30 Jul 2026 12:46:47 ET | 15 pages

Hon Precision (7769.TW)

Secular growth intact, with more upside from higher content expansion

CITI'S TAKE

Hon's 2Q26 net profit of NT$5,476m (+18% QoQ/+122% YoY) came in stronger than our and Street (Bloomberg) expectation by 7-10% as revenues reached a quarterly record high of NT$13.8bn. Nonetheless, OPM declined to 48.5% (vs. 1Q26's 50%) and missed our expectation as it incurred higher stock-based compensation expense, which Hon views as only a one-time event. Looking ahead, we expect continued capacity ramps to support the stronger ATC handler deliveries for its Google TPU, Tesla AI5, and AMD CPU projects in 2H26. For 2027, aside from solid unit shipment growth, we see upside coming from more content value growth, driven by higher adoption of large packaging tray, higher thermal requirement for next generation AI chips, and rising AOI adoption. We reiterate our Buy rating.

Strong capacity expansion on track (+50% in 2027) — Hon raises 2026 full-year capacity growth from +40% to +45% now and targets a +50% capacity growth for 2027. By location, 15% of total new capacity addition will come online in 1Q27 at its China factories, 15% addition from its existing Taichung main plants, and 20% from its newly acquired Taichung plant from 1Q27 onwards. Hon is also seeing lengthening order visibility as supported by ongoing OSATs customers new expansion in US/SG/TW and expanding AI chips demand into CPU and ASIC. Given current demand continues to outstrip supply, we believe Hon is actively looking for new land/factory acquisition opportunity and view any new expansion announcement as upside surprise.

Stronger content value growth into next year — We believe that one of the major surprises from today's earnings call was management's comment on the fast penetration of large package handlers, expected to be 10-20% in 1H27 and likely c50% in 2H27, in view of the rising package size in clients' chips roadmaps. Given mega tray design, higher automation and thermal requirements, the company expects it to carry a +25% higher ASP. Together with higher ATC system specs, higher AOI adoption, and CPO insertion 4 solutions deliveries, we expect double-digit content value growth in 2027.

Accretive margins from China business — Given China's limited resources for front end chips manufacturing, the requirement for their AI chips' heat dissipation and system design has increased, which should lead to higher demand for higher-spec ATC handlers and more customized cold plates. We view this as a positive opportunity for Hon to deliver a high-margin products solution. Hon has already seen its orders from China growing by 60% YoY this year and now expects them to more than double next year.

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	5,286	32.63	na	172.2	66.8	na	na
2025A	12,362	76.30	133.9	73.7	15.8	34.5	0.3
2026E	22,225	123.54	61.9	45.5	12.6	32.1	0.6
2027E	41,336	229.77	86.0	24.5	8.3	40.9	1.1
2028E	71,936	399.86	74.0	14.1	5.2	45.6	2.0

Source: Powered by dataCentral

Buy	
Catalyst Watch: Upside, expires 27-AUG-26	
Price (30 Jul 26 13:30)	NT$5,620.00
Target price	NT$11,000.00
Expected share price return	95.7%
Expected dividend yield	0.6%
Expected total return	96.3%
Market Cap	NT$1,011,207M
	US$31,249M

Price Performance (RIC: 7769.TW, BB: 7769 TT)

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

7769.TW: Fiscal year end 31-Dec

Price: NT$5,620.00; TP: NT$11,000.00; Market Cap: NT$1,011,207m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	13,992	30,271	53,735	94,814	159,627
Cost of sales	-6,293	-13,157	-23,258	-38,526	-62,285
Gross profit	7,700	17,114	30,476	56,288	97,342
Gross Margin (%)	55.0	56.5	56.7	59.4	61.0
EBITDA (Adj)	**6,330**	**15,107**	**26,947**	**51,142**	**89,732**
EBITDA Margin (Adj) (%)	45.2	49.9	50.1	53.9	56.2
Depreciation	-46	-62	-171	-293	-271
Amortisation	0	0	0	0	0
EBIT (Adj)	**6,285**	**15,046**	**26,777**	**50,849**	**89,461**
EBIT Margin (Adj) (%)	44.9	49.7	49.8	53.6	56.0
Net interest	160	306	545	545	545
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	239	232	764	708	668
Pre-tax profit	**6,683**	**15,584**	**28,086**	**52,102**	**90,674**
Tax	-1,397	-3,222	-5,861	-10,765	-18,738
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	**5,286**	**12,362**	**22,225**	**41,336**	**71,936**
Net Margin (%)	37.8	40.8	41.4	43.6	45.1
Core NPAT	5,286	12,362	22,225	41,336	71,936

Per share data	2024	2025	2026E	2027E	2028E
Reported EPS ($)	32.63	76.30	123.54	229.77	399.86
Core EPS ($)	32.63	76.30	123.54	229.77	399.86
DPS ($)	0	14.37	33.61	60.42	112.37
CFPS ($)	14.24	100.95	92.84	178.57	317.23
FCFPS ($)	13.43	99.19	88.54	174.06	312.49
BVPS ($)	84.10	355.39	446.46	676.23	1,076.09
Wtd avg ord shares (m)	161	162	180	180	180
Wtd avg diluted shares (m)	162	162	180	180	180

Growth rates	2024	2025	2026E	2027E	2028E
Sales revenue (%)	na	116.3	77.5	76.4	68.4
EBIT (Adj) (%)	na	139.4	78.0	89.9	75.9
Core NPAT (%)	na	133.9	79.8	86.0	74.0
Core EPS (%)	na	133.9	61.9	86.0	74.0

Balance Sheet (NT$m)	2024	2025	2026E	2027E	2028E
Cash & cash equiv.	6,025	53,427	70,210	101,492	157,678
Accounts receivables	2,913	2,935	6,100	10,992	18,700
Inventory	8,444	12,641	23,614	36,250	55,259
Net fixed & other tangibles	2,234	2,810	2,608	3,127	3,709
Goodwill & intangibles	29	91	119	119	119
Financial & other assets	2,221	1,366	5,713	12,372	22,863
Total assets	**21,866**	**73,270**	**108,365**	**164,352**	**258,328**
Accounts payable	3,181	3,402	7,058	11,268	17,602
Short-term debt	157	0	0	0	0
Long-term debt	0	0	0	0	0
Provisions & other liab	4,796	11,837	20,988	31,429	47,135
Total liabilities	**8,134**	**15,239**	**28,046**	**42,697**	**64,737**
Shareholders' equity	13,732	58,031	80,319	121,655	193,592
Minority interests	0	0	0	0	0
Total equity	**13,732**	**58,031**	**80,319**	**121,655**	**193,592**
Net debt (Adj)	**-5,868**	**-53,427**	**-70,210**	**-101,492**	**-157,678**
Net debt to equity (Adj) (%)	-42.7	-92.1	-87.4	-83.4	-81.4

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	na	73.7	45.5	24.5	14.1
PB (x)	66.8	15.8	12.6	8.3	5.2
EV/EBITDA (x)	na	65.0	35.2	18.1	9.8
FCF yield (%)	0.2	1.8	1.6	3.1	5.6
Dividend yield (%)	na	0.3	0.6	1.1	2.0
Payout ratio (%)	0	19	27	26	28
ROE (%)	na	34.5	32.1	40.9	45.6

Cashflow (NT$m)	2024	2025	2026E	2027E	2028E
EBITDA	6,330	15,107	26,947	51,142	89,732
Working capital	-5,641	3,900	-5,725	-9,536	-15,168
Other	1,618	-2,652	-4,520	-9,481	-17,493
Operating cashflow	**2,308**	**16,356**	**16,702**	**32,125**	**57,071**
Capex	-133	-286	-773	-812	-852
Net acq/disposals	-413	-465	666	0	0
Other	-777	0	0	0	0
Investing cashflow	**-1,322**	**-751**	**-107**	**-812**	**-852**
Dividends paid	0	-2,586	-6,047	-10,871	-20,220
Financing cashflow	**-3,759**	**31,886**	**148**	**0**	**0**
Net change in cash	**-2,769**	**47,491**	**16,743**	**31,314**	**56,218**
Free cashflow to s/holders	**2,175**	**16,070**	**15,929**	**31,314**	**56,218**

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

Figure 1. Hon – 2Q26 Results Comparison

(NT$mn)	2Q26 Actual	1Q26 Actual	Q/Q	2Q25 Actual	Y/Y	2Q26 Citi	Diff.	2Q26 Cons	Diff.
Revenue	13,794	10,725	29%	6,885	100%	11,627	19%	12,546	10%
Gross profit	7,737	6,032	28%	4,037	92%	6,689	16%	7,134	8%
Gross margin	56.1%	56.2%	-0.1 ppt	58.6%	-2.6 ppt	57.5%	-1.4 ppt	56.9%	-0.8 ppt
Op. profit	6,686	5,360	25%	3,643	84%	6,148	9%	6,319	6%
OP margin	48.5%	50.0%	-1.5 ppt	52.9%	-4.4 ppt	52.9%	-4.4 ppt	50.4%	-1.9 ppt
Net income	5,476	4,624	18%	2,466	122%	4,996	10%	5,140	7%
EPS (NT$)	30.44	25.70	18%	15.26	99%	27.77	10%	29.13	5%

Source: Citi Research, Bloomberg

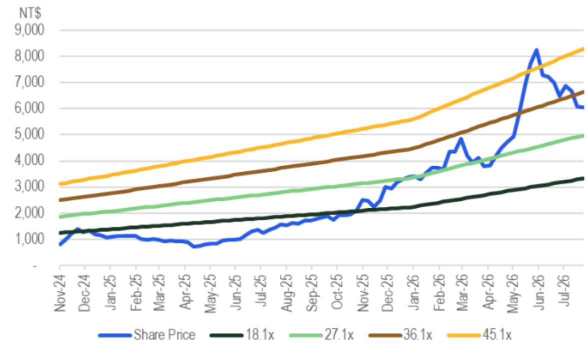
Maintain Buy with TP at NT$11,000 — We raise our 2026/27/28 earnings forecast by 1%/6%/6% to reflect the stronger content value growth potentials into next year. Given sector-wide multiple compression due to current uncertain macro outlook, we slightly revise down our target PER to 35x (from 36x) 2027/28 EPS. Our TP is at NT$11,000, and we reiterate Buy as we are constructive on Hon's secular growth outlook and see upside from its development in CPO insertion 4 business.

Figure 2. Hon – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	53,735	51,615	4%	94,814	88,350	7%	159,627	149,816	7%
YoY growth	78%	71%		76%	71%		68%	70%	
Gross profit	30,476	29,749	2%	56,288	52,476	7%	97,342	91,509	6%
Opex	-3,700	-3,204	15%	-5,439	-4,753	14%	-7,881	-6,853	15%
Operating profit	26,777	26,545	1%	50,849	47,723	7%	89,461	84,656	6%
Pre-tax profit	28,086	27,711	1%	52,102	48,976	6%	90,674	85,869	6%
Net income	22,225	21,988	1%	41,336	38,856	6%	71,936	68,127	6%
EPS (NT$)	123.54	122.22	1%	229.77	215.98	6%	399.86	378.69	6%
Gross margin	56.7%	57.6%	-0.9 ppt	59.4%	59.4%	-0.0 ppt	61.0%	61.1%	-0.1 ppt
Opex ratio	-6.9%	-6.2%	-0.7 ppt	-5.7%	-5.4%	-0.4 ppt	-4.9%	-4.6%	-0.4 ppt
Operating margin	49.8%	51.4%	-1.6 ppt	53.6%	54.0%	-0.4 ppt	56.0%	56.5%	-0.5 ppt
Net margin	41.4%	42.6%	-1.2 ppt	43.6%	44.0%	-0.4 ppt	45.1%	45.5%	-0.4 ppt

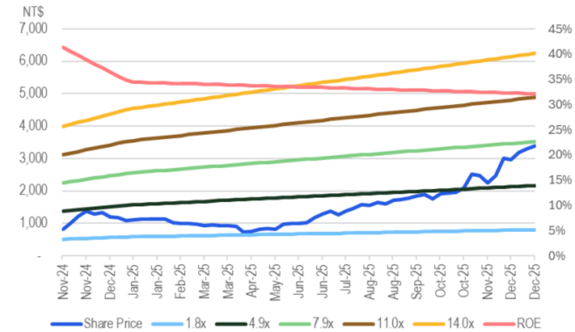
Source: Citi Research

Figure 3. Hon – Forward P/E band



Source: Citi Research, company data

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



Source: Citi Research, company data

Figure 5. Hon – Forecast Summary

	2025				2026				2027							
(NT$ in Mn, year-end Dec)	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2025	2026E	2027E	2028E
Revenue	**5,913**	**6,885**	**8,198**	**9,276**	**10,725**	**13,794**	**13,892**	**15,324**	**17,991**	**22,085**	**25,939**	**28,799**	**30,271**	**53,735**	**94,814**	**159,627**
COGS	-2,419	-2,847	-3,468	-4,423	-4,693	-6,057	-6,020	-6,488	-7,483	-8,726	-10,726	-11,592	-13,157	-23,258	-38,526	-62,285
Gross Profit	**3,494**	**4,037**	**4,730**	**4,852**	**6,032**	**7,737**	**7,872**	**8,836**	**10,508**	**13,359**	**15,213**	**17,207**	**17,114**	**30,476**	**56,288**	**97,342**
Operating Expense	-360	-394	-565	-749	-672	-1,051	-811	-1,166	-994	-1,150	-1,264	-2,031	-2,068	-3,700	-5,439	-7,881
SG&A expenses	-218	-185	-276	-398	-315	-660	-398	-581	-438	-618	-613	-949	-1,077	-1,954	-2,618	-3,606
R&D expenses	-208	-163	-239	-430	-374	-345	-363	-664	-574	-486	-601	-1,161	-1,039	-1,746	-2,822	-4,276
EBIT	**3,133**	**3,643**	**4,166**	**4,104**	**5,360**	**6,686**	**7,061**	**7,670**	**9,514**	**12,210**	**13,950**	**15,176**	**15,046**	**26,777**	**50,849**	**89,461**
Pre-Tax Profit	3,235	3,156	4,524	4,669	5,798	7,076	7,266	7,945	9,949	12,487	14,185	15,481	15,584	28,086	52,102	90,674
Tax	-667	-690	-907	-958	-1,174	-1,600	-1,457	-1,630	-2,014	-2,730	-2,845	-3,176	-3,222	-5,861	-10,765	-18,738
Net Profit	**2,568**	**2,466**	**3,617**	**3,711**	**4,624**	**5,476**	**5,809**	**6,315**	**7,934**	**9,756**	**11,340**	**12,306**	**12,362**	**22,225**	**41,336**	**71,936**
EPS (NT$)	**15.89**	**15.26**	**22.39**	**22.73**	**25.70**	**30.44**	**32.29**	**35.10**	**44.10**	**54.23**	**63.03**	**68.40**	**76.30**	**123.54**	**229.77**	**399.86**
Margins (%)																
Gross Margin	59.1%	58.6%	57.7%	52.3%	56.2%	56.1%	56.7%	57.7%	58.4%	60.5%	58.7%	59.7%	56.5%	56.7%	59.4%	61.0%
Operating Margin	53.0%	52.9%	50.8%	44.2%	50.0%	48.5%	50.8%	50.1%	52.9%	55.3%	53.8%	52.7%	49.7%	49.8%	53.6%	56.0%
Net Margin	43.4%	35.8%	44.1%	40.0%	43.1%	39.7%	41.8%	41.2%	44.1%	44.2%	43.7%	42.7%	40.8%	41.4%	43.6%	45.1%
Sequential Growth (%)																
Revenue	19%	16%	19%	13%	16%	29%	1%	10%	17%	23%	17%	11%	116%	78%	76%	68%
Gross Profit	30%	16%	17%	3%	24%	28%	2%	12%	19%	27%	14%	13%	122%	78%	85%	73%
EBIT	43%	16%	14%	-1%	31%	25%	6%	9%	24%	28%	14%	9%	139%	78%	90%	76%
Net Profit	31%	-4%	47%	3%	25%	18%	6%	9%	26%	23%	16%	9%	134%	80%	86%	74%
EPS	30%	-4%	47%	2%	13%	18%	6%	9%	26%	23%	16%	9%	134%	62%	86%	74%

Source: Citi Research, company data

Catalyst Watch on Hon Precision (7769.TW)

Direction:	**Upside**
Duration:	Within 90 Days (expires 27 Aug 2026)
Date Added:	28 May 2026
Catalyst:	Thematic driven

We are constructive on Hon Precision's earnings growth outlook driven by its solid engagement in global leading AI projects. For 2Q earnings, our estimates are higher than consensus as we expect higher margins from a better sales mix and operating leverage, which we believe could drive strong >100% YoY earnings growth. Also, though a long-term opportunity, we believe co-packaged optics (CPO) engagement with key customers could also drive significant upside potential.

Bull/Bear: Hon Precision (7769.TW)

NT$ 13,000.00	NT$ 11,000.00	NT$ 6,500.00
▲131% Upside	▲96% Upside	▲16% Upside

Spread 116pp
Current Price and expected returns (upside/downside) as of 30 Jul 2026

BULL Assumptions

- New growth opportunity in new projects
- Faster-than-expected capacity ramp for its new facilities
- Faster-than-expected development in its CPO business
-

BASE Assumptions

- Solid 3-year sales CAGR of ~70%
- Strong 3-year earnings CAGR of >75%
-

BEAR Assumptions

- Unexpected share loss at its major AI projects
- Slower-than-expected capacity ramp for its new facilities
- Weaker-than-expected development in its CPO business
-

Hon Precision

Company description

Hon Precision is a leading Taiwanese manufacturer specializing in IC semiconductor automation equipment. Headquartered in Taichung City, Taiwan, it is most known globally for providing high-precision IC test handlers, temperature control solutions, and complete automated integrated solutions for major OSAT and IDM customers.

Investment strategy

We have a Buy rating on Hon Precision as we view it sitting in a structurally protected position at the heart of the AI/HPC back-end test cycle, with growth visibility extending well into the next few years — the company holds >90% share of the AI/HPC FT handler market and 60-70% of the ASIC SLT market. We forecast a solid strong sales revenue CAGR in 2025-28E with gross margin continuing to expand. In our view, the binding constraint on Hon Precision's near-term trajectory is now capacity, rather than demand — placing the company in the early phase of a multi-year structural growth and margin-expansion cycle.

Valuation

Our target price of NT$11,000 is based on a target PER multiple of 36x applied to the average of our 2027E/28E EPS estimates. Our PER target of 35x is set at 1-std above its 1-year PER average, justified by its high share of the AI/HPC testing handler market, which we estimate could support an earnings CAGR of 77% in 2025-28, higher than its 3-year CAGR at c40% in 2022-25. Our estimated 77% earning CAGR is also higher than the +40% average (Bloomberg consensus) of its global testing equipment peers. As its peers have been trading at average 36x PER on 2027/28 consensus EPS in the past 1 year, we believe Hon Precision deserves a further re-rating to our target PER of 36x.

Risks

Our quantitative risk rating system, which looks at historical share price volatility, rates Hon Precision High Risk. However, we are not assigning a High Risk rating as we forecast an earnings CAGR of >75%, significantly stronger than the growth outlook for its global peers. Also, we note its dominant position in AI/HPC handler market and expanding market TAM opportunity, which support our constructive view over its growth outlook.

Key downside risks that could impede the shares from reaching our target price: 1) Global AI demand slowdown driving weaker capacity build for semiconductor equipment; 2) unexpected share losses at its major AI projects; 3) slower-than-expected capacity ramp at its new facilities, or the company taking a long time to find/secure new sites; 4) slower-than-expected development of its CPO business; 5) shorter-than-expected testing time leading to lower demand for its products; 6) weak adoption of high-premium cold plate products; and 7) increasing competition from new entrants.

If you are visually impaired and would like to speak to a Citi representative regarding the details of the graphics in this document, please call USA 1-888-500-5008 (TTY: 711), from outside the US +1-210-677-3788

Appendix A-1

ANALYST CERTIFICATION

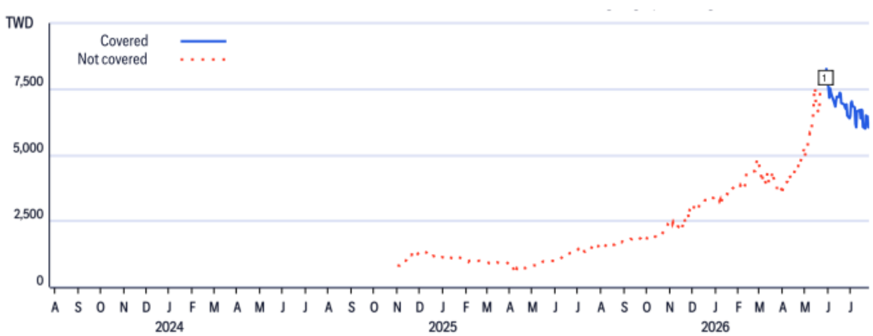
The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst 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

Hon Precision (7769.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Nicholas Lai



Date	Rating	Target Price	Closing Price
1 28-May-26 19:34:47	*1	*11,000.00	7,700.00

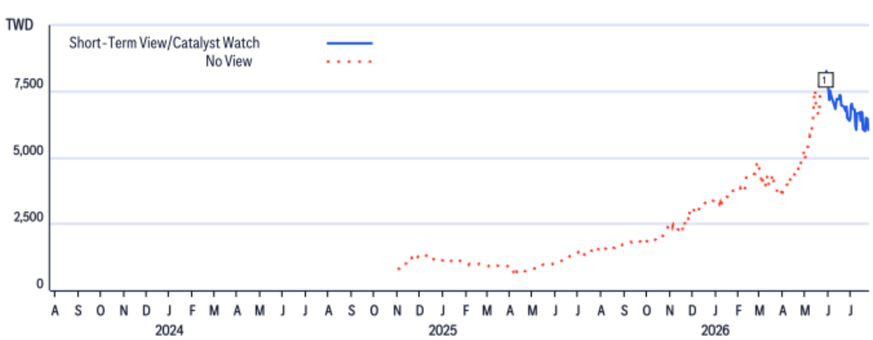
*Indicates Change

Rating/target price changes above reflect Eastern Time

Hon Precision (7769.TW)

Short-Term View/Catalyst Watch Research

Analyst: Nicholas Lai



Date	Action	Expected Direction	Duration	Closing Price
1 28-May-26 15:34:47	Add CW	Upside	90 Days	7,700.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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