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AirTAC International | Asia Pacific

January Sales -30% MoM/-25% YoY

📈 Stock Rating
Equal-weight

📊 Industry View
In-Line

🎯 Price Target
NT\$1,050.00

What's new:

- AirTAC reported January monthly sales of NT\$1,458mn, -25% MoM/-30% YoY.
- Order intake remained higher than shipments in January.
- During the month, demand from battery, and energy and lighting markets was better than from other markets.

Our view:

- QTD sales tracking largely in line with our 1Q23 revenue estimate of NT\$5,820mn (-7% QoQ/-11% YoY), but behind consensus estimate of NT\$6,303mn (+1% QoQ/-3% YoY).
- While we agree that China's reopening should point to a better demand outlook for AirTac in 2023, its current valuation of 31x 2023e P/E (seen in past up-cycles) has largely priced in an optimistic upcycle scenario this year, in our view.
- We see little upside from here and thus stay EW on AirTAC with our PT of NT\$1,050 (30x 2023 P/E). (See our report.)
- AirTAC is scheduled to report its preliminary 4Q22 results and hold an earnings call at 4pm HKT on Feb 8.

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AirTAC International (1590.TW, 1590 TT)

Greater China Technology Hardware / Taiwan

Stock Rating	Equal-weight
Industry View	In-Line
Price target	NT\$1,050.00
Up/downside to price target (%)	(3)
Shr price, close (Feb 3, 2023)	NT\$1,080.00
52-Week Range	NT\$1,085.00-642.00
Sh out, dil, curr (mn)	200
Mkt cap, curr (mn)	US\$7,208
EV, curr (mn)	US\$7,305
Avg daily trading value (mn)	US\$18

Fiscal Year Ending	12/21	12/22e	12/23e	12/24e
ModelWare EPS (NT\$)	32.21	30.38	34.88	40.38
EPS (NT\$)§	32.07	30.93	35.32	42.13
Revenue, net (NT\$ mn)	25,400	26,073	28,996	32,495
EBITDA (NT\$ mn)	9,943	9,359	10,848	12,398
ModelWare net inc (NT\$ mn)	6,442	6,077	6,977	8,077
P/E	31.7	30.6	31.0	26.7
P/BV	5.8	4.8	5.0	4.4
RNOA (%)	19.7	15.2	16.5	18.0
ROE (%)	28.6	17.3	18.1	18.6
EV/EBITDA	20.8	20.2	20.0	17.3
Div yld (%)	0.8	1.2	1.0	1.1
FCF yld ratio (%)	0.2	1.4	1.9	2.2
Leverage (EOP) (%)	8.3	7.1	1.1	(4.2)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates

e = Morgan Stanley Research estimates

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Valuation Methodology and Risks

AirTAC International (1590.TW)

Base case, 30x 2023e P/E. We believe this methodology better captures earnings growth momentum for industrial automation component plays (market sentiment moves along with business cycles). OPM is a good indicator of the cycle, as it is highly dependent on operating leverage. Our 2023-24 OPM forecast of 31-32% is in line with past up-cycles. Therefore, we find our peak cycle valuation reasonable.

Risks to Upside

- Stronger macroeconomic climate in China.
- Stronger-than-expected demand from industrial automation.

Risks to Downside

- Sharper economic downturn in China.
- Miniature linear guideway business development taking more time.
- Larger-than-expected investment in new products but weaker-than-expected demand.

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(as of January 31, 2023)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1360	37%	277	43%	20%	599	38%
Equal-weight/Hold	1672	45%	292	45%	17%	737	47%
Not-Rated/Hold	4	0%	0	0%	0%	0	0%
Underweight/Sell	658	18%	82	13%	12%	232	15%
TOTAL	3,694		651			1568	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/03/2023)
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BYD Electronics (0285.HK)	E (11/15/2022)	HK\$27.65
China TransInfo Technology Co Ltd (002373.SZ)	U (05/24/2021)	Rmb10.68
Dahua Technology Co. Ltd. (002236.SZ)	E (12/06/2022)	Rmb13.05
Genius Electronic Optical Co. Ltd. (3406.TW)	E (01/09/2023)	NT\$378.00
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb3.51
HIKVision Digital Technology (002415.SZ)	O (11/02/2015)	Rmb36.70
Largan Precision (3008.TW)	U (01/09/2023)	NT\$2,245.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	O (07/25/2022)	Rmb13.86
OFILM Group Co Ltd (002456.SZ)	E (11/04/2021)	Rmb5.22
Q Technology (Group) Company Ltd (1478.HK)	O (01/09/2023)	HK\$5.57
Quectel Wireless Solutions Co Ltd (603236.SS)	O (11/07/2022)	Rmb116.51
Shenzhen Transsion Holdings Co Ltd (688036.SS)	O (08/12/2021)	Rmb90.59
Sunny Optical (2382.HK)	E (01/09/2023)	HK\$112.20
Wingtech Technology Co Ltd (600745.SS)	O (05/18/2022)	Rmb59.78
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK\$13.48
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb35.34
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (12/17/2021)	HK\$15.20
Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb99.25
YuTong Optical Technology Co Ltd (300790.SZ)	E (04/05/2022)	Rmb18.35
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb13.04
ZTE Corporation (0763.HK)	O (06/20/2019)	HK\$19.32
ZTE Corporation (000063.SZ)	U (07/02/2021)	Rmb27.11
Derrick Yang		
Advantech (2395.TW)	O (01/20/2021)	NT\$360.00
AirTAC International (1590.TW)	E (08/04/2022)	NT\$1,080.00
AU Optronics (2409.TW)	E (10/04/2022)	NT\$16.50
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb4.01
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT\$190.50
E Ink Holdings Inc. (8069.TWO)	E (11/15/2022)	NT\$190.50
Ennoconn Corporation (6414.TW)	O (01/20/2021)	NT\$230.00
Ennostar Inc (3714.TW)	U (09/23/2022)	NT\$50.50
GIS Holding Limited (6456.TW)	O (12/01/2020)	NT\$84.60
Hiwin Technologies Corp. (2049.TW)	E (08/11/2022)	NT\$229.50
Innolux (3481.TW)	O (10/04/2022)	NT\$12.05
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb13.33
Leyard Optoelectronic Co Ltd (300296.SZ)	E (11/03/2020)	Rmb6.22
Radiant Opto-Electronics Corporation (6176.TW)	O (12/01/2020)	NT\$103.00
Sanan Optoelectronics (600703.SS)	E (09/23/2022)	Rmb19.98
TCL Corp. (000100.SZ)	E (06/11/2019)	Rmb4.17
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb9.45
Visionox Technology Inc (002387.SZ)	E (02/18/2020)	Rmb6.43
Wuhan Jingce Electronic Group Co Ltd (300567.SZ)	E (11/26/2021)	Rmb56.60
Wuhu Token Science Co. Ltd. (300088.SZ)	E (12/01/2020)	Rmb6.79
Green Cai		
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb18.88
Eoptolink Technology Inc Ltd (300502.SZ)	E (12/01/2022)	Rmb26.39
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	O (12/01/2022)	Rmb31.78
Zhongji Innolight Co Ltd (300308.SZ)	E (12/01/2022)	Rmb31.56
Howard Kao		

Accton Technology Corporation (2345.TW)	E (11/12/2021)	NT\$256.50
Acer Inc. (2353.TW)	U (02/01/2018)	NT\$24.70
Asustek Computer Inc. (2357.TW)	U (07/23/2021)	NT\$278.00
Compal Electronics (2324.TW)	U (12/18/2019)	NT\$22.95
Flexium (6269.TW)	E (04/27/2018)	NT\$104.00
Giga-Byte Technology Co. Ltd. (2376.TW)	O (12/15/2022)	NT\$114.50
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT\$93.40
Guangdong Fenghua Adv. Tech. (Hldg) Co (000636.SZ)	E (05/12/2021)	Rmb17.49
Inspur Electronic Information (000977.SZ)	E (02/12/2019)	Rmb24.42
Kinsus Interconnect Tech. (3189.TW)	U (12/21/2022)	NT\$115.00
Lenovo (0992.HK)	E (07/26/2018)	HK\$6.39
Lotes Co. Ltd. (3533.TW)	O (10/06/2022)	NT\$822.00
Nan Ya PCB (8046.TW)	U (12/21/2022)	NT\$255.00
Pegatron Corporation (4938.TW)	E (03/07/2022)	NT\$65.40
Quanta Computer Inc. (2382.TW)	E (07/28/2021)	NT\$76.10
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb16.60
Shennan Circuits Co Ltd (002916.SZ)	O (07/22/2020)	Rmb80.32
Unimicron (3037.TW)	E (06/01/2022)	NT\$137.00
Wistron Corporation (3231.TW)	E (07/26/2018)	NT\$31.95
Wiwynn Corp (6669.TW)	E (01/09/2023)	NT\$841.00
Yageo Corp. (2327.TW)	O (01/04/2022)	NT\$540.00
Zhen Ding (4958.TW)	E (08/02/2022)	NT\$112.50

Lily Chou

Asia Vital Components Co. Ltd. (3017.TW)	E (10/07/2022)	NT\$112.00
Auras Technology Co Ltd (3324.TWO)	U (03/21/2022)	NT\$159.00
BizLink Holding Inc (3665.TW)	E (08/18/2022)	NT\$272.00
Cubic Sensor and Instrument Co Ltd (688665.SS)	E (08/18/2022)	Rmb106.08
SDI Corporation (2351.TW)	O (08/18/2022)	NT\$120.00
Sunonwealth Electric Machine Industry Co (2421.TW)	E (10/07/2022)	NT\$43.30

Sharon Shih

AAC Technologies Holdings (2018.HK)	++	HK\$21.20
Catcher Technology (2474.TW)	U (04/23/2021)	NT\$185.50
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT\$301.50
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb9.36
Foxconn Technology (2354.TW)	E (08/16/2016)	NT\$56.30
GoerTek Inc (002241.SZ)	E (12/05/2022)	Rmb22.12
Guangzhou Shiyuan Electronic Tech Co Ltd (002841.SZ)	E (10/28/2021)	Rmb63.40
Hon Hai Precision (2317.TW)	E (01/09/2023)	NT\$99.60
LandMark Optoelectronics Corporation (3081.TWO)	E (10/27/2022)	NT\$128.00
Lingyi Itech Guangdong Co (002600.SZ)	U (05/23/2022)	Rmb5.67
Lite-On Technology (2301.TW)	E (07/31/2020)	NT\$68.20
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb32.78
Tong Hsing (6271.TW)	E (03/18/2019)	NT\$237.50
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (07/06/2022)	NT\$84.30

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.