27 Oct 2026 07:23:02 ET | 16 pages

Genius Electronic Optical (3406.TW)

Upside on EBO as a long-term catalyst

CITI'S TAKE

Genius reported its 3Q26 earnings of NT$1,092m, down 23% YoY, up 59% QoQ, below our estimate and consensus. Despite 3Q26 shortfall, we believe market now more focuses on its new business in EBO. We've highlighted in our previous report on Genius' development on optical ferrule solution (see our recent report). Following 3M's announcement of investment in Genius on EBO business cooperation, 3M reiterated an EBO total addressable market of approximately US$2 billion in 2028 during its latest earnings. Alongside Microsoft's deployment, 3M also announced that its Amazon ramp in late 2027. As the key partner for 3M, we believe EBO optical solution will become the key catalyst for Genius in the next few years.

Smartphone business unexciting but steady — Genius' preliminary 3Q26 earnings were weaker than ours and Street's estimate as we see potential negative F/X impact on RMB appreciation and GM decline on new project ramp. While Genius' peer, Largan, has indicated a muted outlook for the smartphone industry as the peak production ramp for newly launched models has passed, we expect Genius' revenue to decline seasonally in 4Q26. However, another wave of base-model smartphone launches in 1Q27 should help support demand during what is typically its seasonally slower period at the start of next year. Given its steady market share gain, we expect a stable GM ahead.

EBO business may contribute 8-10% revenue in 2027, more upside ahead — EBO technology uses lens arrays to expand and collimate light between optical fibers, enabling transmission across a contactless interface. Thanks to Genius' experience in camera lens and early business engagement with 3M, the company is working closely with 3M to expand these business opportunities. Compared with conventional physical-contact connectors, EBO reduces sensitivity to dust, cleaning requirements and connector wear, while enabling faster installation and higher connection density. We expect a great opportunity for Genius to extend its precision-optics expertise into infrastructure where reliability and deployment efficiency directly affect customer economics.

Reiterate Buy and raise TP to NT$1,380 — While Genius is also navigating the opportunities in CPO and PMLA for FAU, we believe it takes time and the EBO contribution will provide more substantial upside for the next two years. Given better visibility from its cooperation with 3M, we lift our TP by ~32% to NT$1,380 (higher PER of 33x of 2027/28 EPS projection vs 25x PER previously).

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	4,323	38.35	40.7	31.6	5.5	18.8	1.5
2025A	3,702	32.84	-14.4	36.8	5.1	14.4	1.3
2026E	3,750	33.26	1.3	36.4	4.6	13.5	1.3
2027E	4,299	38.13	14.6	31.7	4.6	14.7	1.5
2028E	5,261	46.67	22.4	25.9	4.2	17.0	1.8

Source: Powered by dataCentral

Buy

Short-Term View: Upside, expires 26-NOV-26

Price (27 Oct 26 13:30)	NT$1,210.00
Target price	NT$1,380.00↑
from NT$1,050.00	
Expected share price return	14.0%
Expected dividend yield	1.3%
Expected total return	15.4%
Market Cap	NT$136,419M
	US$4,186M

Price Performance
(RIC: 3406.TW, BB: 3406 TT)



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3406.TW: Fiscal year end 31-Dec						Price: NT$1,210.00; TP: NT$1,360.00; Market Cap: NT$136,419m; Recomm: Buy				
Profit & Loss (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**	**Valuation ratios**	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue	23,187	24,989	26,467	27,500	32,848	PE (x)	31.6	36.8	36.4	31.7	25.9
Cost of sales	-15,190	-16,864	-17,790	-18,358	-21,737	PB (x)	5.5	5.1	4.6	4.6	4.2
Gross profit	7,997	8,125	8,677	9,143	11,111	EV/EBITDA (x)	15.7	15.3	14.1	13.7	11.9
Gross Margin (%)	34.5	32.5	32.8	33.2	33.8	FCF yield (%)	4.3	3.1	7.8	4.5	4.4
EBITDA (Adj)	**8,370**	**8,320**	**8,628**	**8,445**	**9,530**	Dividend yield (%)	1.5	1.3	1.3	1.5	1.8
EBITDA Margin (Adj) (%)	36.1	33.3	32.6	30.7	29.0	Payout ratio (%)	47	47	47	47	47
Depreciation	-3,699	-3,547	-3,576	-3,024	-2,804	ROE (%)	18.8	14.4	13.5	14.7	17.0
Amortisation	0	0	0	0	0	**Cashflow (NT$m)**	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBIT (Adj)	**4,671**	**4,773**	**5,052**	**5,421**	**6,726**	EBITDA	8,370	8,320	8,628	8,445	9,530
EBIT Margin (Adj) (%)	20.1	19.1	19.1	19.7	20.5	Working capital	1,158	-1,214	5,369	702	40
Net interest	304	298	302	276	276	Other	-334	-1,065	-1,294	-1,122	-1,465
Associates	4	2	0	0	0	**Operating cashflow**	**9,195**	**6,040**	**12,704**	**8,025**	**8,106**
Non-Op/Except/Other Adj	945	-83	-401	100	100	Capex	-3,283	-1,811	-2,120	-1,888	-2,135
Pre-tax profit	**5,925**	**4,990**	**4,954**	**5,797**	**7,102**	Net acq/disposals	-96	109	-16	0	0
Tax	-1,587	-1,282	-1,195	-1,498	-1,841	Other	499	142	-125	0	0
Extraord./Min.Int./Pref.div.	-14	-6	-8	0	0	**Investing cashflow**	**-2,880**	**-1,560**	**-2,261**	**-1,888**	**-2,135**
Reported net profit	**4,328**	**3,702**	**3,750**	**4,299**	**5,261**	Dividends paid	-1,340	-2,010	-1,721	-1,744	-1,999
Net Margin (%)	18.6	14.8	14.2	15.6	16.0	**Financing cashflow**	**-3,856**	**-4,859**	**-1,195**	**-4,245**	**-1,999**
Core NPAT	4,323	3,702	3,750	4,299	5,261	**Net change in cash**	**2,459**	**-379**	**9,248**	**1,892**	**3,972**
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**	**Free cashflow to s/holders**	**5,912**	**4,229**	**10,583**	**6,137**	**5,971**
Reported EPS ($)	38.35	32.84	33.26	38.13	46.67						
Core EPS ($)	38.35	32.84	33.26	38.13	46.67						
DPS ($)	18.00	15.42	15.62	17.90	21.91						
CFPS ($)	81.55	53.57	112.68	71.18	71.90						
FCFPS ($)	52.43	37.51	93.87	54.43	52.96						
BVPS ($)	222.01	237.40	261.80	262.28	291.49						
Wtd avg ord shares (m)	113	113	113	113	113						
Wtd avg diluted shares (m)	113	113	113	113	113						
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**						
Sales revenue (%)	7.0	7.8	5.9	3.9	19.4						
EBIT (Adj) (%)	13.1	2.2	5.8	7.3	24.1						
Core NPAT (%)	40.7	-14.4	1.3	14.6	22.4						
Core EPS (%)	40.7	-14.4	1.3	14.6	22.4						
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**						
Cash & cash equiv.	11,173	10,795	20,042	21,934	25,906						
Accounts receivables	3,981	5,640	5,241	6,758	6,770						
Inventory	2,379	2,115	2,021	2,606	2,610						
Net fixed & other tangibles	20,727	18,991	17,536	16,400	15,730						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	4,774	6,099	3,753	3,852	3,853						
Total assets	**43,035**	**43,641**	**48,594**	**51,549**	**54,869**						
Accounts payable	1,367	2,631	2,725	3,659	3,701						
Short-term debt	3,494	1,508	1,846	1,846	1,846						
Long-term debt	3,365	2,759	2,192	2,192	2,192						
Provisions & other liab	10,044	10,259	12,619	14,587	14,603						
Total liabilities	**18,271**	**17,157**	**19,382**	**22,284**	**22,341**						
Shareholders' equity	24,791	26,510	29,234	29,288	32,550						
Minority interests	-27	-27	-23	-23	-23						
Total equity	**24,765**	**26,484**	**29,212**	**29,266**	**32,528**						
Net debt (Adj)	**-4,314**	**-6,528**	**-16,005**	**-17,866**	**-21,868**						
Net debt to equity (Adj) (%)	-17.4	-24.6	-54.8	-61.2	-67.2						

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

EBO: Solving AI Data Centers' Connectivity Bottlenecks

Expanded Beam Optical (EBO) technology uses lens arrays to expand and collimate light between optical fibers, enabling transmission across a contactless interface. Compared with conventional physical-contact connectors, EBO reduces sensitivity to dust, cleaning requirements and connector wear, while enabling faster installation and higher connection density. These benefits become increasingly valuable as AI clusters require more fiber connections in difficult-to-access locations, including optical backplanes. For Genius, this creates an opportunity to extend its precision-optics expertise into infrastructure where reliability and deployment efficiency directly affect customer economics.

Figure 1. 3M – EBO product demo



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Source: Citi Research, 3M

Figure 2. 3M – EBO product demo



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Source: Citi Research, 3M

Technology Requirements and Genius's Manufacturing Advantage

EBO relaxes some connector-interface tolerances, but manufacturing its optical structures still requires precise lens geometry, consistent fiber-to-lens positioning, dimensional stability and stringent optical-loss control. The competitive challenge is reproducing that performance at high volumes with attractive yields. Genius' established precision-optics manufacturing capabilities and production scale therefore complement 3M's proprietary ferrule technology, materials expertise and customer relationships. Their collaboration supports commercialization and capacity expansion, while 3M's planned approximately 4.7% equity investment strengthens strategic alignment. In our view, this provides Genius with a credible route into optical connectivity, given its smartphone-lens expertise translates into qualified, reliable production.

Implications for Genius: Strategic Diversification, with Earnings Following the Ramp

The partnership positions Genius as a manufacturing participant in 3M's EBO expansion, offering a potential growth engine beyond consumer-device optics. Our interpretation is that technology qualification, production yields and capacity readiness will matter most initially, with stronger revenue potential as deployments accelerate from 2027. **We estimate the revenue contribution to reach about 8%/28% in 2027/2028 assuming around 30m/140m units based on 3M's addressable market estimate.**

Muted smartphone outlook well anticipated, more optical upside in AI

Genius' near-term momentum is still highly relying on smartphone order flow. Its peer, Largan, has indicated a muted outlook for the smartphone industry as the peak production ramp for newly launched models has passed; we expect Genius' revenue to decline seasonally in 4Q26. However, another wave of base-model smartphone launches in 1Q27 should help support demand during what is typically its seasonally slower period at the start of next year. Given its steady market share gain, we expect a stable GM ahead. While Genius is also navigating the opportunities in CPO and PMLA for FAU, we believe it takes time and the EBO contribution will provide more substantial upside for the next two years. We slightly lower our earnings projection for 2026/2027 but lift 2028 estimate by 6%, given better visibility for its cooperation with 3M. We raise our TP to NT$1,380 from NT$1,050 previously (higher PER of 33x of our 2027/28 EPS projection vs 25x previously). 33x PER is above the high end of its 5-year historical range as we believe the high growth optical opportunity in AI arena and 3M's strategic cooperation should further reinforce Genius' position in capturing the expanding optical connector markets, leading to better growth and re-rating potential for Genius.

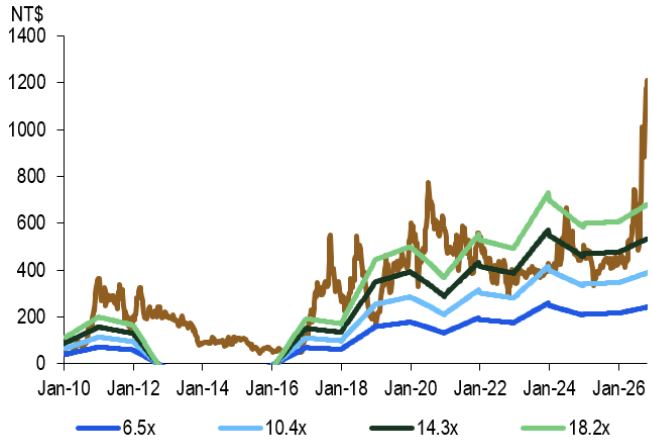
Figure 3. Genius – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	26,467	24,673	7%	27,500	25,972	6%	32,848	28,687	15%
Gross profit	8,677	8,433	3%	9,143	9,124	0%	11,111	10,164	9%
Opex	(3,625)	(3,499)	4%	(3,722)	(3,547)	5%	(4,385)	(3,841)	14%
Operating profit	5,052	4,933	2%	5,421	5,577	-3%	6,726	6,323	6%
Pre-tax profit	4,954	5,196	-5%	5,797	5,953	-3%	7,102	6,699	6%
Net income	3,750	3,931	-5%	4,299	4,407	-2%	5,261	4,960	6%
EPS (NT$)	33.3	34.9	-5%	38.1	39.1	-2%	46.7	44.0	6%
Gross margin	32.8%	34.2%	-1.4 ppts	33.2%	35.1%	-1.9 ppts	33.8%	35.4%	-1.6 ppts
Opex ratio	-13.7%	-14.2%	+0.5 ppts	-13.5%	-13.7%	+0.1 ppts	-13.4%	-13.4%	+0.0 ppts
Operating margin	19.1%	20.0%	-0.9 ppts	19.7%	21.5%	-1.8 ppts	20.5%	22.0%	-1.6 ppts
Net margin	14.2%	15.9%	-1.8 ppts	15.6%	17.0%	-1.3 ppts	16.0%	17.3%	-1.3 ppts

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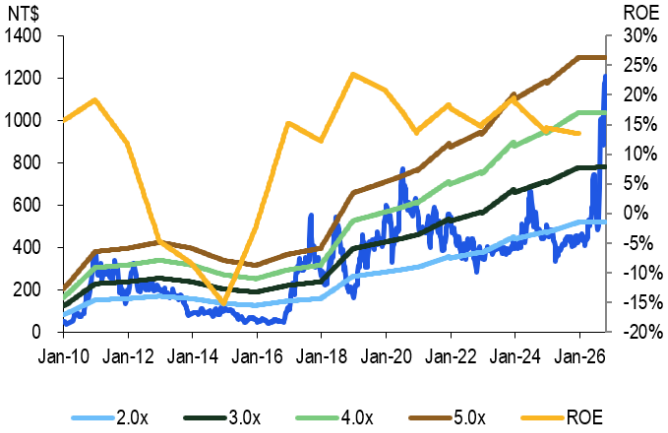
Source: Citi Research

Figure 4. Genius – Forward P/E band



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Source: Citi Research, Company data

Figure 5. Genius – Forward P/B band & ROE



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Source: Citi Research, Company data

Figure 6. Genius – Forecast summary

NT$mn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Net sales	5,321	4,776	7,740	7,152	6,141	5,682	7,812	6,832	6,193	5,466	7,032	8,809	24,989	26,467	27,500	32,848
Gross profit	**1,646**	**1,388**	**2,641**	**2,449**	**2,061**	**1,884**	**2,523**	**2,209**	**2,013**	**1,852**	**2,273**	**3,005**	**8,125**	**8,677**	**9,143**	**11,111**
OPEX	749	792	827	983	860	925	945	895	851	879	868	1,123	3,352	3,625	3,722	4,385
Operating profit	**897**	**596**	**1,814**	**1,466**	**1,201**	**960**	**1,578**	**1,314**	**1,162**	**973**	**1,405**	**1,881**	**4,773**	**5,052**	**5,421**	**6,726**
Total Non-OP	267	(304)	119	135	39	(142)	(103)	108	145	45	143	43	217	(98)	376	376
Pre-tax profit	1,164	292	1,933	1,602	1,239	818	1,475	1,422	1,307	1,018	1,548	1,924	4,990	4,954	5,797	7,102
Income tax	294	51	516	422	348	124	383	341	324	275	418	481	1,282	1,195	1,498	1,841
Net profit	**872**	**240**	**1,414**	**1,176**	**891**	**686**	**1,092**	**1,081**	**983**	**743**	**1,130**	**1,443**	**3,702**	**3,750**	**4,299**	**5,261**
EPS	**7.7**	**2.1**	**12.5**	**10.4**	**7.9**	**6.1**	**9.7**	**9.6**	**8.7**	**6.6**	**10.0**	**12.8**	**32.8**	**33.3**	**38.1**	**46.7**
Margins (%)																
Gross profit	**30.9**	**29.1**	**34.1**	**34.3**	**33.6**	**33.2**	**32.3**	**32.3**	**32.5**	**33.9**	**32.3**	**34.1**	**32.5**	**32.8**	**33.2**	**33.8**
OPEX to Sales Ratio	14.1	16.6	10.7	13.7	14.0	16.3	12.1	13.1	13.7	16.1	12.4	12.8	13.4	13.7	13.5	13.4
Operating profit	**16.8**	**12.5**	**23.4**	**20.5**	**19.6**	**16.9**	**20.2**	**19.2**	**18.8**	**17.8**	**20.0**	**21.4**	**19.1**	**19.1**	**19.7**	**20.5**
Total Non-OP	5.0	(6.4)	1.5	1.9	0.6	(2.5)	(1.3)	1.6	2.3	0.8	2.0	0.5	0.9	(0.4)	1.4	1.1
Pre-tax profit	21.9	6.1	25.0	22.4	20.2	14.4	18.9	20.8	21.1	18.6	22.0	21.8	20.0	18.7	21.1	21.6
Net profit	**16.4**	**5.0**	**18.3**	**16.4**	**14.5**	**12.1**	**14.0**	**15.8**	**15.9**	**13.6**	**16.1**	**16.4**	**14.8**	**14.2**	**15.6**	**16.0**
Y/Y (%)																
Net sales	1.6	(4.2)	3.3	30.7	15.4	19.0	0.9	(4.5)	0.9	(3.8)	(10.0)	28.9	7.8	5.9	3.9	19.4
Gross profit	(12.0)	(24.8)	(5.9)	66.2	25.2	35.7	(4.5)	(9.8)	(2.3)	(1.7)	(9.9)	36.0	1.6	6.8	5.4	21.5
Operating profit	(20.1)	(43.5)	(8.5)	186.6	33.9	61.0	(13.0)	(10.4)	(3.2)	1.4	(11.0)	43.2	2.2	5.8	7.3	24.1
Pre-tax profit	(23.0)	(78.7)	1.6	40.8	6.5	179.8	(23.7)	(11.2)	5.4	24.5	5.0	35.3	(15.8)	(0.7)	17.0	22.5
Net profit	(19.8)	(76.0)	2.6	37.0	2.1	185.9	(22.7)	(8.1)	10.3	8.3	3.4	33.5	(14.4)	1.3	14.6	22.4
Q/Q(%)																
Net sales	(2.7)	(10.2)	62.1	(7.6)	(14.1)	(7.5)	37.5	(12.5)	(9.4)	(11.7)	28.7	25.3				
Gross profit	11.7	(15.7)	90.2	(7.3)	(15.9)	(8.6)	33.9	(12.4)	(8.9)	(8.0)	22.7	32.2				
Operating profit	75.2	(33.5)	204.2	(19.1)	(18.1)	(20.1)	64.4	(16.7)	(11.6)	(16.2)	44.4	33.9				
Pre-tax profit	2.3	(74.9)	561.5	(17.1)	(22.6)	(34.0)	80.4	(3.6)	(8.1)	(22.1)	52.0	24.3				
Net profit	1.6	(72.5)	489.0	(16.8)	(24.2)	(23.0)	59.2	(1.0)	(9.1)	(24.4)	52.0	27.7				

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Source: Citi Research

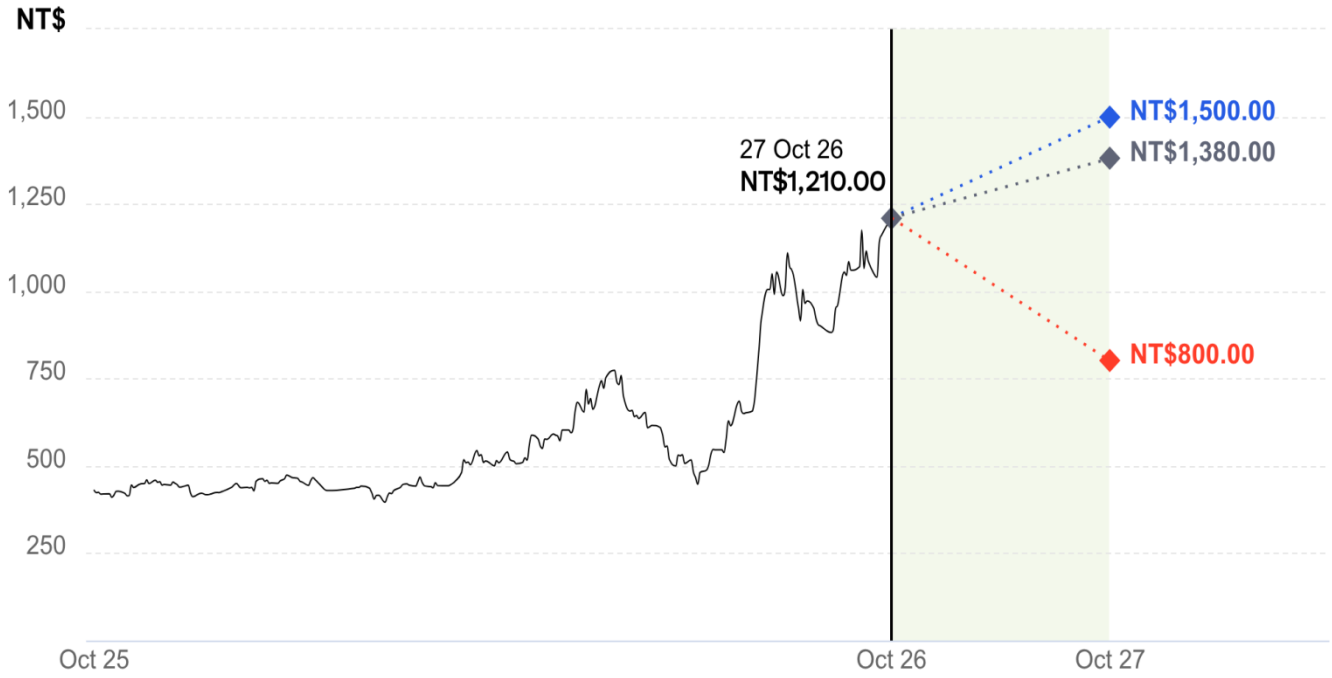
Short-Term View on Genius Electronic Optical (3406.TW)

Direction:	**Upside**
Duration:	Within 90 Days (expires 26 Nov 2026)
Date Added:	27 Aug 2026
Category:	Thematic driven

We expect Genius' positive development in new optical connector business to support the share price performance in the coming months.

Bull/Bear: Genius Electronic Optical (3406.TW)

NT$1,500.00 ▲24% Upside | NT$1,380.00 ▲14% Upside | NT$800.00 ▼34% Downside



Spread 58pp
Current Price and expected returns (upside/downside) as of 27 Oct 2026

BULL Assumptions

- Less fierce competition and more favorable product mix
- Stronger than expected growth potential in new business

BASE Assumptions

- GM of >33% in 2027-28E

BEAR Assumptions

- More fierce competition and less favorable product mix
- Weaker than expected progress in new business

Genius Electronic Optical

Company description

Genius is a leading lens provider. It was established in 1989 and listed on TWSE in 2005. Its revenue increased from NT$4.5bn in 2010 to NT$23.2bn in 2024. The revenue breakdown for Genius in 2023 was 73% smartphone lens and 27% others.

Investment strategy

We have a Buy rating on Genius. We expect Genius to see resilient sales momentum driven by stable lens sales in iPhone business. Moreover, we see its new development in EBO business to provide strong upside potential in the longer term.

Valuation

Our target price for Genius of NT$1,380 is based on 33x 2027/28 EPS. We are using 2027/28 as the valuation base year as we believe the new business in optical connector will be a new catalyst starting from next year. 33x PER is above the high end of its 5-year historical range as we believe the high growth optical opportunity in AI arena will lead better growth and re-rating and 3M's strategic cooperation further reinforces Genius' position in capturing the expanding optical connector markets. Genius used to trade based on smartphone product cycle and the growth has been stagnant. With the new optical connector opportunity, we view it should be resuming strong growth ahead.

Risks

Key downside risks that could mean the stock fails to achieve our target price include: lower-than-expected smartphone sell-through; lower iPhone share allocation; slower-than-expected spec migration for the lens industry; and slower than expected prorgess in new optical business.

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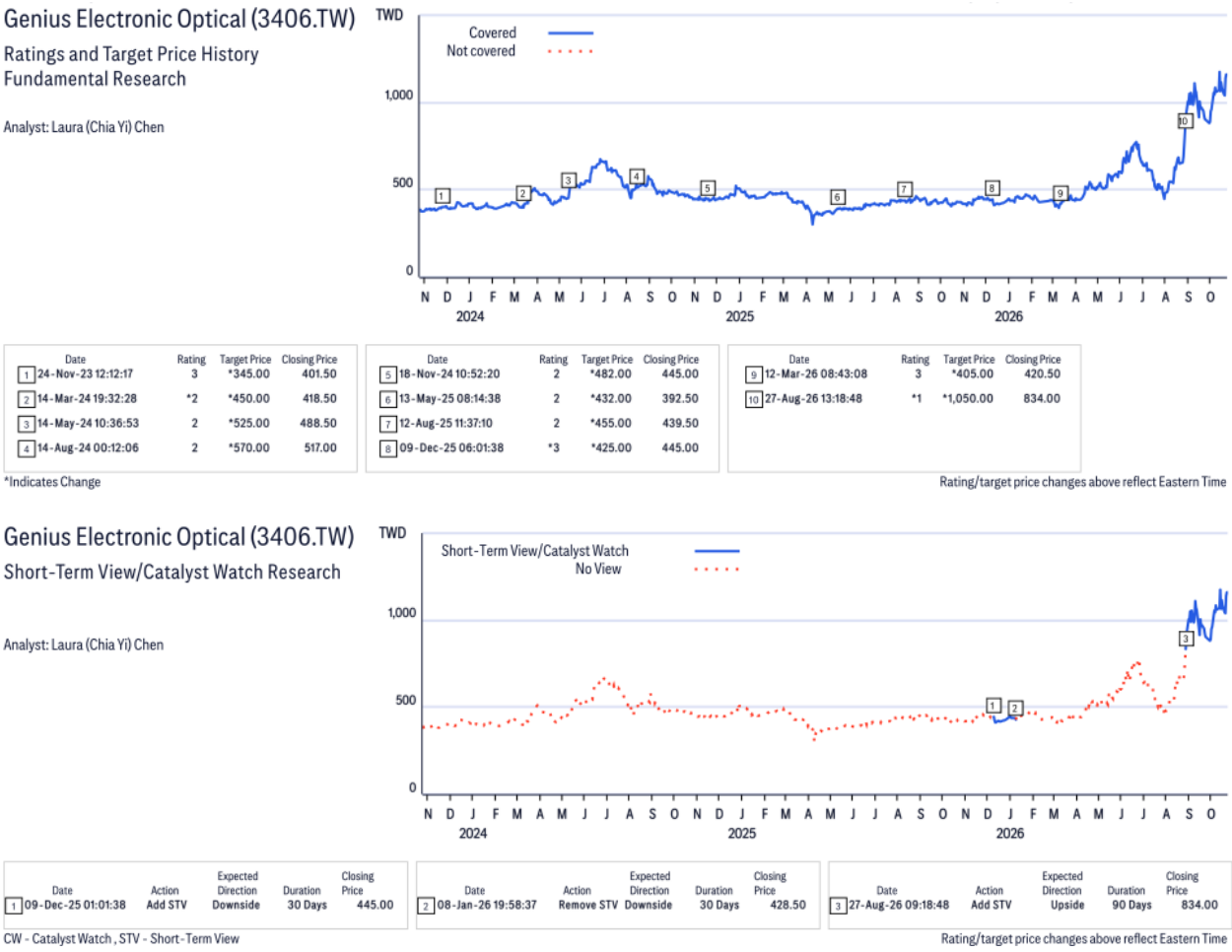
Appendix A-1

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

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IMPORTANT DISCLOSURES



	Date	Rating	Target Price	Closing Price
1	24-Nov-23 12:12:17	3	*345.00	401.50
2	14-Mar-24 19:32:28	*2	*450.00	418.50
3	14-May-24 10:36:53	2	*525.00	488.50
4	14-Aug-24 00:12:06	2	*570.00	517.00
5	18-Nov-24 10:52:20	2	*482.00	445.00
6	13-May-25 08:14:38	2	*432.00	392.50
7	12-Aug-25 11:37:10	2	*455.00	439.50
8	09-Dec-25 06:01:38	*3	*425.00	445.00
9	12-Mar-26 08:43:08	3	*405.00	420.50
10	27-Aug-26 13:18:48	*1	*1,050.00	834.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

	Date	Action	Expected Direction	Duration	Closing Price
1	09-Dec-25 01:01:38	Add STV	Downside	30 Days	445.00
2	08-Jan-26 19:58:37	Remove STV	Downside	30 Days	428.50
3	27-Aug-26 09:18:48	Add STV	Upside	90 Days	834.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			Catalyst Watch		
Data current as of 01 Oct 2026	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage (Neutral=Hold)	61%	32%	7%	36%	48%	16%
% of companies in each rating category that are investment banking clients	39%	43%	30%	42%	38%	36%

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