

Kaori Heat Treatment (8996.TW/8996 TT)

Building up a head of steam

Outperform · Maintained

Price as of May 23 (NT\$)	478.0
12M target price (NT\$)	570
Previous target price (NT\$)	505
Revised up (%)	12.9
Upside (%)	19.2

Key message

- We revise up the liquid cooling revenue contribution in 2024-25F to 19% and 41%, respectively.
- Heat pump and fuel cell revenue growth will re-accelerate in 2025-26F.
- We project a 2024-26F EPS CAGR of 61%.

Trading data

Mkt cap (NT\$bn/US\$mn)	42.92 / 1,329
Outstanding shares (mn)	89.80
Foreign ownership (mn)	15.37
3M avg. daily trading (mn)	6.94
52-week trading range (NT\$)	209.0 - 478.0

Performance	3M	6M	12M
Absolute (%)	77	95.1	96.3
Relative (%)	62.6	70.2	62.8

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2023	1.42A	2.32A	2.31A	0.40A
2024	1.44A	1.50F	2.22F	2.81F
2025	3.09F	4.04F	4.75F	5.08F

Share price chart



Source: TEJ

Event

Kaori Heat Treatment (Kaori) attended non-deal roadshows (NDR) in Singapore and Hong Kong, hosted by KGI on May 13-16.

Impact

Key manifold supplier, with technological prowess. Kaori is a critical supply chain member of a US server brand, which has been ramping up production of its liquid cooling rack solutions to help operators reduce total cost of ownership (TCO) by lowering the system power usage effectiveness (PUE), while dissipating heat due to rising thermal design power (TDP). Kaori aims to aggressively expand its monthly production capacity for manifolds to 2k sets by end-2024 to fulfill the strong order outlook, while shipments of in-row coolant distribution units (CDU) are scheduled to commence in 4Q24. Kaori believes its expertise in vacuum brazing technology is optimal for manifold production, and should help the firm stand out against the competition. Other than its existing major client, the firm is also looking to penetrate ODMs and US CSPs to broaden its client base.

Positive heat pump & fuel cell outlook for 2025-26F. Management guides pull-in demand from Bloom Energy (US) will recover in 2H24, for mild YoY revenue growth in 2024, before accelerating in 2025. Bloom Energy is benefitting from surging energy demand due to data center expansion, and is exploring new markets, such as solid oxide electrolyzer cells (SOEC) and carbon capture. Meanwhile, inventory digestion for heat pumps will continue for 2-3 more quarters, but revenue growth is likely to resume in 2025-26 thanks to penetration of new tier-1 clients and market share gains at existing clients.

We raise 2024-25F EPS by a respective 2% & 13%. We revise up 2024-25F liquid cooling revenue to a respective NT\$887mn and NT\$3.54bn, for contribution of 19% and 41%. We also raise our opex assumptions as the firm guides it will hire more R&D and production personnel. We project 2024 revenue growth of 9% YoY, below the 2021-23 CAGR of 39%, but estimate a strong 2024-26 revenue CAGR of 50% as all major businesses will cater to secular trends. We forecast respective Bloom Energy and heat pump revenue contribution of 30% and 13% in 2025. Our revised 2024-26F EPS forecasts are for 24%, 113% and 21% respective growth. The announced spin-off of the liquid cooling business is scheduled to be completed by end-2024, and will be a fully owned subsidiary initially, with IPO the long-term goal.

Valuation & Action

We maintain Outperform, and lift our 12M target price to NT\$570, still based on 35x 2025F fully diluted EPS. We think the firm's positive outlook for liquid cooling and its unique position in the global energy transition deserves a high PE valuation.

Risks

Competition in the liquid-cooling business.

Key financials and valuations

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (NT\$mn)	2,844	4,326	4,736	8,553	10,692
Gross profit (NT\$mn)	786	1,224	1,375	2,792	3,408
Operating profit (NT\$mn)	346	711	797	1,870	2,267
Net profit (NT\$mn)	301	577	715	1,523	1,849
EPS (NT\$)	3.37	6.45	7.97	16.95	20.59
Cash DPS (NT\$)	1.50	3.98	4.00	8.50	10.50
EPS growth (%)	101.8	91.5	23.5	112.8	21.5
PE (x)	141.9	74.1	60.0	28.2	23.2
PB (x)	20.8	15.8	15.3	10.8	8.5
EV/EBITDA (x)	88.9	49.5	44.9	21.1	17.3
Net debt to equity (%)	57.5	27.9	36.5	24.2	8.0
Dividend yield (%)	0.3	0.8	0.8	1.8	2.2
Return on average equity (%)	15.3	24.2	26.0	45.1	41.1

Source: Company data, KGI Research estimates

NDR – Key takeaways

Overall outlook

- 2024F revenue to grow slightly, driven by liquid cooling. 1Q24F will be the near-term trough, with revenue rising sequentially throughout 2024F.
- Gross margin will be flattish YoY in 2024F, but will improve in 2025F given rising contribution from liquid cooling.
- Opex ratio to be 1-2ppts higher than previous levels due to hiring of more R&D and production personnel.
- Tax rate will be between 18-19%.
- Capex to be slightly lower YoY in 2024F, but will grow in 2025F on plans to expand production overseas.
- Dividend payout ratio of 50-70%.
- Fundraising plans being considered due to surging working capital demand from liquid-cooling business.

Liquid cooling

- Main products include manifolds and in-row CDU.
- A major US server client has been an early mover for liquid-cooling solutions, which help customers reduce TCO by lowering the system PUE.
- Kaori currently ships manifolds to a US server client, and aims to commence shipments of in-row CDU in 4Q24.
- As the client is ramping up production of its liquid cooling racks, Kaori aims to expand its manifold monthly production capacity to 1k sets by 2Q24, 2k sets by end-2024, and 4k sets by end-2025.
- Kaori believes in-row and in-rack CDUs will coexist in the mid- to long-term, but foresees in-row CDUs will be a more optimal solution for data center operators in the long run.
- Quick disconnect (QD) remains the current bottleneck for manifolds, but that could be gradually resolved over time as suppliers ramp up capacity and more vendors are certified.
- The ASP of manifolds is US\$10-20k, while that of in-row CDU is US\$100k+. Management believes pricing pressure will be manageable.
- Vacuum brazing has been the firm's core technology and is optimal for manifold production. The firm believes its expertise in tuning vacuum furnaces can't be easily matched by its peers.
- In addition to its existing client, Kaori is looking to penetrate the supply chains of Taiwan ODMs and US CSPs.
- The firm guides the liquid cooling revenue contribution to grow from 3% in 2023 to 15-20% in 2024F, and will further increase in 2025F. Current liquid cooling revenue is mostly from manifolds, but sales of CDUs will likely accelerate in 2025F.
- Spin-off of the liquid cooling business is scheduled to be completed by end-2024F, and will be a fully owned subsidiary initially, with IPO the long-term goal.

Bloom Energy

- The firm has adopted Inconel alloy for the production of hot boxes, with material lead time of up to six months.
- Kaori currently supplies one-third of hot boxes to Bloom Energy, with MTAR Technologies (IN) supplying the remainder. The firm also supplies over 90% of dielectric components, as MTAR is still unable to produce them. The firm believes it is unlikely to lose further allocations for hot boxes.

- Hot box shipments to rise in 2H24F, following the completion of model transition from Yuma (50kW; Gen 2) to Santa Cruz (65kW; Gen 3).
- Management guides Bloom Energy revenue will slightly rise in 2024, as growth of dielectric component sales will more than offset the decline in hot box sales.
- Bloom Energy is positioned to benefit from surging energy demand from data center expansion, and has signed multiple SOFC supply agreements with customers, including Amazon (US), Intel (US), and Quanta Computer (2382 TT, NT\$284, OP).
- More long-term growth catalysts for Bloom Energy will be solid oxide electrolyzer cells (SOEC) and carbon capture technologies, which will likely launch in 2025 and 2026-27, respectively.

Plate heat exchangers

- Heat pump revenue will decline YoY as inventory digestion will continue for 2-3 more quarters amid policy uncertainty in Europe.
- Management guides heat pump revenue growth will accelerate in 2025-26, supported by penetration of new tier-one clients. The firm aims to become the primary supplier for existing clients' new projects.
- The firm guides HVAC revenue will maintain double-digit growth in 2024, while hydraulic sales will arrive flattish YoY due to lackluster industrial demand.
- Revenue contribution from a new European SOEC client will commence in 2H24F, and could account for mid- to high-single digit plate heat exchanger revenue in 2025.

Production

- The firm currently has 19 vacuum furnaces for heat plate exchangers, and will add 4 more this year, with 5 for hot boxes, and 6 in China.
- Lead time for new vacuum furnaces is now down from over a year to 2-3 quarters. Other than an existing US supplier, the firm now also sources new vacuum furnaces domestically.
- The company aims to expand in Southeast Asia, most likely in Thailand.

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

NT\$m	2Q24F							3Q24F						
	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Revenue	1,032	1,015	1.7	29.4	(21.1)	965	7.0	1,342	1,273	5.4	29.9	16.9	1,282	4.7
Gross profit	281	279	0.7	31.9	(27.4)	260	8.0	399	380	4.9	41.8	13.4	375	6.3
Operating profit	147	153	(4.1)	50.2	(38.2)	145	1.1	243	243	0.2	65.3	3.1	243	0.1
Net income	134	131	2.4	4.6	(35.2)	116	15.9	199	190	4.9	48.2	(3.3)	191	4.1
EPS (NT\$)	1.50	1.46	2.4	4.1	(35.5)	1.28	17.0	2.22	2.12	4.9	48.2	(3.8)	2.11	5.3
Gross margin (%)	27.2	27.5	(0.3) ppts	0.5 ppts	(2.4) ppts	27.0	0.3 ppts	29.7	29.9	(0.1) ppts	2.5 ppts	(0.9) ppts	29.3	0.5 ppts
Op. margin (%)	14.2	15.1	(0.9) ppts	2.0 ppts	(3.9) ppts	15.1	(0.8) ppts	18.1	19.1	(0.9) ppts	3.9 ppts	(2.4) ppts	18.9	(0.8) ppts
Net margin (%)	13.0	12.9	0.1 ppts	(3.1) ppts	(2.9) ppts	12.0	1.0 ppts	14.9	14.9	(0.1) ppts	1.8 ppts	(3.1) ppts	14.9	(0.1) ppts

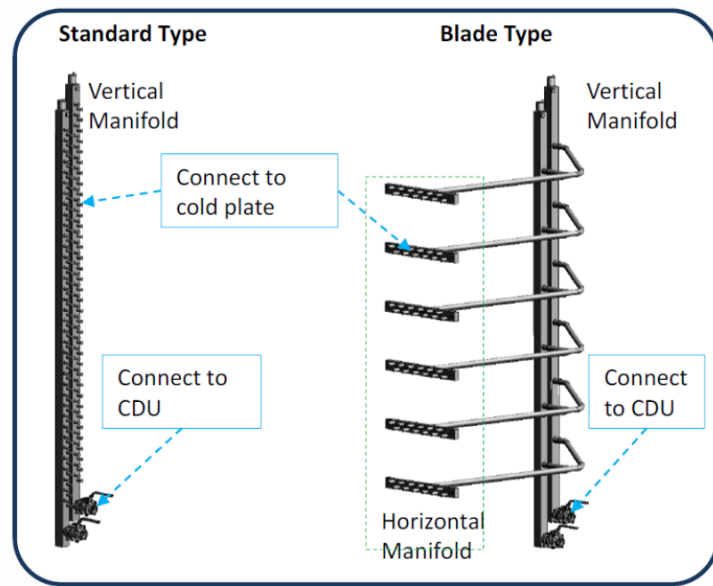
Source: Bloomberg; KGI Research

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

NT\$m	2024F							2025F						
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)		
Revenue	4,736	4,615	2.6	9.5	4,554	4.0	8,553	7,683	11.3	80.6	7,747	10.4		
Gross profit	1,375	1,347	2.1	12.4	1,286	7.0	2,792	2,431	14.8	103.0	2,371	17.8		
Operating profit	797	814	(2.1)	12.0	774	3.0	1,870	1,717	8.9	134.7	1,710	9.3		
Net income	715	700	2.1	24.0	632	13.1	1,523	1,349	12.9	113.0	1,329	14.5		
EPS (NT\$)	7.97	7.81	2.1	23.5	6.95	14.6	16.95	15.02	12.9	112.8	13.30	27.4		
Gross margin (%)	29.0	29.2	(0.1) ppts	0.7 ppts	28.2	0.8 ppts	32.6	31.6	1.0 ppts	3.6 ppts	30.6	2.0 ppts		
Op. margin (%)	16.8	17.6	(0.8) ppts	0.4 ppts	17.0	(0.2) ppts	21.9	22.3	(0.5) ppts	5.0 ppts	22.1	(0.2) ppts		
Net margin (%)	15.1	15.2	(0.1) ppts	1.8 ppts	13.9	1.2 ppts	17.8	17.6	0.2 ppts	2.7 ppts	17.2	0.6 ppts		

Source: Bloomberg; KGI Research

Figure 3: Kaori's primary offering in the liquid cooling market – manifolds



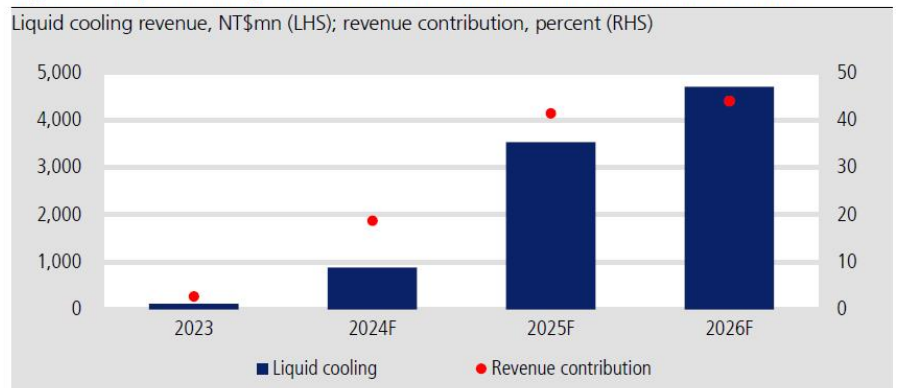
Source: Company data; KGI Research

Figure 4: Kaori also offers CDU & immersion tanks



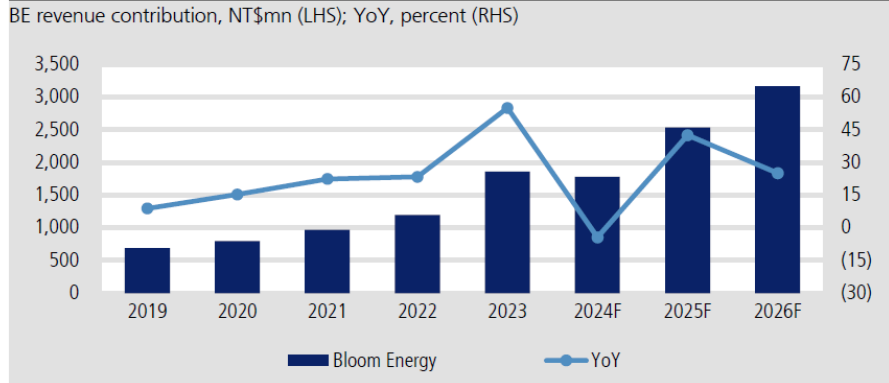
Source: Company data; KGI Research

Figure 5: Liquid cooling to account for 41% of 2025F consolidated revenue



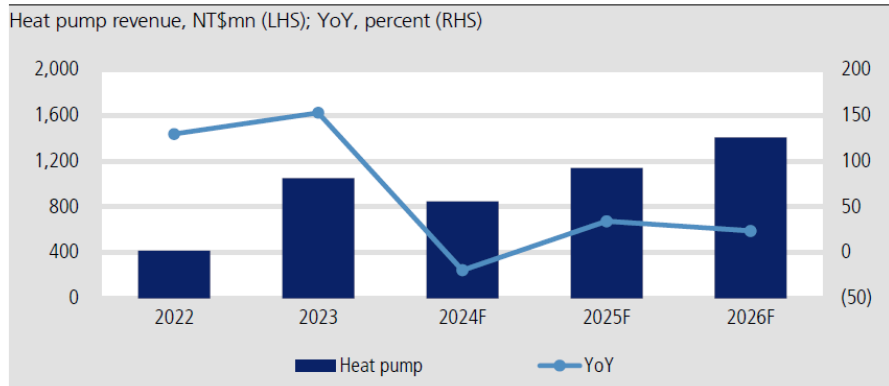
Source: Company data; KGI Research

Figure 6: BE revenue contribution to grow 42% YoY in 2025F



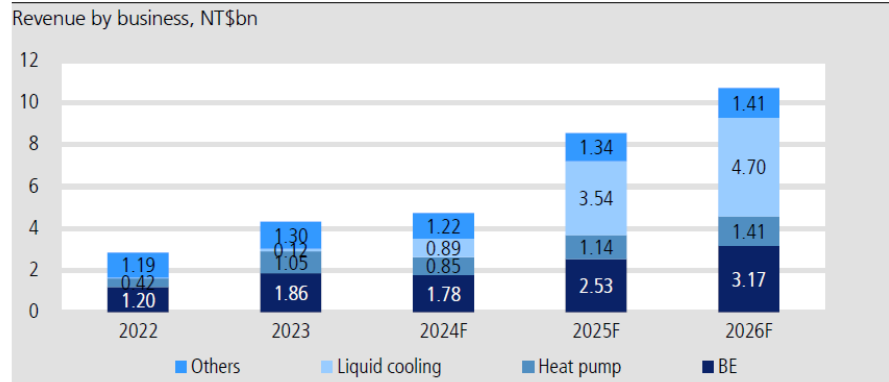
Source: Company data; KGI Research

Figure 7: Heat pump revenue will resume growth in 2025-26



Source: Company data; KGI Research

Figure 8: Liquid cooling to become the largest segment in 2025F



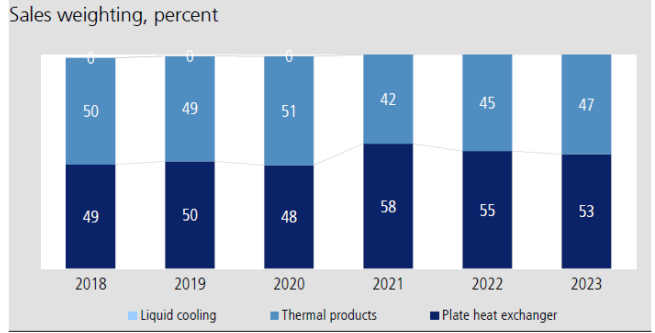
Source: Company data; KGI Research

Figure 9: Company profile

Kaori Heat Treatment, established in 1970 and listed in 2006, focuses on heat transfer, thermal management, and welding processes as core technologies, for various applications, including plate heat exchangers, hot boxes, and immersion cooling. Riding the global energy transition trend, revenue accelerated growth in 2022-23, with plate heat exchangers and thermal products representing a respective 53% and 47% of consolidated revenue in 2023.

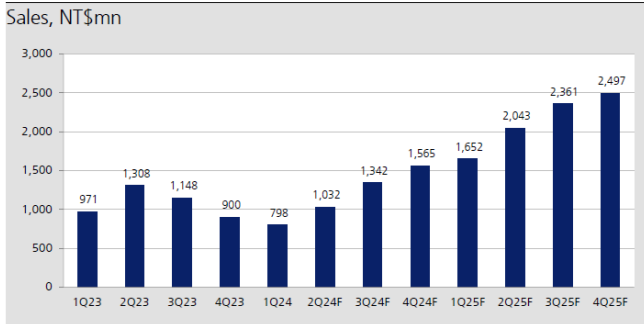
Source: KGI Research

Figure 10: Sales mix



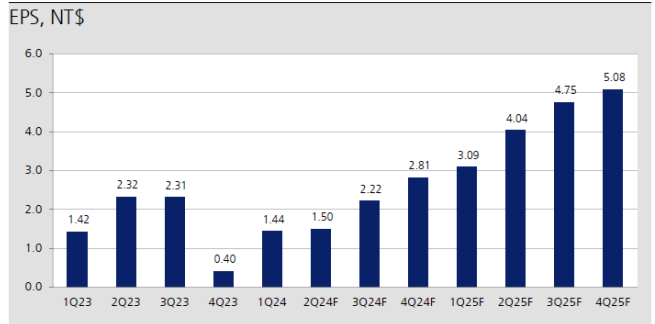
Source: KGI Research

Figure 11: Sales



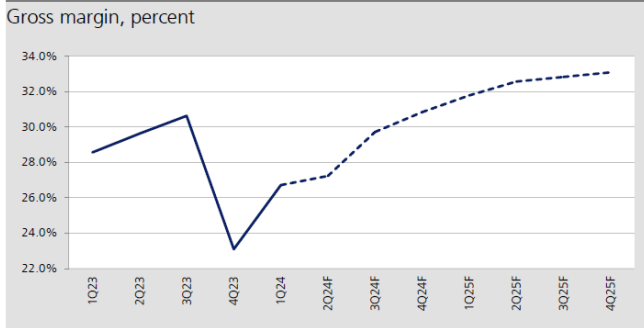
Source: KGI Research

Figure 12: EPS



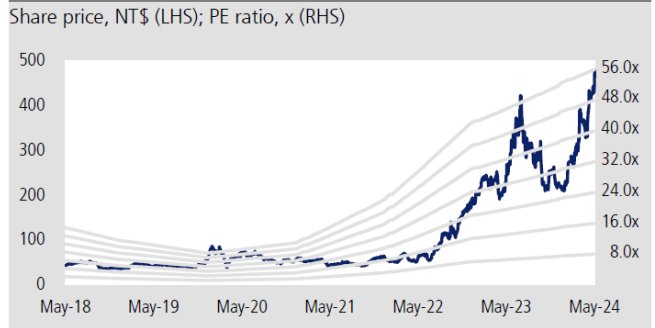
Source: KGI Research

Figure 13: Gross Margin



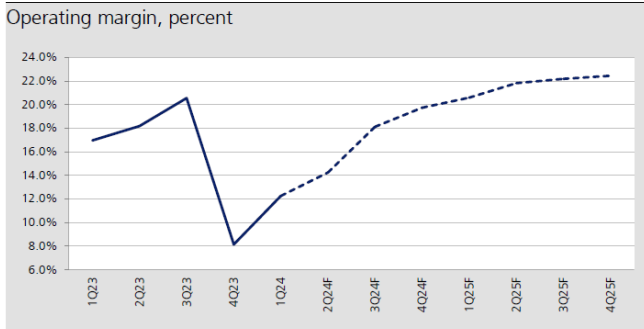
Source: KGI Research

Figure 14: 12-month forward PE band



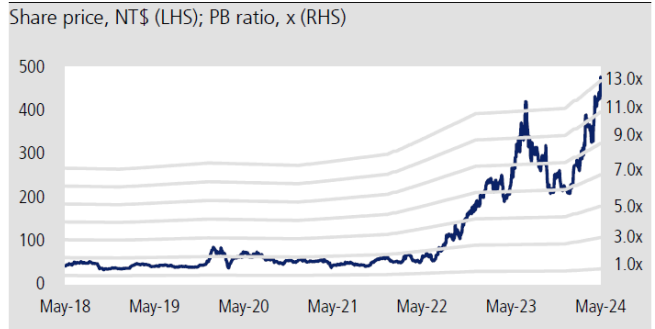
Source: KGI Research

Figure 15: Operating Margin



Source: KGI Research

Figure 16: 12-month forward PB band



Source: KGI Research

Income statement

	Quarterly								Annually		
	Mar-24A	Jun-24F	Sep-24F	Dec-24F	Mar-25F	Jun-25F	Sep-25F	Dec-25F	Dec-24F	Dec-25F	Dec-26F
Income statement (NT\$m)											
Revenue	798	1,032	1,342	1,565	1,652	2,043	2,361	2,497	4,736	8,553	10,692
Cost of goods sold	(585)	(751)	(943)	(1,082)	(1,127)	(1,378)	(1,586)	(1,671)	(3,361)	(5,762)	(7,284)
Gross profit	213	281	399	482	525	665	775	826	1,375	2,792	3,408
Operating expenses	(115)	(134)	(156)	(174)	(185)	(220)	(251)	(266)	(579)	(922)	(1,141)
Operating profit	98	147	243	309	340	446	524	560	797	1,870	2,267
Depreciation of fixed assets	(35)	(36)	(37)	(39)	(40)	(41)	(42)	(43)	(148)	(166)	(187)
Amortisation of intangible assets	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(5)	(4)	(4)
EBITDA	135	184	281	348	381	488	567	605	949	2,040	2,458
Interest income	1	4	5	5	6	6	7	7	15	26	32
Investment income	-	-	-	-	-	-	-	-	-	-	-
Other non-op income	18	8	8	8	8	8	8	8	42	32	32
Non-operating income	19	12	13	13	14	14	15	15	57	58	64
Interest expense	(6)	(8)	(10)	(10)	(12)	(12)	(12)	(12)	(34)	(48)	(48)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	40	15	-	-	-	-	-	-	55	-	-
Non-operating expenses	34	7	(10)	(10)	(12)	(12)	(12)	(12)	21	(48)	(48)
Pre-tax profit	151	166	246	312	342	448	527	563	875	1,880	2,283
Current taxation	(23)	(32)	(47)	(59)	(65)	(85)	(100)	(107)	(160)	(357)	(434)
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	129	134	199	253	277	363	427	456	715	1,523	1,849
Extraordinary items	(0)	-	-	-	-	-	-	-	-	-	-
Net profit	129	134	199	253	277	363	427	456	715	1,523	1,849
EPS (NT\$)	1.44	1.50	2.22	2.81	3.09	4.04	4.75	5.08	7.97	16.95	20.59
Margins (%)											
Gross profit margin	26.7	27.2	29.7	30.8	31.8	32.6	32.8	33.1	29.0	32.6	31.9
Operating margin	12.3	14.2	18.1	19.7	20.6	21.8	22.2	22.4	16.8	21.9	21.2
EBITDA margin	16.9	17.9	21.0	22.3	23.0	23.9	24.0	24.2	20.0	23.8	23.0
Pretax profit margin	18.9	16.1	18.3	19.9	20.7	21.9	22.3	22.6	18.5	22.0	21.4
Net profit margin	16.1	13.0	14.9	16.1	16.8	17.8	18.1	18.3	15.1	17.8	17.3
Sequential growth (%)											
Revenue growth	(11.3)	29.4	29.9	16.6	5.6	23.7	15.5	5.8			
Gross profit growth	2.6	31.9	41.8	21.0	8.8	26.7	16.5	6.6			
Operating profit growth	33.6	50.2	65.3	27.1	10.1	31.1	17.5	7.0			
EBITDA growth	23.9	36.6	52.7	23.8	9.3	28.1	16.2	6.7			
Pretax profit growth	254.2	9.8	48.2	26.7	9.7	30.9	17.6	7.0			
Net profit growth	255.9	4.6	48.2	26.7	9.7	30.9	17.6	7.0			
YoY growth (%)											
Revenue growth	(17.8)	(21.1)	16.9	73.9	107.0	97.9	76.0	59.6	9.5	80.6	25.0
Gross profit growth	(23.1)	(27.4)	13.4	132.2	146.3	136.6	94.4	71.3	12.4	103.0	22.1
Operating profit growth	(40.6)	(38.2)	3.1	321.6	247.6	203.3	115.4	81.5	12.0	134.7	21.3
EBITDA growth	(30.7)	(31.4)	4.9	219.9	182.2	164.6	101.4	73.6	12.9	114.9	20.5
Pretax profit growth	(4.7)	(37.4)	(6.6)	630.7	126.3	169.8	114.0	80.7	19.9	114.8	21.5
Net profit growth	1.5	(35.2)	(3.3)	599.0	115.5	169.8	114.0	80.7	24.0	113.0	21.5

Source: Company data; KGI Research estimates

Balance sheet

NT\$m	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total assets	4,156	4,829	5,591	7,550	8,788
Current assets	2,245	2,702	3,327	5,032	5,976
Cash & ST securities	313	613	561	1,120	1,677
Inventory	1,180	1,235	1,457	2,087	2,223
Accounts receivable	580	797	1,249	1,768	2,023
Other current assets	172	57	59	56	53
Non-current assets	1,911	2,127	2,264	2,518	2,811
LT investments	146	117	87	87	87
Net fixed assets	1,625	1,839	2,008	2,262	2,555
Other assets	140	172	170	170	170
Total liabilities	2,097	2,125	2,802	3,594	3,742
Current liabilities	1,476	996	1,763	2,555	2,703
Accounts payable	255	206	489	782	929
Interest bearing ST liabilities	838	255	555	1,055	1,055
Other current liabilities	383	535	719	719	719
Non-current liabilities	621	1,129	1,039	1,039	1,039
Long-term debt	595	1,092	1,003	1,003	1,003
Other L-T liabilities	25	34	33	33	33
Total equity	2,059	2,704	2,788	3,956	5,046
Share capital	894	894	898	898	898
Retained earnings reserve	368	778	777	1,940	3,026
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Growth					
Revenue growth	27.4%	52.1%	9.5%	80.6%	25.0%
Operating profit growth	50.3%	105.5%	12.0%	134.7%	21.3%
EBITDA growth	34.1%	82.7%	12.9%	114.9%	20.5%
Net profit growth	101.8%	91.5%	24.0%	113.0%	21.5%
EPS growth	101.8%	91.5%	23.5%	112.8%	21.5%
Profitability					
Gross profit margin	27.6%	28.3%	29.0%	32.6%	31.9%
Operating margin	12.2%	16.4%	16.8%	21.9%	21.2%
EBITDA margin	16.2%	19.4%	20.0%	23.8%	23.0%
Net profit margin	10.6%	13.3%	15.1%	17.8%	17.3%
Return on average assets	8.0%	12.8%	13.7%	23.2%	22.6%
Return on average equity	15.3%	24.2%	26.0%	45.1%	41.1%
Stability					
Gross debt to equity	69.6%	49.8%	55.8%	52.0%	40.8%
Net debt to equity	57.5%	27.9%	36.5%	24.2%	8.0%
Interest coverage (x)	30.2	22.8	26.6	40.2	48.6
Interest & ST debt coverage (x)	0.3	0.7	0.6	0.6	0.7
Cash flow interest coverage(x)	(21.6)	20.3	8.6	17.4	37.4
Cash flow/int. & ST debt (x)	(0.3)	2.4	0.5	0.8	1.6
Current ratio (x)	1.5	2.7	1.9	2.0	2.2
Quick ratio (x)	0.7	1.5	1.1	1.2	1.4
Net debt (NT\$m)	1,184	755	1,019	959	403
Per share data					
EPS (NT\$)	3.37	6.45	7.97	16.95	20.59
CFPS (NT\$)	(3.22)	7.60	3.29	9.31	20.01
BVPS (NT\$)	23.04	30.25	31.20	44.26	56.45
Adj BVPS (NT\$)	23.04	30.25	31.08	44.05	56.19
SPS (NT\$)	31.81	48.39	52.80	95.25	119.07
EBITDA/share (NT\$)	5.15	9.40	10.58	22.71	27.37
Cash DPS (NT\$)	1.50	3.98	4.00	8.50	10.50
Activity					
Sales / avg assets	0.75	0.96	0.91	1.30	1.31
Days receivable	74.4	67.3	96.5	75.4	69.1
Days inventory	209.3	145.3	158.7	132.2	111.4
Days payable	45.3	24.2	53.3	49.5	46.6
Cash cycle	238.4	188.4	201.9	158.2	133.9

Source: Company data; KGI Research estimates

Profit & loss

NT\$m	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue	2,844	4,326	4,736	8,553	10,692
Cost of goods sold	(2,058)	(3,102)	(3,361)	(5,762)	(7,284)
Gross profit	786	1,224	1,375	2,792	3,408
Operating expenses	(439)	(513)	(579)	(922)	(1,141)
Operating profit	346	711	797	1,870	2,267
Non-operating income	9	27	57	58	64
Interest income	2	8	15	26	32
Investment income	-	-	-	-	-
Other non-op income	7	18	42	32	32
Non-operating expenses	35	(8)	21	(48)	(48)
Interest expense	(13)	(33)	(34)	(48)	(48)
Investment loss	-	-	-	-	-
Other non-op expenses	48	25	55	-	-
Pre-tax profit	390	730	875	1,880	2,283
Current taxation	(89)	(153)	(160)	(357)	(434)
Minorities	-	-	-	-	-
Extraordinary items	-	-	(0)	-	-
Net profit	301	577	715	1,523	1,849
EBITDA	460	841	949	2,040	2,458
EPS (NT\$)	3.37	6.45	7.97	16.95	20.59

Cash flow

NT\$m	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Operations cash flow	(288)	679	295	836	1,797
Net profit	301	577	715	1,523	1,849
Depreciation & amortisation	114	129	152	170	191
Decrease in working capital	(772)	(329)	(394)	(857)	(244)
Other operating cash flow	69	302	(178)	-	0
Investing cash flow	(167)	(346)	(290)	(420)	(480)
Sale of ST investment	26	-	-	-	-
New investments	-	-	-	-	-
Capital expenditure	(99)	(349)	(290)	(420)	(480)
Others investing cashflow	(93)	3	-	-	-
Free cash flow	(496)	7	114	404	1,300
Financing cash flow	204	2	(62)	141	(763)
Increase in short term debt	130	(750)	-	-	-
Increase in long term loans	211	889	(289)	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(134)	(134)	(358)	(359)	(763)
Other financing cashflow	(3)	(3)	585	500	-
Forex effects	2	(4)	4	3	3
Total cash generated	(250)	332	(53)	560	556

ROIC

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
1 - COGS/revenue					
- Operating exp./revenue	15.5%	11.8%	12.2%	10.8%	10.7%
= Operating margin	12.2%	16.4%	16.8%	21.9%	21.2%
1 / (Working capital/revenue	0.5	0.3	0.3	0.3	0.2
+ Net PPE/revenue	0.6	0.4	0.4	0.3	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
= Capital turnover	0.9	1.3	1.3	1.8	2.0
Operating margin	12.2%	16.4%	16.8%	21.9%	21.2%
x Capital turnover	0.9	1.3	1.3	1.8	2.0
x (1 - tax rate)	77.2%	79.0%	81.7%	81.0%	81.0%
= After-tax ROIC	8.8%	16.9%	17.5%	31.5%	34.3%

Source: Company data; KGI Research estimates

Kaori – Recommendation & target price history


Date	Rating	Target	Price
2024-05-08	Outperform	505	415
2023-12-26	Neutral	218	228
2023-08-10	Outperform	376	297
2023-07-17	Outperform	405	344

Source: TEJ; KGI Research

All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.

Disclaimer

All the information contained in this report is not intended for use by persons or entities located in or residing in jurisdictions which restrict the distribution of this information by KGI Asia Limited ("KGI") or an affiliate of KGI. Such information shall not constitute investment advice, or an offer to sell, or an invitation, solicitation or recommendation to subscribe for or invest in any securities or investment products or services nor a distribution of information for any such purpose in any jurisdiction. In particular, the information herein is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America, or to or for the benefit of United States persons (being residents of the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof). All the information contained in this report is for general information and reference purpose only without taking into account of any particular investor's objectives, financial situation or needs. Such information is not intended to provide professional advice and should not be relied upon in that regard.

Some of KGI equity research and earnings estimates are available electronically on www.kgi.com.hk. Please contact your KGI representative for information. The information and opinions in this report are those of KGI internal research activity. KGI does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be redistributed, reproduced or published (in whole or in part) by any means for any purpose without the prior written consent of KGI. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.