Taiwan Technology: TSMT (6278.TW, NC): Mgmt. Call takeaways: SMT solution expanding to AI optical module from consumer electronics

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We talked to TSMT (Taiwan Surface Mounting Technology, 6278.TW, Not Covered) management recently. TSMT is a global leading SMT (surface-mount technology) solution provider that serves leading players in consumer electronics, automobile, AI server ODM, optical networking, satellite, robotics, etc. Management highlights the growth opportunities in AI infrastructures, such as optical modules and AI servers. Management expects a rising contribution from optical module SMT business in coming years, which carries a higher GM than consumer electronics, driving the company's earnings growth.

Read across to AI server supply chain: Management's positive tone on AI infrastructure supporting TSMT's growth echoes our positive view on AI server supply chain. We expect the global cloud capex uptrend and continuous AI application development to support AI infrastructure end demand, and the customization / diversification trend (e.g. HGX, ASIC, AI servers powered by multiple chipset suppliers) to continue, benefiting AI server supply chain. **Buy:** Hon Hai, Wiwynn, Mitac, Wistron, Lenovo.

Company profile: Taiwan Surface Mounting Technology (6278.TW, Not Covered) is a global leading LCD SMT solution provider, providing material procurement, process engineering design, SMT, quality assurance, etc. The company has a global layout, with production sites in Taiwan, mainland China, India, Mexico, and Vietnam, and serves leading players in consumer electronics, automobile, AI server ODM, optical networking, satellite, etc.

Key takeaways: Management remains positive on growth ahead: (1) existing business (consumer electronics SMT) to be supported by its major customer's (a US-based global leading brand) new notebook model, for which TSMT remains the major supplier, (2) new business (AI infrastructure): TSMT penetrates a US-based global leading optical module suppliers, and targets to further expand customer base in optical modules. Customers' products migration toward 1.6T optical modules also drives TSMT's growth ahead. The SMT for optical module also carries a higher GM than consumer electronics, per management, supporting the company's profitability improvement. AI servers is also another growing opportunity for the company, per management, riding on the strong end demand growth driven by the global cloud capex uptrend.

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Reg AC

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