGI Research

Valuation table

Ticker	Company	Recommendation	Mkt cap (US\$m)	TargetPrice (NT\$)	Price (NT\$)	Up/down (%)	EPS (NT\$)			PE (x)		PB (x)		YIELD (%)	
							2024	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
6187	All Ring	Outperform	1,050.6	540.0	337.50	60.0	14.57	21.60	37.33	15.6	9.0	3.9	2.7	4.2	7.3
6213	ITEQ	Outperform	1,233.8	136.0	106.00	28.3	2.26	3.83	6.25	27.7	17.0	1.9	1.8	2.3	3.8
6223	MPI	Outperform	5,869.7	2430.0	1,910.00	27.2	24.42	33.29	62.08	57.4	30.8	19.7	16.2	1.0	1.9
6274	TUC	Outperform	3,849.0	530.0	416.00	27.4	9.56	12.36	21.54	33.7	19.3	6.8	5.5	1.8	3.1
6279	Hu Lane	Outperform	484.5	180.0	127.00	41.7	12.79	11.66	14.99	10.9	8.5	1.6	1.4	5.5	6.7
6285	WNC	Neutral	1,523.4	117.0	98.20	19.1	7.26	6.12	7.74	16.0	12.7	1.4	1.4	4.1	5.1
6415	Silergy	Neutral	2,359.7	185.0	189.50	(2.4)	5.95	6.04	7.40	31.4	25.6	0.5	0.5	1.3	1.6
6423	YMC	Outperform	68.7	155.0	71.40	117.1	#N/A	2.39	#N/A	29.9	N.A.	5.4	#N/A	3.0	#N/A
6446	PEC	Outperform	5,786.2	1060.0	475.50	122.9	8.96	14.53	#N/A	32.7	N.A.	5.2	#N/A	0.0	#N/A
6472	Bora	Outperform	2,133.4	1070.0	526.00	103.4	38.69	60.83	55.97	8.6	9.4	3.2	2.7	1.7	1.7
6499	Medeon	Outperform	287.7	210.0	92.60	126.8	(8.74)	(7.69)	(4.64)	N.M.	N.M.	10.5	22.3	0.0	0.0
6510	CHPT	Outperform	1,623.7	1965.0	1,545.00	27.2	15.55	29.11	56.22	53.1	27.5	6.1	5.5	0.9	1.8
6515	WinWay	Outperform	2,714.7	2900.0	2,350.00	23.4	34.31	46.35	70.07	50.7	33.5	16.4	14.6	1.4	2.2
6526	Airoha	Outperform	2,383.7	600.0	444.00	35.1	16.10	17.60	19.80	25.2	22.4	3.9	3.7	1.6	1.8
6533	Andes	Restricted	430.2	-	265.00	-	0.04	0.08	4.49	3436.9	59.1	2.8	2.7	0.0	0.7
6535	Lumosa	Outperform	984.8	228.0	182.00	25.3	(2.60)	4.76	#N/A	38.2	N.A.	16.8	#N/A	0.0	#N/A
6546	AMPAK	Outperform	130.3	100.0	60.80	64.5	3.59	2.53	4.96	24.0	12.3	2.0	2.0	4.1	7.9
6547	MVC	Outperform	397.8	102.0	37.75	170.2	(0.24)	0.23	#N/A	165.1	N.A.	3.2	#N/A	0.0	#N/A
6561	Chief	Outperform	882.0	522.0	353.00	47.9	13.82	15.38	17.39	23.0	20.3	6.9	6.6	3.9	4.4
6576	Foresee	Outperform	382.5	153.0	75.80	101.8	(7.87)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
6589	EirGenix	Outperform	714.5	138.0	72.40	90.6	(2.28)	(0.90)	#N/A	N.M.	N.A.	2.5	#N/A	0.0	#N/A
6592	Hotai Finance	Neutral	1,230.3	78.0	61.60	26.6	4.44	4.51	4.77	13.7	12.9	1.2	1.1	4.5	4.7
6643	M31	Neutral	561.3	440.0	419.00	5.0	3.05	2.48	11.50	169.1	36.4	9.9	7.7	0.5	2.1
6669	Wiwynn	Outperform	25,493.6	5420.0	4,280.00	26.6	126.57	268.87	293.64	15.9	14.6	7.2	5.9	3.5	3.8
6679	Zilltek	Outperform	322.4	460.0	183.00	151.4	8.86	13.14	#N/A	13.9	N.A.	1.8	#N/A	5.7	#N/A
6689	ECV	Neutral	135.8	73.0	62.30	17.2	2.26	1.82	3.65	34.2	17.1	1.4	1.4	2.3	4.7
6719	UPI	Neutral	671.0	190.0	198.50	(4.3)	2.42	6.06	7.69	32.7	25.8	1.5	1.4	2.1	2.7
6741	91APP	Outperform	281.7	126.0	72.90	72.8	4.22	4.62	5.43	15.8	13.4	1.2	1.1	2.5	3.0
6781	AES-KY	Outperform	3,737.1	1725.0	1,365.00	26.4	25.39	38.54	50.26	35.4	27.2	7.1	6.3	1.4	1.8
6799	M3TEK	Neutral	104.6	100.0	74.70	33.9	2.94	5.02	#N/A	14.9	N.A.	2.0	#N/A	3.3	#N/A
6805	Fositek	Outperform	3,186.0	1755.0	1,450.00	21.0	17.90	31.06	58.49	46.7	24.8	15.0	11.5	1.1	2.0
6811	AEB	Outperform	284.3	314.0	214.00	46.7	13.00	14.57	16.79	14.7	12.7	3.8	3.5	4.8	5.5
6841	EFAI	Outperform	193.8	108.0	63.50	70.1	0.31	0.46	#N/A	136.9	N.A.	3.3	#N/A	0.6	#N/A
6863	Arizon RFID	Outperform	259.2	138.0	108.00	27.8	11.36	3.89	6.45	27.7	16.8	1.4	1.4	1.8	3.0
6869	J&V Energy	Outperform	416.6	218.0	94.30	131.2	8.89	7.27	14.55	13.0	6.5	2.0	1.7	4.8	9.0
6873	HDRE	Outperform	438.5	292.0	95.90	204.5	11.10	13.28	18.90	7.2	5.1	1.1	0.9	7.3	9.9
6887	BORETECH-KY	Outperform	147.8	117.0	62.20	88.1	7.51	7.49	10.26	8.3	6.1	1.9	1.7	7.1	9.9
6962	ITH-KY	Outperform	642.3	66.0	40.70	62.2	5.61	5.46	5.51	7.5	7.4	0.9	0.9	5.7	5.8
6965	CJ	Neutral	373.3	105.0	74.50	40.9	12.22	5.57	6.42	13.4	11.6	1.0	1.0	3.4	4.0
7722	LINEPAY	Outperform	1,183.5	860.0	543.00	58.4	10.67	14.58	22.72	37.2	23.9	4.8	4.1	0.6	0.9
7799	HNMC	Outperform	2,887.7	1100.0	572.00	92.3	#N/A	(1.16)	(0.89)	N.M.	N.M.	65.8	73.3	0.0	0.0
8044	PChome Online	Neutral	192.5	32.0	29.20	9.6	(4.08)	(3.53)	(1.76)	N.M.	N.M.	0.8	0.9	0.0	0.0
8046	N.P.C	Outperform	5,571.1	330.0	269.00	22.7	0.32	2.71	11.79	99.2	22.8	3.8	3.4	0.6	2.6
8069	EIH	Outperform	6,844.8	238.0	185.50	28.3	7.75	9.63	10.87	19.3	17.1	3.2	3.0	3.4	3.8
8081	GMT	Neutral	564.8	240.0	204.50	17.4	17.91	16.00	16.59	12.8	12.3	2.1	2.1	6.8	7.3
8086	AWSC	Outperform	655.1	125.0	104.00	20.2	2.65	2.68	3.79	38.8	27.5	2.6	2.4	1.3	1.8
8114	Posiflex	Outperform	464.1	301.0	189.50	58.8	12.55	17.99	15.03	10.5	12.6	2.8	2.5	6.2	5.2
8210	Chenbro	Outperform	3,839.9	1240.0	956.00	29.7	16.05	27.62	43.50	34.6	22.0	13.1	10.1	1.5	2.4
8299	Phison	Restricted	8,003.9	-	1,180.00	-	38.95	28.41	26.57	41.5	44.4	4.7	4.2	1.2	1.1
8454	momo	Neutral	1,940.6	243.0	228.50	6.3	13.69	11.75	11.03	19.5	20.7	5.6	5.5	4.6	4.3
8464	Nien Made	Neutral	3,432.7	455.0	365.50	24.5	23.56	22.26	25.25	16.4	14.5	3.5	3.2	3.7	4.1
8478	OceanAlexander	Outperform	575.3	442.0	191.00	131.4	10.37	23.58	#N/A	8.1	N.A.	2.1	#N/A	6.3	#N/A
8936	KTI	Outperform	465.9	75.9	58.60	29.5	3.37	4.09	4.75	14.3	12.3	2.2	2.0	4.1	4.8
8996	Kaori	Outperform	1,520.0	476.0	513.00	(7.2)	6.56	8.98	16.25	57.1	31.6	12.6	10.1	1.2	1.9
9904	PCC	Neutral	2,795.7	29.9	29.60	1.0	5.44	3.61	3.97	8.2	7.4	0.6	0.6	3.8	4.2
9910	FT	Neutral	3,972.1	134.0	125.50	6.8	5.94	5.42	6.39	23.2	19.6	4.8	4.8	3.6	4.4
9914	MIC	Neutral	849.0	108.0	88.60	21.9	(2.34)	5.63	6.01	15.7	14.7	1.3	1.3	3.2	3.4
9921	Giant	Neutral	1,158.6	112.0	92.20	21.5	3.22	3.07	5.62	30.0	16.4	1.1	1.0	1.9	3.5
9933	CTCI	Neutral	888.6	30.0	31.05	(3.4)	2.43	0.94	1.97	32.9	15.8	1.1	1.1	1.5	3.2
9935	CF	Outperform	116.0	39.5	20.35	94.1	2.39	2.63	#N/A	7.7	N.A.	1.5	#N/A	9.7	#N/A
9938	Taiwan Paiho	Neutral	513.8	60.8	53.80	13.0	4.75	4.49	5.05	12.0	10.7	1.2	1.1	5.2	5.9
9939	Hon Chuan	Neutral	1,161.3	141.0	122.50	15.1	9.80	8.92	9.84	13.7	12.5	1.8	1.7	4.5	5.0
9941	YFC	Neutral	1,732.4	103.0	93.90	9.7	8.88	7.73	8.40	12.2	11.2	1.5	1.3	4.2	4.5

Source: KGI Research

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