Morgan Stanley | RESEARCH

IDEA

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Yageo Corp. | Asia Pacific

MLCC Gains Momentum from Stronger Demand

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AlphaSignals Earnings Reaction

Strengthens our thesis	— In-line	— Largely unchanged
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Management sounded more confident about end demand vs. three months ago, supported by the tightening MLCC cycle, higher book-to-bill ratio (2.2x now), and LTA discussions, driving increased utilization rate and more favorable pricing. Stay OW.

Key Takeaways

- 3Q guidance: revenue up moderately q/q, GM and OpM up slightly q/q – in line with our preview (but on the conservative side).
- Book-to-bill ratio has improved from more than 1x to 2.2x.
- Customers are engaging in LTA discussions to secure long-term supply.
- Management agreed that high-cap MLCC demand is tightening MLCC supply.
- Channel inventory across the board continues to get leaner exiting 2Q.

3Q revenue and margin guidance both in line with our preview: Management guided for 3Q revenue to increase “moderately” q/q, which we interpret as mid- to high-single-digit growth. The improvement is expected to be driven by higher unit volumes and pricing, with further price adjustments possible if costs continue to rise. When we asked whether the guidance was conservative, management did not push back, suggesting that it represents a reasonable base case with upside potential. On profitability, management expects both gross margin and operating margin to improve “slightly” q/q, which we interpret as 0–3% sequential growth.

Management sounds more confident about end demand vs. three months ago: Yageo expects utilization rates across both its standard and premium segments to exceed 90% in 3Q, up from >80% in 2Q. Management said that demand has strengthened meaningfully over the past two to three months, with the overall book-to-bill ratio rising to 2.2x from “above 1x” at the 1Q26 earnings call. Customers have also begun discussing long-term agreements with Yageo to secure passive component supply, providing further evidence of sustained demand momentum. In addition, management shares our view that AI-related demand will tighten MLCC supply and believes Yageo is particularly well positioned to benefit from this trend.

Stay OW with price target at NT$1,465. This implies ~31x CY28e P/E; however, PEG is only 0.85x. We favor Yageo for its scale, broad product portfolio across all passive components, and leverage to an improving industry cycle.

Yageo Corp. (2327.TW, 2327 TT)

Greater China Technology Hardware | Taiwan

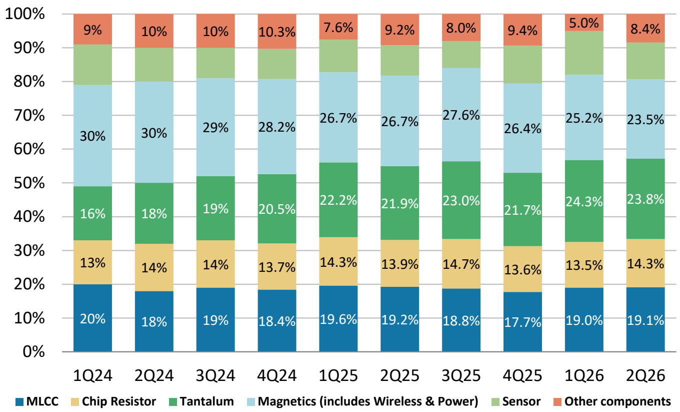
Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	NT$1,465.00
Up/downside to price target (%)	189
Shr price, close (Jul 29, 2026)	NT$507.00
52-Week Range	NT$1,220.00-129.50
Sh out, dil, curr (mn)	1,997
Mkt cap, curr (mn)	NT$1,012,410
EV, curr (mn)	NT$1,029,149
Avg daily trading value (mn)	NT$16,409

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	11.51	20.21	34.24	46.86
Prior EPS (NT$)**	-	20.11	34.23	46.87
EPS (NT$)§	11.61	19.16	30.44	43.75
Revenue, net (NT$ mn)	132,930	182,769	251,501	306,659
EBITDA (NT$ mn)	39,635	60,058	97,086	130,091
ModelWare net inc (NT $ mn)	23,634	41,505	70,311	96,236
P/E	20.1	25.1	14.8	10.8
P/BV	2.7	4.8	4.0	3.3
RNOA (%)	12.0	20.7	36.9	52.0
ROE (%)	14.5	23.9	32.3	36.6
EV/EBITDA	12.4	16.5	9.7	6.8
Div yld (%)	2.2	1.2	2.4	4.1
FCF yld ratio (%)**	6.6	4.6	7.2	9.3
Leverage (EOP) (%)	9.6	(15.7)	(31.6)	(43.4)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

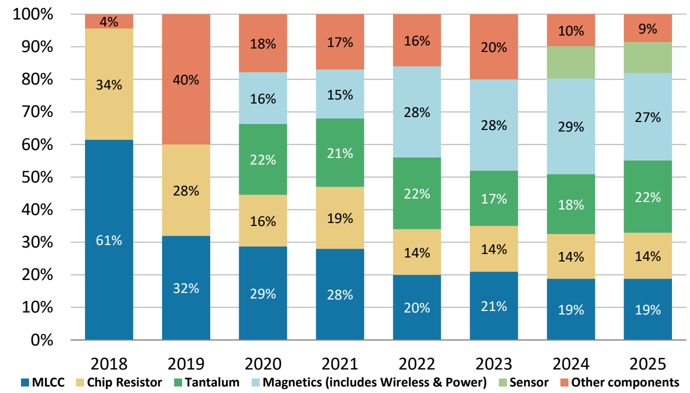
Charts

Exhibit 1: Quarterly Sales, by Product, 1Q24-2Q26



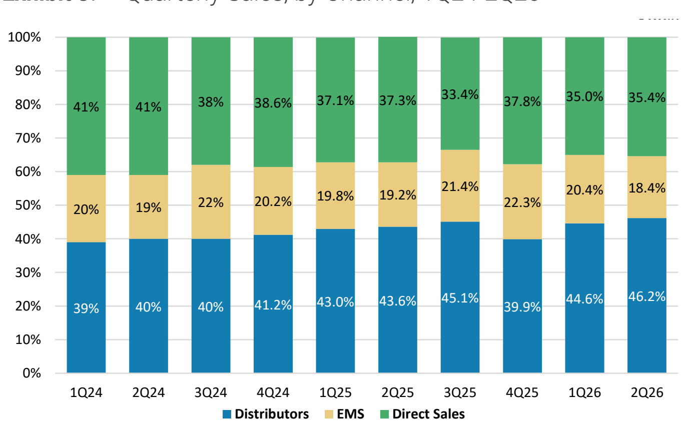
Source: Company data, Morgan Stanley Research

Exhibit 2: Annual Sales, by Product, 2018-25



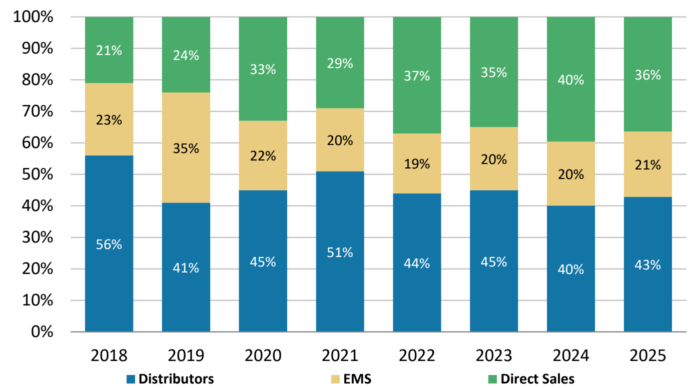
Source: Company data, Morgan Stanley Research

Exhibit 3: Quarterly Sales, by Channel, 1Q24-2Q26



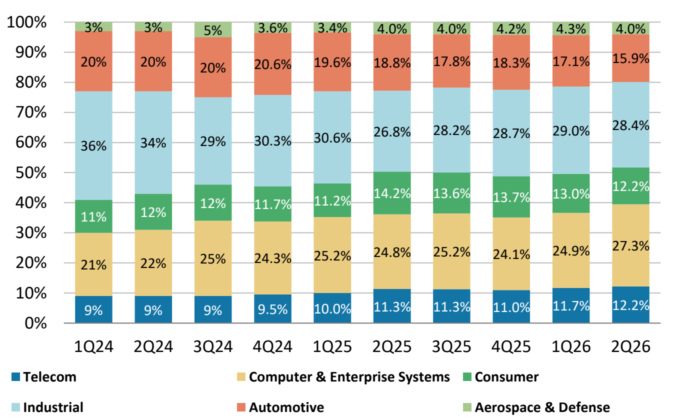
Source: Company data, Morgan Stanley Research

Exhibit 4: Annual Sales, by Channel, 2018-25



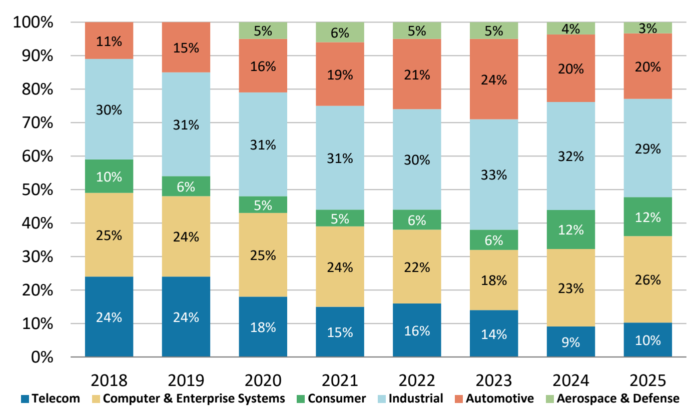
Source: Company data, Morgan Stanley Research

Exhibit 5: Quarterly Sales, by Segment, 1Q24-2Q26



Source: Company data, Morgan Stanley Research

Exhibit 6: Annual Sales, by Segment, 2018-25



Source: Company data, Morgan Stanley Research

2Q26 Results Review

2Q GM and OpM marginally lower than our estimates and the Street...

- Revenue was NT$44.5bn (+16% q/q, +36% y/y).
- GM was 38.5% (+40bps q/q, +290bps y/y), which was 30bps below our estimate and 60bps below the Street. Management attributed the 2Q GM improvement to more favorable pricing environment, product mix, and higher utilization rates, but partially offset by higher input cost and demand for standard products.
- OpM was 26.4% (+120bps q/q, +490bps y/y), 40bps below our estimate and 20bps below the Street.

...but taxes were a little bit lower than we and the Street expected...

...so net income was 3% above our estimate and the Street – at NT$9.4bn (+18% q/q, +88% y/y) for EPS of NT$4.59.

Exhibit 7: 2Q26 Results

	Results						
NT$mn	Actual	QoQ	YoY	MS Est.	Variance	Cons	Variance
Net sales	**44,456**	**16%**	**36%**	**44,165**	**1%**	**43,058**	**3%**
COGS	-27,340	16%	29%	-27,017	1%	-26,206	4%
Gross profit	**17,116**	**18%**	**47%**	**17,148**	**0%**	**16,853**	**2%**
Operating expenses	-5,368	9%	16%	-5,290	1%	-5,376	0%
Operating income	**11,749**	**22%**	**67%**	**11,858**	**-1%**	**11,476**	**2%**
Non-operating income	474	-33%	NM	700	-32%	537	-12%
Pre-tax income	**12,222**	**18%**	**74%**	**12,558**	**-3%**	**12,013**	**2%**
Income tax	-2,767	21%	37%	-3,391	-18%	-2,837	-2%
Net income	**9,418**	**18%**	**88%**	**9,131**	**3%**	**9,176**	**3%**
EPS (NT$)	**4.59**	**18%**	**88%**	**4.45**	**3%**	**4.47**	**3%**
Margins (%)		***ppt***	***ppt***		***ppt***		***ppt***
Gross margin	38.5%	0.4	2.9	38.8%	-0.3	39.1%	-0.6
Operating margin	26.4%	1.2	4.9	26.8%	-0.4	26.7%	-0.2
Pre-tax margin	27.5%	0.4	6.0	28.4%	-0.9	27.9%	-0.4
Net margin	21.2%	0.2	5.9	20.7%	0.5	21.3%	-0.1

Source: Company data, Visible Alpha, Morgan Stanley Research estimates

Estimate Changes

We update our model to reflect the 2Q26 results and the latest guidance from management following the earnings call. Our 2026-28 EPS estimates are virtually unchanged for CY26-28.

Exhibit 8: Estimate Changes

	2026e Earnings Estimates			2027e Earnings Estimates			2028e Earnings Estimates		
NT$ mn	New	Old	Variance	New	Old	Variance	New	Old	Variance
Net sales	**182,769**	**180,835**	**1%**	**251,501**	**249,369**	**1%**	**306,659**	**305,345**	**0%**
COGS	-110,474	-108,778	2%	-138,732	-137,335	1%	-157,970	-157,706	0%
Gross profit	**72,295**	**72,058**	**0%**	**112,769**	**112,034**	**1%**	**148,688**	**147,639**	**1%**
Operating expenses	-21,706	-21,255	2%	-24,845	-24,136	3%	-27,463	-26,406	4%
Operating income	50,589	50,803	0%	87,924	87,898	0%	121,225	121,233	0%
Non-operating income	2,722	2,949	-8%	3,425	3,425	0%	3,844	3,844	0%
Pre-tax income	53,311	53,751	-1%	91,349	91,323	0%	125,069	125,077	0%
Income tax	-11,660	-12,305	-5%	-20,891	-20,887	0%	-28,687	-28,688	0%
Net income	**41,505**	**41,299**	**0%**	**70,311**	**70,290**	**0%**	**96,236**	**96,242**	**0%**
EPS (NT$)	**20.21**	**20.11**	**0%**	**34.24**	**34.23**	**0%**	**46.86**	**46.87**	**0%**
Margins (%)			***ppt***			***ppt***			***ppt***
Gross margin	39.6%	39.8%	-0.3	44.8%	39.5%	5.3	48.5%	48.4%	0.1
Operating margin	27.7%	28.1%	-0.4	35.0%	27.0%	8.0	39.5%	39.7%	-0.2
Pre-tax margin	29.2%	29.7%	-0.6	36.3%	29.0%	7.4	40.8%	41.0%	-0.2
Net margin	22.7%	22.8%	-0.1	28.0%	22.2%	5.8	31.4%	31.5%	-0.1

Source: Morgan Stanley Research (e) estimates.

Exhibit 9: Morgan Stanley vs. Consensus

Yageo	MSe			Consensus			Variance		
	2026	2027	2028	2026	2027	2028	2026	2027	2028
Revenue	182,769	251,501	306,659	179,544	237,982	292,942	2%	6%	5%
GM	39.6%	44.8%	48.5%	39.6%	44.2%	48.0%	-0.1%	0.6%	0.4%
OpM	27.7%	35.0%	39.5%	27.3%	33.0%	37.0%	0.4%	1.9%	2.5%
Net income	41,505	70,311	96,236	39,608	62,757	86,433	5%	12%	11%
EPS	20.21	34.24	46.86	19.29	30.56	42.09	5%	12%	11%

Source: Visible Alpha, Morgan Stanley Research estimates.

Price Target Discussion and Valuation Methodology

We keep our 12-month price target at NT$1,465: Our price target is our base case value, derived from our residual income valuation model. Similar to our analysis of other tech hardware companies within our coverage, we think this methodology provides the most accurate value of the firm by taking into account the cost of equity.

Our key assumptions are all unchanged, including:

- Cost of equity of 7.8%:
  - Risk-free rate of 1.0% (10-year Taiwanese government bond yield);
  - Equity risk premium of 6.8%;
  - Beta of 1.1;
- Medium-term growth rate of 16%;
- Terminal growth rate of 3%.

Our price target implies 43x 2027e P/E and 31x 2028e P/E. These are above its five-year historical range of 8x to 18x, which we view as justified considering its longer-term transformation story to become a global total solutions provider, moving from passive into active components. In addition, compared to global passive component peers, we believe Yageo stock remains undervalued with higher ROE and margins but lower P/E vs. Japanese peers (which trade on an average at 30x+ P/E).

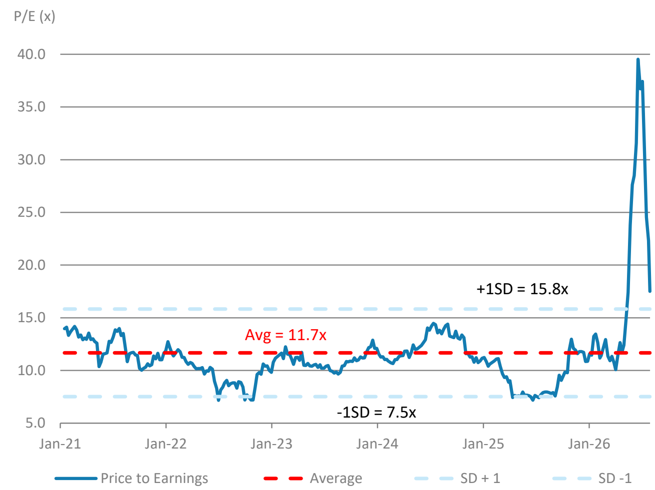
Our bull and bear case scenario values are also unchanged at NT$2,075 and NT$685, respectively.

Exhibit 10: Residual Income (RI) Model

		2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E
Total Equity		**217,937**	**262,598**	**315,863**	**363,288**	**418,301**	**482,116**	**556,141**	**642,011**	**741,619**	**857,165**	**955,841**
Net Profit		**41,505**	**70,311**	**96,236**	**111,633**	**129,495**	**150,214**	**174,248**	**202,128**	**234,468**	**271,983**	**280,143**
Return on Equity		**21.2%**	**29.3%**	**33.3%**	**32.9%**	**33.1%**	**33.4%**	**33.6%**	**33.7%**	**33.9%**	**34.0%**	**30.9%**
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Equity Risk Premium (Rm-Rf)	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Risk Free Rate (Rf)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of Equity	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Residual Income		**23,349**	**46,864**	**66,997**	**79,327**	**92,189**	**107,108**	**124,412**	**144,485**	**167,769**	**194,777**	**198,379**
Spread		**13.4%**	**21.5%**	**25.5%**	**25.1%**	**25.4%**	**25.6%**	**25.8%**	**26.0%**	**26.1%**	**26.3%**	**23.1%**
Beginning Equity Capital		217,937										
PV of Forecast Period		757,371										
PV of Continuing Value		2,033,064										
Equity Value		**3,008,372**										
No. of Shares		2,054										
Projected Price		**1,465.0**										
Implied 2027e PE		43x										

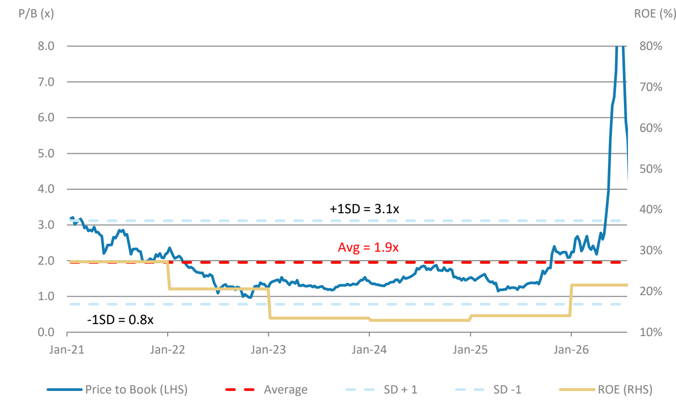
Source: Morgan Stanley Research (E) estimates.

Exhibit 11: Yageo P/E



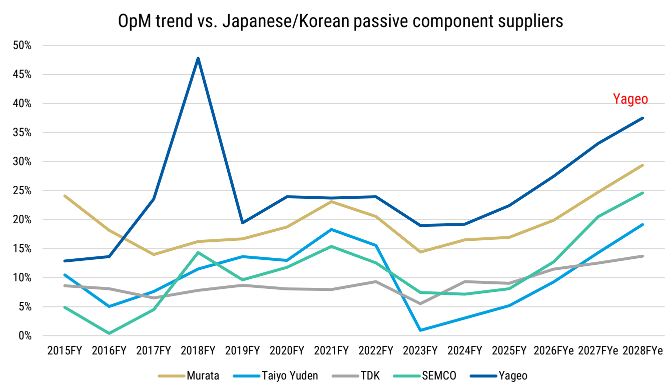
Source: TEJ, Morgan Stanley Research.

Exhibit 12: Yageo P/B



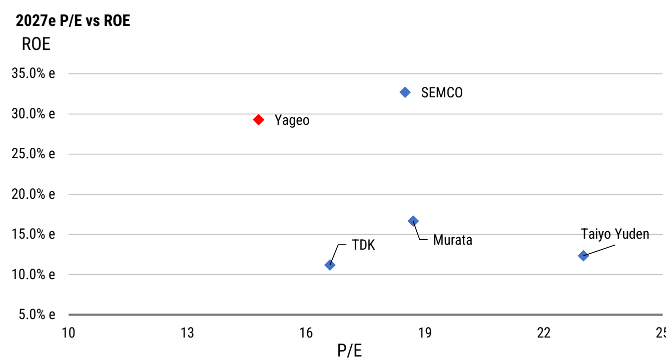
Source: TEJ, Morgan Stanley Research.

Exhibit 13: MLCC peers operating margins



Source: Visible Alpha.

Exhibit 14: 2027e P/E vs. ROE



Source: Morgan Stanley Research estimates.

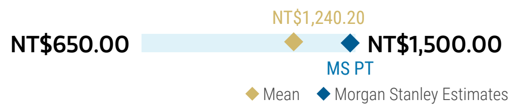
Risk Reward – Yageo Corp. (2327.TW)

Demand looks stronger and price increases appear likely - stay OW

PRICE TARGET NT$1,465.00

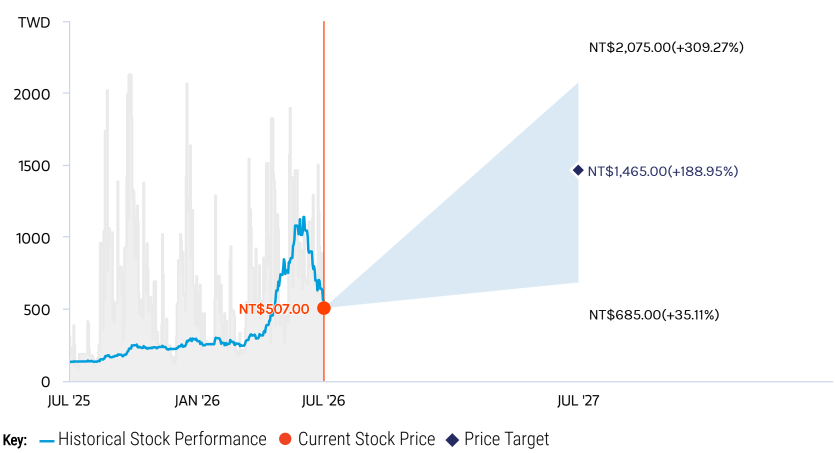
Base case, multistage residual income valuation model. Key assumptions: cost of equity 7.8% (risk-free rate 1%, equity risk premium 6.8% and beta of 1.1), medium-term growth rate 16%, terminal growth rate 3%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- There is fear that leading Japanese and Korean MLCC suppliers are shifting more capacity to cater to the high end, resulting in undersupply for the midrange/low end.
- The same narrative that drove the 2018 cycle is now back in play.
- Utilization rates are increasing, so suppliers are expecting price hikes for the midrange/low end. Distributors and ODMs are both building inventory.
- AI demand is growing and tantalum capacitor pricing may show further price increases in 2H.
- All of this should help support a re-rating in the stock.

Consensus Rating Distribution

●	100%	Overweight
	0%	Equal-weight
	0%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Electric Vehicles:	*Positive*
Self-help:	*Positive*
Special Situation:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE NT$2,075.00

44x 2028e EPS

Demand continues to grow faster than expected in 2027-28: 1) Demand improves significantly, driving pricing power for Yageo in premium and standard products alike. 2) Yageo makes meaningful progress into AI, driving significant share gains. 3) Yageo takes on more acquisition initiatives to further widen its product portfolio. 4) Severe undersupply leads to continued price hikes for an extended period of time, which helps expand Yageo's margins in 2027-28.

BASE CASE NT$1,465.00

31x 2028e EPS

Demand remains strong into 2027-28: 1) Utilization remains high for premium products. 2) Utilization for standard products stabilizes at 70%+ with resilient consumer tech demand. 3) Transformation and synergies are ongoing with continued active initiatives. 4) Yageo continues to drive expansion into the AI realm and slowly gains market share. 5) High utilization rates and inflationary raw material costs result in continued price hikes.

BEAR CASE NT$685.00

15x 2028e EPS

Earnings erode as macro conditions weaken and demand falls again in 2027-28: 1) Non-AI demand weakens from 2H26 onward, despite AI demand remaining strong. 2) Pricing power shifts to end customers with heightened competition among peers. 3) Acquisitions do not bear fruit, resulting in layoffs and leading to cost burdens. 4) Automotive and industrial end demand does not recover, hampering Yageo's premium business. 5) Yageo does not make any material advancements into AI.

Risk Reward – Yageo Corp. (2327.TW)

KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
MLCC ASP y/y (%)	0.6	24.3	65.3	14.9
MLCC GM (%)	31.7	37.5	46.4	50.5
r-chip ASP y/y (%)	0.8	11.8	47.0	27.3
r-chip GM (%)	43.4	45.8	55.4	60.4

INVESTMENT DRIVERS

- Transformation into global total solutions service provider
- Premium/standard sales mix
- Utilization rates and capacity
- Inventory and pricing

GLOBAL REVENUE EXPOSURE

- 0-10% Japan
- 10-20% APAC, ex Japan, Mainland China and India
- 20-30% Europe ex UK
- 20-30% Mainland China
- 20-30% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected revenue/profit recognition from stronger AI server/notebook demand
- Further price hikes led by stronger pricing power arising from better demand and/or tighter supply

RISKS TO DOWNSIDE

- A sudden bursting of demand for AI
- Inventory risk
- Consumer electronics demand risk

OWNERSHIP POSITIONING

Inst. Owners, % Active 61.9%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2027e

	Low	Morgan Stanley Estimates	Mean	High
Sales / Revenue (NT$, mn)	209,354	251,501	238,562	289,671
EBITDA (NT$, mn)	69,761	97,086	88,854	107,325
Net income (NT$, mn)	49,010	70,311	62,309	77,095
EPS (NT$)	23.87	34.24	30.44	37.56

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Financials

Exhibit 15: Quarterly Earnings Estimates

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26P	3Q26E	4Q26E	2025	2026E	2027E	2028E
Net sales	**31,104**	**32,771**	**33,087**	**35,968**	**38,166**	**44,456**	**48,552**	**51,595**	**132,930**	**182,769**	**251,501**	**306,659**
COGS	(20,018)	(21,119)	(21,112)	(22,551)	(23,624)	(27,340)	(29,192)	(30,318)	(84,800)	(110,474)	(138,732)	(157,970)
Gross profit	**11,086**	**11,652**	**11,974**	**13,417**	**14,542**	**17,116**	**19,360**	**21,277**	**48,130**	**72,295**	**112,769**	**148,688**
Operating expenses	(4,623)	(4,609)	(4,412)	(4,685)	(4,929)	(5,368)	(5,638)	(5,772)	(18,329)	(21,706)	(24,845)	(27,463)
SG&A	(3,758)	(3,774)	(3,578)	(3,800)	(4,035)	(4,340)	(4,558)	(4,681)	(14,910)	(17,614)	(20,262)	(22,526)
R&D	(865)	(834)	(834)	(886)	(894)	(1,028)	(1,079)	(1,090)	(3,419)	(4,092)	(4,583)	(4,937)
Operating income	**6,463**	**7,044**	**7,562**	**8,732**	**9,613**	**11,749**	**13,722**	**15,505**	**29,801**	**50,589**	**87,924**	**121,225**
Non-operating income	**710**	**(15)**	**650**	**(26)**	**712**	**474**	**749**	**788**	**1,319**	**2,722**	**3,425**	**3,844**
Interest income	533	443	379	216	303	337	369	400	1,571	1,409	1,878	2,260
Investment income	117	24	144	195	181	163	179	188	480	711	747	784
Disposal of investment	100	0	0	0	7	0	0	0	100	7	0	0
Exchange gain	(148)	194	(110)	(677)	(139)	0	0	0	(742)	(139)	0	0
Other	108	(676)	237	241	359	(26)	200	200	(90)	733	800	800
Pre-tax income	**7,173**	**7,028**	**8,212**	**8,706**	**10,325**	**12,222**	**14,471**	**16,293**	**31,120**	**53,311**	**91,349**	**125,069**
Income tax	(1,610)	(2,016)	(1,817)	(1,900)	(2,287)	(2,767)	(3,184)	(3,422)	(7,343)	(11,660)	(20,891)	(28,687)
Minority interest	33	14	39	56	37	37	37	37	143	147	147	147
Net income	**5,530**	**4,998**	**6,356**	**6,751**	**8,001**	**9,418**	**11,251**	**12,835**	**23,634**	**41,505**	**70,311**	**96,236**
Adj.wtd.avg.shrs (mn)	2,053	2,053	2,054	2,053	2,054	2,054	2,054	2,054	2,053	2,054	2,054	2,054
EPS	**2.69**	**2.43**	**3.10**	**3.29**	**3.90**	**4.59**	**5.48**	**6.25**	**11.51**	**20.21**	**34.24**	**46.86**
Fully Diluted shares (mn)	2,459	2,456	2,055	2,053	2,054	2,054	2,054	2,054	2,053	2,054	2,054	2,054
Diluted EPS (NT$)	**2.25**	**2.03**	**3.09**	**3.29**	**3.90**	**4.59**	**5.48**	**6.25**	**11.51**	**20.21**	**34.24**	**46.86**
Margins (%)												
Gross Margin	35.6	35.6	36.2	37.3	38.1	38.5	39.9	41.2	36.2	39.6	44.8	48.5
Operating Margin	20.8	21.5	22.9	24.3	25.2	26.4	28.3	30.1	22.4	27.7	35.0	39.5
Pretax Margin	23.1	21.4	24.8	24.2	27.1	27.5	29.8	31.6	23.4	29.2	36.3	40.8
Net Margin	17.8	15.3	19.2	18.8	21.0	21.2	23.2	24.9	17.8	22.7	28.0	31.4
QoQ Growth (%)												
Sales	4	5	1	9	6	16	9	6				
Gross Profit	11	5	3	12	8	18	13	10				
Operating Profit	20	9	7	15	10	22	17	13				
Pretax Profit	15	-2	17	6	19	18	18	13				
Net Profit	49	-10	27	6	19	18	19	14				
YoY Growth (%)												
Sales	9	4	4	20	23	36	47	43	9	37	38	22
Gross Profit	15	6	7	35	31	47	62	59	15	50	56	32
Operating Profit	31	9	14	63	49	67	81	78	27	70	74	38
Pretax Profit	18	-5	15	39	44	74	76	87	16	71	71	37
Net Profit	21	-8	13	82	45	88	77	90	22	76	69	37

Source: Company data, Morgan Stanley Research (E) estimates.

Exhibit 16: Consolidated Financial Summary

Consolidated Income Statement

NT$mn (Year End Dec 31)	2025	2026E	2027E	2028E
Net sales	**132,930**	**182,769**	**251,501**	**306,659**
COGS	(84,800)	(110,474)	(138,732)	(157,970)
Gross profit	**48,130**	**72,295**	**112,769**	**148,688**
Operating expenses	(18,329)	(21,706)	(24,845)	(27,463)
Operating income	**29,801**	**50,589**	**87,924**	**121,225**
Non-operating income	**1,319**	**2,722**	**3,425**	**3,844**
Interest income	1,571	1,409	1,878	2,260
Investment income	480	711	747	784
Disposal of investment	100	7	-	-
Exchange gain	(742)	(139)	-	-
Other	(90)	733	800	800
Pre-tax income	**31,120**	**53,311**	**91,349**	**125,069**
Income tax	(7,343)	(11,660)	(20,891)	(28,687)
Minority interests	143	147	147	147
Net income	**23,634**	**41,505**	**70,311**	**96,236**
Adj. wtd. Avg. shrs (m)	2,053	2,054	2,054	2,054
Reported EPS (NT$)	**11.51**	**20.21**	**34.24**	**46.86**
Diluted shrs (m)	2,053	2,054	2,054	2,054
Diluted EPS (NT$)	**11.51**	**20.21**	**34.24**	**46.86**

Consolidated Cash Flow Statement

NT$mn (Year End Dec 31)	2025	2026E	2027E	2028E
Operating Cashflow	**30,863**	**46,381**	**69,049**	**93,404**
Net Profits	23,634	41,505	70,311	96,236
Depreciation & Amort.	9,834	9,469	9,163	8,866
Investment losses/(income)	(581)	(711)	(747)	(784)
Working capital change	(12,663)	(946)	(5,640)	(7,672)
Other adjustments	10,944	(2,929)	(4,039)	(3,241)
Investing Cashflow	**(3,725)**	**(7,356)**	**(7,114)**	**(6,920)**
Capex	(6,056)	(8,000)	(8,000)	(8,000)
Change of L/T investment	(4,146)	0	0	0
Change of S/T investment	817	0	0	0
Other adjustments	5,191	0	0	0
Financing Cashflow	**(3,135)**	**10,685**	**(13,946)**	**(33,591)**
Increase in L/T debt	(543)	(1,000)	(1,000)	(1,000)
Increase in S/T debt	7,613	0	0	0
Issuance of stock	0	15,337	0	0
Cash dividends	(10,265)	(12,321)	(24,903)	(42,187)
Other adjustments	61	8,670	11,957	9,595
FX adjustment	(3,647)	139	0	0
Net change in cash	**20,356**	**49,849**	**47,988**	**52,893**

Consolidated Balance Sheet

NT$mn (Year End Dec 31)	2025	2026E	2027E	2028E
Cash	**81,473**	**131,323**	**179,311**	**232,204**
Mkt securities	16,634	16,634	16,634	16,634
AR/NR	27,792	34,112	46,526	59,743
Inventory	31,636	41,363	51,211	56,983
Others	7,811	10,739	14,778	18,019
Current Assets	**165,346**	**234,172**	**308,461**	**383,583**
Long-term investments	45,572	45,572	45,572	45,572
Fixed assets	65,305	63,192	61,143	59,197
Other assets	114,566	114,566	114,566	114,566
Total Assets	**390,789**	**457,502**	**529,743**	**602,919**
S/T borrowings	86,196	86,196	86,196	86,196
AP/NP	18,031	23,491	29,499	33,590
Other ST liabilities	31,852	41,495	52,109	59,335
Total Current Liabilities	**136,079**	**151,182**	**167,804**	**179,121**
L/T debt	57,589	56,589	55,589	54,589
Other LT libilities	23,124	31,794	43,751	53,346
Total Liabilities	**216,793**	**239,565**	**267,144**	**287,056**
Common shares	5,182	20,519	20,519	20,519
Retained Earnings	104,669	133,272	177,934	231,199
Other SH' Equity	64,145	64,145	64,145	64,145
Total Shareholders' Equity	**173,997**	**217,937**	**262,598**	**315,863**
Total Liab./SH's Equity	**390,789**	**457,502**	**529,743**	**602,919**

Consolidated Financial Ratios

	2025	2026E	2027E	2028E
Margins (%)				
Gross margin	36.2	39.6	44.8	48.5
Operating margin	22.4	27.7	35.0	39.5
Pretax margin	23.4	29.2	36.3	40.8
Net margin	17.8	22.7	28.0	31.4
YoY growth (%)				
Sales	9.3	37.5	37.6	21.9
Operating profits	27.4	69.8	73.8	37.9
Pretax profits	15.8	71.3	71.3	36.9
Net profits	22.1	75.6	69.4	36.9
Others				
Cash dividend payout (%)	52%	60%	60%	60%
Cash div (NT$)	6.00	12.13	20.54	28.12
Yield (%)	1%	2%	4%	6%
Net Debt/Equity (%)	26%	-2%	-21%	-34%
Liabilities/Equity (%)	125%	110%	102%	91%
Liabilities/Assets (%)	55%	52%	50%	48%
ROAE (%)	14%	21%	29%	33%
ROAA (%)	6%	10%	14%	17%
AR/NR Turnover (days)	68	62	59	63
Inventory Turnover (days)	128	121	122	125
AP/NP Turnover (days)	71	69	70	73
Cash conversion cycle	125	114	111	115

Source: Company data, Morgan Stanley Research (E) estimates.

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of June 30, 2026)

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Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

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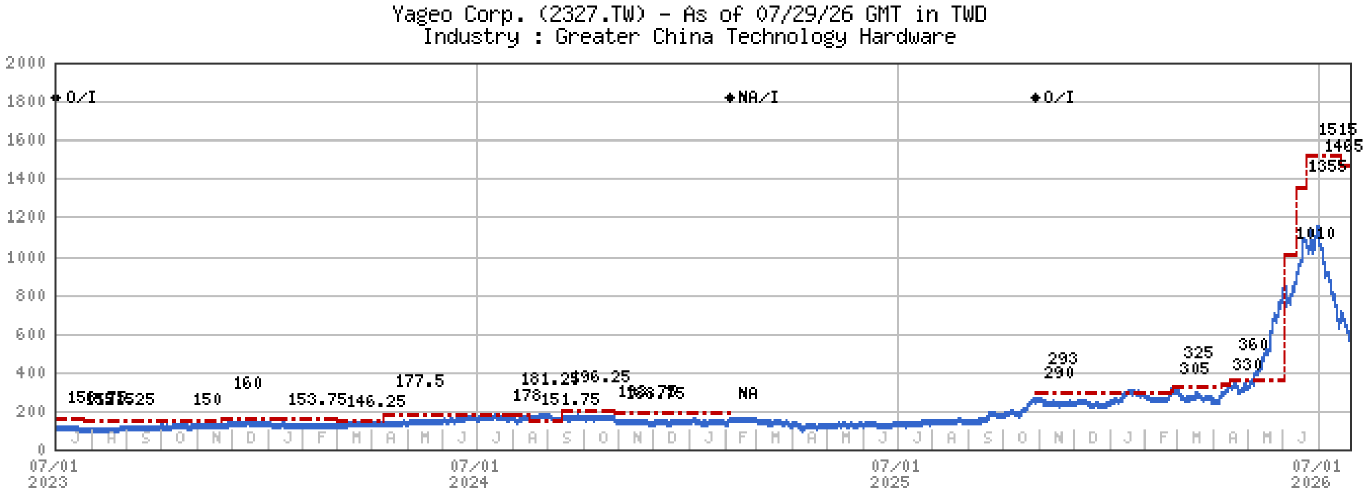

Stock Rating History: 7/1/21 : E/I; 1/4/22 : O/I; 2/5/25 : NA/I; 10/28/25 : O/I

Price Target History: 6/7/21 : 169.61; 7/7/21 : 172.76; 7/27/21 : 182.18; 10/19/21 : 141.35; 1/4/22 : 188.46; 6/23/22 : 155.48; 8/12/22 : 144.49; 10/28/22 : 116.25; 11/10/22 : 123.75; 1/9/23 : 157.5; 4/12/23 : 158.75; 7/17/23 : 152.5; 7/26/23 : 151.25; 10/18/23 : 150; 11/23/23 : 160; 1/9/24 : 153.75; 3/1/24 : 146.25; 4/11/24 : 177.5; 7/23/24 : 178; 7/30/24 : 181.25; 8/15/24 : 151.75; 9/12/24 : 196.25; 10/21/24 : 193.75; 10/29/24 : 188.75; 2/5/25 : NA; 10/28/25 : 290; 10/31/25 : 293; 2/23/26 : 305; 2/26/26 : 325; 4/9/26 : 330; 4/15/26 : 360; 6/2/26 : 1010; 6/13/26 : 1355; 6/22/26 : 1515; 7/22/26 : 1465

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INDUSTRY COVERAGE: Greater China Technology Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/29/2026)
Andy Meng, CFA		
AAC Technologies Holdings (2018.HK)	O (01/29/2024)	HK$39.24
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb169.26
BYD Electronics (0285.HK)	O (04/28/2023)	HK$24.60
China TransInfo Technology Co Ltd (002373.SZ)	E (07/18/2023)	Rmb7.65
Dahua Technology Co. Ltd. (002236.SZ)	E (12/12/2024)	Rmb16.42
Eoptolink Technology Inc Ltd (300502.SZ)	O (02/27/2026)	Rmb421.20
Genius Electronic Optical Co. Ltd. (3406.TW)	E (04/23/2025)	NT$466.50
GoerTek Inc (002241.SZ)	U (04/23/2025)	Rmb23.69
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb4.56
HIKVision Digital Technology (002415.SZ)	E (12/12/2024)	Rmb35.74
Largan Precision (3008.TW)	O (07/10/2026)	NT$3,850.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	U (06/12/2024)	Rmb7.23
Lingyi Itech Guangdong Co (002600.SZ)	U (04/23/2025)	Rmb12.23
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb62.35
OFILM Group Co Ltd (002456.SZ)	U (06/12/2024)	Rmb7.05
Q Technology (Group) Company Ltd (1478.HK)	U (03/23/2026)	HK$7.01
Quectel Wireless Solutions Co Ltd (603236.SS)	E (10/09/2024)	Rmb50.46
Shanghai Conant Optical Co Ltd (2276.HK)	O (04/10/2026)	HK$29.48
Shenzhen Transsion Holdings Co Ltd (688036.SS)	E (03/23/2026)	Rmb65.69
Sunny Optical (2382.HK)	E (03/23/2026)	HK$61.20
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	E (11/06/2025)	Rmb182.09
Wingtech Technology Co Ltd (600745.SS)	U (05/18/2026)	Rmb16.70
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK$31.88
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb281.70

Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (07/15/2026)	HK$102.80
Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb93.06
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb26.35
Zhongji Innolight Co Ltd (300308.SZ)	++	Rmb951.00
ZTE Corporation (0763.HK)	O (06/04/2026)	HK$25.08
ZTE Corporation (000063.SZ)	E (06/04/2026)	Rmb34.08
Derrick Yang		
Accton Technology Corporation (2345.TW)	O (06/06/2024)	NT$1,910.00
Advantech (2395.TW)	O (01/20/2021)	NT$550.00
AirTAC International (1590.TW)	O (04/16/2025)	NT$1,325.00
Asia Vital Components Co. Ltd. (3017.TW)	O (07/30/2024)	NT$2,095.00
AU Optronics (2409.TW)	E (02/10/2026)	NT$23.65
Auras Technology Co Ltd (3324.TWO)	E (05/04/2023)	NT$855.00
Bizlink (3665.TW)	O (03/10/2025)	NT$2,090.00
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb5.71
Chenbro (8210.TW)	O (07/23/2025)	NT$981.00
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT$1,835.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT$1,495.00
E Ink Holdings Inc. (8069.TWO)	O (05/11/2026)	NT$179.00
Ennostar Inc (3714.TW)	U (09/23/2022)	NT$46.10
Fositek Corp (6805.TW)	O (06/25/2025)	NT$1,265.00
Hiwin Technologies Corp. (2049.TW)	O (03/30/2026)	NT$290.50
Innolux (3481.TW)	E (04/07/2025)	NT$41.80
King Slide Works Co. Ltd. (2059.TW)	O (11/08/2023)	NT$7,145.00
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb33.39
Lite-On Technology (2301.TW)	E (01/15/2025)	NT$185.00
TCL Corp. (000100.SZ)	E (04/07/2025)	Rmb4.93
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb6.57
Wuhan Jingce Electronic Group Co Ltd (300567.SZ)	E (11/26/2021)	Rmb199.00
Howard Kao		
Acer Inc. (2353.TW)	U (04/23/2025)	NT$28.65
Asustek Computer Inc. (2357.TW)	U (11/16/2025)	NT$761.00
Catcher Technology (2474.TW)	U (11/17/2025)	NT$180.50
Compal Electronics (2324.TW)	U (04/23/2025)	NT$34.85
FIT Hon Teng Ltd (6088.HK)	O (11/03/2025)	HK$4.85
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb57.75
Giga-Byte Technology Co. Ltd. (2376.TW)	E (11/16/2025)	NT$321.50
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT$729.00
Hon Hai Precision (2317.TW)	O (03/15/2024)	NT$237.00
Inspur Electronic Information (000977.SZ)	E (08/28/2023)	Rmb74.94
LandMark Optoelectronics Corporation (3081.TWO)	E (03/26/2026)	NT$1,540.00
Lenovo (0992.HK)	O (07/10/2026)	HK$22.98
Lotes Co. Ltd. (3533.TW)	E (05/12/2025)	NT$1,725.00
Nan Ya PCB (8046.TW)	O (02/23/2026)	NT$879.00
Pegatron Corporation (4938.TW)	E (03/25/2026)	NT$82.00
Quanta Computer Inc. (2382.TW)	O (05/01/2023)	NT$309.50
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb108.18
Shennan Circuits Co Ltd (002916.SZ)	E (08/24/2023)	Rmb316.01
Unimicron (3037.TW)	O (02/23/2026)	NT$688.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (09/11/2023)	NT$272.50
Wistron Corporation (3231.TW)	O (07/12/2023)	NT$169.50
Wiwynn Corp (6669.TW)	O (11/10/2025)	NT$5,135.00
Yageo Corp. (2327.TW)	O (10/28/2025)	NT$507.00
Zhen Ding (4958.TW)	O (05/18/2026)	NT$404.50

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* Historical prices are not split adjusted.