

Asian Daily

## Parade Technologies (4966.TWO)

### Demand stabilizing but upside seems limited

Downgrade to NEUTRAL

Previous Rating: OUTPERFORM

Target price (NT\$): 1,070

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- 4Q22 core operation miss. 4Q EPS of NT\$5.59 was ahead of CSe by 7% mainly on higher non-op gain, although its GM/OPM of 44.0%/13.8% were slightly softer, though still within guidance range, due to mix, higher inventory costs and sales incentives.
- 1Q23 guided to be in-line. 1Q sales were guided to be largely stable for down 4% QoQ at mid-point, in-line with CSe but below street's flattish QoQ. 1Q GM guided at 43-47% range (vs 4Q 43.5-47.5%), and OPEX of US\$29-32mn, driving OPM to ~12%.
- Content gain not enough to offset TAM contraction. Despite management highlighting multiple drivers including USB4, automobiles, OLED T-Con, etc., in high speed, we believe this will not be enough to offset NB TAM contraction (company guides -10% YoY), as we estimate its sales/earnings -16%/-30% YoY in 2023.
- We cut 2023-24E EPS by ~4% mainly on lower GM due to weaker pricing from prolonged inventory adjustment. Maintain TP at NT\$1,070 based on 19x fwd. P/E (5Y avg.); downgrade the stock to Neutral (from Outperform) on limited upside. We would monitor end-demand recovery and high-speed sales ramp for a better entry point.

**4Q22 core operation miss.** 4Q EPS of NT\$5.59 was ahead of CSe by 7% on higher non-op gain. Sales of NT\$3.2bn (or US\$101.5mn) declined 31% QoQ and 41% YoY amid market transition from inventory correction, reaching only low-end guidance range (US\$100-110mn). GM of 44.0% (vs guidance of 43.5-47.5%) was down 1.3 pp QoQ mainly on mix, impact from high inventory costs and sales incentives, while OPM arrived at 13.8% for -9.2 pp QoQ on deleveraging of scale. By product, we estimate eDP accounted for ~50% of total sales, high-speed IC 30%+, SIPI IC 10%+, and touch below 5%. Its inventory went up by ~5% QoQ as a result of supply chain disruption on China production shut-down and sharp reopening.

Figure 1: 4Q22 results ahead of CSe on higher non-op, though OP below

(NT\$mn)	4Q22	QoQ %	YoY %	CS 4Q	Diff. %	Street	Diff. %
Sales	3,181	(31)	(41)	3,185	(0)	3,309	(4)
Gross profit	1,401	(33)	(46)	1,423	(2)	1,485	(6)
Operating profit	440	(58)	(73)	455	(3)	556	(21)
Net income	454	(54)	(69)	425	7	507	(10)
EPS (NT\$)	5.59	(54)	(69)	5.24	7	6.25	(10)
Gross margin %	44.0			44.7		44.9	
Op margin %	13.8			14.3		16.8	

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

**1Q23 guided in-line.** 1Q sales were guided to post ~4% QoQ decline at mid-point of US\$90-105mn (-11% to +3% QoQ) post the sharper correction in 2H22, as it noted improving outlook with accelerated inventory depletion from channels and rush orders, factoring its expectations for channel inventories to normalize by end-1Q; and own inventory on-hand back to normal 60-65 days DOI by end-2Q, despite ongoing orders adjustment by its standard plus customer. As a result, we expect T-Con could see larger sequential decline in 1Q, although demand from regular NB is stabilizing, while high-speed IC should see QoQ recovery on restocking, driving 1Q sales for 3.4% QoQ decline on USD basis. For profitability, Parade guided down its GM by another 0.5 pp QoQ to 43-47% (vs CSe of 43.9%) on mix and sales incentives especially in display solutions, while noting better leverage on wafer costs through diversification in the past years (China foundries with

<b>Price (08-Feb-23, NT\$)</b>		<b>1,000</b>	Est. pot. % chg. to TP	7.0
Mkt cap (NT\$/US\$ mn)	81,191 / 2,700	Blue sky scenario (NT\$)		1,800
Number of shares (mn)	81.19	Grey sky scenario (NT\$)		600.0
Free float (%)	76.7	<b>Performance</b>	<b>1M</b>	<b>3M</b>
52-wk range (NT\$)	2,095 - 590	Absolute (%)	6.3	42.2
ADTO-6M (US\$ mn)	33.6	Relative (%)	0.4	26.6
<b>Year</b>	<b>12/21A</b>	<b>12/22E</b>	<b>12/23E</b>	<b>12/24E</b>
Revenue (NT\$ mn)	19,994.6	20,055.3	16,799.3	20,277.4
EBITDA (NT\$ mn)	6,544.2	5,932.1	4,382.7	5,883.0
EBIT (NT\$ mn)	5,829.7	5,266.5	3,628.9	5,106.3
Net profit (NT\$ mn)	5,244.5	4,898.3	3,427.3	4,767.7
EPS (CS adj.) (NT\$)	64.86	60.33	42.21	58.72
Chg. from prev. EPS (%)	n.a.	0.6	(4.0)	(4.2)
Consensus EPS (NT\$)	n.a.	61.43	46.01	63.42
EPS growth (%)	48.7	(7.0)	(30.0)	39.1
P/E (x)	15.4	16.6	23.7	17.0
Dividend yield (%)	2.2	3.2	3.0	2.1
EV/EBITDA (x)	11.0	12.1	15.7	11.1
P/B (x)	5.59	3.77	3.6	3.17
ROE (%)	38.6	27.2	15.5	19.8
Net debt/equity (%)	(63.6)	(42.7)	(54.5)	(61.0)

Source: Company data, Refinitiv, Credit Suisse estimates

material pricing reduction). It also guided 1Q opex of US\$29-32mn for roughly flattish QoQ at mid-point.

#### Content gain not enough to offset continued TAM contraction.

Management implied 1Q to mark the trough for its topline with sequential recovery in 2Q, before further expansion in end-demand into 2H as macro factors subside. However, we believe continued NB TAM contraction by 10% YoY in 2023 will offset upside from content gain given limited contribution in 2023. Particularly, it pointed to USB4 retimers to be key drivers (ultimately half of PC to adopt) on the 2 major computing platforms with shipments from 4Q22 and further adoption acceleration recently, although we estimate it will only account for ~2% of sales in 2023. Comparatively, PCIe4 adoption in data-center has been slower than expected (<2% of sales), but PCIe5 to take-off from late 2H23 should offer better opportunities, while ADAS could offer significantly greater TAM in the next few years. On the other hand, it remains confident on its automotive business ramp for both display and high-speed with larger breakthrough from 2H23 with key EV makers in China, aside from stable shipment with leading EU OEM.

Figure 2: Parade's quarterly P/L

(NT\$ mn)	3Q22	4Q22	1Q23E	2Q23E	3Q23E	4Q23E	2021	2022E	2023E
Revenue	4,592	3,181	2,978	3,799	4,696	5,326	19,995	20,055	16,799
GP	2,079	1,401	1,309	1,671	2,069	2,357	9,531	9,316	7,405
OP	1,054	440	365	736	1,125	1,403	5,830	5,267	3,629
Net profit	992	454	361	701	1,057	1,309	5,245	4,898	3,427
EPS (NT\$)	12.22	5.59	4.45	8.63	13.01	16.12	64.86	60.33	42.21
GM (%)	45.3	44.0	43.9	44.0	44.1	44.3	47.7	46.5	44.1
OPM (%)	23.0	13.8	12.2	19.4	24.0	26.4	29.2	26.3	21.6

Source: Company data, Credit Suisse estimates

**Downgrade to NEUTRAL.** We cut 2023-24E EPS by ~4% mainly on lower GM due to weaker pricing from prolonged inventory adjustment. Maintain TP at NT\$1,070 based on 19x fwd. P/E (5Y avg.); downgrade the stock to Neutral on limited upside. We would monitor end-demand recovery and high-speed sales ramp for a better entry point.

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## Valuation Methodology and Risks

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Parade Technologies (4966.TWO)

**Method:** Our target price of NT\$1,070 for Parade Technologies is based on 19x forward P/E (price-to-earnings), vs its historical 11-22x P/E range, given its strengthened industry position on eDP and SIPI IC business, as well as it has developed new products for data centre applications. However, we rate Parade at NEUTRAL as we believe new driver including USB4, automotives, OLED T-Con, etc., in high-speed will not be enough to offset NB TAM contraction.

**Risk:** Risks that could impede the achievement of our NT\$1,070 target price and NEUTRAL rating for Parade Technologies include: (1) faster/slower-than-expected migration to eDP T-Con v1.3 among Apple products leading to lower revenue growth; (2) faster/lower-than-expected penetration of the eDP T-Con among non-Apple NB models; and (3) failure to diversify into non-eDP products, including SIPI source IC, high-speed interface, TDDI, etc.

### Companies Mentioned (Price as of 08-Feb-2023)

**Parade Technologies** (4966.TWO, NT\$1000.0, NEUTRAL[V], TP NT\$1070.0)

## Disclosure Appendix

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### 3-Year Price and Rating History for Parade Technologies (4966.TWO)

4966.TWO	Closing Price	Target Price	
Date	(NT\$)	(NT\$)	Rating
13-Feb-20	710.00	830.00	O
02-Apr-20	650.00	775.00	
14-Apr-20	669.00	800.00	
30-Apr-20	738.00	865.00	
27-May-20	916.00	895.00	N
21-Jul-20	1080.00	970.00	
31-Jul-20	1275.00	1060.00	
15-Sep-20	1105.00	1100.00	
30-Oct-20	1090.00	1400.00	O
04-Feb-21	1240.00	1500.00	
22-Mar-21	1215.00	1550.00	
29-Apr-21	1385.00	1620.00	
04-Aug-21	1760.00	2100.00	
28-Oct-21	1780.00	2400.00	
06-Jan-22	1930.00	2450.00	
09-Feb-22	1930.00	2600.00	
25-Apr-22	1320.00	2400.00	
14-Jul-22	1035.00	1400.00	
04-Aug-22	954.00	1300.00	
31-Oct-22	609.00	880.00	
12-Jan-23	928.00	1070.00	

\* Asterisk signifies initiation or assumption of coverage.



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