05 Nov 2026 13:22:24 ET | 14 pages

King Yuan Electronics Co (2449.TW)

AI-Driven Capacity Expansion, Supply Chain Diversification and Margin Outlook

CITI'S TAKE

KYEC's 3Q earnings of NT$2.65bn (up 6% QoQ, 15% YoY) with GM/OPM 37.6%/25.8%, in line with Street's estimate but lower than our expectation. The management expect 8-10% QoQ growth in 4Q with slight GM decline due to rising depreciation cost, weaker than expectation. Despite near-term shortfall due to slower ramp-up for its key customers' new chips, the management see order visibility into next year remains intact. We lower our TP but maintain Buy on the stock.

AI Demand to Drive Significant Capacity Expansion — Nvidia remains the primary growth driver, with AI-related testing capacity expected to double next year, in our view, considering Nvidia's comment on its target of 70% YoY growth into next year. Broadcom and Mediatek are also accelerating equipment orders, while GUC's revenue contribution could see multiple growth. KYEC's growth into next year would be stronger than 2026 considering more significant new AI compute chip ramping. We believe Nvidia remains the largest customer followed by Google's ASIC providers including Mediatek, Broadcom and GUC.

Regional Manufacturing Expansion and Consignment Model - KYEC is expanding its manufacturing footprints across Taiwan, the US and Singapore. US operations are expected to ramp progressively, supported by a consignment model under customers, particularly Nvidia, funding equipment investments. The evolving regional manufacturing structure should enhance supply chain resilience while reducing the manufacturer's direct capital exposure. ·

Continued evolving AI chip to support long-term growth. Nvidia's transition toward Rubin, Rubin Ultra, and subsequent architectures should create incremental opportunities for testing service suppliers. Increasing chip dimensions, more complex architectures, and broader adoption of SoIC packaging are expected to require significant upgrades in testing processes, handlers, and equipment configurations. More substantial testing process upgrade could emerge from late 2027 onward as next-generation products enter production. Meanwhile, next generation TPU development and testing preparations are progressing, supporting longer-term product diversification and equipment demand beyond the current AI capacity expansion cycle.

Buy

Price (05 Nov 26 13:30)	NT$228.50
Target price	NT$286.00↓
from NT$342.00	
Expected share price return	25.2%
Expected dividend yield	0.4%
Expected total return	25.6%
Market Cap	NT$293,367M
	US$8,927M

Price Performance
(RIC: 2449.TW, BB: 2449 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	7,779	6.04	33.5	37.9	6.5	18.9	1.4
2025A	11,016	8.53	41.4	26.8	5.5	23.5	1.8
2026E	10,096	7.85	-8.0	29.1	4.3	17.1	0.4
2027E	14,640	11.39	45.1	20.1	3.6	19.4	1.7
2028E	22,142	17.22	51.2	13.3	2.8	23.6	3.0

Source: Powered by dataCentral

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2449.TW: Fiscal year end 31-Dec						Price: NT$228.50; TP: NT$286.00; Market Cap: NT$298,367m; Recomm: Buy					
Profit & Loss (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**	**Valuation ratios**	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue	26,856	34,934	46,142	66,903	97,392	PE (x)	37.9	26.8	29.1	20.1	13.3
Cost of sales	-17,512	-22,411	-28,438	-41,576	-59,780	PB (x)	6.5	5.5	4.3	3.6	2.8
Gross profit	9,344	12,522	17,704	25,327	37,612	EV/EBITDA (x)	24.8	18.8	14.1	9.7	6.0
Gross Margin (%)	34.8	35.8	38.4	37.9	38.6	FCF yield (%)	-3.6	3.7	-9.3	-7.3	-0.9
EBITDA (Adj)	**12,037**	**15,867**	**21,784**	**33,252**	**54,999**	Dividend yield (%)	1.4	1.8	0.4	1.7	3.0
EBITDA Margin (Adj) (%)	44.8	45.4	47.2	49.7	56.5	Payout ratio (%)	53	47	12	35	40
Depreciation	-5,865	-6,864	-9,814	-15,572	-28,046	ROE (%)	18.9	23.5	17.1	19.4	23.6
Amortisation	0	0	0	0	0	**Cashflow (NT$m)**	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBIT (Adj)	**6,172**	**9,003**	**11,969**	**17,680**	**26,953**	EBITDA	12,037	15,867	21,784	33,252	54,999
EBIT Margin (Adj) (%)	23.0	25.8	25.9	26.4	27.7	Working capital	1,439	-1,172	-1,950	-6,966	-8,940
Net interest	-362	188	-206	98	98	Other	-9,191	28,516	1,115	9,913	11,860
Associates	142	620	398	124	124	**Operating cashflow**	**4,286**	**43,211**	**20,949**	**36,200**	**57,919**
Non-Op/Except/Other Adj	20	819	317	216	216	Capex	-14,857	-32,355	-48,168	-57,713	-60,599
Pre-tax profit	**5,972**	**10,629**	**12,479**	**18,118**	**27,391**	Net acq/disposals	279	-2,080	-10,372	0	0
Tax	-1,211	-2,624	-2,379	-3,463	-5,233	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	3,019	3,011	-4	-16	-16	**Investing cashflow**	**-14,578**	**-34,436**	**-58,540**	**-57,713**	**-60,599**
Reported net profit	**7,779**	**11,016**	**10,096**	**14,640**	**22,142**	Dividends paid	-3,913	-4,891	-1,223	-5,048	-8,784
Net Margin (%)	29.0	31.5	21.9	21.9	22.7	**Financing cashflow**	**-1,915**	**7,450**	**27,468**	**21,383**	**8,871**
Core NPAT	7,779	11,016	10,096	14,640	22,142	**Net change in cash**	**-12,206**	**16,226**	**-10,104**	**-131**	**6,191**
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**	**Free cashflow to s/holders**	**-10,571**	**10,856**	**-27,220**	**-21,514**	**-2,680**
Reported EPS ($)	6.04	8.53	7.85	11.39	17.22						
Core EPS ($)	6.04	8.53	7.85	11.39	17.22						
DPS ($)	3.20	4.00	0.95	3.93	6.84						
CFPS ($)	3.33	33.47	16.29	28.16	45.06						
FCFPS ($)	-8.20	8.41	-21.16	-16.74	-2.09						
BVPS ($)	35.41	41.24	52.95	64.35	81.60						
Wtd avg ord shares (m)	1,284	1,284	1,284	1,284	1,284						
Wtd avg diluted shares (m)	1,289	1,291	1,286	1,285	1,285						
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**						
Sales revenue (%)	-18.7	30.1	32.1	45.0	45.6						
EBIT (Adj) (%)	-16.2	45.9	33.0	47.7	52.4						
Core NPAT (%)	33.2	41.6	-8.3	45.0	51.2						
Core EPS (%)	33.5	41.4	-8.0	45.1	51.2						
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**						
Cash & cash equiv.	10,329	17,964	1,562	1,431	7,622						
Accounts receivables	6,032	7,203	9,153	16,119	25,060						
Inventory	848	1,159	2,833	4,686	6,924						
Net fixed & other tangibles	35,271	61,034	98,219	137,901	166,023						
Goodwill & intangibles	1,053	2,809	8,238	8,238	8,238						
Financial & other assets	33,178	11,010	25,968	31,502	38,606						
Total assets	**86,711**	**101,178**	**145,973**	**199,878**	**252,473**						
Accounts payable	942	909	3,188	5,233	7,702						
Short-term debt	0	0	0	0	0						
Long-term debt	20,581	30,275	43,317	56,235	65,106						
Provisions & other liab	20,476	19,556	31,473	55,760	74,857						
Total liabilities	**41,999**	**50,740**	**77,978**	**117,228**	**147,665**						
Shareholders' equity	43,296	50,429	67,982	82,622	104,763						
Minority interests	1,415	8	12	28	44						
Total equity	**44,711**	**50,438**	**67,995**	**82,650**	**104,808**						
Net debt (Adj)	**10,251**	**12,311**	**41,755**	**54,804**	**57,484**						
Net debt to equity (Adj) (%)	22.9	24.4	61.4	66.3	54.8						

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

Near-term weakness already in the price; maintain Buy and lower TP to NT$286
- Despite near-term margin pressure from softer-than-expected quarterly revenue and rising depreciation cost, electricity and OPEX, management sees GM expansion into next year supported by stronger utilization, operating leverage, and favorable AI-related product mix, in particular substantial upside from wafer sorting. We lower our earnings projection for 2026/2027/2028 by 6%/17%/15% reflecting near-term GM shortfall and potential increasing depreciation cost. Considering remaining strong AI cycle, we keep our Buy rating but lower our DCF-derived TP to NT$286 given our lower estimates and concerns on recent macro/policy uncertainty. Our new TP of NT$286 implies 25x/17x of our 2027/28 EPS estimates.

Figure 1. KYEC - 3Q26 results overview

(NT$mn)	3Q26 Actual	2Q26 Actual	Q/Q	3Q25 Actual	Y/Y	3Q26 Citi	Diff.	3Q26 Cons.	Diff.
Revenue	12,142	11,142	9%	9,291	31%	12,102	0%	12,123	0%
Gross profit	4,560	4,400	4%	3,347	36%	4,749	-4%	4,620	-1%
Gross margin	37.6%	39.5%	-1.9 ppt	36.0%	+1.5 ppt	39.2%	-1.7 ppt	38.1%	-0.6 ppt
Op. profit	3,133	2,828	11%	2,492	26%	3,297	-5%	3,250	-4%
OP margin	25.8%	25.4%	+0.4 ppt	26.8%	-1.0 ppt	27.2%	-1.4 ppt	26.8%	-1.0 ppt
Net income	2,645	2,492	6%	2,302	15%	2,713	-3%	2,644	0%
EPS (NT$)	2.06	1.94	6%	1.78	15%	2.10	-2%	2.12	-3%

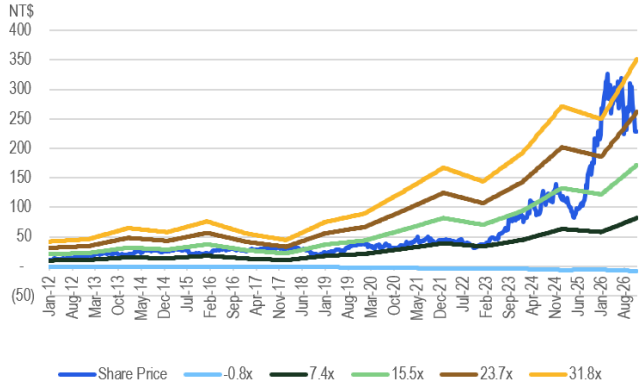
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Source: Citi Research, Bloomberg

Figure 2. KYEC – Estimates Revisions

(NT$mn)	2026E New	2026E Old	2026E Chg.	2027E New	2027E Old	2027E Chg.	2028E New	2028E Old	2028E Chg.
Sales	46,142	48,327	-5%	66,903	75,783	-12%	97,392	108,361	-10%
YoY growth	32%	38%		45%	57%		46%	43%	
Gross profit	17,704	19,173	-8%	25,327	30,555	-17%	37,612	44,369	-15%
Opex	-5,735	-6,016	-5%	-7,647	-8,608	-11%	-10,660	-11,931	-11%
Operating profit	11,969	13,157	-9%	17,680	21,947	-19%	26,953	32,438	-17%
Pre-tax profit	12,479	13,661	-9%	18,118	22,385	-19%	27,391	32,876	-17%
Net income	10,096	10,812	-7%	14,640	17,724	-17%	22,142	26,039	-15%
EPS (NT$)	7.85	8.38	-6%	11.39	13.74	-17%	17.22	20.19	-15%
Gross margin	38.4%	39.7%	-1.3 ppt	37.9%	40.3%	-2.5 ppt	38.6%	40.9%	-2.3 ppt
Opex ratio	-12.4%	-12.4%	+0.0 ppt	-11.4%	-11.4%	-0.1 ppt	-10.9%	-11.0%	+0.1 ppt
Operating margin	25.9%	27.2%	-1.3 ppt	26.4%	29.0%	-2.5 ppt	27.7%	29.9%	-2.3 ppt
Net margin	21.9%	22.4%	-0.5 ppt	21.9%	23.4%	-1.5 ppt	22.7%	24.0%	-1.3 ppt

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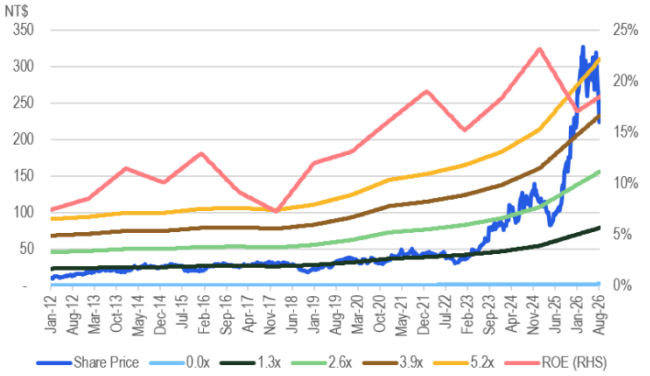
Figure 3. KYEC – Forward P/E band



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Source: Citi Research

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



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Source: Citi Research

Figure 5. KYEC – Forecast summary

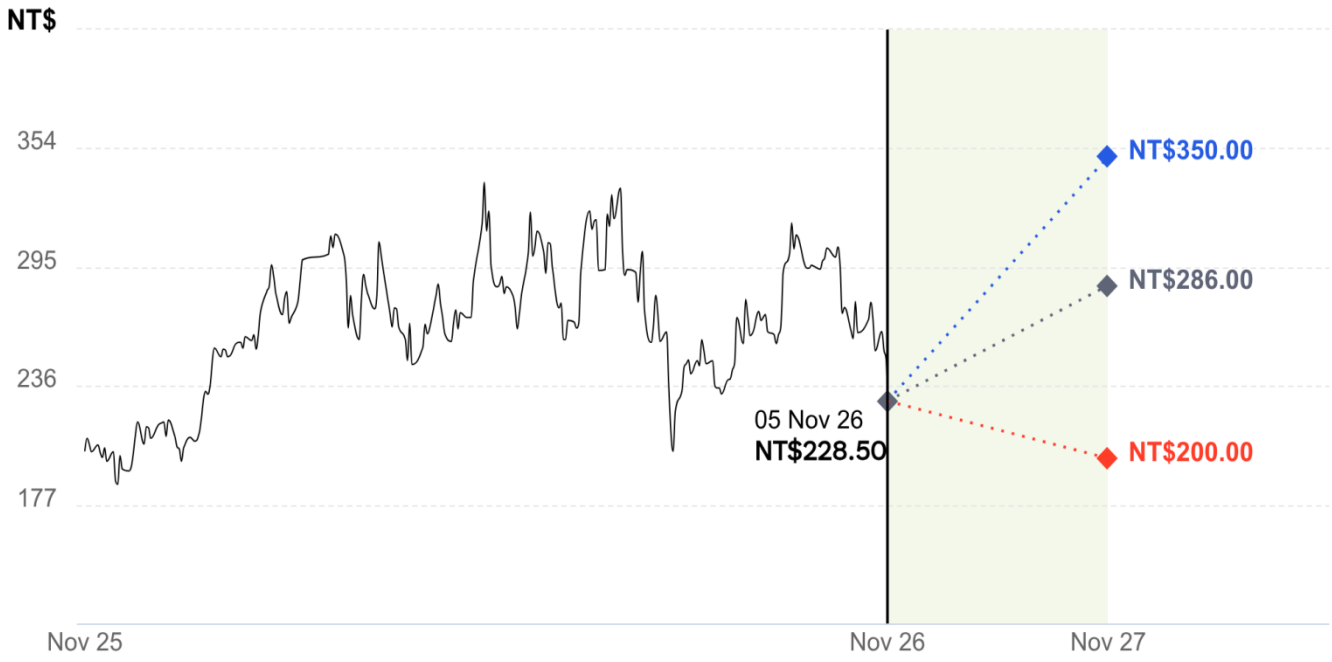
KYEC	2025				2026				2027							
(NT$ in Mn, year-end Dec)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	2025	2026E	2027E	2028E
Revenue	7,315	8,362	9,291	9,966	10,192	11,142	12,142	12,666	13,698	15,367	17,458	20,380	34,934	46,142	66,903	97,392
COGS	-4,865	-5,390	-5,944	-6,212	-6,141	-6,741	-7,583	-7,972	-8,549	-9,599	-10,796	-12,633	-22,411	-28,438	-41,576	-59,780
Depreciation costs	-1,506	-1,621	-1,742	-1,995	-2,160	-2,366	-2,536	-2,751	-3,390	-3,848	-4,033	-4,300	-6,864	-9,814	-15,572	-28,046
Gross Profit	2,450	2,972	3,347	3,753	4,051	4,400	4,560	4,694	5,149	5,769	6,663	7,747	12,522	17,704	25,327	37,612
Operating Expense	-928	-795	-855	-942	-1,279	-1,572	-1,427	-1,457	-1,548	-1,875	-1,982	-2,242	-3,520	-5,735	-7,647	-10,660
SG&A expenses	-685	-583	-637	-684	-971	-1,257	-1,063	-1,013	-1,096	-1,383	-1,441	-1,630	-2,590	-4,305	-5,550	-7,590
R&D expenses	-243	-212	-218	-258	-307	-315	-364	-443	-452	-492	-541	-611	-930	-1,430	-2,096	-3,070
EBIT	1,523	2,176	2,492	2,812	2,772	2,828	3,133	3,237	3,601	3,894	4,681	5,505	9,003	11,969	17,680	26,953
Net Interest Income	-11	144	54	1	-100	-154	24	24	25	25	24	24	188	-206	98	98
Net Other Income	618	338	340	143	137	402	91	86	84	85	85	86	1,438	716	340	340
Pre-Tax Profit	2,129	2,658	2,886	2,955	2,808	3,076	3,248	3,347	3,710	4,004	4,790	5,615	10,629	12,479	18,118	27,391
Tax	-850	-483	-584	-707	-522	-584	-603	-669	-689	-761	-890	-1,123	-2,624	-2,379	-3,463	-5,233
Net Profit	4,290	2,175	2,302	2,248	2,286	2,492	2,645	2,674	3,017	3,239	3,896	4,488	11,016	10,096	14,640	22,142
EPS (NT$)	3.32	1.68	1.78	1.74	1.78	1.94	2.06	2.08	2.35	2.52	3.03	3.49	8.53	7.85	11.39	17.22
Margins (%)																
Gross Margin	33.5%	35.5%	36.0%	37.7%	39.7%	39.5%	37.6%	37.1%	37.6%	37.5%	38.2%	38.0%	35.8%	38.4%	37.9%	38.6%
Operating Margin	20.8%	26.0%	26.8%	28.2%	27.2%	25.4%	25.8%	25.6%	26.3%	25.3%	26.8%	27.0%	25.8%	25.9%	26.4%	27.7%
Net Margin	58.6%	26.0%	24.8%	22.6%	22.4%	22.4%	21.8%	21.1%	22.0%	21.1%	22.3%	22.0%	31.5%	21.9%	21.9%	22.7%
Sequential Growth (%)																
Revenue	0%	14%	11%	7%	2%	9%	9%	4%	8%	12%	14%	17%	30%	32%	45%	46%
Gross Profit	-3%	21%	13%	12%	8%	9%	4%	3%	10%	12%	16%	16%	34%	41%	43%	49%
EBIT	1%	43%	15%	13%	-1%	2%	11%	3%	11%	8%	20%	18%	46%	33%	48%	52%
Net Profit	111%	-49%	6%	-2%	2%	9%	6%	1%	13%	7%	20%	15%	42%	-8%	45%	51%
EPS	111%	-49%	6%	-2%	2%	9%	6%	1%	13%	7%	20%	15%	41%	-8%	45%	51%

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Source: Citi Research

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

NT$ 350.00	NT$ 286.00	NT$ 200.00
▲53% Upside	▲25% Upside	▼12% Downside



Spread 66pp
Current Price and expected returns (upside/downside) as of 05 Nov 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 38% 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$286 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 2027/28E P/B of 4x/4x and 2027/28E P/E of 25x/17x, 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
8	07-Aug-26 10:43:23	1	*342.00	242.00

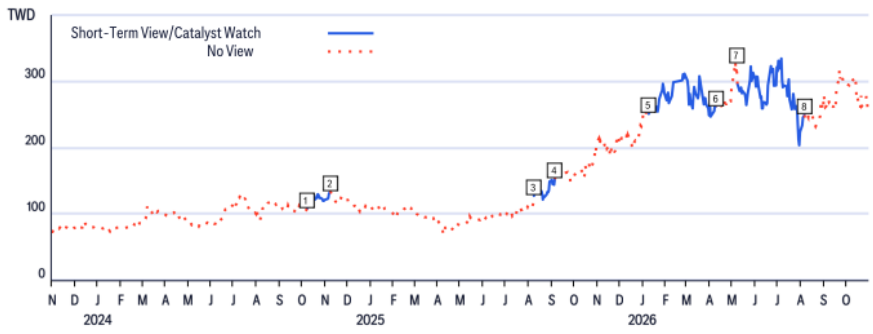
*Indicates Change

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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	12 Month Rating			Catalyst Watch		
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