

Waffer Technology (6235.TW/6235 TT)

Well positioned to seize huge market potential

Outperform · Maintained

Price as of November 24 (NT\$)	117.0
12M target price (NT\$)	205.0
Previous target price (NT\$)	158.0
Revised up (%)	29.7
Upside (%)	75.2

Key message

- EV, display-related, and large parts accounted for a respective 53%, 80%, and 40% of 3Q23 revenue, driven by the EV, smart cockpit, and auto lightweight trends.
- Investments in production processes and capacity have strengthened competitiveness and are in line with OEM customers' demands.
- We forecast respective 2022-25 sales and EPS CAGRs of 46% and 90%.

Trading data

Mkt cap (NT\$/bn/US\$m)	22.60 / 715
Outstanding shares (mn)	193.1
Foreign ownership (mn)	16.59
3M avg. daily trading (mn)	9.61
52-week trading range (NT\$)	34.35 - 172.0

Performance	3M	6M	12M
Absolute (%)	-19	2.6	228.2
Relative (%)	-22.1	-4.4	211.3

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	0.52A	0.09A	0.50A	0.70A
2023	1.04A	1.17A	1.04A	1.26F
2024	1.51F	1.78F	2.19F	2.40F

Share price chart



Source: TEJ

Event

Waffer Technology held an analyst meeting to provide a business update.

Impact

Seizing magnesium alloy (Mg-Al alloy) market potential amid auto lightweight, EV, & smart cockpit trends. EV, display-related, and large parts accounted for a respective 53%, 80%, and 40% of 3Q23 revenue, reflecting strong product alignment with automotive EV, smart cockpit, and lightweight trends. Management guides display-related mechanical parts will continue to drive growth in 2024-25 as OEMs seek Mg-Al alloy parts due to their low weight, high strength, and vibration absorption properties in order to structurally support the use of a more and larger displays in vehicle cockpits, which will boost both sales volume and ASP. The firm's large product range of Mg-Al structural parts for vehicle cabins, ECU, batteries, and vehicle safety systems reflects its ambition to seize market opportunities amid OEMs' pursuit of lightweight vehicle materials, with management citing huge upside due to sub-15% global adoption of Mg-Al materials per vehicle, and the firm's 10-15% global market share.

Investment in production processes & capacity to fuel robust growth; we project respective 2022-25 sales & EPS CAGRs of 46% & 90%. Based on auto projects on-hand and under development, the firm guides a clear demand outlook for the next 3-5 years and plans capacities accordingly. With 30 years of Mg-Al alloy material expertise, Waffer continues to strengthen its competitiveness by investing in tooling, automation, and production equipment that are capable of processing large structural parts. We believe the firm is well positioned to seize Mg-Al alloy market potential in auto industry on technological abilities, manufacturing resources, and geographic diversification. Management guides robust demand from European OEMs in an effort to catch up with the EV trend and to enhance the passenger in-cabin experience, suggesting sales contribution from European OEMs will significantly increase from 46% in 1Q-3Q23. Based on capacity expansion plans and global OEM customers' new and refreshed model launch schedules, we forecast Waffer will achieve respective sales growth of 52% and 45% YoY to NT\$8.95bn and NT\$13.0bn in 2024-25, with EPS up a respective 75% and 59% YoY to NT\$7.88 and NT\$12.57.

Valuation & Action

We raise our 12M target price from NT\$158 to NT\$205, based on 20x 2024-25F average EPS of NT\$10.23, implying 75% upside. We maintain Outperform and believe the counter is underrated on its strong position within global EV and smart cockpit trends.

Risks

Automotive OEMs delay new model launches due to macro uncertainties.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	2,824	4,157	5,903	8,950	13,000
Gross profit (NT\$m)	734	1,135	1,863	2,944	4,282
Operating profit (NT\$m)	121	369	937	1,785	2,885
Net profit (NT\$m)	165	323	865	1,510	2,408
EPS (NT\$)	0.96	1.83	4.51	7.88	12.57
Cash DPS (NT\$)	0.30	0.70	1.81	3.15	5.03
EPS growth (%)	(74.9)	89.7	146.7	74.6	59.5
PE (x)	121.3	63.9	25.9	14.8	9.3
PB (x)	8.2	6.8	5.9	4.7	3.6
EV/EBITDA (x)	54.2	29.7	16.2	9.7	6.2
Net debt to equity (%)	17.7	Net cash	Net cash	0.6	Net cash
Dividend yield (%)	0.3	0.6	1.5	2.7	4.3
Return on average equity (%)	6.8	11.2	24.2	35.3	44.1

Source: Company data, KGI Research estimates

Figure 1: Mg-Al auto part maker comparison – Valuations

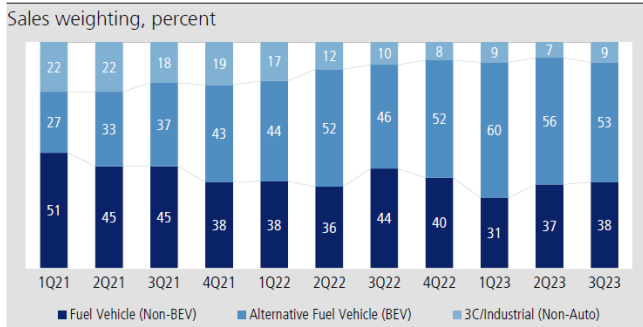
Company	Ticker	Market cap (US\$m)	Share price (LCY)	EPS (LCY)			EPS YoY (%)			PE (x)			PB (x)			ROE (%)			Total return (%)		
				2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	3mo.	6mo.	1yr.
Waffer Tech*	6235.TW	715	117.0	1.83	4.51	7.88	89.7	146.7	74.6	63.9	25.9	14.8	6.8	5.9	4.7	11.2	24.2	35.3	(14.5)	8.3	250.0
Baowu Magnesium	002182.SZ	1,992	21.1	0.95	0.66	1.26	24.0	(30.1)	90.4	22.3	31.9	16.7	3.5	3.2	2.7	16.7	10.1	16.4	5.4	(5.0)	2.3
Wanfeng Auto	002085.SZ	1,569	6.7	0.39	N.A.	N.A.	144.0	N.A.	N.A.	17.2	N.A.	N.A.	2.3	N.A.	N.A.	14.5	N.A.	N.A.	(8.3)	(8.1)	(15.8)
Sinyuanzm	301398.SZ	623	73.9	0.70	1.14	1.61	4.8	62.2	41.2	105.1	64.8	45.9	5.9	5.5	5.0	8.3	8.5	11.1	(2.0)	66.9	43.6

*KGI estimates

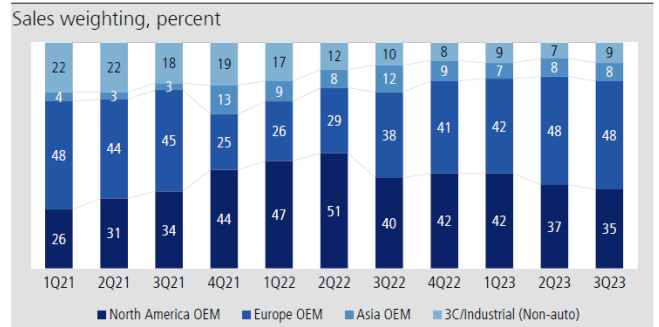
Source: Refinitiv, Bloomberg, KGI Research

Figure 2: Automotive product range


Source: Company data

Figure 3: Sales by application


Source: Company data; KGI Research

Figure 4: Sales by OEM origin


Source: Company data; KGI Research

Figure 5: Capacity breakdown

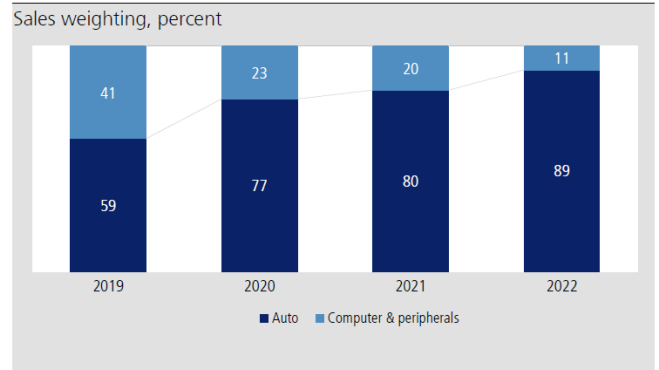
Status	Production site	Country	Business	Land area (k square meter)	Building area (k square meter)
In operation	Waffer KunShan	China	Tooling and automation	23.3	25.7
	Waffer MaAnShan	China	Manufacturing	101.2	78.4
Trial production	Waffer HanShan	China	Manufacturing	63.3	77.0
In construction	MaAnShan Dangtu	China	Manufacturing	103.9	111.0
Planning	Hai Duong Province	Vietnam	Manufacturing	89.0	N.A.

Source: Company data; KGI Research

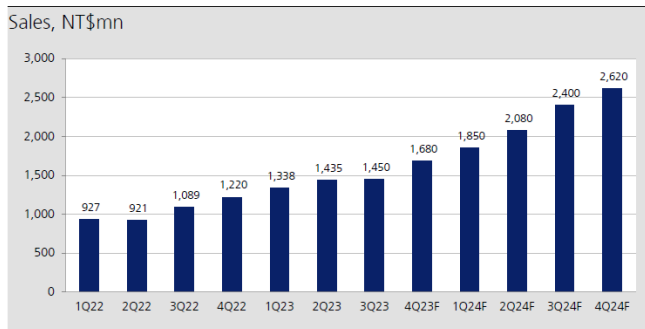
Figure 6: Company profile

Wafer Technology, established in 1950 and listed in 2004, offers lightweight metal parts for various applications, with IT the primary focus in 1997-2017, and automotive applications the focus afterwards. Offering Mg-Al alloy automotive parts and components for mid- to high-end models, the firm achieved a 2019-22 sales CAGR of 42% from automotive offerings, with automotive sales weighting growing to nearly 90% in 2022. The firm primarily manufactures Mg-Al alloy parts in Ma'anshan, Anhui, China, and is now undergoing aggressive capacity expansion.

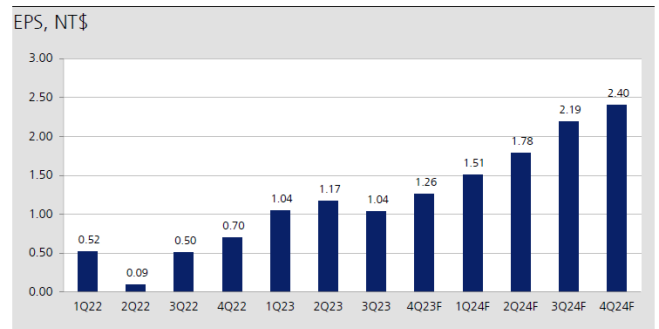
Source: KGI Research

Figure 7: Sales mix


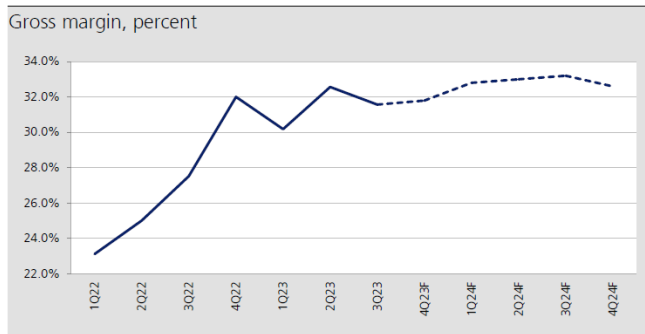
Source: KGI Research

Figure 8: Sales


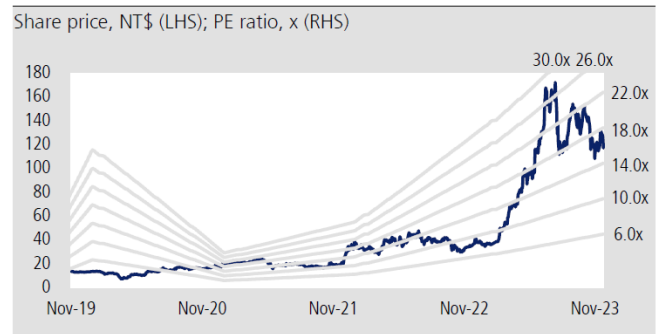
Source: KGI Research

Figure 9: EPS


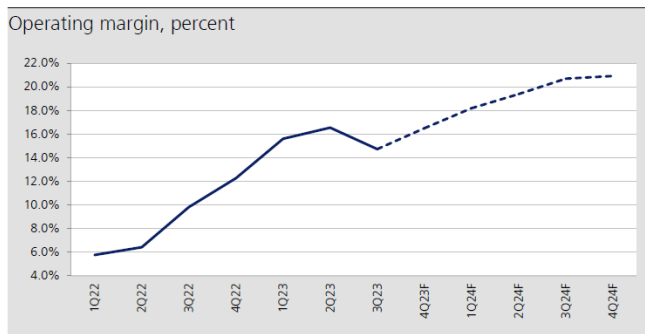
Source: KGI Research

Figure 10: Gross Margin


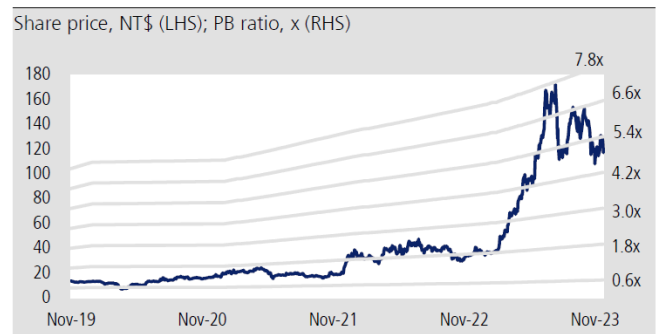
Source: KGI Research

Figure 11: 12-month forward PE band


Source: Bloomberg; KGI Research

Figure 12: Operating Margin


Source: KGI Research

Figure 13: 12-month forward PB band


Source: Bloomberg; 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
Income statement (NT\$m)											
Revenue	1,338	1,435	1,450	1,680	1,850	2,080	2,400	2,620	5,903	8,950	13,000
Cost of goods sold	(934)	(968)	(992)	(1,146)	(1,243)	(1,394)	(1,603)	(1,766)	(4,040)	(6,006)	(8,718)
Gross profit	404	467	458	534	607	686	797	854	1,863	2,944	4,282
Operating expenses	(195)	(230)	(244)	(257)	(270)	(283)	(300)	(306)	(926)	(1,159)	(1,397)
Operating profit	209	237	214	277	337	404	497	548	937	1,785	2,885
Depreciation of fixed assets	(88)	(92)	(97)	(158)	(126)	(126)	(136)	(136)	(435)	(524)	(608)
Amortisation of intangible assets	(3)	(2)	(2)	7	-	-	-	-	-	-	-
EBITDA	300	332	313	428	462	529	633	684	1,372	2,309	3,493
Interest income	2	3	2	3	3	3	3	3	9	12	12
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	30	21	22	20	20	20	20	20	94	80	80
Non-operating income	32	23	24	23	23	23	23	23	102	92	92
Interest expense	(9)	(9)	(9)	(10)	(10)	(10)	(10)	(10)	(38)	(40)	(40)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	0	23	16	3	-	-	-	-	42	-	-
Non-operating expenses	(9)	14	6	(7)	(10)	(10)	(10)	(10)	4	(40)	(40)
Pre-tax profit	232	275	244	293	350	417	510	561	1,044	1,837	2,937
Current taxation	(32)	(50)	(44)	(53)	(61)	(75)	(90)	(101)	(179)	(327)	(529)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	200	224	200	240	289	342	420	460	865	1,510	2,408
Extraordinary items	(0)	(0)	0	-	-	-	-	-	-	-	-
Net profit	200	224	200	240	289	342	420	460	865	1,510	2,408
EPS (NT\$)	1.04	1.17	1.04	1.26	1.51	1.78	2.19	2.40	4.51	7.88	12.57
Margins (%)											
Gross profit margin	30.2	32.6	31.6	31.8	32.8	33.0	33.2	32.6	31.6	32.9	32.9
Operating margin	15.6	16.5	14.7	16.5	18.2	19.4	20.7	20.9	15.9	19.9	22.2
EBITDA margin	22.4	23.1	21.6	25.4	25.0	25.4	26.4	26.1	23.2	25.8	26.9
Pretax profit margin	17.3	19.1	16.8	17.5	18.9	20.0	21.2	21.4	17.7	20.5	22.6
Net profit margin	15.0	15.6	13.8	14.3	15.6	16.4	17.5	17.6	14.7	16.9	18.5
Sequential growth (%)											
Revenue growth	9.7	7.2	1.0	15.9	10.1	12.4	15.4	9.2			
Gross profit growth	3.4	15.7	(2.0)	16.7	13.6	13.1	16.1	7.2			
Operating profit growth	39.4	13.6	(10.0)	29.8	21.5	19.8	23.1	10.4			
EBITDA growth	28.0	10.7	(5.6)	36.6	8.1	14.5	19.6	8.1			
Pretax profit growth	54.0	18.3	(11.2)	20.2	19.3	19.1	22.4	10.1			
Net profit growth	54.1	12.1	(10.9)	20.2	20.0	18.4	22.8	9.7			
YoY growth (%)											
Revenue growth	44.3	55.8	33.1	37.7	38.2	45.0	65.5	56.0	42.0	51.6	45.3
Gross profit growth	88.4	102.8	52.7	36.8	50.2	46.9	74.0	59.9	64.2	58.0	45.4
Operating profit growth	290.9	301.3	99.7	85.0	61.1	69.9	132.6	97.8	153.7	90.5	61.6
EBITDA growth	129.6	140.5	66.6	82.6	54.3	59.5	102.2	60.1	98.7	68.3	51.3
Pretax profit growth	143.4	1847.8	161.6	94.6	50.7	51.6	109.1	91.5	195.4	76.0	59.8
Net profit growth	121.6	1362.3	128.5	85.1	44.1	52.3	109.8	91.5	167.7	74.6	59.5

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	5,127	6,084	7,131	8,902	11,555
Current assets	2,525	3,202	4,104	5,397	8,158
Cash & ST securities	629	854	892	640	1,292
Inventory	671	801	1,071	1,588	2,312
Accounts receivable	990	1,414	2,008	3,036	4,421
Other current assets	236	133	133	133	133
Non-current assets	2,601	2,882	3,028	3,504	3,396
LT investments	-	-	-	-	-
Net fixed assets	2,292	2,528	2,674	3,150	3,042
Other assets	309	354	354	354	354
Total liabilities	2,656	2,775	3,303	4,168	5,376
Current liabilities	2,553	2,628	3,157	4,021	5,229
Accounts payable	748	940	1,256	1,863	2,711
Interest bearing ST liabilities	1,066	671	671	671	671
Other current liabilities	739	1,018	1,230	1,488	1,847
Non-current liabilities	103	146	146	146	146
Long-term debt	-	-	-	-	-
Other L-T liabilities	80	117	117	117	117
Total equity	2,470	3,309	3,828	4,734	6,179
Share capital	1,736	1,915	1,915	1,915	1,915
Retained earnings reserve	534	771	1,290	2,196	3,641
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Growth					
Revenue growth	41.4%	47.2%	42.0%	51.6%	45.3%
Operating profit growth		204.4%	153.7%	90.5%	61.6%
EBITDA growth	110.6%	83.3%	98.7%	68.3%	51.3%
Net profit growth	(74.6%)	96.1%	167.7%	74.6%	59.5%
EPS growth	(74.9%)	89.7%	146.7%	74.6%	59.5%
Profitability					
Gross profit margin	26.0%	27.3%	31.6%	32.9%	32.9%
Operating margin	4.3%	8.9%	15.9%	19.9%	22.2%
EBITDA margin	13.3%	16.6%	23.2%	25.8%	26.9%
Net profit margin	5.8%	7.8%	14.7%	16.9%	18.5%
Return on average assets	3.4%	5.8%	13.1%	18.8%	23.5%
Return on average equity	6.8%	11.2%	24.2%	35.3%	44.1%
Stability					
Gross debt to equity	43.1%	20.3%	17.5%	14.2%	10.9%
Net debt to equity	17.7%	Net cash	Net cash	0.6%	Net cash
Interest coverage (x)	14.3	14.3	28.5	46.9	74.4
Interest & ST debt coverage (x)	0.1	0.3	0.6	0.7	0.8
Cash flow interest coverage(x)	19.6	25.8	19.8	27.4	43.9
Cash flow/int. & ST debt (x)	0.3	1.0	1.1	1.5	2.5
Current ratio (x)	1.0	1.2	1.3	1.3	1.6
Quick ratio (x)	0.7	0.9	1.0	0.9	1.1
Net debt (NT\$m)	437	(183)	(221)	30	(621)
Per share data					
EPS (NT\$)	0.96	1.83	4.51	7.88	12.57
CFPS (NT\$)	1.75	3.89	3.93	5.72	9.17
BVPS (NT\$)	14.23	17.28	19.99	24.72	32.26
Adj BVPS (NT\$)	14.47	18.75	19.99	24.72	32.26
SPS (NT\$)	16.54	23.55	30.82	46.72	67.87
EBITDA/share (NT\$)	2.21	3.91	7.16	12.05	18.24
Cash DPS (NT\$)	0.30	0.70	1.81	3.15	5.03
Activity					
Sales / avg assets	0.59	0.74	0.89	1.12	1.27
Days receivable	127.9	124.1	124.1	124.1	124.1
Days inventory	117.1	96.8	96.8	96.8	96.8
Days payable	130.7	113.5	113.5	113.5	113.5
Cash cycle	114.3	107.4	107.4	107.4	107.4

Source: Company data, KGI Research estimates

Profit & loss

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue	2,824	4,157	5,903	8,950	13,000
Cost of goods sold	(2,091)	(3,022)	(4,040)	(6,006)	(8,718)
Gross profit	734	1,135	1,863	2,944	4,282
Operating expenses	(612)	(766)	(926)	(1,159)	(1,397)
Operating profit	121	369	937	1,785	2,885
Non-operating income	70	88	102	92	92
Interest income	3	3	9	12	12
Investment income	-	-	-	-	-
Other non-op income	68	84	94	80	80
Non-operating expenses	11	(104)	4	(40)	(40)
Interest expense	(15)	(27)	(38)	(40)	(40)
Investment loss	-	-	-	-	-
Other non-op expenses	26	(77)	42	-	-
Pre-tax profit	203	353	1,044	1,837	2,937
Current taxation	(38)	(30)	(179)	(327)	(529)
Minorities	-	-	-	-	-
Extraordinary items	-	0	(0)	-	-
Net profit	165	323	865	1,510	2,408
EBITDA	377	690	1,372	2,309	3,493
EPS (NT\$)	0.96	1.83	4.51	7.88	12.57

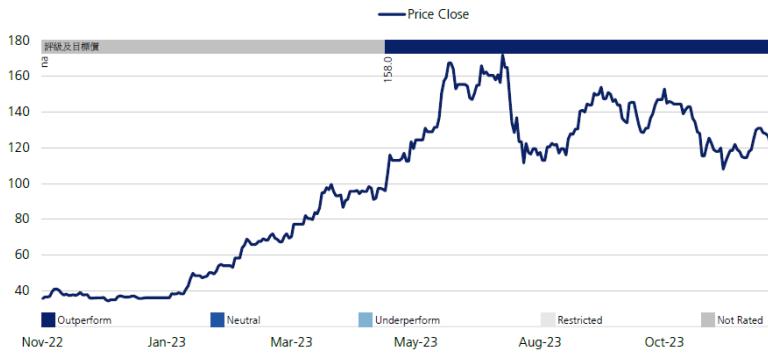
Cash flow

NT\$m	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	298	686	752	1,095	1,756
Net profit	165	323	865	1,510	2,408
Depreciation & amortisation	255	321	435	524	608
Decrease in working capital	(295)	(495)	(547)	(939)	(1,261)
Other operating cash flow	174	537	-	(0)	-
Investing cash flow	(636)	(450)	(580)	(1,000)	(500)
Sale of ST investment	1	-	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(690)	(472)	(580)	(1,000)	(500)
Others investing cashflow	52	21	-	-	-
Free cash flow	(635)	(315)	84	52	1,213
Financing cash flow	103	(36)	(134)	(346)	(604)
Increase in short term debt	256	(441)	-	-	-
Increase in long term loans	(91)	(44)	-	-	-
New ordinary shares issued	-	483	-	-	-
Ordinary dividends paid	(102)	(52)	(134)	(346)	(604)
Other financing cashflow	40	17	0	(0)	(0)
Forex effects	(48)	25			
Total cash generated	(283)	224	38	(251)	652

ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	21.7%	18.4%	15.7%	12.9%	10.7%
= Operating margin	4.3%	8.9%	15.9%	19.9%	22.2%
1 / (Working capital/revenue	0.1	0.1	0.1	0.2	0.2
+ Net PPE/revenue	0.8	0.6	0.5	0.4	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	1.0	1.4	1.7	1.9	2.4
Operating margin	4.3%	8.9%	15.9%	19.9%	22.2%
x Capital turnover	1.0	1.4	1.7	1.9	2.4
x (1 - tax rate)	81.3%	91.4%	82.9%	82.2%	82.0%
= After-tax ROIC	3.5%	11.2%	22.2%	31.5%	43.4%

Source: Company data, KGI Research estimates

Waffer Technology – Recommendation & target price history


Date	Rating	Target	Price
2023-11-09	Outperform	158.0	115.0
2023-08-10	Outperform	158.0	117.0
2023-07-19	Outperform	158.0	128.5
2023-05-16	Outperform	158.0	96.0

Source: TEJ, KGI Research

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