Micro-Star (2377.TW)

2Q26 Beat on Margin from Inflated Material Cost Pass-Through

CITI'S TAKE

MSI reported 2Q26 net profit of NT$3.0bn (-12% QoQ/+123% YoY) significantly beat Citi/cons forecasts by 90%/44%, mainly on stronger-than-expected margins and non-op gains. 2Q26 GPM of 16.0% (+1.0ppt QoQ/+4.9ppts YoY) came in well above Citi/cons estimates, primarily reflecting the pass-through of rising memory-driven product ASPs while MSI still benefits from lower-cost inventory procured earlier. Non-operating income of NT$352mn also provided an additional boost to the bottom line. Looking ahead, we expect memory shortages and elevated ASPs to constrain the company's shipment volume, though pricing should remain solid. We are Neutral on MSI, as we believe the recent share price strength has reflected the robust margin performance. We expect to turn more positive only when PC demand recovers or the server business provides a more substantial earnings contribution.

Neutral	
Price (11 Aug 26 13:30)	NT$154.00
Target price	NT$118.00
Expected share price return	-23.4%
Expected dividend yield	2.7%
Expected total return	-20.6%
Market Cap	NT$130,108M
	US$4,034M

Michael Hung[AC]
+886-2-8726-9092
michael.hung@citi.com

Laura (Chia Yi) Chen
+886-2-8726-9090
laura.cy.chen@citi.com

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

Figure 1. MSI – 2Q26 earnings review

	2Q26			1Q26	QoQ	2Q25	YoY	2Q26	
(NT$ mn)	Actual	Citi est.	Diff (%)	Actual	(%)	Actual	(%)	BBG	Diff (%)
Revenue	49,913	52,535	-5%	56,257	-11%	61,317	-19%	52,897	-6%
Gross profits	7,969	6,308	26%	8,441	-6%	6,815	17%	7,260	10%
Operating profits	3,281	1,948	68%	3,876	-15%	2,064	59%	2,603	26%
Pretax earnings	3,633	2,021	80%	4,133	-12%	1,910	90%	2,686	35%
Net income	2,999	1,577	90%	3,417	-12%	1,343	123%	2,083	44%
EPS (NT$)	3.55	1.87	90%	4.04	-12%	1.59	123%	2.47	44%
Magins (%)									
Gross margin	16.0%	12.0%	4.0%	15.0%	1.0%	11.1%	4.9%	13.7%	2.2%
Operaing margin	6.6%	3.7%	2.9%	6.9%	-0.3%	3.4%	3.2%	4.9%	1.7%
Net margin	6.0%	3.0%	3.0%	6.1%	-0.1%	2.2%	3.8%	3.9%	2.1%

Source: Company Reports, Citi Research Estimates, Bloomberg consensus

Micro-Star

Valuation

Our target price of NT$118 is based on c.12x 2026E EPS, below the stock's five-year average forward 12-month PE. This valuation reflects the earnings downside risks from muted PC demand and margin pressure from soaring component costs, while accounting for the time required for the server business to achieve meaningful scale.

Risks

Key upside risks that could cause MSI's shares to trade above our target price include: 1) a sharper-than-expected recovery in high-end gaming demand; and 2) faster-than-anticipated revenue contribution from the AI server segment. Key downside risks include: 1) a deeper-than-expected contraction in global PC shipments; 2) prolonged supply shortages for gaming GPUs due to Ai resource crowding; and 3) inability to pass through surging memory and CPU costs to price-sensitive consumers.

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Appendix A-1

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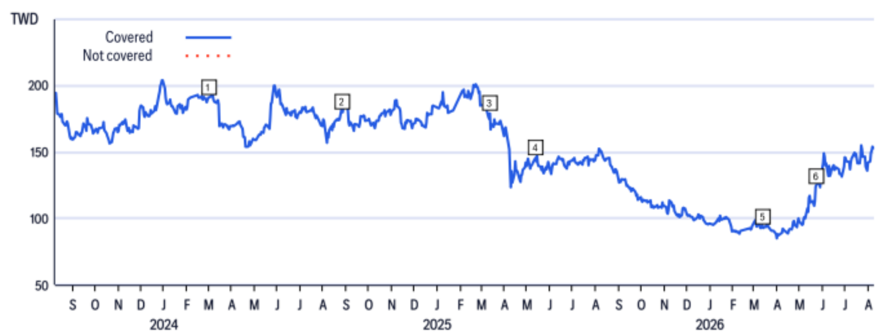
Micro-Star (2377.TW)
Ratings and Target Price History
Fundamental Research

Analyst: Michael Hung



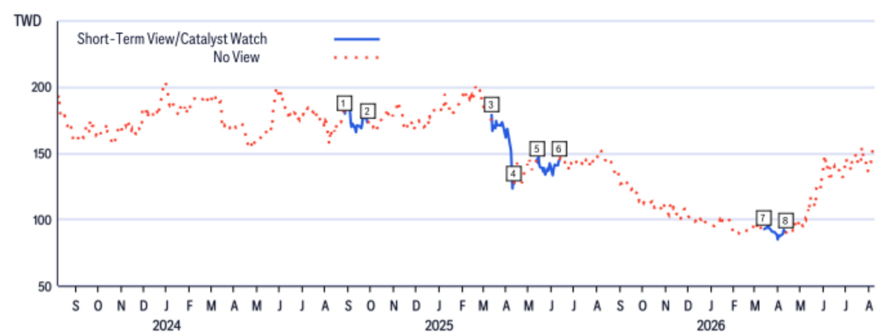
	Date	Rating	Target Price	Closing Price
1	01-Mar-24 02:33:21	1	*215.00	191.00
2	27-Aug-24 09:09:36	1	*235.00	180.00
3	12-Mar-25 08:51:46	1	*210.00	179.00
4	12-May-25 08:46:00	1	*180.00	145.50
5	13-Mar-26 10:21:15	*2	*100.00	92.80
6	22-May-26 03:30:59	2	*118.00	124.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

Micro-Star (2377.TW)
Short-Term View/Catalyst Watch Research

Analyst: Michael Hung



	Date	Action	Expected Direction	Duration	Closing Price
1	27-Aug-24 05:09:36	Add STV	Upside	30 Days	180.00
2	26-Sep-24 21:56:15	Remove STV	Upside	30 Days	173.50
3	12-Mar-25 04:51:46	Add STV	Downside	30 Days	179.00
4	11-Apr-25 14:08:08	Remove STV	Downside	30 Days	127.00
5	12-May-25 04:46:00	Add STV	Downside	30 Days	145.50
6	11-Jun-25 21:35:28	Remove STV	Downside	30 Days	145.00
7	13-Mar-26 06:21:15	Add STV	Downside	30 Days	92.80
8	12-Apr-26 21:49:12	Remove STV	Downside	30 Days	90.80

CW - Catalyst Watch , STV - Short-Term View

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% of companies in each rating category that are investment banking clients	38%	42%	27%	42%	37%	36%

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