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SDI Corporation | Asia Pacific

Automotive Projects Running On Schedule; Consumer Still Slow

📈 Stock Rating
Overweight

📊 Industry View
In-Line

🎯 Price Target
NT\$130.00

SDI's January revenue dipped 16% MoM (-20% YoY), 5% below our estimate. This was dragged down by Covid disruption in China and the CNY holidays, while the consumer business was softer than expected.

SDI retains its 1Q revenue guidance of 4-5% YoY decline, but the copper price hike should help narrow the decline magnitude. Automotive projects are running on schedule (no order cuts or order addition seen so far), while the industrial segment is gradually recovering. Visibility for the consumer segment remains limited.

Stay OW: We expect SDI's revenue to grow MoM in both February and March, thanks to automotive new projects and green energy revenue ramping up.

We like SDI for its leading position in power lead frames, for which demand will grow along with the increase in power device content in electric vehicles. We remain positive on the stock due to ongoing auto and industrial project gains and margin recovery.

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SDI Corporation (2351.TW, 2351 TT)

Greater China Technology Hardware / Taiwan

Stock Rating			Overweight
Industry View			In-Line
Price target			NT\$130.00
Up/downside to price target (%)			5
Shr price, close (Feb 8, 2023)			NT\$123.50
52-Week Range			NT\$164.00-88.10
Sh out, dil, curr (mn)			182
Mkt cap, curr (mn)			NT\$22,494
EV, curr (mn)			NT\$25,720
Avg daily trading value (mn)			NT\$310

Fiscal Year Ending	12/21	12/22e	12/23e	12/24e
ModelWare EPS (NT\$)	4.68	5.07	6.58	9.00
EPS (NT\$)§	-	5.26	5.94	7.38
Revenue, net (NT\$ mn)	11,153	11,677	13,533	16,678
EBITDA (NT\$ mn)	1,897	1,929	2,507	3,153
ModelWare net inc (NT\$ mn)	852	923	1,199	1,640
P/E	-	24.4	18.8	13.7
P/BV	-	3.3	3.0	2.7
RNOA (%)	11.3	9.1	12.7	16.0
ROE (%)	14.2	14.1	17.3	21.8
EV/EBITDA	-	13.3	10.2	8.2
Div yld (%)	-	2.4	2.6	3.4
FCF yld ratio (%)**	-	2.9	2.9	2.0
Leverage (EOP) (%)	38.1	34.4	30.9	31.4

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

SDI Corporation (2351.TW)

We derive our price target from our residual income (RI) model, similar to the rest of our tech hardware coverage universe. Our key assumptions include a cost of equity of 10% (beta of 1.3, equity risk premium of 8%, and risk-free rate of 0.5%), a medium-term growth rate of 12% and a terminal growth rate of 3%.

Risks to Upside

- Stronger-than-expected EV shipments
- Faster-than-expected order gains from automotive clients
- Better-than-expected margin expansion

Risks to Downside

- Macro uncertainty to weigh on EV shipments
- Slower-than-expected order wins in the automotive business
- Severe pricing pressure from intensified industry competition
- Sharp copper price fluctuations to impact margins

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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)

SDI Corporation (2351.TW) - As of 2/7/23 in TWD
Industry : Greater China Technology Hardware

Stock Rating History: 2/1/18 : NA/I; 8/18/22 : O/I

Price Target History: 8/18/22 : 150; 10/25/22 : 130

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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INDUSTRY COVERAGE: Greater China Technology Hardware

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 Optonics (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 Tech 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.