

## Winbond

Weak results and cautious guidance which are well expected in the market; focus on cost reduction efforts

Winbond (WB) reported 2H22 GP of NT\$17.3bn (GPM: 42%) on sales of NT\$41.4bn which is well below consensus numbers given a prolonged de-stocking cycle in the supply chain translating into a low UTR and a meaningful ASP decline for both specialty DRAM and NOR flash. On the other hand, given relatively solid demand for HD NOR and limited exposure to NAND, WB managed to generate positive profits in 3Q/4Q22 even during one of the worst downturn cycles in the memory industry. For the full year, it posted sales, GP, and NP of NT\$94.5bn, NT\$43.1bn, and NT\$15bn, respectively, which implies a 5% sales decline and flattish growth for NP in FY22. The company meaningfully cut memory capex for FY23 by 70% Y/Y, which is even higher than mainstream memory makers (~50% cut).

- **2H22 review.** Weak 2H22 earnings translate into 22%/33% decline H/H, respectively, and the pace of decline accelerated in 4Q with consolidated GPM climbing down to 37% in 4Q from 46% in 3Q. The downside came mainly from WB's memory business with sales/GP declining by 32%/46% H/H, respectively, due mainly to the ongoing inventory de-stocking across the supply chain, pointing to a significant volume miss. As a consequence, DRAM/NAND bit shipments declined by high-teens%/MSD% Y/Y which is worse than mainstream memory makers in FY22E. Of note, 25nm DRAM sales contributed over 65% in FY22 and HD NOR (i.e. 46nm) sales contribution grew to 23% in 4Q22 from 17% in 1Q22. Memory capex in FY22 stood at NT\$40.8bn and the company guides for FY23 memory capex of NT\$12.1bn (-70% Y/Y).
- **Cautious guidance for 1H23:** Given weak demand and ongoing inventory de-stocking in the supply chain, WB said it needs to cut UTR in 1Q23 for both DRAM and NOR flash. January was the worst and it guided to gradual improvement in February and March while it would take time to be back to full utilization. Regarding its Kaoshuing fab expansion plan, WB targets to mass produce ~15K/month at 20nm in 1Q24 with a marginal contribution in 4Q22. It hasn't seen any meaningful order recovery in the CE space (i.e., TV) but cautiously expects the worst is over and there will be a gradual improvement in FY23. In the DRAM space, it focuses on a diversified product portfolio including mainstream products as well as specialty DRAM and expects meaningful cost reduction once it reaches scale at 20nm. Hence, we expect WB's earnings to hit the bottom in 1Q23 followed by a gradual recovery from 2Q23 onwards. As we expect inventory digestion across supply chains to end in 2H23, FY24 would be a strong upturn cycle implying a meaningful earnings recovery backed by overall market recovery as well as new capacity ramp up in DRAM.
- **Share price outlook:** The WB share price has rebounded by 19% (vs. TWSE: +9%) from the recent bottom but underperformed domestic memory peers such as Macronix and Nanya tech. Although we see limited near-term catalysts to drive the stock higher, WB will likely outperform its

## Overweight

2344.TW, 2344.TT  
Price (17 Feb 23): NT\$23.15  
Price Target (Dec-22): NT\$33.00

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domestic peers given cost reduction upon tech migration in DRAM and the diversified product portfolio via memory and logic on top of what an undemanding valuation.

## Investment Thesis, Valuation and Risks

### Winbond (*Overweight; Price Target: NT\$33.00*)

#### **Investment Thesis**

We are OW on Winbond as we believe the company is in a sweet spot to benefit mainly from the supply reduction in NOR and the rising contribution from non-CE applications in FY23, while ensuring reduced earnings cyclicality and product-mix improvement through the Panasonic semi business acquisition. It has repositioned itself from being a heavily memory focused to become a diversified IC manufacturer with a broader customer base. Within the non-memory segment, it has a strong MCU portfolio for Computing/Consumer and is all set to increase its presence in automotive/industrial and communication semis.

#### **Valuation**

Our Dec-22 PT of NT\$33 is based on 1.3x forward P/B, a mid cycle valuation, driven by: 1) improvement in overall product mix with rising exposure to structural growth end-markets, such as auto/industrial; and 2) a diversified end-market, which should ensure low earnings volatility.

#### **Risks to Rating and Price Target**

Risks to our rating and price target are mainly from risks to the upcycle in memory. We note the following: 1) broken supply-side limitation in NOR flash to disrupt favourable S/D dynamics if GigaDevice ramps up meaningfully; 2) risks to specialty DRAM pricing in 2H in case the rebound in demand is softer than anticipated; and 3) margin pressures from the integration of the Panasonic semi business lasting beyond our forecast horizon

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Winbond (2344.TW, 2344 TT) Price Chart



Date	Rating	Price (NT\$)	Price Target (NT\$)
12-Jul-21	OW	35.30	45
28-Sep-21	OW	27.65	38
17-Mar-22	OW	32.65	40
01-Jul-22	OW	21.70	33

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Feb 16, 2020. All share prices are as of market close on the previous business day.

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