Action | Citi Research

11 Aug 2026 07:41:48 ET | 14 pages

Inventec (2356.TW)

Structural shift toward AI server business remains intact, but short-term headwinds from tight upstream components supply

CITI'S TAKE

Inventec reported 2Q26 net profit of NT$3,895m, up 60% QoQ and 78% YoY, beating our and consensus estimates by 31-37%, mainly driven by strong revenues growth of 35% QoQ and 45% YoY given the NB pull-in demand and the ramp of server business. Nonetheless, GM dropped from 1Q26's 5.1% to 4.2% and missed market expectation (Citi/Consensus 5.2%/5.1%) due to the margins dilution effect from higher component cost, especially in NB products line. While current outlook into 3Q looks to be tempered by the tight supply of upstream components for server business and the inevitable NB shipment decline on strong pull-in in 1H, we remain constructive over its growth outlook into next year, backed by its new production capacity ramps, emerging general server and ASIC business and continued ramps of its rack level AI server business. Maintain Buy.

Flattish 3Q sales with sequential GM improvement — Despite Inventec already achieving >30% QoQ sales growth for both server and NB business in 2Q, the company is guiding for 3Q26 revenues to be flattish QoQ. NB shipment is expected to decline HSD QoQ, but due to better mix toward commercial NB products and price hike, Inventec is expecting a slight sequential decrease for its NB revenues. With strength in server to largely offset weakness in NB, GM is expected to improve sequentially, marking 2Q as the trough of the year.

Near-term delay not changing its long-term server growth narrative — Inventec commented that the supply shortage in some key components (memory, CPUs, PCB, etc) has led to some order delay from 3Q to 4Q. We acknowledge the near-term supply shortage may cap upside to its server sales momentum in 3Q, but we see long-term growth upside from its continued build-up of its system level server capacity, upward AI demand trajectory, especially from its Chinese clients and accelerating general server demand from emerging agentic AI applications, driving its overall OPM expansion in the years to come. To support the expanding project demand, its 2026 capex is guided to double to US$1bn, from 2025 levels as it builds new facility for production diversification and server capacity expansion.

Maintain Buy — We raise our 2026/27 earnings by 9%/16% to model in better than expected 2Q results and continued ramps of its server capacity. We raise our TP to NT$75 (17x 2027 EPS vs 18x forward earnings previously) from NT$63, as we move forward our valuation base year to 2027.

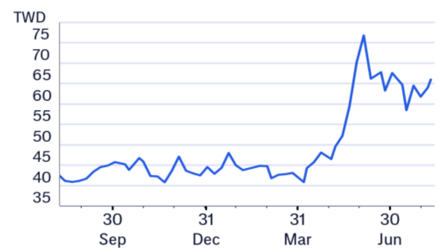
Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	7,306	2.04	19.1	32.0	3.3	11.0	2.6
2025A	8,690	2.42	18.9	26.9	3.1	11.8	2.7
2026E	13,782	3.84	58.6	16.9	3.2	18.4	4.3
2027E	16,176	4.51	17.4	14.4	2.9	21.0	5.1
2028E	17,733	4.94	9.6	13.2	2.7	21.4	5.6

Source: Powered by dataCentral

Buy	
Price (11 Aug 26 13:30)	NT$65.10
Target price	NT$75.00↑
from NT$63.00	
Expected share price return	15.2%
Expected dividend yield	2.6%
Expected total return	17.8%
Market Cap	NT$233,545M
	US$7,240M

Price Performance (RIC: 2356.TW, BB: 2356 TT)



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2356.TW: Fiscal year end 31-Dec

Price: NT$65.10; TP: NT$75.00; Market Cap: NT$233,545m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	646,262	691,190	1,006,303	1,076,800	1,131,031
Cost of sales	-612,925	-654,476	-958,559	-1,019,034	-1,069,532
Gross profit	33,337	36,715	47,744	57,766	61,499
Gross Margin (%)	5.2	5.3	4.7	5.4	5.4
EBITDA (Adj)	**15,863**	**15,185**	**21,723**	**25,592**	**27,544**
EBITDA Margin (Adj) (%)	2.5	2.2	2.2	2.4	2.4
Depreciation	-4,009	-2,479	-3,204	-3,204	-3,204
Amortisation	0	0	0	0	0
EBIT (Adj)	**11,855**	**12,706**	**18,519**	**22,389**	**24,340**
EBIT Margin (Adj) (%)	1.8	1.8	1.8	2.1	2.2
Net interest	-3,095	-3,385	-3,355	-3,355	-3,355
Associates	-449	1,819	644	114	114
Non-Op/Except/Other Adj	938	865	1,816	1,217	1,217
Pre-tax profit	**9,248**	**12,006**	**17,624**	**20,365**	**22,317**
Tax	-1,944	-2,722	-3,848	-4,242	-4,643
Extraord./Min.Int./Pref.div.	1	-594	6	53	60
Reported net profit	**7,306**	**8,690**	**13,782**	**16,176**	**17,733**
Net Margin (%)	1.1	1.3	1.4	1.5	1.6
Core NPAT	7,306	8,690	13,782	16,176	17,733
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	2.04	2.42	3.84	4.51	4.94
Core EPS ($)	2.04	2.42	3.84	4.51	4.94
DPS ($)	1.70	1.78	2.83	3.32	3.64
CFPS ($)	-1.99	4.55	21.06	22.36	6.68
FCFPS ($)	-3.51	2.05	18.64	21.58	5.90
BVPS ($)	19.88	21.23	20.61	22.29	23.91
Wtd avg ord shares (m)	3,587	3,587	3,587	3,587	3,587
Wtd avg diluted shares (m)	3,587	3,587	3,587	3,587	3,587
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	25.5	7.0	45.6	7.0	5.0
EBIT (Adj) (%)	58.8	7.2	45.7	20.9	8.7
Core NPAT (%)	19.1	18.9	58.6	17.4	9.6
Core EPS (%)	19.1	18.9	58.6	17.4	9.6
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	30,934	54,315	120,291	187,508	196,703
Accounts receivables	164,762	119,658	152,489	153,632	161,512
Inventory	65,147	76,912	180,361	205,701	216,107
Net fixed & other tangibles	39,553	47,687	35,803	35,399	34,995
Goodwill & intangibles	662	294	245	245	245
Financial & other assets	34,887	32,806	44,233	45,703	47,341
Total assets	**335,944**	**331,672**	**533,421**	**628,187**	**656,903**
Accounts payable	135,836	109,168	277,478	362,149	380,470
Short-term debt	65,675	76,307	77,832	77,832	77,832
Long-term debt	8,390	8,678	8,231	8,231	8,231
Provisions & other liab	55,557	61,071	95,668	99,738	104,315
Total liabilities	**265,458**	**255,224**	**459,209**	**547,950**	**570,847**
Shareholders' equity	71,320	76,177	73,926	79,951	85,769
Minority interests	-834	271	286	286	286
Total equity	**70,487**	**76,448**	**74,212**	**80,237**	**86,055**
Net debt (Adj)	**43,131**	**30,670**	**-34,228**	**-101,445**	**-110,640**
Net debt to equity (Adj) (%)	61.2	40.1	-46.1	-126.4	-128.6

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	32.0	26.9	16.9	14.4	13.2
PB (x)	3.3	3.1	3.2	2.9	2.7
EV/EBITDA (x)	15.6	16.7	10.0	5.9	4.1
FCF yield (%)	-5.4	3.2	28.6	33.2	9.1
Dividend yield (%)	2.6	2.7	4.3	5.1	5.6
Payout ratio (%)	83	74	74	74	74
ROE (%)	11.0	11.8	18.4	21.0	21.4
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	15,863	15,185	21,723	25,592	27,544
Working capital	-18,337	4,553	58,556	60,903	3,087
Other	-4,653	-3,422	-4,742	-6,265	-6,667
Operating cashflow	**-7,127**	**16,316**	**75,536**	**80,230**	**23,965**
Capex	-5,448	-8,959	-8,653	-2,800	-2,800
Net acq/disposals	-2,190	9,065	-3,633	-114	-114
Other	0	0	0	0	0
Investing cashflow	**-7,639**	**107**	**-12,286**	**-2,914**	**-2,914**
Dividends paid	-5,381	-6,099	-6,401	-10,151	-11,915
Financing cashflow	**16,329**	**8,245**	**-14,657**	**-10,099**	**-11,855**
Net change in cash	**2,839**	**24,667**	**48,593**	**67,217**	**9,195**
Free cashflow to s/holders	**-12,575**	**7,357**	**66,883**	**77,430**	**21,165**

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

Figure 1. Inventec – 2Q26 results overview

	2Q26	1Q26		2Q25		2Q26		2Q26	
(NT$mn)	**Actual**	**Actual**	**Q/Q**	**Actual**	**Y/Y**	**Citi**	**Diff.**	**Cons.**	**Diff.**
Revenue	269,857	200,311	35%	186,577	45%	210,874	28%	236,739	14%
Gross profit	11,416	10,177	12%	9,503	20%	11,042	3%	11,974	-5%
Gross margin	4.2%	5.1%	-0.8 ppt	5.1%	-0.9 ppt	5.2%	-1.0 ppt	5.1%	-0.8 ppt
Op. profit	4,741	3,615	31%	3,635	30%	3,873	22%	4,294	10%
OP margin	1.8%	1.8%	-0.0 ppt	1.9%	-0.2 ppt	1.8%	-0.1 ppt	1.8%	-0.1 ppt
Net income	3,895	2,428	60%	2,190	78%	2,835	37%	2,964	31%
EPS (NT$)	1.09	0.68	60%	0.61	78%	0.82	32%	0.82	32%

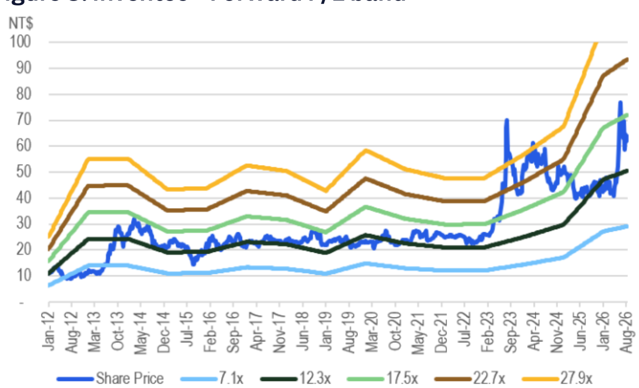
Source: Citi Research, Bloomberg

Figure 2. Inventec – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	**New**	**Old**	**Chg.**	**New**	**Old**	**Chg.**	**New**	**Old**	**Chg.**
Sales	1,006,303	817,759	23%	1,076,800	789,716	36%	1,131,031	833,035	36%
YoY growth	46%	18%		7%	-3%		5%	5%	
Gross profit	47,744	43,484	10%	57,766	44,147	31%	61,499	47,221	30%
Opex	29,226	26,742	9%	35,378	26,303	34%	37,159	27,723	34%
Operating profit	18,519	16,742	11%	22,389	17,844	25%	24,340	19,498	25%
Pre-tax profit	17,624	16,033	10%	20,365	17,336	17%	22,317	18,785	19%
Net income	13,782	12,601	9%	16,176	13,900	16%	17,733	15,024	18%
EPS (NT$)	3.84	3.51	9%	4.51	3.87	16%	4.94	4.19	18%
Gross margin	4.7%	5.3%	-0.6 ppt	5.4%	5.6%	-0.2 ppt	5.4%	5.7%	-0.2 ppt
Opex ratio	2.9%	3.3%	-0.4 ppt	3.3%	3.3%	-0.0 ppt	3.3%	3.3%	-0.0 ppt
Operating margin	1.8%	2.0%	-0.2 ppt	2.1%	2.3%	-0.2 ppt	2.2%	2.3%	-0.2 ppt
Net margin	1.4%	1.5%	-0.2 ppt	1.5%	1.8%	-0.3 ppt	1.6%	1.8%	-0.2 ppt

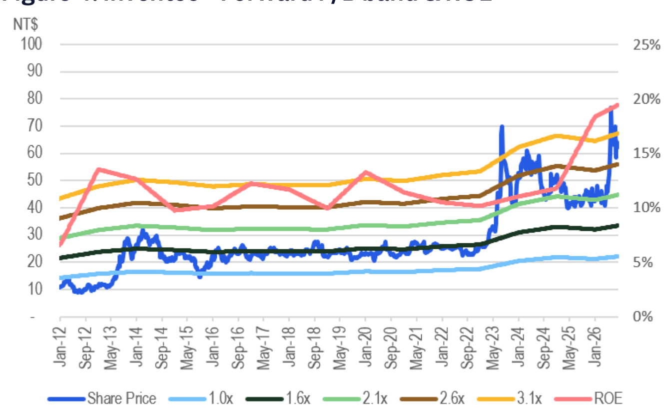
Source: Citi Research

Figure 3. Inventec – Forward P/E band



Source: Citi Research, company data

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



Source: Citi Research, company data

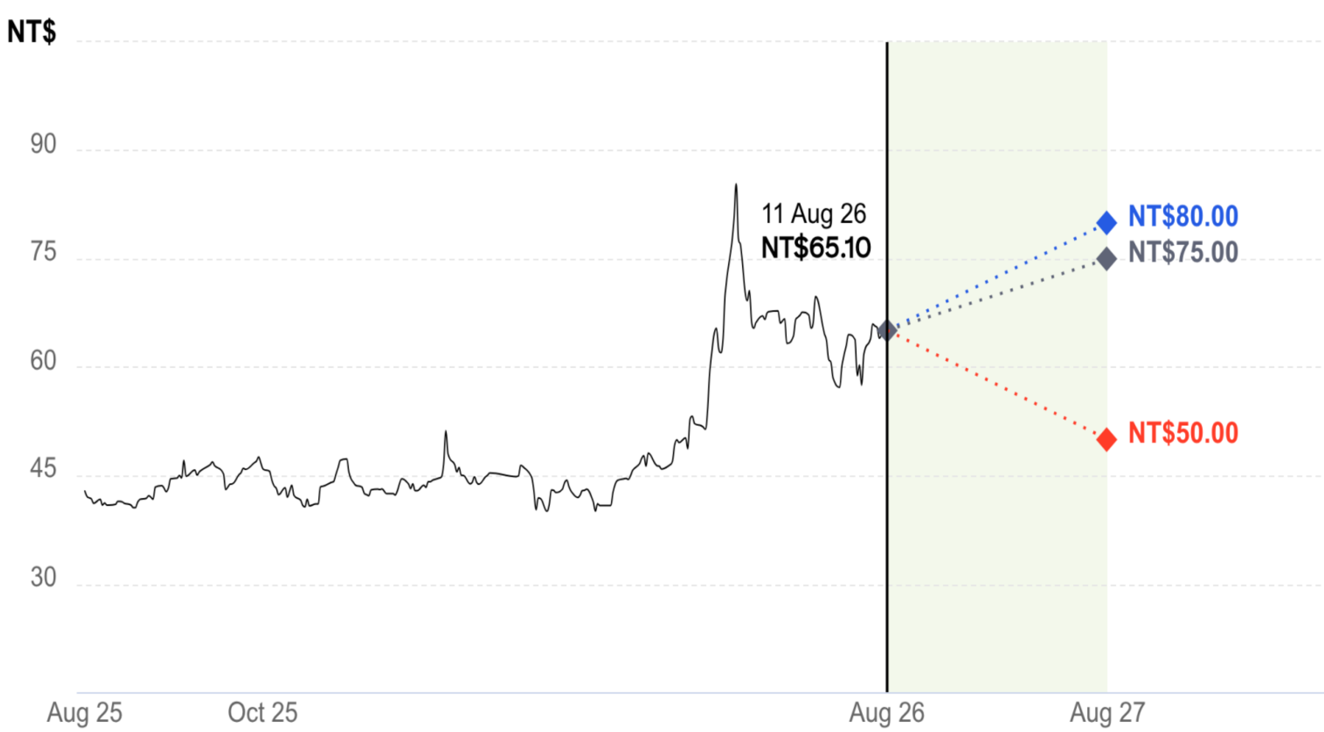
Figure 5. Inventec – Forecast Summary

NT$mn	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2024	2025	2026E	2027E	2028E
Net sales	200,311	269,857	268,546	267,589	230,368	264,846	301,207	280,379	646,262	691,190	1,006,303	1,076,800	1,131,031
Gross profit	**10,177**	**11,416**	**12,562**	**13,590**	**12,193**	**13,828**	**16,536**	**15,209**	**33,337**	**36,715**	**47,744**	**57,766**	**61,499**
OPEX	6,562	6,675	6,714	9,285	7,535	8,475	9,639	9,729	21,482	24,008	29,226	35,378	37,159
Operating profit	**3,615**	**4,741**	**5,848**	**4,304**	**4,658**	**5,353**	**6,897**	**5,480**	**11,855**	**12,706**	**18,519**	**22,389**	**24,340**
Total Non-OP	(308)	276	(327)	(535)	(154)	(574)	(761)	(535)	(2,607)	(700)	(895)	(2,024)	(2,024)
Pre-tax profit	3,307	5,017	5,521	3,770	4,504	4,780	6,136	4,945	9,248	12,006	17,624	20,365	22,317
Income tax	873	1,117	1,104	754	878	1,147	1,227	989	1,944	2,722	3,848	4,242	4,643
Net profit	**2,428**	**3,895**	**4,425**	**3,024**	**3,634**	**3,648**	**4,924**	**3,971**	**7,306**	**8,690**	**13,782**	**16,176**	**17,733**
EPS (NT$)	**0.68**	**1.09**	**1.23**	**0.84**	**1.01**	**1.02**	**1.37**	**1.11**	**2.04**	**2.42**	**3.84**	**4.51**	**4.94**
Margins (%)													
Gross profit	**5.1**	**4.2**	**4.7**	**5.1**	**5.3**	**5.2**	**5.5**	**5.4**	**5.2**	**5.3**	**4.7**	**5.4**	**5.4**
OPEX to Sales Ratio	3.3	2.5	2.5	3.5	3.3	3.2	3.2	3.5	3.3	3.5	2.9	3.3	3.3
Operating profit	**1.8**	**1.8**	**2.2**	**1.6**	**2.0**	**2.0**	**2.3**	**2.0**	**1.8**	**1.8**	**1.8**	**2.1**	**2.2**
Pre-tax profit	1.7	1.9	2.1	1.4	2.0	1.8	2.0	1.8	1.4	1.7	1.8	1.9	2.0
Net profit	**1.2**	**1.4**	**1.6**	**1.1**	**1.6**	**1.4**	**1.6**	**1.4**	**1.1**	**1.3**	**1.4**	**1.5**	**1.6**
Y/Y(%)													
Net sales	27.6	44.6	52.3	56.2	15.0	(1.9)	12.2	4.8	25.5	7.0	45.6	7.0	5.0
Gross profit	8.1	20.1	41.5	52.3	19.8	21.1	31.6	11.9	26.6	10.1	30.0	21.0	6.5
OPEX	10.5	13.8	15.6	45.4	14.8	27.0	43.6	4.8	13.8	11.8	21.7	21.0	5.0
Operating profit	4.1	30.4	90.7	69.6	28.9	12.9	17.9	27.3	58.8	7.2	45.7	20.9	8.7
Pre-tax profit	53.6	72.3	31.3	37.4	36.2	(4.7)	11.1	31.2	27.8	29.8	46.8	15.6	9.6
Net profit	42.6	77.9	62.1	45.8	49.6	(6.4)	11.3	31.3	19.1	18.9	58.6	17.4	9.6
Q/Q(%)													
Net sales	16.9	34.7	(0.5)	(0.4)	(13.9)	15.0	13.7	(6.9)					
Gross profit	14.0	12.2	10.0	8.2	(10.3)	13.4	19.6	(8.0)					
OPEX	2.8	1.7	0.6	38.3	(18.9)	12.5	13.7	0.9					
Operating profit	42.4	31.1	23.4	(26.4)	8.2	14.9	28.8	(20.6)					
Pre-tax profit	20.5	51.7	10.0	(31.7)	19.5	6.1	28.4	(19.4)					
Net profit	17.1	60.4	13.6	(31.7)	20.2	0.4	35.0	(19.4)					

Source: Citi Research, company data

Bull/Bear: Inventec (2356.TW)

NT$ 80.00 ▲23% Upside	NT$ 75.00 ▲15% Upside	NT$ 50.00 ▼23% Downside



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Current Price and expected returns (upside/downside) as of 11 Aug 2026

BULL Assumptions

- Better than expected AI server project demand

BASE Assumptions

- OPM at 2.0-2.3% in 2026E-27E

BEAR Assumptions

- Weaker than expected AI server project demand

Inventec

Company description

Established in 1975 and listed in 1996, Taiwan-based Inventec is a key ODM of NBs, servers, smartphones, and wearable/IoT devices to global customers. Major shareholders include the founder Mr. Yeh Kuo-I, whose family has (both directly and indirectly) a c35% stake.

Investment strategy

We rate Inventec shares as Buy. We expect stable demand in NB and server to help support near-term earnings, while product diversification within smart devices to areas such as IoT and medical space should help improve L-T margins. We expect the company's solid cash yield to serve as a downside cushion.

Valuation

Our target price of NT$75 for Inventec shares is based on 17x 2027 EPS, which is slightly above the mid-point of its historical trading range, reflecting the company's product diversification and stable demand outlook led by servers and commercial NBs, as well as increasing AI server exposure that could potentially drive margin expansion and better earnings momentum.

Risks

Key downside risks that could impede the stock from reaching our target price include: 1) Slower-than-expected shipment growth/weaker-than-expected sell-through in HomePods and AirPods could lead to downside in our sales forecasts; 2) If competitors adopt aggressive pricing strategies to gain market shares, our ASP and margin assumptions could face downside risk; 3) Lower-than-expected server margins driven by rising exposure to Chinese customers could impact our earnings forecasts negatively; 4) Deterioration in NB demand and investment in solar would hurt our forecasts; and 5) Stronger-than-expected Taiwan dollar could lead to FX loss and downside to our current forecasts.

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Appendix A-1

ANALYST CERTIFICATION

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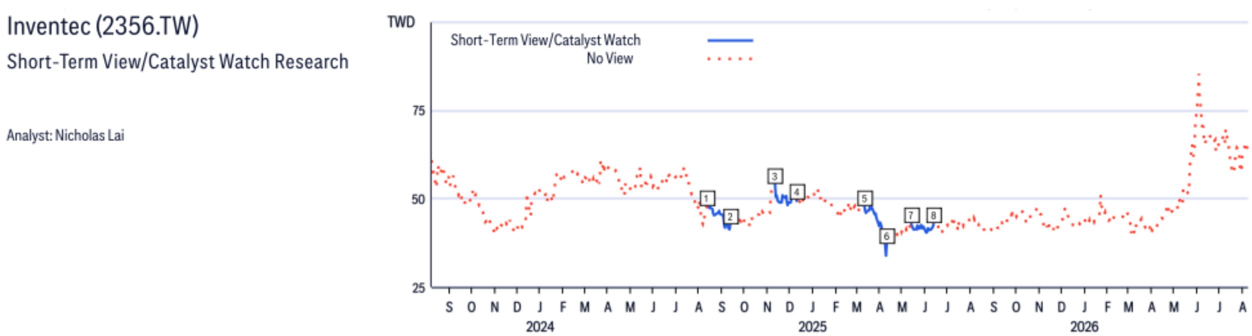
IMPORTANT DISCLOSURES

Date	Rating	Target Price	Closing Price
1 10-Nov-23 10:22:40	1	*62.00	42.50
2 12-Mar-24 09:17:45	1	*70.00	55.60
3 13-Aug-24 11:11:17	1	*62.00	47.80
4 11-Nov-24 08:23:28	1	*61.00	54.10
5 13-May-25 08:27:49	1	*60.00	42.90
6 12-May-26 11:55:05	1	*63.00	48.70

*Indicates Change

Rating/target price changes above reflect Eastern Time



Date	Action	Expected Direction	Duration	Closing Price
1 13-Aug-24 07:11:17	Add STV	Downside	30 Days	47.80
2 12-Sep-24 21:44:41	Remove STV	Downside	30 Days	42.85
3 11-Nov-24 03:23:28	Add STV	Downside	30 Days	54.10
4 11-Dec-24 19:58:15	Remove STV	Downside	30 Days	49.60
5 11-Mar-25 03:52:14	Add STV	Upside	30 Days	47.80
6 10-Apr-25 21:37:35	Remove STV	Upside	30 Days	37.25
7 13-May-25 04:27:49	Add STV	Upside	30 Days	42.90
8 12-Jun-25 21:35:47	Remove STV	Upside	30 Days	43.05

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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