

# Inventec (2356.TW/2356 TT)

## 3Q23 EPS beat; 4Q23F guidance lowered; 2024F positive

FTSE4Good TIP Taiwan ESG Index stock

### Outperform · Upgraded

Price as of November 10 (NT\$)	42.50
12M target price (NT\$)	53.00
Previous target price (NT\$)	62.00
Revised down (%)	14.5
Upside (%)	24.7

#### Key message

3Q23 EPS was NT\$0.52, up 33% QoQ and 6% YoY, beating our forecast of NT\$0.42 and consensus. The firm is conservative on 4Q23F outlook but positive on 2024F sales growth. Our target price is adjusted from NT\$62 to NT\$53 (20x 2024-25F average EPS, vs. previous 23x). Upgrade to Outperform on margins rebound and earnings growth resumption.

#### Trading data

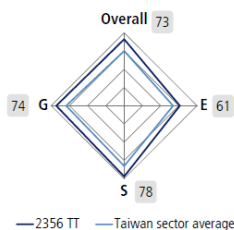
Mkt cap (NT\$bn/US\$mn)	152.5 / 4,719
Outstanding shares (mn)	3,587
Foreign ownership (mn)	872
3M avg. daily trading (mn)	30.90
52-week trading range (NT\$)	23.40 -72.00

Performance	3M	6M	12M
Absolute (%)	-26.1	33.9	77.5
Relative (%)	-26.4	27.2	54

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	0.41A	0.42A	0.49A	0.39A
2023	0.25A	0.39A	0.52A	0.41F
2024	0.32F	0.48F	0.71F	0.90F

#### ESG score card



Source: Refinitiv, KGI securities

#### Event

3Q23 EPS was NT\$0.52, up 33% QoQ and 6% YoY, beating our forecast of NT\$0.42 and consensus. The firm is conservative on 4Q23F outlook but positive on 2024F sales growth.

#### Impact

**3Q23 EPS up on forex, margins.** 3Q23 EPS of NT\$0.52 beat our expectation and consensus on stronger-than-expected sales and margins. 3Q23 gross margin of 5.2% was above 2Q23's 4.6% and better than we expected, due to better product mix with rising AI server sales contribution, lower NB sales weighting to 54% (from 2Q23's 55%), and NT dollar depreciation. Coupled with forex gains of NT\$319mn and asset disposal gains of NT\$340mn, 3Q23 EPS was a beat. With a stable operating expenses ratio, 1Q-3Q23 EPS reached NT\$1.16, down 12% YoY.

**4Q23F guidance revised down.** Inventec expects 4Q23F sales to fall QoQ on NB shipments decline of 10% QoQ, given earlier pull-in for 3Q23 shipments and client's inventory adjustments. It expects server sales to fall QoQ as well on weakening demand for enterprise and China CSP, caused by budget constraints and US government export restrictions on advanced IC (sales impact of 5%). AI server sales are also capped by GPU supply, while IoT sales are weaker than the firm expected. Thus, we now expect 4Q23F sales to fall 10% QoQ, lower than our previous estimate and consensus. However, 4Q23F gross margin should stay solid with favorable product mix. We lower 4Q23F sales and 2023F sales are lowered to a 6% YoY fall. However, given higher 3Q23 EPS, our 2023F EPS is upped to NT\$1.56, down 9% YoY.

**Sales growth to resume in 2024F.** Management guides single-digit growth for NB shipments in 2024F, and server sales to grow by double digits, while smart device sales to improve as reduced inflation boosts demand. We expect server sales will be the key driver on expanding AI server contribution from 5-7% in 2023F, and recovery of general server demand. Inventec mainly supplies AI server motherboard with a 3-6x higher ASP and 5-10ppts higher gross margin, compared to traditional server motherboard, and ships to its partner ZT (US) for final assembly. Management thus expects AI server sales to double in 2024F to boost total server sales into double-digit growth in 2024F. This will be positive to 2024F gross margin, and we expect sales contribution of 15-20% from AI server next year, and total server profit contribution of over 70%. It also guides 1Q24F sales likely see QoQ growth despite in slow season, beating consensus. Our 2024F EPS is fine-tuned to NT\$2.42 (up 54% YoY) and 2025F EPS is NT\$2.93 (up 21% YoY) on higher operating margin.

#### Valuation & Action

Our target price is adjusted from NT\$62 to NT\$53 (20x 2024-25F average EPS, vs previous 23x). Upgrade to Outperform on margins rebound and earnings growth resumption.

#### Risks

Inflation impacts end demand; cost increases weigh on gross margin.

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$mn)	519,732	541,751	508,932	592,028	671,741
Gross profit (NT\$mn)	22,295	26,003	25,258	30,910	34,959
Operating profit (NT\$mn)	4,725	6,669	6,747	10,932	13,561
Net profit (NT\$mn)	6,538	6,129	5,630	8,685	10,500
EPS (NT\$)	1.82	1.71	1.57	2.42	2.93
Cash DPS (NT\$)	1.40	1.50	1.26	1.94	2.34
EPS growth (%)	(13.4)	(6.3)	(8.1)	54.3	20.9
PE (x)	23.3	24.9	27.1	17.6	14.5
PB (x)	2.7	2.6	2.5	2.4	2.4
EV/EBITDA (x)	20.9	16.4	15.7	11.8	10.3
Net debt to equity (%)	54.9	32.4	30.2	57.5	74.8
Dividend yield (%)	3.3	3.5	3.0	4.6	5.5
Return on average equity (%)	11.4	10.5	9.4	14.1	16.5

Source: Company data, KGI Research estimates

Figure 1: Downward revision for 2023F sales; 2024F sales recovery

Sales (NT\$bn)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
NB / AIO	195.6	200.2	230.9	245.2	271.9	301.7	285.1	276.6	298.7
IoT smart device	63.5	86.4	84.1	81.7	40.9	31.5	32.7	18.5	21.8
Server	154.6	166.0	184.5	169.7	196.7	186.5	223.9	213.8	271.6
<b>Total</b>	<b>428.5</b>	<b>467.5</b>	<b>506.9</b>	<b>501.0</b>	<b>508.3</b>	<b>519.7</b>	<b>541.8</b>	<b>508.9</b>	<b>592.0</b>
Sales weighting (%)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
NB / AIO	45.7	42.8	45.6	48.9	53.5	58.1	52.6	54.3	50.5
IoT smart device	14.8	18.5	16.6	16.3	8.0	6.1	6.0	3.6	3.7
Server	36.1	35.5	36.4	33.9	38.7	35.9	41.3	42.0	45.9
Sales YoY growth (%)	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
NB / AIO	(4.9)	2.3	15.3	6.2	10.9	11.0	(5.5)	(3.0)	8.0
IoT smart device	35.4	36.1	(2.7)	(2.8)	(50.0)	(22.9)	3.8	(43.4)	17.5
Server	19.0	7.4	11.1	(8.0)	15.9	(5.2)	20.1	(4.5)	27.0
<b>Total</b>	<b>8.3</b>	<b>9.1</b>	<b>8.4</b>	<b>(1.2)</b>	<b>1.5</b>	<b>2.3</b>	<b>4.2</b>	<b>(6.1)</b>	<b>16.3</b>

Source: Company data, KGI Research estimates

Figure 2: Breakdown of 3Q23 results &amp; 4Q23 forecast revisions vs. consensus

NT\$m	3Q23								4Q23F					
	Actual	KGI forecast	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	135,841	131,958	2.9	4.0	(4.6)	135,206	0.5	122,257	138,556	(11.8)	(10.0)	(9.3)	136,942	(10.7)
Gross profits	7,083	6,466	9.5	17.7	(3.5)	6,797	4.2	6,235	7,066	(11.8)	(12.0)	(11.0)	7,057	(11.6)
Operating income	2,151	1,847	16.4	45.6	(4.0)	2,065	4.2	1,834	2,078	(11.8)	(14.7)	6.6	2,030	(9.7)
Pretax Income	2,369	1,910	24.1	34.1	3.3	2,236	5.9	1,847	2,129	(13.2)	(22.0)	30.0	2,247	(17.8)
Net income	1,873	1,500	24.9	34.1	7.1	1,756	6.7	1,479	1,674	(11.6)	(21.1)	6.2	1,782	(17.0)
EPS (NT\$)	0.52	0.42	24.9	32.7	6.1	0.49	6.7	0.41	0.47	(11.6)	(20.7)	6.2	0.50	(17.0)
Gross margin (%)	5.2	4.9	0.3 ppts	0.6 ppts	0.1 ppts	5.0	0.2 ppts	5.1	5.1	0.0 ppts	(0.1)ppts	(0.1)ppts	5.2	(0.1)ppts
OP margin (%)	1.6	1.4	0.2 ppts	0.5 ppts	0.0 ppts	1.5	0.1 ppts	1.5	1.5	0.0 ppts	(0.1)ppts	0.2 ppts	1.5	0.0 ppts
Net margin (%)	1.4	1.1	0.2 ppts	0.3 ppts	0.2 ppts	1.3	0.1 ppts	1.2	1.2	0.0 ppts	(0.2)ppts	0.2 ppts	1.3	(0.1)ppts

Source: Bloomberg, KGI Research estimates

Figure 3: Breakdown of 2023-25 forecast revisions vs. consensus

NT\$m	2023F					2024F					2025F							
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	508,932	521,348	(2.4)	(6.1)	523,958	(2.9)	592,028	594,977	(0.5)	16.3	588,559	0.6	671,741	659,792	1.8	13.5	657,919	2.1
Gross profit	25,258	25,472	(0.8)	(2.9)	25,847	(2.3)	30,910	30,574	1.1	22.4	30,058	2.8	34,959	34,367	1.7	13.1	33,600	4.0
Operating income	6,747	6,688	0.9	1.2	6,857	(1.6)	10,932	10,628	2.9	62.0	9,907	10.4	13,561	13,471	0.7	24.0	9,907	36.9
Pretax Income	7,115	6,937	2.6	(0.9)	7,309	(2.7)	10,893	10,900	(0.1)	53.1	10,756	1.3	13,190	13,369	(1.3)	21.1	10,756	22.6
Net income	5,630	5,451	3.3	(8.1)	5,688	(1.0)	8,685	8,646	0.5	54.3	8,368	3.8	10,500	10,596	(0.9)	20.9	8,368	25.5
EPS (NT\$)	1.57	1.52	3.3	(8.1)	1.59	(1.0)	2.42	2.41	0.5	54.3	2.33	3.8	2.93	2.95	(0.9)	20.9	2.33	25.5
Gross margin (%)	5.0	4.9	0.1 ppts	0.2 ppts	4.9	0.0 ppts	5.2	5.1	0.1 ppts	0.3 ppts	5.1	0.1 ppts	5.2	5.2	(0.0)ppts	(0.0)ppts	5.1	0.1 ppts
OP margin (%)	1.3	1.3	0.0 ppts	0.1 ppts	1.3	0.0 ppts	1.8	1.8	0.1 ppts	0.5 ppts	1.7	0.2 ppts	2.0	2.0	(0.0)ppts	0.2 ppts	1.7	0.3 ppts
Net margin (%)	1.1	1.0	0.1 ppts	(0.0)ppts	1.1	0.0 ppts	1.5	1.5	0.0 ppts	0.4 ppts	1.4	0.0 ppts	1.6	1.6	(0.0)ppts	0.1 ppts	1.4	0.1 ppts

Source: Bloomberg, KGI Research estimates

Figure 4: Peer comparison – Financials

Ticker	Company	Sales YoY (%)			GM (%)			OPM (%)			OP YoY (%)			EPS (NT\$)			EPS YoY (%)		
		2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
6669 TT	Wiwynn	52.0	(17.6)	41.4	8.2	8.9	8.8	6.1	6.1	6.6	56.6	(16.9)	51.1	81.07	65.65	99.16	63.9	(19.0)	51.0
3231 TT	Wistron	14.2	(12.1)	9.1	7.1	7.6	8.2	2.8	2.8	3.9	67.8	(11.6)	50.5	4.01	3.50	6.63	6.6	(12.7)	89.3
2317 TT	Hon Hai	10.6	(8.8)	4.4	6.0	6.0	6.2	2.6	2.5	2.7	16.7	(12.6)	12.9	10.21	8.55	10.40	1.6	(16.2)	21.6
2382 TT	Quanta	13.4	(13.5)	41.9	5.5	7.7	6.9	2.4	4.0	4.1	(16.3)	41.4	45.4	7.51	10.13	13.43	(14.0)	34.8	32.6
2356 TT	Inventec	4.2	(6.1)	16.3	4.8	5.0	5.2	1.2	1.3	1.8	41.2	1.2	62.0	1.71	1.57	2.42	(6.3)	(8.1)	54.3
4938 TT	Pegatron	4.3	(5.4)	5.9	4.3	3.7	4.0	1.9	1.2	1.7	50.6	(38.8)	43.5	5.66	5.58	6.79	(26.5)	(1.5)	21.6
2324 TT	Compal*	(13.1)	(8.4)	6.7	3.8	4.2	4.4	0.9	1.2	1.3	(30.9)	24.5	15.3	1.67	1.81	2.32	(42.4)	8.2	11.8

\* Bloomberg consensus

Source: Bloomberg, KGI Research estimates

Figure 5: Peer comparison – Valuations

Company	Ticker	Market cap. (US\$m)	Share price (LCY)	Rating	Target Price (LCY)	EPS (LCY)		EPS YoY (%)		PE (x)		PB (x)		ROE (%)		Cash yield (%)	
						2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2022	2023F
Inventec	2356 TT	4,711	42.50	Outperform	53.0	1.57	2.42	(8.1)	54.3	27.1	17.6	2.5	2.4	9.4	14.1	3.5	3.0
Quanta	2382 TT	25,480	213.5	Outperform	310.0	10.13	13.43	34.8	32.6	21.1	15.9	4.7	4.4	22.6	28.4	2.8	3.8
Pegatron	4938 TT	6,446	78	Neutral	81.0	5.58	6.79	(1.5)	21.6	14.0	11.5	1.1	1.1	8.0	9.5	5.1	4.6
Wistron	3231 TT	8,789	98.1	Outperform	137.0	4.15	6.03	3.6	45.1	23.6	16.3	2.7	2.4	11.5	15.1	2.7	3.0
Wiwynn	6669 TT	9,778	1,810	Outperform	2,200.0	65.65	99.16	(19.0)	51.0	27.6	18.3	6.6	5.3	26.5	32.2	2.8	2.0
Hon Hai	2317 TT	41,633	97.2	Restricted	N.A.	8.55	10.40	(16.2)	21.6	11.4	9.3	0.9	0.9	8.0	9.3	5.5	4.6
Compal*	2324 TT	4,051	29.75	Not rated	N.A.	1.81	2.32	8.1	28.3	16.5	12.8	1.1	1.2	6.9	8.4	6.7	4.3

\*Bloomberg consensus

Source: Bloomberg, KGI Research estimates

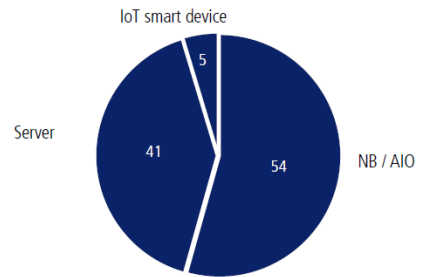
**Figure 6: Company profile**

Founded in 1975, Inventec started out as a manufacturer of electronic calculators. It moved on to the design and manufacture of high-tech products such as NBs and enterprise servers. It merged with Inventec Appliance Corp. (IAC) to integrate its handheld device products. 2022 sales mix was 53% NB, 6% IoT smart device, and 42% server, versus 58%, 6%, and 36%, respectively, in 2021.

Source: KGI Research

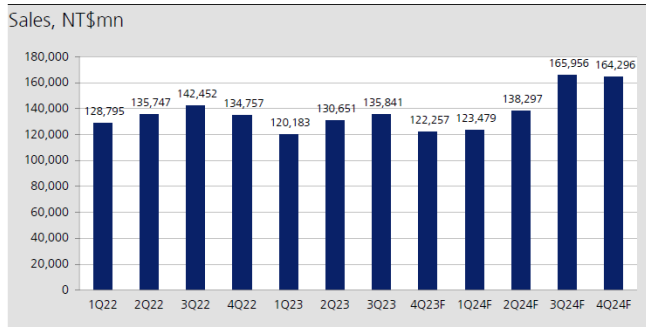
**Figure 7: NB & server are major sales contributors**

Sales weighting in 1-3Q23, percent



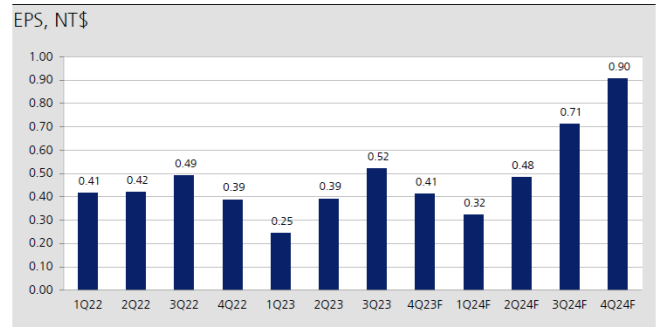
Source: company data; KGI Research

**Figure 8: Sales**



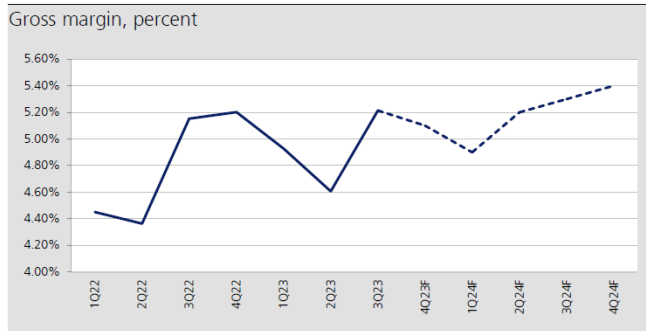
Source: KGI Research

**Figure 9: EPS**



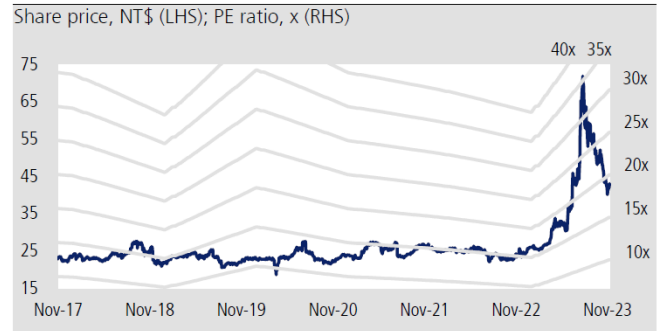
Source: KGI Research

**Figure 10: Gross Margin**



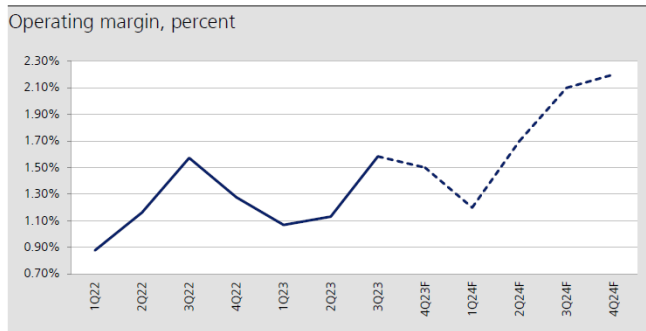
Source: KGI Research

**Figure 11: 12M forward PE band**



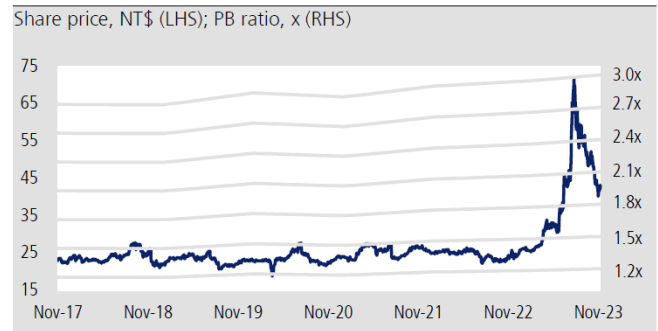
Source: TEJ; KGI Research estimates

**Figure 12: Operating Margin**



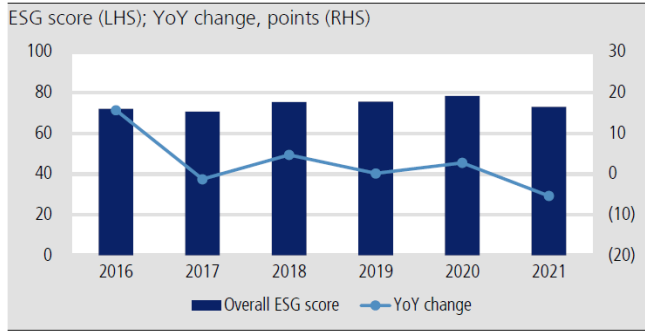
Source: KGI Research

**Figure 13: 12M forward PB band**



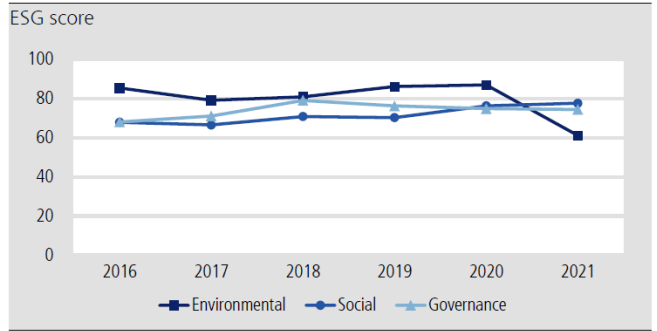
Source: TEJ; KGI Research estimates

Figure 14: Overall ESG score



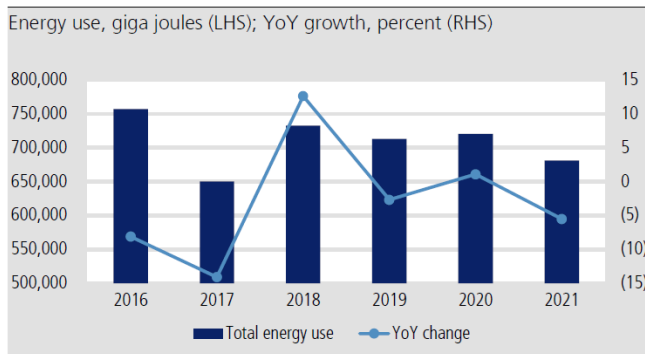
Source: Refinitiv; KGI Research; Company data

Figure 15: ESG scores



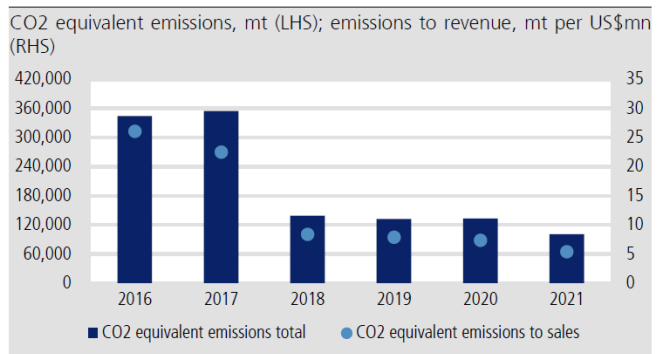
Source: Refinitiv; KGI Research; Company data

Figure 16: Energy use



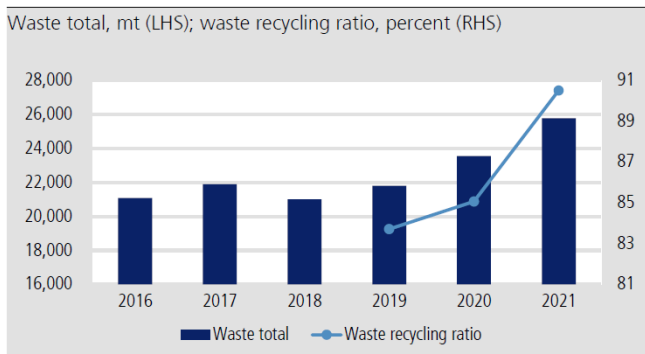
Source: Refinitiv; KGI Research; Company data

Figure 17: CO2 equivalent emissions



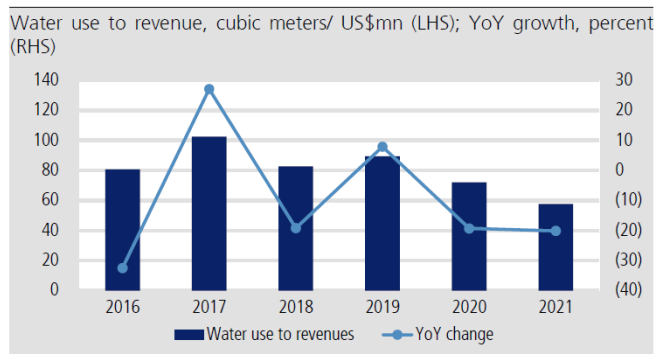
Source: Refinitiv; KGI Research; Company data

Figure 18: Waste total



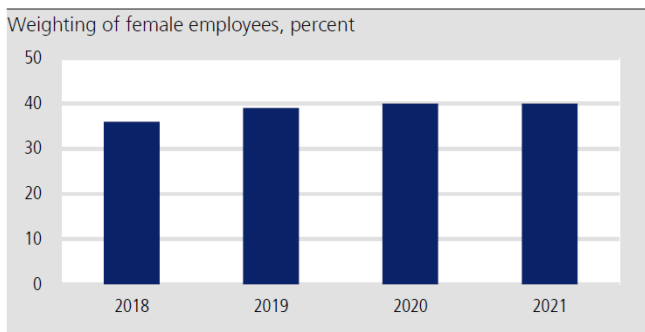
Source: Refinitiv; KGI Research; Company data

Figure 19: Water use to revenue



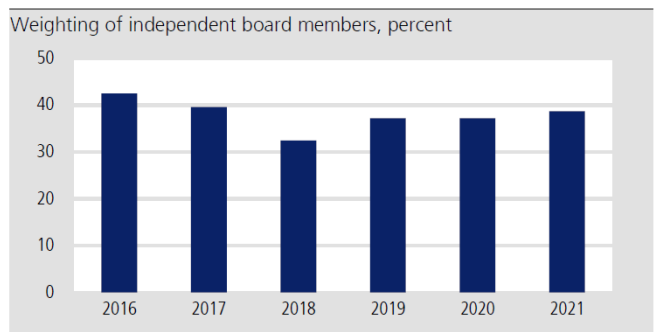
Source: Refinitiv; KGI Research; Company data

Figure 20: Gender diversification



Source: Refinitiv; KGI Research; Company data

Figure 21: 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"> <li>- the total amount of energy that has been consumed within the boundaries of the company's operations</li> <li>- total energy use = total direct energy consumption + indirect energy consumption</li> <li>- purchased energy and produced energy are included in total energy use</li> <li>- 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)</li> <li>- for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use'</li> </ul>	
Renewable energy purchased	<p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased</li> </ul>	
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"> <li>- direct emissions from sources that are owned or controlled by the company (scope 1 emissions)</li> <li>- following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)</li> </ul>	
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"> <li>- direct emissions from sources that are owned or controlled by the company (scope 1 emissions)</li> <li>- following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)</li> </ul>	
Waste total	<p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> <li>- total waste = non-hazardous waste + hazardous waste</li> <li>- 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</li> <li>- for sectors like mining, oil &amp; gas, waste generation like tailings, waste rock, coal and fly ash are also considered</li> </ul>	
Waste recycling ratio	<p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> <li>- waste recycling ratio = waste recycled/total waste*100</li> <li>- waste to energy or waste incinerated with energy recovery are considered as waste recycled</li> <li>- waste recovered via composting is considered as recycled waste</li> </ul>	
Water withdrawal total	<p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- different sources of water like wells, town/utility/municipal water, river water, and surface water are considered</li> </ul>	
Environmental expenditures	<p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> <li>- all environmental investment &amp; expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures</li> </ul>	
Turnover of employees	<p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- employees turnover rate = (employees leaving/average number of employees)*100</li> <li>- where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2</li> <li>- employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving</li> </ul>	
Women managers	<p>Percentage of women managers.</p> <ul style="list-style-type: none"> <li>- percentage of women managers among total managers of the company</li> <li>- 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</li> <li>- percentage of women managers = number of women managers/total number of managers*100</li> </ul>	
Women employees	<p>Percentage of women employees.</p> <ul style="list-style-type: none"> <li>- percentage of women employees to the total number of employees of the company</li> <li>- percentage of women employees = number of women/total number of employees*100</li> </ul>	
Training hours total	<p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> <li>- consider only employee training hours</li> <li>- includes all types of training given to general employees (such as health &amp; safety, environmental, emergency response, skills &amp; career development training)</li> <li>- if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked</li> </ul>	
Training hours per employee	Training hours per employee per year	

Source: Refinitiv; KGI Research



**Income statement**

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
<b>Income statement (NT\$m)</b>											
<b>Revenue</b>	<b>120,183</b>	<b>130,651</b>	<b>135,841</b>	<b>122,257</b>	<b>123,479</b>	<b>138,297</b>	<b>165,956</b>	<b>164,296</b>	<b>508,932</b>	<b>592,028</b>	<b>671,741</b>
Cost of goods sold	(114,261)	(124,633)	(128,757)	(116,022)	(117,429)	(131,105)	(157,160)	(155,424)	(483,673)	(561,119)	(636,782)
<b>Gross profit</b>	<b>5,922</b>	<b>6,018</b>	<b>7,083</b>	<b>6,235</b>	<b>6,050</b>	<b>7,191</b>	<b>8,796</b>	<b>8,872</b>	<b>25,258</b>	<b>30,910</b>	<b>34,959</b>
Operating expenses	(4,637)	(4,541)	(4,932)	(4,401)	(4,569)	(4,840)	(5,311)	(5,257)	(18,511)	(19,977)	(21,398)
<b>Operating profit</b>	<b>1,285</b>	<b>1,478</b>	<b>2,151</b>	<b>1,834</b>	<b>1,482</b>	<b>2,351</b>	<b>3,485</b>	<b>3,615</b>	<b>6,747</b>	<b>10,932</b>	<b>13,561</b>
Depreciation of fixed assets	(577)	(576)	(637)	(664)	(782)	(782)	(782)	(782)	(2,454)	(3,126)	(3,861)
Amortisation of intangible assets	(241)	(271)	(288)	67	(183)	(183)	(183)	(183)	(733)	(733)	(733)
<b>EBITDA</b>	<b>2,104</b>	<b>2,325</b>	<b>3,075</b>	<b>2,431</b>	<b>2,447</b>	<b>3,316</b>	<b>4,450</b>	<b>4,579</b>	<b>9,935</b>	<b>14,792</b>	<b>18,156</b>
Interest income	593	768	728	767	637	637	637	637	2,856	2,549	2,051
Investment income	-	7	-	-	-	-	-	-	7	-	-
Other non-op income	381	625	715	479	500	500	500	500	2,200	2,000	2,000
<b>Non-operating income</b>	<b>973</b>	<b>1,400</b>	<b>1,443</b>	<b>1,247</b>	<b>1,137</b>	<b>1,137</b>	<b>1,137</b>	<b>1,137</b>	<b>5,063</b>	<b>4,549</b>	<b>4,051</b>
Interest expense	(1,121)	(1,105)	(1,223)	(1,027)	(1,092)	(1,092)	(1,092)	(1,092)	(4,475)	(4,369)	(4,202)
Investment loss	(5)	(7)	(2)	(6)	(5)	(5)	(5)	(5)	(20)	(20)	(20)
Other non-op expenses	0	(0)	0	(200)	(50)	(50)	(50)	(50)	(200)	(200)	(200)
<b>Non-operating expenses</b>	<b>(1,125)</b>	<b>(1,111)</b>	<b>(1,225)</b>	<b>(1,234)</b>	<b>(1,147)</b>	<b>(1,147)</b>	<b>(1,147)</b>	<b>(1,147)</b>	<b>(4,695)</b>	<b>(4,589)</b>	<b>(4,422)</b>
<b>Pre-tax profit</b>	<b>1,133</b>	<b>1,766</b>	<b>2,369</b>	<b>1,847</b>	<b>1,472</b>	<b>2,341</b>	<b>3,475</b>	<b>3,605</b>	<b>7,115</b>	<b>10,893</b>	<b>13,190</b>
Current taxation	(262)	(382)	(528)	(394)	(339)	(632)	(938)	(379)	(1,565)	(2,287)	(2,770)
Minorities	9	13	32	25	20	20	20	20	80	80	80
<b>Normalised net profit</b>	<b>881</b>	<b>1,397</b>	<b>1,873</b>	<b>1,479</b>	<b>1,153</b>	<b>1,729</b>	<b>2,557</b>	<b>3,246</b>	<b>5,630</b>	<b>8,685</b>	<b>10,500</b>
Extraordinary items	(0)	-	0	(0)	-	-	-	-	-	-	-
<b>Net profit</b>	<b>881</b>	<b>1,397</b>	<b>1,873</b>	<b>1,479</b>	<b>1,153</b>	<b>1,729</b>	<b>2,557</b>	<b>3,246</b>	<b>5,630</b>	<b>8,685</b>	<b>10,500</b>
EPS (NT\$)	0.25	0.39	0.52	0.41	0.32	0.48	0.71	0.90	1.57	2.42	2.93
<b>Margins (%)</b>											
Gross profit margin	4.9	4.6	5.2	5.1	4.9	5.2	5.3	5.4	5.0	5.2	5.2
Operating margin	1.1	1.1	1.6	1.5	1.2	1.7	2.1	2.2	1.3	1.8	2.0
EBITDA margin	1.8	1.8	2.3	2.0	2.0	2.4	2.7	2.8	2.0	2.5	2.7
Pretax profit margin	0.9	1.4	1.7	1.5	1.2	1.7	2.1	2.2	1.4	1.8	2.0
Net profit margin	0.7	1.1	1.4	1.2	0.9	1.3	1.5	2.0	1.1	1.5	1.6
<b>Sequential growth (%)</b>											
Revenue growth	(10.8)	8.7	4.0	(10.0)	1.0	12.0	20.0	(1.0)			
Gross profit growth	(15.5)	1.6	17.7	(12.0)	(3.0)	18.9	22.3	0.9			
Operating profit growth	(25.3)	15.0	45.6	(14.7)	(19.2)	58.7	48.2	3.7			
EBITDA growth	(15.8)	10.5	32.3	(21.0)	0.6	35.5	34.2	2.9			
Pretax profit growth	(20.3)	55.9	34.1	(22.0)	(20.3)	59.1	48.4	3.7			
Net profit growth	(36.8)	58.6	34.1	(21.1)	(22.0)	49.9	47.9	27.0			
<b>YoY growth (%)</b>											
Revenue growth	(6.7)	(3.8)	(4.6)	(9.3)	2.7	5.9	22.2	34.4	(6.1)	16.3	13.5
Gross profit growth	3.3	1.6	(3.5)	(11.0)	2.2	19.5	24.2	42.3	(2.9)	22.4	13.1
Operating profit growth	13.7	(6.4)	(4.0)	6.6	15.3	59.1	62.0	97.1	1.2	62.0	24.0
EBITDA growth	15.6	2.5	3.1	(2.6)	16.3	42.6	44.7	88.4	3.8	48.9	22.7
Pretax profit growth	(40.7)	13.8	3.3	30.0	29.9	32.6	46.7	95.2	(0.9)	53.1	21.1
Net profit growth	(40.8)	(6.9)	7.1	6.2	31.0	23.8	36.5	119.5	(8.1)	54.3	20.9

Source: Company data, KGI Research estimates

## Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total assets</b>	<b>247,615</b>	<b>234,216</b>	<b>233,747</b>	<b>250,152</b>	<b>266,448</b>
<b>Current assets</b>	<b>207,623</b>	<b>190,194</b>	<b>185,942</b>	<b>192,446</b>	<b>204,574</b>
Cash & ST securities	37,653	43,896	48,239	33,773	24,829
Inventory	62,417	51,005	47,833	55,340	62,974
Accounts receivable	103,796	89,507	84,085	97,547	110,984
Other current assets	3,757	5,786	5,786	5,786	5,786
<b>Non-current assets</b>	<b>39,992</b>	<b>44,021</b>	<b>47,805</b>	<b>57,706</b>	<b>61,874</b>
LT investments	5,386	4,765	4,803	4,831	4,860
Net fixed assets	27,466	31,211	34,956	44,830	48,968
Other assets	7,139	8,045	8,045	8,045	8,045
<b>Total liabilities</b>	<b>191,217</b>	<b>175,409</b>	<b>173,895</b>	<b>188,643</b>	<b>202,918</b>
<b>Current liabilities</b>	<b>180,080</b>	<b>156,000</b>	<b>155,064</b>	<b>166,795</b>	<b>178,892</b>
Accounts payable	84,907	64,404	60,399	69,878	79,518
Interest bearing ST liabilities	61,943	48,665	52,612	52,419	53,424
Other current liabilities	33,230	42,931	42,053	44,498	45,950
<b>Non-current liabilities</b>	<b>11,137</b>	<b>19,410</b>	<b>18,831</b>	<b>21,848</b>	<b>24,026</b>
Long-term debt	3,791	12,833	12,255	15,271	17,450
Other L-T liabilities	6,653	6,034	6,034	6,034	6,034
<b>Total equity</b>	<b>56,398</b>	<b>58,806</b>	<b>59,852</b>	<b>61,509</b>	<b>63,529</b>
Share capital	35,875	35,875	35,875	35,875	35,875
Retained earnings reserve	-	-	1,126	2,863	4,963
Minority interests	(687)	(748)	(828)	(908)	(988)
Preferred shareholders funds	-	-	-	-	-

## Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Growth</b>					
Revenue growth	2.3%	4.2%	(6.1%)	16.3%	13.5%
Operating profit growth	6.4%	41.2%	1.2%	62.0%	24.0%
EBITDA growth	(3.7%)	19.8%	3.8%	48.9%	22.7%
Net profit growth	(13.4%)	(6.3%)	(8.1%)	54.3%	20.9%
EPS growth	(13.4%)	(6.3%)	(8.1%)	54.3%	20.9%
<b>Profitability</b>					
Gross profit margin	4.3%	4.8%	5.0%	5.2%	5.2%
Operating margin	0.9%	1.2%	1.3%	1.8%	2.0%
EBITDA margin	1.5%	1.8%	2.0%	2.5%	2.7%
Net profit margin	1.3%	1.1%	1.1%	1.5%	1.6%
Return on average assets	2.8%	2.5%	2.4%	3.6%	4.1%
Return on average equity	11.4%	10.5%	9.4%	14.1%	16.5%
<b>Stability</b>					
Gross debt to equity	116.6%	104.6%	108.4%	110.0%	111.6%
Net debt to equity	54.9%	32.4%	30.2%	57.5%	74.8%
Interest coverage (x)	11.4	3.4	2.6	3.5	4.1
Interest & ST debt coverage (x)	0.1	0.1	0.0	0.1	0.1
Cash flow interest coverage(x)	(17.0)	7.3	3.0	0.2	0.9
Cash flow/int. & ST debt (x)	(0.2)	0.4	0.2	0.0	0.1
Current ratio (x)	1.2	1.2	1.2	1.2	1.1
Quick ratio (x)	0.8	0.9	0.9	0.8	0.8
Net debt (NT\$m)	30,946	19,047	18,073	35,363	47,490
<b>Per share data</b>					
EPS (NT\$)	1.82	1.71	1.57	2.42	2.93
CFPS (NT\$)	(3.49)	6.17	3.74	0.30	1.03
BVPS (NT\$)	15.91	16.60	16.91	17.40	17.98
Adj BVPS (NT\$)	15.91	16.60	16.91	17.40	17.98
SPS (NT\$)	144.87	151.01	141.86	165.03	187.25
EBITDA/share (NT\$)	2.23	2.67	2.77	4.12	5.06
Cash DPS (NT\$)	1.40	1.50	1.26	1.94	2.34
<b>Activity</b>					
Sales / avg assets	2.25	2.25	2.18	2.45	2.60
Days receivable	72.9	60.3	60.3	60.3	60.3
Days inventory	45.8	36.1	36.1	36.1	36.1
Days payable	62.3	45.6	45.6	45.6	45.6
Cash cycle	56.4	50.8	50.8	50.8	50.8

Source: Company data, KGI Research estimates

## Profit &amp; loss

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Revenue</b>	<b>519,732</b>	<b>541,751</b>	<b>508,932</b>	<b>592,028</b>	<b>671,741</b>
Cost of goods sold	(497,437)	(515,748)	(483,673)	(561,119)	(636,782)
<b>Gross profit</b>	<b>22,295</b>	<b>26,003</b>	<b>25,258</b>	<b>30,910</b>	<b>34,959</b>
Operating expenses	(17,570)	(19,334)	(18,511)	(19,977)	(21,398)
<b>Operating profit</b>	<b>4,725</b>	<b>6,669</b>	<b>6,747</b>	<b>10,932</b>	<b>13,561</b>
<b>Non-operating income</b>	<b>4,229</b>	<b>3,580</b>	<b>5,063</b>	<b>4,549</b>	<b>4,051</b>
Interest income	1,076	1,764	2,856	2,549	2,051
Investment income	38	18	7	-	-
Other non-op income	3,114	1,797	2,200	2,000	2,000
<b>Non-operating expenses</b>	<b>(1,254)</b>	<b>(3,071)</b>	<b>(4,695)</b>	<b>(4,589)</b>	<b>(4,422)</b>
Interest expense	(738)	(3,036)	(4,475)	(4,369)	(4,202)
Investment loss	(16)	(36)	(20)	(20)	(20)
Other non-op expenses	(500)	0	(200)	(200)	(200)
<b>Pre-tax profit</b>	<b>7,699</b>	<b>7,178</b>	<b>7,115</b>	<b>10,893</b>	<b>13,190</b>
Current taxation	(1,752)	(1,115)	(1,565)	(2,287)	(2,770)
Minorities	591	67	80	80	80
Extraordinary items	-	(0)	-	-	-
<b>Net profit</b>	<b>6,538</b>	<b>6,129</b>	<b>5,630</b>	<b>8,685</b>	<b>10,500</b>
<b>EBITDA</b>	<b>7,987</b>	<b>9,570</b>	<b>9,935</b>	<b>14,792</b>	<b>18,156</b>
EPS (NT\$)	1.82	1.71	1.57	2.42	2.93

## Cash flow

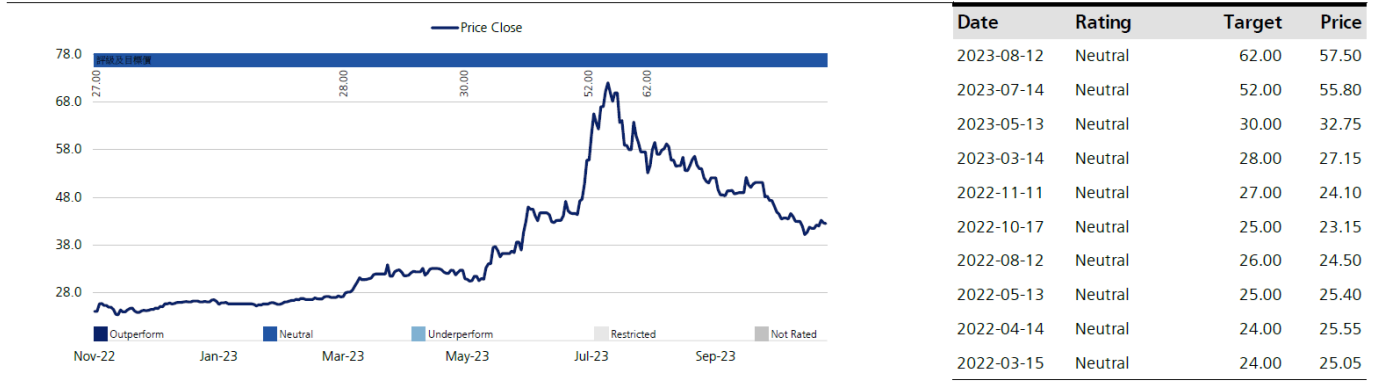
NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Operations cash flow</b>	<b>(12,527)</b>	<b>22,119</b>	<b>13,420</b>	<b>1,075</b>	<b>3,683</b>
Net profit	6,538	6,129	5,630	8,685	10,500
Depreciation & amortisation	3,263	2,901	3,188	3,860	4,595
Decrease in working capital	(22,667)	6,670	4,589	(11,490)	(11,432)
Other operating cash flow	340	6,418	13	20	20
<b>Investing cash flow</b>	<b>(3,123)</b>	<b>(6,044)</b>	<b>(6,984)</b>	<b>(13,781)</b>	<b>(8,783)</b>
Sale of ST investment	(1,550)	887	-	-	-
New investments	(58)	(44)	(51)	(48)	(49)
Capital expenditure	(2,809)	(4,850)	(6,200)	(13,000)	(8,000)
Others investing cashflow	1,295	(2,037)	(733)	(733)	(733)
<b>Free cash flow</b>	<b>(19,466)</b>	<b>9,624</b>	<b>6,106</b>	<b>(12,727)</b>	<b>(4,857)</b>
<b>Financing cash flow</b>	<b>17,874</b>	<b>(9,642)</b>	<b>(2,093)</b>	<b>(1,760)</b>	<b>(3,844)</b>
Increase in short term debt	23,164	(6,844)	-	-	-
Increase in long term loans	1,743	2,429	3,369	2,824	3,184
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(6,637)	(5,022)	(5,381)	(4,504)	(6,948)
Other financing cashflow	(397)	(204)	(80)	(80)	(80)
<b>Forex effects</b>	<b>(388)</b>	<b>1,230</b>	-	-	-
<b>Total cash generated</b>	<b>1,836</b>	<b>7,663</b>	<b>4,343</b>	<b>(14,466)</b>	<b>(8,944)</b>

## ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	3.4%	3.6%	3.6%	3.4%	3.2%
<b>= Operating margin</b>	<b>0.9%</b>	<b>1.2%</b>	<b>1.3%</b>	<b>1.8%</b>	<b>2.0%</b>
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	0.1
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
<b>= Capital turnover</b>	<b>6.3</b>	<b>7.3</b>	<b>6.9</b>	<b>6.4</b>	<b>6.3</b>
Operating margin	0.9%	1.2%	1.3%	1.8%	2.0%
x Capital turnover	6.3	7.3	6.9	6.4	6.3
x (1 - tax rate)	77.2%	84.5%	78.0%	79.0%	79.0%
<b>= After-tax ROIC</b>	<b>4.4%</b>	<b>7.6%</b>	<b>7.1%</b>	<b>9.3%</b>	<b>10.0%</b>

Source: Company data, KGI Research estimates



**Inventec – Recommendation & target price history**


Source: TEJ, KGI Research

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