

# Pegatron (4938 TT)

## 3Q23 EPS beat expectations; margin uptrend in 2024F

FTSE4Good TIP Taiwan ESG Index stock

### Neutral · Maintained

Price as of November 14 (NT\$)	79.50
12M target price (NT\$)	84.00
Previous target price (NT\$)	81.00
Revised up (%)	3.7
Upside (%)	5.7

#### Key message

- 3Q23 EPS of NT\$1.72 beat our forecast and consensus on stronger-than-expected gross and operating margins.
- 4Q23F sales to grow on iPhone15, with a better shipments mix.
- 2024F sales to grow on automotive and computing/ server segment; improving margins to boost 2024F EPS to NT\$7.0, up 14% YoY.

#### Trading data

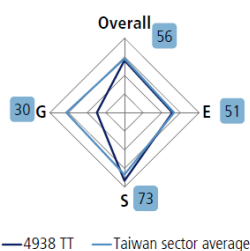
Mkt cap (NT\$bn/US\$m)	211.8 / 6,546	
Outstanding shares (mn)	2,665	
Foreign ownership (mn)	938	
3M avg. daily trading (mn)	5.00	
52-week trading range (NT\$)	59.20 –84.20	

Performance	3M	6M	12M
Absolute (%)	5.3	14.1	31.6
Relative (%)	2.1	5	12.3

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	0.62A	1.17A	1.97A	1.89A
2023	1.13A	1.17A	1.72A	2.12F
2024	1.28F	1.18F	2.05F	2.50F

#### ESG score card



Source: Refinitiv, KGI securities

#### Event

3Q23 EPS of NT\$1.72 (up 47% QoQ, but down 13% YoY) beat our forecast and consensus on higher margins. Pegatron guides 4Q23F sales to be the annual peak, expects a recovery in sales of NB and consumer electronics (CE), and is anticipating double-digit growth in its automotive business in 2024F.

#### Impact

**3Q23 EPS beat expectations on stronger margins.** 3Q23 EPS came in at NT\$1.72, higher than our estimate and consensus, on stronger-than-expected gross margin of 3.9%, and operating margin of 1.4%. Three product lines had QoQ sales growth. Pegatron also reported a steady flow of orders and shipments from smartphone model launches, improved production efficiency boosting gross margin QoQ, and improved operating margin, with operating expenses ratio falling QoQ. 1Q-3Q23 EPS reached NT\$4.02, up 7% YoY due mainly to investment income increase. 3Q23 sales growth came from smartphone sales expansion, particularly from the iPhone 15 debut, boosting sales by 13% QoQ, with sales contribution of 58%. We expect smartphone will continue driving up 4Q23F sales QoQ.

**4Q23F annual peak with margin improvement.** Pegatron guides 4Q23F sales to be the peak of the annual cycle. We forecast 14% QoQ sales growth, flat YoY. Communication sales will be the key driver in 4Q23F, with a better shipments mix. On flat NB shipments in 2023F, 4Q23F NB shipments will likely fall 20-30% QoQ, but rise 15-20%, YoY. CE sales in 4Q23F should fall QoQ on seasonality. We still expect growing sales to lead to gross and operating margin improvement in 4Q23F. With better-than-expected 3Q23 earnings, our 2023F EPS is adjusted up by 10% to NT\$6.14 (up 8% YoY).

#### Auto sales growth in double digits in 2024F; PC, CE & server sales recovery expected.

Management has a positive outlook on 2024F auto business, with sales growth guidance in double digits on a key US client's shipments growth, and penetration of more EV and ICE brand clients and models. It targets a 2025F automotive sales contribution of over 10%, with main products comprising the ADAS computing system, electronics control unit (ECU), and chargers. Automotive sales growth will also add to gross margin in 2024F. Management guides 2024F computing sales to see single-digit growth YoY, after a decline of 20-30% YoY in 2023F, and growing server sales will be another driver. New game console launches in 2024F will boost CE sales after a 10-15% YoY decline in 2023F. Communication (smartphone, broadband) sales should be stable in 2024F, after growth in 2023F. We expect a better product mix to boost 2024F gross and operating margins, fueling 2024F EPS a better growth of 14% to NT\$7.0, with 3% sales growth

#### Valuation & Action

We raise our target price from NT\$81 to NT\$84 (12x 2024F EPS), and maintain Neutral on limited earnings catalysts.

#### Risks

Soft iPhone demand; high price pressure; weaker-than-expected auto demand.

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	1,263,720	1,317,599	1,273,013	1,312,862	1,418,996
Gross profit (NT\$m)	46,573	57,283	47,746	51,576	59,066
Operating profit (NT\$m)	16,854	25,385	16,834	19,836	25,138
Net profit (NT\$m)	20,546	15,096	16,365	18,673	21,762
EPS (NT\$)	7.71	5.66	6.14	7.00	8.16
Cash DPS (NT\$)	5.00	4.00	3.99	4.55	5.30
EPS growth (%)	(0.3)	(26.5)	8.4	14.1	16.5
PE (x)	10.3	14.0	13.0	11.4	9.7
PB (x)	1.3	1.2	1.1	1.1	1.0
EV/EBITDA (x)	8.1	6.5	5.7	4.7	3.8
Net debt to equity (%)	17.0	21.9	Net cash	Net cash	Net cash
Dividend yield (%)	6.3	5.0	5.0	5.7	6.7
Return on average equity (%)	12.5	8.6	8.8	9.8	11.0

Source: Company data, KGI Research estimates

**Figure 1: Breakdown of 3Q23 results & 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	315,770	289,130	9.2	12.5	(10.5)	310,781	1.6	358,398	358,521	(0.0)	13.5	0.3	353,390	1.4
Gross profits	12,160	10,698	13.7	15.5	(24.4)	12,428	(2.2)	14,694	15,058	(2.4)	20.8	(3.7)	14,570	0.9
Operating income	4,485	3,180	41.0	45.9	(41.2)	4,456	0.7	6,451	6,453	(0.0)	43.8	(7.5)	6,118	5.5
Pretax Income	7,182	4,169	72.3	37.9	(19.0)	5,312	35.2	7,761	7,694	0.9	8.1	(11.5)	6,898	12.5
Net income	4,583	2,948	55.5	46.5	(13.0)	3,549	29.1	5,646	5,793	(2.5)	23.2	11.9	4,502	25.4
EPS (NT\$)	1.72	1.11	55.5	46.5	(13.0)	1.33	29.1	2.12	2.17	(2.5)	23.2	11.9	1.69	25.4
Gross margin (%)	3.9	3.7	0.2 ppts	0.1 ppts	(0.7)ppts	4.0	(0.1)ppts	4.1	4.2	(0.1)ppts	0.2 ppts	(0.2)ppts	4.1	(0.0)ppts
OP margin (%)	1.4	1.1	0.3 ppts	0.3 ppts	(0.7)ppts	1.4	(0.0)ppts	1.8	1.8	(0.0)ppts	0.4 ppts	(0.2)ppts	1.7	0.1 ppts
Net margin (%)	1.5	1.0	0.4 ppts	0.3 ppts	(0.0)ppts	1.1	0.3 ppts	1.6	1.6	(0.0)ppts	0.1 ppts	0.2 ppts	1.3	0.3 ppts

Source: Bloomberg; KGI Research estimates

**Figure 2: 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	1,273,013	1,246,495	2.1	(3.4)	1,280,083	(0.6)	1,312,862	1,319,946	(0.5)	3.1	1,328,529	(1.2)	1,418,996	1,376,679	3.1	8.1	1,353,533	4.8
Gross profit	47,746	46,648	2.4	(16.6)	48,861	(2.3)	51,576	52,875	(2.5)	8.0	54,510	(5.4)	59,066	59,197	(0.2)	14.5	57,593	2.6
Operating income	16,834	15,532	8.4	(33.7)	17,020	(1.1)	19,836	22,294	(11.0)	17.8	22,109	(10.3)	25,138	27,600	(8.9)	26.7	24,538	2.4
Pretax Income	24,265	21,187	14.5	(13.9)	22,220	9.2	26,247	27,047	(3.0)	8.2	26,579	(1.2)	30,720	32,270	(4.8)	17.0	29,239	5.1
Net income	16,365	14,876	10.0	8.4	15,334	6.7	18,673	18,097	3.2	14.1	18,081	3.3	21,762	20,170	7.9	16.5	18,909	15.1
EPS (NT\$)	6.14	5.58	10.0	8.4	5.75	6.7	7.00	6.79	3.2	14.1	6.78	3.3	8.16	7.56	7.9	16.5	7.09	15.1
Gross margin (%)	3.8	3.7	0.0 ppts	(0.6)ppts	3.8	(0.1)ppts	3.9	4.0	(0.1)ppts	0.2 ppts	4.1	(0.2)ppts	4.2	4.3	(0.1)ppts	0.2 ppts	4.3	(0.1)ppts
OP margin (%)	1.3	1.2	0.1 ppts	(0.6)ppts	1.3	(0.0)ppts	1.5	1.7	(0.2)ppts	0.2 ppts	1.7	(0.2)ppts	1.8	2.0	(0.2)ppts	0.3 ppts	1.8	(0.0)ppts
Net margin (%)	1.3	1.2	0.1 ppts	0.1 ppts	1.2	0.1 ppts	1.4	1.4	0.1 ppts	0.1 ppts	1.4	0.1 ppts	1.5	1.5	0.1 ppts	0.1 ppts	1.4	0.1 ppts

Source: Bloomberg; KGI Research estimates

**Figure 3: We expect communication sales to grow slightly YoY in 2023F**

Sales (NT\$b)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23F	2021	2022	2023F	2024F
Computing	37	41	48	59	49	43	43	36	29	31	35	32	185	170	126	129
Communication	100	155	184	285	194	139	198	232	210	169	183	239	724	764	801	798
Consumer electronics	43	43	55	68	45	65	67	46	41	48	63	41	209	224	193	210
Others / subsidiaries	36	33	35	41	35	37	45	43	38	33	34	47	145	160	153	176
Total	217	272	323	452	324	284	353	357	318	281	316	358	1,264	1,318	1,273	1,313
Sales weighting (%)																
Computing	17	15	15	13	15	15	12	10	9	11	11	9	15	13	10	10
Communication	46	57	57	63	60	49	56	65	66	60	58	67	57	58	63	61
Consumer electronics	20	16	17	15	14	23	19	13	13	17	20	11	17	17	15	16
Others / subsidiaries	17	12	11	9	11	13	13	12	12	12	11	13	12	12	12	13
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Sales QoQ (%)																
Computing	(19)	11	19	21	(19)	(12)	1	(17)	(14)	8	11	(9)				
Communication	(64)	56	19	55	(32)	(28)	42	18	(16)	(20)	9	31				
Consumer electronics	(27)	1	27	24	(33)	44	3	(31)	(9)	16	35	(36)				
Others / subsidiaries	(53)	(10)	8	15	(13)	3	23	(5)	(11)	(13)	3	35				
Total	(53)	26	19	40	(28)	(12)	24	1	(11)	(12)	12	14				
Sales YoY (%)																
Computing	10	(27)	(4)	28	32	4	(11)	(39)	(37)	(36)	(20)	(11)	(0)	(8)	(26)	2
Communication	(50)	(22)	2	4	94	(10)	7	(18)	8	21	(7)	3	(15)	5	5	(0)
Consumer electronics	122	21	(14)	14	5	50	50	51	(9)	(27)	(5)	(12)	17	7	(14)	9
Others / subsidiaries	45	(9)	(12)	(48)	(3)	11	28	5	8	(9)	(24)	9	(19)	10	(4)	15
Total	(22)	(17)	(4)	(1)	49	4	9	(21)	(2)	(1)	(11)	0	(10)	4	(3)	3

Source: Company data, 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	(3.4)	3.1	4.3	3.8	3.9	1.9	1.3	1.5	50.6	(33.7)	17.8	5.66	6.14	7.00	(26.5)	8.4	14.1
2324 TT	Compal*	(13.1)	(8.9)	6.3	3.8	4.5	4.8	0.9	1.2	1.5	(30.9)	26.4	25.0	1.67	1.85	2.33	(42.4)	8.2	11.8

\* Compal's forecasts are 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	4,810	43	Outperform	53.0	1.57	2.42	(8.1)	54.3	27.7	17.9	2.6	2.5	9.4	14.1	3.5	2.9
Quanta	2382 TT	24,883	208.5	Outperform	310.0	10.13	13.43	34.8	32.6	20.6	15.5	4.6	4.3	22.6	28.4	2.9	3.9
Pegatron	4938 TT	6,545	79.50	Neutral	84.0	6.14	7.00	8.4	14.1	13.0	11.4	1.1	1.1	8.8	9.8	5.0	5.0
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	10,210	1,890	Outperform	2,200.0	65.65	99.16	(19.0)	51.0	28.8	19.1	6.9	5.5	26.5	32.2	2.6	1.9
Hon Hai	2317 TT	42,832	100.0	Restricted	N.A.	8.55	10.40	(16.2)	21.6	11.7	9.6	0.9	0.9	8.0	9.3	5.3	4.4
Compal*	2324 TT	4,119	30.25	Not rated	N.A.	1.85	2.33	3.0	25.9	16.4	13.0	1.1	1.2	7.1	8.5	6.6	4.2

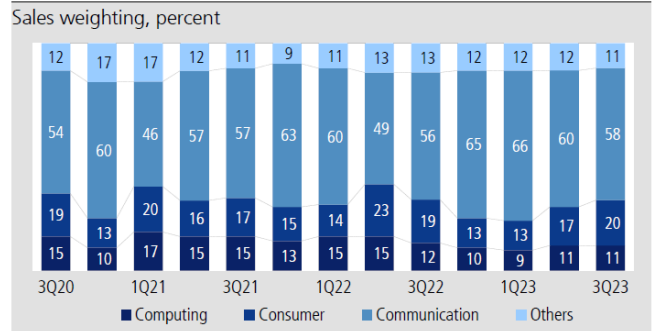
Source: Bloomberg, KGI Research estimates

\*from Bloomberg consensus

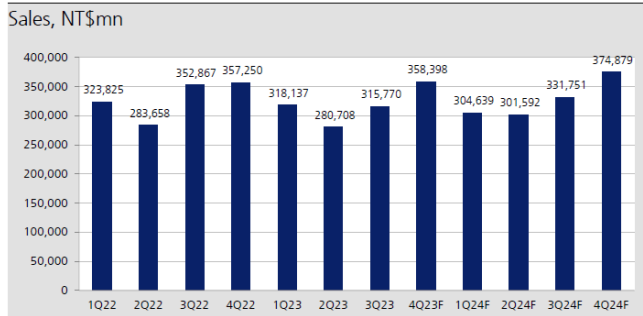
**Figure 6: Company profile**

Pegatron was established in 2007 and accepted ODM business spun off from Asustek (2357 TT, NT\$396, OP) in 2008. Pegatron is a vertically integrated design, manufacturing, and service (DMS) company with extensive experience in product development. In 2022, 13% of consolidated sales was from computing (NB, tablet, desktop, MB), 58% from communications (smartphone & broadband), and 17% from consumer electronics (TV, game console, MP3/4, e-reader), while the remaining 12% came from vertical integration or strategic investment sales.

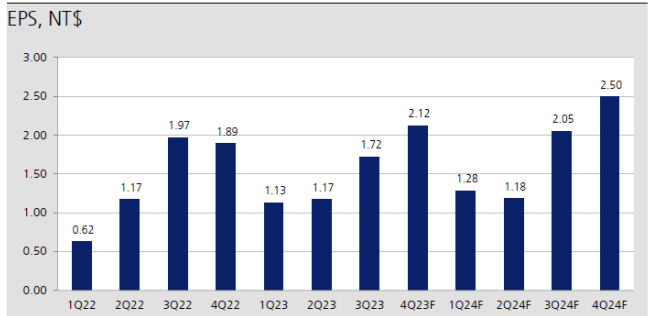
Source: KGI Research

**Figure 7: Communications is a major sales contributor**


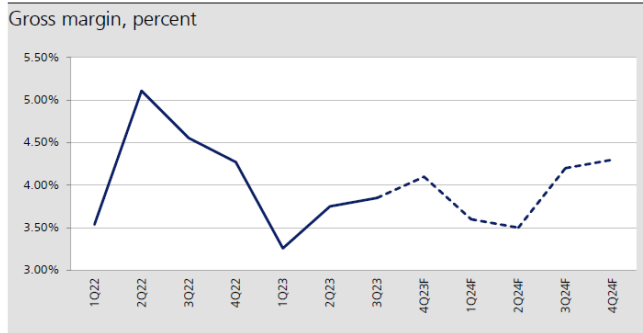
Source: Company data, KGI Research

**Figure 8: Sales**


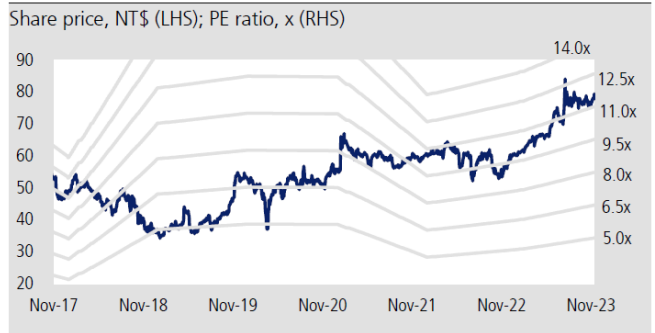
Source: KGI Research

**Figure 9: EPS**


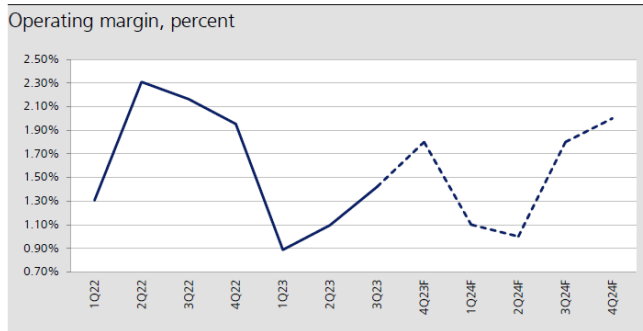
Source: KGI Research

**Figure 10: Gross margin**


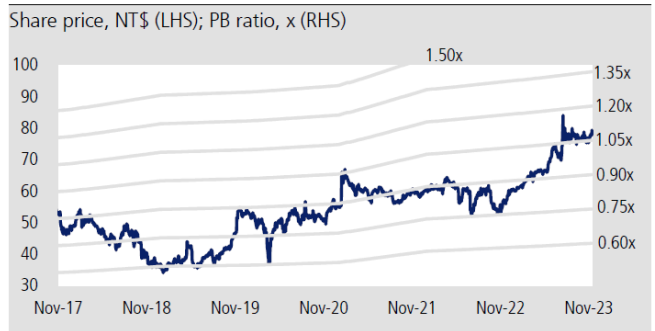
Source: KGI Research

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


Source: TEJ, KGI Research estimates

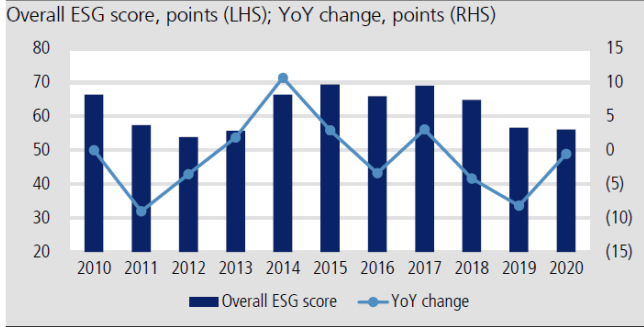
**Figure 12: Operating margin**


Source: KGI Research

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


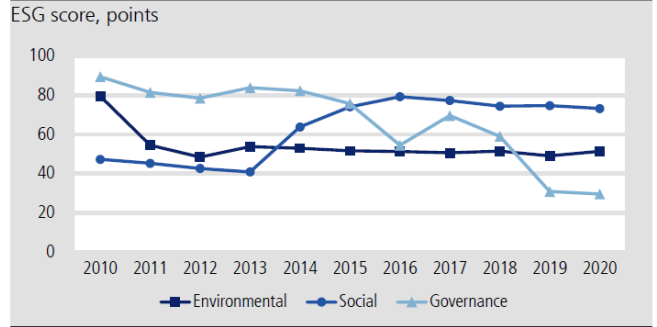
Source: TEJ, KGI Research estimates

**Figure 14: Overall ESG score**



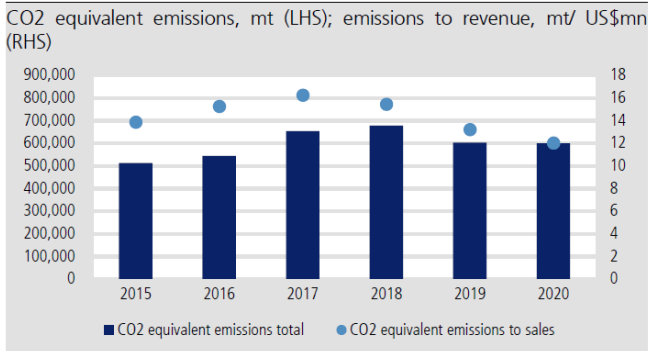
Source: Refinitiv, KGI Research, Company data

**Figure 15: ESG score by category**



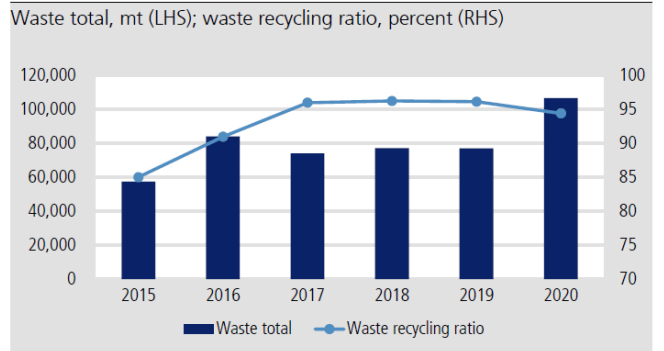
Source: Refinitiv, KGI Research, Company data

**Figure 16: CO2 equivalent emissions**



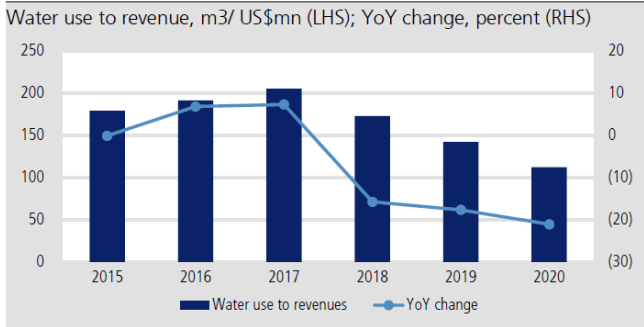
Source: Refinitiv, KGI Research, Company data

**Figure 17: Waste total**



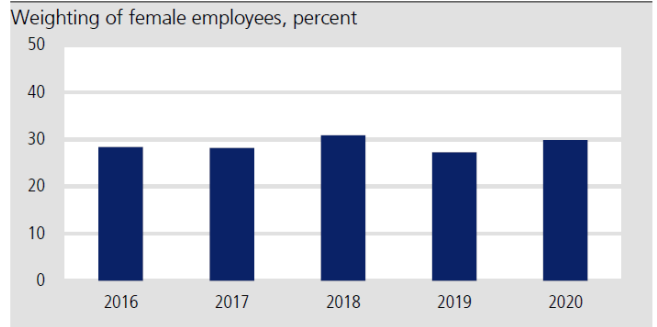
Source: Refinitiv, KGI Research, Company data

**Figure 18: Water use to revenue**



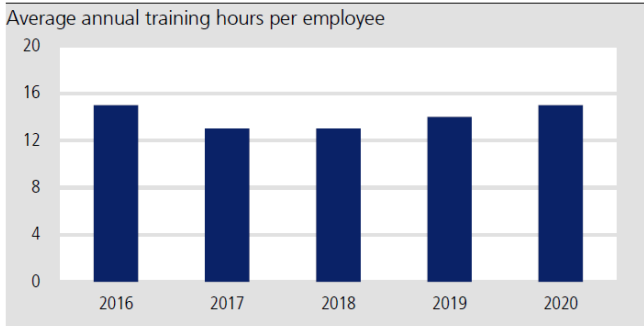
Source: Refinitiv, KGI Research, Company data

**Figure 19: Gender diversification**



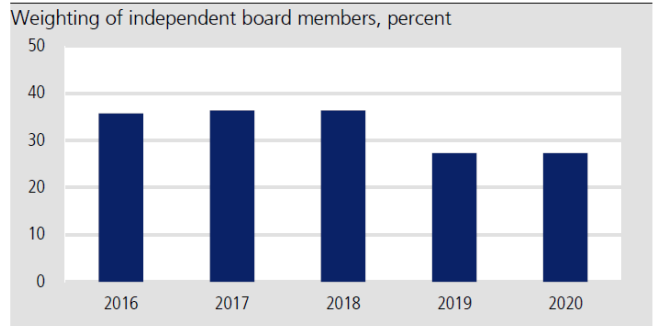
Source: Refinitiv, KGI Research, Company data

**Figure 20: Employee training**



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\$m)</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 (NTSmn)</b>											
<b>Revenue</b>	<b>318,137</b>	<b>280,708</b>	<b>315,770</b>	<b>358,398</b>	<b>304,639</b>	<b>301,592</b>	<b>331,751</b>	<b>374,879</b>	<b>1,273,013</b>	<b>1,312,862</b>	<b>1,418,996</b>
Cost of goods sold	(307,773)	(270,180)	(303,610)	(343,704)	(293,672)	(291,037)	(317,818)	(358,759)	(1,225,267)	(1,261,285)	(1,359,930)
<b>Gross profit</b>	<b>10,363</b>	<b>10,529</b>	<b>12,160</b>	<b>14,694</b>	<b>10,967</b>	<b>10,556</b>	<b>13,934</b>	<b>16,120</b>	<b>47,746</b>	<b>51,576</b>	<b>59,066</b>
Operating expenses	(7,540)	(7,455)	(7,675)	(8,243)	(7,616)	(7,540)	(7,962)	(8,622)	(30,912)	(31,740)	(33,928)
<b>Operating profit</b>	<b>2,824</b>	<b>3,074</b>	<b>4,485</b>	<b>6,451</b>	<b>3,351</b>	<b>3,016</b>	<b>5,972</b>	<b>7,498</b>	<b>16,834</b>	<b>19,836</b>	<b>25,138</b>
Depreciation of fixed assets	(3,666)	(3,718)	(3,898)	(3,691)	(4,232)	(4,232)	(4,232)	(4,232)	(14,973)	(16,928)	(18,968)
Amortisation of intangible assets	(39)	(41)	(34)	(22)	(34)	(34)	(34)	(34)	(135)	(135)	(135)
<b>EBITDA</b>	<b>6,528</b>	<b>6,834</b>	<b>8,416</b>	<b>10,164</b>	<b>7,617</b>	<b>7,282</b>	<b>10,237</b>	<b>11,764</b>	<b>31,943</b>	<b>36,900</b>	<b>44,242</b>
Interest income	1,292	1,132	1,036	1,160	1,104	1,104	1,104	1,104	4,620	4,417	4,102
Investment income	175	916	2,105	104	563	563	563	563	3,300	2,250	2,000
Other non-op income	1,188	922	570	1,021	875	875	875	875	3,700	3,500	3,000
<b>Non-operating income</b>	<b>2,655</b>	<b>2,970</b>	<b>3,710</b>	<b>2,285</b>	<b>2,542</b>	<b>2,542</b>	<b>2,542</b>	<b>2,542</b>	<b>11,620</b>	<b>10,167</b>	<b>9,102</b>
Interest expense	(1,091)	(838)	(453)	(607)	(627)	(627)	(627)	(627)	(2,989)	(2,506)	(2,270)
Investment loss	-	-	-	-	(13)	(13)	(13)	(13)	-	(50)	(50)
Other non-op expenses	(271)	-	(560)	(368)	(300)	(300)	(300)	(300)	(1,200)	(1,200)	(1,200)
<b>Non-operating expenses</b>	<b>(1,362)</b>	<b>(838)</b>	<b>(1,014)</b>	<b>(975)</b>	<b>(939)</b>	<b>(939)</b>	<b>(939)</b>	<b>(939)</b>	<b>(4,189)</b>	<b>(3,756)</b>	<b>(3,520)</b>
<b>Pre-tax profit</b>	<b>4,117</b>	<b>5,207</b>	<b>7,182</b>	<b>7,761</b>	<b>4,954</b>	<b>4,619</b>	<b>7,574</b>	<b>9,100</b>	<b>24,265</b>	<b>26,247</b>	<b>30,720</b>
Current taxation	(774)	(1,676)	(2,349)	(1,753)	(1,090)	(1,016)	(1,666)	(2,002)	(6,552)	(5,774)	(6,759)
Minorities	(267)	(372)	(250)	(361)	(450)	(450)	(450)	(450)	(1,250)	(1,800)	(2,200)
<b>Normalised net profit</b>	<b>3,076</b>	<b>3,159</b>	<b>4,583</b>	<b>5,646</b>	<b>3,414</b>	<b>3,153</b>	<b>5,458</b>	<b>6,648</b>	<b>16,464</b>	<b>18,673</b>	<b>21,762</b>
Extraordinary items	(68)	(31)	(0)	0	-	-	-	-	(99)	-	-
<b>Net profit</b>	<b>3,008</b>	<b>3,127</b>	<b>4,583</b>	<b>5,646</b>	<b>3,414</b>	<b>3,153</b>	<b>5,458</b>	<b>6,648</b>	<b>16,365</b>	<b>18,673</b>	<b>21,762</b>
EPS (NT\$)	1.13	1.17	1.72	2.12	1.28	1.18	2.05	2.50	6.14	7.00	8.16
<b>Margins (%)</b>											
Gross profit margin	3.3	3.8	3.9	4.1	3.6	3.5	4.2	4.3	3.8	3.9	4.2
Operating margin	0.9	1.1	1.4	1.8	1.1	1.0	1.8	2.0	1.3	1.5	1.8
EBITDA margin	2.1	2.4	2.7	2.8	2.5	2.4	3.1	3.1	2.5	2.8	3.1
Pretax profit margin	1.3	1.9	2.3	2.2	1.6	1.5	2.3	2.4	1.9	2.0	2.2
Net profit margin	0.9	1.1	1.5	1.6	1.1	1.0	1.6	1.8	1.3	1.4	1.5
<b>Sequential growth (%)</b>											
Revenue growth	(10.9)	(11.8)	12.5	13.5	(15.0)	(1.0)	10.0	13.0			
Gross profit growth	(32.1)	1.6	15.5	20.8	(25.4)	(3.8)	32.0	15.7			
Operating profit growth	(59.5)	8.9	45.9	43.8	(48.1)	(10.0)	98.0	25.6			
EBITDA growth	(40.0)	4.7	23.2	20.8	(25.1)	(4.4)	40.6	14.9			
Pretax profit growth	(53.0)	26.5	37.9	8.1	(36.2)	(6.8)	64.0	20.1			
Net profit growth	(40.4)	4.0	46.5	23.2	(39.5)	(7.7)	73.1	21.8			
<b>YoY growth (%)</b>											
Revenue growth	(1.8)	(1.0)	(10.5)	0.3	(4.2)	7.4	5.1	4.6	(3.4)	3.1	8.1
Gross profit growth	(9.5)	(27.4)	(24.4)	(3.7)	5.8	0.3	14.6	9.7	(16.6)	8.0	14.5
Operating profit growth	(33.2)	(53.1)	(41.2)	(7.5)	18.7	(1.9)	33.1	16.2	(33.7)	17.8	26.7
EBITDA growth	(15.2)	(32.8)	(26.5)	(6.5)	16.7	6.6	21.6	15.7	(20.5)	15.5	19.9
Pretax profit growth	9.0	(23.3)	(19.0)	(11.5)	20.3	(11.3)	5.5	17.3	(13.9)	8.2	17.0
Net profit growth	80.4	0.4	(13.0)	11.9	13.5	0.8	19.1	17.7	8.4	14.1	16.5

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>676,770</b>	<b>636,223</b>	<b>677,533</b>	<b>696,585</b>	<b>730,893</b>
<b>Current assets</b>	<b>564,851</b>	<b>502,488</b>	<b>544,233</b>	<b>565,655</b>	<b>604,683</b>
Cash & ST securities	130,954	93,602	170,407	182,013	190,906
Inventory	148,061	199,442	150,325	154,321	166,846
Accounts receivable	249,533	190,247	204,304	210,124	227,733
Other current assets	36,302	19,197	19,197	19,197	19,197
<b>Non-current assets</b>	<b>111,920</b>	<b>133,735</b>	<b>133,300</b>	<b>130,930</b>	<b>126,210</b>
LT investments	25,649	31,469	35,008	37,566	39,814
Net fixed assets	69,737	79,690	75,716	70,788	63,820
Other assets	16,534	22,576	22,576	22,576	22,576
<b>Total liabilities</b>	<b>482,503</b>	<b>421,655</b>	<b>455,987</b>	<b>466,704</b>	<b>491,195</b>
<b>Current liabilities</b>	<b>428,588</b>	<b>365,436</b>	<b>404,363</b>	<b>410,548</b>	<b>433,549</b>
Accounts payable	266,662	202,467	233,831	240,047	259,530
Interest bearing ST liabilities	97,050	86,863	94,457	92,926	94,436
Other current liabilities	64,876	76,106	76,075	77,576	79,584
<b>Non-current liabilities</b>	<b>53,915</b>	<b>56,219</b>	<b>51,625</b>	<b>56,156</b>	<b>57,645</b>
Long-term debt	47,080	44,602	40,008	44,540	46,029
Other L-T liabilities	4,832	10,094	10,094	10,094	10,094
<b>Total equity</b>	<b>194,267</b>	<b>214,568</b>	<b>221,546</b>	<b>229,881</b>	<b>239,698</b>
Share capital	26,691	26,676	26,676	26,676	26,676
Retained earnings reserve	46,662	41,419	47,147	53,682	61,299
Minority interests	27,662	32,080	33,330	35,130	37,330
Preferred shareholders funds	-	-	-	-	-

**Key ratios**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Growth</b>					
Revenue growth	(9.7%)	4.3%	(3.4%)	3.1%	8.1%
Operating profit growth	(11.6%)	50.6%	(33.7%)	17.8%	26.7%
EBITDA growth	(18.4%)	31.8%	(20.5%)	15.5%	19.9%
Net profit growth	1.7%	(26.5%)	8.4%	14.1%	16.5%
EPS growth	(0.3%)	(26.5%)	8.4%	14.1%	16.5%
<b>Profitability</b>					
Gross profit margin	3.7%	4.3%	3.8%	3.9%	4.2%
Operating margin	1.3%	1.9%	1.3%	1.5%	1.8%
EBITDA margin	2.4%	3.1%	2.5%	2.8%	3.1%
Net profit margin	1.6%	1.1%	1.3%	1.4%	1.5%
Return on average assets	3.0%	2.3%	2.5%	2.7%	3.0%
Return on average equity	12.5%	8.6%	8.8%	9.8%	11.0%
<b>Stability</b>					
Gross debt to equity	74.2%	61.3%	60.7%	59.8%	58.6%
Net debt to equity	17.0%	21.9%	Net cash	Net cash	Net cash
Interest coverage (x)	29.9	15.5	9.1	11.5	14.5
Interest & ST debt coverage (x)	0.2	0.2	0.2	0.2	0.2
Cash flow interest coverage(x)	65.3	9.8	31.7	11.9	12.5
Cash flow/int. & ST debt (x)	0.6	0.2	1.0	0.3	0.3
Current ratio (x)	1.3	1.4	1.3	1.4	1.4
Quick ratio (x)	1.0	0.8	1.0	1.0	1.0
Net debt (NT\$m)	33,106	46,888	(26,916)	(35,523)	(41,416)
<b>Per share data</b>					
EPS (NT\$)	7.71	5.66	6.14	7.00	8.16
CFPS (NT\$)	23.83	7.16	35.47	11.23	10.60
BVPS (NT\$)	62.42	68.41	70.56	73.01	75.86
Adj BVPS (NT\$)	62.49	68.43	70.57	73.02	75.88
SPS (NT\$)	473.96	494.05	477.33	492.28	532.07
EBITDA/share (NT\$)	11.44	15.07	11.98	13.84	16.59
Cash DPS (NT\$)	5.00	4.00	3.99	4.55	5.30
<b>Activity</b>					
Sales / avg assets	1.86	2.01	1.94	1.91	1.99
Days receivable	72.1	52.7	58.6	58.6	58.6
Days inventory	44.4	57.8	44.8	44.8	44.8
Days payable	80.0	58.6	69.7	69.7	69.7
Cash cycle	36.5	51.8	33.7	33.7	33.7

Source: Company data, KGI Research estimates

**Profit & loss**

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Revenue</b>	<b>1,263,720</b>	<b>1,317,599</b>	<b>1,273,013</b>	<b>1,312,862</b>	<b>1,418,996</b>
Cost of goods sold	(1,217,147)	(1,260,316)	(1,225,267)	(1,261,285)	(1,359,930)
<b>Gross profit</b>	<b>46,573</b>	<b>57,283</b>	<b>47,746</b>	<b>51,576</b>	<b>59,066</b>
Operating expenses	(29,719)	(31,899)	(30,912)	(31,740)	(33,928)
<b>Operating profit</b>	<b>16,854</b>	<b>25,385</b>	<b>16,834</b>	<b>19,836</b>	<b>25,138</b>
<b>Non-operating income</b>	<b>14,201</b>	<b>11,270</b>	<b>11,620</b>	<b>10,167</b>	<b>9,102</b>
Interest income	1,493	2,275	4,620	4,417	4,102
Investment income	1,630	4,281	3,300	2,250	2,000
Other non-op income	11,078	4,714	3,700	3,500	3,000
<b>Non-operating expenses</b>	<b>(2,929)</b>	<b>(8,456)</b>	<b>(4,189)</b>	<b>(3,756)</b>	<b>(3,520)</b>
Interest expense	(972)	(1,951)	(2,989)	(2,506)	(2,270)
Investment loss	-	(4,281)	-	(50)	(50)
Other non-op expenses	(1,957)	(2,224)	(1,200)	(1,200)	(1,200)
<b>Pre-tax profit</b>	<b>28,126</b>	<b>28,199</b>	<b>24,265</b>	<b>26,247</b>	<b>30,720</b>
Current taxation	(3,099)	(6,792)	(6,552)	(6,574)	(6,759)
Minorities	(4,481)	(6,067)	(1,250)	(1,800)	(2,200)
Extraordinary items	-	(243)	(99)	-	-
<b>Net profit</b>	<b>20,546</b>	<b>15,096</b>	<b>16,365</b>	<b>18,673</b>	<b>21,762</b>
<b>EBITDA</b>	<b>30,505</b>	<b>40,194</b>	<b>31,943</b>	<b>36,900</b>	<b>44,242</b>
EPS (NT\$)	7.71	5.66	6.14	7.00	8.16

**Cash flow**

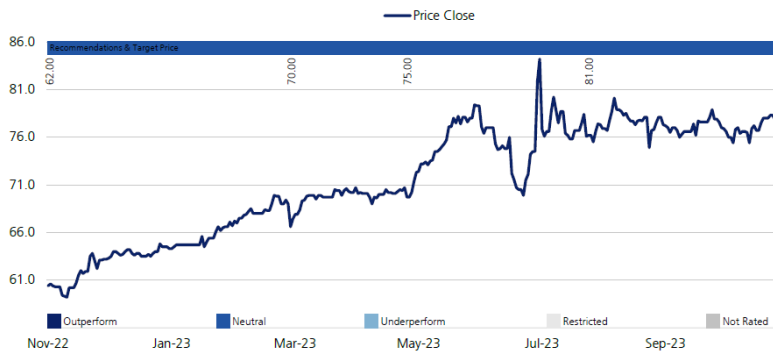
NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Operations cash flow</b>	<b>63,544</b>	<b>19,092</b>	<b>94,596</b>	<b>29,937</b>	<b>28,264</b>
Net profit	20,546	15,096	16,365	18,673	21,762
Depreciation & amortisation	13,650	14,809	15,109	17,064	19,104
Decrease in working capital	(12,174)	(56,549)	66,423	(3,600)	(10,651)
Other operating cash flow	41,522	45,735	(3,300)	(2,200)	(1,950)
<b>Investing cash flow</b>	<b>(45,170)</b>	<b>(25,704)</b>	<b>(11,374)</b>	<b>(12,494)</b>	<b>(12,434)</b>
Sale of ST investment	7	(305)	-	-	-
New investments	-	(477)	(239)	(358)	(298)
Capital expenditure	(30,824)	(26,007)	(11,000)	(12,000)	(12,000)
Others investing cashflow	(14,353)	1,086	(135)	(135)	(135)
<b>Free cash flow</b>	<b>(14,496)</b>	<b>(48,613)</b>	<b>82,685</b>	<b>16,801</b>	<b>15,925</b>
<b>Financing cash flow</b>	<b>(30,826)</b>	<b>(29,953)</b>	<b>(6,417)</b>	<b>(5,837)</b>	<b>(6,937)</b>
Increase in short term debt	(10,152)	(14,434)	-	-	-
Increase in long term loans	7,935	1,667	3,000	3,000	3,000
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(13,007)	(15,720)	(10,667)	(10,637)	(12,137)
Other financing cashflow	(15,602)	(1,465)	1,250	1,800	2,200
<b>Forex effects</b>	<b>(2,520)</b>	<b>10,118</b>			
<b>Total cash generated</b>	<b>(14,973)</b>	<b>(26,447)</b>	<b>76,804</b>	<b>11,606</b>	<b>8,893</b>

**ROIC**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	2.4%	2.4%	2.4%	2.4%	2.4%
<b>= Operating margin</b>	<b>1.3%</b>	<b>1.9%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.8%</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	0.0
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
<b>= Capital turnover</b>	<b>7.0</b>	<b>5.9</b>	<b>8.3</b>	<b>8.7</b>	<b>9.3</b>
Operating margin	1.3%	1.9%	1.3%	1.5%	1.8%
x Capital turnover	7.0	5.9	8.3	8.7	9.3
x (1 - tax rate)	89.0%	75.9%	73.0%	78.0%	78.0%
<b>= After-tax ROIC</b>	<b>8.4%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>10.3%</b>	<b>12.9%</b>

Source: Company data, KGI Research estimates



**Pegatron – Recommendation & target price history**


Date	Rating	Target	Price
2023-08-11	Neutral	81.00	76.20
2023-05-12	Neutral	75.00	69.70
2023-03-15	Neutral	70.00	66.60
2022-11-11	Neutral	62.00	60.00
2022-10-23	Neutral	60.00	56.00
2022-08-12	Neutral	66.00	64.50
2022-05-13	Neutral	65.00	64.60
2022-03-10	Neutral	72.00	69.60
2021-11-12	Neutral	70.00	67.70
2021-08-11	Neutral	75.00	67.80

Source: TEJ, KGI Research

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