

Asian Daily

Acer Group (2353.TW)

## Sluggish demand outlook but better inventory management

Maintain UNDERPERFORM

Previous Rating: UNDERPERFORM

Target price (NT\$): 17.00

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- 4Q OP ahead. OP came in ahead but EPS of NT\$(0.27) was materially below on non-op loss. Sales of NT\$59.8 bn was down 8% QoQ on softer demand, but GM improved by 0.5pp QoQ to 10.6% mainly on inventory write back. Non-op loss of NT\$1.5 bn was mainly from FX loss. BoD proposed NT\$1.5/sh dividend, implying 6% yield.
- Sluggish demand but better inventory management. Acer has already signaled much weaker PC demand since 2022 and has worked down its inventory level since 1Q22. Despite a much softer 2023, it believes L-T PC TAM will be back to pre-COVID level. We now expect Acer's PC shipment to decline 14% YoY in 2023 but rebound 9% in 2024.
- Non-PC mix should further increase. Non-PC revenue saw 20-30% YoY growth in the past two years and accounted for 26% of sales in 4Q. We expect non-PC mix to increase from 22% in 2022 to 27% in 2023, which should support its GM to sustain at 10.8% in 2023-24.
- Underperform. We cut our 2023-324E EPS by 5-10% on weaker PC outlook but keep our TP at NT\$17, based on 12x fwd P/E (0.5SD below avg) vs prior 10x (1SD below) on better inventory management and higher non-PC mix. Stock is trading at stretched 19x 2023E P/E.

**4Q OP ahead but EPS materially below.** Acer posted its 4Q results after market close on 16 March 2022 with better OP vs CS/Street, although EPS of NT\$(0.27) was materially below. Sales of NT\$59.8 bn were down 8% QoQ and 31% YoY on softer end-demand, as well as it intentionally stay less aggressive on pricing to protect its margin due to earlier inventory control. This has led to a ~NT\$300 mn inventory reversal in 4Q, helping GM to rebound by 0.5 pp QoQ to 10.6%. OPEX was well controlled and declined 7% QoQ for 8.9% of sales, up 0.1pp QoQ, despite smaller revenue scale, leading to OPM of 1.7%, vs CS/Street's 1.5-1.6%. Non-op loss of NT\$1.5 bn was mainly from forex loss, turning 4Q into loss making. By product, NB was 51.0% of sales in 4Q (vs 54.3% in 3Q), Desktop 11.4% (12.3%), Display 11.3% (10.4%), and others/non-PC 26.3% (23.0%). BoD proposed NT\$1.5/sh dividend (91% payout), implying 6% yield.

Figure 1: Acer's 4Q results below CS/Street

(NT\$mn)	4Q22	QoQ %	YoY %	CS 4Q	Diff. %	Street	Diff. %
Sales	59,837	(8)	(31)	59,849	(0)	61,412	(3)
Gross profit	6,328	(4)	(36)	6,518	(3)	6,385	(1)
Operating profit	1,011	22	(74)	921	10	987	2
Net income	(810)	NM	NM	431	NM	677	NM
EPS (NT\$)	(0.27)	NM	NM	0.14	NM	0.22	NM
Gross margin %	10.6			10.9		10.4	
Op margin %	1.7			1.5		1.6	

Source: Company data, the BLOOMBERG PROFESSIONAL™ service, CS estimates

**Sluggish demand but better inventory management.** Acer has already took a conservative view on PC TAM back in 2022 and has continued to work down its inventory since late 1Q22. Its inventory on-hand exiting 4Q22 saw good improvement as it declined 28% QoQ to NT\$42.2 bn, back to pre-COVID level, driving its DOI declined to 87 days (-10 days QoQ), despite smaller scale. In the near-term, it sees softer PC demand due to softer macro and ongoing inventory clearance by its peer, as well as its channel partners want to further reduce the safety inventory level to preserve cash. We believe this will

Price (16-Mar-23, NT\$)	25.85	Est. pot. % chg. to TP			(34.2)
Mkt cap (NT\$/US\$ mn)	78,787 / 2,576	Blue sky scenario (NT\$)			35.0
Number of shares (mn)	3,048	Grey sky scenario (NT\$)			15.0
Free float (%)	92.7	Performance	1M	3M	12M
52-wk range (NT\$)	30.75 - 20.65	Absolute (%)	2.0	12.1	(13.0)
ADTO-6M (US\$ mn)	7.5	Relative (%)	4.7	7.4	(2.8)
Year	12/21A	12/22E	12/23E	12/24E	
Revenue (NT\$ mn)	319,005	275,424	242,442	266,220	
EBITDA (NT\$ mn)	15,678.1	8,543.2	6,170.0	7,885.7	
EBIT (NT\$ mn)	14,162.9	6,927.7	4,502.7	6,169.9	
Net profit (NT\$ mn)	10,889.9	5,003.7	4,101.9	4,721.7	
EPS (CS adj.) (NT\$)	3.57	1.64	1.35	1.55	
Chg. from prev. EPS (%)	n.a.	(19.9)	(9.7)	(4.9)	
Consensus EPS (NT\$)	n.a.	2.15	1.63	1.7	
EPS growth (%)	81.7	(54.1)	(18.0)	15.1	
P/E (x)	7.2	15.7	19.2	16.7	
Dividend yield (%)	8.8	5.8	4.8	5.5	
EV/EBITDA (x)	2.9	4.7	5.1	3.8	
P/B (x)	1.05	1.2	1.21	1.19	
ROE (%)	15.2	7.1	6.3	7.2	
Net debt/equity (%)	(50.4)	(56.2)	(68.9)	(69.8)	

Source: Company data, Refinitiv, Credit Suisse estimates

further impact its PC shipment in 1Q and forecast 1Q sales to decline 21% QoQ or 40% YoY to NT\$47.2 bn, while OPM will shrink by 0.9 pp QoQ to 0.8% due to smaller revenue scale. Nevertheless, it noted commercial Chromebook could see some pick up in 2Q for back-to-school demand. For 2023, we forecast Acer's overall PC shipment to decline 14% YoY, but could rebound 9% YoY in 2024.

**Non-PC mix should further increase.** Non-PC revenue (distribution, cloud, AloT, IPC, software, cyber security, etc.) saw 20-30% YoY growth in the past two years and accounted for 26% of its total sales in 4Q22. We believe its non-PC business should continue to outgrow PC in 2023, reaching 26% of total sales in 2023, up from 15%/22% in 2021/22. We believe this should support Acer's GM to sustain at 10.8% in 2023-24, although its OPM will further drop to 1.9% (-0.6 pp YoY) due to smaller revenue scale.

Figure 2: Acer's quarterly P/L

NT\$ mn	3Q22	4Q22	1Q23E	2Q23E	3Q23E	4Q23E	2021	2022	2023E
Revenue	64,887	59,837	47,248	58,868	65,741	70,586	319,005	275,424	242,442
GP	6,561	6,328	5,147	6,355	7,028	7,548	37,191	29,744	26,078
OP	829	1,011	357	1,177	1,243	1,725	14,163	6,928	4,503
Net profit	1,876	(810)	866	653	1,465	1,117	10,890	5,004	4,102
EPS (NT\$)	0.62	(0.27)	0.28	0.21	0.48	0.37	3.57	1.64	1.35
GM (%)	10.1	10.6	10.9	10.8	10.7	10.7	11.7	10.8	10.8
OPM (%)	1.3	1.7	0.8	2.0	1.9	2.4	4.4	2.5	1.9

Source: Company data, Credit Suisse estimates

**Stay Underperform.** We cut our 2023-324E EPS by 5-10% on weaker PC demand outlook but keep our TP at NT\$17, based on 12x fwd P/E (0.5SD below avg) vs prior 10x (1SD below) on better inventory management and higher non-PC mix. We stay Underperform on Acer due to its higher reliance on consumer/educational PC and negative operating leverage during a downcycle, despite increasing non-PC mix. The stock is trading at stretched valuation of 19x 2023E P/E, vs 19x for Asus and 7x for Lenovo. Among Asian PC OEMs, our top pick is MSI given more resilient gaming demand and improving outlook for GC/MB.

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## Valuation Methodology and Risks

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### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Acer Group (2353.TW)

**Method:** We have an UNDERPERFORM rating and NT\$17.0 target price for Acer on 12x forward P/E (0.5-SD below average), vs Acer's average P/E of 18.5x starting 2018, factoring in its higher reliance on consumer/educational PC, smaller revenue scale, and negative operating leverage during down-cycle

**Risk:** The key upside risks to our UNDERPERFORM rating and NT\$17.0 12-month target price for Acer include: (1) stronger PC demand; (2) faster relief from macro uncertainties; 3) better components supplies.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Asustek (2357.TW)

**Method:** We have an Underperform rating and 12-month target price of NT\$195 for Asustek on 8x forward EPS, 1.5 standard deviations below its historical average, because we expect saturated computing demand in the near term along with longer inventory digestion to have a meaningful impact on its profitability into 2023.

**Risk:** Key risks to our Underperform rating and NT\$195 12-month target price for Asus include: (1) notebook demand and share change would have a major impact on earnings given the revenue contribution; (2) stronger smartphone demand; (3) the size and pace of investments in VR/robotics/5G would impact future earnings growth; and (4) components momentum hike from crypto.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Lenovo Group Ltd (0992.HK)

**Method:** We have a HK\$6.50 12-month target price for Lenovo based on 7x forward GAAP EPS (earnings per share), 0.5-standard deviation below average. We expect better PC shipments growth in the near term, along with the service business take-off, to drive stronger earnings recovery. However, we believe it will continue its outlays with potential spending acceleration using its cash flow and debts, which will hurt margins, and thus rate the stock Neutral.

**Risk:** Risks to our Neutral rating and HK\$6.50 price target for Lenovo include: (1) faster- or slower-than-expected cost savings in both the mobile and data centre businesses; (2) faster- or slower-than-expected growth in data centre; (3) Lenovo MBG (Mobile Business Group) slowdown; and (4) mobile market share gain/loss.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Micro-Star International Co., Ltd (2377.TW)

**Method:** We have an OUTPERFORM rating and 12-month target price of NT\$160 for Micro-Star International Co., Ltd., based on 12x forward EPS (earnings per share) vs its trailing three-year P/E (price-to-earnings) average (exclude cryptocurrency's volatility) of 11x and P/E range of 7-13x. Our OUTPERFORM rating is based on expectation of growing gaming momentum after the prolonged inventory digestion since earlier 2022.

**Risk:** Key risks to our OUTPERFORM rating and NT\$160 target price for Micro-Star International Co., Ltd. include the following: (1) worse-than-expected gaming Personal Computer momentum; (2) worse-than-expected new Graphics Processing Units demand; and (3) worse-than-expected Do-It-Yourself market demand; (4) lower component costs.

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### Companies Mentioned (Price as of 16-Mar-2023)

**Acer Group** (2353.TW, NT\$25.85, UNDERPERFORM, TP NT\$17.0)

**Asustek** (2357.TW, NT\$263.0)

**Lenovo Group Ltd** (0992.HK, HK\$7.18)

**Micro-Star International Co., Ltd** (2377.TW, NT\$142.5)

## Disclosure Appendix

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### 3-Year Price and Rating History for Acer Group (2353.TW)

2353.TW	Closing Price	Target Price	
Date	(NT\$)	(NT\$)	Rating
19-Mar-20	13.25	14.00	N
06-May-20	15.95	15.00	
24-Jul-20	19.85	20.00	
06-Aug-20	21.40	22.00	
21-Oct-20	23.35	24.00	
11-Jan-21	24.90	25.80	
15-Mar-21	27.70	27.60	
18-Mar-21	28.40	28.50	
06-May-21	35.00	31.50	
01-Jun-21	31.95	33.00	
05-Aug-21	27.95	30.00	
18-Oct-21	25.30	27.20	
25-Apr-22	27.10	25.50	
23-May-22	27.85	24.00	U
03-Aug-22	22.05	19.50	
21-Oct-22	21.80	18.00	
04-Nov-22	22.70	17.00	

\* Asterisk signifies initiation or assumption of coverage.



### 3-Year Price and Rating History for Asustek (2357.TW)

2357.TW	Closing Price	Target Price	
Date	(NT\$)	(NT\$)	Rating
19-Mar-20	173.00	160.00	U
14-May-20	208.00	165.00	
24-Jul-20	218.00	180.00	
13-Aug-20	242.00	222.00	N
21-Oct-20	242.00	240.00	
11-Jan-21	283.50	262.00	
15-Mar-21	326.00	288.00	
18-Mar-21	358.00	300.00	
12-May-21	361.50	368.00	
12-Aug-21	319.00	350.00	
17-Mar-22	377.00	370.00	
25-Apr-22	356.00	355.00	
03-Aug-22	281.00	300.00	
11-Aug-22	282.00	218.00	U
21-Oct-22	229.00	205.00	
13-Mar-23	266.00	195.00	

\* Asterisk signifies initiation or assumption of coverage.



### 3-Year Price and Rating History for Lenovo Group Ltd (0992.HK)

0992.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
02-Apr-20	4.04	4.50	N
14-Apr-20	4.17		R
17-Apr-20	4.38	4.50	N
24-Jul-20	4.57	5.00	
14-Aug-20	4.68	5.10	
21-Oct-20	5.09	5.20	
22-Oct-20	5.06		R
28-Oct-20	4.93	5.20	N
11-Jan-21	7.39	9.60	O
04-Feb-21	9.84	11.50	
15-Mar-21	9.12	12.20	
27-May-21	9.78	13.00	
12-Aug-21	8.13	13.50	
11-Oct-21	7.63	9.00	N



0992.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
04-Jan-22	8.95	9.20	
24-Feb-22	8.64	9.50	
25-Apr-22	7.45	8.70	
27-May-22	7.50	8.00	
18-Jul-22	7.18		R
21-Jul-22	7.32	8.00	N
11-Aug-22	7.13	7.50	
17-Aug-22	6.89		R
22-Aug-22	7.01	7.50	N
21-Oct-22	5.77	6.00	
17-Feb-23	6.78	6.50	

\* Asterisk signifies initiation or assumption of coverage.

### 3-Year Price and Rating History for Micro-Star International Co., Ltd (2377.TW)

2377.TW	Closing Price	Target Price	
Date	(NT\$)	(NT\$)	Rating
30-Mar-20	84.20	85.00	N
14-May-20	102.50	98.00	
14-Aug-20	144.00	140.00	
12-Nov-20	115.00	128.00	
24-Mar-21	163.00	155.00	
04-May-21	191.00	196.00	
16-Aug-21	139.00	148.00	
15-Nov-21	161.00	153.00	
09-May-22	128.50	138.00	
15-Aug-22	124.50	120.00	
15-Mar-23	139.00	160.00	O

\* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	10%	(21% banking clients)
Restricted	1%	

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