Action | Citi Research

07 Aug 2026 10:43:23 ET | 14 pages

King Yuan Electronics Co (2449.TW)

Awaiting stronger momentum in 4Q26

CITI'S TAKE

KYEC's 2Q26 earnings were NT$2.49bn (up 9% QoQ and 15% YoY). While its 2Q26 GM of 39.5% was largely inline with expectation, due to higher opex on new capacity ramping up preparation, OPEX came in higher than estimated. Looking forward, we expect HSD QoQ growth in 3Q26 and stronger momentum in 4Q26 on the back of both GPU and TPU new product ramp. Maintaining Buy but lowering our TP to NT$342.

3Q26E revenue slightly below; more upside potential into 4Q26 — Given the tightness in the upstream, including foundry, memory and advanced packaging, KYEC's new projects ramping up for GPU and TPU would be more backend loaded in 4Q26. We therefore see 3Q26 sequential revenue growth at HSD vs previous expectation of c15%. Nevertheless, the company remains bullish on AI demand into next year and anticipates strong upside for both FT and more importantly, wafer sorting. KYEC also sees structural GM upward trend into next year with its new projects ramping, including GPU, CPUs, Google TPU/CPU; in particular for CPUs, it could be several times 2026 levels.

Upside from wafer sorting into next year — AI products have longer test times, advanced-node complexity and relatively stable production profiles compared with volatile smartphone cycles, supporting structurally higher profitability. Management expects 2027 gross margin to remain above 40%, even with rising labor and depreciation costs. Another major upside into next year is expanding wafer sort/testing other than FT. This represents a stable, recurring testing workload and potentially meaningful incremental earnings leverage.

Capex target unchanged; lower TP but maintain Buy — KYEC maintains its NT$50bn 2026 capex budget, roughly 50% allocated to facilities/cleanrooms and 50% to production and customer-specific test equipment. For overseas expansion, Singapore will remain relatively small and customer-specific, while the U.S. site is targeted to complete infrastructure around end-2027 before meaningful customer ramp thereafter. New opportunities such as CPO/NPO remain largely in R&D rather than near-term mass production; therefore, 2027 growth should remain driven by existing GPU, CPUs, ASIC, wafer-test and burn-in opportunities. We lower our earnings projections by 7%/10%/10% considering longer capacity ramping up process, yet we maintain Buy with a TP of NT$342, still based on a DCF methodology and implying 25x our 2027 EPS estimate.

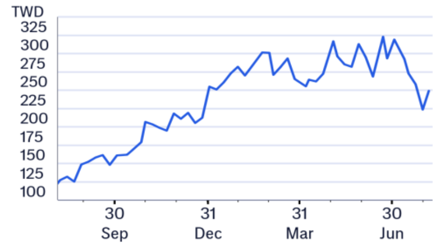
Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	7,779	6.04	33.5	40.1	6.8	18.9	1.3
2025A	11,016	8.53	41.4	28.4	5.9	23.5	1.7
2026E	10,812	8.38	-1.8	28.9	4.8	19.4	0.4
2027E	17,724	13.74	63.9	17.6	3.7	25.3	1.8
2028E	26,039	20.19	46.9	12.0	2.8	28.3	3.6

Source: Powered by dataCentral

Buy	
Price (07 Aug 26 13:30)	NT$242.00
Target price	NT$342.00↓
from NT$381.00	
Expected share price return	41.3%
Expected dividend yield	0.4%
Expected total return	41.7%
Market Cap	NT$310,700M
	US$9,634M

Price Performance
(RIC: 2449.TW, BB: 2449 TT)



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

2449.TW: Fiscal year end 31-Dec

Price: NT$242.00; TP: NT$342.00; Market Cap: NT$310,700m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	26,856	34,934	48,327	75,783	108,361
Cost of sales	-17,512	-22,411	-29,154	-45,228	-63,992
Gross profit	9,344	12,522	19,173	30,555	44,369
Gross Margin (%)	34.8	35.8	39.7	40.3	40.9
EBITDA (Adj)	**12,037**	**15,867**	**22,901**	**38,781**	**57,899**
EBITDA Margin (Adj) (%)	44.8	45.4	47.4	51.2	53.4
Depreciation	-5,865	-6,864	-9,744	-16,834	-25,461
Amortisation	0	0	0	0	0
EBIT (Adj)	**6,172**	**9,003**	**13,157**	**21,947**	**32,438**
EBIT Margin (Adj) (%)	23.0	25.8	27.2	29.0	29.9
Net interest	-362	188	98	98	98
Associates	142	620	124	124	124
Non-Op/Except/Other Adj	20	819	281	216	216
Pre-tax profit	**5,972**	**10,629**	**13,661**	**22,385**	**32,876**
Tax	-1,211	-2,624	-2,841	-4,645	-6,821
Extraord./Min.Int./Pref.div.	3,019	3,011	-8	-16	-16
Reported net profit	**7,779**	**11,016**	**10,812**	**17,724**	**26,039**
Net Margin (%)	29.0	31.5	22.4	23.4	24.0
Core NPAT	7,779	11,016	10,812	17,724	26,039
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	6.04	8.53	8.38	13.74	20.19
Core EPS ($)	6.04	8.53	8.38	13.74	20.19
DPS ($)	3.20	4.00	1.00	4.42	8.70
CFPS ($)	3.33	33.47	17.45	29.61	43.67
FCFPS ($)	-8.20	8.41	-19.68	-14.89	-3.05
BVPS ($)	35.41	41.24	50.08	64.58	85.88
Wtd avg ord shares (m)	1,284	1,284	1,284	1,284	1,284
Wtd avg diluted shares (m)	1,289	1,291	1,290	1,290	1,290
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	-18.7	30.1	38.3	56.8	43.0
EBIT (Adj) (%)	-16.2	45.9	46.2	66.8	47.8
Core NPAT (%)	33.2	41.6	-1.9	63.9	46.9
Core EPS (%)	33.5	41.4	-1.8	63.9	46.9
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	10,329	17,964	9,924	7,342	16,896
Accounts receivables	6,032	7,203	12,742	19,953	29,662
Inventory	848	1,159	1,955	2,973	4,320
Net fixed & other tangibles	35,271	61,034	97,751	136,690	169,038
Goodwill & intangibles	1,053	2,809	2,809	2,809	2,809
Financial & other assets	33,178	11,010	15,929	21,797	29,699
Total assets	**86,711**	**101,178**	**141,110**	**191,563**	**252,424**
Accounts payable	942	909	1,641	2,576	3,814
Short-term debt	0	0	800	800	800
Long-term debt	20,581	30,275	46,352	62,971	76,465
Provisions & other liab	20,476	19,556	31,060	46,218	66,292
Total liabilities	**41,999**	**50,740**	**79,853**	**112,565**	**147,371**
Shareholders' equity	43,296	50,429	61,241	78,965	105,004
Minority interests	1,415	8	16	32	48
Total equity	**44,711**	**50,438**	**61,257**	**78,998**	**105,053**
Net debt (Adj)	**10,251**	**12,311**	**37,228**	**56,429**	**60,369**
Net debt to equity (Adj) (%)	22.9	24.4	60.8	71.4	57.5

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	40.1	28.4	28.9	17.6	12.0
PB (x)	6.8	5.9	4.8	3.7	2.8
EV/EBITDA (x)	26.3	19.9	14.3	9.0	6.2
FCF yield (%)	-3.4	3.5	-8.1	-6.2	-1.3
Dividend yield (%)	1.3	1.7	0.4	1.8	3.6
Payout ratio (%)	53	47	12	32	43
ROE (%)	18.9	23.5	19.4	25.3	28.3
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	12,037	15,867	22,901	38,781	57,899
Working capital	1,439	-1,172	-5,539	-7,210	-9,710
Other	-9,191	28,516	5,141	6,628	8,141
Operating cashflow	**4,286**	**43,211**	**22,503**	**38,199**	**56,330**
Capex	-14,857	-32,355	-47,884	-57,400	-60,270
Net acq/disposals	279	-2,080	480	0	0
Other	0	0	0	0	0
Investing cashflow	**-14,578**	**-34,436**	**-47,404**	**-57,400**	**-60,270**
Dividends paid	-3,913	-4,891	-1,223	-5,406	-10,635
Financing cashflow	**-1,915**	**7,450**	**16,877**	**16,619**	**13,494**
Net change in cash	**-12,206**	**16,226**	**-8,024**	**-2,582**	**9,554**
Free cashflow to s/holders	**-10,571**	**10,856**	**-25,381**	**-19,201**	**-3,940**

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

Figure 1. KYEC – 2Q26 results overview

	2Q26	1Q26		2Q25		2Q26		2Q26	
(NT$mn)	Actual	Actual	Q/Q	Actual	Y/Y	Citi	Diff.	Cons.	Diff.
Revenue	11,142	10,192	9%	8,362	33%	11,424	-2%	11,231	-1%
Gross profit	4,400	4,051	9%	2,972	48%	4,456	-1%	4,431	-1%
Gross margin	39.5%	39.7%	-0.3ppt	35.5%	+4.0ppt	39.0%	+0.5ppt	39.5%	+0.0ppt
Op. profit	2,828	2,772	2%	2,176	30%	3,142	-10%	3,201	-12%
OP margin	25.4%	27.2%	-1.8ppt	26.0%	-0.6ppt	27.5%	-2.1ppt	28.5%	-3.1ppt
Net income	2,492	2,286	9%	2,175	15%	2,657	-6%	2,659	-6%
EPS (NT$)	1.93	1.77	9%	1.68	15%	2.16	-11%	2.08	-7%

Source: Citi Research, Bloomberg, Company Reports

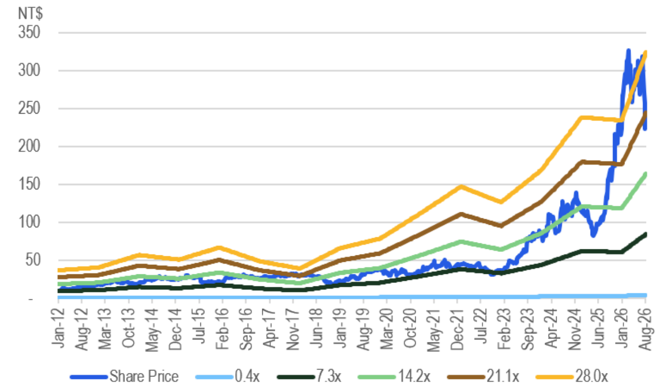
Lower TP but maintain Buy — We lower our earnings projections by 7%/10%/10% considering longer capacity ramping up process, yet we maintain Buy with a TP of NT$342, still based on a DCF methodology and implying 25x our 2027 EPS estimate.

Figure 2. KYEC – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	48,327	51,231	-6%	75,783	81,518	-7%	108,361	118,639	-9%
YoY growth	38%	47%		57%	59%		43%	46%	
Gross profit	19,173	20,210	-5%	30,555	32,635	-6%	44,369	48,237	-8%
Opex	-6,016	-5,932	1%	-8,608	-8,272	4%	-11,931	-12,166	-2%
Operating profit	13,157	14,278	-8%	21,947	24,362	-10%	32,438	36,071	-10%
Pre-tax profit	13,661	14,643	-7%	22,385	24,800	-10%	32,876	36,509	-10%
Net income	10,812	11,607	-7%	17,724	19,671	-10%	26,039	28,990	-10%
EPS (NT$)	8.38	9.00	-7%	13.74	15.25	-10%	20.19	22.47	-10%
Gross margin	39.7%	39.4%	+0.2 ppt	40.3%	40.0%	+0.3 ppt	40.9%	40.7%	+0.3 ppt
Opex ratio	-12.4%	-11.6%	-0.9 ppt	-11.4%	-10.1%	-1.2 ppt	-11.0%	-10.3%	-0.8 ppt
Operating margin	27.2%	27.9%	-0.6 ppt	29.0%	29.9%	-0.9 ppt	29.9%	30.4%	-0.5 ppt
Net margin	22.4%	22.7%	-0.3 ppt	23.4%	24.1%	-0.7 ppt	24.0%	24.4%	-0.4 ppt

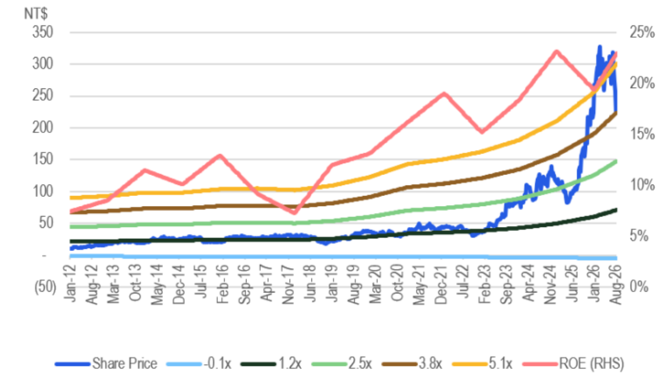
Source: Citi Research

Figure 3. KYEC – Forward P/E band



Source: Citi Research

Figure 4. KYEC – Forward P/B band & ROE



Source: Citi Research

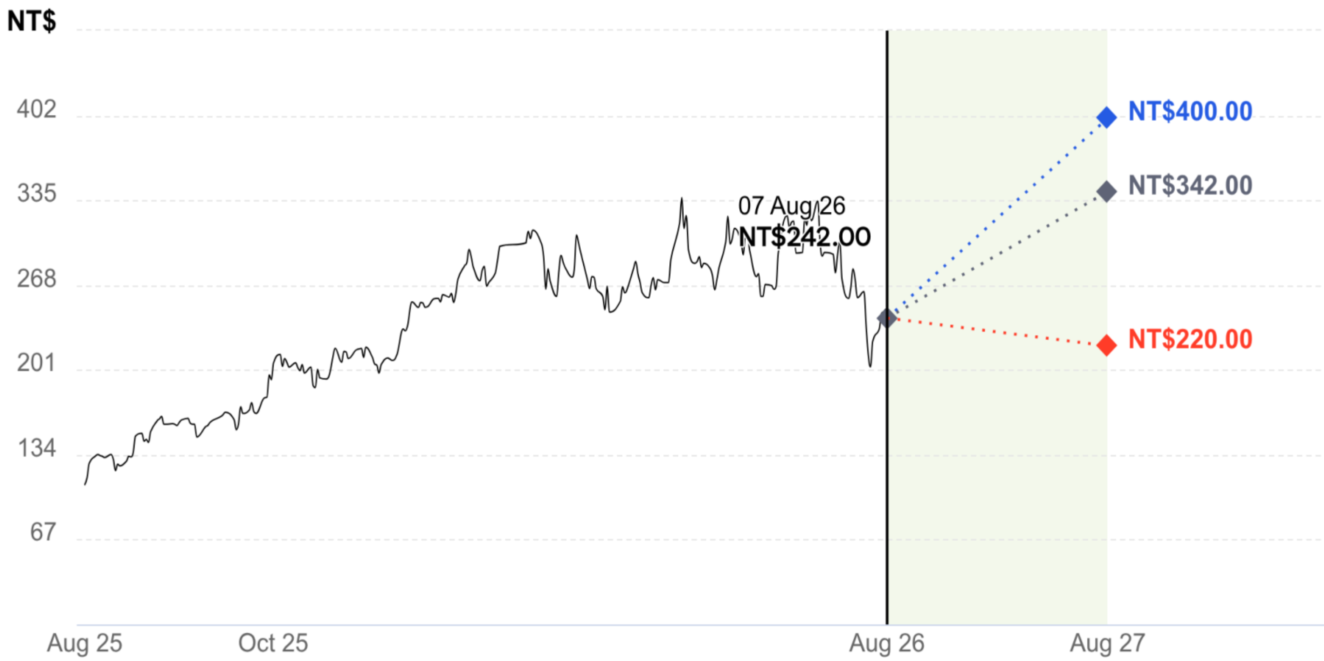
Figure 5. KYEC – Forecast summary

KYEC	2025				2026				2027							
(NT$ in Mn, year-end Dec)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE	2025	2026E	2027E	2028E
Revenue	7,315	8,362	9,291	9,966	10,192	11,142	12,102	14,892	15,778	17,393	19,680	22,933	34,934	48,327	75,783	108,361
COGS	-4,865	-5,390	-5,944	-6,212	-6,141	-6,742	-7,353	-8,919	-9,415	-10,400	-11,816	-13,597	-22,411	-29,154	-45,228	-63,992
Depreciation costs	-1,506	-1,621	-1,742	-1,995	-2,267	-2,272	-2,416	-2,789	-3,752	-4,083	-4,279	-4,721	-6,864	-9,744	-16,834	-25,461
Gross Profit	2,450	2,972	3,347	3,753	4,051	4,400	4,749	5,973	6,364	6,993	7,863	9,336	12,522	19,173	30,555	44,369
Operating Expense	-928	-795	-855	-942	-1,279	-1,572	-1,452	-1,713	-1,736	-2,087	-2,263	-2,523	-3,520	-6,016	-8,608	-11,931
SG&A expenses	-685	-583	-637	-684	-973	-1,160	-1,089	-1,191	-1,262	-1,565	-1,673	-1,835	-2,590	-4,413	-6,335	-8,516
R&D expenses	-243	-212	-218	-258	-306	-412	-363	-521	-473	-522	-590	-688	-930	-1,602	-2,274	-3,416
EBIT	1,523	2,176	2,492	2,812	2,772	2,828	3,297	4,261	4,628	4,906	5,600	6,813	9,003	13,157	21,947	32,438
Net Interest Income	-11	144	54	1	25	25	24	24	25	25	24	24	188	98	98	98
Net Other Income	618	338	340	143	11	223	85	86	84	85	85	86	1,438	405	340	340
Pre-Tax Profit	2,129	2,658	2,886	2,955	2,808	3,076	3,406	4,371	4,737	5,016	5,709	6,923	10,629	13,661	22,385	32,876
Tax	-850	-483	-584	-707	-522	-584	-689	-1,046	-880	-953	-1,154	-1,657	-2,624	-2,841	-4,645	-6,821
Net Profit	4,290	2,175	2,302	2,248	2,286	2,492	2,713	3,320	3,853	4,059	4,551	5,262	11,016	10,812	17,724	26,039
EPS (NT$)	3.32	1.68	1.78	1.74	1.77	1.93	2.10	2.57	2.99	3.15	3.53	4.08	8.53	8.38	13.74	20.19
Margins (%)																
Gross Margin	33.5%	35.5%	36.0%	37.7%	39.7%	39.5%	39.2%	40.1%	40.3%	40.2%	40.0%	40.7%	35.8%	39.7%	40.3%	40.9%
Operating Margin	20.8%	26.0%	26.8%	28.2%	27.2%	25.4%	27.2%	28.6%	29.3%	28.2%	28.5%	29.7%	25.8%	27.2%	29.0%	29.9%
Net Margin	58.6%	26.0%	24.8%	22.6%	22.4%	22.4%	22.4%	22.3%	24.4%	23.3%	23.1%	22.9%	31.5%	22.4%	23.4%	24.0%
Sequential Growth (%)																
Revenue	0%	14%	11%	7%	2%	9%	9%	23%	6%	10%	13%	17%	30%	38%	57%	43%
Gross Profit	-3%	21%	13%	12%	8%	9%	8%	26%	7%	10%	12%	19%	34%	53%	59%	45%
EBIT	1%	43%	15%	13%	-1%	2%	17%	29%	9%	6%	14%	22%	46%	46%	67%	48%
Net Profit	111%	-49%	6%	-2%	2%	9%	9%	22%	16%	5%	12%	16%	42%	-2%	64%	47%
EPS	111%	-49%	6%	-2%	2%	9%	9%	22%	16%	5%	12%	16%	41%	-2%	64%	47%

Source: Citi Research

Bull/Bear: King Yuan Electronics Co (2449.TW)

NT$ 400.00 ▲65% Upside	NT$ 342.00 ▲41% Upside	NT$ 220.00 ▼9.1% Downside



Spread 74pp
Current Price and expected returns (upside/downside) as of 07 Aug 2026

BULL Assumptions

- Stronger than expected demand outlook from global consumer electronic products
- Better than expected demand from automotive and base station sector

BASE Assumptions

- Smooth products transition schedule for AI GPU and ASIC
- Ongoing GM expansion from 2024's 35% to 40% in 2027-2028E

BEAR Assumptions

- Weaker than expected end-demand for global smartphone/consumer electronic products
- Pricing pressure from increasing competition

King Yuan Electronics Co

Company description

Founded in 1987, King Yuan Electronics Corp. (KYEC) mainly provides testing services for the back-end process of semiconductor production globally. With more than 30 years of industry experience, KYEC has built up firm relationships with several leading global IC design/IDM customers. Its headquarters and production facilities are both located in Taiwan, with sales offices in North America, Japan, and Singapore.

Investment strategy

We rate KYEC as Buy. As a key testing service provider for AI GPU and ASIC products, KYEC is well positioned to benefit from the significant AI growth opportunity in the years to come. Currently, KYEC is the major final testing service provider for its major customer's AI GPU, and we expect KYEC to continue to secure its dominant share in its customer's upcoming AI GPU product lines due to its specialty in burn-in testing, smooth product delivery capability, and its strong business partnership with its customer. We are also positive over the growth outlook of its smartphone business thanks to the integration of AI functionality, leading to a better replacement cycle. We believe KYEC's major customer in smartphone will benefit from an improved product mix, which will result in longer testing times for the flagship SoC.

Valuation

Our target price for KYEC of NT$342 is derived using a DCF methodology. Using Bloomberg data, we apply a risk-free rate of 4%, a risk premium of 5%, and a beta of 1.4x for a 10.8% cost of equity. With 20% corporate tax and a 3.0% interest rate on its debt, our WACC for KYEC is 9.7%. We assume terminal sales growth of 5%. We model its adjusted EBIT margin to gradually improve from 23% in 2024 to c30% in 2035E. At our target price, the shares would trade at 2026/27E P/B of 7x/5x and 2026/27E P/E of 41x/25x, in line with its global peers.

Risks

Key downside risks that could prevent KYEC shares from reaching our target price include: 1) weaker-than-expected end-demand for global smartphone/consumer electronic products; 2) slower ramp for AI-related products; 3) slower-than-expected demand recovery in the automotive and base station sector; and 4) pricing pressure on increasing competition.

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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

King Yuan Electronics Co (2449.TW)
Ratings and Target Price History
Fundamental Research

Analyst: Laura (Chia Yi) Chen

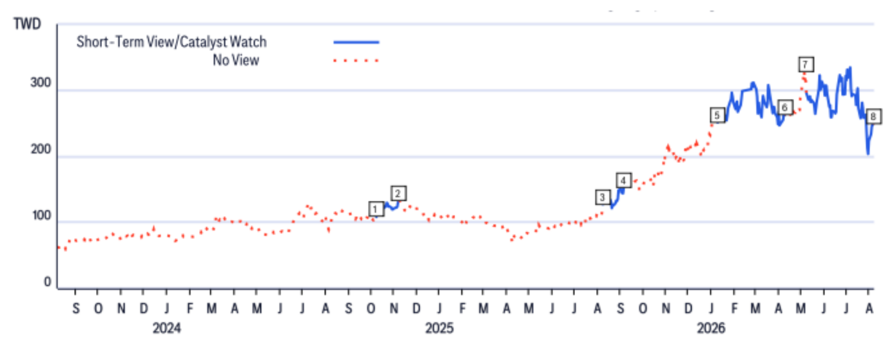
	Date	Rating	Target Price	Closing Price
1	08-Oct-24 05:00:00	*1	*133.33	108.10
2	01-May-25 14:24:22	1	*104.76	82.67
3	08-Aug-25 12:54:06	1	*156.19	127.14
4	07-Nov-25 11:10:57	1	*258.10	203.33
5	09-Jan-26 08:02:58	1	*314.29	250.95
6	06-Mar-26 09:43:38	1	*380.95	270.95
7	29-Jul-26 00:07:01	1	*381.00	212.50

*Indicates Change

Rating/target price changes above reflect Eastern Time

King Yuan Electronics Co (2449.TW)
Short-Term View/Catalyst Watch Research

Analyst: Laura (Chia Yi) Chen



	Date	Action	Expected Direction	Duration	Closing Price
1	08-Oct-24 01:00:00	Add CW	Upside	30 Days	108.10
2	07-Nov-24 19:58:33	Remove CW	Upside	30 Days	132.38
3	08-Aug-25 08:54:06	Add STV	Upside	30 Days	127.14
4	07-Sep-25 21:32:02	Remove STV	Upside	30 Days	152.38
5	09-Jan-26 03:02:58	Add STV	Upside	90 Days	250.95
6	09-Apr-26 21:49:06	Remove STV	Upside	90 Days	261.90
7	08-May-26 07:01:42	Add STV	Upside	90 Days	296.19
8	06-Aug-26 21:35:45	Remove STV	Upside	90 Days	249.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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