

MediaTek (2454.TW/2454 TT)

Healthy recovery in 2024F

FTSE4Good TIP Taiwan ESG Index stock

Outperform · Maintained

Price as of November 29 (NT\$)	948
12M target price (NT\$)	956
Previous target price (NT\$)	956
Unchanged (%)	0.0
Upside (%)	0.8

Key message

1. Global smartphone market could see healthy single-digit shipment growth in 2024 after three consecutive years of decline, which will pave the road to recovery for MediaTek.
2. The firm could benefit from potential acceleration of the smartphone upgrade/replacement cycle, driven by edge AI computing.

Trading data

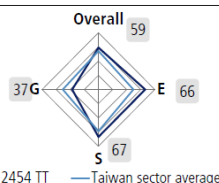
Mkt cap (NT\$/US\$mn)	1,516 / 48,116
Outstanding shares (mn)	1,600
Foreign ownership (mn)	949
3M avg. daily trading (mn)	5.30
52-week trading range (NT\$)	625 –948

Performance	3M	6M	12M
Absolute (%)	33.5	28.5	33
Relative (%)	29	24.1	14.9

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	21.02A	22.39A	19.54A	11.67A
2023	10.64A	10.07A	11.64A	13.00F
2024	12.13F	13.23F	14.98F	15.81F

ESG score card



Source: Refinitiv

Event

We expect the current restocking demand to continue into 1Q24, and the global smartphone market could see healthy single-digit shipment growth in 2024 after three consecutive years of decline, which would pave the road to recovery for MediaTek.

Impact

Restocking demand to continue in 1Q24F. Restocking demand for both 5G and 4G smartphones has resumed in recent months, which will persist in 1Q24F. We now project healthy single-digit growth for global smartphone shipments in 2024, and expect MediaTek 2024 5G smartphone shipments to reach 170-180mn units, versus 150-160mn units in 2023. As such, we estimate 2024 sales and EPS to reach a respective NT\$505.2bn (up 17.7% YoY) and NT\$56.16 (up 23.8% YoY).

Beneficiary of edge AI computing in the long run. While mobile AI computing may not contribute significantly to MediaTek's top- and bottom-lines any time soon, we believe that on-device AI computing will require more powerful AI engines to run on-device AI applications. This will drive significant silicon content growth for mobile SoC over the long run, boosting overall mobile and AIoT ASP and improving its structural profitability, as well as augmenting the company's value proposition in smart mobile computing business. The company could also benefit from potential acceleration of the smartphone upgrade/replacement cycle, driven by edge AI computing.

Valuation & Action

We remain positive on the counter given its healthy near- to mid-term outlook, coupled with improving smartphone demand sentiment and a stabilizing gross margin outlook. In addition, the company could benefit from potential acceleration of the smartphone upgrade/replacement cycle, driven by edge AI computing. We maintain Outperform on MediaTek, with a target price of NT\$956, based on 17x of 2024F EPS.

Risks

Slower-than-expected inventory correction; falling demand for 5G smartphones; market share loss in 5G smartphone market.

Key financials and valuations

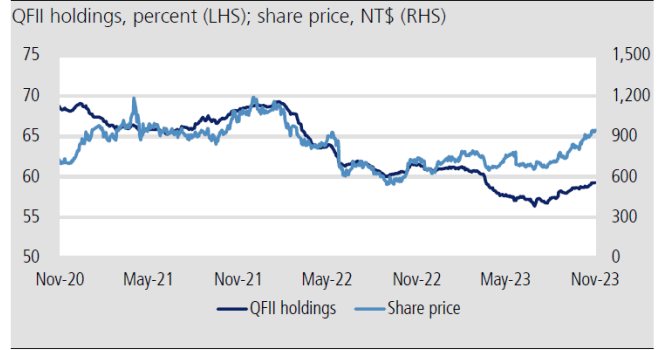
	Dec-20A	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Revenue (NT\$mn)	322,146	493,415	548,796	429,243	505,155
Gross profit (NT\$mn)	141,536	231,605	270,904	203,449	236,137
Operating profit (NT\$mn)	43,219	108,040	126,788	68,092	94,071
Net profit (NT\$mn)	40,917	111,421	118,141	71,961	89,151
EPS (NT\$)	26.01	70.56	74.59	45.35	56.16
Cash DPS (NT\$)	37.00	73.00	76.00	52.64	61.36
EPS growth (%)	77.0	171.3	5.7	(39.2)	23.8
PE (x)	36.5	13.4	12.7	20.9	16.9
PB (x)	4.1	3.5	3.4	3.7	3.6
EV/EBITDA (x)	16.4	7.8	6.7	10.0	7.6
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	3.9	7.7	8.0	5.6	6.5
Return on average equity (%)	12.0	27.7	27.1	16.9	21.5

Source: Company data, KGI Research estimates

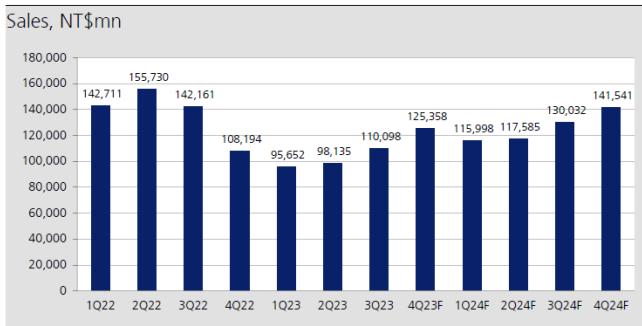
Figure 1: Company profile

MediaTek was founded in 1997 as a top-five fabless design house specializing in SoC solutions for wireless communications and digital multimedia. It holds a leading position in cutting-edge SoC system solutions for wireless communications, high-definition TV, optical storage, DVD and Blu-ray products. It also offers related product design, testing, maintenance and technology consulting services. MediaTek is headquartered in Hsinchu Science Park, Taiwan, with sales and research subsidiaries in China, Singapore, India, Japan, Korea, the US, Denmark and the UK. Employees numbered around 20,000 in 2021.

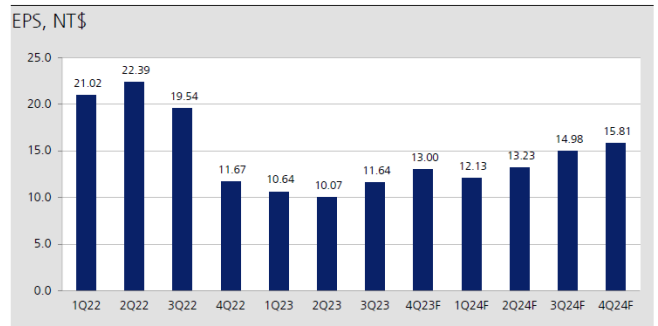
Source: Company data, KGI Research

Figure 2: MediaTek QFII holdings vs. share price


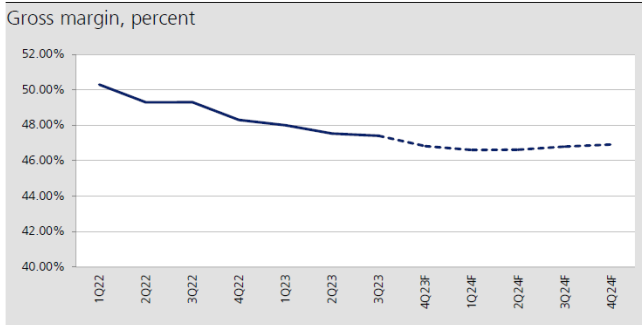
Source: TEJ, KGI Research

Figure 3: Sales


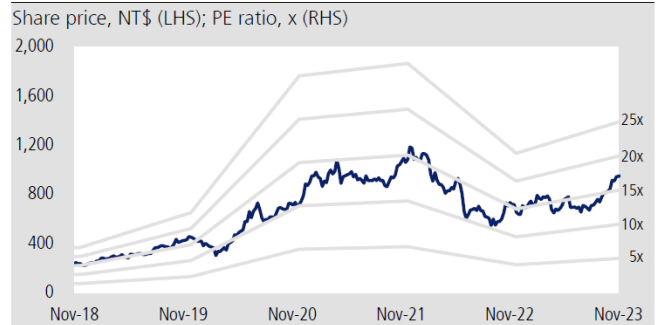
Source: KGI Research

Figure 4: EPS


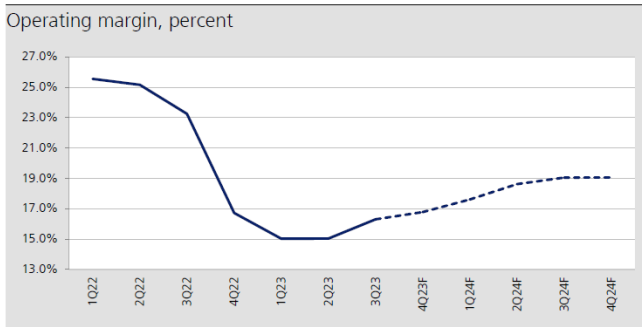
Source: KGI Research

Figure 5: Gross Margin


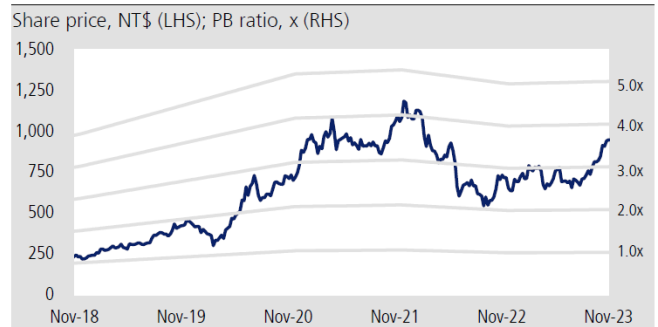
Source: KGI Research

Figure 6: 12M forward PE band


Source: TEJ, KGI Research estimates

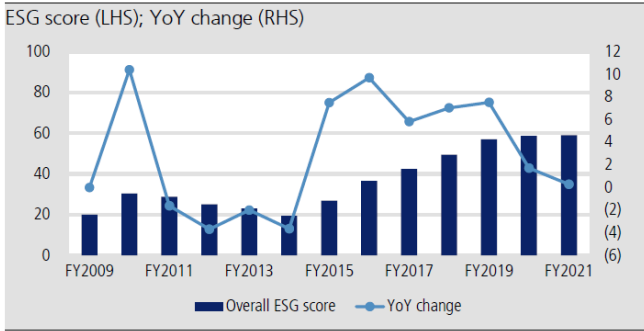
Figure 7: Operating Margin


Source: KGI Research

Figure 8: 12M forward PB band


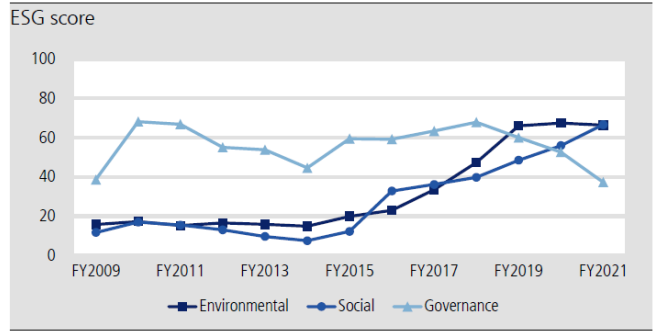
Source: TEJ, KGI Research estimates

Figure 9: Overall ESG score



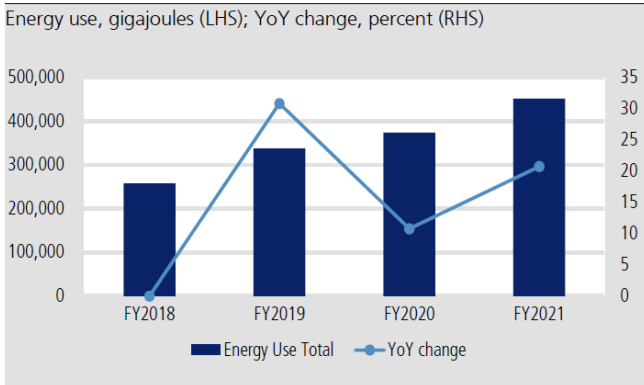
Source: Refinitiv, Company data

Figure 10: ESG scores



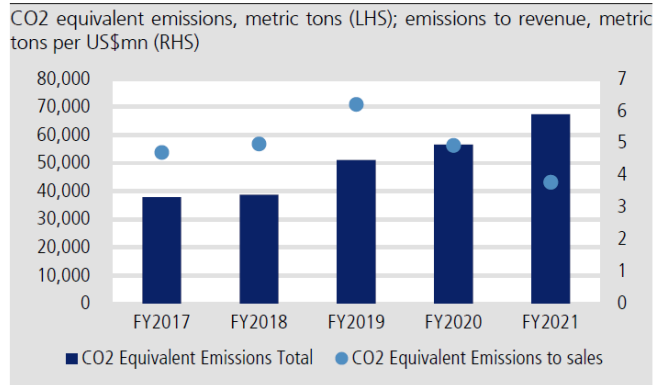
Source: Refinitiv, Company data

Figure 11: Energy Use



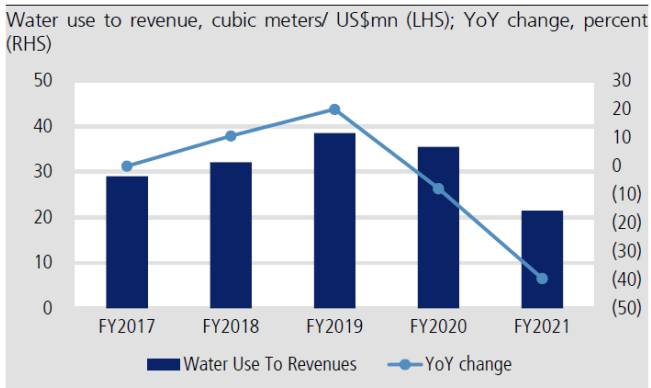
Source: Refinitiv, Company data

Figure 12: CO2 equivalent emissions



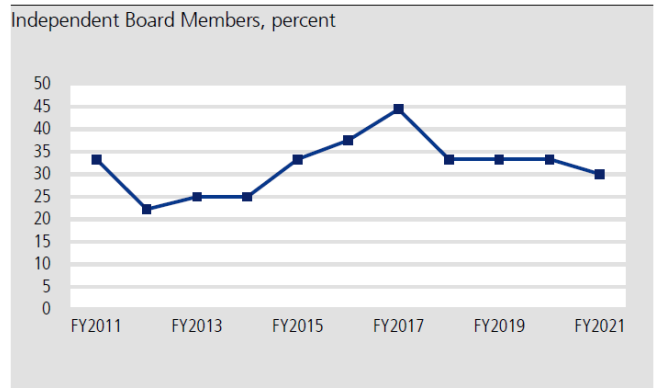
Source: Refinitiv, Company data

Figure 13: Water use to revenue



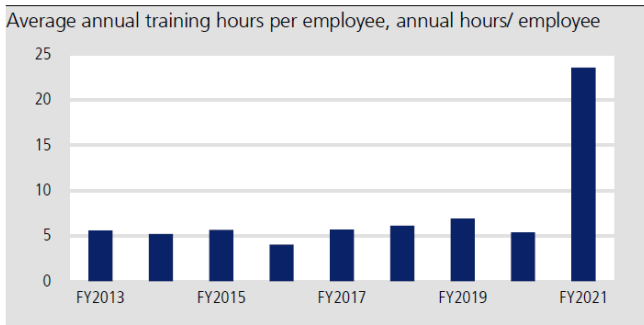
Source: Refinitiv, Company data

Figure 14: Independent Board Members



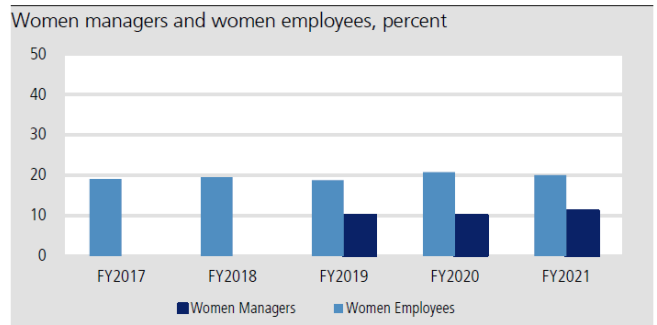
Source: Refinitiv, Company data

Figure 15: Employee training



Source: Refinitiv, Company data

Figure 16: Gender diversification



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 	MediaTek has conducted carbon footprint verification on its office buildings and its internal administration process.
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 	Has disclosed the retention rate in 2019-20, and its HR has launched inventive program with better compensation to keep its talents.
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, KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23F	Mar-24F	Jun-24F	Sep-24F	Dec-24F	Dec-22A	Dec-23F	Dec-24F
Income statement (NT\$m)											
Revenue	95,652	98,135	110,098	125,358	115,998	117,585	130,032	141,541	548,796	429,243	505,155
Cost of goods sold	(49,739)	(51,489)	(57,905)	(66,660)	(61,936)	(62,764)	(69,176)	(75,143)	(277,892)	(225,794)	(269,018)
Gross profit	45,912	46,646	52,192	58,698	54,062	54,821	60,855	66,398	270,904	203,449	236,137
Operating expenses	(31,543)	(31,896)	(34,248)	(37,670)	(33,639)	(32,924)	(36,084)	(39,419)	(144,116)	(135,357)	(142,066)
Operating profit	14,369	14,751	17,944	21,028	20,423	21,898	24,772	26,979	126,788	68,092	94,071
Depreciation of fixed assets	(2,794)	(2,428)	(2,889)	(2,966)	(3,153)	(3,153)	(3,153)	(3,153)	(9,282)	(11,077)	(12,612)
Amortisation of intangible assets	(1,522)	(1,791)	(1,924)	(2,142)	(2,092)	(2,092)	(2,092)	(2,092)	(5,697)	(7,379)	(8,368)
EBITDA	18,685	18,970	22,757	26,136	25,668	27,143	30,017	32,224	141,768	86,547	115,051
Interest income	1,391	1,885	1,664	876	749	1,207	1,428	286	3,218	5,816	3,670
Investment income	3,116	1,165	1,124	500	320	330	330	350	3,281	5,905	1,330
Other non-op income	443	1,157	762	1,000	600	650	700	800	3,438	3,362	2,750
Non-operating income	4,950	4,208	3,549	2,376	1,669	2,187	2,458	1,436	9,937	15,083	7,750
Interest expense	(36)	(38)	(253)	(38)	(38)	(38)	(38)	(38)	(371)	(366)	(153)
Investment loss	(108)	108	-	-	-	-	-	-	-	-	-
Other non-op expenses	(70)	(658)	(248)	-	-	-	-	-	(794)	(976)	-
Non-operating expenses	(215)	(588)	(501)	(38)	(38)	(38)	(38)	(38)	(1,165)	(1,342)	(153)
Pre-tax profit	19,104	18,370	20,993	23,365	22,054	24,046	27,192	28,376	135,561	81,832	101,668
Current taxation	(2,213)	(2,351)	(2,424)	(2,570)	(2,646)	(2,885)	(3,263)	(3,121)	(16,936)	(9,559)	(11,916)
Minorities	(17)	(54)	(91)	(150)	(150)	(150)	(150)	(150)	(484)	(312)	(600)
Normalised net profit	16,874	15,965	18,478	20,645	19,257	21,010	23,779	25,105	118,141	71,961	89,151
Extraordinary items	(0)	0	(0)	-	-	-	-	-	-	-	-
Net profit	16,874	15,965	18,478	20,645	19,257	21,010	23,779	25,105	118,141	71,961	89,151
EPS (NT\$)	10.64	10.07	11.64	13.00	12.13	13.23	14.98	15.81	74.59	45.35	56.16
Margins (%)											
Gross profit margin	48.0	47.5	47.4	46.8	46.6	46.6	46.8	46.9	49.4	47.4	46.7
Operating margin	15.0	15.0	16.3	16.8	17.6	18.6	19.1	19.1	23.1	15.9	18.6
EBITDA margin	19.5	19.3	20.7	20.8	22.1	23.1	23.1	22.8	25.8	20.2	22.8
Pretax profit margin	20.0	18.7	19.1	18.6	19.0	20.4	20.9	20.0	24.7	19.1	20.1
Net profit margin	17.6	16.3	16.8	16.5	16.6	17.9	18.3	17.7	21.5	16.8	17.6
Sequential growth (%)											
Revenue growth	(11.6)	2.6	12.2	13.9	(7.5)	1.4	10.6	8.9			
Gross profit growth	(12.1)	1.6	11.9	12.5	(7.9)	1.4	11.0	9.1			
Operating profit growth	(20.6)	2.7	21.7	17.2	(2.9)	7.2	13.1	8.9			
EBITDA growth	(16.3)	1.5	20.0	14.8	(1.8)	5.7	10.6	7.4			
Pretax profit growth	(9.3)	(3.8)	14.3	11.3	(5.6)	9.0	13.1	4.4			
Net profit growth	(8.7)	(5.4)	15.7	11.7	(6.7)	9.1	13.2	5.6			
YoY growth (%)											
Revenue growth	(33.0)	(37.0)	(22.6)	15.9	21.3	19.8	18.1	12.9	11.2	(21.8)	17.7
Gross profit growth	(36.0)	(39.2)	(25.5)	12.3	17.8	17.5	16.6	13.1	17.0	(24.9)	16.1
Operating profit growth	(60.6)	(62.4)	(45.7)	16.3	42.1	48.5	38.0	28.3	17.4	(46.3)	38.2
EBITDA growth	(52.9)	(55.6)	(38.5)	17.0	37.4	43.1	31.9	23.3	19.5	(39.0)	32.9
Pretax profit growth	(49.7)	(55.1)	(41.0)	11.0	15.4	30.9	29.5	21.4	6.9	(39.6)	24.2
Net profit growth	(49.3)	(54.9)	(40.3)	11.7	14.1	31.6	28.7	21.6	6.0	(39.1)	23.9

Source: Company data, KGI Research estimates

