

# WPG Holdings (3702.TW/3702 TT)

## Strong earnings growth in 2025F

### Outperform · Resumed

Price as of November 19 (NT\$)	75.40
12M target price (NT\$)	87.00
Previous target price (NT\$)	40.00
Revised up (%)	117.5
Upside (%)	15.4

#### Key message

1. WPG Holdings' (WPG) distribution business will likely maintain stable growth on long-term partnerships with clients and exceptional field application engineering (FAE) resources.
2. Subscription-based smart warehousing services will boost blended gross margin.
3. Earnings to grow substantially on lower financial costs due to Fed rate cuts.

#### Trading data

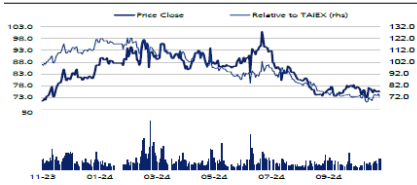
Mkt cap (NT\$bn/US\$m)	126.6 / 3,886
Outstanding shares (mn)	1,679
Foreign ownership (mn)	483.8
3M avg. daily trading (mn)	4.15
52-week trading range (NT\$)	71.70 –101.0

Performance	3M	6M	12M
Absolute (%)	-9.4	-13.9	5.9
Relative (%)	-11.4	-21.4	-26.9

#### Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2023	0.41A	1.14A	0.95A	2.09A
2024	1.16A	0.73A	1.22A	1.30F
2025	1.30F	1.18F	2.36F	2.41F

#### Share price chart



Source: TEJ

#### Event

We resume coverage of WPG Holdings (WPG). With the firm's distribution business growing steadily, the firm is now committed to developing smart warehousing and digital transformation services in a bid to boost profitability. We believe the firm's interest costs will be reduced during the upcoming US Fed rate cut cycle, which will boost earnings.

#### Impact

**Distribution business growing steadily.** Gartner estimates sales of semiconductors via distributors will post a 2023-28 CAGR of 13.3%, outstripping that of 7.5% via direct sales, as: (1) the semiconductor industry is still growing, with the number of clients rising; and (2) distributors are capable of managing inventories and can provide field application engineering (FAE) resources and other value-added services. As a semiconductor distributor, WPG has 12% global market share, the second highest among its peers. By leveraging long-term partnerships with clients and exceptional FAE resources, we believe WPG's distribution business will grow in tandem with the semiconductor industry.

**Transforming into supply chain service provider to boost blended gross margin.** WPG has been aggressively transforming into a provider of supply chain services, including subscription-based logistics as a service (LaaS) for smart warehousing, which management estimates will contribute sales and improve gross margin from 2025. We forecast gross margin of the distribution business will hover around 3.7% in 2025, and contributions from smart warehousing services will lift blended gross margin by 0.4ppt YoY to 4.0%, before rising to over 4.0% in 2026.

**Rate cuts to ease interest costs, driving substantial earnings growth.** We believe US Fed interest rate cuts will help reduce financial costs for WPG, which we estimate will erode operating profit by a respective 54% and 34% in 2024-25, down from 64% in 2023. This will result in respective 2024-25F earnings growth of 41.2% and 60.9% YoY to NT\$7.81bn and NT\$12.57bn, for EPS of NT\$4.41 and NT\$7.25, excluding one-off investment disposal gains.

#### Valuation & Action

We resume coverage of WPG Holdings with Outperform and a target price of NT\$87.0, based on 12x 2025F EPS of NT\$7.25, which is one standard deviation above the five-year historic average PE. We believe the supply chain service business and reduced financial costs will boost earnings considerably. The counter offers attractive dividend yield of 4.64%.

#### Risks

Weaker-than-expected semiconductor demand.

#### Key financials and valuations

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (NT\$m)	778,573	775,232	671,888	865,233	930,175
Gross profit (NT\$m)	29,701	29,588	25,386	30,914	37,034
Operating profit (NT\$m)	13,804	14,700	10,395	14,704	20,029
Net profit (NT\$m)	11,497	10,512	8,109	7,813	12,571
EPS (NT\$)	6.61	6.02	4.59	4.41	7.25
Cash DPS (NT\$)	3.50	3.85	3.50	3.50	5.43
EPS growth (%)	38.6	(8.9)	(23.8)	(3.8)	64.2
PE (x)	11.4	12.5	16.4	17.1	10.4
PB (x)	1.9	1.6	1.6	1.6	1.4
EV/EBITDA (x)	13.3	13.4	17.3	11.5	9.1
Net debt to equity (%)	150.2	138.8	118.7	103.3	98.4
Dividend yield (%)	4.6	5.1	4.6	4.6	7.2
Return on average equity (%)	17.4	14.3	10.1	9.7	14.7

Source: Company data; KGI Research estimates

**3Q24 financial results & guidance**

- Sales: NT\$259.07bn, up 24.6% QoQ and 38.3% YoY.
  - Driven by growth in AI and traditional server demand, as well as seasonality.
- Gross margin: 3.25%, versus 3.74% in 2Q24
  - QoQ drop due to product mix changes; core components and memory components have lower margins.
- 3Q24 operating profit was NT\$3.88bn, up 5.1% QoQ and 31.0% YoY, with operating margin of 1.5%.
- Net profit: NT\$2.04bn, up 25.2% QoQ and 28.3% YoY.
- EPS: NT\$1.22, versus 2Q24 EPS NT\$0.73.
- Financial costs: NT\$2.16bn, up 9.4% QoQ and 37.2% YoY.
- Inventory days: 48 days, versus 57 days in 2Q24 and 52 days in 3Q23.
  - The significant decrease is driven by demand from the AI supply chain.

**3Q24 sales breakdown by region**

- Taiwan: 9%.
- China: 77%.
  - Increased shipments to China and Hong Kong.
  - Increased client base in mainland China.
- Southeast Asia: 11%.
- Others: 3%.

**3Q24 sales breakdown by customer location**

- Taiwanese enterprises: 30%.
- Chinese enterprises: 61%.
- Others: 9%.

**3Q24 sales breakdown by product application**

- Computer: 49%.
- Communication: 20%.
- Consumer: 7%.
- Industrial: 7%.
- Automotive: 5%.
- Others: 12%.

**3Q24 sales breakdown by product type**

- Core components: 44%.
- Analog & mixed signal IC: 7%.
- Discrete & logic: 8%.
- Memory: 26%.
- PEMCO: 4%.
- Optical: 9%.
- Others: 2%.

**Key takeaways**

- Financial costs
  - The proportion of financial costs relative to revenue is steadily decreasing due to improvement in the operating cash cycle and interest rate cuts.
    - ◆ Typically, financial costs account for 0.2-0.25% of revenue during normal periods.
- Reason for higher operating expenses in 3Q24
  - Nearly 50% of expenses were for personnel salaries and bonuses, which rise with revenue.
- 2025F outlook
  - The firm will expand beyond the core distribution business into smart warehousing and cloud services.
  - Margins will improve more than sales, differing from the traditional business model of the distribution business.
- Reasons for redeeming preferred shares
  - The firm has redeemed preferred shares and issued convertible bonds in order to provide better returns to shareholders.
  - The company is confident in the firm's long-term growth.
- Semiconductor market outlook
  - Memory prices and demand rebounded in 2024F, on demand from AI data centers and global CSPs for LLMs and inferencing models.
    - ◆ Significant growth in DRAM sales in 3Q24 is due to transition from DDR4 to DDR5 for AI servers, with higher ASP on DDR5.
  - The firm guides 20-22% YoY sales growth in 2024F, and 13-14% YoY sales growth in 2025F. 2026-28F is guided for single-digit YoY growth.

- Semiconductor outlook by application
  - ◆ AI server sales will continue to grow
    - ✓ WPG distributes a wide range of AI server-related products, excepting AI GPUs and high-bandwidth.
    - ✓ AI server sales growth in 4Q24F is expected to decline QoQ due to seasonality.
  - ◆ AI PCs/ AI smartphones
    - ✓ AI applications are expected to transition from cloud applications to edge applications. Edge AI hardware was originally expected to ship well in 2024F, but the firm now believes demand will be deferred to 1H25F.
    - ✓ The firm forecasts 3-5% YoY PC market growth in 2024F and 5% YoY growth in 2025F.
  - ◆ Automotive
    - ✓ Internal competition in China and moderate demand in EU and US in 2024F.
    - ✓ Global automotive production grew by less than 2%, but EV production grew by over 33% YoY, with the latter concentrated in China.
    - ✓ The firm has observed that consumers are now choosing EVs as their preference.
    - ✓ The company has a presence in the EV supply chain, selling parts and providing assembly and ADAS system integration, etc.
    - ✓ In 2025F, after restocking in EU, US and China, it is estimated that total production volume will grow by 2-3%, and the company believe that the automotive industry is stable and can provide certain amount of sales volume.
  - ◆ Smartphones
    - ✓ Flat growth in smartphones, but a recovery in the China market, will provide significant sales.
- US dollar debt
  - US dollar denominated debt accounted for 66% of total debt, but the impact will depend on hedging strategies and forex.
- Supply chain inventory
  - Inventory adjustments and demand from the end market vary by application, but personal electronics inventory adjustments are nearing an end.
  - The automotive supply chain is still in destocking. The company has a low but growing automotive sales weighting, and requires support from customers and original manufacturers.
  - The firm expects demand recovery in 2025.

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

NT\$m	3Q24					4Q24F				
	Actual	QoQ (%)	YoY (%)	Consensus	Diff. (%)	KGI forecast	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Sales	259,069	24.6	38.3	213,270	21.5	216,287	(16.5)	18.1	204,527	5.7
Gross profits	8,409	8.2	23.0	7,919	6.2	7,946	(5.5)	16.2	7,623	4.2
Operating income	3,883	5.1	31.0	3,861	0.6	3,872	(0.3)	28.1	3,452	12.2
Net income	2,042	25.2	28.3	2,034	0.4	2,190	7.2	(37.7)	1,698	28.9
EPS (NT\$)	1.22	65.8	28.3	1.21	0.4	1.30	7.2	(37.7)	1.01	28.9
Gross margin (%)	3.2	(0.5)ppts	(0.4)ppts	3.7	(0.5)ppts	3.7	0.4 ppts	(0.1)ppts	3.7	(0.1)ppts
OP margin (%)	1.5	(0.3)ppts	(0.1)ppts	1.8	(0.3)ppts	1.8	0.3 ppts	0.1 ppts	1.7	0.1 ppts
Net margin (%)	0.8	0.0 ppts	(0.1)ppts	1.0	(0.2)ppts	1.0	0.2 ppts	(0.9)ppts	0.8	0.2 ppts

Source: Company data, Bloomberg, KGI Research estimates

**Figure 2: Breakdown of 2024-25 forecasts vs. consensus**

NT\$m	2024F				2025F			
	KGI forecast	YoY (%)	Consensus	Diff. (%)	KGI forecast	YoY (%)	Consensus	Diff. (%)
Sales	865,233	28.8	805,878	7.4	930,175	7.5	895,158	3.9
Gross profit	30,914	21.8	30,228	2.3	37,034	19.8	33,998	8.9
Operating income	14,704	41.5	14,157	3.9	20,029	36.2	16,362	22.4
Net income	7,813	(3.7)	7,116	9.8	12,571	60.9	9,452	33.0
EPS (NT\$)	4.41	(3.8)	4.02	9.8	7.25	64.2	5.45	33.0
Gross margin (%)	3.6	(0.2)ppts	3.8	(0.2)ppts	4.0	0.4 ppts	3.8	0.2 ppts
OP margin (%)	1.7	0.2 ppts	1.8	(0.1)ppts	2.2	0.5 ppts	1.8	0.3 ppts
Net margin (%)	0.9	(0.3)ppts	0.9	0.0 ppts	1.4	0.4 ppts	1.1	0.3 ppts

Source: Bloomberg, KGI Research estimates

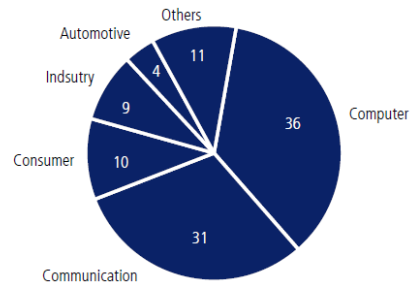
**Figure 4: Company profile**

Established and listed in 2005, WPG Holdings was established by merging three leading semiconductor distributors in Asia: WPI, SAC, and RichPower. The firm has become the largest semiconductor distributor in Asia. With more than 5,000 employees, the company serves as a franchise partner for over 250 global brands and has over 80 sales offices globally.

Source: KGI Research

**Figure 5: 2023 sales mix**

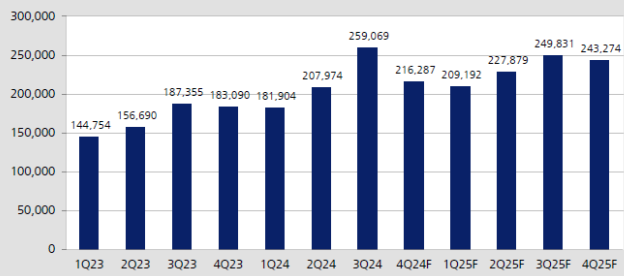
Sales weighting, percent



Source: Company data; KGI Research

**Figure 6: Sales**

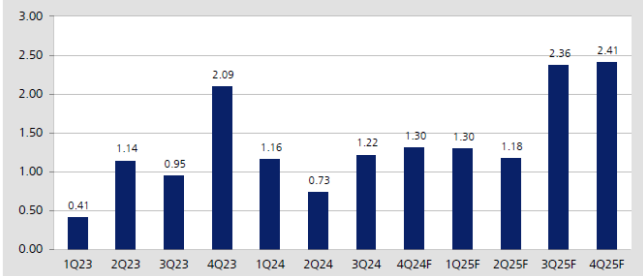
Sales, NT\$m



Source: KGI Research

**Figure 7: EPS**

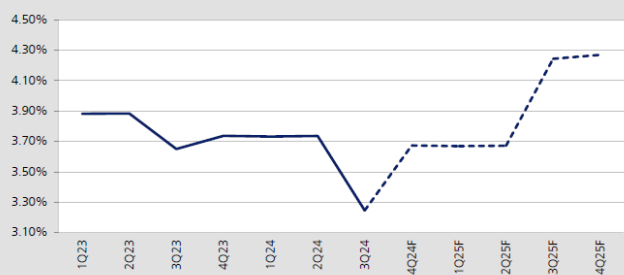
EPS, NT\$



Source: KGI Research

**Figure 8: Gross margin**

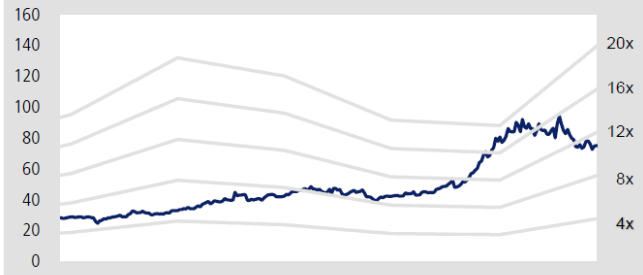
Gross margin, percent



Source: KGI Research

**Figure 9: 12-month forward PE band**

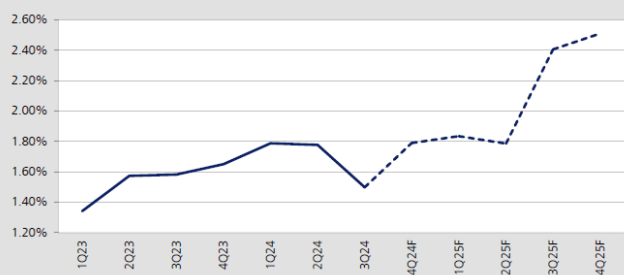
Share price, NT\$ (LHS); PE ratio, x (RHS)



Source: KGI Research

**Figure 10: Operating margin**

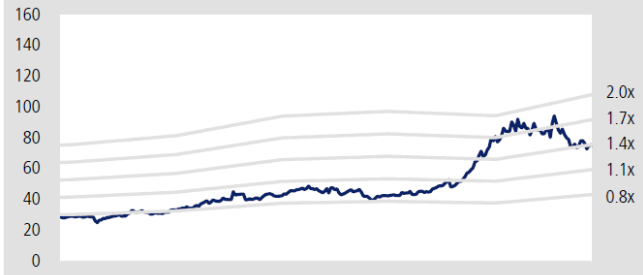
Operating margin, percent



Source: KGI Research

**Figure 11: 12-month forward PB band**

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



Source: KGI Research

**Income statement**

	Quarterly								Annually		
	Mar-24A	Jun-24A	Sep-24A	Dec-24F	Mar-25F	Jun-25F	Sep-25F	Dec-25F	Dec-23A	Dec-24F	Dec-25F
<b>Income statement (NT\$mn)</b>											
<b>Revenue</b>	<b>181,904</b>	<b>207,974</b>	<b>259,069</b>	<b>216,287</b>	<b>209,192</b>	<b>227,879</b>	<b>249,831</b>	<b>243,274</b>	<b>671,888</b>	<b>865,233</b>	<b>930,175</b>
Cost of goods sold	(175,115)	(200,204)	(250,660)	(208,341)	(201,518)	(219,512)	(239,227)	(232,885)	(646,502)	(834,319)	(893,141)
<b>Gross profit</b>	<b>6,789</b>	<b>7,770</b>	<b>8,409</b>	<b>7,946</b>	<b>7,674</b>	<b>8,367</b>	<b>10,604</b>	<b>10,389</b>	<b>25,386</b>	<b>30,914</b>	<b>37,034</b>
Operating expenses	(3,537)	(4,073)	(4,526)	(4,074)	(3,835)	(4,297)	(4,591)	(4,282)	(14,991)	(16,210)	(17,005)
<b>Operating profit</b>	<b>3,252</b>	<b>3,696</b>	<b>3,883</b>	<b>3,872</b>	<b>3,839</b>	<b>4,070</b>	<b>6,013</b>	<b>6,107</b>	<b>10,395</b>	<b>14,704</b>	<b>20,029</b>
Depreciation of fixed assets	(262)	(263)	(267)	(276)	(301)	(301)	(301)	(301)	(1,008)	(1,068)	(1,206)
Amortisation of intangible assets	(30)	(31)	(30)	(32)	(31)	(31)	(31)	(31)	(117)	(123)	(124)
<b>EBITDA</b>	<b>3,544</b>	<b>3,991</b>	<b>4,180</b>	<b>4,180</b>	<b>4,172</b>	<b>4,402</b>	<b>6,346</b>	<b>6,440</b>	<b>11,520</b>	<b>15,896</b>	<b>21,359</b>
Interest income	95	134	104	97	84	114	78	54	369	429	330
Investment income	269	377	453	300	300	300	300	300	1,098	1,400	1,200
Other non-op income	77	64	100	100	100	100	100	100	433	342	400
<b>Non-operating income</b>	<b>441</b>	<b>576</b>	<b>657</b>	<b>496</b>	<b>484</b>	<b>514</b>	<b>478</b>	<b>454</b>	<b>1,901</b>	<b>2,170</b>	<b>1,929</b>
Interest expense	(1,764)	(2,104)	(2,259)	(1,742)	(1,684)	(1,704)	(1,724)	(1,679)	(6,680)	(7,869)	(6,791)
Investment loss	-	-	-	-	-	-	-	-	-	-	-
Other non-op expenses	441	142	280	100	100	100	100	100	4,667	963	400
<b>Non-operating expenses</b>	<b>(1,322)</b>	<b>(1,962)</b>	<b>(1,979)</b>	<b>(1,642)</b>	<b>(1,584)</b>	<b>(1,604)</b>	<b>(1,624)</b>	<b>(1,579)</b>	<b>(2,013)</b>	<b>(6,905)</b>	<b>(6,391)</b>
<b>Pre-tax profit</b>	<b>2,371</b>	<b>2,310</b>	<b>2,561</b>	<b>2,727</b>	<b>2,739</b>	<b>2,980</b>	<b>4,867</b>	<b>4,982</b>	<b>10,282</b>	<b>9,969</b>	<b>15,567</b>
Current taxation	(400)	(638)	(478)	(537)	(554)	(604)	(896)	(941)	(2,084)	(2,053)	(2,996)
Minorities	(22)	(41)	(41)	-	-	-	-	-	(88)	(103)	-
<b>Normalised net profit</b>	<b>1,949</b>	<b>1,631</b>	<b>2,042</b>	<b>2,190</b>	<b>2,185</b>	<b>2,375</b>	<b>3,970</b>	<b>4,040</b>	<b>8,109</b>	<b>7,813</b>	<b>12,571</b>
Extraordinary items	(0)	0	0	-	-	-	-	-	-	0	-
<b>Net profit</b>	<b>1,949</b>	<b>1,631</b>	<b>2,042</b>	<b>2,190</b>	<b>2,185</b>	<b>2,375</b>	<b>3,970</b>	<b>4,040</b>	<b>8,109</b>	<b>7,813</b>	<b>12,571</b>
EPS (NT\$)	1.16	0.73	1.22	1.30	1.30	1.18	2.36	2.41	4.59	4.41	7.25
<b>Margins (%)</b>											
Gross profit margin	3.7	3.7	3.2	3.7	3.7	3.7	4.2	4.3	3.8	3.6	4.0
Operating margin	1.8	1.8	1.5	1.8	1.8	1.8	2.4	2.5	1.5	1.7	2.2
EBITDA margin	1.9	1.9	1.6	1.9	2.0	1.9	2.5	2.6	1.7	1.8	2.3
Pretax profit margin	1.3	1.1	1.0	1.3	1.3	1.3	1.9	2.0	1.5	1.2	1.7
Net profit margin	1.1	0.8	0.8	1.0	1.0	1.0	1.6	1.7	1.2	0.9	1.4
<b>Margins (%)</b>											
Gross profit margin	3.7	3.7	3.2	3.7	3.7	3.7	4.2	4.3	3.8	3.6	4.0
Operating margin	1.8	1.8	1.5	1.8	1.8	1.8	2.4	2.5	1.5	1.7	2.2
EBITDA margin	1.9	1.9	1.6	1.9	2.0	1.9	2.5	2.6	1.7	1.8	2.3
Pretax profit margin	1.3	1.1	1.0	1.3	1.3	1.3	1.9	2.0	1.5	1.2	1.7
Net profit margin	1.1	0.8	0.8	1.0	1.0	1.0	1.6	1.7	1.2	0.9	1.4
<b>Sequential growth (%)</b>											
Revenue growth	(0.6)	14.3	24.6	(16.5)	(3.3)	8.9	9.6	(2.6)			
Gross profit growth	(0.8)	14.4	8.2	(5.5)	(3.4)	9.0	26.7	(2.0)			
Operating profit growth	7.6	13.6	5.1	(0.3)	(0.8)	6.0	47.8	1.6			
EBITDA growth	6.6	12.6	4.8	(0.0)	(0.2)	5.5	44.2	1.5			
Pretax profit growth	(39.5)	(2.6)	10.9	6.5	0.4	8.8	63.3	2.4			
Net profit growth	(44.5)	(16.3)	25.2	7.2	(0.2)	8.7	67.2	1.8			
<b>YoY growth (%)</b>											
Revenue growth	25.7	32.7	38.3	18.1	15.0	9.6	(3.6)	12.5	(13.3)	28.8	7.5
Gross profit growth	20.8	27.7	23.0	16.2	13.0	7.7	26.1	30.7	(14.2)	21.8	19.8
Operating profit growth	67.5	49.9	31.0	28.1	18.0	10.1	54.9	57.7	(29.3)	41.5	36.2
EBITDA growth	60.2	45.7	28.9	25.7	17.7	10.3	51.8	54.0	(26.7)	38.0	34.4
Pretax profit growth	173.7	(35.9)	34.9	(30.4)	15.5	29.0	90.1	82.7	(19.1)	(3.0)	56.2
Net profit growth	184.6	(29.6)	28.3	(37.7)	12.1	45.6	94.4	84.5	(22.9)	(3.7)	60.9

Source: Company data; KGI Research estimates

