

## ASE Technology Holding (3711.TW): Taiwan Corporate Day 2023 — Key Takeaways: Edge AI as key catalyst post smartphone era; Buy

We hosted ASE's management at our Taiwan Corporate Day on September 18.

**Bottom line:** Management sees 3Q23 tracking inline with guidance but overall visibility remains low for 4Q23, and the timeline for inventory returning to normal levels is still unclear. On pricing, management still expects to see pricing competition particularly in mainland China but the direct impact has diminished thanks to ongoing industry consolidation. In terms of AI, management is positive on edge AI and sees it as a key catalyst for the semiconductor industry post-smartphone era.

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### Key Takeaways

**3Q23 tracking inline but visibility still low for 4Q23:** Management stated that while 3Q23 showed a slight uptick in revenue (overall tracking inline with guidance), visibility for 4Q23 remains low. On inventory, ASE still sees some of its customers are undergoing inventory digestion. While management expects its wafer bank to decline QoQ in 3Q23, the magnitude should not be significant. Overall, the timeline for inventory to return to normal levels remains unclear. In terms of capex, 2023 capex budget is still guided at US\$1bn (vs US\$1.7bn in 2022).

**Pricing competition update:** According to ASE, the direct impact from pricing competition coming from mainland China OSAT players has diminished due to ongoing industry consolidation, but competition within mainland China remains more intense vs non-mainland China regions. ASE's Suzhou plant, in particular, is facing more intense pricing competition compared to plants in Taiwan.

**Anticipating edge AI as future growth driver:** The discussion also touched on AI demand. ASE expects significant growth potential coming especially from edge AI with higher volume from a longer-term perspective, and believes that AI will emerge as a key catalyst for the semiconductor industry post-smartphone era. While the outlook for 2024 remains uncertain, ASE expects overall packaging demand might see growth in 2024 with AI demand to drive up capex.

### Investment Thesis, Price Target Risks and

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## Methodology

## Investment Thesis - ASE (3711.TW)

ASE is the leading provider of semiconductor manufacturing services in assembly and test. We like ASE's leadership position within the OSAT sector and believe it will outperform peers via continued market share gains despite a volatile market dynamic. Furthermore, we now see a more attractive risk reward given 1) the incoming end of the inventory correction cycle, 2) structural profitability improvement, and 3) new AI business opportunity as an incremental positive.

ASE's FY24 is currently trading at the lower end of its historical trading average with a lackluster near-term outlook. We see risk-reward skewed to the upside and thus have a Buy rating on ASE.

**Valuation:** We are Buy rated on ASE with a 12m TP of NT\$130, which is derived by applying a target P/E multiple of 11x (inline with through-cycle PE) to our 2024E EPS. For its ADR, our 12-month TP is US\$9.2 (based on FX conversion of 31.0 and a 10% ADR premium).

**Key downside risks to our views:** (1) weaker-than-expected end demand; (2) stronger competition and pricing pressure; (3) poor execution/yields; (4) slower-than-expected progress in advance packaging; and (5) worse geopolitical/FX movements.

<b>3711.TW</b>	12m Price Target: <b>NT\$130.00</b>	Price: <b>NT\$113.50</b>	Upside: <b>14.5%</b>
<b>ASX</b>	12m Price Target: <b>\$9.20</b>	Price: <b>\$7.70</b>	Upside: <b>19.5%</b>

Buy		GS Forecast			
		12/22	12/23E	12/24E	12/25E
Market cap:	Revenue (NT\$ mn)	670,872.6	591,764.0	650,533.0	691,629.0
NT\$488.7bn / \$15.3bn	EBITDA (NT\$ mn)	135,627.5	101,692.0	125,788.8	133,919.6
Enterprise value:	EPS (NT\$)	14.42	7.96	11.82	13.04
NT\$654.3bn / \$20.5bn	P/E (X)	6.4	14.3	9.6	8.7
3m ADTV: NT\$1.8bn / \$56.8mn	P/B (X)	1.3	1.9	1.7	1.6
Taiwan	Dividend yield (%)	9.4	4.1	6.1	6.8
Taiwan Semiconductor	N debt/EBITDA (ex lease,X)	0.8	1.4	1.0	0.8
M&A Rank: 3	CROCI (%)	20.4	9.0	14.8	14.3
Leases incl. in net debt & EV?:	FCF yield (%)	9.2	1.0	7.9	8.6
No					
		6/23	9/23E	12/23E	3/24E
	EPS (NT\$)	1.80	1.95	2.85	2.44

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 18 Sep 2023 close.

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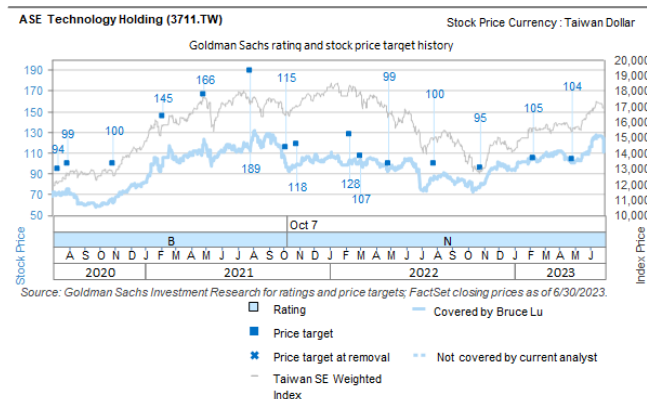
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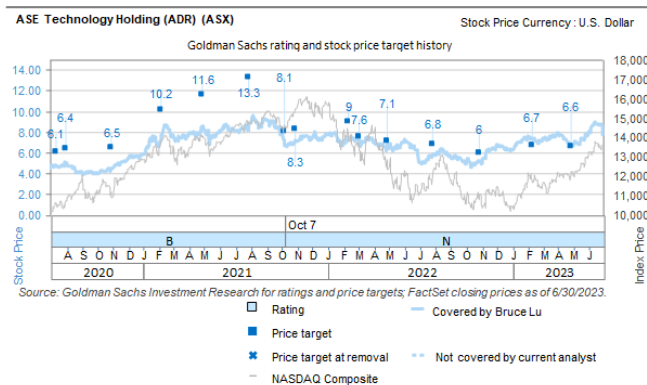
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