



Zyxel Group (3704.TW/3704 TT)

Riding early sales contribution from defense tenders

Outperform · Maintained

| | |
|-------------------------------|-------|
| Price as of October 17 (NT\$) | 47.80 |
| 12M target price (NT\$) | 65.00 |
| Previous target price (NT\$) | 65.00 |
| Unchanged (%) | 0.0 |
| Upside (%) | 36.0 |

Key message

Zyxel Group announced preliminary 3Q23 results. Gross margin arrived at 22.3%, beating our forecast as defense tenders contributed to sales earlier than expected.

Trading data

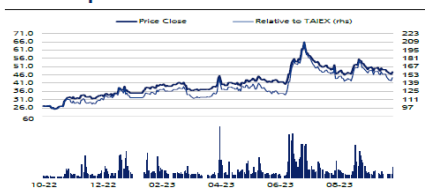
| | |
|------------------------------|--------------|
| Mkt cap (NT\$bn/US\$m) | 19.42 / 602 |
| Outstanding shares (mn) | 406.3 |
| Foreign ownership (mn) | 66.80 |
| 3M avg. daily trading (mn) | 6.76 |
| 52-week trading range (NT\$) | 25.30 –65.70 |

| Performance | 3M | 6M | 12M |
|--------------|-------|------|------|
| Absolute (%) | -27.3 | 19.6 | 76.7 |
| Relative (%) | -23.3 | 15.3 | 48.3 |

Quarterly EPS

| NT\$ | 1Q | 2Q | 3Q | 4Q |
|------|-------|-------|-------|-------|
| 2022 | 0.74A | 0.17A | 1.88A | 1.09A |
| 2023 | 1.17A | 0.77A | 0.73F | 0.88F |
| 2024 | 0.65F | 0.96F | 1.29F | 1.46F |

Share price chart



Source: TEJ

Event

Zyxel announced preliminary 3Q23 results. Gross margin arrived at 22.3%, beating our forecast as defense tenders contributed to sales earlier than expected.

Impact

3Q23 gross margin beat. 3Q23 sales arrived at NT\$6.97bn, down 2.1% QoQ and 19.5% YoY, in line with our forecast. 3Q23 sales fell 2.1% QoQ due to client inventory adjustments. Meanwhile, gross margin rose from 21.2% in 2Q23 to 22.3%, despite recognition of inventory impairment losses, thanks to: (1) an improving product mix driven by continued growth of PON shipments and the phase-out of DSL products; and (2) sales contribution from defense tenders, which are margin-accretive, although they only accounted for less than 5% of 3Q23 sales. With the booking of additional operating expenses for employee bonuses and forex gains of around NT\$100mn, preliminary 3Q23 EPS came in at NT\$0.73, beating our forecast.

Riding operating upswing from 4Q23. We leave our 4Q23 sales forecast unchanged, but raise our gross margin estimate to 23.8%, resulting in 4Q23F EPS of NT\$0.88, up 19.4% QoQ, but down 19.8% YoY, as: (1) we believe client inventory adjustments are nearing the end, and although 3Q23 marks the recent sales trough, we have not yet seen substantial demand recovery; (2) sales contribution from defense orders should pick up gradually; and (3) gross margin erosion due to inventory write-offs ended in 3Q23.

2024 outlook intact. Given that the bulk of recent orders are for near term delivery, we remain conservative about outlook of moderate growth in 2024 telecom demand. Despite lower capacity utilization and recognition of inventory impairment losses, defense tenders started to contribute to sales earlier than expected, and as overall gross margin rose in 3Q23 on continued product mix optimization, we fine-tune 2024F sales to NT\$31bn and raise full-year gross margin to 24%. We also raise our forecast for quarterly operating expenses to NT\$1.3bn. Net-net, we now estimate 2024 EPS will grow 22.7% YoY to NT\$4.35.

Valuation & Action

We maintain Outperform on Zyxel Group, and keep our target price unchanged at NT\$65, based on 15x 2024F revised EPS.

Risks

Component shortages; continued pandemic impact; NT-dollar appreciation.

Key financials and valuations

| | Dec-20A | Dec-21A | Dec-22A | Dec-23F | Dec-24F |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue (NT\$m) | 22,251 | 25,682 | 30,516 | 30,281 | 31,029 |
| Gross profit (NT\$m) | 5,780 | 6,061 | 6,988 | 6,719 | 7,462 |
| Operating profit (NT\$m) | 1,293 | 1,425 | 1,847 | 1,444 | 2,224 |
| Net profit (NT\$m) | 828 | 1,097 | 1,618 | 1,402 | 1,722 |
| EPS (NT\$) | 1.91 | 2.49 | 3.87 | 3.55 | 4.35 |
| Cash DPS (NT\$) | 0.50 | 0.51 | 1.25 | 1.00 | 1.50 |
| EPS growth (%) | 674.0 | 30.1 | 55.6 | (8.5) | 22.7 |
| PE (x) | 25.0 | 19.2 | 12.3 | 13.5 | 11.0 |
| PB (x) | 2.6 | 2.4 | 1.9 | 1.8 | 1.6 |
| EV/EBITDA (x) | 11.1 | 10.9 | 8.5 | 7.7 | 5.1 |
| Net debt to equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Dividend yield (%) | 1.0 | 1.1 | 2.6 | 2.1 | 3.1 |
| Return on average equity (%) | 10.7 | 12.6 | 17.1 | 13.6 | 15.1 |

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 | 6,974 | 6,852 | 1.8 | (2.1) | (19.5) | 6,647 | 4.9 | 7,330 | 7,330 | 0.0 | 5.1 | (14.7) | 7,822 | (6.3) |
| Gross profit | 1,556 | 1,437 | 8.2 | 3.2 | (21.9) | 1,406 | 10.7 | 1,747 | 1,673 | 4.4 | 12.3 | (19.5) | 1,851 | (5.6) |
| Operating income | 209 | 236 | (11.6) | (21.3) | (70.9) | 218 | (4.3) | 431 | 435 | (1.1) | 106.1 | (36.8) | 596 | (27.7) |
| Pretax income | 368 | 244 | 50.7 | (12.2) | (60.6) | 249 | 47.8 | 439 | 443 | (1.0) | 19.1 | (11.7) | 625 | (29.8) |
| Net income | 290 | 188 | 54.1 | (4.6) | (62.0) | 192 | 50.8 | 346 | 344 | 0.7 | 19.4 | (24.1) | 485 | (28.6) |
| EPS (NT\$) | 0.73 | 0.48 | 54.1 | (4.6) | (61.1) | 0.48 | 52.8 | 0.88 | 0.87 | 0.7 | 19.4 | (19.8) | 1.21 | (27.8) |
| Gross margin (%) | 22.3 | 21.0 | 1.3 ppts | 1.1 ppts | (0.7)ppts | 21.2 | 1.2 ppts | 23.8 | 22.8 | 1.0 ppts | 1.5 ppts | (1.4)ppts | 23.7 | 0.2 ppts |
| OP margin (%) | 3.0 | 3.5 | (0.5)ppts | (0.7)ppts | (5.3)ppts | 3.3 | (0.3)ppts | 5.9 | 5.9 | (0.1)ppts | 2.9 ppts | (2.1)ppts | 7.6 | (1.7)ppts |
| Net margin (%) | 4.2 | 2.7 | 1.4 ppts | (0.1)ppts | (4.6)ppts | 2.9 | 1.3 ppts | 4.7 | 4.7 | 0.0 ppts | 0.6 ppts | (0.6)ppts | 6.2 | (1.5)ppts |

Source: Company data, Bloomberg, KGI Research estimates

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

| NT\$m | 2023F | | | | | | 2024F | | | | | |
|------------------|----------|----------|-----------|-----------|-----------|-----------|----------|----------|-----------|----------|-----------|-----------|
| | Revision | Previous | Chg. (%) | YoY (%) | Consensus | Diff. (%) | Revision | Previous | Chg. (%) | YoY (%) | Consensus | Diff. (%) |
| Sales | 30,281 | 30,159 | 0.4 | (0.8) | 30,374 | (0.3) | 31,029 | 30,531 | 1.6 | 2.5 | 31,383 | (1.1) |
| Gross profit | 6,719 | 6,527 | 2.9 | (3.8) | 6,639 | 1.2 | 7,462 | 7,286 | 2.4 | 11.0 | 7,481 | (0.3) |
| Operating income | 1,444 | 1,476 | (2.2) | (21.8) | 1,583 | (8.8) | 2,224 | 2,201 | 1.1 | 54.0 | 2,302 | (3.4) |
| Pretax income | 1,800 | 1,681 | 7.1 | (9.7) | 1,821 | (1.1) | 2,236 | 2,213 | 1.1 | 24.2 | 2,381 | (6.1) |
| Net income | 1,402 | 1,298 | 8.0 | (13.4) | 1,443 | (2.9) | 1,722 | 1,704 | 1.1 | 22.8 | 1,851 | (7.0) |
| EPS (NT\$) | 3.55 | 3.28 | 8.0 | (8.5) | 3.53 | 0.6 | 4.35 | 4.31 | 1.1 | 22.7 | 4.55 | (4.3) |
| Gross margin (%) | 22.2 | 21.6 | 0.5 ppts | (0.7)ppts | 21.9 | 0.3 ppts | 24.0 | 23.9 | 0.2 ppts | 1.9 ppts | 23.8 | 0.2 ppts |
| OP margin (%) | 4.8 | 4.9 | (0.1)ppts | (1.3)ppts | 5.2 | (0.4)ppts | 7.2 | 7.2 | (0.0)ppts | 2.4 ppts | 7.3 | (0.2)ppts |
| Net margin (%) | 4.6 | 4.3 | 0.3 ppts | (0.7)ppts | 4.8 | (0.1)ppts | 5.5 | 5.6 | (0.0)ppts | 0.9 ppts | 5.9 | (0.4)ppts |

Source: Bloomberg, KGI Research estimates

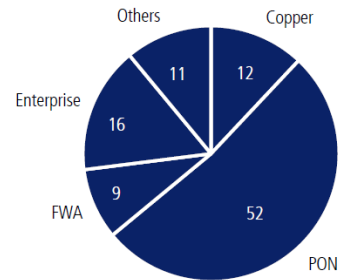
Figure 3: Company profile

Established in 1989, Zyxel Group has subsidiaries Zyxel Communications, MitraStar Technology, and Zyxel Networks. Zyxel Communications is dedicated to developing innovative products under the Zyxel brand for telecom operators, while Zyxel Networks is focused on enterprise and household customers, and MitraStar Technology serves ODM clients. Product mix in 3Q23 was PON (52%), copper broadband (12%), enterprise (16%), FWA (9%), and others (11%).

Source: Company data, KGI Research

Figure 4: Sales mix

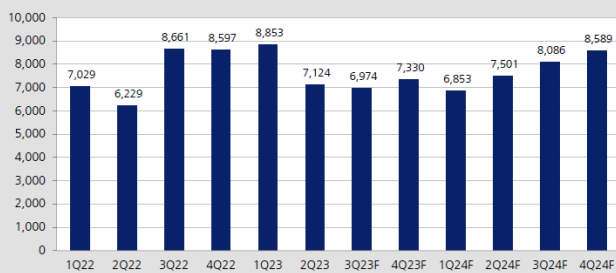
3Q23 sales weighting, percent



Source: Company data, KGI Research

Figure 5: Sales

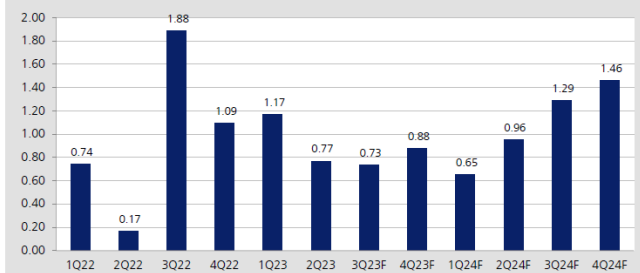
Sales, NT\$m



Source: KGI Research

Figure 6: EPS

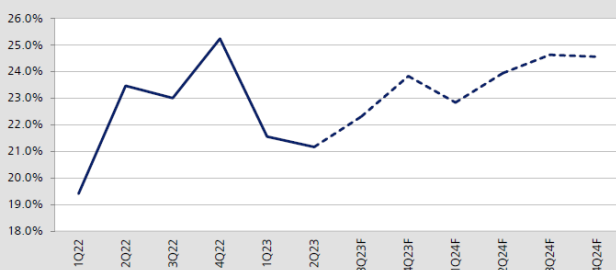
EPS, NT\$



Source: KGI Research

Figure 7: Gross Margin

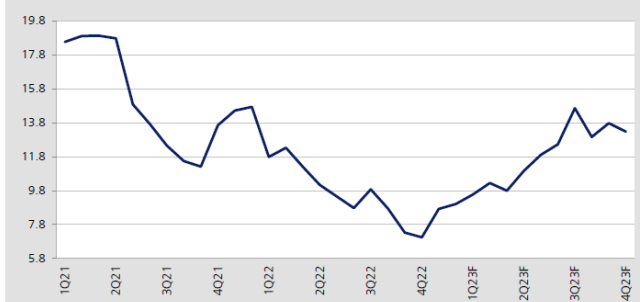
Gross margin, percent



Source: KGI Research

Figure 8: Rolling PE

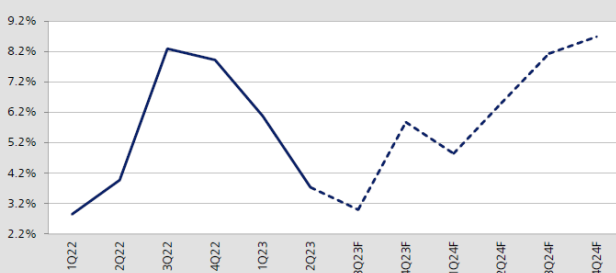
Rolling PE, times



Source: KGI Research

Figure 9: Operating Margin

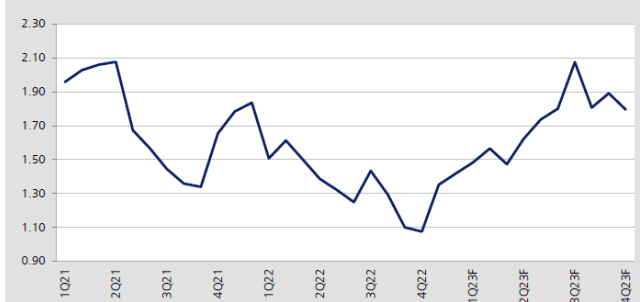
Operating margin, percent



Source: KGI Research

Figure 10: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

| | Quarterly | | | | | | | | Annually | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| | Mar-23A | Jun-23A | Sep-23F | Dec-23F | Mar-24F | Jun-24F | Sep-24F | Dec-24F | Dec-22A | Dec-23F | Dec-24F |
| Income statement (NT\$mn) | | | | | | | | | | | |
| Revenue | 8,853 | 7,124 | 6,974 | 7,330 | 6,853 | 7,501 | 8,086 | 8,589 | 30,516 | 30,281 | 31,029 |
| Cost of goods sold | (6,945) | (5,616) | (5,418) | (5,583) | (5,288) | (5,705) | (6,094) | (6,480) | (23,528) | (23,562) | (23,567) |
| Gross profit | 1,909 | 1,508 | 1,556 | 1,747 | 1,565 | 1,796 | 1,992 | 2,109 | 6,988 | 6,719 | 7,462 |
| Operating expenses | (1,371) | (1,242) | (1,347) | (1,316) | (1,233) | (1,308) | (1,334) | (1,363) | (5,141) | (5,276) | (5,238) |
| Operating profit | 538 | 266 | 209 | 431 | 332 | 488 | 658 | 746 | 1,847 | 1,444 | 2,224 |
| Depreciation of fixed assets | (84) | (82) | (162) | (320) | (175) | (175) | (175) | (175) | (302) | (648) | (702) |
| Amortisation of intangible assets | (32) | (34) | (28) | (19) | (28) | (28) | (28) | (28) | (112) | (114) | (114) |
| EBITDA | 654 | 381 | 399 | 770 | 536 | 692 | 862 | 950 | 2,261 | 2,205 | 3,039 |
| Interest income | 34 | 27 | 20 | 20 | 20 | 20 | 20 | 20 | 66 | 101 | 80 |
| Investment income | 0 | 1 | - | - | - | - | - | - | 12 | 2 | - |
| Other non-op income | 8 | 8 | 151 | - | - | - | - | - | 46 | 167 | - |
| Non-operating income | 42 | 36 | 171 | 20 | 20 | 20 | 20 | 20 | 124 | 270 | 80 |
| Interest expense | (19) | (15) | (15) | (15) | (20) | (20) | (20) | (20) | (73) | (64) | (80) |
| Investment loss | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (11) | (8) | (8) |
| Other non-op expenses | 14 | 134 | 5 | 5 | 5 | 5 | 5 | 5 | 105 | 158 | 20 |
| Non-operating expenses | (7) | 118 | (12) | (12) | (17) | (17) | (17) | (17) | 21 | 86 | (68) |
| Pre-tax profit | 573 | 420 | 368 | 439 | 335 | 491 | 661 | 749 | 1,992 | 1,800 | 2,236 |
| Current taxation | (107) | (118) | (72) | (101) | (77) | (113) | (152) | (172) | (365) | (398) | (514) |
| Minorities | (4) | 2 | (6) | 8 | - | - | - | - | (8) | - | - |
| Normalised net profit | 461 | 304 | 290 | 346 | 258 | 378 | 509 | 577 | 1,618 | 1,402 | 1,722 |
| Extraordinary items | 0 | (0) | - | (0) | - | - | - | - | - | - | - |
| Net profit | 461 | 304 | 290 | 346 | 258 | 378 | 509 | 577 | 1,618 | 1,402 | 1,722 |
| EPS (NT\$) | 1.17 | 0.77 | 0.73 | 0.88 | 0.65 | 0.96 | 1.29 | 1.46 | 3.87 | 3.55 | 4.35 |
| Margins (%) | | | | | | | | | | | |
| Gross profit margin | 21.6 | 21.2 | 22.3 | 23.8 | 22.8 | 23.9 | 24.6 | 24.6 | 22.9 | 22.2 | 24.0 |
| Operating margin | 6.1 | 3.7 | 3.0 | 5.9 | 4.8 | 6.5 | 8.1 | 8.7 | 6.1 | 4.8 | 7.2 |
| EBITDA margin | 7.4 | 5.4 | 5.7 | 10.5 | 7.8 | 9.2 | 10.7 | 11.1 | 7.4 | 7.3 | 9.8 |
| Pretax profit margin | 6.5 | 5.9 | 5.3 | 6.0 | 4.9 | 6.5 | 8.2 | 8.7 | 6.5 | 5.9 | 7.2 |
| Net profit margin | 5.2 | 4.3 | 4.2 | 4.7 | 3.8 | 5.0 | 6.3 | 6.7 | 5.3 | 4.6 | 5.5 |
| Sequential growth (%) | | | | | | | | | | | |
| Revenue growth | 3.0 | (19.5) | (2.1) | 5.1 | (6.5) | 9.5 | 7.8 | 6.2 | | | |
| Gross profit growth | (12.0) | (21.0) | 3.2 | 12.3 | (10.4) | 14.7 | 10.9 | 5.9 | | | |
| Operating profit growth | (21.0) | (50.6) | (21.3) | 106.1 | (22.9) | 46.9 | 34.9 | 13.4 | | | |
| EBITDA growth | (17.6) | (41.7) | 4.7 | 92.9 | (30.4) | 29.1 | 24.6 | 10.3 | | | |
| Pretax profit growth | 15.3 | (26.7) | (12.2) | 19.1 | (23.7) | 46.5 | 34.7 | 13.4 | | | |
| Net profit growth | 1.1 | (34.1) | (4.6) | 19.4 | (25.5) | 46.5 | 34.7 | 13.4 | | | |
| YoY growth (%) | | | | | | | | | | | |
| Revenue growth | 26.0 | 14.4 | (19.5) | (14.7) | (22.6) | 5.3 | 15.9 | 17.2 | 18.8 | (0.8) | 2.5 |
| Gross profit growth | 39.9 | 3.2 | (21.9) | (19.5) | (18.0) | 19.1 | 28.0 | 20.7 | 15.3 | (3.8) | 11.0 |
| Operating profit growth | 169.2 | 7.5 | (70.9) | (36.8) | (38.3) | 83.5 | 214.7 | 73.2 | 29.6 | (21.8) | 54.0 |
| EBITDA growth | 120.0 | 10.0 | (51.5) | (3.0) | (18.1) | 81.3 | 115.7 | 23.3 | 26.2 | (2.5) | 37.8 |
| Pretax profit growth | 31.5 | 238.5 | (60.6) | (11.7) | (41.5) | 16.9 | 79.4 | 70.8 | 38.5 | (9.7) | 24.2 |
| Net profit growth | 41.6 | 311.7 | (62.0) | (24.1) | (44.1) | 24.2 | 75.5 | 66.6 | 47.6 | (13.4) | 22.8 |

Source: Company data, KGI Research estimates

Balance sheet

| NTSmn | Dec-20A | Dec-21A | Dec-22A | Dec-23F | Dec-24F |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total assets | 19,589 | 21,394 | 27,063 | 28,922 | 30,667 |
| Current assets | 16,408 | 18,005 | 23,347 | 25,445 | 27,464 |
| Cash & ST securities | 4,647 | 5,722 | 6,191 | 8,342 | 10,197 |
| Inventory | 4,901 | 6,212 | 8,001 | 8,013 | 7,993 |
| Accounts receivable | 5,846 | 5,543 | 8,449 | 8,385 | 8,568 |
| Other current assets | 1,014 | 528 | 706 | 706 | 706 |
| Non-current assets | 3,181 | 3,389 | 3,716 | 3,477 | 3,204 |
| LT investments | 122 | 147 | 171 | 173 | 180 |
| Net fixed assets | 1,592 | 1,699 | 1,891 | 1,651 | 1,370 |
| Other assets | 1,467 | 1,543 | 1,654 | 1,654 | 1,654 |
| Total liabilities | 11,283 | 12,174 | 17,049 | 17,940 | 18,495 |
| Current liabilities | 10,582 | 9,524 | 14,402 | 14,977 | 15,164 |
| Accounts payable | 5,779 | 5,002 | 6,911 | 6,921 | 6,904 |
| Interest bearing ST liabilities | 1,914 | 1,757 | 3,331 | 3,964 | 4,069 |
| Other current liabilities | 2,888 | 2,765 | 4,160 | 4,093 | 4,191 |
| Non-current liabilities | 701 | 2,650 | 2,647 | 2,962 | 3,331 |
| Long-term debt | - | 1,896 | 1,897 | 2,213 | 2,581 |
| Other L-T liabilities | 258 | 354 | 346 | 346 | 346 |
| Total equity | 8,306 | 9,220 | 10,014 | 10,983 | 12,172 |
| Share capital | 4,476 | 4,536 | 4,002 | 4,002 | 4,002 |
| Retained earnings reserve | (33) | 1,066 | 2,283 | 3,251 | 4,441 |
| Minority interests | 27 | 149 | 162 | 162 | 162 |
| Preferred shareholders funds | - | - | - | - | - |

Key ratios

| | Dec-20A | Dec-21A | Dec-22A | Dec-23F | Dec-24F |
|---------------------------------|----------|----------|----------|----------|----------|
| Growth | | | | | |
| Revenue growth | (7.4%) | 15.4% | 18.8% | (0.8%) | 2.5% |
| Operating profit growth | 635.3% | 10.3% | 29.6% | (21.8%) | 54.0% |
| EBITDA growth | 204.5% | 8.2% | 26.2% | (2.5%) | 37.8% |
| Net profit growth | 675.6% | 32.5% | 47.6% | (13.4%) | 22.8% |
| EPS growth | 674.0% | 30.1% | 55.6% | (8.5%) | 22.7% |
| Profitability | | | | | |
| Gross profit margin | 26.0% | 23.6% | 22.9% | 22.2% | 24.0% |
| Operating margin | 5.8% | 5.6% | 6.1% | 4.8% | 7.2% |
| EBITDA margin | 7.4% | 7.0% | 7.4% | 7.3% | 9.8% |
| Net profit margin | 3.7% | 4.3% | 5.3% | 4.6% | 5.5% |
| Return on average assets | 4.7% | 5.4% | 6.7% | 5.0% | 5.8% |
| Return on average equity | 10.7% | 12.6% | 17.1% | 13.6% | 15.1% |
| Stability | | | | | |
| Gross debt to equity | 23.0% | 39.6% | 52.2% | 56.2% | 54.6% |
| Net debt to equity | Net cash | Net cash | Net cash | Net cash | Net cash |
| Interest coverage (x) | 51.4 | 50.4 | 28.4 | 29.2 | 28.9 |
| Interest & ST debt coverage (x) | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| Cash flow interest coverage(x) | 66.4 | 7.0 | 6.5 | 35.0 | 29.6 |
| Cash flow/int. & ST debt (x) | 0.8 | 0.1 | 0.1 | 0.6 | 0.6 |
| Current ratio (x) | 1.6 | 1.9 | 1.6 | 1.7 | 1.8 |
| Quick ratio (x) | 1.1 | 1.2 | 1.1 | 1.2 | 1.3 |
| Net debt (NT\$m) | (2,164) | (1,640) | (812) | (2,016) | (3,397) |
| Per share data | | | | | |
| EPS (NT\$) | 1.91 | 2.49 | 3.87 | 3.55 | 4.35 |
| CFPS (NT\$) | 3.58 | 0.47 | 1.13 | 5.65 | 5.98 |
| BVPS (NT\$) | 18.49 | 20.00 | 24.62 | 27.04 | 30.01 |
| Adj BVPS (NT\$) | 19.14 | 20.59 | 23.58 | 27.37 | 30.36 |
| SPS (NT\$) | 51.43 | 58.31 | 73.04 | 76.60 | 78.45 |
| EBITDA/share (NT\$) | 3.83 | 4.07 | 5.41 | 5.58 | 7.68 |
| Cash DPS (NT\$) | 0.50 | 0.51 | 1.25 | 1.00 | 1.50 |
| Activity | | | | | |
| Sales / avg assets | 1.27 | 1.25 | 1.26 | 1.08 | 1.04 |
| Days receivable | 96.2 | 78.8 | 101.1 | 101.1 | 101.1 |
| Days inventory | 108.9 | 115.6 | 124.1 | 124.1 | 124.1 |
| Days payable | 128.4 | 93.0 | 107.2 | 107.2 | 107.2 |
| Cash cycle | 76.6 | 101.3 | 118.0 | 118.0 | 118.0 |

Source: Company data, KGI Research estimates

Profit & loss

| NTSmn | Dec-20A | Dec-21A | Dec-22A | Dec-23F | Dec-24F |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 22,251 | 25,682 | 30,516 | 30,281 | 31,029 |
| Cost of goods sold | (16,471) | (19,621) | (23,528) | (23,562) | (23,567) |
| Gross profit | 5,780 | 6,061 | 6,988 | 6,719 | 7,462 |
| Operating expenses | (4,487) | (4,635) | (5,141) | (5,276) | (5,238) |
| Operating profit | 1,293 | 1,425 | 1,847 | 1,444 | 2,224 |
| Non-operating income | 173 | 81 | 124 | 270 | 80 |
| Interest income | 14 | 16 | 66 | 101 | 80 |
| Investment income | - | 3 | 12 | 2 | - |
| Other non-op income | 159 | 62 | 46 | 167 | - |
| Non-operating expenses | (290) | (69) | 21 | 86 | (68) |
| Interest expense | (23) | (29) | (73) | (64) | (80) |
| Investment loss | (12) | (7) | (11) | (8) | (8) |
| Other non-op expenses | (254) | (33) | 105 | 158 | 20 |
| Pre-tax profit | 1,176 | 1,438 | 1,992 | 1,800 | 2,236 |
| Current taxation | (345) | (343) | (365) | (398) | (514) |
| Minorities | (3) | 1 | (8) | - | - |
| Extraordinary items | - | (0) | 0 | - | - |
| Net profit | 828 | 1,097 | 1,618 | 1,402 | 1,722 |
| EBITDA | 1,657 | 1,792 | 2,261 | 2,205 | 3,039 |
| EPS (NT\$) | 1.91 | 2.49 | 3.87 | 3.55 | 4.35 |

Cash flow

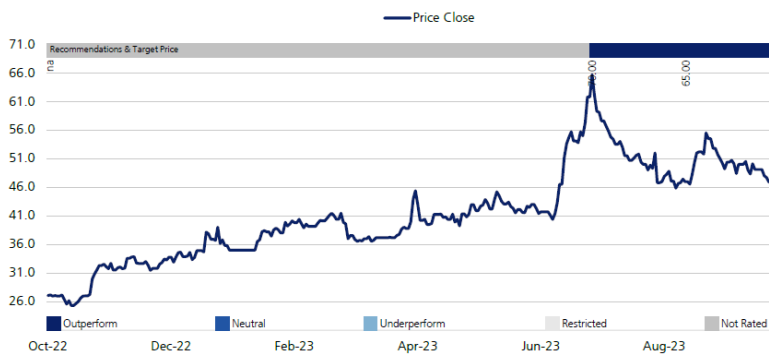
| NTSmn | Dec-20A | Dec-21A | Dec-22A | Dec-23F | Dec-24F |
|-----------------------------|----------------|--------------|----------------|--------------|--------------|
| Operations cash flow | 1,547 | 205 | 471 | 2,235 | 2,364 |
| Net profit | 828 | 1,097 | 1,618 | 1,402 | 1,722 |
| Depreciation & amortisation | 364 | 367 | 414 | 762 | 816 |
| Decrease in working capital | 10 | (1,715) | (3,086) | 63 | (181) |
| Other operating cash flow | 345 | 456 | 1,525 | 8 | 8 |
| Investing cash flow | (1,104) | (422) | (342) | (531) | (550) |
| Sale of ST investment | (620) | 135 | 237 | - | - |
| New investments | - | - | (20) | (10) | (15) |
| Capital expenditure | (176) | (380) | (435) | (407) | (421) |
| Others investing cashflow | (309) | (178) | (124) | (114) | (114) |
| Free cash flow | 1,016 | (735) | (1,711) | 1,428 | 1,812 |
| Financing cash flow | 353 | 1,603 | 646 | 448 | 41 |
| Increase in short term debt | (16) | (57) | 1,585 | - | - |
| Increase in long term loans | - | 1,896 | - | 948 | 474 |
| New ordinary shares issued | 40 | 102 | (442) | - | - |
| Ordinary dividends paid | - | (221) | (225) | (500) | (433) |
| Other financing cashflow | 329 | (74) | 41 | 0 | 0 |
| Forex effects | 63 | (171) | (28) | | |
| Total cash generated | 859 | 1,215 | 747 | 2,151 | 1,855 |

ROIC

| | Dec-20A | Dec-21A | Dec-22A | Dec-23F | Dec-24F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| 1 - COGS/revenue | | | | | |
| - Operating exp./revenue | 20.2% | 18.0% | 16.8% | 17.4% | 16.9% |
| = Operating margin | 5.8% | 5.6% | 6.1% | 4.8% | 7.2% |
| 1 / (Working capital/revenue | | | | | |
| + Net PPE/revenue | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| + Other assets/revenue) | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| = Capital turnover | 4.5 | 4.0 | 3.7 | 3.8 | 4.0 |
| Operating margin | 5.8% | 5.6% | 6.1% | 4.8% | 7.2% |
| x Capital turnover | 4.5 | 4.0 | 3.7 | 3.8 | 4.0 |
| x (1 - tax rate) | 70.7% | 76.2% | 81.7% | 77.9% | 77.0% |
| = After-tax ROIC | 18.6% | 16.9% | 18.2% | 14.0% | 21.9% |

Source: Company data, KGI Research estimates

Zyxel Group – Recommendation & target price history



| Date | Rating | Target | Price |
|------------|------------|--------|-------|
| 2023-09-01 | Outperform | 65.00 | 46.95 |
| 2023-07-16 | Outperform | 70.00 | 61.80 |

Source: TEJ, KGI Research

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