

ITEQ (6213.TW/6213 TT)

Demand for general server to recover; AI server market share on the rise

Not rated

Price as of April 17 (NT\$)	111.0
12M target price (NT\$)	N/A
Previous target price (NT\$)	N/A
Unchanged / Revised up (down)	N/A
Upside/downside (%)	N/A

Key message

- The firm guides 2Q24F sales to rise 10% QoQ, and sees 2024F sales registering 20% growth.
- We expect the sales weighting of very-low loss Megaton 6 (M6) CCL to be 5-6% and above 20% in 2023-24F.
- ITEQ will become a major supplier of M6-level CCL for GB200 PCB, driving up 2024F AI server weighting to single digits.

Trading data

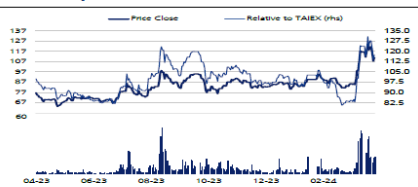
Mkt cap (NT\$/bn/US\$m)	40.29 / 1,238
Outstanding shares (mn)	363.0
Foreign ownership (mn)	64.67
3M avg. daily trading (mn)	6.33
52-week trading range (NT\$)	63.40 –124.0

Performance	3M	6M	12M
Absolute (%)	37.9	28.6	41.6
Relative (%)	20.1	7.1	15

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2021	1.93	2.58	2.40	2.31
2022	2.11	1.14	0.74	0.89
2023	0.20	0.11	0.65	0.90

Share price chart



Source: TEJ

Event

1Q24 sales were NT\$6.16bn, down 9% QoQ and 7% below consensus of NT\$6.6bn. However, we believe sales have bottomed out and forecast QoQ growth of over 10% in 2Q24F as general server pull-in demand has improved markedly since late-March.

Impact

2Q24F sales to register double-digit QoQ growth. Aside from the automotive business, sales of all businesses declined QoQ in 1Q24. Current monthly CCL capacity is 5.45mn sheets. As pull-in for general server is in a QoQ uptrend, the firm guides 2Q24F and 2H24F capacity utilization rate (UTR) of a respective 65% and 65-70%, while in 4Q24F UTR may exceed 70% after GB200 PCB commences production. ITEQ estimates 2024F depreciation to reach NT\$1.3bn, while capital expenses will arrive at NT\$1.6bn. First-phase capacity of the Thailand plant is 300k sheets of CCL per month.

2024F server demand recovery & rising AI server market share to boost very-low loss (M6) CCL weighting to above 20%. ITEQ expects 2024F sales growth of 20%. Other key points are: (1) the firm was a major supplier of AI L40S server in 2023; another US CSP-use server, M7, ramped up in 4Q23. In 2024F, while L40S shipments will sustain, another AI ASIC supplied by ITEQ will ramp up in 2Q24F; (2) the firm is a supplier of GH200 and GB200 CCL, and will be the main supplier globally of computing tray subplate, which comprises the bulk of GB200 shipments using very-low loss Megaton 6 (M6)-level materials; (3) development progress of M8 materials is slightly slower, as certification of China-made 800G switch is still ongoing; (4) we estimate the sales weighting of very-low loss M6 and above CCL in 2023F, 1H24F and 2024F at 5-6%, 10% and above 20% (general server at 14-16%; AI server at 4-6%); (5) 2024F automotive sales to rise 10-15%; and (6) the testing of Birch Stream server platform has just started this year, with layer count up to 18-22.

Valuation & Action

Shares are trading at the upper end of 2024-25F PE ranges of 22.9x and 16.7x. While the sales weighting of AI server is rising into single digits, we believe ITEQ's PCB layer counts and specs of general server are also still rising. Thus, recovering general server demand will boost UTR and earnings in 2Q24F, further driving up the shares.

Risks

Disappointing client demand; faster progress of competitors.

Key financials and valuations

	Dec-19A	Dec-20A	Dec-21A	Dec-22A	Dec-23A
Revenue (NT\$m)	23,791	25,422	32,525	29,130	25,079
Gross profit (NT\$m)	4,780	4,951	5,980	3,940	3,106
Operating profit (NT\$m)	3,104	3,218	3,819	1,896	995
Net profit (NT\$m)	2,463	2,666	3,145	1,855	677
EPS (NT\$)	8.13	8.19	9.00	4.94	1.86
Cash DPS (NT\$)	5.00	5.00	5.00	3.00	1.50
EPS growth (%)	38.8	0.7	9.9	(45.1)	(62.3)
PE (x)	13.7	13.6	12.3	22.5	59.5
PB (x)	3.8	2.8	2.0	2.0	2.1
EV/EBITDA (x)	9.5	9.2	7.7	13.7	18.4
Net debt to equity (%)	18.3	5.4	Net cash	Net cash	Net cash
Dividend yield (%)	4.5	4.5	4.5	2.7	1.4
Return on average equity (%)	29.1	23.9	18.1	9.0	3.4

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 4Q23-1Q24 & 2024-25F consensus

NT\$m	4Q23					1Q24F			2024F		2025F	
	Actual	Consensus	QoQ (%)	QoQ (%)	YoY (%)	Consensus	QoQ (%)	YoY (%)	Consensus	YoY (%)	Consensus	YoY (%)
Sales	6,744	7,054	(4)	1.5	(1.7)	6,598	(2.2)	5.4	29,618	18.1	33,615	13.5
Gross profit	954	1,068	(11)	5.9	(6.8)	926	(3.0)	38.2	4,843	55.9	5,971	23.3
Operating profit	418	492	(15)	7.3	(7.8)	396	(5.5)	209.1	2,550	156.3	3,449	35.3
Net income	326	334	(2)	39.1	(2.3)	273	(16.5)	268.5	1,810	167.5	2,434	34.5
EPS (NT\$)	0.90	0.87	3.85	39.1	1.1	0.76	(15.8)	271.4	4.85	160.2	6.65	37.0
Gross margin (%)	14.1	15.1	(1.0) ppts	0.6 ppts	(0.8) ppts	14.0	(0.1) ppts	3.3 ppts	16.4	4.0 ppts	17.8	1.4 ppts
Op. margin (%)	6.2	7.0	(0.8) ppts	0.3 ppts	(0.4) ppts	6.0	(0.2) ppts	4.0 ppts	8.6	4.6 ppts	10.3	1.7 ppts
Net margin (%)	4.8	4.7	0.1 ppts	1.3 ppts	(0.0) ppts	4.1	(0.7) ppts	2.9 ppts	6.1	3.4 ppts	7.2	1.1 ppts

Source: Bloomberg; KGI Research

Figure 2: Peer comparison – Valuations

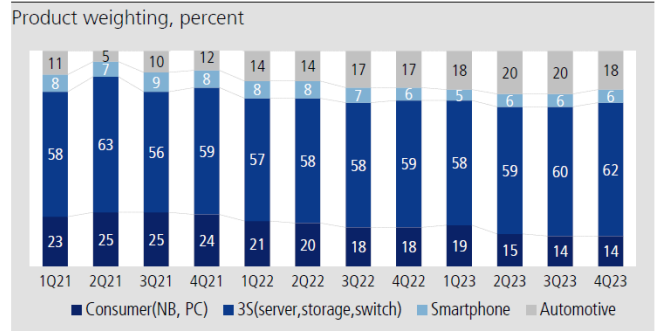
Company	Ticker	Mkt Cap (US\$m)	Price (LCY)	EPS (LCY)			PE (x)			PB (x)			ROE (%)			Dividend yield (%)		
				2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
ITEQ	6213 TT	1,240	111.00	1.86	4.85	6.65	59.7	22.9	16.7	2.07	1.98	1.93	3.4	8.8	11.6	1.4	2.7	3.5
EMC	2383 TT	3,934	372.50	16.07	24.52	27.73	23.2	15.2	13.4	5.06	4.40	3.83	23.6	31.8	31.3	2.7	4.0	4.6
TUC	6274 TT	1,405	168.00	3.05	8.91	11.92	55.1	18.9	14.1	3.93	3.33	2.82	7.0	17.7	21.4	2.4	3.3	4.4
Ventec	6672 TT	187	85.10	6.08	N.A.	N.A.	14.0	N.A.	N.A.	1.89	N.A.	N.A.	13.7	N.A.	N.A.	3.9	N.A.	N.A.
Kingboard	1888 HK	2,319	5.82	0.29	0.51	0.77	20.0	11.3	7.6	1.21	1.18	1.13	6.0	10.4	14.5	2.7	4.4	6.4

Source: Bloomberg; KGI Research

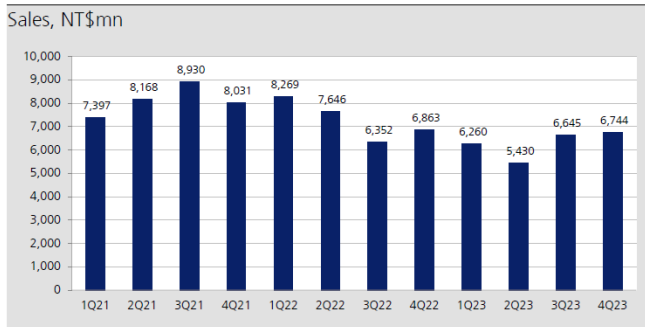
Figure 3: Company profile

Established in 1997 in Xinpu, Hsinchu, ITEQ is the largest copper-clad laminate (CCL) supplier in Taiwan. In 2023, sales mix in terms of industry application was consumer electronics 15%, infrastructure 60%, smartphone 6%, and automotive electronics 19%; in terms of product type, CCL and prepreg (PP) was 99.5%, followed by mass lamination service and others at 0.5%. 2022 ITEQ operates CCL capacity of 5.45mn sheets/month (400k in Taiwan, 1.65mn in Wuxi, 1.0mn in Dongguan and 2.4mn in Jiangxi), in addition to PP of 26.4mn meters/m, flexible CCL of 1.45mn sq.m/m, and mass lamination of 500k sq.ft/m.

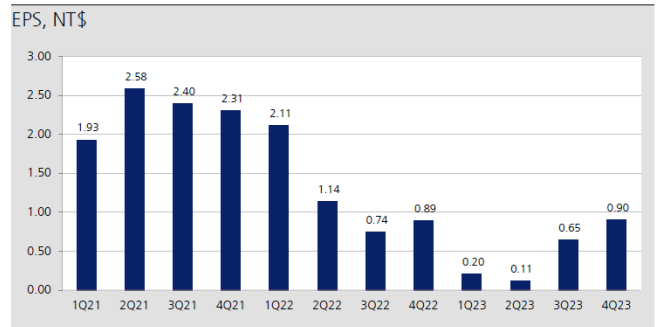
Source: KGI Research

Figure 4: Application mix


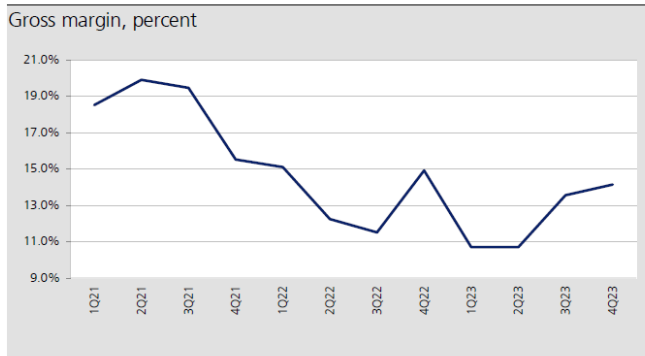
Source: Company data; KGI Research

Figure 5: Sales


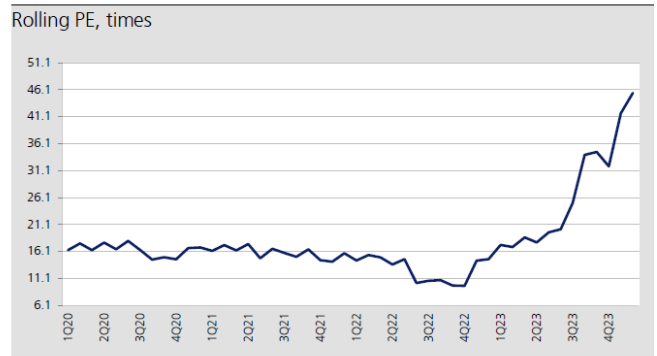
Source: KGI Research

Figure 6: EPS


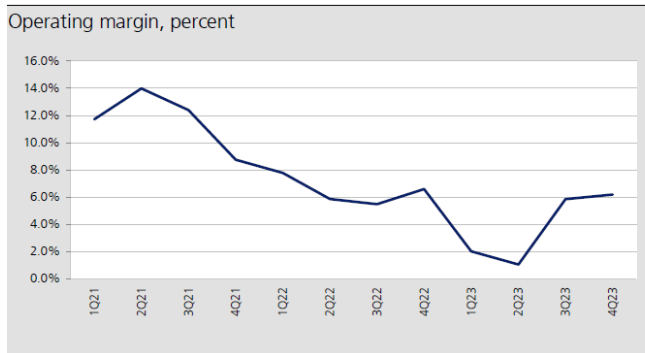
Source: KGI Research

Figure 7: Gross Margin


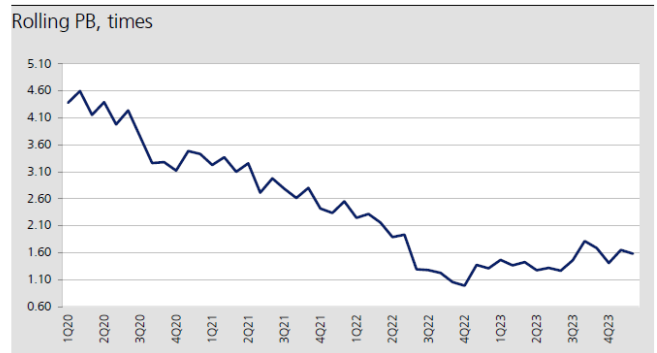
Source: KGI Research

Figure 8: Rolling PE


Source: KGI Research

Figure 9: Operating Margin


Source: KGI Research

Figure 10: Rolling PB


Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-22A	Jun-22A	Sep-22A	Dec-22A	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Dec-21A	Dec-22A	Dec-23A
Income statement (NT\$mn)											
Revenue	8,269	7,646	6,352	6,863	6,260	5,430	6,645	6,744	32,525	29,130	25,079
Cost of goods sold	(7,020)	(6,710)	(5,621)	(5,839)	(5,590)	(4,849)	(5,744)	(5,790)	(26,545)	(25,190)	(21,973)
Gross profit	1,249	936	731	1,024	670	581	901	954	5,980	3,940	3,106
Operating expenses	(605)	(486)	(382)	(570)	(542)	(523)	(511)	(536)	(2,160)	(2,043)	(2,111)
Operating profit	644	450	349	454	128	58	390	418	3,819	1,896	995
Depreciation of fixed assets	(261)	(272)	(280)	(256)	(275)	(253)	(270)	(282)	(948)	(1,069)	(1,079)
Amortisation of intangible assets	-	-	-	-	-	-	-	(84)	-	-	(84)
EBITDA	905	722	629	710	403	311	660	784	4,767	2,966	2,158
Interest income	4	5	5	9	12	6	7	28	10	22	54
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	26	28	88	19	14	29	16	184	67	161	243
Non-operating income	30	33	93	28	27	34	23	212	77	183	296
Interest expense	(23)	(21)	(30)	(32)	(32)	(29)	(30)	(53)	(81)	(107)	(143)
Investment loss	-	-	-	-	(1)	(1)	(2)	(2)	-	(1)	(5)
Other non-op expenses	325	135	(50)	(68)	12	19	5	(25)	(1)	344	10
Non-operating expenses	302	113	(80)	(101)	(21)	(11)	(27)	(80)	(82)	235	(139)
Pre-tax profit	976	596	362	381	134	81	386	550	3,815	2,315	1,152
Current taxation	(167)	(161)	(85)	(47)	(60)	(40)	(152)	(224)	(670)	(460)	(476)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	809	435	277	334	74	42	235	326	3,145	1,855	677
Extraordinary items	(0)	0	0	(0)	0	0	(0)	(0)	-	0	0
Net profit	809	435	277	334	74	42	235	326	3,145	1,855	677
EPS (NT\$)	2.11	1.14	0.74	0.89	0.20	0.11	0.65	0.90	9.00	4.94	1.86
Margins (%)											
Gross profit margin	15.1	12.2	11.5	14.9	10.7	10.7	13.6	14.1	18.4	13.5	12.4
Operating margin	7.8	5.9	5.5	6.6	2.0	1.1	5.9	6.2	11.7	6.5	4.0
EBITDA margin	10.9	9.4	9.9	10.3	6.4	5.7	9.9	11.6	14.7	10.2	8.6
Pretax profit margin	11.8	7.8	5.7	5.6	2.1	1.5	5.8	8.2	11.7	7.9	4.6
Net profit margin	9.8	5.7	4.4	4.9	1.2	0.8	3.5	4.8	9.7	6.4	2.7
Sequential growth (%)											
Revenue growth	3.0	(7.5)	(16.9)	8.0	(8.8)	(13.2)	22.4	1.5			
Gross profit growth	0.2	(25.0)	(21.9)	40.0	(34.6)	(13.2)	55.0	5.9			
Operating profit growth	(8.4)	(30.2)	(22.3)	29.9	(71.8)	(54.3)	567.6	7.3			
EBITDA growth	(5.1)	(20.2)	(12.8)	12.7	(43.3)	(22.7)	112.3	18.8			
Pretax profit growth	29.7	(38.9)	(39.2)	5.2	(64.8)	(39.3)	374.9	42.4			
Net profit growth	0.2	(46.3)	(36.2)	20.4	(77.8)	(43.8)	464.2	39.1			
YoY growth (%)											
Revenue growth	11.8	(6.4)	(28.9)	(14.5)	(24.3)	(29.0)	4.6	(1.7)	27.9	(10.4)	(13.9)
Gross profit growth	(8.9)	(42.4)	(57.9)	(17.8)	(46.4)	(37.9)	23.1	(6.8)	20.8	(34.1)	(21.2)
Operating profit growth	(25.7)	(60.6)	(68.5)	(35.5)	(80.1)	(87.0)	11.7	(7.8)	18.7	(50.3)	(47.5)
EBITDA growth	(16.6)	(47.5)	(53.5)	(25.6)	(55.5)	(56.9)	4.9	10.5	19.3	(37.8)	(27.2)
Pretax profit growth	15.8	(46.9)	(67.0)	(49.4)	(86.3)	(86.3)	6.7	44.5	12.4	(39.3)	(50.2)
Net profit growth	25.9	(49.5)	(66.8)	(58.6)	(90.9)	(90.4)	(15.4)	(2.3)	18.0	(41.0)	(63.5)

Source: Company data, KGI Research estimates

