

# Lotes (3533.TW/3533 TT)

## AI drives new CPU platform adoption & higher margins

### Outperform · Maintained

Price as of September 5 (NT\$)	1,290
12M target price (NT\$)	1,930
Previous target price (NT\$)	1,920
Revised up (%)	0.5
Upside (%)	49.6

#### Key message

- 2H24F sales to be stronger on higher adoption of new server socket platforms with an AI server demand boost.
- With a better product mix, and stable copper prices and NT dollar, we expect growing gross margin in 2H24F. 2025F margins upside will come from new CPU platform, DDR5 and PCIe Gen 5 for server and desktop.
- The server sales weighting will rise to 45% in 2025F. Coupled with new UQD sales contributions, 2025F sales and EPS growth will be positive.

#### Trading data

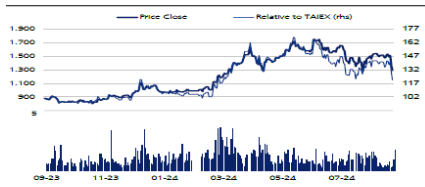
Mkt cap (NT\$/bn/US\$m)	145.2 / 4,507
Outstanding shares (mn)	112.5
Foreign ownership (mn)	50.01
3M avg. daily trading (mn)	0.736
52-week trading range (NT\$)	801 -1,750

Performance	3M	6M	12M
Absolute (%)	-19.1	15.7	47.1
Relative (%)	-17.7	6.4	20.9

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	13.03A	14.21A	17.91A	13.55A
2023	10.96A	11.56A	16.77A	11.41A
2024	18.57A	20.00A	20.55F	22.00F

#### Share price chart



Source: TEJ

#### Event

We held an on-line conference with Lotes' management. The firm shared a positive outlook on 3Q24F sales, new CPU platform penetration rates, and 2H24F margins guidance.

#### Impact

**Higher penetration rate for new server CPUs; no change to competitive landscape.** Lotes had 2Q24 server sales growth of 95-100% YoY and 25-30% QoQ, with board production growth of 16% YoY and 10% QoQ. We think higher ASP for new server CPU platforms Eagle Stream and Genoa/ Bergamo, with penetration rates rising from 15-20% in 2023 to nearly 30% in 2Q24, is the main booster, and expect the new platform penetration rate to reach 40-50% in 4Q24F. Coupled with server board production growth of 10% QoQ in 3Q24F and flat QoQ in 4Q24F, we expect 3Q24F sales to beat our previous forecast, rising 7% QoQ in 3Q24F and reach a peak in 4Q24F. The AI server trend will drive new platform penetration rates up in the coming quarters. Although the platform launch schedule of the next generation server CPUs, Birch Stream (7,529 pins) by Intel (US) and SP7 (over 7,000 pins) by AMD (US), is unclear, they will drive sales growth in 2025F. There have been rumors of a new rival for Intel's server CPU socket market, but with the Birch Stream socket launching shortly, and the Oak Stream socket design being finalized, the firm has not yet seen signs of new competition. We are bright on Lotes' sales growth in 2024-25F.

**Margins outlook to be brighter.** Given the popularity of new server platforms in 2H24-2025F, we forecast server sales to grow 70% YoY in 2024F and 55% YoY in 2025F, to weightings of 37% and 45% of total sales, respectively, versus 35% in 1H24 and 27% in 2023. Server sales growth will be also boosted by rising PCIe Gen 5 and DDR5 sales. Socket V1, an 1851 pin socket, has started shipments in 3Q24F, and will trigger desktop sales (26% of total 1H24 sales) growth HoH in 2H24 and YoY in 2025F. We think a better product mix from new server and desktop platforms will be positive for gross margin, along with a copper price correction and stable NT dollar trend. Considering higher sales, our operating margin forecast is revised up for 2H24F, and our 2024F EPS is raised to NT\$81.13 (up 60% YoY) and 2025F EPS is raised to NT\$103.86 (up 28% YoY)

**Positive UQD development with sales contributions in 2025F.** The development of universal quick dis-connectors (UQD) for AI server liquid cooling manifolds is underway for Lotes. Management cited the firm's placement on the approved vendor list (AVL) by end customers for several projects, and UQD will contribute to sales in 2025F. We think this will be the sales and earnings upside from our current forecast, once orders have been awarded.

#### Valuation & Action

We raise our target price from NT\$1,920 to NT\$1,930 on 21x 2024-25F average fully-diluted EPS of NT\$91.91. We maintain Outperform on solid 2024-25F margins and EPS growth.

#### Risks

Demand uncertainty for general servers; new CPU penetration; material price increases.

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$m)	21,392	27,099	24,483	30,213	38,647
Gross profit (NT\$m)	8,557	11,938	11,481	15,854	20,317
Operating profit (NT\$m)	4,359	7,269	6,946	10,735	14,813
Net profit (NT\$m)	3,472	6,254	5,593	9,065	11,613
EPS (NT\$)	33.32	58.70	50.65	81.13	103.86
Cash DPS (NT\$)	16.00	26.00	26.00	40.71	52.16
EPS growth (%)	26.2	76.2	(13.7)	60.2	28.0
PE (x)	38.7	22.0	25.5	15.9	12.4
PB (x)	8.1	6.0	5.2	4.4	3.8
EV/EBITDA (x)	23.6	14.9	14.7	10.2	7.4
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	1.2	2.0	2.0	3.2	4.0
Return on average equity (%)	22.9	31.5	22.1	30.2	33.0

Source: Company data; KGI Research estimates

Figure 1: Breakdown of 3Q24 & 4Q24 forecast revisions vs. consensus

NT\$m	3Q24F							4Q24F						
	Revision	Previous	Diff. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	7,890	7,798	1.2	7.0	22.1	7,929	(0.5)	8,601	8,539	0.7	9.0	30.9	8,034	7.1
Gross profits	4,182	4,133	1.2	8.4	36.1	4,082	2.5	4,558	4,526	0.7	9.0	41.8	4,149	9.9
Operating income	2,888	2,854	1.2	12.5	50.1	2,738	5.5	3,251	3,211	1.3	12.6	63.2	2,787	16.6
Pretax Income	3,004	2,952	1.7	1.4	25.3	2,920	2.9	3,365	3,322	1.3	12.0	102.5	2,980	12.9
Net income	2,298	2,258	1.8	2.7	23.1	2,237	2.7	2,459	2,483	(0.9)	7.0	95.3	2,278	8.0
EPS (NT\$)	20.55	20.25	1.5	2.7	22.5	20.01	2.7	22.00	22.27	(1.2)	7.0	92.8	20.37	8.0
Gross margin (%)	53.0	53.0	0.0 ppts	0.7 ppts	5.5 ppts	51.6	1.4 ppts	53.0	53.0	0.0 ppts	0.0 ppts	4.1 ppts	51.5	1.5 ppts
OP margin (%)	36.6	36.6	0.0 ppts	1.8 ppts	6.8 ppts	33.6	3.0 ppts	37.8	37.6	0.2 ppts	1.2 ppts	7.5 ppts	34.5	3.3 ppts
Net margin (%)	29.1	28.9	0.2 ppts	(1.2)ppts	0.2 ppts	27.4	1.7 ppts	28.6	29.1	(0.5)ppts	(0.5)ppts	9.4 ppts	28.2	0.4 ppts

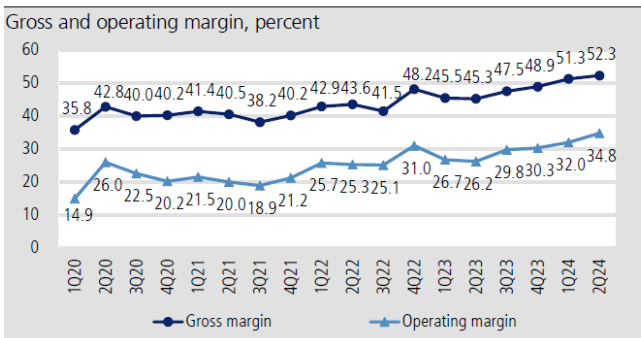
Source: Bloomberg; KGI Research estimates

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

NT\$m	2024F						2025F					
	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)	Revision	Previous	Chg. (%)	YoY (%)	Consensus	Diff. (%)
Sales	30,213	30,113	0.3	23.4	29,675	1.8	38,647	38,265	1.0	27.9	35,389	9.2
Gross profit	15,854	15,874	(0.1)	38.1	15,221	4.2	20,317	20,227	0.4	28.1	18,255	11.3
Operating income	10,735	10,776	(0.4)	54.5	10,028	7.0	14,813	14,715	0.7	38.0	12,552	18.0
Pretax Income	12,006	11,957	0.4	59.6	11,338	5.9	15,342	15,245	0.6	27.8	13,208	16.2
Net income	9,065	9,027	0.4	62.1	8,627	5.1	11,613	11,538	0.6	28.1	10,103	14.9
EPS (NT\$)	81.13	80.98	0.4	60.2	77.05	5.1	103.86	103.51	0.6	28.0	91.05	14.9
Gross margin (%)	52.5	52.7	(0.2)ppts	5.6 ppts	51.3	1.2 ppts	52.6	52.9	(0.3)ppts	0.1 ppts	51.6	1.0 ppts
OP margin (%)	35.5	35.8	(0.3)ppts	7.2 ppts	33.8	1.7 ppts	38.3	38.5	(0.1)ppts	2.8 ppts	35.5	2.9 ppts
Net margin (%)	30.0	30.0	0.0 ppts	7.2 ppts	29.1	0.9 ppts	30.0	30.2	(0.1)ppts	0.0 ppts	28.5	1.5 ppts

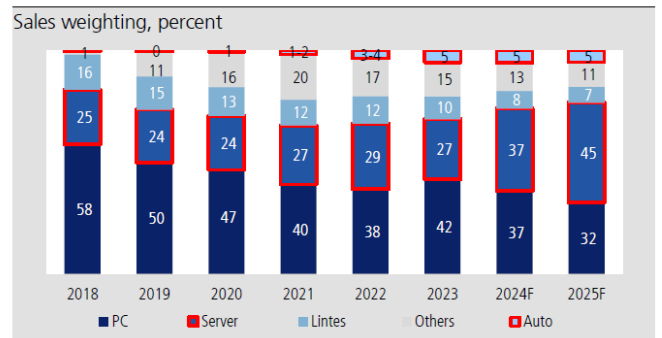
Source: Bloomberg; KGI Research estimates

Figure 3: Gross & operating margins rose in 1Q24



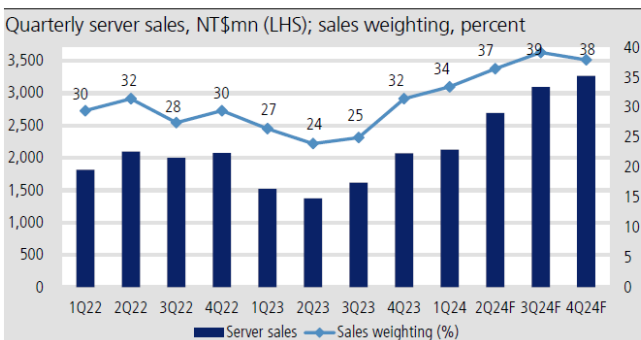
Source: Company data; KGI Research

Figure 4: Server sales weighting to continue rising in 2024-25F



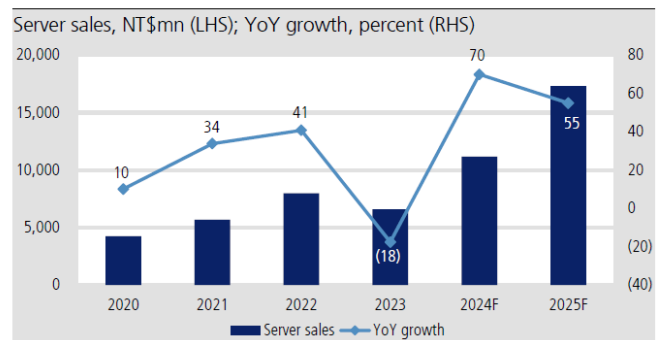
Source: Company data; KGI Research estimates

Figure 5: Server sales weighting rose to 36-37% in 2Q24



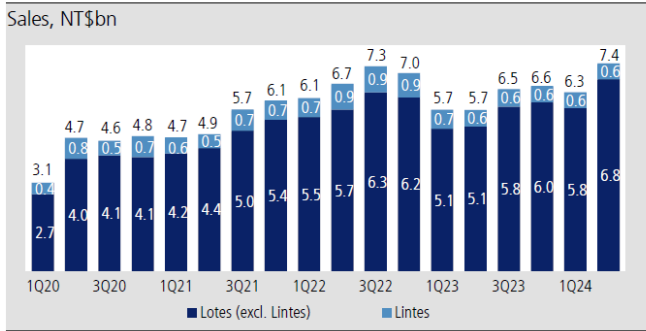
Source: Company data; KGI Research

Figure 6: Server sales saw 67% YoY growth in 1H24



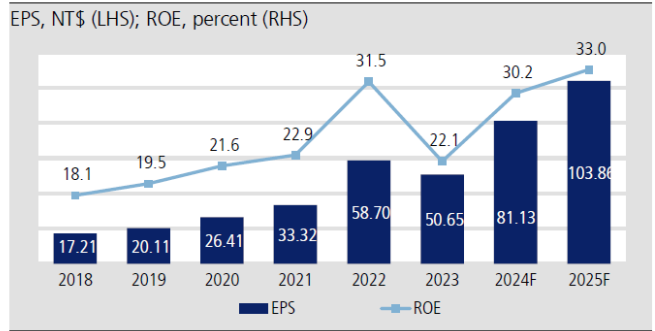
Source: Company data; KGI Research estimates

Figure 7: Lotes' sales grew stably in recent quarters



Source: Company data; KGI Research

Figure 8: Lotes enjoys solid earnings growth & ROE



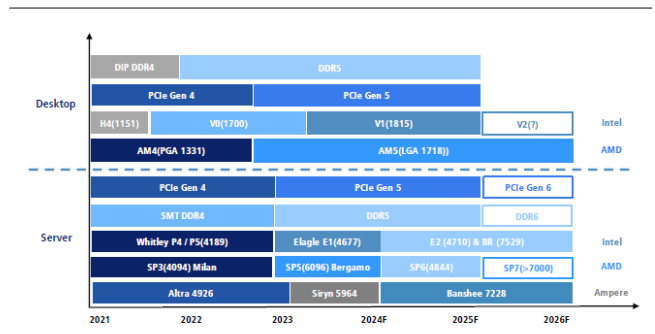
Source: Company data; KGI Research estimates

Figure 9: Server demand to resume growth in 2024F



Source: Gartner; KGI Research estimates

Figure 10: Eagle Stream server CPUs require socket, memory & PCIe upgrades



Note: Products with no color fill are still under development, or time to market is unknown. Source: Company data; KGI Research

Figure 11: Intel to see Eagle Stream penetration rise in 1H24; Birch Stream launched in 2H24F

Platform	Intel Whitley	Intel Eagle Stream	Intel Eagle Stream	Intel Birch Stream	Intel Birch Stream	Intel Birch Stream	Intel Oak Stream
Time of launch	2Q21	1Q23	4Q23	2H24F	2H24F	1H25F	2H25F
CPU	Ice Lake	Sapphire Rapids (Intel 7)	Emerald Rapids (Intel 7)	Sierra Forest (Intel 3; E-core)	Granite Rapids (Intel 3; P-core)	Clearwater Forest (Intel 18A; E-core)	Diamond Rapids (Intel 20A; P-core)
Process	10nm	10nm	10nm++	3nm (equivalent to TSMC's 5nm node)	3nm (equivalent to TSMC's 5nm node)	1.8nm (equivalent to TSMC's 2nm node)	2nm (equivalent to TSMC's 3nm node)
CPU sockets	LGA 4189	LGA 4677	LGA 4677	LGA 7529	LGA 7529	LGA 7529	TBA
CPU cores	26	60	64	288	136	288	TBA
DRAM	8-channel DDR4	8-channel DDR5	DDR5	DDR5	DDR5	TBA	TBA
PCIe	PCIe 4.0	PCIe 5.0	PCIe 5.0	PCIe 5.0	PCIe 5.0	TBA	TBA
CPU TDP	up to 270W	up to 350W	350-400W	up to 500W	up to 500W	TBA	TBA

Source: Company data; KGI Research

Figure 12: AMD to see Genoa & Bergamo CPU penetration increase in 1H24F; Turin CPU to launch in 2H24F

Platform	AMD Zen 3	AMD Zen 4	AMD Zen 4c	AMD Zen 4	AMD Zen 5	AMD Zen 6
Time of launch	1Q21	4Q22	1H23	3Q23	2H24F	2H25F
CPU	Milan	Genoa	Bergamo	Siena	Turin	Venice
Process	7nm+	5nm	5nm	5nm	3nm	3nm
CPU sockets	FC LGA 4094	FC LGA 6096	FC LGA 6096	FC LGA 4844	FC LGA 6096	TBA
CPU cores	64	96	128	64	256	TBA
DRAM	8-channel DDR4	12-channel DDR5	DDR5	DDR5	TBA	TBA
PCIe	PCIe 4.0	PCIe 5.0	PCIe 5.0	PCIe 5.0	TBA	TBA
CPU TDP	225-280W	320-400W	320-400W	70-225W	480-600W	TBA

Source: Company data; KGI Research

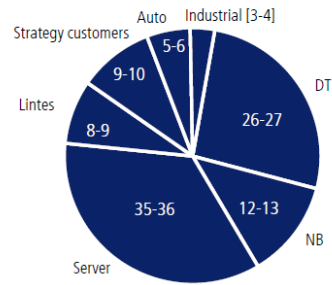
**Figure 13: Company profile**

(wjl)otes is a connector manufacturer tapping growth from server CPU upgrades and rising USB Type-C adoption. Sales of CPU sockets, DDR, and USB 3.0 connectors for desktops made up 28-29% of 2023 total sales, while CPU sockets, mini PCI, and IO connectors for NB accounted for 13-14%. Sales of server CPU ILM (socket metal fasteners, covers, and back plates) contributed 26-27%, NB USB cables from Lintes (52.13% stake) 11-12%, strategic clients 12-13%, auto 5-6% and industrial 2-3%.

Source: KGI Research

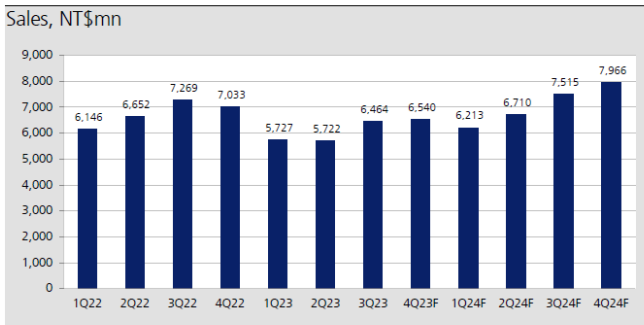
**Figure 14: Servers sales rose to a 35% weighting in 1H24**

Sales weighting in 1H24, percent



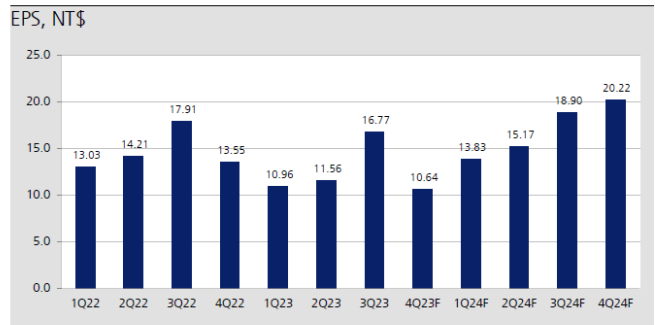
Source: Company data; KGI Research

**Figure 15: Sales**



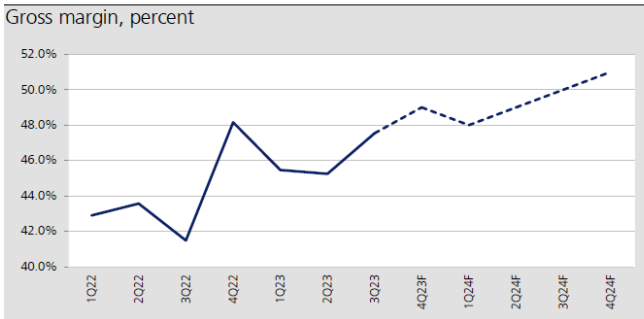
Source: KGI Research

**Figure 16: EPS**



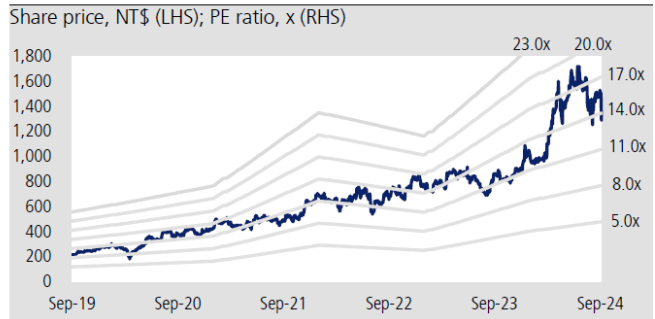
Source: KGI Research

**Figure 17: Gross Margin**



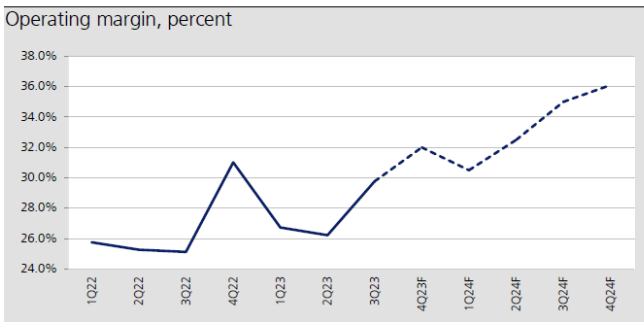
Source: KGI Research

**Figure 18: 12M forward PE band**



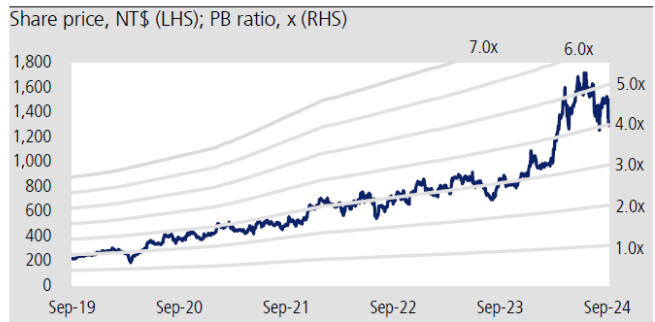
Source: TEJ; KGI Research estimates

**Figure 19: Operating Margin**



Source: KGI Research

**Figure 20: 12M forward PB band**



Source: TEJ; KGI Research estimates

**Income statement**

	Quarterly								Annually		
	Mar-23A	Jun-23A	Sep-23A	Dec-23A	Mar-24A	Jun-24A	Sep-24F	Dec-24F	Dec-23A	Dec-24F	Dec-25F
<b>Income statement (NT\$mn)</b>											
Revenue	5,727	5,722	6,464	6,571	6,348	7,374	7,890	8,601	24,483	30,213	38,647
Cost of goods sold	(3,123)	(3,133)	(3,391)	(3,356)	(3,091)	(3,518)	(3,709)	(4,042)	(13,002)	(14,359)	(18,331)
<b>Gross profit</b>	<b>2,604</b>	<b>2,589</b>	<b>3,073</b>	<b>3,215</b>	<b>3,257</b>	<b>3,857</b>	<b>4,182</b>	<b>4,558</b>	<b>11,481</b>	<b>15,854</b>	<b>20,317</b>
Operating expenses	(1,073)	(1,089)	(1,149)	(1,224)	(1,227)	(1,290)	(1,294)	(1,307)	(4,535)	(5,119)	(5,503)
<b>Operating profit</b>	<b>1,530</b>	<b>1,500</b>	<b>1,924</b>	<b>1,991</b>	<b>2,030</b>	<b>2,566</b>	<b>2,888</b>	<b>3,251</b>	<b>6,946</b>	<b>10,735</b>	<b>14,813</b>
Depreciation of fixed assets	(595)	(605)	(580)	(553)	(570)	(534)	(614)	(739)	(2,334)	(2,457)	(2,782)
Amortisation of intangible assets	(15)	(15)	(15)	(14)	(15)	(15)	(15)	(17)	(58)	(62)	(62)
<b>EBITDA</b>	<b>2,140</b>	<b>2,120</b>	<b>2,518</b>	<b>2,559</b>	<b>2,614</b>	<b>3,115</b>	<b>3,518</b>	<b>4,006</b>	<b>9,338</b>	<b>13,253</b>	<b>17,657</b>
Interest income	46	82	84	114	132	132	133	135	326	533	478
Investment income	-	-	4	-	-	-	-	-	4	-	-
Other non-op income	85	359	402	180	541	290	38	51	1,026	920	250
<b>Non-operating income</b>	<b>131</b>	<b>441</b>	<b>489</b>	<b>294</b>	<b>673</b>	<b>422</b>	<b>171</b>	<b>186</b>	<b>1,356</b>	<b>1,453</b>	<b>728</b>
Interest expense	(19)	(16)	(15)	(21)	(22)	(18)	(20)	(21)	(71)	(82)	(78)
Investment loss	-	-	-	(17)	(7)	(7)	(5)	(1)	(17)	(20)	(21)
Other non-op expenses	(106)	-	(1)	(586)	-	(0)	(30)	(50)	(693)	(80)	(100)
<b>Non-operating expenses</b>	<b>(125)</b>	<b>(16)</b>	<b>(16)</b>	<b>(624)</b>	<b>(29)</b>	<b>(25)</b>	<b>(55)</b>	<b>(73)</b>	<b>(781)</b>	<b>(182)</b>	<b>(200)</b>
<b>Pre-tax profit</b>	<b>1,536</b>	<b>1,926</b>	<b>2,397</b>	<b>1,662</b>	<b>2,674</b>	<b>2,964</b>	<b>3,004</b>	<b>3,365</b>	<b>7,520</b>	<b>12,006</b>	<b>15,342</b>
Current taxation	(315)	(613)	(471)	(394)	(569)	(699)	(661)	(833)	(1,793)	(2,761)	(3,529)
Minorities	(40)	(28)	(58)	(8)	(35)	(28)	(45)	(72)	(134)	(180)	(200)
<b>Normalised net profit</b>	<b>1,182</b>	<b>1,285</b>	<b>1,867</b>	<b>1,259</b>	<b>2,070</b>	<b>2,237</b>	<b>2,298</b>	<b>2,459</b>	<b>5,593</b>	<b>9,065</b>	<b>11,613</b>
Extraordinary items	0	(0)	(0)	0	0	(0)	-	0	-	-	-
<b>Net profit</b>	<b>1,182</b>	<b>1,285</b>	<b>1,867</b>	<b>1,259</b>	<b>2,070</b>	<b>2,237</b>	<b>2,298</b>	<b>2,459</b>	<b>5,593</b>	<b>9,065</b>	<b>11,613</b>
EPS (NT\$)	10.96	11.56	16.77	11.41	18.57	20.00	20.55	22.00	50.65	81.13	103.86
<b>Margins (%)</b>											
Gross profit margin	45.5	45.3	47.5	48.9	51.3	52.3	53.0	53.0	46.9	52.5	52.6
Operating margin	26.7	26.2	29.8	30.3	32.0	34.8	36.6	37.8	28.4	35.5	38.3
EBITDA margin	37.4	37.1	39.0	38.9	41.2	42.2	44.6	46.6	38.1	43.9	45.7
Pretax profit margin	26.8	33.7	37.1	25.3	42.1	40.2	38.1	39.1	30.7	39.7	39.7
Net profit margin	20.6	22.4	28.9	19.2	32.6	30.3	29.1	28.6	22.8	30.0	30.0
<b>Sequential growth (%)</b>											
Revenue growth	(18.6)	(0.1)	13.0	1.7	(3.4)	16.2	7.0	9.0			
Gross profit growth	(23.1)	(0.6)	18.7	4.6	1.3	18.4	8.4	9.0			
Operating profit growth	(29.8)	(2.0)	28.2	3.5	1.9	26.4	12.5	12.6			
EBITDA growth	(23.1)	(0.9)	18.8	1.6	2.2	19.2	12.9	13.9			
Pretax profit growth	(22.2)	25.3	24.5	(30.7)	60.9	10.8	1.4	12.0			
Net profit growth	(18.7)	8.7	45.4	(32.6)	64.4	8.0	2.7	7.0			
<b>YoY growth (%)</b>											
Revenue growth	(6.8)	(14.0)	(11.1)	(6.6)	10.8	28.9	22.1	30.9	(9.7)	23.4	27.9
Gross profit growth	(1.2)	(10.7)	1.9	(5.1)	25.1	48.9	36.1	41.8	(3.8)	38.1	28.1
Operating profit growth	(3.3)	(10.7)	5.4	(8.7)	32.6	71.0	50.1	63.2	(4.4)	54.5	38.0
EBITDA growth	1.7	(5.3)	4.3	(8.0)	22.2	46.9	39.7	56.6	(2.1)	41.9	33.2
Pretax profit growth	(16.1)	(3.0)	(0.1)	(15.8)	74.0	53.9	25.3	102.5	(8.2)	59.6	27.8
Net profit growth	(14.6)	(14.9)	(2.2)	(13.3)	75.2	74.1	23.1	95.3	(10.6)	62.1	28.1

Source: Company data; KGI Research estimates



**Balance sheet**

NTSmn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Total assets</b>	<b>26,419</b>	<b>33,296</b>	<b>37,952</b>	<b>44,484</b>	<b>52,329</b>
<b>Current assets</b>	<b>16,960</b>	<b>22,090</b>	<b>26,075</b>	<b>32,536</b>	<b>40,613</b>
Cash & ST securities	3,459	7,169	13,193	17,168	21,083
Inventory	4,091	3,561	2,657	2,927	3,746
Accounts receivable	8,798	10,711	9,611	11,828	15,171
Other current assets	612	650	613	613	613
<b>Non-current assets</b>	<b>9,459</b>	<b>11,205</b>	<b>11,878</b>	<b>11,948</b>	<b>11,716</b>
LT investments	369	181	534	561	610
Net fixed assets	6,882	8,872	9,130	9,173	8,892
Other assets	2,208	2,152	2,214	2,214	2,214
<b>Total liabilities</b>	<b>8,365</b>	<b>8,787</b>	<b>8,571</b>	<b>10,391</b>	<b>12,229</b>
<b>Current liabilities</b>	<b>7,004</b>	<b>8,098</b>	<b>6,854</b>	<b>8,985</b>	<b>10,719</b>
Accounts payable	2,630	2,360	1,828	2,013	2,577
Interest bearing ST liabilities	1,157	1,923	1,580	1,891	1,788
Other current liabilities	3,218	3,815	3,446	5,080	6,355
<b>Non-current liabilities</b>	<b>1,360</b>	<b>689</b>	<b>1,717</b>	<b>1,406</b>	<b>1,509</b>
Long-term debt	942	282	934	623	727
Other L-T liabilities	133	147	295	295	295
<b>Total equity</b>	<b>18,055</b>	<b>24,509</b>	<b>29,381</b>	<b>34,093</b>	<b>40,100</b>
Share capital	1,060	1,069	1,113	1,113	1,113
Retained earnings reserve	9,034	13,160	15,670	20,202	26,008
Minority interests	1,192	1,701	1,608	1,788	1,988
Preferred shareholders funds	-	-	-	-	-

**Key ratios**

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Growth</b>					
Revenue growth	23.7%	26.7%	(9.7%)	23.4%	27.9%
Operating profit growth	17.6%	66.7%	(4.4%)	54.5%	38.0%
EBITDA growth	22.0%	61.3%	(2.1%)	41.9%	33.2%
Net profit growth	27.1%	80.1%	(10.6%)	62.1%	28.1%
EPS growth	26.2%	76.2%	(13.7%)	60.2%	28.0%
<b>Profitability</b>					
Gross profit margin	40.0%	44.1%	46.9%	52.5%	52.6%
Operating margin	20.4%	26.8%	28.4%	35.5%	38.3%
EBITDA margin	27.6%	35.2%	38.1%	43.9%	45.7%
Net profit margin	16.2%	23.1%	22.8%	30.0%	30.0%
Return on average assets	15.2%	20.9%	15.7%	22.0%	24.0%
Return on average equity	22.9%	31.5%	22.1%	30.2%	33.0%
<b>Stability</b>					
Gross debt to equity	11.6%	9.0%	8.6%	7.4%	6.3%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	161.4	149.6	106.7	148.1	197.0
Interest & ST debt coverage (x)	0.8	0.8	0.8	0.9	0.9
Cash flow interest coverage(x)	95.0	140.3	128.4	114.0	139.0
Cash flow/int. & ST debt (x)	2.3	3.9	5.5	4.7	5.8
Current ratio (x)	2.4	2.7	3.8	3.6	3.8
Quick ratio (x)	1.8	2.3	3.4	3.3	3.4
Net debt (NT\$mn)	(1,205)	(4,885)	(10,618)	(14,593)	(18,508)
<b>Per share data</b>					
EPS (NT\$)	33.32	58.70	50.65	81.13	103.86
CFPS (NT\$)	25.81	72.59	82.71	83.26	97.30
BVPS (NT\$)	159.11	213.40	249.47	290.18	342.33
Adj BVPS (NT\$)	161.82	214.07	251.53	289.14	340.86
SPS (NT\$)	205.29	254.36	221.74	270.42	345.64
EBITDA/share (NT\$)	56.76	89.52	84.57	118.62	157.91
Cash DPS (NT\$)	16.00	26.00	26.00	40.71	52.16
<b>Activity</b>					
Sales / avg assets	0.94	0.91	0.69	0.73	0.80
Days receivable	150.1	144.3	143.3	143.3	143.3
Days inventory	116.4	85.7	74.6	74.6	74.6
Days payable	74.8	56.8	51.3	51.3	51.3
Cash cycle	191.7	173.2	166.6	166.6	166.6

Source: Company data; KGI Research estimates

**Profit & loss**

NTSmn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Revenue</b>	<b>21,392</b>	<b>27,099</b>	<b>24,483</b>	<b>30,213</b>	<b>38,647</b>
Cost of goods sold	(12,835)	(15,161)	(13,002)	(14,359)	(18,331)
<b>Gross profit</b>	<b>8,557</b>	<b>11,938</b>	<b>11,481</b>	<b>15,854</b>	<b>20,317</b>
Operating expenses	(4,198)	(4,669)	(4,535)	(5,119)	(5,503)
<b>Operating profit</b>	<b>4,359</b>	<b>7,269</b>	<b>6,946</b>	<b>10,735</b>	<b>14,813</b>
<b>Non-operating income</b>	<b>373</b>	<b>1,337</b>	<b>1,356</b>	<b>1,453</b>	<b>728</b>
Interest income	14	47	326	533	478
Investment income	6	6	4	-	-
Other non-op income	353	1,285	1,026	920	250
<b>Non-operating expenses</b>	<b>(192)</b>	<b>(418)</b>	<b>(781)</b>	<b>(182)</b>	<b>(200)</b>
Interest expense	(28)	(55)	(71)	(82)	(78)
Investment loss	-	-	(17)	(20)	(21)
Other non-op expenses	(164)	(363)	(693)	(80)	(100)
<b>Pre-tax profit</b>	<b>4,540</b>	<b>8,189</b>	<b>7,520</b>	<b>12,006</b>	<b>15,342</b>
Current taxation	(1,021)	(1,782)	(1,793)	(2,761)	(3,529)
Minorities	(47)	(152)	(134)	(180)	(200)
Extraordinary items	-	(0)	(0)	-	-
<b>Net profit</b>	<b>3,472</b>	<b>6,254</b>	<b>5,593</b>	<b>9,065</b>	<b>11,613</b>
<b>EBITDA</b>	<b>5,915</b>	<b>9,538</b>	<b>9,338</b>	<b>13,253</b>	<b>17,657</b>
EPS (NT\$)	33.32	58.70	50.65	81.13	103.86

**Cash flow**

NTSmn	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
<b>Operations cash flow</b>	<b>2,690</b>	<b>7,733</b>	<b>9,133</b>	<b>9,302</b>	<b>10,879</b>
Net profit	3,472	6,254	5,593	9,065	11,613
Depreciation & amortisation	1,555	2,269	2,392	2,518	2,843
Decrease in working capital	(3,412)	(1,757)	1,192	(2,301)	(3,599)
Other operating cash flow	1,074	967	(44)	20	21
<b>Investing cash flow</b>	<b>(4,088)</b>	<b>(3,686)</b>	<b>(2,770)</b>	<b>(2,609)</b>	<b>(2,632)</b>
Sale of ST investment	(22)	1	10	-	-
New investments	-	-	(94)	(47)	(71)
Capital expenditure	(3,632)	(3,678)	(2,659)	(2,500)	(2,500)
Others investing cashflow	(433)	(10)	(27)	(62)	(62)
<b>Free cash flow</b>	<b>(2,161)</b>	<b>2,466</b>	<b>6,157</b>	<b>5,921</b>	<b>8,089</b>
<b>Financing cash flow</b>	<b>1,834</b>	<b>(495)</b>	<b>(296)</b>	<b>(2,718)</b>	<b>(4,332)</b>
Increase in short term debt	1,142	714	(317)	-	-
Increase in long term loans	1,173	465	914	-	-
New ordinary shares issued	1,076	-	2,306	-	-
Ordinary dividends paid	(1,448)	(1,753)	(2,948)	(2,898)	(4,532)
Other financing cashflow	(109)	79	(250)	180	200
<b>Forex effects</b>	<b>(82)</b>	<b>235</b>	<b>(25)</b>		
<b>Total cash generated</b>	<b>354</b>	<b>3,787</b>	<b>6,042</b>	<b>3,975</b>	<b>3,914</b>

**ROIC**

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	19.6%	17.2%	18.5%	16.9%	14.2%
<b>= Operating margin</b>	<b>20.4%</b>	<b>26.8%</b>	<b>28.4%</b>	<b>35.5%</b>	<b>38.3%</b>
1 / (Working capital/revenue	0.4	0.3	0.3	0.3	0.3
+ Net PPE/revenue	0.3	0.3	0.4	0.3	0.2
+ Other assets/revenue)	0.0	0.0	0.0	0.0	0.0
<b>= Capital turnover</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.7</b>	<b>1.9</b>
Operating margin	20.4%	26.8%	28.4%	35.5%	38.3%
x Capital turnover	1.4	1.5	1.4	1.7	1.9
x (1 - tax rate)	77.5%	78.2%	76.2%	77.0%	77.0%
<b>= After-tax ROIC</b>	<b>22.0%</b>	<b>30.9%</b>	<b>30.9%</b>	<b>46.4%</b>	<b>57.4%</b>

Source: Company data; KGI Research estimates

**Lotes – Recommendation & target price history**



Date	Rating	Target	Price
2024-08-01	Outperform	1,920	1,485
2024-06-13	Outperform	1,860	1,600
2024-05-03	Outperform	1,660	1,425
2024-03-05	Outperform	1,460	1,115
2023-12-08	Outperform	1,075	963
2023-10-31	Outperform	1,075	823
2023-08-04	Outperform	1,075	723
2023-06-27	Outperform	1,110	877
2023-05-09	Outperform	1,110	925
2023-04-11	Outperform	1,130	928

Source: TEJ, KGI Research

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