Action | Citi Research

05 Jun 2026 11:34:58 ET | 14 pages

Zhen Ding Technology (4958.TW)

Optical module and substrate on the rise; upgrade to Buy

CITI'S TAKE

We expect Zhen Ding to steadily benefit from optical module and substrate demand, more than offsetting the weakness in smartphones/notebooks (i.e., FPCB). The company is also gradually shipping RPCB products for AI AISC servers. Given its more aggressive capacity expansion than peers and noteworthy execution, we expect Zhen Ding to gain market share from existing AI server suppliers, especially for HDI/mSAP-related products. From a fund-flow perspective, the company is officially a constituent of the FTSE TWSE Taiwan 50 Index. We upgrade Zhen Ding to Buy from Sell with a higher TP of NT$600 (implied 25x 2027E EPS) from NT$180.

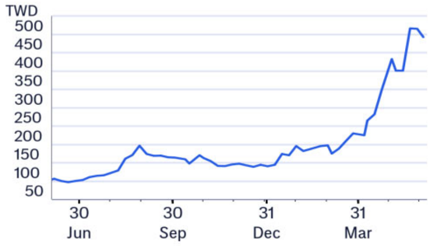
Steady improvement in sales momentum — Zhen Ding reported May sales up 7% MoM (37% YoY), which we believe is driven by AI servers, optical modules, and substrates. April–May sales accounted for 75% of our previous 2Q26 forecast, exceeding our expectations. We expect 2Q26E GM to benefit from better product mix and favorable substrate pricing dynamics, reaching 21.7% (+0.1ppt QoQ). Per mgmt., server, optical module, and substrate sales accounted for 21% of 5M26 sales.

Spec migration for 800G/1.6T optical transceiver — Given strong AI data transmission demand, we also see strong demand for 800G/1.6 optical transceivers. 800G/1.6T adopts mSAP solutions which carry a better GM profile of >30%. Zhen Ding is currently sampling mSAP solutions for 1.6T optical and expects to reach mass production from 3Q26 onwards. We expect optical sales to reach 4–5% of total revenue in 2026E. While peers like Unimicron, Compeq, and Shennan Circuit are also competing in this sector, we think Zhen Ding can capture a leading market share in the optical market backed by its more aggressive capacity expansion. On the CCL shortage, we think the company will not be so affected given its large scale.

ABF substrate: multiple customers in the queue — We expect Zhen Ding to benefit from TPU demand (handled by Mediatek) from 4Q26E onward. We also see multiple clients in the queue including Nvidia, Broadcom, and Qualcomm. Domestic China AI demand should also be a driver. While T-glass supply tightness is a common bottleneck for substrate makers across the industry, we think Zhen Ding will manage through the constraint given its diverse sourcing. We also expect ASP to see a favorable trend given rising AI demand in 2H26E. Overall, we expect >80%/>70% YoY increase in substrate sales in 2026/27E.

Buy ↑ from Sell	
Price (05 Jun 26 13:30)	NT$504.00
Target price	NT$600.00↑
from NT$180.00	
Expected share price return	19.0%
Expected dividend yield	0.7%
Expected total return	19.7%
Market Cap	NT$544,028M
	US$17,290M

Price Performance
(RIC: 4958.TW, BB: 4958 TT)



Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	8,604	9.04	100.0	55.8	4.4	8.4	1.5
2025A	7,724	7.68	-15.1	65.7	4.4	6.6	0.6
2026E	16,797	15.69	104.4	32.1	3.9	12.8	1.2
2027E	25,404	23.73	51.2	21.2	3.4	17.2	1.9
2028E	37,345	34.88	47.0	14.4	2.9	21.9	2.8

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

4958.TW: Fiscal year end 31-Dec

Price: NT$504.00; TP: NT$600.00; Market Cap: NT$544,028m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	171,664	182,522	229,753	298,307	370,836
Cost of sales	-139,203	-146,385	-173,687	-218,738	-262,964
Gross profit	32,461	36,136	56,066	79,570	107,873
Gross Margin (%)	18.9	19.8	24.4	26.7	29.1
EBITDA (Adj)	**28,781**	**31,992**	**48,449**	**86,189**	**109,008**
EBITDA Margin (Adj) (%)	16.8	17.5	21.1	28.9	29.4
Depreciation	-17,195	-18,061	-20,268	-39,643	-40,329
Amortisation	0	0	0	0	0
EBIT (Adj)	**11,586**	**13,932**	**28,182**	**46,546**	**68,679**
EBIT Margin (Adj) (%)	6.7	7.6	12.3	15.6	18.5
Net interest	601	374	528	-440	-440
Associates	3	-17	-10	-16	-16
Non-Op/Except/Other Adj	2,855	-227	502	860	860
Pre-tax profit	**15,045**	**14,063**	**29,202**	**46,950**	**69,083**
Tax	-2,524	-2,524	-5,505	-11,169	-16,485
Extraord./Min.Int./Pref.div.	-3,917	-3,815	-6,900	-10,376	-15,253
Reported net profit	**8,604**	**7,724**	**16,797**	**25,404**	**37,345**
Net Margin (%)	5.0	4.2	7.3	8.5	10.1
Core NPAT	8,604	7,724	16,797	25,404	37,345
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	9.04	7.68	15.69	23.73	34.88
Core EPS ($)	9.04	7.68	15.69	23.73	34.88
DPS ($)	7.55	2.89	6.28	9.49	14.36
CFPS ($)	27.59	28.33	62.72	71.92	96.85
FCFPS ($)	10.51	-4.55	-12.64	25.21	50.15
BVPS ($)	113.75	115.81	128.94	146.39	171.78
Wtd avg ord shares (m)	952	1,006	1,071	1,071	1,071
Wtd avg diluted shares (m)	952	1,006	1,071	1,071	1,071
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	13.4	6.3	25.9	29.8	24.3
EBIT (Adj) (%)	26.5	20.2	102.3	65.2	47.5
Core NPAT (%)	101.0	-10.2	117.5	51.2	47.0
Core EPS (%)	100.0	-15.1	104.4	51.2	47.0
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	79,502	71,116	48,201	70,287	113,604
Accounts receivables	30,183	31,412	25,822	28,696	28,910
Inventory	17,990	19,616	25,304	31,968	37,293
Net fixed & other tangibles	129,940	145,607	211,102	221,460	231,130
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	8,379	12,291	15,710	17,462	19,848
Total assets	**265,993**	**280,043**	**326,139**	**369,872**	**430,785**
Accounts payable	21,716	23,501	25,699	27,482	31,108
Short-term debt	23,040	25,689	41,157	42,952	42,726
Long-term debt	34,012	26,430	5,000	5,000	5,000
Provisions & other liab	35,202	33,710	60,998	72,090	87,168
Total liabilities	**113,970**	**109,330**	**132,854**	**147,525**	**166,001**
Shareholders' equity	108,818	123,982	138,040	156,726	183,909
Minority interests	43,205	46,731	55,245	65,621	80,875
Total equity	**152,024**	**170,713**	**193,285**	**222,347**	**264,783**
Net debt (Adj)	**-22,451**	**-18,997**	**-2,043**	**-22,335**	**-65,878**
Net debt to equity (Adj) (%)	-14.8	-11.1	-1.1	-10.0	-24.9

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	55.8	65.7	32.1	21.2	14.4
PB (x)	4.4	4.4	3.9	3.4	2.9
EV/EBITDA (x)	19.7	17.6	11.9	6.8	5.2
FCF yield (%)	2.1	-0.9	-2.5	5.0	10.0
Dividend yield (%)	1.5	0.6	1.2	1.9	2.8
Payout ratio (%)	84	38	40	40	41
ROE (%)	8.4	6.6	12.8	17.2	21.9
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	28,781	31,992	48,449	86,189	109,008
Working capital	-1,287	-1,071	2,100	-7,754	-1,913
Other	-1,229	-2,414	16,600	-1,441	-3,406
Operating cashflow	**26,265**	**28,507**	**67,149**	**76,994**	**103,689**
Capex	-16,257	-33,083	-80,679	-50,000	-50,000
Net acq/disposals	0	0	0	0	0
Other	-296	-5,353	-2,084	16	16
Investing cashflow	**-16,553**	**-38,436**	**-82,763**	**-49,984**	**-49,984**
Dividends paid	-4,595	-7,221	-3,089	-6,719	-10,162
Financing cashflow	**8,368**	**1,544**	**-7,301**	**-4,924**	**-10,388**
Net change in cash	**18,081**	**-8,386**	**-22,916**	**22,086**	**43,317**
Free cashflow to s/holders	**10,008**	**-4,577**	**-13,531**	**26,994**	**53,689**

For definitions of the items in this table, please click here.

Earnings upward revisions; inclusion in the 0050 index; upgrade to Buy — We raise our 2026/27/28E earnings by 43%/72%/84% to factor in strong HDI and substrate demand. Meanwhile, the company is now officially added to the FTSE TWSE Taiwan 50 Index constituent list, which we think would be favorable to fund flows. We raise our DCF-based TP to NT$600 (implied 25x 2027E EPS) from NT$180 and upgrade the name to Buy.

Figure 1. ZDT – Earnings Revisions

	2Q26E			3Q26E			2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	47,303	41,684	13%	65,878	56,879	16%	229,753	205,104	12%	298,307	248,121	20%	370,836	293,631	26%
Sequential growth	16%	2%		39%	36%		26%	12%		30%	21%		24%	18%	
Gross profit	10,256	6,828	50%	17,098	13,196	30%	56,066	42,591	32%	79,570	54,183	47%	107,873	67,906	59%
Opex	5,724	5,044	13%	7,510	6,484	16%	27,885	23,614	18%	33,023	27,451	20%	39,194	31,036	26%
Operating profit	4,532	1,784	154%	9,588	6,712	43%	28,182	18,977	49%	46,546	26,732	74%	68,679	36,871	86%
Pre-tax profit	4,923	2,175	126%	9,954	7,078	41%	29,202	20,470	43%	46,950	27,136	73%	69,083	37,274	85%
Net income	2,097	927	126%	5,654	4,020	41%	16,797	11,749	43%	25,404	14,773	72%	37,345	20,324	84%
EPS (NT$)	1.96	0.87	126%	5.28	3.76	41%	15.69	10.97	43%	23.73	13.80	72%	34.88	18.98	84%
Gross margin	21.7%	16.4%	+5.3 ppt	26.0%	23.2%	+2.8 ppt	24.4%	20.8%	+3.6 ppt	26.7%	21.8%	+4.8 ppt	29.1%	23.1%	+6.0 ppt
Opex ratio	12.1%	12.1%	0.0 ppt	11.4%	11.4%	-0.0 ppt	12.1%	11.5%	+0.6 ppt	11.1%	11.1%	+0.0 ppt	10.6%	10.6%	-0.0 ppt
Operating margin	9.6%	4.3%	+5.3 ppt	14.6%	11.8%	+2.8 ppt	12.3%	9.3%	+3.0 ppt	15.6%	10.8%	+4.8 ppt	18.5%	12.6%	+6.0 ppt
Net margin	4.4%	2.2%	+2.2 ppt	8.6%	7.1%	+1.5 ppt	7.3%	5.7%	+1.6 ppt	8.5%	6.0%	+2.6 ppt	10.1%	6.9%	+3.1 ppt

Source: Citi Research estimates

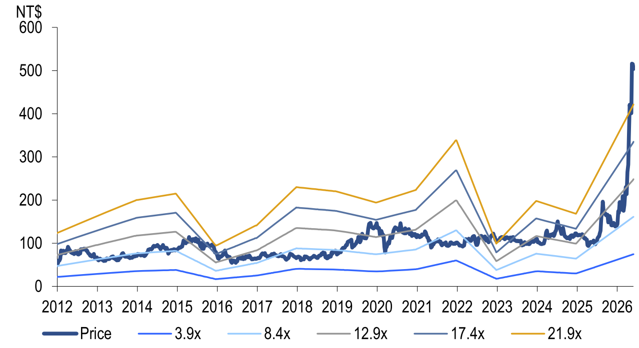
Figure 2. ZDT — Key Earnings Estimates

ZDT	2026				2027			
(NT$ in Mn, year-end Dec)	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE
Revenue	40,728	47,303	65,878	75,844	57,540	66,391	82,079	92,296
COGS	-31,917	-37,047	-48,780	-55,943	-44,166	-49,951	-59,001	-65,620
Gross Profit	8,812	10,256	17,098	19,901	13,374	16,441	23,078	26,676
Operating Expense	-6,308	-5,724	-7,510	-8,343	-5,984	-8,299	-8,865	-9,876
SG&A expenses	-2,732	-2,649	-3,294	-3,792	-3,222	-3,519	-4,022	-4,523
R&D expenses	-3,576	-3,075	-4,216	-4,551	-2,762	-4,780	-4,843	-5,353
EBIT	2,503	4,532	9,588	11,558	7,390	8,142	14,214	16,801
Net Interest Income	68	170	145	145	-130	-130	-90	-90
Net Other Income	-172	221	221	222	210	211	211	212
Pre-Tax Profit	2,400	4,923	9,954	11,925	7,470	8,223	14,334	16,923
Tax	353	1,969	1,991	1,192	2,241	2,467	3,297	3,165
Net Profit	1,426	2,097	5,654	7,620	3,713	4,087	7,837	9,768
EPS (NT$)	1.33	1.96	5.28	7.12	3.47	3.82	7.32	9.12
EPS (NT$) - diluted	1.33	1.96	5.28	7.12	3.47	3.82	7.32	9.12
Margins (%)								
Gross Margin	21.6	21.7	26.0	26.2	23.2	24.8	28.1	28.9
Operating Margin	6.1	9.6	14.6	15.2	12.8	12.3	17.3	18.2
Net Margin	3.5	4.4	8.6	10.0	6.5	6.2	9.5	10.6
Sequential Growth (%)								
Revenue	(28)	16	39	15	(24)	15	24	12
Gross Profit	(31)	16	67	16	(33)	23	40	16
EBIT	(58)	81	112	21	(36)	10	75	18
Net Profit	(65)	47	170	35	(51)	10	92	25
EPS (NT$)	(65)	47	170	35	(51)	10	92	25
EPS (NT$) - diluted	(65)	47	170	35	(51)	10	92	25

(NT$ in Mn, year-end Dec)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Revenue	82,393	109,238	117,913	120,068	131,279	155,022	171,356	151,398	171,664	182,522	229,753	298,307	370,836
COGS	-69,851	-91,404	-91,852	-92,845	-104,694	-124,485	-131,468	-123,939	-139,203	-146,385	-173,687	-218,738	-262,964
Gross Profit	12,542	17,833	26,061	27,222	26,584	30,537	39,888	27,459	32,461	36,136	56,066	79,570	107,873
Operating Expense	-7,925	-9,176	-11,215	-12,421	-12,444	-14,756	-17,441	-18,300	-20,875	-22,205	-27,885	-33,023	-39,194
SG&A expenses	-4,160	-4,451	-5,578	-6,281	-6,898	-7,454	-9,162	-8,634	-9,160	-10,398	-12,467	-15,285	-17,456
R&D expenses	-3,765	-4,725	-5,638	-6,140	-5,545	-7,302	-8,280	-9,665	-11,715	-11,807	-15,417	-17,738	-21,738
EBIT	4,617	8,657	14,846	14,801	14,140	15,781	22,447	9,160	11,586	13,932	28,182	46,546	68,679
Net Interest Income	-27	4	149	574	250	-199	-113	575	601	374	528	-440	-440
Net Other Income	717	-167	-328	-424	-596	637	1,135	313	2,858	-243	492	844	844
Pre-Tax Profit	5,307	8,494	14,667	14,951	13,794	16,219	23,469	10,048	15,045	14,063	29,202	46,950	69,083
Tax	-1,851	-1,722	-3,130	-2,549	-2,286	-2,524	-2,524	-2,524	-2,524	-2,524	-5,505	-11,169	-16,485
Net Profit	3,456	5,172	8,448	8,685	8,095	9,651	14,606	4,280	8,604	7,724	16,797	25,404	37,345
EPS (NT$)	4.29	6.43	10.50	10.05	8.86	10.19	15.44	4.52	9.04	7.68	15.69	23.73	34.88
EPS (NT$) - diluted	4.17	6.12	10.19	10.05	8.86	10.14	15.36	4.52	9.04	7.68	15.69	23.73	34.88
Margins (%)													
Gross Margin	15.2	16.3	22.1	22.7	20.3	19.7	23.3	18.1	18.9	19.8	24.4	26.7	29.1
Operating Margin	5.6	7.9	12.6	12.3	10.8	10.2	13.1	6.1	6.7	7.6	12.3	15.6	18.5
Net Margin	4.2	4.7	7.2	7.2	6.2	6.2	8.5	2.8	5.0	4.2	7.3	8.5	10.1
Sequential Growth (%)													
Revenue	(4)	33	8	2	9	18	11	(12)	13	6	26	30	24
Gross Profit	(24)	42	46	4	(2)	15	31	(31)	18	11	55	42	36
EBIT	(45)	88	71	(0)	(4)	12	42	(59)	26	20	102	65	48
Net Profit	(55)	50	63	3	(7)	19	51	(71)	101	(10)	117	51	47
EPS (NT$)	(56)	50	63	(4)	(12)	15	51	(71)	100	(15)	104	51	47
EPS (NT$) - diluted	(53)	47	67	(1)	(12)	14	51	(71)	100	(15)	104	51	47

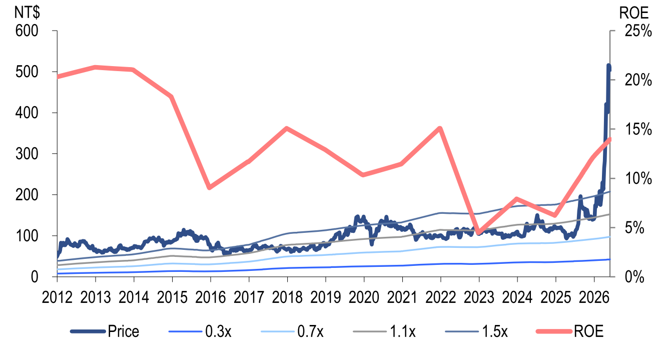
Source: Company data, Citi Research estimates

Figure 3. ZDT — Forward 1-yr P/E Band



Source: dataCentral, Citi Research

Figure 4. ZDT — Forward 1-yr P/B Band



Source: dataCentral, Citi Research

Bull/Bear: Zhen Ding Technology (4958.TW)

NT$700.00	NT$600.00	NT$300.00
▲39% Upside	▲19% Upside	▼40% Downside

Spread 79pp
Current Price and expected returns (upside/downside) as of 05 Jun 2026

BULL Assumptions

- Stronger market share gains in SLP/HDI
- More progress in AI business, especially in GB200
- Better ABF demand from China market

BASE Assumptions

- 2026/27E sales growth of +26%/+30% YoY
- 2026/27E GM of 24.4%/26.7%

BEAR Assumptions

- Harsher margin dilution from stronger capex
- Worse-than-expected ABF demand from China market

Zhen Ding Technology

Company description

Established in 2006 and headquartered in Shenzhen, China, Zhen Ding Technology (ZDT) is one of the world's key flexible PCB makers. ZDT's manufacturing sites are all in China: Shenzhen, Qinhuangdao, Yingkou, and Huai'an. ZDT manufactures flexible PCB, HDI, conventional PCB, and substrates. FPCB accounts for >50% of revenue, HDI around 20%, and conventional PCB the rest.

Investment strategy

We rate ZDT shares a Buy. While the largest US smartphone brand, to which Zhen Ding has close to 70%+ sales exposure (e.g., iPhone/Mac/iPad), will not be able to avoid the impact of high memory prices, we think Zhen Ding's share gains in HDI/SLP this year could partially offset the pricing pressure. On BT substrates, we expect ZDT to benefit from price hikes due to the T-glass shortage and strong memory demand. On ABF substrates, thanks to its capacity ramp in Taiwan, we believe the ABF plant will benefit from AI ASIC in 2026. On China ABF demand, considering the limited ABF capacity owned by China players, we think Zhen Ding will enjoy China ABF demand in the medium to long term (especially given domestic AI demand).

Valuation

We set a DCF-based TP of NT$600. We use a DCF-based valuation to reflect ZDT's ability to generate stable cash flows. Key assumptions of our DCF model include a risk-free rate of 4.3% (10-year government bond rate), a market risk premium of 7%, and an equity beta of 0.89 (1-year weekly share price), deriving a WACC of 9.9%. Our model assumes high-single-digit long-term growth after 2028E and an 18.5% EBIT margin from 2028E with a gradual annual increase. Our TP is equivalent to 38x/25x 2026E/27E EPS and 4.7x/4.1x 2026E/27E BVPS.

Risks

Key downside risks that could cause the stock to trade below our target price include: 1) lower-than-expected iPhone/Mac/iPad end-demand; 2) lower content value for new smartphone models or pricing pressure; 3) ZDT losing market share from its FPC/HDI peers; 4) a slower demand in the substrate industry; 5) failure to pass the qualifications of major AI GPU or ASIC customers.

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Appendix A-1

ANALYST CERTIFICATION

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Zhen Ding Technology (4958.TW)
Ratings and Target Price History
Fundamental Research

Analyst: Jack Chen

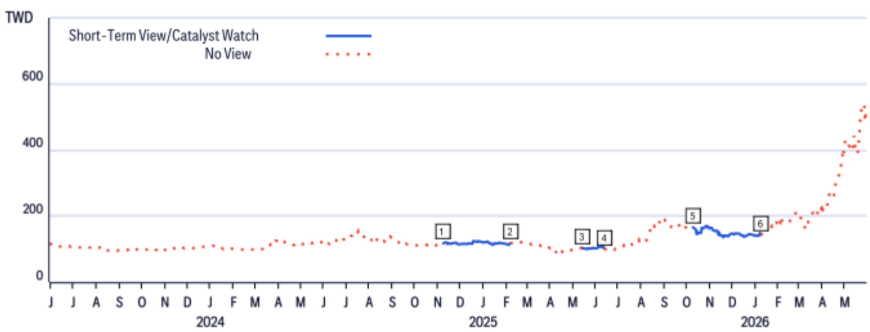
Date	Rating	Target Price	Closing Price
1 09-Aug-23 14:34:54	1	*120.00	105.00
2 01-Apr-24 14:07:45	1	*180.00	126.50
3 11-Mar-25 14:42:34	1	*150.00	113.50
4 13-May-25 13:56:39	1	*127.00	104.50
5 12-Aug-25 21:00:15	1	*170.00	147.00
6 10-Oct-25 03:35:47	*3	*150.00	166.00
7 22-Apr-26 04:54:40	3	*180.00	315.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

Zhen Ding Technology (4958.TW)
Short-Term View/Catalyst Watch Research

Analyst: Jack Chen



Date	Action	Expected Direction	Duration	Closing Price
1 08-Nov-24 08:14:31	Add CW	Upside	90 Days	117.50
2 06-Feb-25 19:44:32	Remove CW	Upside	90 Days	117.50
3 13-May-25 09:56:39	Add STV	Downside	30 Days	104.50
4 12-Jun-25 21:35:38	Remove STV	Downside	30 Days	101.00
5 09-Oct-25 23:35:47	Add CW	Downside	90 Days	166.00
6 08-Jan-26 19:58:49	Remove CW	Downside	90 Days	143.00

CW - Catalyst Watch , STV - Short-Term View

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	12 Month Rating			Catalyst Watch		
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