Daiwa Capital Markets

Hong Kong Limited

SDI Corp (2351 TT)

Target price: **TWD148.00** (from TWD121.00)

Share price (23 Feb): **TWD123.00** | Up/downside: **+20.3%**



4Q22 results: upbeat core business

- ➤ 4Q22 EPS misses our and consensus estimates by 11-16% on FX loss
- However, we expect a stronger earnings momentum over 2023-24
- > Reiterating our Buy (1) rating with a new 12-month TP of TWD148

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What's new: SDI reported its 4Q22 results after market hours on 23 February. It also announced a cash dividend of TWD3.2 for 2022, which translates into a 62.0% dividend payout ratio and 2.6% dividend yield. We reiterate our Buy (1) call on resilient order visibility for auto and industrial based on favourable EV/ADAS trends over the mid to long term.

What's the impact: 4Q22 results review. SDI's 4Q22 revenue of TWD2,848m (-5.0% QoQ, -6.2% YoY) slightly beat our and consensus estimates by 2%. Its gross margin came in at 16.4% in 4Q22, higher than 16.0% in 3Q22 but lower than 16.9% in 4Q21, slightly missing our and consensus estimates of 16.7%, which we attribute to an unfavourable copper pricing environment. However, due to better opex control, its operating profit of TWD266m (+6.8% QoQ, -7.3% YoY) beat our and consensus estimates by 18.1% and 17.1%, respectively. Due to a forex loss of c.TWD40m, its net profit finished at TWD153m (-40.3% QoQ, -25.8% YoY) missing our and consensus estimates by 16.0% and 10.6%, respectively. Its 4Q22 EPS was TWD0.84.

Solid revenue momentum for auto and industrial segments with improving gross margin in 2023. SDI retained its guidance for 2023 YoY revenue growth at a high single digit, in light of strong auto revenue growth of >20% YoY, industrial revenue growth of >10% YoY and a 15% revenue YoY decline in consumer revenue. However, SDI sees some upside potential from the industrial segment in 2023 from IGBT products for Infineon and Vishay. Nevertheless, due to still weak consumer revenue YTD, we forecast 17.3% revenue YoY growth in 2H23 vs. a 3% revenue YoY decline in 1H23.

Brighter gross margin outlook. In addition to a more favourable copper pricing environment and product mix, we expect SDI's gross margin to expand QoQ in 1Q23 and YoY in 2023. SDI plans to focus more on improving the yield rate, operating efficiency and automation in 2023, which will likely further enhance its margins. We lift our 2023-24E EPS by 5-6% mainly on more aggressive gross and operating margin forecasts.

What we recommend: We reiterate our Buy (1) call with a higher 12-month TP of TWD148 (from TWD121), now based on a 1-year-forward PER of 22x (from 20x vs. its past-3-year range of 12-34x [average PER: 20x] due to better earnings visibility. Key downside risks to our call: 1) macro slowdown and COVID-19 uncertainty, 2) less-than-expected gross margin expansion and 3) copper-price volatility and supply.

How we differ: We are more positive on SDI's global leading position in power lead frames with market share gain potential.

Forecast revisions (%)

Year to 31 Dec	22E	23E	24E
Revenue change	0.5	(0.6)	0.4
Net profit change	(3.0)	5.1	6.1
Core EPS (FD) change	(3.0)	5.1	6.1

Source: Daiwa forecasts

Share price performance



12-month range	89.30-164.00
Market cap (USDbn)	0.73
3m avg daily turnover (USDm)	8.80
Shares outstanding (m)	182
Major shareholder	Chen family (51.0%)

Financial summary (TWD)

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Year to 31 Dec	22E	23E	24E
Revenue (m)	11,724	12,558	14,077
Operating profit (m)	1,169	1,408	1,757
Net profit (m)	941	1,153	1,428
Core EPS (fully-diluted)	5.164	6.331	7.842
EPS change (%)	10.4	22.6	23.9
Daiwa vs Cons. EPS (%)	0.0	5.6	1.9
PER (x)	23.8	19.4	15.7
Dividend yield (%)	2.6	3.3	4.1
DPS	3.2	4.1	5.1
PBR (x)	3.2	2.8	2.5
EV/EBITDA (x)	13.2	11.3	9.5
ROE (%)	14.2	15.4	17.0

Source: FactSet, Daiwa forecasts



SDI: revisions to Daiwa's revenue and earnings forecasts

(TWDm)	2022E			2023E			2024E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	11,724	11,663	0.5%	12,558	12,629	-0.6%	14,077	14,016	0.4%
Gross profit	2,079	2,076	0.1%	2,350	2,326	1.0%	2,756	2,704	1.9%
Gross profit margin	17.7%	17.8%	-0.1pp	18.7%	18.4%	0.3pp	19.6%	19.3%	0.3pp
Operating profit	1,169	1,129	3.6%	1,408	1,362	3.4%	1,757	1,682	4.5%
Operating profit margin	10.0%	9.7%	0.3pp	11.2%	10.8%	0.4pp	12.5%	12.0%	0.5pp
Net profit	941	970	-3.0%	1,153	1,097	5.1%	1,428	1,346	6.1%
Net profit margin	8.0%	8.3%	-0.3pp	9.2%	8.7%	0.5pp	10.1%	9.6%	0.5pp
Diluted EPS (TWD)	5.16	5.32	-3.0%	6.33	6.02	5.1%	7.84	7.39	6.1%

Source: Daiwa forecasts

SDI: 4Q22 results vs. Daiwa and the Bloomberg forecasts

(TWDm)	SDI's 4Q22 results	Daiwa forecast	Differ	Bloomberg consensus	Differ
Revenue	2,848	2,787	2.2%	2,799	1.8%
Gross profit	468	466	0.4%	467	0.1%
Operating profit	266	226	18.1%	228	17.1%
Profit before tax	214	260	-17.5%	242	-11.3%
Net profit	153	182	-16.0%	171	-10.6%
Basic EPS (TWD)	0.84	1.00	-16.0%	1.02	-17.6%
Margin					
Gross margin	16.4%	16.7%	-0.3pp	16.7%	-0.3pp
Operating margin	9.4%	8.1%	1.3pp	8.1%	1.2pp
Pre-tax margin	7.5%	9.3%	-1.8pp	8.6%	-1.1pp
Net margin	5.4%	6.5%	-1.2pp	6.1%	-0.7pp

Source: Company, Bloomberg, Daiwa forecasts

SDI: quarterly P&L

		2022	-		2023E				2022	2023E
(TWDm)	1Q22	2Q22	3Q22	4Q22	1Q23E	2Q23E	3Q23E	4Q23E		
Revenue	2,792	3,086	2,998	2,848	2,670	3,031	3,446	3,412	11,724	12,558
Gross profit	533	598	480	468	485	556	656	653	2,079	2,350
Operating profit	296	358	249	266	250	320	421	418	1,169	1,408
Pre-tax profit	333	390	333	214	283	353	454	451	1,270	1,541
Net profit	252	280	256	153	208	263	343	340	941	1,153
Basic EPS (TWD)	1.38	1.54	1.41	0.84	1.14	1.44	1.88	1.87	5.16	6.33
Margin										
Gross margin	19.1%	19.4%	16.0%	16.4%	18.2%	18.4%	19.1%	19.1%	17.7%	18.7%
Operating margin	10.6%	11.6%	8.3%	9.4%	9.3%	10.5%	12.2%	12.2%	10.0%	11.2%
Pre-tax margin	11.9%	12.6%	11.1%	7.5%	10.6%	11.6%	13.2%	13.2%	10.8%	12.3%
Net margin	9.0%	9.1%	8.5%	5.4%	7.8%	8.7%	9.9%	10.0%	8.0%	9.2%
YoY										
Revenue	13.9%	11.6%	3.4%	-6.2%	-4.4%	-1.8%	15.0%	19.8%	5.1%	7.1%
Gross profit	10.8%	6.6%	-13.5%	-8.9%	-9.1%	-6.9%	36.7%	39.6%	-1.5%	13.1%
Operating profit	10.5%	5.2%	-24.5%	-7.3%	-15.6%	-10.6%	68.7%	56.8%	-4.6%	20.4%
Pre-tax profit	37.2%	27.7%	1.4%	-26.5%	-15.1%	-9.5%	36.6%	110.5%	8.8%	21.4%
Net profit	35.9%	25.0%	8.0%	-25.8%	-17.5%	-6.2%	33.9%	122.4%	10.4%	22.6%
QoQ										
Revenue	-8.0%	10.5%	-2.9%	-5.0%	-6.2%	13.5%	13.7%	-1.0%		
Gross profit	3.9%	12.1%	-19.6%	-2.6%	3.7%	14.8%	18.0%	-0.6%		
Operating profit	2.9%	21.0%	-30.3%	6.8%	-6.3%	28.1%	31.6%	-0.8%		
Pre-tax profit	14.2%	17.1%	-14.7%	-35.6%	32.0%	24.8%	28.7%	-0.8%		
Net profit	22.1%	11.4%	-8.6%	-40.3%	35.8%	26.6%	30.4%	-0.8%		

Source: Company, Daiwa forecasts

SDI: copper price



Source: Bloomberg

SDI: 1-year forward PER



Source: Bloomberg, Daiwa forecasts



Financial summary

Key assumptions

Year to 31 Dec	2017	2018	2019	2020	2021	2022E	2023E	2024E
Auto revenue growth (%)	n.a.	27.9	(7.1)	(15.5)	78.2	26.0	20.5	20.0
Industrial revenue growth (%)	n.a.	14.5	(22.5)	13.0	9.7	(0.3)	11.2	10.0
Consumer revenue growth (%)	n.a.	(2.1)	(15.4)	(4.9)	26.9	(10.0)	(19.3)	2.4

Profit and loss (TWDm)

Year to 31 Dec	2017	2018	2019	2020	2021	2022E	2023E	2024E
Electronics	7,833	8,646	7,270	7,035	9,455	10,112	10,914	12,400
Stationary	1,748	1,771	1,570	1,415	1,697	1,612	1,645	1,677
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	9,581	10,416	8,839	8,451	11,153	11,724	12,558	14,077
Other income	0	0	0	0	0	0	0	0
COGS	(7,728)	(8,485)	(7,304)	(7,118)	(9,043)	(9,646)	(10,208)	(11,321)
SG&A	(583)	(596)	(557)	(524)	(637)	(656)	(697)	(755)
Other op.expenses	(208)	(237)	(227)	(207)	(248)	(253)	(246)	(244)
Operating profit	1,062	1,099	751	602	1,225	1,169	1,408	1,757
Net-interest inc./(exp.)	(39)	(50)	(54)	(56)	(57)	(71)	(70)	(70)
Assoc/forex/extraord./others	(47)	89	(7)	(31)	(1)	171	204	204
Pre-tax profit	976	1,138	690	515	1,168	1,270	1,541	1,891
Tax	(199)	(252)	(144)	(113)	(257)	(270)	(328)	(403)
Min. int./pref. div./others	(64)	(60)	(59)	(52)	(58)	(59)	(60)	(60)
Net profit (reported)	713	827	487	349	852	941	1,153	1,428
Net profit (adjusted)	713	827	487	349	852	941	1,153	1,428
EPS (reported)(TWD)	3.914	4.538	2.674	1.917	4.679	5.164	6.331	7.842
EPS (adjusted)(TWD)	3.914	4.538	2.674	1.917	4.679	5.164	6.331	7.842
EPS (adjusted fully-diluted)(TWD)	3.914	4.538	2.674	1.917	4.679	5.164	6.331	7.842
DPS (TWD)	2.500	2.800	1.800	1.800	3.000	3.200	4.115	5.097
EBIT	1,062	1,099	751	602	1,225	1,169	1,408	1,757
EBITDA	1,769	1,788	1,483	1,297	1,899	1,906	2,181	2,586

Cash flow (TWDm)

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Year to 31 Dec	2017	2018	2019	2020	2021	2022E	2023E	2024E
Profit before tax	976	1,138	690	515	1,168	1,270	1,541	1,891
Depreciation and amortisation	707	688	732	696	674	737	773	828
Tax paid	(199)	(252)	(144)	(113)	(257)	(270)	(328)	(403)
Change in working capital	(734)	42	38	(64)	(1,358)	(162)	(344)	(652)
Other operational CF items	18	17	(293)	34	294	320	280	280
Cash flow from operations	768	1,633	1,023	1,067	521	1,894	1,922	1,944
Capex	(850)	(1,019)	(576)	(489)	(1,194)	(800)	(900)	(900)
Net (acquisitions)/disposals	13	22	8	30	3	0	0	0
Other investing CF items	(34)	(18)	(21)	(53)	(32)	0	0	0
Cash flow from investing	(871)	(1,015)	(589)	(512)	(1,223)	(800)	(900)	(900)
Change in debt	380	120	9	(269)	1,023	0	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(455)	(455)	(510)	(328)	(328)	(546)	(583)	(749)
Other financing CF items	(52)	(42)	(58)	(64)	(53)	0	0	0
Cash flow from financing	(127)	(377)	(559)	(661)	642	(546)	(583)	(749)
Forex effect/others	(4)	3	(4)	(2)	(2)	0	0	0
Change in cash	(234)	244	(129)	(107)	(62)	548	439	295
Free cash flow	(82)	614	447	578	(673)	1,094	1,022	1,044

Source: FactSet, Daiwa forecasts



Financial summary continued ... Balance sheet (TWDm)

Year to 31 Dec	2017	2018	2019	2020	2021	2022E	2023E	2024E
Cash & short-term investment	749	996	872	764	702	1,121	1,560	1,855
Inventory	2,762	2,866	2,603	2,804	4,087	3,569	3,777	4,189
Accounts receivable	2,213	2,213	1,718	1,941	2,563	2,579	2,763	3,097
Other current assets	128	152	157	196	223	223	223	223
Total current assets	5,853	6,227	5,350	5,706	7,575	7,492	8,323	9,364
Fixed assets	4,480	4,763	4,567	4,416	4,951	5,032	5,177	5,266
Goodwill & intangibles	67	64	60	69	74	74	74	74
Other non-current assets	284	328	420	385	444	444	444	444
Total assets	10,685	11,382	10,397	10,576	13,045	13,043	14,017	15,148
Short-term debt	1,043	1,403	905	934	1,002	1,002	1,002	1,002
Accounts payable	1,715	1,934	1,113	1,455	2,202	1,254	1,327	1,472
Other current liabilities	219	245	125	178	345	336	336	336
Total current liabilities	2,977	3,583	2,143	2,567	3,549	2,592	2,665	2,810
Long-term debt	1,492	1,250	1,718	1,425	2,381	2,381	2,381	2,381
Other non-current liabilities	558	525	564	572	581	581	581	581
Total liabilities	5,028	5,358	4,425	4,564	6,511	5,554	5,627	5,772
Share capital	1,821	1,821	1,821	1,821	1,821	1,821	1,821	1,821
Reserves/R.E./others	3,525	3,882	3,820	3,858	4,365	5,262	6,103	7,029
Shareholders' equity	5,347	5,703	5,641	5,680	6,187	7,083	7,925	8,850
Minority interests	311	321	330	332	346	406	466	526
Total equity & liabilities	10,685	11,382	10,397	10,576	13,045	13,043	14,017	15,148
EV	24,500	24,381	24,485	24,330	25,431	25,072	24,693	24,458
Net debt/(cash)	1,786	1,657	1,751	1,595	2,681	2,263	1,824	1,529
BVPS (TWD)	29.354	31.311	30.972	31.184	33.967	38.887	43.509	48.590

Key ratios (%)

Year to 31 Dec	2017	2018	2019	2020	2021	2022E	2023E	2024E
Sales (YoY)	8.8	8.7	(15.1)	(4.4)	32.0	5.1	7.1	12.1
EBITDA (YoY)	(1.0)	1.0	(17.0)	(12.5)	46.4	0.3	14.4	18.6
Operating profit (YoY)	1.1	3.5	(31.7)	(19.9)	103.7	(4.6)	20.4	24.8
Net profit (YoY)	(1.9)	16.0	(41.1)	(28.3)	144.1	10.4	22.6	23.9
Core EPS (fully-diluted) (YoY)	(1.9)	16.0	(41.1)	(28.3)	144.1	10.4	22.6	23.9
Gross-profit margin	19.3	18.5	17.4	15.8	18.9	17.7	18.7	19.6
EBITDA margin	18.5	17.2	16.8	15.4	17.0	16.3	17.4	18.4
Operating-profit margin	11.1	10.6	8.5	7.1	11.0	10.0	11.2	12.5
Net profit margin	7.4	7.9	5.5	4.1	7.6	8.0	9.2	10.1
ROAE	13.6	15.0	8.6	6.2	14.4	14.2	15.4	17.0
ROAA	6.9	7.5	4.5	3.3	7.2	7.2	8.5	9.8
ROCE	13.5	13.0	8.7	7.1	13.4	11.2	12.4	14.3
ROIC	12.1	11.3	7.7	6.1	11.4	9.7	11.1	13.1
Net debt to equity	33.4	29.1	31.0	28.1	43.3	31.9	23.0	17.3
Effective tax rate	20.4	22.1	20.9	22.0	22.0	21.3	21.3	21.3
Accounts receivable (days)	80.8	77.5	81.2	79.0	73.7	80.0	77.6	76.0
Current ratio (x)	2.0	1.7	2.5	2.2	2.1	2.9	3.1	3.3
Net interest cover (x)	26.9	21.8	13.9	10.8	21.4	16.6	20.0	25.1
Net dividend payout	63.9	61.7	67.3	93.9	64.1	62.0	65.0	65.0
Free cash flow yield	n.a.	2.7	2.0	2.6	n.a.	4.9	4.6	4.7

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1967, SDI started out as a stationery producer and set up its electronics department in 1983. SDI is currently the No.1 power lead frame manufacturer in the world, whose major segments are automotive (40% of revenue in 2022), industrial (22%), consumer (21%), stationery (14%) and others (3%). Its electrical business accounted for 86% of total revenue in 2022. The company was listed on Taiwan's main board in April 1996.



ESG analysis

ESG risks

Risk	S	Management	Analyst comments
	Executive/board quality	2	The CEO and Chairperson of SDI are not the same individual. SDI's Board of Directors (BoD) has 7 members, including 2 independent directors, representing 29% of total directors. The ratio is higher than the regulatory requirement of at least 20%. It has a compensation committee under its BoD.
G	Capital management	1	SDI's payout ratios were stable during the past decade (around c.60% for most of the period), with just one exception in 2020 where its payout ratio was 94% (dividend of TWD1.8), mainly due to the impact of COVID-19. We believe SDI's long-term goal is a highly stable dividend payout policy.
	Related party & transaction	2	Revenue generated from related-party transactions is lower than 1%, and the transaction conditions are no different than normal transactions. Thus, we see limited risk.
s	Supply chain management	1	SDI has set several evaluation standards for its existing and new suppliers and it has set up a hazardous substance process management system according to the standards of IECQ QC080000 to manage its supply chain. The company also requires its direct material suppliers (accounts for 80% of its suppliers) to have ISO 9001 certification.
E	Water & wastewater management	2	We note SDI has made efforts in lowering water consumption, with 3 chemical treatment systems for processing waste water, 1 biological treatment system and 1 small-scale batch treatment system with high-concentration degreasing agent.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Source: Daiwa



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