

Silergy (6415.TW/6415 TT)

Primary beneficiary of China semiconductor localization

Outperform · Initiated

Price as of January 25 (NT\$)	400.5
12M target price (NT\$)	544
Previous target price (NT\$)	N/A
Unchanged / Revised up (down)	N/A
Upside (%)	35.8

Key message

- We forecast Silergy's sales growth at a 25-30% CAGR over the next ten years.
- We believe China's semiconductor localization will lift Silergy's penetration rate in China, from a current low single digit percentage to 20%.
- In-house manufacturing technology has given Silergy advantages in product differentiation, R&D speed and costs, boosting gross margin.

Trading data

Mkt cap (NT\$bn/US\$m)	153.9 / 4,916
Outstanding shares (mn)	384.2
Foreign ownership (mn)	339.4
3M avg. daily trading (mn)	3.31
52-week trading range (NT\$)	250.0 -654

Performance	3M	6M	12M
Absolute (%)	43	22.5	-23.9
Relative (%)	33.4	17.6	-43.6

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2022	16.74A	5.53A	3.87A	2.38A
2023	0.57A	(0.27)A	1.29A	0.35F
2024	0.90F	1.21F	1.66F	2.03F

Share price chart



Source: TEJ

Event

We initiate coverage on Silergy with an Outperform rating, because: (1) the prices of consumer electronic products, which have the highest sales weighting, are stabilizing; (2) the company is cultivating new high-margin, fast-growing applications; (3) Silergy, being the analog IC market leader in China, benefits from China's semiconductor localization trend; and (4) in-house manufacturing technology has made the company's products diverse and cost-advantageous.

Impact

Consumer electronics prices stabilizing; high-margin, fast-growing new business. Consumer electronics account for a hefty 40% of the firm's sales. Following significant price reductions in 2023, prices have been stabilizing. We believe that before Texas Instruments (US) completes the next round of production capacity expansion, expected in 2026, the PMIC market will not see further significant price declines. In addition, among the firm's product lines, the industrial, automobile and communication segments command the highest gross margin. On the company continuing to develop new products, we forecast sales growth at a 25-30% CAGR over the next ten years, with the growth of the abovementioned high-margin product lines outpacing the company average.

Primary beneficiary of China semiconductor localization. China accounts for a hefty 44% share of the global PMIC market. China's semiconductor localization will bring about significant business opportunities for companies. Silergy is the PMIC leader in China, in terms of product quantity, product diversity, and high-performance product technology/reliability. We forecast the company's penetration into the Chinese PMIC market will increase from a current low single digit percentage to 20% within ten years.

Product differentiation & cost advantages on in-house manufacturing technology. Silergy is a virtual IDM. Its manufacturing processes are fully developed in-house, catering for the highly diverse analog IC market. This gives the firm advantages in product differentiation, R&D speed and costs. The Gen 3 manufacturing process accounted for 50-60% of production at the end of 2023, and will increase in 2024. The Gen 4 process is being ramped up, which will further boost gross margin. Silergy says that upgrading its manufacturing process, from Gen 3 to Gen 4, for the same product will widen gross margin by around 5ppts.

Valuation & Action

We forecast sales will grow 32% and 31.4% in 2024F and 2025F to NT\$20.3bn and NT\$26.7bn respectively, versus consensus of NT\$20.2bn and NT\$26.5bn. Shares are trading at 69x 2024F EPS and 32x 2025F EPS. Compared with the five-year average of 60x, we consider the valuation attractive. We initiate coverage on Silergy with a rating of Outperform and a target price of NT\$544, on 60x 2024-25F average EPS.

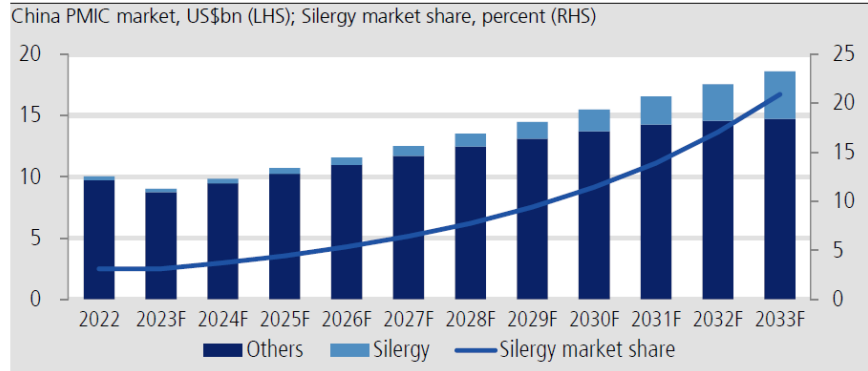
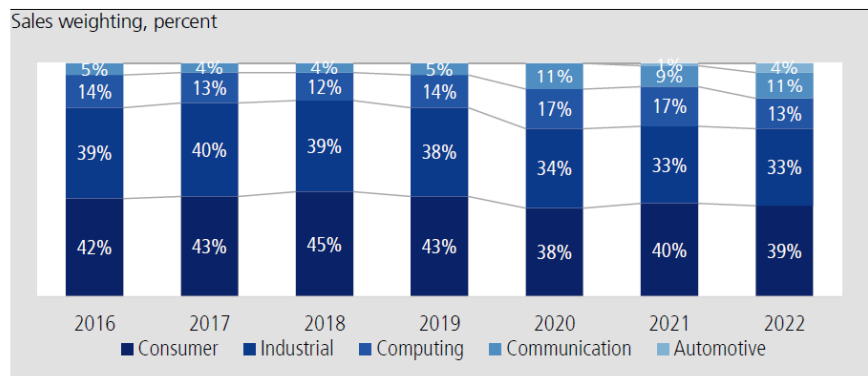
Risks

Slow recovery of end-market demand; intensifying competition from Chinese peers.

Key financials and valuations

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (NT\$m)	21,506	23,511	15,402	20,336	26,716
Gross profit (NT\$m)	11,456	12,359	6,750	9,986	13,941
Operating profit (NT\$m)	6,603	5,912	(398)	2,228	5,397
Net profit (NT\$m)	5,734	6,039	767	2,225	4,730
EPS (NT\$)	61.51	15.95	2.00	5.80	12.33
Cash DPS (NT\$)	17.98	4.49	0.57	1.64	3.49
EPS growth (%)	72.2	(74.1)	(87.5)	190.3	112.6
PE (x)	6.5	25.1	200.5	69.1	32.5
PB (x)	1.6	1.2	1.2	1.2	1.0
EV/EBITDA (x)	2.8	10.7	239.3	23.1	9.4
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	4.5	1.1	0.1	0.4	0.9
Return on average equity (%)	27.5	22.2	2.5	6.8	13.2

Source: Company data, KGI Research estimates

Figure 1: Chinese market share to rise to 20% within 10 years

Figure 2: Sales weightings of automobile & telecom applications on the rise

Figure 3: Breakdown of 4Q23 and 1Q24 forecasts vs. consensus

NT\$m	4Q23F					1Q24F				
	KGI forecast	QoQ (%)	YoY (%)	Consensus	Diff. (%)	KGI forecast	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	4,259	3.6	(9.4)	4,381	(2.8)	4,284	0.6	24.7	4,182	2.4
Gross profits	1,983	11.8	(17.0)	1,935	2.5	2,057	3.7	34.4	1,884	9.2
Operating income	149	-	(77.4)	149	(0.2)	300	101.7	-	158	90.4
Net income	135	(72.6)	(85.0)	339	(60.1)	346	155.5	58.3	307	12.8
EPS (NT\$)	0.35	(72.7)	(85.2)	0.95	(60.1)	0.90	155.5	56.9	0.81	12.8
Gross margin (%)	46.6	3.4 ppts	(4.3)ppts	44.2	2.4 ppts	48.0	1.4 ppts	3.5 ppts	45.0	3.0 ppts
OP margin (%)	3.5	4.2 ppts	(10.5)ppts	3.4	0.1 ppts	7.0	3.5 ppts	13.5 ppts	3.8	3.2 ppts
Net margin (%)	3.2	(8.8)ppts	(16.0)ppts	7.7	(4.6)ppts	8.1	4.9 ppts	1.7 ppts	7.3	0.7 ppts

Source: Bloomberg; KGI Research

Figure 4: Breakdown of 2023-25 forecasts vs. consensus

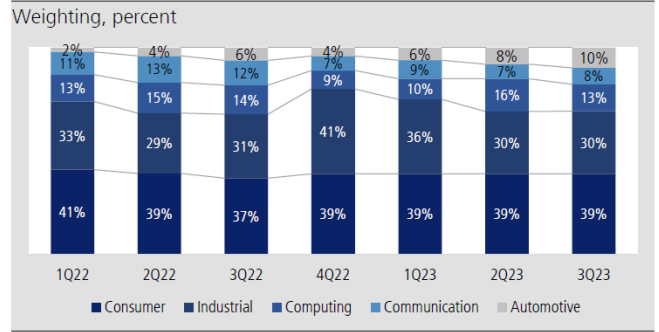
NT\$m	2023F				2024F				2025F			
	KGI forecast	YoY (%)	Consensus	Diff. (%)	KGI forecast	YoY (%)	Consensus	Diff. (%)	KGI forecast	YoY (%)	Consensus	Diff. (%)
Sales	15,402	(34.5)	15,504	(0.7)	20,336	32.0	20,153	0.9	26,716	31.4	26,486	0.9
Gross profit	6,750	(45.4)	6,680	1.0	9,986	47.9	9,529	4.8	13,941	39.6	13,430	3.8
Operating income	(398)	-	(411)	-	2,228	-	2,233	(0.2)	5,397	142.2	5,293	2.0
Net income	767	(87.3)	923	(17.0)	2,225	190.3	2,861	(22.2)	4,730	112.6	5,571	(15.1)
EPS (NT\$)	2.00	(87.5)	2.45	(17.0)	5.80	190.3	7.45	(22.2)	12.33	112.6	14.47	(15.1)
Gross margin (%)	43.8	(8.7)ppts	43.1	0.7 ppts	49.1	5.3 ppts	47.3	1.8 ppts	52.2	3.1 ppts	50.7	1.5 ppts
OP margin (%)	(2.6)	(27.7)ppts	(2.7)	0.1 ppts	11.0	13.5 ppts	11.1	(0.1)ppts	20.2	9.2 ppts	20.0	0.2 ppts
Net margin (%)	5.0	(20.7)ppts	6.0	(1.0)ppts	10.9	6.0 ppts	14.2	(3.3)ppts	17.7	6.8 ppts	21.0	(3.3)ppts

Source: Bloomberg; KGI Research

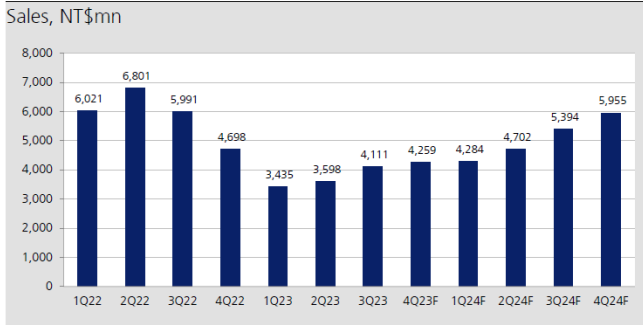
Figure 5: Company profile

Silergy, founded in the Cayman Islands in 2008, is a dedicated analog IC firm, mainly managed by a team from Silicon Valley, USA, and with Hangzhou as its major operation base. Engaged in the R&D, design and sale of PMIC, Silergy is the leader in the Chinese PMIC market with technology edge in high-performance products. The majority of product applications is the consumer field, followed by industrial, telecom, computing and automobile, with respective sales weightings of 39%, 33%, 13%, 11% and 4% in 2022.

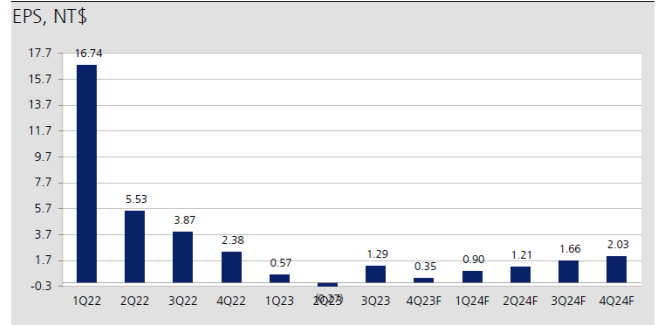
Source: KGI Research

Figure 6: Quarterly sales mix by application


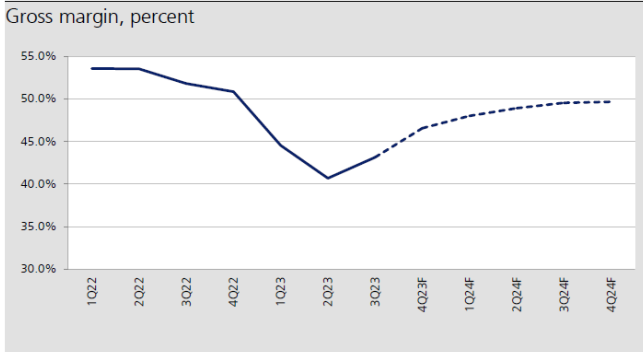
Source: KGI Research

Figure 7: Sales


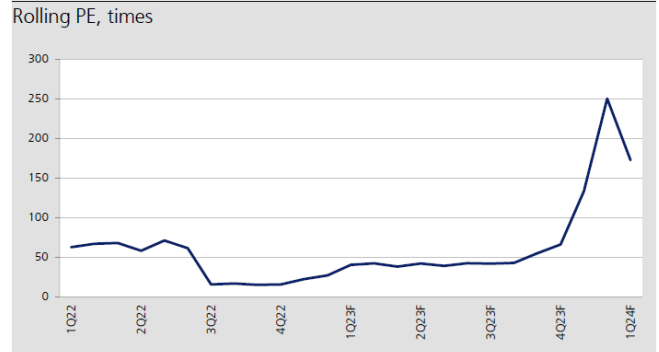
Source: KGI Research

Figure 8: EPS


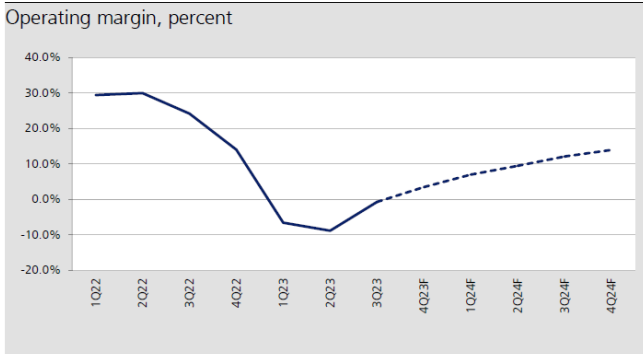
Source: KGI Research

Figure 9: Gross margin


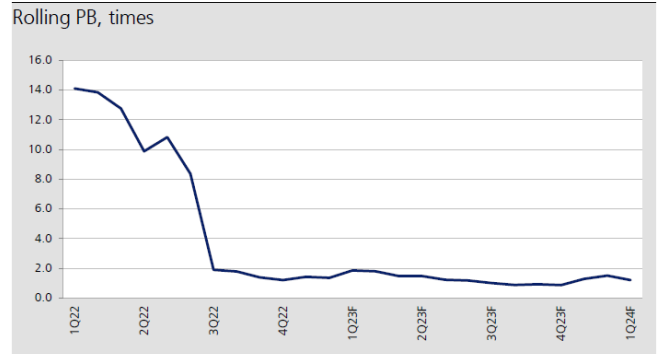
Source: KGI Research

Figure 10: Rolling PE


Source: KGI Research

Figure 11: Operating margin


Source: KGI Research

Figure 12: Rolling PB


Source: KGI Research

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\$m)											
Revenue	3,435	3,598	4,111	4,259	4,284	4,702	5,394	5,955	15,402	20,336	26,716
Cost of goods sold	(1,905)	(2,134)	(2,338)	(2,276)	(2,228)	(2,402)	(2,722)	(2,998)	(8,652)	(10,350)	(12,776)
Gross profit	1,530	1,464	1,774	1,983	2,057	2,300	2,672	2,957	6,750	9,986	13,941
Operating expenses	(1,754)	(1,780)	(1,802)	(1,834)	(1,757)	(1,855)	(2,018)	(2,128)	(7,149)	(7,758)	(8,544)
Operating profit	(224)	(316)	(28)	149	300	445	654	829	(398)	2,228	5,397
Depreciation of fixed assets	(121)	(123)	(130)	(110)	(139)	(139)	(139)	(139)	(485)	(556)	(747)
Amortisation of intangible assets	(53)	(52)	(54)	(53)	(53)	(53)	(53)	(53)	(212)	(214)	(214)
EBITDA	(51)	(141)	156	312	492	637	846	1,022	298	2,997	6,358
Interest income	151	149	-	72	74	78	82	87	372	321	405
Investment income	110	1	-	-	-	-	-	-	111	-	-
Other non-op income	46	26	375	-	-	-	-	-	448	-	-
Non-operating income	306	177	375	72	74	78	82	87	931	321	405
Interest expense	(0)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(4)	(8)	(8)
Investment loss	(58)	(31)	(39)	-	-	-	-	-	(128)	-	-
Other non-op expenses	116	5	134	(50)	60	60	60	60	205	240	120
Non-operating expenses	57	(26)	94	(52)	58	58	58	58	73	232	112
Pre-tax profit	139	(165)	441	169	432	581	794	974	605	2,781	5,913
Current taxation	27	23	(8)	(34)	(86)	(116)	(159)	(195)	9	(556)	(1,183)
Minorities	44	32	35	-	-	-	-	-	110	-	-
Normalised net profit	210	(111)	468	135	346	465	635	779	723	2,225	4,730
Extraordinary items	9	8	27	-	-	-	-	-	43	-	-
Net profit	218	(103)	494	135	346	465	635	779	767	2,225	4,730
EPS (NT\$)	0.57	(0.27)	1.29	0.35	0.90	1.21	1.66	2.03	2.00	5.80	12.33
Margins (%)											
Gross profit margin	44.5	40.7	43.1	46.6	48.0	48.9	49.5	49.7	43.8	49.1	52.2
Operating margin	(6.5)	(8.8)	(0.7)	3.5	7.0	9.5	12.1	13.9	(2.6)	11.0	20.2
EBITDA margin	(1.5)	(3.9)	3.8	7.3	11.5	13.6	15.7	17.2	1.9	14.7	23.8
Pretax profit margin	4.0	(4.6)	10.7	4.0	10.1	12.4	14.7	16.4	3.9	13.7	22.1
Net profit margin	6.4	(2.9)	12.0	3.2	8.1	9.9	11.8	13.1	5.0	10.9	17.7
Sequential growth (%)											
Revenue growth	(26.9)	4.7	14.3	3.6	0.6	9.8	14.7	10.4			
Gross profit growth	(36.0)	(4.3)	21.2	11.8	3.7	11.8	16.2	10.7			
Operating profit growth	(134.1)	40.9	(91.1)		101.7	48.3	46.9	26.8			
EBITDA growth	(106.2)	175.7		100.3	57.7	29.4	32.8	20.7			
Pretax profit growth	(84.0)	(219.0)		(61.6)	155.5	34.4	36.7	22.6			
Net profit growth	(75.8)	(147.2)		(72.6)	155.5	34.4	36.7	22.6			
YoY growth (%)											
Revenue growth	(43.0)	(47.1)	(31.4)	(9.4)	24.7	30.7	31.2	39.8	(34.5)	32.0	31.4
Gross profit growth	(52.6)	(59.8)	(42.9)	(17.0)	34.4	57.1	50.7	49.1	(45.4)	47.9	39.6
Operating profit growth	(112.7)	(115.5)	(102.0)	(77.4)				457.3	(106.7)		142.2
EBITDA growth	(102.7)	(106.4)	(90.3)	(62.3)			442.9	227.2	(95.4)	905.8	112.1
Pretax profit growth	(92.3)	(107.0)	(72.5)	(80.5)	211.0		80.2	475.8	(90.9)	359.6	112.6
Net profit growth	(86.2)	(104.9)	(66.3)	(85.0)	58.3		28.5	475.8	(87.3)	190.3	112.6

Source: Company data, KGI Research estimates

Balance sheet

NT\$mn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total assets	26,643	35,274	35,792	38,122	42,371
Current assets	18,066	24,539	23,733	25,816	29,752
Cash & ST securities	12,861	17,369	19,081	19,899	22,946
Inventory	2,784	5,111	2,802	3,472	3,927
Accounts receivable	1,920	1,618	1,387	1,982	2,416
Other current assets	501	441	463	463	463
Non-current assets	8,577	10,735	12,059	12,306	12,619
LT investments	4,492	5,275	5,768	5,768	5,768
Net fixed assets	1,471	1,863	2,263	2,511	2,824
Other assets	2,614	3,597	4,028	4,028	4,028
Total liabilities	2,465	3,782	3,392	4,128	3,646
Current liabilities	2,343	2,415	1,983	2,718	2,237
Accounts payable	741	606	549	872	1,021
Interest bearing ST liabilities	-	-	54	54	54
Other current liabilities	1,601	1,809	1,380	1,793	1,163
Non-current liabilities	122	1,367	1,409	1,409	1,409
Long-term debt	-	-	-	-	-
Other L-T liabilities	89	1,315	1,199	1,199	1,199
Total equity	24,178	31,492	32,400	33,994	38,725
Share capital	944	954	959	959	959
Retained earnings reserve	13,184	17,103	17,169	18,764	23,494
Minority interests	445	729	638	638	638
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Growth					
Revenue growth	55.0%	9.3%	(34.5%)	32.0%	31.4%
Operating profit growth	119.5%	(10.5%)	(106.7%)		142.2%
EBITDA growth	108.6%	(7.9%)	(95.4%)	905.8%	112.1%
Net profit growth	74.9%	5.3%	(87.3%)	190.3%	112.6%
EPS growth	72.2%	(74.1%)	(87.5%)	190.3%	112.6%
Profitability					
Gross profit margin	53.3%	52.6%	43.8%	49.1%	52.2%
Operating margin	30.7%	25.1%	(2.6%)	11.0%	20.2%
EBITDA margin	32.9%	27.7%	1.9%	14.7%	23.8%
Net profit margin	26.7%	25.7%	5.0%	10.9%	17.7%
Return on average assets	24.7%	19.5%	2.2%	6.0%	11.8%
Return on average equity	27.5%	22.2%	2.5%	6.8%	13.2%
Stability					
Gross debt to equity	0.0%	0.0%	0.2%	0.2%	0.1%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	5,821.6	5,035.6	165.1	342.8	696.9
Interest & ST debt coverage (x)	1.0	1.0	0.9	1.0	1.0
Cash flow interest coverage(x)	5,867.3	5,306.9	1,001.1	252.2	582.8
Cash flow/int. & ST debt (x)	5,867.3	5,306.9	64.1	33.1	79.3
Current ratio (x)	7.7	10.2	12.0	9.5	13.3
Quick ratio (x)	6.5	8.0	10.6	8.2	11.5
Net debt (NT\$mn)	(11,614)	(14,944)	(14,392)	(15,210)	(18,257)
Per share data					
EPS (NT\$)	61.51	15.95	2.00	5.80	12.33
CFPS (NT\$)	68.99	18.49	9.62	5.35	12.90
BVPS (NT\$)	251.53	322.50	331.03	347.65	396.95
Adj BVPS (NT\$)	254.60	81.27	82.76	86.91	99.24
SPS (NT\$)	230.71	62.11	40.13	52.99	69.61
EBITDA/share (NT\$)	75.81	17.19	0.78	7.81	16.57
Cash DPS (NT\$)	17.98	4.49	0.57	1.64	3.49
Activity					
Sales / avg assets	0.92	0.76	0.43	0.55	0.66
Days receivable	32.6	25.1	32.9	35.7	33.0
Days inventory	101.1	167.3	118.2	122.8	112.2
Days payable	26.9	19.8	23.2	30.8	29.2
Cash cycle	106.8	172.6	127.9	127.6	116.0

Source: Company data, KGI Research estimates

Profit & loss

NT\$mn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue	21,506	23,511	15,402	20,336	26,716
Cost of goods sold	(10,050)	(11,152)	(8,652)	(10,350)	(12,776)
Gross profit	11,456	12,359	6,750	9,986	13,941
Operating expenses	(4,853)	(6,447)	(7,149)	(7,758)	(8,544)
Operating profit	6,603	5,912	(398)	2,228	5,397
Non-operating income	283	736	931	321	405
Interest income	70	333	372	321	405
Investment income	66	111	111	-	-
Other non-op income	147	291	448	-	-
Non-operating expenses	(506)	(7)	73	232	112
Interest expense	(1)	(1)	(4)	(8)	(8)
Investment loss	(26)	(131)	(128)	-	-
Other non-op expenses	(480)	126	205	240	120
Pre-tax profit	6,379	6,641	605	2,781	5,913
Current taxation	(615)	(529)	9	(556)	(1,183)
Minorities	(64)	(106)	110	-	-
Extraordinary items	33	33	43	-	-
Net profit	5,734	6,039	767	2,225	4,730
EBITDA	7,067	6,505	298	2,997	6,358
EPS (NT\$)	61.51	15.95	2.00	5.80	12.33

Cash flow

NT\$mn	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Operations cash flow	6,431	7,000	3,691	2,052	4,952
Net profit	5,734	6,039	767	2,225	4,730
Depreciation & amortisation	465	593	696	769	961
Decrease in working capital	(1,341)	(2,520)	2,483	(943)	(740)
Other operating cash flow	1,574	2,888	(254)	0	0
Investing cash flow	(3,344)	(3,244)	(3,476)	(1,017)	(1,275)
Sale of ST investment	(2,327)	(1,871)	(2,538)	-	-
New investments	(387)	(239)	-	-	-
Capital expenditure	(547)	(590)	(850)	(803)	(1,061)
Others investing cashflow	(83)	(544)	(88)	(214)	(214)
Free cash flow	4,358	2,720	1,713	592	3,264
Financing cash flow	(464)	(1,423)	(1,388)	(217)	(630)
Increase in short term debt	-	-	-	-	-
Increase in long term loans	-	-	-	-	-
New ordinary shares issued	-	-	-	-	-
Ordinary dividends paid	(971)	(1,692)	(1,722)	(217)	(630)
Other financing cashflow	507	269	334	-	-
Forex effects	(256)	997	675	-	-
Total cash generated	2,366	3,329	(498)	818	3,047

ROIC

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
1 - COGS/revenue					
- Operating exp./revenue	22.6%	27.4%	46.4%	38.1%	32.0%
= Operating margin	30.7%	25.1%	(2.6%)	11.0%	20.2%
1 / (Working capital/revenue	0.1	0.2	0.2	0.2	0.2
+ Net PPE/revenue	0.1	0.1	0.1	0.1	0.1
+ Other assets/revenue)	0.0	0.0	0.1	0.1	0.1
= Capital turnover	4.6	3.2	2.3	2.7	2.9
Operating margin	30.7%	25.1%	(2.6%)	11.0%	20.2%
x Capital turnover	4.6	3.2	2.3	2.7	2.9
x (1 - tax rate)	90.4%	92.0%	101.4%	80.0%	80.0%
= After-tax ROIC	127.3%	75.0%	(5.9%)	23.4%	46.5%

Source: Company data, KGI Research estimates

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