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Lotes Co. Ltd. | Asia Pacific

January sales down 27% m/m

Stock Rating
Overweight

Industry View
In-Line

Price Target
NT\$990.00

What's new? Lotes reported Jan sales of NT\$1,634mn (-27% m/m, -31% y/y), 14% below MSe. This accounts for 25% of our 1Q23 sales estimate of NT\$6.6bn (-3% q/q, +8% y/y) and 25% of the consensus estimate of NT\$6.6bn (-3% q/q, +8% y/y).

Stay OW: We attribute the Jan sales weakness to continued Covid-related production headwinds, fewer working days in the month and weakened demand for server and PC, particularly NB. We see downside to our 1Q sales estimate and think 1Q sales could be down 10-20% q/q. However, we believe 1Q will mark the trough and we expect sequential recovery from 2Q onwards. Lotes is scheduled to report its 4-Q results on March 21. Despite the near-term demand headwinds, over the longer term we expect Lotes to benefit from DT and server CPU socket upgrades, as well as upgrades to DRAM and PCIe connectors, driving higher ASP and margin expansion.

MORGAN STANLEY TAIWAN LIMITED+

Howard Kao

EQUITY ANALYST

Howard.Kao@morganstanley.com

+886 2 2730-2989

Sharon Shih

EQUITY ANALYST

Sharon.Shih@morganstanley.com

+886 2 2730-2865



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Lotes Co. Ltd. (3533.TW, 3533 TT)

Greater China Technology Hardware / Taiwan

Stock Rating	Overweight
Industry View	In-Line
Price target	NT\$990.00
Up/downside to price target (%)	19
Shr price, close (Feb 8, 2023)	NT\$833.00
52-Week Range	NT\$924.00-556.00
Sh out, dil, curr (mn)	104
Mkt cap, curr (mn)	NT\$86,758
EV, curr (mn)	NT\$84,272
Avg daily trading value (mn)	NT\$611

Fiscal Year Ending	12/21	12/22e	12/23e	12/24e
ModelWare EPS (NT\$)	33.34	59.03	64.03	83.06
Prior ModelWare EPS (NT\$)	-	-	-	-
EPS (NT\$)§	31.96	58.21	62.49	71.67
Revenue, net (NT\$ mn)	21,392	26,883	30,565	37,185
EBITDA (NT\$ mn)	5,915	8,308	10,216	12,871
ModelWare net inc (NT\$ mn)	3,472	6,148	6,668	8,650
P/E	22.8	14.0	13.0	10.0
P/BV	4.4	4.0	3.4	2.8
RNOA (%)	30.3	34.3	35.4	43.2
ROE (%)	24.0	34.1	30.9	34.2
EV/EBITDA	13.0	10.0	7.9	6.0
Div yld (%)	1.8	1.9	3.4	3.7
FCF yld ratio (%)**	(1.9)	3.7	6.2	8.1
Leverage (EOP) (%)	(13.8)	(14.3)	(21.9)	(30.4)

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

§ = Consensus data is provided by Refinitiv Estimates

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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Valuation Methodology and Risks

Lotes Co. Ltd. (3533.TW)

Primary - Residual Income

Base case, residual income model. Key assumptions include a cost of equity of 9.6% (beta of 1.0, equity risk premium of 8.7%, and risk-free rate of 1.0%), a medium-term growth rate of 13%, and a terminal growth rate of 3%.

Risks to Upside

- Stronger-than-expected growth in the server business, such as from China Cloud/enterprise
- Stronger-than-expected DT demand
- Faster ramp-up of its EV business

Risks to Downside

- Sooner-than-expected deceleration of server demand from US hyperscalers
- Slower-than-expected DT demand
- More severe pricing erosion driven by competition

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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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Stock Price, Price Target and Rating History (See Rating Definitions)

Lotes Co. Ltd. (3533.TW) - As of 2/7/23 in TWD
Industry : Greater China Technology Hardware



Stock Rating History: 2/1/18 : NA/I; 10/6/22 : O/I

Price Target History: 10/6/22 : 965; 10/21/22 : 990

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/08/2023)
Andy Meng, CFA		
BYD Electronics (0285.HK)	E (11/15/2022)	HK\$26.60
China TransInfo Technology Co Ltd (002373.SZ)	U (05/24/2021)	Rmb10.55
Dahua Technology Co. Ltd. (002236.SZ)	E (12/06/2022)	Rmb13.18
Genius Electronic Optical Co. Ltd. (3406.TW)	E (01/09/2023)	NT\$381.00
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb3.53
HIKVision Digital Technology (002415.SZ)	O (11/02/2015)	Rmb36.90
Largan Precision (3008.TW)	U (01/09/2023)	NT\$2,235.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	O (07/25/2022)	Rmb13.82
OFILM Group Co Ltd (002456.SZ)	E (11/04/2021)	Rmb5.15
Q Technology (Group) Company Ltd (1478.HK)	O (01/09/2023)	HK\$5.21
Quectel Wireless Solutions Co Ltd (603236.SS)	O (11/07/2022)	Rmb119.46
Shenzhen Transsion Holdings Co Ltd (688036.SS)	O (08/12/2021)	Rmb90.80
Sunny Optical (2382.HK)	E (01/09/2023)	HK\$102.00
Wingtech Technology Co Ltd (600745.SS)	O (05/18/2022)	Rmb57.96
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK\$12.46
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb34.87
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (12/17/2021)	HK\$14.48
Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb99.00
YuTong Optical Technology Co Ltd (300790.SZ)	E (04/05/2022)	Rmb18.32
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb12.91
ZTE Corporation (0763.HK)	O (06/20/2019)	HK\$18.72
ZTE Corporation (000063.SZ)	U (07/02/2021)	Rmb26.75
Derrick Yang		
Advantech (2395.TW)	O (01/20/2021)	NT\$364.50
AirTAC International (1590.TW)	E (08/04/2022)	NT\$1,095.00
AU Optronics (2409.TW)	E (10/04/2022)	NT\$17.70
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb3.99
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT\$192.50
E Ink Holdings Inc. (8069.TWO)	E (11/15/2022)	NT\$193.00
Ennoconn Corporation (6414.TW)	O (01/20/2021)	NT\$229.50
Ennostar Inc (3714.TW)	U (09/23/2022)	NT\$50.30
GIS Holding Limited (6456.TW)	O (12/01/2020)	NT\$87.00
Hiwin Technologies Corp. (2049.TW)	E (08/11/2022)	NT\$246.50
Innolux (3481.TW)	O (10/04/2022)	NT\$13.05
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb13.31
Leyard Optoelectronic Co Ltd (300296.SZ)	E (11/03/2020)	Rmb6.17
Radiant Opto-Electronics Corporation (6176.TW)	O (12/01/2020)	NT\$104.00
Sanan Optoelectronics (600703.SS)	E (09/23/2022)	Rmb19.45
TCL Corp. (000100.SZ)	E (06/11/2019)	Rmb4.10
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb9.41
Visionox Technology Inc (002387.SZ)	E (02/18/2020)	Rmb6.56
Wuhan Jingce Electronic Group Co Ltd (300567.SZ)	E (11/26/2021)	Rmb60.96
Wuhu Token Science Co. Ltd. (300088.SZ)	E (12/01/2020)	Rmb6.69
Green Cai		
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb19.16
Eoptolink Technology Inc Ltd (300502.SZ)	E (12/01/2022)	Rmb28.58
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	O (12/01/2022)	Rmb32.72
Zhongji Innolight Co Ltd (300308.SZ)	E (12/01/2022)	Rmb33.10
Howard Kao		

Accton Technology Corporation (2345.TW)	E (11/12/2021)	NT\$274.00
Acer Inc. (2353.TW)	U (02/01/2018)	NT\$25.45
Asustek Computer Inc. (2357.TW)	U (07/23/2021)	NT\$277.50
Compal Electronics (2324.TW)	U (12/18/2019)	NT\$23.50
Flexium (6269.TW)	E (04/27/2018)	NT\$103.00
Giga-Byte Technology Co. Ltd. (2376.TW)	O (12/15/2022)	NT\$120.00
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT\$87.80
Guangdong Fenghua Adv. Tech. (Hldg) Co (000636.SZ)	E (05/12/2021)	Rmb16.99
Inspur Electronic Information (000977.SZ)	E (02/12/2019)	Rmb26.97
Kinsus Interconnect Tech. (3189.TW)	U (12/21/2022)	NT\$110.00
Lenovo (0992.HK)	E (07/26/2018)	HK\$6.58
Lotes Co. Ltd. (3533.TW)	O (10/06/2022)	NT\$833.00
Nan Ya PCB (8046.TW)	U (12/21/2022)	NT\$244.00
Pegatron Corporation (4938.TW)	E (03/07/2022)	NT\$66.20
Quanta Computer Inc. (2382.TW)	E (07/28/2021)	NT\$77.50
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb16.48
Shennan Circuits Co Ltd (002916.SZ)	O (07/22/2020)	Rmb79.20
Unimicron (3037.TW)	E (06/01/2022)	NT\$131.50
Wistron Corporation (3231.TW)	E (07/26/2018)	NT\$31.90
Wiwynn Corp (6669.TW)	E (01/09/2023)	NT\$850.00
Yageo Corp. (2327.TW)	O (01/04/2022)	NT\$531.00
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\$115.00
Auras Technology Co Ltd (3324.TWO)	U (03/21/2022)	NT\$163.50
BizLink Holding Inc (3665.TW)	E (08/18/2022)	NT\$272.00
Cubic Sensor and Instrument Co Ltd (688665.SS)	E (08/18/2022)	Rmb107.30
SDI Corporation (2351.TW)	O (08/18/2022)	NT\$123.50
Sunonwealth Electric Machine Industry Co (2421.TW)	E (10/07/2022)	NT\$43.25

Sharon Shih

AAC Technologies Holdings (2018.HK)	++	HK\$19.74
Catcher Technology (2474.TW)	U (04/23/2021)	NT\$185.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT\$296.00
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb9.26
Foxconn Technology (2354.TW)	E (08/16/2016)	NT\$55.80
GoerTek Inc (002241.SZ)	E (12/05/2022)	Rmb21.34
Guangzhou Shiyuan Electronic Tech Co Ltd (002841.SZ)	E (10/28/2021)	Rmb63.18
Hon Hai Precision (2317.TW)	E (01/09/2023)	NT\$100.50
LandMark Optoelectronics Corporation (3081.TWO)	E (10/27/2022)	NT\$131.00
Lingyi Itech Guangdong Co (002600.SZ)	U (05/23/2022)	Rmb5.65
Lite-On Technology (2301.TW)	E (07/31/2020)	NT\$69.40
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb31.61
Tong Hsing (6271.TW)	E (03/18/2019)	NT\$235.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (07/06/2022)	NT\$84.80

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

* Historical prices are not split adjusted.