

Novatek (3034.TW/3034 TT)

Potential breakthrough with SerDes IP

Outperform · Upgraded

| | |
|--------------------------------|------|
| Price as of February 19 (NT\$) | 550 |
| 12M target price (NT\$) | 660 |
| Previous target price (NT\$) | 530 |
| Revised up (%) | 24.5 |
| Upside (%) | 20.0 |

Key message

- We maintain our sales and earnings growth prospects for 2024F and have identified potential opportunities in the high-speed interface segment.
- Novatek has emphasized that its expertise in high-speed interface technology is a core competence, with product development shifting towards higher specifications.
- Novatek has highlighted an advantage in its early adoption of cutting-edge product development and ASIC product line processes.

Trading data

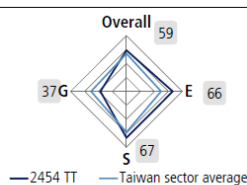
| | |
|------------------------------|----------------|
| Mkt cap (NT\$bn/US\$m) | 334.7 / 10,681 |
| Outstanding shares (mn) | 609 |
| Foreign ownership (mn) | 297.9 |
| 3M avg. daily trading (mn) | 2.84 |
| 52-week trading range (NT\$) | 381.5 –550 |

| Performance | 3M | 6M | 12M |
|--------------|------|------|------|
| Absolute (%) | 11.1 | 42.5 | 36 |
| Relative (%) | 2.8 | 28.7 | 15.6 |

Quarterly EPS

| NT\$ | 1Q | 2Q | 3Q | 4Q |
|------|--------|--------|--------|--------|
| 2022 | 18.30A | 13.95A | 7.07A | 6.64A |
| 2023 | 7.81A | 11.29A | 10.46A | 8.76F |
| 2024 | 8.01F | 9.63F | 11.24F | 10.49F |

ESG score card



Source: Refinitiv

Event

We maintain our sales and earnings growth prospects for 2024F and have identified potential opportunities in the high-speed interface segment.

Impact

2024F growth theme intact. We reaffirm our view that Novatek's sales and earnings will grow in 2024F, driven by: (1) stabilization of the smartphone sector, accompanied by a moderate YoY increase in smartphone shipments and robust OLED DDI demand; (2) continued resolution advancements and a revival in the IT/ NB sector, which are expected to stimulate increased orders; (3) introduction of new products and acquisition of new customers, boosting shipments of TV products; (4) growth in the automotive panel market, leading to an increase in orders for automotive DDI and TDDI; and (5) contributions from the ASIC segment to Novatek's sales.

High-speed interface segment is gaining prominence. Novatek has emphasized that its expertise in high-speed interface technology is a core competence, with product development shifting towards higher specifications. The company's proficiency in serializer/ deserializer (SerDes) technology not only facilitates the provision of timing controllers (TCON) but also supports the firm's entry into the high-speed interface market. We view Novatek as a significant industry player with robust SerDes IP capabilities, standing alongside other Taiwanese fabless companies such as MediaTek (2454 TT, NT\$963, N), Realtek (2454 TT, NT\$470, N), and Parade Technologies (4966 TT, NT\$1,290, OP). Additionally, Novatek has highlighted an advantage in its early adoption of cutting-edge product development and ASIC product line processes. We believe that several key factors position the company for potential breakthroughs beyond display-related applications, and could lead to a re-rating of its shares, namely: (1) extensive SerDes expertise; (2) a wealth of R&D talent and financial resources; (3) early adoption of advanced technology nodes; and (4) ASIC design capabilities.

Valuation & Action

To incorporate 1Q24F guidance into our 2024F growth forecasts, we have slightly adjusted 2024F EPS to NT\$39.38, up 3% YoY, compared to consensus of NT\$39.04. Our 2025F EPS is NT\$42.93, up 9% YoY, versus consensus of NT\$41.38. Novatek continues to stand out as a leader in the Greater China DDI market, thanks to its diverse product range, secured 28nm HV capacity, and cost efficiencies. Additionally, we recognize potential for a share re-rating, driven by its high-speed interface capabilities. We have raised our target price to NT\$660, based on 16x 2024-25F average EPS, up from 13x 2024F EPS. Dividend yield, based on our revised target price, offers a 5% return, still making it a relatively attractive option for dividend-focused investors. Upgrade to Outperform.

Risks

Global macro uncertainties; intensified competition in the OLED DDI market; soft high-speed interface business momentum.

Key financials and valuations

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue (NT\$m) | 135,366 | 109,957 | 110,429 | 117,608 | 126,916 |
| Gross profit (NT\$m) | 67,392 | 50,941 | 46,212 | 47,476 | 51,077 |
| Operating profit (NT\$m) | 47,773 | 32,729 | 26,662 | 28,108 | 30,664 |
| Net profit (NT\$m) | 38,866 | 27,970 | 23,318 | 23,963 | 26,122 |
| EPS (NT\$) | 63.87 | 45.96 | 38.32 | 39.38 | 42.93 |
| Cash DPS (NT\$) | 51.50 | 37.00 | 30.85 | 31.70 | 34.56 |
| EPS growth (%) | 228.9 | (28.0) | (16.6) | 2.8 | 9.0 |
| PE (x) | 8.6 | 12.0 | 14.4 | 14.0 | 12.8 |
| PB (x) | 4.8 | 5.1 | 5.0 | 4.6 | 4.2 |
| EV/EBITDA (x) | 5.2 | 8.0 | 9.4 | 9.0 | 8.0 |
| Net debt to equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Dividend yield (%) | 9.4 | 6.7 | 5.6 | 5.8 | 6.3 |
| Return on average equity (%) | 70.4 | 41.1 | 35.2 | 34.4 | 34.6 |

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 1Q24F guidance vs. KGI & consensus

| | 1Q24F | | | | | | | | | |
|------------------|----------------------|----------|-----------|----------|-----------|-----------|-----------|-----------|-----------|-------------|
| | Guidance (mid-point) | Revision | Diff. (%) | Previous | Diff. (%) | QoQ (%) | YoY (%) | Consensus | Diff. (%) | Remarks |
| Revenue (NT\$m) | 24,500 | 24,819 | (1.3) | 25,523 | (4.0) | (9.8) | 1.9 | 24,905 | (1.6) | NT\$24-25bn |
| Gross margin (%) | 39.5 | 39.9 | (0.4)ppts | 39.8 | (0.3)ppts | (2.0)ppts | (2.4)ppts | 40.0 | (0.5)ppts | 38.5-40.5% |
| OP margin (%) | 20.5 | 22.9 | (2.4)ppts | 19.9 | 0.6 ppts | (2.7)ppts | (3.0)ppts | 21.3 | (0.8)ppts | 19.5-21.5% |

Source: Company data, Bloomberg, KGI Research estimates

Figure 2: Breakdown of 1Q24F forecast revisions vs. consensus

| NT\$m | 1Q24F | | | | | | |
|------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|
| | Revision | Previous | Chg. (%) | QoQ (%) | YoY (%) | Consensus | Diff. (%) |
| Revenue | 24,819 | 25,523 | (2.8) | (8.6) | 3.2 | 24,905 | (0.3) |
| Gross profit | 9,890 | 10,154 | (2.6) | (12.2) | (1.9) | 9,961 | (0.7) |
| Operating profit | 5,671 | 5,815 | (2.5) | (10.1) | 0.2 | 5,300 | 7.0 |
| Net profit | 4,877 | 5,072 | (3.8) | (8.5) | 2.6 | 4,533 | 7.6 |
| EPS (NT\$) | 8.01 | 8.34 | (3.8) | (8.5) | 2.6 | 7.47 | 7.3 |
| Gross margin (%) | 39.9 | 39.8 | 0.1 ppts | (1.6)ppts | (2.1)ppts | 40.0 | (0.1)ppts |
| OP margin (%) | 22.9 | 22.8 | 0.1 ppts | (0.4)ppts | (0.7)ppts | 21.3 | 1.6 ppts |
| Net margin (%) | 19.7 | 19.9 | (0.2)ppts | 0.0 ppts | (0.1)ppts | 18.2 | 1.4 ppts |

Source: Bloomberg, KGI Research estimates

Figure 3: Breakdown of 2023 results, 2024 forecast revisions & 2025 forecast vs. KGI & consensus

| NT\$m | 2023 | | | | | | 2024F | | | | | | 2025F | | | |
|------------------|---------|--------------|-----------|-----------|-----------|-----------|----------|----------|-----------|-----------|-----------|-----------|--------------|-----------|-----------|-----------|
| | Actual | KGI forecast | Diff. (%) | YoY (%) | Consensus | Diff. (%) | Revision | Previous | Chg. (%) | YoY (%) | Consensus | Diff. (%) | KGI forecast | YoY (%) | Consensus | Diff. (%) |
| Revenue | 110,429 | 110,327 | 0.1 | 0.4 | 110,190 | 0.2 | 117,608 | 120,110 | (2.1) | 6.5 | 119,088 | (1.2) | 126,916 | 7.9 | 127,773 | (0.7) |
| Gross profit | 46,212 | 45,843 | 0.8 | (9.3) | 45,688 | 1.1 | 47,476 | 48,506 | (2.1) | 2.7 | 47,892 | (0.9) | 51,077 | 7.6 | 51,168 | (0.2) |
| Operating profit | 26,662 | 26,407 | 1.0 | (18.5) | 26,308 | 1.3 | 28,108 | 28,724 | (2.1) | 5.4 | 28,095 | 0.0 | 30,664 | 9.1 | 30,293 | 1.2 |
| Net profit | 23,318 | 23,226 | 0.4 | (16.6) | 23,007 | 1.3 | 23,963 | 24,819 | (3.4) | 2.8 | 23,766 | 0.8 | 26,122 | 9.0 | 25,162 | 3.8 |
| EPS (NT\$) | 38.32 | 38.17 | 0.4 | (16.6) | 37.84 | 1.3 | 39.38 | 40.79 | (3.4) | 2.8 | 39.04 | 0.9 | 42.93 | 9.0 | 41.38 | 3.7 |
| Gross margin (%) | 41.8 | 41.6 | 0.3 ppts | (4.5)ppts | 41.5 | 0.4 ppts | 40.4 | 40.4 | (0.0)ppts | (1.5)ppts | 40.2 | 0.2 ppts | 40.2 | (0.1)ppts | 40.0 | 0.2 ppts |
| OP margin (%) | 24.1 | 23.9 | 0.2 ppts | (5.6)ppts | 23.9 | 0.3 ppts | 23.9 | 23.9 | (0.0)ppts | (0.2)ppts | 23.6 | 0.3 ppts | 24.2 | 0.3 ppts | 23.7 | 0.5 ppts |
| Net margin (%) | 21.1 | 21.1 | 0.1 ppts | (4.3)ppts | 20.9 | 0.2 ppts | 20.4 | 20.7 | (0.3)ppts | (0.7)ppts | 20.0 | 0.4 ppts | 20.6 | 0.2 ppts | 19.7 | 0.9 ppts |

Source: Company data, Bloomberg, KGI Research estimates

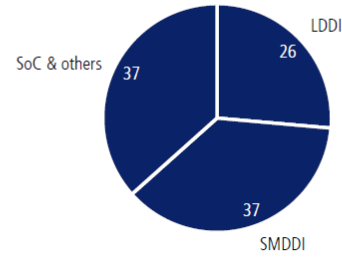
Figure 4: Company profile

Established in 1997, Novatek was listed in 2002 and has emerged as the world's leading provider of flat-panel display driver IC and SoC solutions. Thanks to its advanced silicon foundry services in Taiwan, Novatek has successfully diversified its product range and achieved major design wins with top global flat-panel vendors. To meet demand for consumer electronics ranging from mobile technology to large home devices, the company supplies a broad range of products. The firm had 24.1% market share in large-display driver IC in 2020.

Source: Company data, KGI Research

Figure 5: Product mix

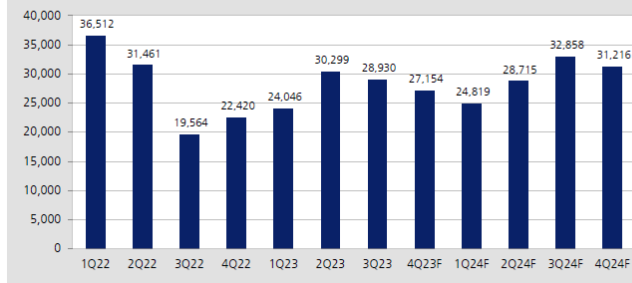
Revenue weighting by product type in 4Q23, percent



Source: Company data, KGI Research

Figure 6: Sales

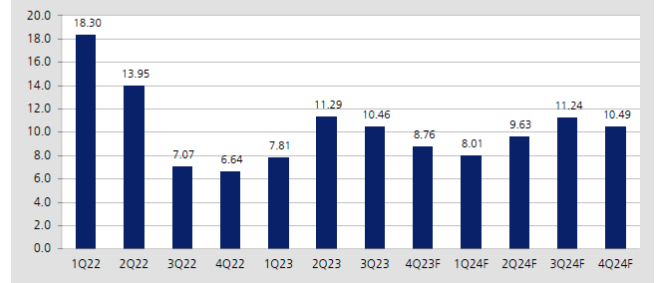
Sales, NT\$mn



Source: KGI Research

Figure 7: EPS

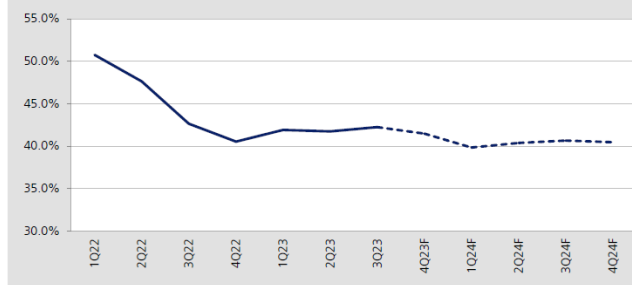
EPS, NT\$



Source: KGI Research

Figure 8: Gross margin

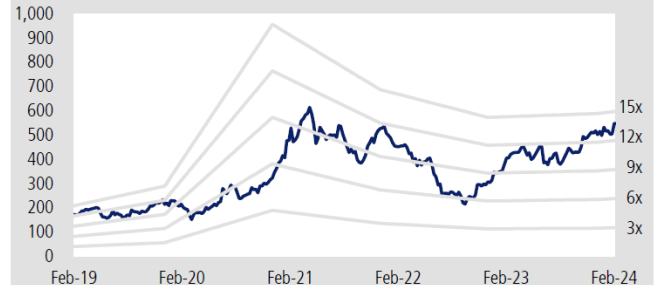
Gross margin, percent



Source: KGI Research

Figure 9: 12M forward PE band

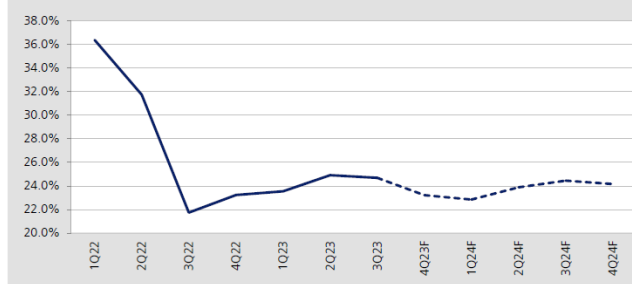
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: TEJ, KGI Research estimates

Figure 10: Operating margin

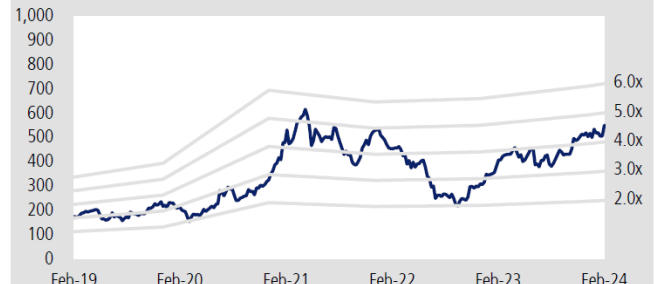
Operating margin, percent



Source: KGI Research

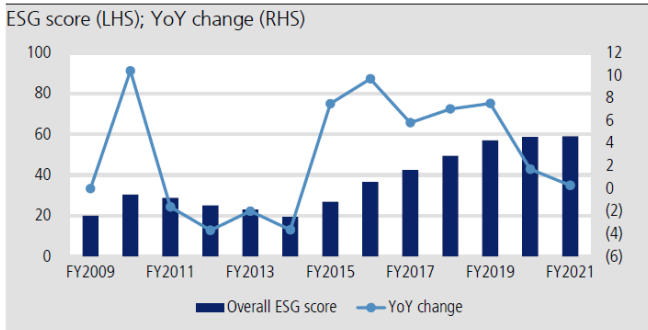
Figure 11: 12M forward PB band

Share price, NT\$ (LHS); PB ratio, x (RHS)



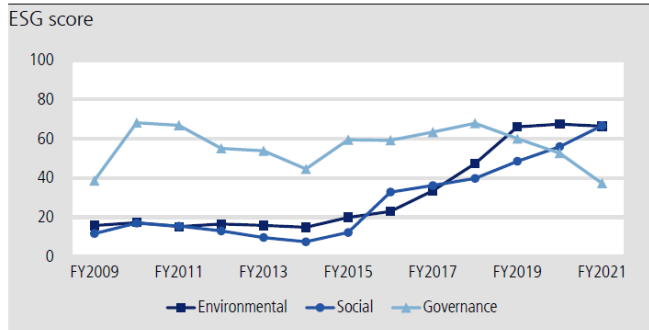
Source: TEJ, KGI Research estimates

Figure 12: Overall ESG score



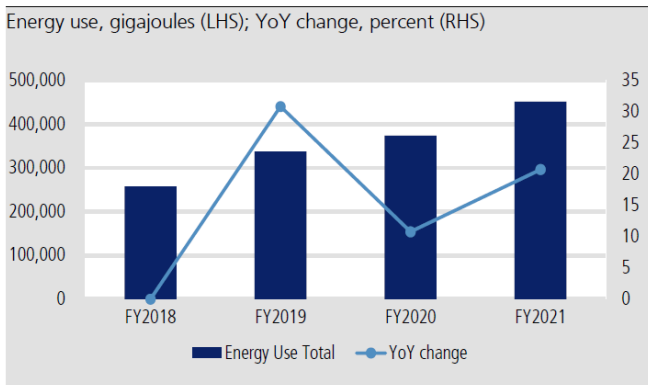
Source: Refinitiv, Company data

Figure 13: ESG scores



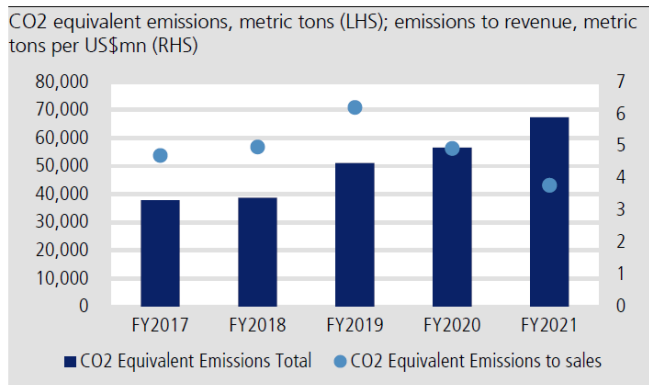
Source: Refinitiv, Company data

Figure 14: Energy use



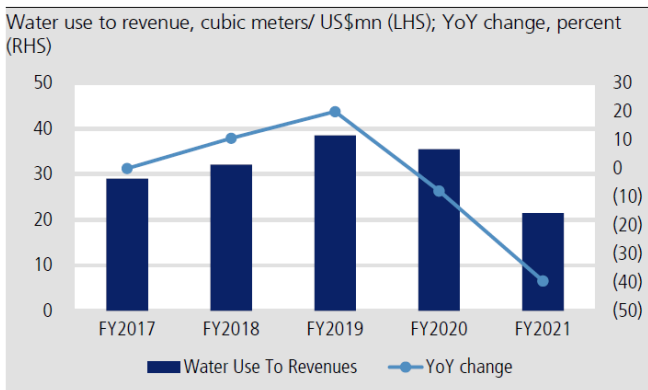
Source: Refinitiv, Company data

Figure 15: CO2 equivalent emissions



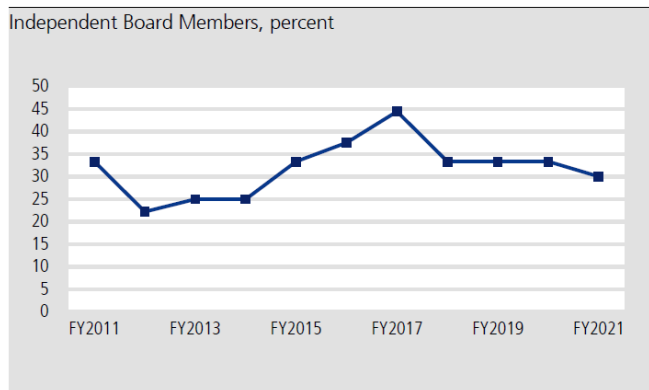
Source: Refinitiv, Company data

Figure 16: Water use to revenue



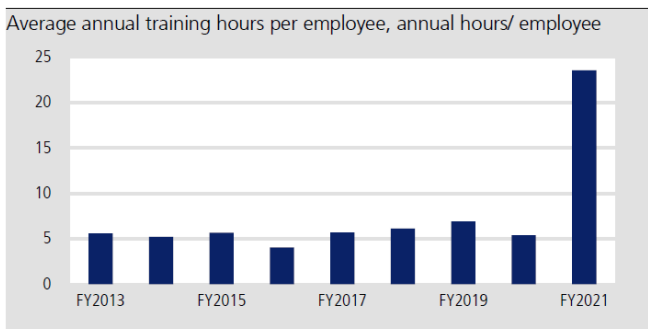
Source: Refinitiv, Company data

Figure 17: Independent board members



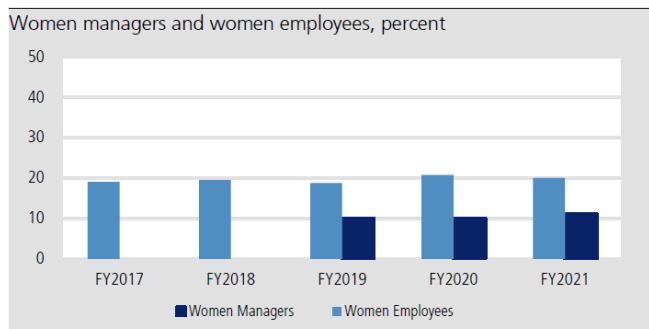
Source: Refinitiv, Company data

Figure 18: Employee training



Source: Refinitiv, Company data

Figure 19: Gender diversification



Source: Refinitiv, Company data

ESG chart definition

| Item | Definition | Remarks |
|-----------------------------------|---|---------|
| Energy use | <p>Total direct and indirect energy consumption in gigajoules.</p> <ul style="list-style-type: none"> - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use' | |
| Renewable energy purchased | <p>Total primary renewable energy purchased in gigajoules.</p> <ul style="list-style-type: none"> - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased | |
| Renewable energy use ratio | Renewable energy to total energy used | |
| CO2 equivalent emissions | <p>Direct CO2 and CO2 equivalent emissions in metric tons.</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) | |
| CO2 equivalent emissions to sales | <p>Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m)</p> <ul style="list-style-type: none"> - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3) | |
| Waste total | <p>Total amount of waste produced in metric tons.</p> <ul style="list-style-type: none"> - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered | |
| Waste recycling ratio | <p>The waste recycling ratio as reported by the company.</p> <ul style="list-style-type: none"> - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste | |
| Water withdrawal total | <p>Total water withdrawal in cubic meters.</p> <ul style="list-style-type: none"> - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered | |
| Environmental expenditures | <p>Total amount of environmental expenditures.</p> <ul style="list-style-type: none"> - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures | |
| Turnover of employees | <p>Percentage of employee turnover.</p> <ul style="list-style-type: none"> - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving | |
| Women managers | <p>Percentage of women managers.</p> <ul style="list-style-type: none"> - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100 | |
| Women employees | <p>Percentage of women employees.</p> <ul style="list-style-type: none"> - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100 | |
| Training hours total | <p>Total training hours performed by all employees.</p> <ul style="list-style-type: none"> - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked | |
| Training hours per employee | Training hours per employee per year | |

Source: Refinitiv, Company data

Income statement

| | Quarterly | | | | | | | | Annually | | |
|-----------------------------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Mar-23A | Jun-23A | Sep-23A | Dec-23F | Mar-24F | Jun-24F | Sep-24F | Dec-24F | Dec-23F | Dec-24F | Dec-25F |
| Income statement (NT\$mn) | | | | | | | | | | | |
| Revenue | 24,046 | 30,299 | 28,930 | 27,154 | 24,819 | 28,715 | 32,858 | 31,216 | 110,429 | 117,608 | 126,916 |
| Cost of goods sold | (13,967) | (17,652) | (16,707) | (15,890) | (14,928) | (17,118) | (19,499) | (18,586) | (64,217) | (70,132) | (75,839) |
| Gross profit | 10,079 | 12,647 | 12,223 | 11,264 | 9,890 | 11,596 | 13,359 | 12,630 | 46,212 | 47,476 | 51,077 |
| Operating expenses | (4,417) | (5,096) | (5,080) | (4,957) | (4,219) | (4,738) | (5,323) | (5,088) | (19,550) | (19,368) | (20,413) |
| Operating profit | 5,662 | 7,550 | 7,143 | 6,306 | 5,671 | 6,858 | 8,036 | 7,542 | 26,662 | 28,108 | 30,664 |
| Depreciation of fixed assets | (277) | (298) | (287) | (267) | (271) | (276) | (282) | (287) | (1,129) | (1,115) | (1,187) |
| Amortisation of intangible assets | (48) | (47) | (48) | (51) | (51) | (51) | (51) | (51) | (193) | (203) | (203) |
| EBITDA | 5,987 | 7,896 | 7,478 | 6,623 | 5,993 | 7,185 | 8,368 | 7,880 | 27,984 | 29,426 | 32,054 |
| Interest income | 277 | 336 | 281 | 202 | 216 | 230 | 244 | 186 | 1,095 | 876 | 952 |
| Investment income | - | 90 | - | 30 | 30 | 30 | 30 | 30 | 120 | 120 | 120 |
| Other non-op income | 19 | 21 | 15 | 20 | 20 | 20 | 20 | 20 | 74 | 80 | 80 |
| Non-operating income | 295 | 447 | 295 | 252 | 266 | 280 | 294 | 236 | 1,289 | 1,076 | 1,152 |
| Interest expense | (2) | (1) | (2) | - | - | - | - | - | (5) | - | - |
| Investment loss | - | - | - | - | - | - | - | - | - | - | - |
| Other non-op expenses | (93) | 276 | 330 | (228) | 10 | 10 | 10 | 10 | 285 | 40 | 40 |
| Non-operating expenses | (95) | 275 | 328 | (228) | 10 | 10 | 10 | 10 | 280 | 40 | 40 |
| Pre-tax profit | 5,863 | 8,272 | 7,767 | 6,330 | 5,948 | 7,148 | 8,340 | 7,788 | 28,231 | 29,224 | 31,856 |
| Current taxation | (1,111) | (1,400) | (1,401) | (1,002) | (1,071) | (1,287) | (1,501) | (1,402) | (4,914) | (5,260) | (5,734) |
| Minorities | - | - | - | - | - | - | - | - | - | - | - |
| Normalised net profit | 4,752 | 6,872 | 6,366 | 5,328 | 4,877 | 5,862 | 6,838 | 6,386 | 23,318 | 23,963 | 26,122 |
| Extraordinary items | (0) | (0) | 0 | - | - | - | - | - | - | - | - |
| Net profit | 4,752 | 6,872 | 6,366 | 5,328 | 4,877 | 5,862 | 6,838 | 6,386 | 23,318 | 23,963 | 26,122 |
| EPS (NT\$) | 7.81 | 11.29 | 10.46 | 8.76 | 8.01 | 9.63 | 11.24 | 10.49 | 38.32 | 39.38 | 42.93 |
| Margins (%) | | | | | | | | | | | |
| Gross profit margin | 41.9 | 41.7 | 42.2 | 41.5 | 39.9 | 40.4 | 40.7 | 40.5 | 41.8 | 40.4 | 40.2 |
| Operating margin | 23.5 | 24.9 | 24.7 | 23.2 | 22.9 | 23.9 | 24.5 | 24.2 | 24.1 | 23.9 | 24.2 |
| EBITDA margin | 24.9 | 26.1 | 25.8 | 24.4 | 24.1 | 25.0 | 25.5 | 25.2 | 25.3 | 25.0 | 25.3 |
| Pretax profit margin | 24.4 | 27.3 | 26.8 | 23.3 | 24.0 | 24.9 | 25.4 | 24.9 | 25.6 | 24.8 | 25.1 |
| Net profit margin | 19.8 | 22.7 | 22.0 | 19.6 | 19.7 | 20.4 | 20.8 | 20.5 | 21.1 | 20.4 | 20.6 |
| Sequential growth (%) | | | | | | | | | | | |
| Revenue growth | 7.3 | 26.0 | (4.5) | (6.1) | (8.6) | 15.7 | 14.4 | (5.0) | | | |
| Gross profit growth | 10.9 | 25.5 | (3.4) | (7.8) | (12.2) | 17.2 | 15.2 | (5.5) | | | |
| Operating profit growth | 8.7 | 33.4 | (5.4) | (11.7) | (10.1) | 20.9 | 17.2 | (6.1) | | | |
| EBITDA growth | 8.5 | 31.9 | (5.3) | (11.4) | (9.5) | 19.9 | 16.5 | (5.8) | | | |
| Pretax profit growth | 17.6 | 41.1 | (6.1) | (18.5) | (6.0) | 20.2 | 16.7 | (6.6) | | | |
| Net profit growth | 17.5 | 44.6 | (7.4) | (16.3) | (8.5) | 20.2 | 16.7 | (6.6) | | | |
| YoY growth (%) | | | | | | | | | | | |
| Revenue growth | (34.1) | (3.7) | 47.9 | 21.1 | 3.2 | (5.2) | 13.6 | 15.0 | 0.4 | 6.5 | 7.9 |
| Gross profit growth | (45.6) | (15.6) | 46.5 | 23.9 | (1.9) | (8.3) | 9.3 | 12.1 | (9.3) | 2.7 | 7.6 |
| Operating profit growth | (57.4) | (24.4) | 67.9 | 21.1 | 0.2 | (9.2) | 12.5 | 19.6 | (18.5) | 5.4 | 9.1 |
| EBITDA growth | (55.9) | (23.3) | 63.7 | 20.0 | 0.1 | (9.0) | 11.9 | 19.0 | (17.6) | 5.2 | 8.9 |
| Pretax profit growth | (57.4) | (21.2) | 47.5 | 27.0 | 1.4 | (13.6) | 7.4 | 23.0 | (18.2) | 3.5 | 9.0 |
| Net profit growth | (57.3) | (19.0) | 47.9 | 31.8 | 2.6 | (14.7) | 7.4 | 19.9 | (16.6) | 2.8 | 9.0 |

Source: Company data, KGI Research estimates

Balance sheet

| NT\$m | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total assets | 120,593 | 100,546 | 105,120 | 112,254 | 119,599 |
| Current assets | 100,115 | 79,884 | 81,666 | 89,093 | 96,990 |
| Cash & ST securities | 60,129 | 49,171 | 54,090 | 53,971 | 61,930 |
| Inventory | 14,186 | 12,029 | 8,551 | 10,557 | 10,961 |
| Accounts receivable | 23,572 | 15,765 | 16,935 | 22,476 | 22,009 |
| Other current assets | 2,228 | 2,920 | 2,089 | 2,089 | 2,089 |
| Non-current assets | 20,478 | 20,662 | 23,454 | 23,161 | 22,609 |
| LT investments | 4,289 | 2,985 | 3,741 | 3,741 | 3,741 |
| Net fixed assets | 6,906 | 7,052 | 5,913 | 5,620 | 5,068 |
| Other assets | 9,283 | 10,625 | 13,800 | 13,800 | 13,800 |
| Total liabilities | 50,142 | 34,976 | 38,134 | 40,075 | 40,588 |
| Current liabilities | 35,909 | 24,432 | 24,822 | 26,763 | 27,276 |
| Accounts payable | 16,976 | 7,795 | 11,441 | 13,382 | 13,895 |
| Interest bearing ST liabilities | - | - | - | - | - |
| Other current liabilities | 18,933 | 16,637 | 13,381 | 13,381 | 13,381 |
| Non-current liabilities | 14,233 | 10,544 | 13,313 | 13,313 | 13,313 |
| Long-term debt | - | - | - | - | - |
| Other L-T liabilities | 14,032 | 10,379 | 13,313 | 13,313 | 13,313 |
| Total equity | 70,451 | 65,570 | 66,985 | 72,179 | 79,011 |
| Share capital | 6,085 | 6,085 | 6,085 | 6,085 | 6,085 |
| Retained earnings reserve | 49,180 | 41,979 | 46,613 | 51,807 | 58,639 |
| Minority interests | - | - | - | - | - |
| Preferred shareholders funds | - | - | - | - | - |

Key ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|----------|----------|----------|----------|----------|
| Growth | | | | | |
| Revenue growth | 69.3% | (18.8%) | 0.4% | 6.5% | 7.9% |
| Operating profit growth | 223.3% | (31.5%) | (18.5%) | 5.4% | 9.1% |
| EBITDA growth | 209.7% | (30.5%) | (17.6%) | 5.2% | 8.9% |
| Net profit growth | 228.9% | (28.0%) | (16.6%) | 2.8% | 9.0% |
| EPS growth | 228.9% | (28.0%) | (16.6%) | 2.8% | 9.0% |
| Profitability | | | | | |
| Gross profit margin | 49.8% | 46.3% | 41.8% | 40.4% | 40.2% |
| Operating margin | 35.3% | 29.8% | 24.1% | 23.9% | 24.2% |
| EBITDA margin | 36.1% | 30.9% | 25.3% | 25.0% | 25.3% |
| Net profit margin | 28.7% | 25.4% | 21.1% | 20.4% | 20.6% |
| Return on average assets | 43.5% | 25.3% | 22.7% | 22.0% | 22.5% |
| Return on average equity | 70.4% | 41.1% | 35.2% | 34.4% | 34.6% |
| Stability | | | | | |
| Gross debt to equity | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Net debt to equity | Net cash | Net cash | Net cash | Net cash | Net cash |
| Interest coverage (x) | 2,445.1 | 6,067.3 | 6,119.6 | - | - |
| Interest & ST debt coverage (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Cash flow interest coverage(x) | 2,119.3 | 3,988.5 | 6,390.5 | - | - |
| Cash flow/int. & ST debt (x) | 2,119.3 | 3,988.5 | 6,390.5 | - | - |
| Current ratio (x) | 2.8 | 3.3 | 3.3 | 3.3 | 3.6 |
| Quick ratio (x) | 2.4 | 2.8 | 2.9 | 2.9 | 3.2 |
| Net debt (NT\$m) | (60,129) | (49,171) | (54,090) | (53,971) | (61,930) |
| Per share data | | | | | |
| EPS (NT\$) | 63.87 | 45.96 | 38.32 | 39.38 | 42.93 |
| CFPS (NT\$) | 68.56 | 37.29 | 48.46 | 32.34 | 46.16 |
| BVPS (NT\$) | 115.78 | 107.76 | 110.08 | 118.62 | 129.84 |
| Adj BVPS (NT\$) | 115.78 | 107.75 | 110.08 | 118.62 | 129.84 |
| SPS (NT\$) | 222.45 | 180.70 | 181.47 | 193.27 | 208.57 |
| EBITDA/share (NT\$) | 80.32 | 55.81 | 45.99 | 48.36 | 52.68 |
| Cash DPS (NT\$) | 51.50 | 37.00 | 30.85 | 31.70 | 34.56 |
| Activity | | | | | |
| Sales / avg assets | 1.52 | 0.99 | 1.07 | 1.08 | 1.09 |
| Days receivable | 63.6 | 52.3 | 56.0 | 69.9 | 63.3 |
| Days inventory | 76.2 | 74.4 | 48.6 | 55.1 | 52.8 |
| Days payable | 91.2 | 48.2 | 65.0 | 69.8 | 66.9 |
| Cash cycle | 48.6 | 78.5 | 39.6 | 55.2 | 49.2 |

Source: Company data, KGI Research estimates

Profit & loss

| NT\$m | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 135,366 | 109,957 | 110,429 | 117,608 | 126,916 |
| Cost of goods sold | (67,974) | (59,015) | (64,217) | (70,132) | (75,839) |
| Gross profit | 67,392 | 50,941 | 46,212 | 47,476 | 51,077 |
| Operating expenses | (19,618) | (18,212) | (19,550) | (19,368) | (20,413) |
| Operating profit | 47,773 | 32,729 | 26,662 | 28,108 | 30,664 |
| Non-operating income | 341 | 812 | 1,289 | 1,076 | 1,152 |
| Interest income | 127 | 514 | 1,095 | 876 | 952 |
| Investment income | 194 | 238 | 120 | 120 | 120 |
| Other non-op income | 20 | 60 | 74 | 80 | 80 |
| Non-operating expenses | 1 | 970 | 280 | 40 | 40 |
| Interest expense | (20) | (6) | (5) | - | - |
| Investment loss | - | - | - | - | - |
| Other non-op expenses | 20 | 976 | 285 | 40 | 40 |
| Pre-tax profit | 48,115 | 34,511 | 28,231 | 29,224 | 31,856 |
| Current taxation | (9,249) | (6,542) | (4,914) | (5,260) | (5,734) |
| Minorities | - | - | - | - | - |
| Extraordinary items | - | 0 | 0 | - | - |
| Net profit | 38,866 | 27,970 | 23,318 | 23,963 | 26,122 |
| EBITDA | 48,874 | 33,961 | 27,984 | 29,426 | 32,054 |
| EPS (NT\$) | 63.87 | 45.96 | 38.32 | 39.38 | 42.93 |

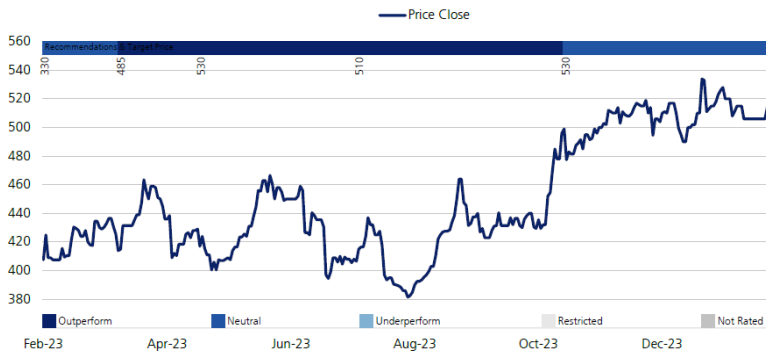
Cash flow

| NT\$m | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|-----------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Operations cash flow | 41,721 | 22,691 | 29,486 | 19,677 | 28,087 |
| Net profit | 38,866 | 27,970 | 23,318 | 23,963 | 26,122 |
| Depreciation & amortisation | 1,101 | 1,233 | 1,322 | 1,318 | 1,390 |
| Decrease in working capital | (8,976) | 784 | 5,952 | (5,605) | 575 |
| Other operating cash flow | 10,731 | (7,295) | (1,106) | (0) | 0 |
| Investing cash flow | (8,414) | (2,867) | (2,449) | (1,026) | (837) |
| Sale of ST investment | (13) | (258) | - | - | - |
| New investments | - | - | (168) | - | - |
| Capital expenditure | (1,227) | (1,022) | (938) | (823) | (635) |
| Others investing cashflow | (7,174) | (1,586) | (1,343) | (203) | (203) |
| Free cash flow | 29,260 | 27,330 | 28,164 | 17,736 | 26,272 |
| Financing cash flow | 3,955 | (30,807) | (22,130) | (18,770) | (19,290) |
| Increase in short term debt | - | - | - | - | - |
| Increase in long term loans | - | - | - | - | - |
| New ordinary shares issued | - | - | - | - | - |
| Ordinary dividends paid | (9,493) | (31,338) | (22,515) | (18,770) | (19,290) |
| Other financing cashflow | 13,447 | 531 | 385 | - | - |
| Forex effects | (8) | 25 | 13 | - | - |
| Total cash generated | 37,254 | (10,958) | 4,919 | (119) | 7,959 |

ROIC

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1 - COGS/revenue | | | | | |
| - Operating exp./revenue | 14.5% | 16.6% | 17.7% | 16.5% | 16.1% |
| = Operating margin | 35.3% | 29.8% | 24.1% | 23.9% | 24.2% |
| 1 / (Working capital/revenue + Net PPE/revenue + Other assets/revenue) | 0.0 0.1 0.0 | 0.1 0.1 0.1 | 0.0 0.1 0.1 | 0.1 0.0 0.1 | 0.1 0.0 0.1 |
| = Capital turnover | 8.0 | 5.4 | 5.5 | 4.7 | 5.3 |
| Operating margin | 35.3% | 29.8% | 24.1% | 23.9% | 24.2% |
| x Capital turnover | 8.0 | 5.4 | 5.5 | 4.7 | 5.3 |
| x (1 - tax rate) | 80.8% | 81.0% | 82.6% | 82.0% | 82.0% |
| = After-tax ROIC | 228.7% | 130.8% | 110.5% | 91.3% | 104.3% |

Source: Company data, KGI Research estimates

Novatek – Recommendation & target price history


| Date | Rating | Target | Price |
|------------|------------|--------|-------|
| 2023-11-07 | Neutral | 530 | 499 |
| 2023-08-08 | Outperform | 510 | 418 |
| 2023-07-27 | Outperform | 510 | 415 |
| 2023-05-09 | Outperform | 530 | 417 |
| 2023-03-30 | Outperform | 485 | 415 |
| 2023-02-07 | Neutral | 330 | 364 |
| 2023-01-10 | Neutral | 310 | 347 |
| 2022-11-08 | Outperform | 300 | 260 |
| 2022-10-24 | Neutral | 240 | 246 |
| 2022-09-06 | Neutral | 235 | 252 |

Source: TEJ, KGI Research

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