

Shinko Electric Industries (6967.T)

Earnings Review: In line; FC package volumes recover, price declines halt; FY3/26 guidance not disclosed

6967.T Price Target: -- Price: ¥5,923 Upside: --

Shinko Electric Industries' FY3/25 operating profits of ¥25.4 bn, reported after the April 24 close, were in line with our estimate of ¥25.0 bn. FY3/26 guidance was not disclosed (the company is due to be delisted on June 6). Trends from 3Q to 4Q were as follows. **(1)**

IC leadframes and hermetic components: Both sales and operating profits were flat qoq. **(2) IC packages:** Sales increased, while operating profits were flat qoq. Within IC packages, sales volume recovered for mainstay flip-chip packages, mainly for PC applications (sales up by more than 20% qoq). We estimate that the decline in losses (our assumption) was small, as the recovery in more profitable server applications was slow. We also believe that price declines have now eased off for both PC and server applications. We lower our FY3/26-FY3/28 operating profit estimates by 11%/11%/10%, mainly reflecting changes to our forex assumption (from ¥150/US\$ to ¥145).

We are Not Rated on Shinko Electric. In terms of read-across for Ibiden (Buy), the results are reassuring in that for PC/server CPU applications, (1) the worst appears to be over in terms of volumes, and (2) price declines appear to have eased. We believe that Ibiden will maintain a high share in GPU applications (for NVIDIA) and continue to benefit from AI-related demand. If earnings bottom out for PC/server applications (mainly for Intel), which have been a drag on earnings, we believe this would increase the likelihood that the company's overall earnings growth trend will continue.

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Key Data

Market cap: ¥800.1bn / \$5.6bn
Enterprise value: ¥702.3bn / \$4.9bn
3m ADTV: ¥6.4bn / \$42.7mn
Japan
Japan Electronic Components/Semiconductors
Leases incl. in net debt & EV?: No

GS Forecast

	3/25	3/26E	3/27E	3/28E
Revenue (¥ bn)	215.0	229.0	241.5	253.0
Op. profit (¥ bn) New	25.4	28.7	32.5	36.0
Op. profit (¥ bn) Old	25.0	32.2	36.5	40.0
Op. profit CoE (¥ bn)	25.6	—	—	—
EPS (¥) New	132.3	154.7	175.4	193.9
EPS (¥) Old	128.8	173.2	195.4	217.6
P/E (X)	42.8	38.3	33.8	30.5
P/B (X)	2.8	2.8	2.6	2.4
CROCI (%)	11.3	10.7	11.2	12.0
	3/25	6/25E	9/25E	12/25E
EPS (¥)	31.7	35.5	39.6	40.7

Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Shinko Electric Industries (6967.T)

Rating since Dec 13, 2023

Ratios & Valuation

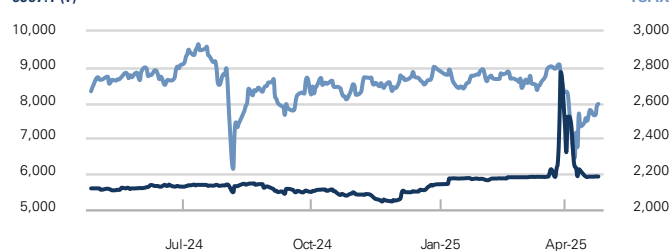
	3/25	3/26E	3/27E	3/28E
P/E (X)	42.8	38.3	33.8	30.5
P/B (X)	2.8	2.8	2.6	2.4
FCF yield (%)	5.0	2.5	2.6	2.9
EV/EBITDAR (X)	11.0	10.5	9.5	8.3
EV/EBITDA (excl. leases) (X)	11.0	10.5	9.5	8.3
CROCI (%)	11.3	10.7	11.2	12.0
ROE (%)	6.6	7.4	7.9	8.2
Net debt/equity (%)	(30.5)	(33.7)	(36.4)	(39.3)
Net debt/equity (excl. leases) (%)	(30.5)	(33.7)	(36.4)	(39.3)
Interest cover (X)	163.4	185.0	209.4	232.0
Days inventory outst, sales	51.6	49.1	48.9	48.7
Receivable days	95.0	90.8	91.2	91.5
Days payable outstanding	59.4	58.4	58.8	59.0
DuPont ROE (%)	6.5	7.2	7.7	8.0
Turnover (X)	0.5	0.5	0.5	0.5
Leverage (X)	1.5	1.5	1.4	1.4
Gross cash invested (ex cash) (¥)	521.3	542.5	567.2	595.5
Average capital employed (¥)	202.2	192.5	194.4	197.6
BVPS (¥)	2,045.1	2,152.3	2,280.2	2,426.6

Growth & Margins (%)

	3/25	3/26E	3/27E	3/28E
Total revenue growth	2.4	6.5	5.5	4.8
EBITDA growth	18.1	8.1	8.7	11.7
EPS growth	(3.9)	16.9	13.4	10.5
DPS growth	9.1	0.0	0.0	0.0
EBIT margin	11.8	12.5	13.5	14.2
EBITDA margin	28.7	29.1	30.0	32.0
Net income margin	8.3	9.1	9.8	10.4

Price Performance

6967.T (¥)



	3m	6m	12m
Absolute	1.2%	9.7%	5.9%
Rel. to the TOPIX	7.4%	11.5%	10.8%

Source: FactSet. Price as of 24 Apr 2025 close.

Income Statement (¥ bn)

	3/25	3/26E	3/27E	3/28E
Total revenue	215.0	229.0	241.5	253.0
Cost of goods sold	(175.2)	(185.3)	(193.5)	(201.0)
SG&A	(14.5)	(15.0)	(15.5)	(16.0)
R&D	(4.1)	(4.0)	(4.0)	(4.0)
Other operating inc./exp.)	—	—	—	—
EBITDA	61.7	66.7	72.5	81.0
Depreciation & amortization	(36.4)	(38.0)	(40.0)	(45.0)
EBIT	25.4	28.7	32.5	36.0
Net interest inc./exp.)	(0.1)	(0.1)	(0.1)	(0.1)
Income/(loss) from associates	0.0	0.0	0.0	—
Pre-tax profit	24.8	29.1	32.9	36.4
Provision for taxes	(7.0)	(8.2)	(9.2)	(10.2)
Minority interest	—	—	—	—
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	17.9	20.9	23.7	26.2
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net inc. (post-exceptionals)	17.9	20.9	23.7	26.2
EPS (basic, pre-exception) (¥)	132.2	154.6	175.3	193.8
EPS (diluted, pre-exception) (¥)	132.8	155.3	176.1	194.7
EPS (basic, post-exception) (¥)	132.3	154.6	175.4	193.9
EPS (diluted, post-exception) (¥)	132.9	155.3	176.2	194.7
DPS (¥)	60.0	60.0	60.0	60.0
Div. payout ratio (%)	45.4	38.8	34.2	31.0

Balance Sheet (¥ bn)

	3/25	3/26E	3/27E	3/28E
Cash & cash equivalents	114.3	128.1	142.2	159.0
Accounts receivable	55.2	58.8	62.0	64.9
Inventory	29.9	31.7	33.1	34.4
Other current assets	14.2	14.2	14.2	14.2
Total current assets	213.6	232.7	251.4	272.4
Net PP&E	185.0	182.0	182.0	182.0
Net intangibles	1.2	1.2	1.2	1.2
Total investments	0.1	0.1	0.1	0.1
Other long-term assets	6.1	6.1	6.1	6.1
Total assets	405.9	422.0	440.7	461.7
Accounts payable	28.8	30.5	31.9	33.1
Short-term debt	30.0	30.0	30.0	30.0
Short-term lease liabilities	—	—	—	—
Other current liabilities	68.8	68.8	68.8	68.8
Total current liabilities	127.6	129.3	130.6	131.9
Long-term debt	—	—	—	—
Long-term lease liabilities	—	—	—	—
Other long-term liabilities	1.8	1.8	1.8	1.8
Total long-term liabilities	1.8	1.8	1.8	1.8
Total liabilities	129.4	131.1	132.5	133.7
Preferred shares	—	—	—	—
Total common equity	276.4	290.9	308.2	328.0
Minority interest	—	—	—	—
Total liabilities & equity	405.9	422.0	440.7	461.7
Net debt, adjusted	(84.3)	(98.1)	(112.2)	(129.0)

Cash Flow (¥ bn)

	3/25	3/26E	3/27E	3/28E
Net income	17.9	20.9	23.7	26.2
D&A add-back	36.4	38.0	40.0	45.0
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	(1.4)	(1.4)	(1.4)	(1.4)
Other operating cash flow	—	—	—	—
Cash flow from operations	57.3	55.2	60.4	68.2
Capital expenditures	(19.4)	(35.0)	(40.0)	(45.0)
Acquisitions	—	—	—	—
Divestitures	—	—	—	—
Others	—	—	—	—
Cash flow from investing	(19.4)	(35.0)	(40.0)	(45.0)
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	(6.4)	(6.4)	(6.4)	(6.4)
Inc/(dec) in debt	—	—	—	—
Other financing cash flows	0.0	0.0	0.0	0.0
Cash flow from financing	(6.4)	(6.4)	(6.4)	(6.4)
Total cash flow	31.5	13.8	14.0	16.8
Free cash flow	37.9	20.2	20.4	23.2

Source: Company data, Goldman Sachs Research estimates.

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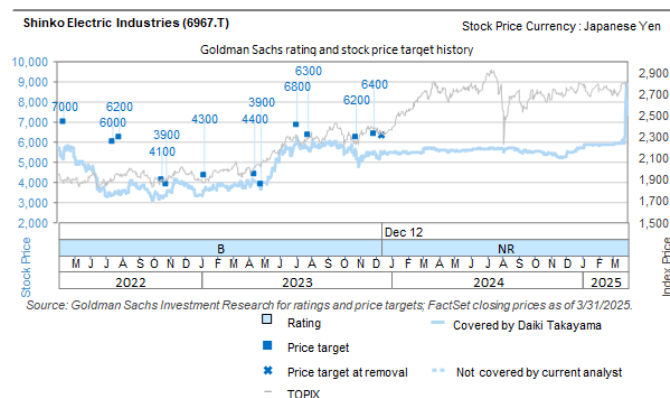
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