

Elite Material (2383.TW/2383 TT)

Leading the 800Gb switch CCL market; capacity rising

Outperform · Maintained

Price as of July 9 (NT\$)	506
12M target price (NT\$)	615
Previous target price (NT\$)	590
Revised up (%)	4.2
Upside (%)	21.5

Key message

- 2Q24 sales beat by 4%, earnings revised up by 6.7%.
- Leading supplier of switch trays & 800G switches for GB200 server racks.
- 2025F monthly capacity up 28% YoY to 5.5mn sheets.

Trading data

Mkt cap (NT\$bn/US\$m)	174.3 / 5,369
Outstanding shares (mn)	344.6
Foreign ownership (mn)	94.94
3M avg. daily trading (mn)	5.20
52-week trading range (NT\$)	295.0 –545

Performance	3M	6M	12M
Absolute (%)	16.5	38.3	94.2
Relative (%)	1.6	2	50.8

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	3.98A	3.25A	3.93A	4.08A
2023	1.44A	3.00A	6.04A	5.92A
2024	5.76A	7.28F	8.19F	7.30F

Share price chart



Source: TEJ

Event

Elite Material's (EMC) sales were NT\$5.25bn in June, up 2% MoM and 63% YoY, while 2Q24 sales were NT\$15.4bn, up 20% QoQ and 68% YoY, achieving the upper end of guidance, and beating consensus of NT\$14.9bn.

Impact

2Q24 sales beat by 4%. We expect 2Q24 capacity utilization (UTR) to rise by 10ppts QoQ to 90%, and forecast infrastructure and networking sales to grow by 32% QoQ to 61%, as well as the sales weighting of AI server products rising by 2-3ppts to 28-29% of overall sales. Despite a negative impact (0.5-1ppts) from copper prices, an improved UTR and a better product mix lead us to slightly revise up 2Q24F gross margin by 0.2ppts to 29.7%, and raise earnings by 6.7%, for 2Q24F EPS of NT\$7.28.

Major supplier of switch trays & 800Gb switches for GB200 server racks. Most computing tray PCB boards in GB200 servers are produced by a Korean firm, while EMC is a major supplier of switch trays and TOR switch (Quantum/ spectrumX800) PCB boards. In terms of total area, the firm holds market share of close to 40%.

Market share of 800Gb switches to reach over 50%. Thanks to mass production after August, the average PCB layer count is 38-48 layers, with boards using M8 materials and above (extreme/ super low loss). We believe the firm will achieve medium-term 800Gb switch market share of 50-60%. Our estimated 2024-25F global 800Gb switch shipments are 30k-50k and over 300k units, respectively. We forecast EMC's sales weighting of 800Gb switches to arrive at 0.9% and 7% in 4Q24F and 2025F, respectively.

2025F capacity up 28% YoY to cope with high-speed board demand. Driven by EMC's dominant market share of 400Gb/ 800Gb switches, rising market share of US datacenter server PCB, and demand for ASIC servers, monthly capacity of the Malaysia plant and the Chung Shan plant will increase by 600k sheets each in 1Q25F and 4Q25F, respectively. 2024-25F monthly capacity will reach a respective 4.3mn and 5.5mn sheets.

Valuation & Action

EMC boasts a leading position in the 800Gb switch PCB market. The firm plans further capacity expansion. We accordingly revise up 2024-25F earnings by 4% and 4.2%, and our target price to NT\$615, based on 20x 2024-25F average EPS. Maintain Outperform.

Risks

Weaker-than-expected client demand; competitors gain development lead.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$m)	38,500	38,673	41,296	60,539	68,476
Gross profit (NT\$m)	10,069	9,710	11,333	17,824	20,262
Operating profit (NT\$m)	6,923	6,225	7,346	12,566	14,558
Net profit (NT\$m)	5,493	5,073	5,488	9,817	11,316
EPS (NT\$)	16.50	15.24	16.35	28.51	32.87
Cash DPS (NT\$)	10.00	8.50	10.00	17.50	20.50
EPS growth (%)	45.6	(7.7)	7.3	74.4	15.3
PE (x)	30.7	33.2	31.0	17.7	15.4
PB (x)	8.5	7.6	6.5	5.7	5.0
EV/EBITDA (x)	21.7	23.9	19.7	12.9	11.3
Net debt to equity (%)	Net cash	Net cash	2.7	24.5	22.6
Dividend yield (%)	2.0	1.7	2.0	3.5	4.1
Return on average equity (%)	30.1	24.3	22.5	34.3	34.7

Source: Company data; KGI Research estimates

Figure 1: Breakdown of 2Q24 & 3Q24 forecast revisions vs. consensus

NT\$m	2Q24F					3Q24F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	15,449	14,863	3.9	14,869	3.9	16,134	14,863	8.6	15,774	2.3
Gross profits	4,589	4,384	4.7	4,412	4.0	4,932	4,717	4.6	4,784	3.1
Operating profit	3,268	3,063	6.7	3,025	8.0	3,583	3,383	5.9	3,372	6.3
Net income	2,505	2,348	6.7	2,300	8.9	2,819	2,677	5.3	2,632	7.1
EPS (NT\$)	7.28	6.82	6.7	6.83	6.5	8.19	7.78	5.3	7.73	6.0
Gross margin (%)	29.7	29.5	0.2 ppts	29.7	0.0 ppts	30.6	31.7	(1.2)ppts	30.3	0.2 ppts
OP margin (%)	21.2	20.6	0.5 ppts	20.3	0.8 ppts	22.2	22.8	(0.6)ppts	21.4	0.8 ppts
Net margin (%)	16.2	15.8	0.4 ppts	15.5	0.7 ppts	17.5	18.0	(0.5)ppts	16.7	0.8 ppts

Source: Bloomberg; KGI Research

Figure 2: Breakdown of 2024-25 forecast revisions vs. consensus

NT\$m	2024F					2025F				
	Revision	Previous	Chg. (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	Consensus	Diff. (%)
Sales	60,539	58,141	4.1	58,610	3.3	68,476	64,779	5.7	63,876	7.2
Gross profit	17,824	17,218	3.5	17,407	2.4	20,262	19,359	4.7	18,974	6.8
Operating profit	12,566	11,980	4.9	12,139	3.5	14,558	13,875	4.9	13,348	9.1
Net profit	9,817	9,436	4.0	9,454	3.8	11,316	10,862	4.2	10,404	8.8
EPS (NT\$)	28.51	27.41	4.0	27.64	3.2	32.87	31.55	4.2	30.42	8.0
Gross margin (%)	29.4	29.6	(0.2)ppts	29.7	(0.3)ppts	29.6	29.9	(0.3)ppts	29.7	(0.1)ppts
OP margin (%)	20.8	20.6	0.2 ppts	20.7	0.0 ppts	21.3	21.4	(0.2)ppts	20.9	0.4 ppts
Net margin (%)	16.2	16.2	(0.0)ppts	16.1	0.1 ppts	16.5	16.8	(0.2)ppts	16.3	0.2 ppts

Source: Bloomberg; KGI Research

Figure 3: Peer comparison – Valuations

Company	Ticker	Mkt Cap (US\$m)	Price (LCY)	EPS (LCY)			PE (x)			PB (x)			ROE (%)			Dividend yield (%)		
				2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
EMC	2383 TT	5,354	506.00	16.35	28.51	32.87	31.0	17.7	15.4	6.48	5.70	5.00	22.5	34.3	34.7	2.0	3.5	4.1
TUC	6274 TT	1,432	171.50	2.96	9.75	12.75	57.9	17.6	13.4	4.02	3.63	2.98	6.8	20.8	23.5	2.3	3.8	5.0
ITEQ	6213 TT	1,288	115.50	1.86	5.14	7.60	62.0	22.5	15.2	2.16	2.02	1.82	3.4	9.3	12.6	1.3	2.6	3.9
VENTEC	6672 TT	169	77.20	6.08	N.A.	N.A.	12.7	N.A.	N.A.	1.71	N.A.	N.A.	13.7	N.A.	N.A.	4.3	N.A.	N.A.
Kingboard	1888 HK	3,343	8.37	0.34	0.55	0.83	24.5	15.1	10.1	1.75	1.69	1.63	7.1	11.1	15.5	1.9	3.0	4.4

Source: Bloomberg; KGI Research

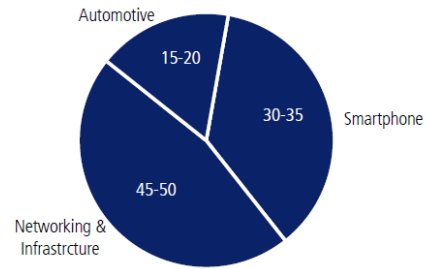
Figure 4: Company profile

Established in 1992, Elite Material Co. (EMC) is one of the four largest producers of CCL in Taiwan, and is the world's largest halogen-free substrate supplier. The firm specializes in production of CCL, PP, and multi-stacked PCB (M/L). In 2022, EMC derived 40-45% of sales from smartphones, 35-40% from networking & infrastructure, and 15-20% from automotive. Monthly capacity is currently 3.85mn sheets of CCL, 13.1mn meters of PP, 800k square feet of M/L, and 40k panels of MCCL.

Source: KGI Research

Figure 5: 2023 product mix

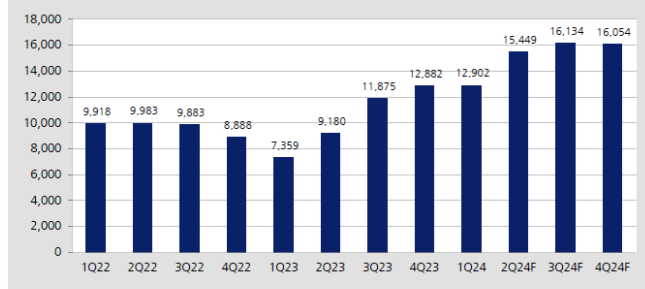
Sales weighting, percent



Source: Company data; KGI Research

Figure 6: Sales

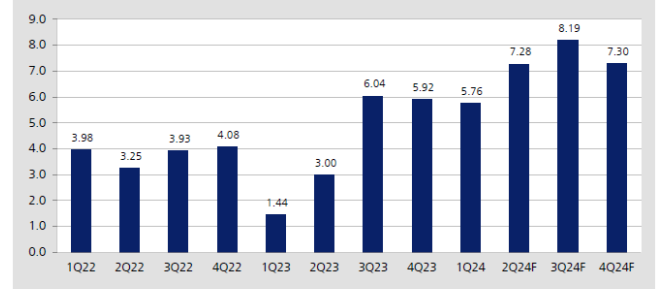
Sales, NT\$m



Source: KGI Research

Figure 7: EPS

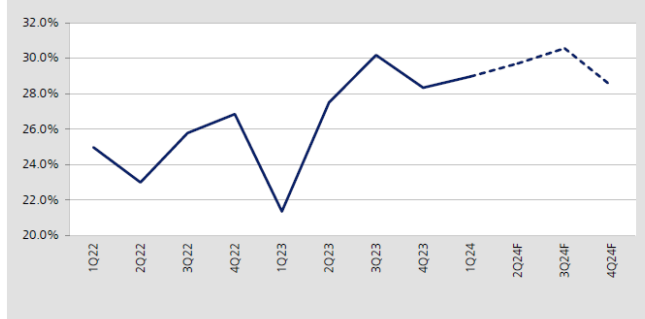
EPS, NT\$



Source: KGI Research

Figure 8: Gross Margin

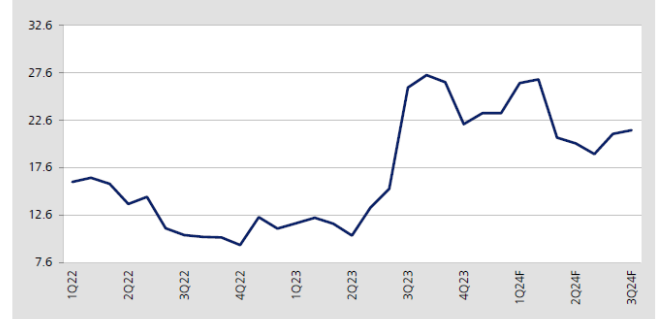
Gross margin, percent



Source: KGI Research

Figure 9: Rolling PE

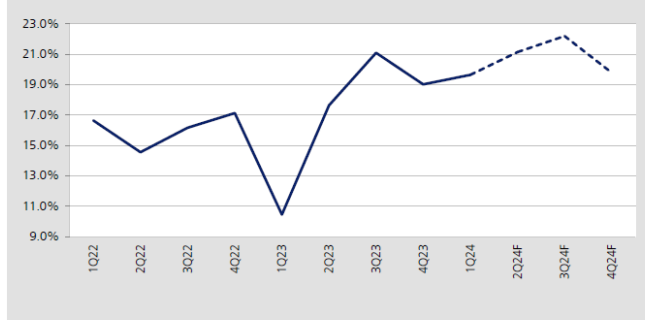
Rolling PE, times



Source: KGI Research

Figure 10: Operating Margin

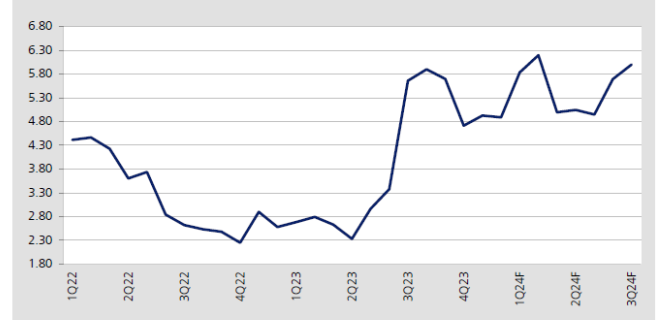
Operating margin, percent



Source: KGI Research

Figure 11: Rolling PB

Rolling PB, times



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24A	Jun-24F	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
Income statement (NT\$mn)											
Revenue	7,359	9,180	11,875	12,882	12,902	15,449	16,134	16,054	41,296	60,539	68,476
Cost of goods sold	(5,787)	(6,655)	(8,290)	(9,231)	(9,164)	(10,860)	(11,202)	(11,489)	(29,964)	(42,715)	(48,214)
Gross profit	1,572	2,525	3,584	3,651	3,738	4,589	4,932	4,565	11,333	17,824	20,262
Operating expenses	(803)	(906)	(1,078)	(1,200)	(1,202)	(1,321)	(1,349)	(1,386)	(3,987)	(5,258)	(5,704)
Operating profit	769	1,619	2,506	2,451	2,536	3,268	3,583	3,179	7,346	12,566	14,558
Depreciation of fixed assets	(264)	(280)	(338)	(372)	(390)	(365)	(365)	(339)	(1,254)	(1,458)	(1,538)
Amortisation of intangible assets	(11)	(12)	(12)	(13)	(13)	(14)	(14)	(14)	(48)	(55)	(60)
EBITDA	1,044	1,911	2,857	2,837	2,939	3,646	3,961	3,533	8,648	14,079	16,156
Interest income	21	30	36	33	27	27	27	27	121	108	108
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	-	-	-	-	-	80	80	80	-	240	320
Non-operating income	21	30	36	33	27	107	107	107	121	348	428
Interest expense	(72)	(85)	(77)	(85)	(101)	(101)	(101)	(101)	(319)	(404)	(404)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	10	24	108	129	152	-	-	-	271	152	-
Non-operating expenses	(62)	(61)	32	44	51	(101)	(101)	(101)	(47)	(252)	(404)
Pre-tax profit	729	1,588	2,574	2,528	2,614	3,274	3,589	3,185	7,420	12,662	14,582
Current taxation	(249)	(588)	(552)	(542)	(637)	(769)	(770)	(669)	(1,931)	(2,845)	(3,266)
Minorities	-	-	-	-	1	-	-	(1)	-	-	-
Normalised net profit	480	1,000	2,022	1,986	1,978	2,505	2,819	2,515	5,488	9,817	11,316
Extraordinary items	(0)	0	(0)	0	(0)	-	-	0	-	-	-
Net profit	480	1,000	2,022	1,986	1,978	2,505	2,819	2,515	5,488	9,817	11,316
EPS (NT\$)	1.44	3.00	6.04	5.92	5.76	7.28	8.19	7.30	16.35	28.51	32.87
Margins (%)											
Gross profit margin	21.4	27.5	30.2	28.3	29.0	29.7	30.6	28.4	27.4	29.4	29.6
Operating margin	10.5	17.6	21.1	19.0	19.7	21.2	22.2	19.8	17.8	20.8	21.3
EBITDA margin	14.2	20.8	24.1	22.0	22.8	23.6	24.6	22.0	20.9	23.3	23.6
Pretax profit margin	9.9	17.3	21.7	19.6	20.3	21.2	22.2	19.8	18.0	20.9	21.3
Net profit margin	6.5	10.9	17.0	15.4	15.3	16.2	17.5	15.7	13.3	16.2	16.5
Sequential growth (%)											
Revenue growth	(17.2)	24.7	29.3	8.5	0.2	19.7	4.4	(0.5)			
Gross profit growth	(34.1)	60.6	41.9	1.9	2.4	22.8	7.5	(7.4)			
Operating profit growth	(49.5)	110.5	54.8	(2.2)	3.4	28.9	9.6	(11.3)			
EBITDA growth	(39.6)	82.9	49.5	(0.7)	3.6	24.1	8.6	(10.8)			
Pretax profit growth	(52.9)	117.8	62.1	(1.8)	3.4	25.3	9.6	(11.3)			
Net profit growth	(64.7)	108.5	102.2	(1.8)	(0.4)	26.6	12.5	(10.8)			
YoY growth (%)											
Revenue growth	(25.8)	(8.0)	20.2	44.9	75.3	68.3	35.9	24.6	6.8	46.6	13.1
Gross profit growth	(36.6)	9.9	40.6	53.0	137.8	81.7	37.6	25.0	16.7	57.3	13.7
Operating profit growth	(53.4)	11.4	56.8	61.0	229.7	101.8	43.0	29.7	18.0	71.1	15.9
EBITDA growth	(43.4)	16.7	59.9	64.0	181.4	90.8	38.7	24.5	23.6	62.8	14.8
Pretax profit growth	(56.3)	9.7	57.9	63.2	258.5	106.2	39.4	26.0	17.8	70.7	15.2
Net profit growth	(63.8)	(7.6)	54.7	46.1	312.4	150.4	39.4	26.6	8.2	78.9	15.3

Source: Company data; KGI Research estimates

Balance sheet

NTS\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total assets	36,565	43,382	53,427	66,812	75,990
Current assets	25,844	26,580	33,675	40,113	46,306
Cash & ST securities	6,645	10,444	9,259	5,106	6,750
Inventory	5,465	4,236	6,135	8,722	9,871
Accounts receivable	13,274	11,683	17,327	25,331	28,730
Other current assets	459	217	955	955	955
Non-current assets	10,721	16,803	19,752	26,699	29,684
LT investments	-	-	6	6	6
Net fixed assets	8,469	14,680	16,655	23,602	26,587
Other assets	2,253	2,123	3,092	3,092	3,092
Total liabilities	16,791	21,308	26,617	36,337	41,291
Current liabilities	14,485	15,760	23,073	29,602	33,571
Accounts payable	8,128	6,513	10,489	14,911	16,877
Interest bearing ST liabilities	2,917	5,299	7,866	7,260	8,323
Other current liabilities	3,440	3,947	4,718	7,431	8,370
Non-current liabilities	2,306	5,548	3,544	6,735	7,720
Long-term debt	721	4,218	2,109	5,300	6,285
Other L-T liabilities	1,293	1,019	1,137	1,137	1,137
Total equity	19,774	22,075	26,809	30,475	34,699
Share capital	3,329	3,329	3,432	3,432	3,432
Retained earnings reserve	12,298	13,361	15,864	19,529	23,754
Minority interests	21	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Growth					
Revenue growth	41.5%	0.4%	6.8%	46.6%	13.1%
Operating profit growth	47.8%	(10.1%)	18.0%	71.1%	15.9%
EBITDA growth	44.4%	(8.4%)	23.6%	62.8%	14.8%
Net profit growth	48.9%	(7.7%)	8.2%	78.9%	15.3%
EPS growth	45.6%	(7.7%)	7.3%	74.4%	15.3%
Profitability					
Gross profit margin	26.2%	25.1%	27.4%	29.4%	29.6%
Operating margin	18.0%	16.1%	17.8%	20.8%	21.3%
EBITDA margin	19.8%	18.1%	20.9%	23.3%	23.6%
Net profit margin	14.3%	13.1%	13.3%	16.2%	16.5%
Return on average assets	17.1%	12.7%	11.3%	16.3%	15.8%
Return on average equity	30.1%	24.3%	22.5%	34.3%	34.7%
Stability					
Gross debt to equity	18.4%	43.1%	37.2%	41.2%	42.1%
Net debt to equity	Net cash	Net cash	2.7%	24.5%	22.6%
Interest coverage (x)	91.6	35.2	24.3	32.3	37.1
Interest & ST debt coverage (x)	0.7	0.5	0.5	0.6	0.6
Cash flow interest coverage(x)	52.7	40.7	9.1	12.8	25.6
Cash flow/int. & ST debt (x)	1.3	1.4	0.4	0.7	1.2
Current ratio (x)	1.8	1.7	1.5	1.4	1.4
Quick ratio (x)	1.4	1.4	1.2	1.1	1.1
Net debt (NT\$mn)	(3,003)	(926)	716	7,454	7,858
Per share data					
EPS (NT\$)	16.50	15.24	16.35	28.51	32.87
CFPS (NT\$)	12.08	22.52	8.61	14.99	30.01
BVPS (NT\$)	59.33	66.31	78.12	88.80	101.11
Adj BVPS (NT\$)	59.33	66.31	79.86	88.52	100.79
SPS (NT\$)	115.64	116.16	123.01	175.84	198.90
EBITDA/share (NT\$)	22.95	21.03	25.76	40.89	46.93
Cash DPS (NT\$)	10.00	8.50	10.00	17.50	20.50
Activity					
Sales / avg assets	1.20	0.97	0.85	1.01	0.96
Days receivable	125.8	110.3	153.1	153.1	153.1
Days inventory	70.2	53.4	74.7	74.7	74.7
Days payable	104.3	82.1	127.8	127.8	127.8
Cash cycle	91.7	81.6	100.1	100.1	100.1

Source: Company data; KGI Research estimates

Profit & loss

NTS\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue	38,500	38,673	41,296	60,539	68,476
Cost of goods sold	(28,431)	(28,962)	(29,964)	(42,715)	(48,214)
Gross profit	10,069	9,710	11,333	17,824	20,262
Operating expenses	(3,146)	(3,485)	(3,987)	(5,258)	(5,704)
Operating profit	6,923	6,225	7,346	12,566	14,558
Non-operating income	76	62	121	348	428
Interest income	52	62	121	108	108
Investment income	24	-	-	-	-
Other non-op income	-	-	-	240	320
Non-operating expenses	(87)	8	(47)	(252)	(404)
Interest expense	(76)	(184)	(319)	(404)	(404)
Investment loss	(10)	-	-	-	-
Other non-op expenses	(1)	193	271	152	-
Pre-tax profit	6,912	6,296	7,420	12,662	14,582
Current taxation	(1,412)	(1,220)	(1,931)	(2,845)	(3,266)
Minorities	(7)	(3)	-	-	-
Extraordinary items	-	0	(0)	-	-
Net profit	5,493	5,073	5,488	9,817	11,316
EBITDA	7,642	7,000	8,648	14,079	16,156
EPS (NT\$)	16.50	15.24	16.35	28.51	32.87

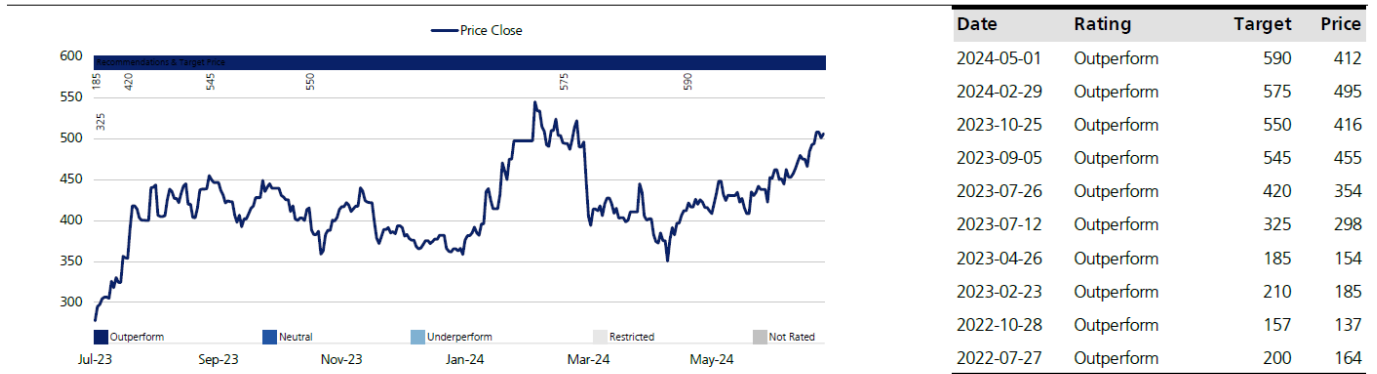
Cash flow

NTS\$mn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Operations cash flow	4,022	7,498	2,890	5,162	10,331
Net profit	5,493	5,073	5,488	9,817	11,316
Depreciation & amortisation	719	774	1,302	1,513	1,598
Decrease in working capital	(2,844)	1,353	(4,019)	(6,168)	(2,583)
Other operating cash flow	652	298	118	-	-
Investing cash flow	(2,618)	(6,596)	(4,057)	(8,460)	(4,583)
Sale of ST investment	-	(21)	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(2,470)	(6,493)	(3,281)	(8,405)	(4,523)
Others investing cashflow	(148)	(82)	(776)	(55)	(60)
Free cash flow	885	610	(612)	(3,373)	5,729
Financing cash flow	(420)	2,687	109	(855)	(4,103)
Increase in short term debt	1,984	2,575	1,441	-	-
Increase in long term loans	(265)	3,657	1,512	2,585	2,049
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(2,333)	(3,333)	(2,830)	(3,439)	(6,152)
Other financing cashflow	194	(211)	(15)	-	0
Forex effects	(73)	211	(126)		
Total cash generated	910	3,802	(1,185)	(4,153)	1,644

ROIC

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	8.2%	9.0%	9.7%	8.7%	8.3%
= Operating margin	18.0%	16.1%	17.8%	20.8%	21.3%
1 / (Working capital/revenue	0.2	0.1	0.2	0.2	0.2
+ Net PPE/revenue	0.2	0.4	0.4	0.4	0.4
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	2.3	1.8	1.6	1.6	1.7
Operating margin	18.0%	16.1%	17.8%	20.8%	21.3%
x Capital turnover	2.3	1.8	1.6	1.6	1.7
x (1 - tax rate)	79.6%	80.6%	74.0%	77.5%	77.6%
= After-tax ROIC	32.8%	24.0%	20.6%	26.4%	27.2%

Source: Company data; KGI Research estimates

EMC – Recommendation & target price history


Source: TEJ; KGI Research

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