30 Jul 2026 11:20:07 ET | 10 pages

Realtek (2379.TW)

GM should mark the trough in 2Q and recover thereafter

CITI'S TAKE

Realtek reported 2Q26 net profit at NT$3,805m, which declined 12% QoQ and 3% YoY. It missed our and Street (Bloomberg) estimates by 21% and 14% mainly due to lower GM at 47% (vs. 49.7% in 1Q26 and 50.2% in 2Q25). 2Q GM was mainly pressured by rising upstream semiconductor cost and higher BOM cost from memory. Looking into 3Q, the company now guides for high single digit QoQ sales growth with GM likely to improve QoQ due to its price hike initiatives. Despite a likely shipment decline for PC, Realtek is seeing solid demand momentum in networking and automotive application. We remain constructive over Realtek's growth outlook and view specs migration for its networking offering (e.g. growing WiFi 7 penetration) as a key growth driver into next year. Maintain Buy.

Buy	
Price (30 Jul 26 13:30)	NT$697.00
Target price	NT$630.00
Expected share price return	-9.6%
Expected dividend yield	3.5%
Expected total return	-6.1%
Market Cap	NT$359,312M
	US$11,104M

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- **Another QoQ sales growth into 3Q –** Even against the high base in 2Q (+18% YoY/+3% QoQ), Realtek is now looking for HSD% QoQ growth for 3Q26, which is better than Street's expectation. By application, it sees strength in enterprise networking, IoT and automotive segments. For PC, demand has normalized after the strong pull-in in 2H.

- **GM to recover in 2H –** Despite of 2Q GM dip, Realtek is confident its GM should return to normal level (high-40%) levels in the coming quarters. Given higher upstream cost, especially from OSATs, Realtek has started to raise products pricing from June, which we expect should help to ease the cost pressure starting from 3Q. Moreover, inventories have remained at healthy levels across the supply chain, which we also view as positive sigh for its GM outlook given low chance of future inventory write-off.

- **Maintain Buy on new products cycle demand –** We see solid demand from specs migration in WiFi, multi-gig, ethernet to serve as Realtek's growth driver into next year. We see its new products migration should allow Realtek to enjoy ASP expansion and margins uptrend outlook.

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

Realtek

Valuation

Our target price for Realtek is set at NT$630 based on our target PE multiple of 17x to our 2026-2027 EPS average. We believe our PER of 17x, in line with its 3-year forward PER average, is justified by its solid growth opportunity in automotive and switch/PON business. We also believe its continued efforts in products mix optimization should help to support its margins expansion. At our target price, the shares would trade at a 2026/27E P/B of 5x/4x.

Risks

Key downside risks to our target price include: 1) Slowdown in technology migration for its networking business; 2) Weaker-than-expected growth momentum for automotive Ethernet sales; 3) Worse-than-expected PC/NB and consumer electronic demand; 4) Slower-than-expected GM expansion due to pricing competition from peers; and 5) Higher-than-expected memory cost burden to dampen the order outlook from its networking and PC/NB clients.

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Appendix A-1

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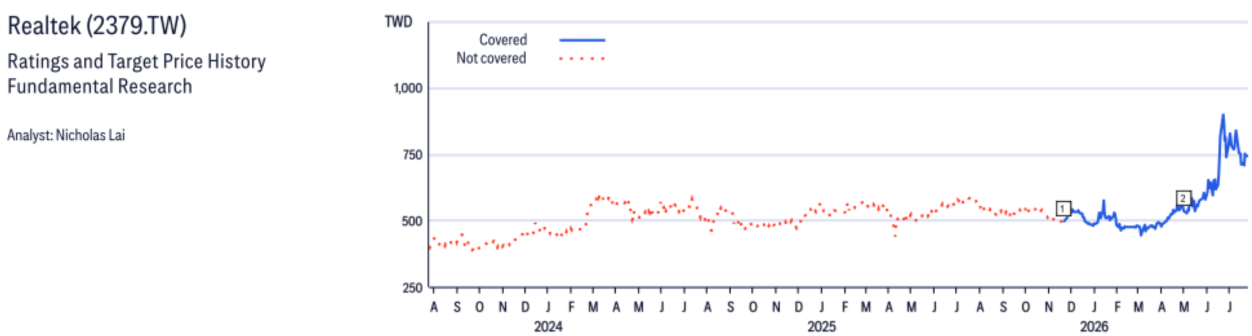
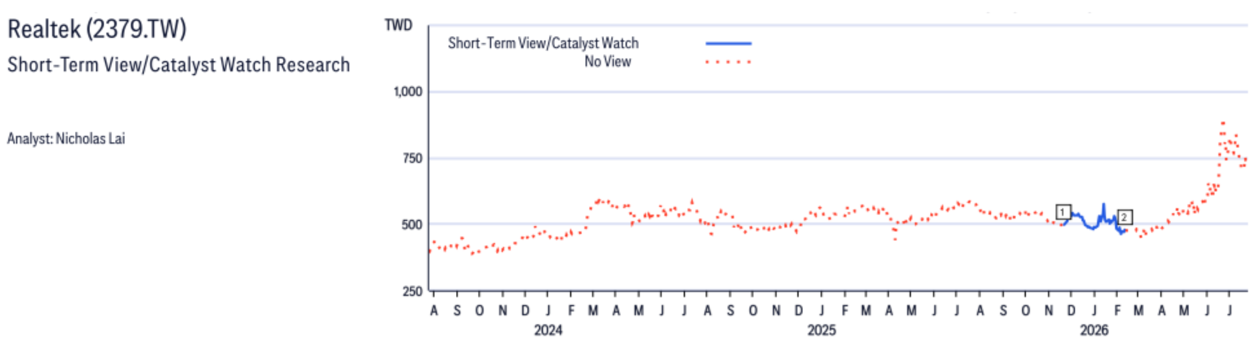


Date	Rating	Target Price	Closing Price
1 23-Nov-25 16:00:14	*1	*650.00	498.00
2 30-Apr-26 11:42:38	1	*630.00	537.00

*Indicates Change

Rating/target price changes above reflect Eastern Time



Date	Action	Expected Direction	Duration	Closing Price
1 23-Nov-25 11:00:14	Add STV	Upside	90 Days	498.00
2 20-Feb-26 12:01:43	Remove STV	Upside	90 Days	476.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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Data current as of 01 Jul 2026	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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