

Auras Technology (3324.TW/3324 TT)

Beneficiary of liquid cooling demand for servers

Outperform · Maintained

Price as of November 29 (NT\$)	363.0
12M target price (NT\$)	445.0
Previous target price (NT\$)	445.0
Unchanged (%)	0.0
Upside (%)	22.6

Key message

1. Positive 2024 outlook, with servers being the main growth driver, as rising thermal design power will fuel thermal solution upgrades from air cooling to liquid cooling, boosting ASP & gross margin.
2. 2024F NB sales recovery on rebound of gaming and AI NB demand.
3. To reflect a better 2024 margin outlook, we forecast 2024 EPS of NT\$21.09, up 33% YoY.

Trading data

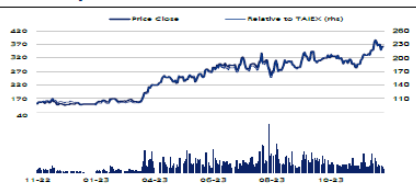
Mkt cap (NT\$bn/US\$m)	32.24 / 1,023
Outstanding shares (mn)	88.82
Foreign ownership (mn)	21.07
3M avg. daily trading (mn)	5.28
52-week trading range (NT\$)	145.0 – 386.5

Performance	3M	6M	12M
Absolute (%)	27.4	32.7	142
Relative (%)	22.9	28.3	123.9

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	3.42A	4.15A	4.74A	2.37A
2023	3.22A	2.78A	5.71A	4.14F
2024	3.99F	4.30F	6.57F	6.22F

Share price chart



Source: TEJ

Event

Auras Technology is positive on the 2024 business outlook, and expects servers to be the major sales driver. The firm also expects the sales contribution from liquid cooling to exceed that of air cooling for servers after 4Q24.

Impact

Positive 2024 earnings outlook. The firm guides 2024 revenue will grow around 20% YoY, with 30% from servers, versus 24% in 2023. This implies server sales growth of 40-50% YoY, with rising ASP for thermal products, and some solutions upgrading from air cooling to liquid cooling. After the mass production of liquid cooling cold plates, more cooling distribution units (CDU) will be added to the product mix in 2024, which will serve as the main margin and sales driver next year. We forecast server profit contribution will rise to 40-50% in 2024-25.

Server profit contribution to reach 40-50% in 2024-25F, with higher ASP & gross margin.

We believe the company will be the beneficiary of the switch to liquid cooling for servers. On rising thermal design power (TDP) and thermal design upgrades from heat pipes to VC or 3D VC, and from air cooling to liquid cooling cold plate and CDU, we expect the firm to benefit from product ASP and gross margin expansion. Furthermore, CDU will be added to the product mix in 2024, which will boost sales strongly given the high price of over US\$10k per unit. Server and liquid cooling sales growth will boost gross margin significantly to above 25% in 2024F, serving as the main margin driver next year. The firm also mentioned most CSPs are rapidly designing liquid cooling solutions for AI servers on rising TDP of GPUs and CPUs. With ASP 5-10x higher for liquid cooling solutions than air cooling, Auras expects liquid cooling sales contribution to exceed that of air cooling after 4Q24, to comprise around 10% of total sales, as it will expand the cold plate product range to integrate with CDU, racks, quick connectors, and manifolds. Therefore, in addition to the reasons mentioned above, and our expectation of rapid growth in AI server shipments, we project server sales will increase 50% YoY in 2024. Server gross margin above 25% will boost overall gross margin. We thus forecast server profit contribution will grow to 40-50% in 2024-25. Auras also expects 2024 NB sales recovery on a rebound in gaming and AI NB demand, which mostly use VC technology. We believe PC replacement demand will resume on economic recovery, plus the launch of Windows 12 in 2024 with AI support will trigger upgrade demand, which should be positive for thermal solution design. To reflect a better 2024 margin outlook, we forecast 2024 EPS of NT\$21.09, up 33% YoY, and 2025 EPS of NT\$26.47, up 26% YoY.

Valuation & Action

We maintain Outperform on decent 2H23F and 2024F margin and EPS growth, with a target price of NT\$445, based on 20x average 2024-25F fully diluted EPS.

Risks

Material price hikes; weak demand.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	14,258	13,857	12,965	15,692	19,069
Gross profit (NT\$m)	2,663	2,722	3,130	4,046	4,995
Operating profit (NT\$m)	1,379	1,173	1,460	2,198	2,813
Net profit (NT\$m)	1,133	1,264	1,365	1,816	2,279
EPS (NT\$)	13.12	14.68	15.86	21.09	26.47
Cash DPS (NT\$)	6.00	6.50	6.84	9.09	11.41
EPS growth (%)	1.9	11.9	8.0	33.0	25.5
PE (x)	27.7	24.7	22.9	17.2	13.7
PB (x)	6.8	5.8	5.1	4.4	3.7
EV/EBITDA (x)	16.8	18.8	17.0	11.7	9.1
Net debt to equity (%)	4.5	4.6	Net cash	Net cash	Net cash
Dividend yield (%)	1.7	1.8	1.9	2.5	3.1
Return on average equity (%)	24.3	24.5	23.0	26.6	28.6

Source: Company data, KGI Research estimates

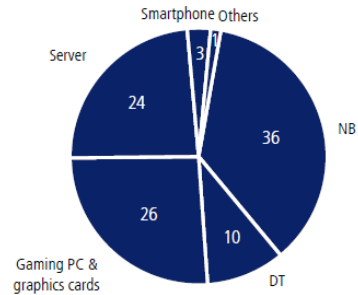
Figure 1: Company profile

Established in 1998, Auras is a top-three thermal solution maker in Taiwan, serving the NB/DT, graphics card, gaming PC, server, and smartphone industries. Top clients include MSI (2377 TT, NT\$181, N), Dell (US), HP (US), Asustek (2357 TT, NT\$390, OP), and Samsung (KR). 2022 application sales mix was NB (36%), DT (6%), graphics cards/gaming PC (29%), server (22%), smartphone (4%), and others (3%). 2022-23F sales growth will be mainly driven by server.

Source: KGI Research

Figure 2: NB, gaming PC & graphics card, & server solutions contribute bulk of sales

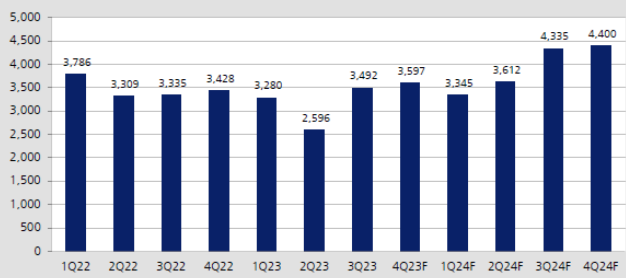
Sales weighting in 1Q-3Q23, percent



Source: company data; KGI Research

Figure 3: Sales

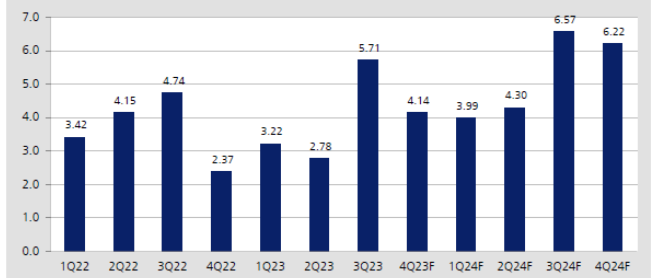
Sales, NT\$m



Source: KGI Research

Figure 4: EPS

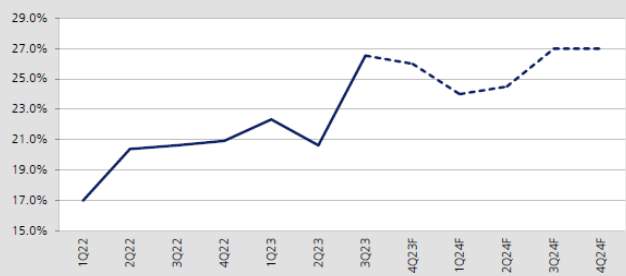
EPS, NT\$



Source: KGI Research

Figure 5: Gross Margin

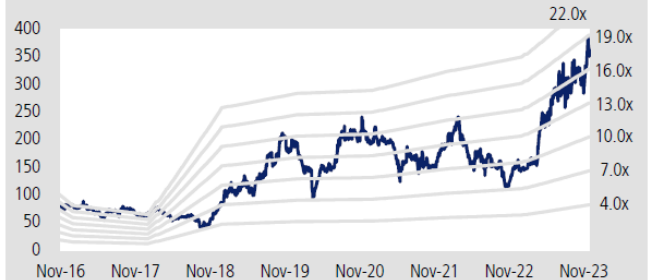
Gross margin, percent



Source: KGI Research

Figure 6: 12M forward PE band

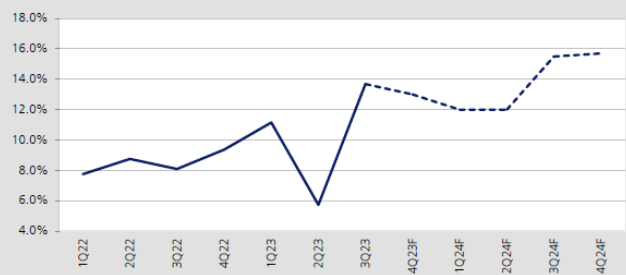
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ; KGI Research estimates

Figure 7: Operating Margin

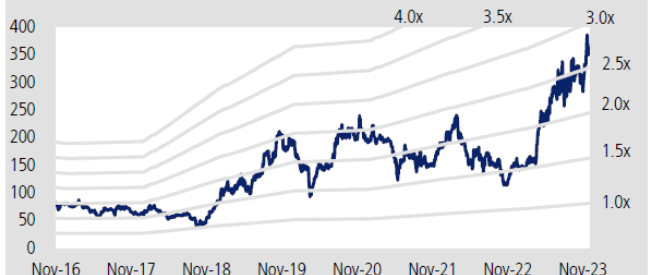
Operating margin, percent



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-23A	Jun-23A	Sep-23A	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
Income statement (NT\$mn)											
Revenue	3,280	2,596	3,492	3,597	3,345	3,612	4,335	4,400	12,965	15,692	19,069
Cost of goods sold	(2,548)	(2,061)	(2,565)	(2,661)	(2,542)	(2,727)	(3,165)	(3,212)	(9,835)	(11,646)	(14,074)
Gross profit	733	535	927	935	803	885	1,170	1,188	3,130	4,046	4,995
Operating expenses	(367)	(387)	(449)	(468)	(401)	(452)	(499)	(497)	(1,670)	(1,849)	(2,182)
Operating profit	366	149	478	468	401	433	672	691	1,460	2,198	2,813
Depreciation of fixed assets	(115)	(111)	(108)	(18)	(108)	(108)	(108)	(108)	(351)	(433)	(516)
Amortisation of intangible assets	(7)	(8)	(8)	(14)	(9)	(9)	(9)	(9)	(37)	(37)	(37)
EBITDA	487	268	594	499	519	551	790	808	1,848	2,668	3,366
Interest income	2	6	4	7	5	5	5	5	19	19	16
Investment income	0	-	-	5	3	3	3	3	5	10	10
Other non-op income	32	148	125	55	45	45	45	45	360	180	145
Non-operating income	34	154	128	67	52	52	52	52	384	209	171
Interest expense	(10)	(3)	(7)	(7)	(7)	(7)	(7)	(7)	(27)	(27)	(26)
Investment loss	-	(1)	(0)	(4)	(1)	(1)	(1)	(1)	(5)	(5)	(5)
Other non-op expenses	(37)	0	0	(43)	(20)	(20)	(20)	(20)	(80)	(80)	(80)
Non-operating expenses	(47)	(4)	(8)	(54)	(28)	(28)	(28)	(28)	(112)	(112)	(111)
Pre-tax profit	353	300	599	480	426	458	696	715	1,731	2,295	2,873
Current taxation	(76)	(58)	(101)	(111)	(77)	(82)	(125)	(175)	(346)	(459)	(575)
Minorities	0	(2)	(6)	(12)	(5)	(5)	(5)	(5)	(20)	(20)	(20)
Normalised net profit	277	239	492	357	344	370	566	535	1,365	1,816	2,279
Extraordinary items	(0)	(0)	(0)	0	-	-	-	-	-	-	-
Net profit	277	239	492	357	344	370	566	535	1,365	1,816	2,279
EPS (NT\$)	3.22	2.78	5.71	4.14	3.99	4.30	6.57	6.22	15.86	21.09	26.47
Margins (%)											
Gross profit margin	22.3	20.6	26.5	26.0	24.0	24.5	27.0	27.0	24.1	25.8	26.2
Operating margin	11.1	5.7	13.7	13.0	12.0	12.0	15.5	15.7	11.3	14.0	14.8
EBITDA margin	14.9	10.3	17.0	13.9	15.5	15.3	18.2	18.4	14.3	17.0	17.7
Pretax profit margin	10.7	11.5	17.1	13.4	12.7	12.7	16.1	16.3	13.4	14.6	15.1
Net profit margin	8.5	9.2	14.1	9.9	10.3	10.3	13.1	12.2	10.5	11.6	11.9
Sequential growth (%)											
Revenue growth	(4.3)	(20.9)	34.5	3.0	(7.0)	8.0	20.0	1.5			
Gross profit growth	2.2	(26.9)	73.1	0.9	(14.2)	10.3	32.2	1.5			
Operating profit growth	13.9	(59.3)	221.4	(2.2)	(14.2)	8.0	55.0	2.8			
EBITDA growth	7.7	(45.1)	121.9	(15.9)	4.0	6.2	43.3	2.4			
Pretax profit growth	34.8	(15.0)	99.9	(19.8)	(11.4)	7.5	52.1	2.7			
Net profit growth	35.8	(13.7)	105.6	(27.5)	(3.6)	7.7	52.8	(5.4)			
YoY growth (%)											
Revenue growth	(13.4)	(21.5)	4.7	4.9	2.0	39.1	24.1	22.3	(6.4)	21.0	21.5
Gross profit growth	14.0	(20.6)	34.7	30.4	9.6	65.3	26.3	27.0	15.0	29.3	23.5
Operating profit growth	24.7	(48.6)	77.3	45.6	9.8	191.5	40.6	47.7	24.4	50.5	28.0
EBITDA growth	11.9	(36.8)	49.2	10.3	6.5	106.0	33.0	61.9	8.1	44.4	26.2
Pretax profit growth	(5.4)	(33.8)	10.7	83.7	20.7	52.8	16.3	48.9	6.3	32.5	25.2
Net profit growth	(5.7)	(33.1)	20.6	74.9	24.1	54.8	15.0	50.1	8.0	33.0	25.5

Source: Company data, KGI Research estimates

Balance sheet

NT\$mn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	11,895	11,743	12,416	14,197	16,458
Current assets	8,978	8,420	8,652	10,090	12,081
Cash & ST securities	1,494	1,492	2,255	2,493	2,917
Inventory	2,292	2,072	1,830	2,161	2,619
Accounts receivable	4,745	4,490	4,201	5,071	6,179
Other current assets	448	365	365	365	365
Non-current assets	2,917	3,323	3,764	4,107	4,377
LT investments	109	128	170	196	233
Net fixed assets	2,442	2,715	3,114	3,431	3,665
Other assets	366	480	480	480	480
Total liabilities	6,986	5,933	5,825	6,575	7,547
Current liabilities	5,670	5,620	4,351	5,392	6,129
Accounts payable	4,091	2,848	2,516	2,971	3,600
Interest bearing ST liabilities	416	1,498	517	904	806
Other current liabilities	1,162	1,273	1,318	1,518	1,723
Non-current liabilities	1,317	313	1,475	1,182	1,417
Long-term debt	1,299	255	1,416	1,124	1,359
Other L-T liabilities	9	0	0	0	0
Total equity	4,909	5,810	6,590	7,622	8,912
Share capital	884	884	884	884	884
Retained earnings reserve	2,722	3,304	4,065	5,076	6,346
Minority interests	166	244	264	284	304
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Growth					
Revenue growth	16.7%	(2.8%)	(6.4%)	21.0%	21.5%
Operating profit growth	(11.7%)	(14.9%)	24.4%	50.5%	28.0%
EBITDA growth	(3.9%)	(10.0%)	8.1%	44.4%	26.2%
Net profit growth	1.9%	11.6%	8.0%	33.0%	25.5%
EPS growth	1.9%	11.9%	8.0%	33.0%	25.5%
Profitability					
Gross profit margin	18.7%	19.6%	24.1%	25.8%	26.2%
Operating margin	9.7%	8.5%	11.3%	14.0%	14.8%
EBITDA margin	13.3%	12.3%	14.3%	17.0%	17.7%
Net profit margin	7.9%	9.1%	10.5%	11.6%	11.9%
Return on average assets	10.3%	10.7%	11.3%	13.6%	14.9%
Return on average equity	24.3%	24.5%	23.0%	26.6%	28.6%
Stability					
Gross debt to equity	34.9%	30.2%	29.3%	26.6%	24.3%
Net debt to equity	4.5%	4.6%	Net cash	Net cash	Net cash
Interest coverage (x)	62.2	43.4	64.7	85.6	110.0
Interest & ST debt coverage (x)	0.8	0.5	0.8	0.7	0.8
Cash flow/interest coverage(x)	62.1	32.3	71.8	56.6	71.7
Cash flow/int. & ST debt (x)	3.3	0.8	3.6	1.6	2.3
Current ratio (x)	1.6	1.5	2.0	1.9	2.0
Quick ratio (x)	1.2	1.1	1.6	1.5	1.5
Net debt (NT\$mn)	221	269	(313)	(456)	(743)
Per share data					
EPS (NT\$)	13.12	14.68	15.86	21.09	26.47
CFPS (NT\$)	16.72	14.41	22.67	17.84	21.96
BVPS (NT\$)	53.65	62.97	71.57	83.02	97.38
Adj BVPS (NT\$)	54.94	64.67	73.50	85.26	100.01
SPS (NT\$)	165.15	160.99	150.63	182.31	221.55
EBITDA/share (NT\$)	21.99	19.86	21.47	31.00	39.11
Cash DPS (NT\$)	6.00	6.50	6.84	9.09	11.41
Activity					
Sales / avg assets	1.29	1.17	1.07	1.18	1.24
Days receivable	121.5	118.3	118.3	118.3	118.3
Days inventory	72.1	67.9	67.9	67.9	67.9
Days payable	128.8	93.4	93.4	93.4	93.4
Cash cycle	64.8	92.8	92.8	92.8	92.8

Source: Company data, KGI Research estimates

Profit & loss

NT\$mn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue	14,258	13,857	12,965	15,692	19,069
Cost of goods sold	(11,595)	(11,135)	(9,835)	(11,646)	(14,074)
Gross profit	2,663	2,722	3,130	4,046	4,995
Operating expenses	(1,284)	(1,549)	(1,670)	(1,849)	(2,182)
Operating profit	1,379	1,173	1,460	2,198	2,813
Non-operating income	139	550	384	209	171
Interest income	2	10	19	19	16
Investment income	-	10	5	10	10
Other non-op income	138	529	360	180	145
Non-operating expenses	(97)	(95)	(112)	(112)	(111)
Interest expense	(23)	(38)	(27)	(27)	(26)
Investment loss	(3)	(1)	(5)	(5)	(5)
Other non-op expenses	(71)	(55)	(80)	(80)	(80)
Pre-tax profit	1,421	1,628	1,731	2,295	2,873
Current taxation	(268)	(341)	(346)	(459)	(575)
Minorities	(21)	(23)	(20)	(20)	(20)
Extraordinary items	-	(0)	-	-	-
Net profit	1,133	1,264	1,365	1,816	2,279
EBITDA	1,899	1,709	1,848	2,668	3,366
EPS (NT\$)	13.12	14.68	15.86	21.09	26.47

Cash flow

NT\$mn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	1,444	1,241	1,951	1,535	1,890
Net profit	1,133	1,264	1,365	1,816	2,279
Depreciation & amortisation	520	536	388	470	553
Decrease in working capital	(202)	(758)	198	(746)	(937)
Other operating cash flow	(6)	199	(0)	(5)	(5)
Investing cash flow	(1,038)	(633)	(829)	(808)	(819)
Sale of ST investment	-	-	-	-	-
New investments	(84)	-	(42)	(21)	(32)
Capital expenditure	(1,030)	(615)	(750)	(750)	(750)
Others investing cashflow	75	(18)	(37)	(37)	(37)
Free cash flow	373	61	967	696	1,080
Financing cash flow	(303)	(629)	(360)	(490)	(647)
Increase in short term debt	327	(71)	-	-	-
Increase in long term loans	350	10	180	95	137
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(482)	(517)	(560)	(604)	(804)
Other financing cashflow	(51)	(52)	20	20	20
Forex effects	(14)	12			
Total cash generated	88	(10)	763	238	425

ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	9.0%	11.2%	12.9%	11.8%	11.4%
= Operating margin	9.7%	8.5%	11.3%	14.0%	14.8%
1 / (Working capital/revenue	0.2	0.2	0.2	0.2	0.2
+ Net PPE/revenue	0.2	0.2	0.2	0.2	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	3.0	2.5	2.3	2.4	2.5
Operating margin	9.7%	8.5%	11.3%	14.0%	14.8%
x Capital turnover	3.0	2.5	2.3	2.4	2.5
x (1 - tax rate)	81.2%	79.0%	80.0%	80.0%	80.0%
= After-tax ROIC	23.4%	16.5%	20.3%	26.5%	29.7%

Source: Company data, KGI Research estimates

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