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EQUITY: TECHNOLOGY

Takeaways from group conference call

Takeaways from our meeting with AT&S management

We hosted a group conference call on 14 October with the management team of Austria Technologie & Systemtechnik AG (AT&S; ATS AV, Not rated), one of the few Western manufacturers of advanced printed circuit boards (PCBs) and IC substrates, with primary production footprints in Austria, China, and Malaysia. We summarize our key takeaways below:

Current fiscal year guidance

- AT&S expects 45%-55% y-y revenue growth (in constant currency terms) in FY26/27E (FY ending March), off a FY25/26 base of EUR1.8bn, with EBITDA margins of 32%-37%. Management also expects to incur net capex of EUR1.0-1.2bn and hold net debt/EBITDA <3 during the fiscal year. AT&S flags that its Ajinomoto build-up film (ABF) substrate capacity expansion is fully backed by long-term customer commitments, and that all of its spendings are fully funded by customers.
- The company currently books c.15% EBITDA margin for the PCB business, in part dragged by customer concentration and associated seasonality. However, the kick-in of optical module demand for modified semi-additive process (mSAP) could present tailwinds for future EBITDA margin, according to management.
- For the ABF substrate business, AT&S currently yields c.40% EBITDA margin, but expects somewhat capped upside given its tie-up with long-term agreements (LTAs).
- The customer funding for capex could come through two conduits: 1) **prepayments**, which are recognized on AT&S liabilities; and 2) **reservation fees** for existing capacity and **milestone payments** for anything incremental, which directly flow into the company's topline without any cost.
- In FY25/26, AT&S recorded 50% and 50% of revenue from ABF substrates and PCB, respectively. The company expects to register 60% and 40% of revenue from ABF substrates and PCB, respectively, in FY26/27E, and the mix could further tilt toward ABF substrates (~70% of revenue) in FY2027/28E.

Capacity expansion plans

- At the **Chongqing site**, capacity additions are primarily debottlenecking for a leading US CPU customer's embedded silicon substrates, and prepare itself to address localized manufacturing demand for Chinese customers in the medium term. The new capacity is scheduled to ramp up through FY2026/27 and FY2027/28.
- At the **Kulim site**, plant Kulim 1 is dedicated to a US CPU/GPU customer, where AT&S now operates two lines and is ramping up the third line, with the fourth line build-out announced in June for FY27/28 ramp-up (*press release*). AT&S is also building the Kulim 2 plant slated for ramp-up in FY28/29, which could accommodate up to five lines. At Kulim 2, AT&S plans to dedicate three lines to a leading US CPU customer's embedded silicon-through silicon via (TSV) substrates and one line for Marvell (MRVL US, Not rated; *press release*), while still in search of customer commitment for the fifth line. Beside Kulim 1 and Kulim 2, AT&S is building a core plant as well for in-house core production particularly for embedding technologies.
- Looking beyond the current programs, AT&S has an available space next to Kulim 2 potentially for future capacity investment in ABF substrates or mSAP, and has secured land for three additional plants.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: AT&S Kulim site planning



Source: Company data, Nomura research

Fig. 2: Timing and financial impact of AT&S major expansion plans

Timing and financial impact of major growth programs

Capacity expansion for ABF substrates fully backed by long-term customer commitments

Program	2026/27	2027/28	2028/29
Chongqing expansion	Capacity build & ramp	Ramp & HVM	HVM
Kulim 1 expansion	Capacity build	Capacity build & ramp	HVM
Kulim 2 incl. Cores	Capacity build	Capacity build	Ramp to HVM
KPI			
Earnings impact	Strong Customer payments	Strong Customer payments & sales	Strong Mainly sales incl. first repayments
FCF impact	Broadly neutral	Increasingly positive	Strongly positive

CAPEX
- Chongqing: high double-digit million range till summer 2027
- Kulim: € 1.5 to 2.0 billion till beginning 2028/29

General assumption: CAPEX:Revenue relation in the industry roughly 1:1 p.a.

Source: Company data, Nomura research

Substrate technology

- AT&S highlights its leading supplier position for high-end products in a US CPU/GPU customer, thanks to an unmatched expertise in **special embedding processes** and its capabilities to ramp up quickly. The challenges to produce substrates for this customer are large body sizes as well as demanding specifications for AT&S to orchestrate the entire production processes.
- By contrast, the manufacturing difficulty of a leading US CPU maker's embedded silicon-TSV substrate is another dimension, for which AT&S shares that issues could emerge on the final few build-up layers, and **embedding accuracy** also presents challenges.
- AT&S reasons that **60%-70%** of mass production yield could be the minimum criterion for the embedded silicon-TSV substrates to prove the economic viability. Despite not

yet bringing the technology into high-volume manufacturing, AT&S believes its previous experiences in embedding technology for CoWoS substrates and PCB could give it some edges.

- While the embedded silicon-TSV substrate is an extension of the incumbent embedded silicon substrate with a few new processes added, AT&S thinks the capacity **is not economically fungible** given the difference in power delivery network (two-sided for the silicon-TSV substrate) and extra high-end tool investments.

Stock for action: Remain positive on the ABF substrate upcycle

We reiterate our Buy rating on **Unimicron (3037 TT)**, which is benefiting from more favorable pricing conditions amid supply bottleneck and technological advancements (EMIB-T with manageable risk-reward, and large reticle-size 2.5D). The latter could be crucial in this AI-driven upcycle, as higher substrate technology contents could further extend the lead between tier-1 makers and others for a more favorable competitive landscape – echoing the remarks by AT&S. Our TP for Unimicron is TWD1,400, based on 25x 2028F EPS of TWD56.00.

