

SMCI supply chain

Lower-than-expected FY2Q25F guidance

Key message

1. The special committee's investigation to date has found that the auditor committee has acted independently and that there's no evidence of fraud or misconduct by management or the board. SMCI won't comment more on potential fraud issues until the committee delivers its full report this week for next, and will engage a new auditor.
2. FY1Q25 non-GAAP EPS of US\$0.75-0.76 was ahead of consensus due to higher margins. FY2Q25F EPS of US\$0.56-0.65 is below consensus by 25% on lower-than-expected sales. AI server GPU model transition to be the key factor, in our view.
3. For our checks with Taiwan's supply chain, they mostly don't have any order cuts so far. But some system integrators with similar channel clients as SMCI, like Dell (US) and Gigabyte, may see share gain opportunities, though CSPs remain the main clients for GB200 AI server pickup in 2025F. .

Event

Supermicro (SMCI; US) held an earnings call on November 6 to explain recent news about earnings report inconsistencies, and to announce FY1Q25 (CY3Q24) preliminary results.

Impact

SMCI seeks quick resolution to financial reporting issues. SMCI's CEO said at an earlier earnings call, "we have emphasized in our filings since these challenges emerged that we remain confident in our previous financial reports". A special committee has completed an investigation based on initial concerns raised by auditors Ernest & Young (EY). And following an investigation led by an independent counsel, the committee's investigation to date has found that the auditor committee has acted independently and that there's no evidence of fraud or misconduct by management or the board. The committee recommended a series of remedial measurements for SMCI to strengthen its oversized functions and internal governance. SMCI won't comment more on potential fraud issues until the committee delivers its full report this week for next, and will engage a new auditor.

FY1Q25 preliminary EPS beat, FY2Q25F EPS guidance a miss. SMCI's FY1Q25 non-GAAP EPS grew 21% QoQ and 120% YoY to US\$0.75-0.76, ahead of consensus due to higher margins, despite sales of US\$5.9-6bn missing consensus by 8% and being at the low-end of guidance. Gross and operating margins rose QoQ to 13.3% and 9.9%, beating consensus by 1.4ppts and 1ppts, respectively, driven by: (1) a favorable customer mix, (2) reduced supply chain costs; (3) increased productivity. We estimate that AI server contributed 72-73% of sales in FY1Q25, implying AI server shipments were around 16k units (up 15-20% QoQ and over 200% YoY), driven by strong demand for direct liquid cooling (DLC) rack-scale AI GPU platforms from enterprise and CSP markets. In terms of margins, we see positive signs for SMCI's AI business. The firm guides FY2Q25F sales of US\$5.5-6.1bn, up 50-66% YoY but down QoQ, the midpoint below consensus by 15% due to high expectations during the product transition (Hopper and Blackwell GPU) period. Thus, FY2Q25F EPS guidance of US\$0.56-0.65 is below consensus by 25% at the mid-point, despite gross margin guidance (down 1ppt QoQ) being in line with consensus. SMCI didn't issue full-year guidance. Consensus is for FY25F EPS to grow 46% YoY to US\$3.22. We think this estimate has downside risk given a lower-than-expected FY2Q25F outlook and order uncertainty going forward.

Supply chain feedback on SMCI mostly neutral. According to SMCI, sales will hinge on the new Blackwell GPU acquisition. For our checks with Taiwan's supply chain, they mostly don't have any order cuts so far, and order weakness from SMCI is mostly attributed to AI GPU transition. AI server is a more complex product with a long design leadtime, and upcoming GB200 rack designs use liquid cooling, which is not easy to see immediate order switchover to SMCI's competitors in the near term. But some system integrators with similar channel clients as SMCI, like Dell (US) and Gigabyte (2376 TT, NT\$303, OP), may see share gain opportunities. But CSPs remain the main clients for GB200 AI server pickup in 2025F, while Dell's 2025F AI server order growth is also robust.

Stocks for Action

We expect headwinds from the SMCI story may create business opportunities for Dell and its supply chain, including Wistron (3231 TT, NT\$119.5, OP), and Auras (3324 TT, NT\$660, OP), which is also a key supplier of AI server liquid cooling. Among SMCI's key supply chain, Auras and Repon (6584 TT, NT\$166, NR) will see limited impact on rising CSP AI server orders in 2025F.

Risks

Financial fraud or misconduct; weak demand; competition in AI server market.

Supply chain feedback on SMCI mostly neutral. According to SMCI, sales will hinge on the new Blackwell GPU acquisition. For our checks with Taiwan’s supply chain, they mostly don’t have any order cuts so far. However, based on its AI server procurement of components like memory (DDR5), according to our channel checks, SMCI does have a more conservative attitude following these financial issue with volume cuts. As we think AI server shipments adjustment risk may emerge in coming months, firms with diversified customer portfolios and more US CSP exposure (besides SMCI) will see limited impact on SMCI’s order adjustments. Currently, SMCI’s AI server components from Taiwan include cold plate module from Auras (around 10% sales contribution), manifold from Kaori (8996 TT, NT\$313, OP; double digits), 2U/ 4U server rail kit from Repon (10-12%), cable and connector from JPC (6197 TT, NT\$162.5, NR; single digit), and CPU mainboard and backplane PCB from Allied (8155 TT, NT\$145.5, NR; 15-20%). Wistron only assembles general server, with very limited sales contribution of less than 1%. These firms mostly have not seen any order adjustment and see a limited impact, if any. Recent order weakness from SMCI is mostly attributed to AI GPU transition, and we expect GB200 will meet hyperscale CSP demand first, with SMCI in the sidelines. AI server is a more complex product with a long design leadtime, and upcoming GB200 rack designs use liquid cooling, which is not easy to see immediate order switchover to SMCI’s competitors in the near term. But some system integrators with similar channel clients as SMCI, like Dell and Gigabyte, may see share gain opportunities. But CSPs remain the main clients for GB200 AI server pick up in 2025F, and Dell’s GB200 AI server order growth is also robust. We thus expect Auras and Repon to continue to ride this growing wave, with very limited impact from single-client SMCI.

Figure 1: Mostly limited impact on key suppliers of SMCI’s financial reporting issues

Company	Ticker	Product	Sales weighting from Supermicro	Company’s comments
Auras	3324 TT	Cold plate module	10% in 1-3Q24	- It has yet to see order adjustments from SMCI; payment status is normal as of now. - Clients cannot transfer orders easily since liquid-cooling design and development takes time. - 2025F liquid-cooling customers will be relatively dispersed, and sales contribution weighting from CSP will increase significantly. - If end customers transfer orders to Dell, Gigabyte or AsRock on financial reporting problem, the firms are also Auras’ current server air-cooling clients.
Kaori	8996 TT	CDM	Double digits in 2024F	- Limited short-term order visibility due to GPU transition from H-series to B-series
Repon	6584 TT	Rail kit	12% in 1-3Q24	- No impact on orders currently, and the payments are on schedule.
Argosy	3217 TT	DDR5 long-DIMM	<2% in 1H24	
JPC	6197 TT	Cables & connectors	0-10%	- There are no changes to SMCI’s orders so far, and the payment situation has remained stable. Payments are made on time, and there are occasional early payments. - JPC’s sales sources are relatively balanced as the sales weightings of each customer are evenly distributed. In addition to SMCI, other major AI server manufacturers are also JPC’s clients. - We remain optimistic about the future growth momentum of AI-related sales as the impact will be limited in the short term.
ACCL	8155 TT	CPU main board & backplane PCB	15-20%	
Wistron	3231 TT	General server assembly	<1% in 1-3Q24	

Source: Company data; KGI Research

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