



Magnate Technology (4541.TW/4541 TT)

Semiconductor business awaiting demand recovery

Neutral · Downgraded

Price as of October 3 (NT\$)	33.75
12M target price (NT\$)	34.00
Previous target price (NT\$)	53.00
Revised down (%)	35.8
Upside (%)	0.7

Key message

Magnate Technology's aerospace business is growing in 2023 on higher shipments of their LEAP engines. However, we estimate their semiconductor business will not recover until 2H24. The company is unlikely to become profitable until 2024.

Trading data

Mkt cap (NT\$bn/US\$mn)	2.28 / 70.75
Outstanding shares (mn)	67.64
Foreign ownership (mn)	0.938
3M avg. daily trading (mn)	0.90
52-week trading range (NT\$)	25.65 -49.00

Performance	3M	6M	12M
Absolute (%)	-24.3	0.4	11.2
Relative (%)	-20.6	-3.3	-12.5

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	0.27A	0.47A	0.75A	0.31A
2023	(0.34)A	(0.16)F	(0.04)F	(0.03)F
2024	0.01F	0.20F	0.40F	0.47F

Share price chart



Source: TEJ

Event

Magnate Technology's aerospace business is growing in 2023 on higher shipments of LEAP engine components. However, we do not expect their semiconductor business to markedly recover until 2H24, and the company is unlikely to become profitable again until 2024.

Impact

Semiconductor sales won't recover markedly until 2H24F. Magnate's main non-aerospace products are semiconductor equipment (i.e. vacuum pumps) that are sold to Japanese clients. Non-aerospace sales grew over 30% in 2021-22, for sales weighting of more than 50%, on demand for factory construction in the semiconductor sector. However, orders from Japanese clients have shrunk significantly YTD due to sector-wide inventory digestion. Sales contracted 52% in the first eight months of the year as a result. As semiconductor business troughed in 3Q23, sales will not recover markedly until 2H24F.

Aerospace sales to grow by double-digits on LEAP engine shipment growth. Magnate's aerospace products include the LEAP engine casing and landing gear. Thanks to a rapid rebound in post-pandemic global air travel, orders for single-aisle aircraft have soared. Safran (US) forecasts 1,700 and 2,000 LEAP engines will be made in 2023 and 2024, respectively. Also, we expect orders to increase for LEAP TCF in 4Q23 and A321XLR landing gear in 2024. We forecast Magnate's aerospace sales will register a 2023-25 CAGR of 21%, for sales weighting of over 60%.

2023 unlikely to end in the black. We now expect semiconductor sales to miss in 2023, with gross margin declining to 4.5% on poor semiconductor demand. We revise down 2023F sales to a 11.3% decrease YoY, with LPS of NT\$0.58. For 2024-25, we forecast sales will grow a respective 26.3% and 21.1% YoY, assuming the semiconductor business grows YoY, and aerospace business will continue to grow. On gross margin rising to 13.2% and 18.4%, we forecast EPS will increase YoY to NT\$1.09 and NT\$2.31 in 2024-25, respectively.

Valuation & Action

We downgrade Magnate to Neutral as weaker-than-expected semiconductor business will result in net losses in 2023F. As the company will not return to profitability until 2024F, we lower our target price to NT\$34, based on 20x average 2024-25F EPS.

Risks

Aerospace sales growth is weaker than expected; continued weakness in semiconductor business.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$mn)	1,060	1,369	1,214	1,533	1,858
Gross profit (NT\$mn)	126	214	55	203	341
Operating profit (NT\$mn)	(38)	70	(92)	47	180
Net profit (NT\$mn)	0	122	(39)	74	157
EPS (NT\$)	0.00	1.80	(0.58)	1.09	2.31
Cash DPS (NT\$)	0.40	1.40	-	0.76	1.62
EPS growth (%)	0.0	102416.0	(132.0)	0.0	112.1
PE (x)	19,185.6	18.7	N.A.	30.9	14.6
PB (x)	1.4	1.3	1.4	1.4	1.3
EV/EBITDA (x)	15.0	10.3	6.5	4.2	2.8
Net debt to equity (%)	79.7	78.2	56.3	29.0	Net cash
Dividend yield (%)	1.2	4.1	0.0	2.3	4.8
Return on average equity (%)	0.0	7.4	(2.3)	4.4	9.2

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 3Q-4Q23 forecast revisions vs. consensus

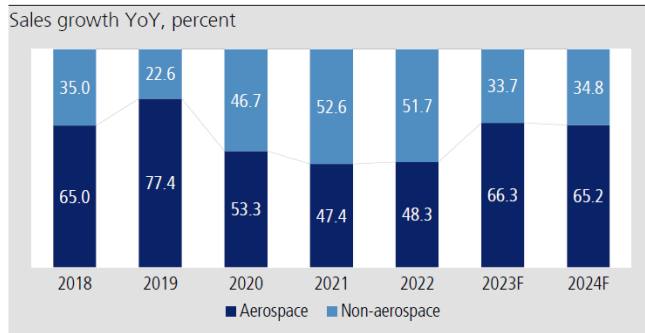
NT \$mn	3Q23F							4Q23F						
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	301	414	(27.2)	(0.0)	(23.8)	317	(4.9)	323	419	(22.7)	7.3	(1.2)	334	(3.2)
Gross profits	15	74	(79.6)	217.0	(74.2)	23	(34.9)	23	79	(71.2)	50.3	(55.2)	31	(27.1)
Operating income	(24)	32	-	-	-	(15)	-	(13)	42	-	-	-	(8)	-
Net income	(3)	29	-	-	-	(-7)	-	(2)	37	-	-	-	0	-
EPS (NT\$)	(0.04)	0.43	-	-	-	(0.10)	-	(0.03)	0.55	-	-	-	0.00	-
Gross margin (%)	5.0	17.8	(12.8)ppts	3.4 ppts	(9.8)ppts	7.3	(2.3)ppts	7.0	18.8	(11.8)ppts	2.0 ppts	(8.4)ppts	9.3	(2.3)ppts
OP margin (%)	(8.0)	7.8	(15.8)ppts	3.1 ppts	(13.3)ppts	(4.7)	(3.3)ppts	(4.0)	10.1	(14.1)ppts	4.0 ppts	(9.7)ppts	(2.4)	(1.6)ppts
Net margin (%)	(1.0)	7.1	(8.0)ppts	2.6 ppts	(13.8)ppts	(2.2)	1.2 ppts	(0.7)	8.8	(9.6)ppts	0.3 ppts	(7.1)ppts	-	(0.7)ppts

Source: Bloomberg; KGI Research

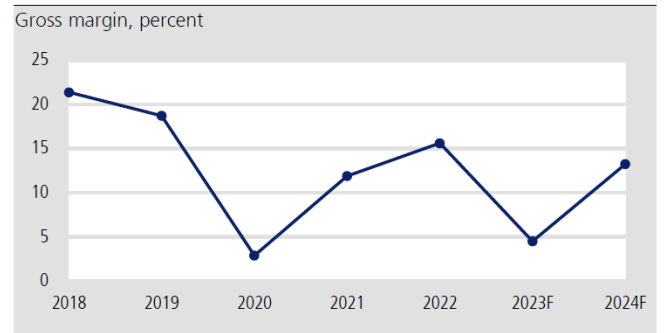
Figure 2: Breakdown of 2023-24 forecast revisions vs. consensus

NT \$mn	2023F						2024F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	1,214	1,447	(16.1)	(11.3)	1,240	(2.1)	1,533	1,836	(16.5)	26.3	1,443	6.3
Gross profit	55	257	(78.7)	(74.4)	71	(22.7)	203	361	(43.8)	271.5	202	0.5
Operating income	(92)	97	-	-	(78)	-	47	178	(73.7)	-	42	11.5
Net income	(39)	93	-	-	(-41)	-	74	157	(53.0)	-	61	21.0
EPS (NT\$)	(0.58)	1.37	-	-	(0.60)	-	1.09	2.32	(53.0)	-	0.90	21.0
Gross margin (%)	4.5	17.7	(13.2)ppts	(11.1)ppts	5.7	(1.2)ppts	13.2	19.7	(6.4)ppts	8.7 ppts	14.0	(0.8)ppts
OP margin (%)	(7.6)	6.7	(14.3)ppts	(12.7)ppts	(6.3)	(1.3)ppts	3.1	9.7	(6.6)ppts	10.7 ppts	2.9	0.1 ppts
Net margin (%)	(3.2)	6.4	(9.6)ppts	(12.1)ppts	(3.3)	0.1 ppts	4.8	8.6	(3.7)ppts	8.0 ppts	4.2	0.6 ppts

Source: Bloomberg; KGI Research

Figure 3: High aerospace business growth post-pandemic, with sales weighting up markedly

Source: KGI Research

Figure 4: 2023F gross margin to miss

Source: KGI Research

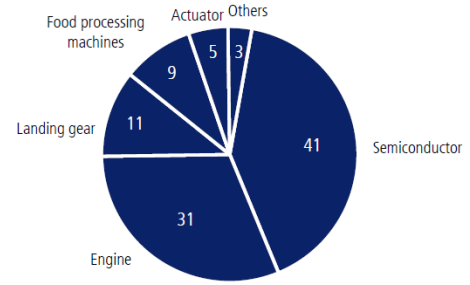
Figure 5: Company profile

Magnate Technology, located in Kaohsiung, Taiwan, was founded in 1991 and is mainly engaged in the manufacturing of aerospace and precision components. In 1995, the company became a satellite member of the Aerospace Industrial Development Corporation (AIDC) and started processing engine casings for AIDC. Magnate Technology has also developed components for landing gear and actuators. In 1H23, its sales mix was 61.6% aerospace and 38.4% non-aerospace.

Source: KGI Research

Figure 6: 2022 sales mix

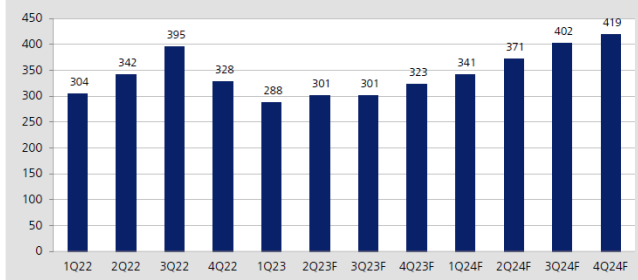
Sales weighting, percent



Source: KGI Research

Figure 7: Sales

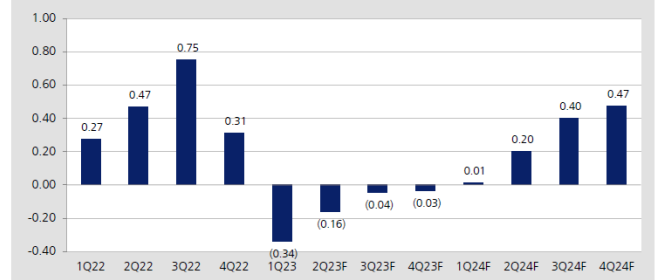
Sales, NT\$m



Source: KGI Research

Figure 8: EPS

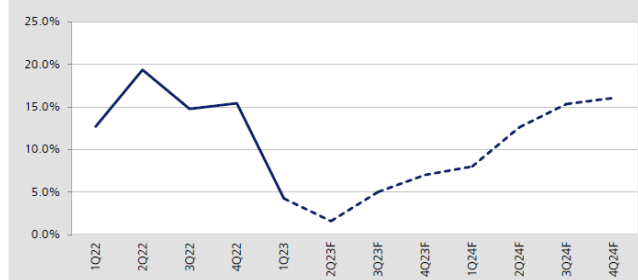
EPS, NT\$



Source: KGI Research

Figure 9: Gross Margin

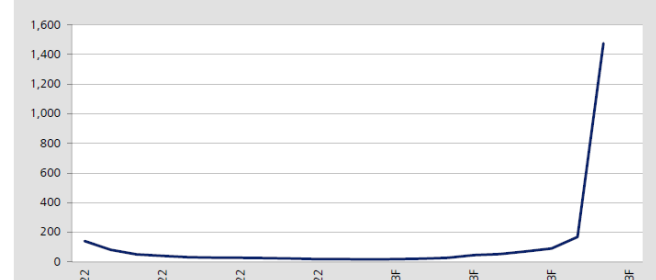
Gross margin, percent



Source: KGI Research

Figure 10: Rolling PE

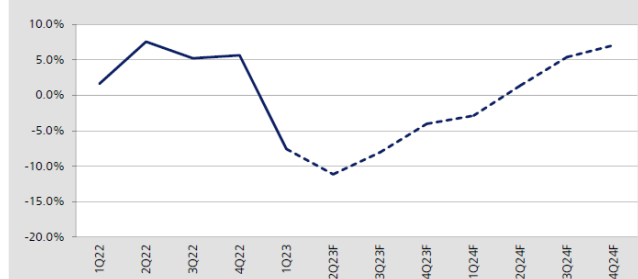
Rolling PE, times



Source: KGI Research

Figure 11: Operating Margin

Operating margin, percent



Source: KGI Research

Figure 12: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23F	Sep-23F	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-23F	Dec-24F	Dec-25F
Income statement (NT\$m)											
Revenue	288	301	301	323	341	371	402	419	1,214	1,533	1,858
Cost of goods sold	(276)	(297)	(286)	(301)	(314)	(325)	(340)	(352)	(1,159)	(1,330)	(1,516)
Gross profit	12	5	15	23	27	47	62	67	55	203	341
Operating expenses	(34)	(38)	(39)	(36)	(37)	(42)	(40)	(38)	(147)	(156)	(162)
Operating profit	(22)	(34)	(24)	(13)	(10)	5	22	30	(92)	47	180
Depreciation of fixed assets	(66)	(144)	(144)	(223)	(147)	(147)	(147)	(147)	(578)	(589)	(601)
Amortisation of intangible assets	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(4)	(4)
EBITDA	45	112	121	211	139	153	170	178	489	640	785
Interest income	-	6	6	4	5	5	5	4	16	19	19
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	9	19	18	9	10	10	10	10	54	39	32
Non-operating income	9	24	24	13	14	15	15	14	70	58	50
Interest expense	(8)	(8)	(6)	(7)	(7)	(6)	(6)	(7)	(28)	(26)	(28)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	(9)	4	3	3	4	3	3	3	1	13	(6)
Non-operating expenses	(17)	(4)	(3)	(3)	(3)	(3)	(3)	(4)	(27)	(13)	(34)
Pre-tax profit	(30)	(13)	(3)	(3)	1	17	34	40	(49)	92	196
Current taxation	7	3	0	1	(0)	(3)	(7)	(8)	10	(18)	(39)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	(23)	(11)	(3)	(2)	1	14	27	32	(39)	74	157
Extraordinary items	0	-	-	(0)	-	-	-	-	-	-	-
Net profit	(23)	(11)	(3)	(2)	1	14	27	32	(39)	74	157
EPS (NT\$)	(0.34)	(0.16)	(0.04)	(0.03)	0.01	0.20	0.40	0.47	(0.58)	1.09	2.31
Margins (%)											
Gross profit margin	4.2	1.6	5.0	7.0	8.0	12.6	15.3	16.1	4.5	13.2	18.4
Operating margin	(7.6)	(11.1)	(8.0)	(4.0)	(2.9)	1.4	5.4	7.1	(7.6)	3.1	9.7
EBITDA margin	15.7	37.1	40.2	65.2	40.6	41.3	42.3	42.5	40.3	41.7	42.3
Pretax profit margin	(10.3)	(4.4)	(1.1)	(0.9)	0.4	4.6	8.4	9.6	(4.0)	6.0	10.5
Net profit margin	(8.0)	(3.6)	(1.0)	(0.7)	0.3	3.7	6.7	7.6	(3.2)	4.8	8.4
Sequential growth (%)											
Revenue growth	(12.2)	4.8	(0.0)	7.3	5.4	8.9	8.3	4.2			
Gross profit growth	(75.9)	(60.9)	217.0	50.3	20.5	71.5	31.8	9.0			
Operating profit growth	(217.0)	54.2	(27.8)	(46.3)	(24.9)		323.3	36.6			
EBITDA growth	(48.2)	147.4	8.3	74.0	(34.3)	10.8	10.8	4.7			
Pretax profit growth	(220.2)	(55.1)	(76.1)	(8.5)		1296.3	98.3	18.0			
Net profit growth	(209.7)	(53.5)	(72.4)	(20.9)		1296.3	98.3	18.0			
YoY growth (%)											
Revenue growth	(5.4)	(11.8)	(23.8)	(1.2)	18.5	23.2	33.4	29.5	(11.3)	26.3	21.1
Gross profit growth	(68.4)	(92.8)	(74.2)	(55.2)	124.1	884.6	309.3	197.0	(74.4)	271.5	68.2
Operating profit growth	(535.0)	(229.5)	(216.9)	(169.9)	(55.1)				(231.7)		284.0
EBITDA growth	(38.5)	16.4	36.0	141.5	206.4	37.1	40.3	(15.6)	41.3	30.8	22.7
Pretax profit growth	(228.2)	(133.6)	(105.0)	(111.8)					(132.5)		112.1
Net profit growth	(224.3)	(133.7)	(105.8)	(111.1)					(132.0)		112.1

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	3,958	4,114	3,830	3,760	3,725
Current assets	1,580	1,800	2,010	2,423	2,895
Cash & ST securities	900	1,013	1,257	1,542	1,876
Inventory	365	388	389	445	509
Accounts receivable	240	309	274	345	419
Other current assets	75	90	90	90	90
Non-current assets	2,378	2,314	1,819	1,337	831
LT investments	5	39	39	39	39
Net fixed assets	1,884	1,787	1,292	810	303
Other assets	488	489	489	489	489
Total liabilities	2,355	2,411	2,165	2,079	2,009
Current liabilities	752	989	1,049	1,026	1,093
Accounts payable	117	146	147	168	192
Interest bearing ST liabilities	532	675	830	728	707
Other current liabilities	104	167	73	130	194
Non-current liabilities	1,602	1,422	1,116	1,054	916
Long-term debt	1,190	974	668	606	468
Other L-T liabilities	26	16	16	16	16
Total equity	1,603	1,703	1,664	1,681	1,716
Share capital	676	676	676	676	676
Retained earnings reserve	1	127	88	104	139
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Growth					
Revenue growth	17.5%	29.1%	(11.3%)	26.3%	21.1%
Operating profit growth	(75.6%)		(231.7%)		284.0%
EBITDA growth	89.1%	46.3%	41.3%	30.8%	22.7%
Net profit growth		102416.0%	(132.0%)		112.1%
EPS growth		102416.0%	(132.0%)		112.1%
Profitability					
Gross profit margin	11.9%	15.6%	4.5%	13.2%	18.4%
Operating margin	(3.6%)	5.1%	(7.6%)	3.1%	9.7%
EBITDA margin	22.3%	25.3%	40.3%	41.7%	42.3%
Net profit margin	0.0%	8.9%	(3.2%)	4.8%	8.4%
Return on average assets	0.0%	3.0%	(1.0%)	1.9%	4.2%
Return on average equity	0.0%	7.4%	(2.3%)	4.4%	9.2%
Stability					
Gross debt to equity	107.3%	96.8%	90.0%	79.3%	68.5%
Net debt to equity	79.7%	78.2%	56.3%	29.0%	Net cash
Interest coverage (x)	0.5	6.9	(0.8)	4.6	8.0
Interest & ST debt coverage (x)	(0.1)	0.2	(0.1)	0.1	0.2
Cash flow interest coverage(x)	9.8	15.3	20.8	22.0	23.2
Cash flow/int. & ST debt (x)	0.4	0.6	0.7	0.7	0.9
Current ratio (x)	2.1	1.8	1.9	2.4	2.6
Quick ratio (x)	1.6	1.4	1.5	1.9	2.2
Net debt (NT\$m)	1,278	1,332	937	487	(5)
Per share data					
EPS (NT\$)	0.00	1.80	(0.58)	1.09	2.31
CFPS (NT\$)	3.62	5.75	8.53	8.29	9.59
BVPS (NT\$)	23.70	25.18	24.60	24.85	25.37
Adj BVPS (NT\$)	23.70	25.18	24.60	24.85	25.37
SPS (NT\$)	15.67	20.23	17.95	22.67	27.46
EBITDA/share (NT\$)	3.50	5.12	7.23	9.46	11.61
Cash DPS (NT\$)	0.40	1.40	-	0.76	1.62
Activity					
Sales / avg assets	0.26	0.34	0.31	0.40	0.50
Days receivable	82.6	82.4	82.4	82.4	82.4
Days inventory	142.5	122.5	122.5	122.5	122.5
Days payable	45.7	46.2	46.2	46.2	46.2
Cash cycle	179.5	158.7	158.7	158.7	158.7

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue	1,060	1,369	1,214	1,533	1,858
Cost of goods sold	(934)	(1,155)	(1,159)	(1,330)	(1,516)
Gross profit	126	214	55	203	341
Operating expenses	(164)	(143)	(147)	(156)	(162)
Operating profit	(38)	70	(92)	47	180
Non-operating income	83	42	70	58	50
Interest income	3	7	16	19	19
Investment income	-	-	-	-	-
Other non-op income	80	35	54	39	32
Non-operating expenses	(57)	39	(27)	(13)	(34)
Interest expense	(25)	(25)	(28)	(26)	(28)
Investment loss	-	-	-	-	-
Other non-op expenses	(32)	64	1	13	(6)
Pre-tax profit	(13)	151	(49)	92	196
Current taxation	13	(29)	10	(18)	(39)
Minorities	-	-	-	-	-
Extraordinary items	-	(0)	-	-	-
Net profit	0	122	(39)	74	157
EBITDA	237	346	489	640	785
EPS (NT\$)	0.00	1.80	(0.58)	1.09	2.31

Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	245	389	577	561	649
Net profit	0	122	(39)	74	157
Depreciation & amortisation	275	276	582	593	606
Decrease in working capital	(18)	(58)	34	(106)	(114)
Other operating cash flow	(12)	49	0	0	0
Investing cash flow	135	(405)	(87)	(111)	(99)
Sale of ST investment	172	(273)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(33)	(132)	(83)	(107)	(95)
Others investing cashflow	(3)	(1)	(4)	(4)	(4)
Free cash flow	218	137	456	413	537
Financing cash flow	(200)	(110)	(246)	(164)	(215)
Increase in short term debt	(140)	255	-	-	-
Increase in long term loans	(126)	(177)	(152)	(164)	(158)
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(14)	(27)	(95)	-	(57)
Other financing cashflow	80	(160)	(0)	0	(0)
Forex effects	-	-	-	-	-
Total cash generated	180	(126)	244	285	334

ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	15.5%	10.5%	12.1%	10.2%	8.7%
= Operating margin	(3.6%)	5.1%	(7.6%)	3.1%	9.7%
1 / (Working capital/revenue	0.4	0.3	0.4	0.4	0.3
+ Net PPE/revenue	1.8	1.3	1.1	0.5	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	0.4	0.6	0.7	1.1	2.0
Operating margin	(3.6%)	5.1%	(7.6%)	3.1%	9.7%
x Capital turnover	0.4	0.6	0.7	1.1	2.0
x (1 - tax rate)	(0.9%)	80.8%	79.4%	80.0%	80.0%
= After-tax ROIC	0.0%	2.5%	(4.0%)	2.7%	15.2%

Source: Company data, KGI Research estimates

Magnate Technology – Recommendation & target price history



Date	Rating	Target	Price
2023-04-27	Outperform	53.00	42.95

Source: TEJ, KGI Research

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