Sunonwealth Electric Machine Industry (2421 TT)

Daiwa Capital Markets Hong Kong Limited

Target price: **TWD205.00** (from TWD200.00)

Share price (7 Aug): **TWD151.50** | Up/downside: **+35.3%**

5 4 3 2 1

Buy
(unchanged)

2Q26 results review: largely in line with estimates

- 2Q26 net profit in line with estimates; July revenue ahead of estimates
- Strong 2026 outlook, driven by telecom, server, and industrial
- Reaffirming our Buy (1) call; raising our 12-month TP to TWD205

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What's new: Sunon posted its 2Q26 results today (7 August). We reaffirm our Buy (1) call as we expect the outlook for its telecom, servers, and industrial segments in 2026 to remain intact with both gross and operating margin set to expand.

What's the impact: 2Q26 results largely in line with estimates; record-high monthly revenue in July. Sunon's 2Q26 revenue of TWD5,419m (+8.0% QoQ and +16.2% YoY) was in line with our and the consensus estimates. Its 2Q26 gross margin came in at 31.3% (vs. 31.7% in 1Q26 and 30.5% in 2Q25), slightly missing our and the consensus estimates of 31.8% due to rising raw material costs. Therefore, its operating profit of TWD836m (+6.1% QoQ and +16.9% YoY) missed our and the consensus estimates by 6.4% and 6.7%, respectively, after factoring in higher-than-expected admin. expenses. Its operating margin of 15.4% (vs. 15.7% in 1Q26 and 15.3% in 2Q25) also missed our estimate of 16.6% and the consensus estimate of 16.5%. With some non-op gains, its net profit of TWD690m (+6.3% QoQ and +84.5% YoY) was largely in line with our and the consensus estimates. Its 2Q26 EPS finished at TWD2.42, also largely in line with our (TWD2.39) estimate and the consensus (TWD2.49) estimates. On 5 August, Sunon reported a record-high monthly revenue for July of TWD2,119m (+14.2% QoQ, +31.7% YoY; +20.3% YoY for 7M26), accounting for 37.8% and 36.4% of our previous and the consensus estimates, mainly due to the shipments of ASIC projects.

Solid revenue momentum likely to continue into 2H26. For 2H26, we expect its revenue to grow QoQ in light of ASIC projects that are expected to be launched. For its liquid cooling revenue, Sunon expects a single-digit % revenue contribution in 2026, and intends to tap into enterprise, GPU, and ASIC clients. We raise our 2026-28E EPS by 2-5%, mainly on higher revenue assumptions.

What we recommend: We reaffirm our Buy (1) call and raise our 12M TP to TWD205 (from TWD200), now based on a target PER of 17x applied to our 1-year forward EPS forecast. Still around the midpoint of its past-5-year range of 7-25x, the target PER is slightly lower than 18x previously as we now forecast a net profit CAGR of 17.2% (previously 18.1%) over 2026-28E (1x PEG). Downside risks: worse-than-expected gross-margin expansion and AI server development progress.

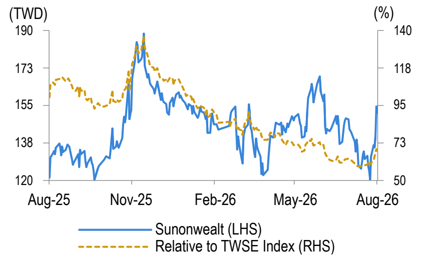
How we differ: We are one of only two overseas brokers covering the stock. Our 2028E EPS is 2% above the Bloomberg consensus, likely due to our higher revenue estimate.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	5.9	6.0	6.0
Net profit change	8.1	6.5	6.4
Core EPS (FD) change	4.8	2.2	2.2

Source: Daiwa forecasts

Share price performance



12-month range	120.35-188.48
Market cap (USDbn)	1.29
3m avg daily turnover (USDm)	20.69
Shares outstanding (m)	273
Major shareholder	Hung family (33.0%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	22,678	25,773	29,453
Operating profit (m)	3,628	4,330	5,066
Net profit (m)	2,965	3,500	4,069
Core EPS (fully-diluted)	10.445	12.222	14.212
EPS change (%)	31.8	17.0	16.3
Daiwa vs Cons. EPS (%)	(0.1)	0.4	2.2
PER (x)	14.5	12.4	10.7
Dividend yield (%)	4.8	5.7	6.6
DPS	7.3	8.6	10.0
PBR (x)	4.2	3.7	3.2
EV/EBITDA (x)	9.6	7.9	6.7
ROE (%)	30.9	31.8	32.4

Source: FactSet, Daiwa forecasts

Flash

Sunon: revenue and earnings forecast revisions

	2026E			2027E			2028E		
(TWDm)	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	**22,678**	**21,407**	5.9%	**25,773**	**24,320**	6.0%	**29,453**	**27,784**	6.0%
Gross profit	**7,211**	**6,850**	5.3%	**8,325**	**7,856**	6.0%	**9,572**	**9,030**	6.0%
Gross margin	*31.8%*	*32.0%*	-0.2pp	*32.3%*	*32.3%*	0pp	*32.5%*	*32.5%*	0pp
Operating profit	**3,628**	**3,468**	4.6%	**4,330**	**4,086**	6.0%	**5,066**	**4,779**	6.0%
Operating margin	*16.0%*	*16.2%*	-0.2pp	*16.8%*	*16.8%*	0pp	*17.2%*	*17.2%*	0pp
Net profit	**2,965**	**2,742**	8.1%	**3,500**	**3,287**	6.5%	**4,069**	**3,824**	6.4%
Net margin	*13.1%*	*12.8%*	0.3pp	*13.6%*	*13.5%*	0.1pp	*13.8%*	*13.8%*	0.1pp
Fully diluted EPS (TWD)	**10.45**	**9.97**	4.8%	**12.22**	**11.95**	2.2%	**14.21**	**13.90**	2.2%

Source: Daiwa forecasts

Sunon: 2Q26 results review

(TWDm)	Sunon's 2Q26 results	Our previous forecast	Differ	Bloomberg consensus	Differ
Revenue	5,419	5,371	0.9%	5,437	-0.3%
Gross profit	1,693	1,708	-0.9%	1,727	-2.0%
Operating profit	836	893	-6.4%	896	-6.7%
Profit before tax	912	912	0.0%	929	-1.8%
Net profit	690	657	5.1%	683	1.0%
EPS	2.42	2.39	1.3%	2.49	-2.6%
Margin					
Gross margin	31.3%	31.8%	-0.5pp	31.8%	-0.5pp
Operating margin	15.4%	16.6%	-1.2pp	16.5%	-1.1pp
Pre-tax margin	16.8%	17.0%	-0.1pp	17.1%	-0.2pp
Net margin	12.7%	12.2%	0.5pp	12.6%	0.2pp

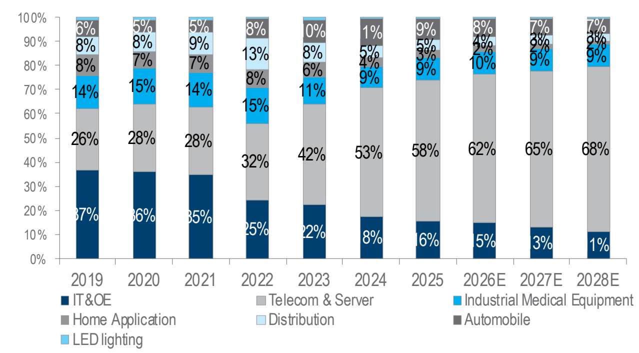
Source: Company, Bloomberg, Daiwa forecasts

Sunon: quarterly and annual P&L

	2026E				2027E				2026E	2027E	2028E
(TWDm)	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E			
Revenue	5,019	5,419	6,119	6,120	5,700	6,500	6,600	6,973	22,678	25,773	29,453
Gross profit	1,589	1,693	1,958	1,970	1,824	2,080	2,145	2,276	7,211	8,325	9,572
Operating profit	788	836	1058	946	964	1170	1195	1001	3,628	4,330	5,066
Pre-tax profit	805	912	1112	1000	1011	1217	1242	1048	3,829	4,520	5,256
Net profit	649	690	868	758	819	925	969	786	2,965	3,500	4,069
Basic EPS (TWD)	2.36	2.42	3.04	2.66	2.87	3.24	3.40	2.76	10.48	12.27	14.27
Margin											
Gross margin	31.7%	31.3%	32.0%	32.2%	32.0%	32.0%	32.5%	32.6%	31.8%	32.3%	32.5%
Operating margin	15.7%	15.4%	17.3%	15.5%	16.9%	18.0%	18.1%	14.4%	16.0%	16.8%	17.2%
Pre-tax margin	16.0%	16.8%	18.2%	16.3%	17.7%	18.7%	18.8%	15.0%	16.9%	17.5%	17.8%
Net margin	12.9%	12.7%	14.2%	12.4%	14.4%	14.2%	14.7%	11.3%	13.1%	13.6%	13.8%
YoY											
Revenue	20.6%	16.2%	24.0%	24.4%	13.6%	20.0%	7.9%	13.9%	21.4%	13.7%	14.3%
Gross profit	30.5%	18.9%	26.7%	22.1%	14.8%	22.8%	9.5%	15.5%	24.3%	15.4%	15.0%
Operating profit	52.9%	16.9%	37.7%	16.8%	22.3%	39.9%	12.9%	5.8%	29.2%	19.3%	17.0%
Pre-tax profit	38.7%	76.5%	23.8%	24.8%	25.7%	33.4%	11.7%	4.9%	36.9%	18.0%	16.3%
Net profit	37.5%	84.5%	25.0%	21.3%	26.2%	34.1%	11.7%	3.6%	36.9%	18.0%	16.3%
QoQ											
Revenue	2.1%	8.0%	12.9%	0.0%	-6.9%	14.0%	1.5%	5.7%			
Gross profit	-1.5%	6.5%	15.6%	0.6%	-7.4%	14.0%	3.1%	6.1%			
Operating profit	-2.7%	6.1%	26.6%	-10.6%	1.9%	21.4%	2.1%	-16.2%			
Pre-tax profit	0.4%	13.4%	21.9%	-10.1%	1.2%	20.4%	2.1%	-15.6%			
Net profit	3.8%	6.3%	25.7%	-12.6%	8.0%	12.9%	4.7%	-18.9%			

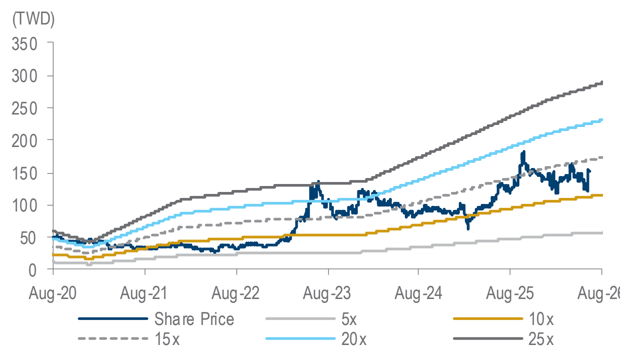
Source: Company, Daiwa forecasts

Sunon: product mix



Source: Company, Daiwa forecasts

Sunon: 1-year forward PER



Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Automotive revenue YoY growth (%)	6.1	59.5	9.1	31.1	2.8	5.0	5.0	5.0
IT&OE revenue YoY growth (%)	2.3	(26.8)	(16.8)	(10.7)	13.8	15.0	0.0	0.0
Telecom & server revenue YoY growth (%)	6.5	16.2	21.4	43.5	40.4	28.0	20.0	20.0

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Telecom & Server revenue	3,838	4,458	5,411	7,765	10,901	13,954	16,744	20,093
Industrial & Medical equipment & Automobile revenue	2,645	3,178	2,686	2,910	3,400	3,919	4,224	4,555
Other Revenue	7,079	6,427	4,817	3,948	4,377	4,805	4,805	4,805
Total Revenue	**13,562**	**14,063**	**12,915**	**14,624**	**18,678**	**22,678**	**25,773**	**29,453**
Other income	0	0	0	0	0	0	0	0
COGS	(11,026)	(10,892)	(9,313)	(10,467)	(12,876)	(15,466)	(17,449)	(19,881)
SG&A	(1,258)	(1,268)	(1,272)	(1,587)	(1,910)	(2,268)	(2,526)	(2,857)
Other op.expenses	(814)	(781)	(799)	(893)	(1,082)	(1,315)	(1,469)	(1,649)
Operating profit	**464**	**1,122**	**1,530**	**1,677**	**2,809**	**3,628**	**4,330**	**5,066**
Net-interest inc./(exp.)	(14)	(30)	49	95	71	97	90	90
Assoc/forex/extraord./others	136	334	172	210	(83)	104	100	100
Pre-tax profit	**585**	**1,426**	**1,752**	**1,982**	**2,797**	**3,829**	**4,520**	**5,256**
Tax	(156)	(337)	(418)	(490)	(631)	(864)	(1,020)	(1,186)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	**429**	**1,089**	**1,334**	**1,492**	**2,165**	**2,965**	**3,500**	**4,069**
Net profit (adjusted)	**429**	**1,089**	**1,334**	**1,492**	**2,165**	**2,965**	**3,500**	**4,069**
EPS (reported)(TWD)	**1.711**	**4.340**	**5.163**	**5.457**	**7.937**	**10.484**	**12.272**	**14.270**
EPS (adjusted)(TWD)	**1.711**	**4.340**	**5.163**	**5.457**	**7.937**	**10.484**	**12.272**	**14.270**
EPS (adjusted fully-diluted)(TWD)	**1.711**	**4.327**	**5.074**	**5.448**	**7.924**	**10.445**	**12.222**	**14.212**
DPS (TWD)	**1.200**	**2.600**	**3.500**	**3.687**	**5.442**	**7.265**	**8.575**	**9.971**
EBIT	**464**	**1,122**	**1,530**	**1,677**	**2,809**	**3,628**	**4,330**	**5,066**
EBITDA	**981**	**1,635**	**2,065**	**2,171**	**3,359**	**3,969**	**4,747**	**5,544**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	585	1,426	1,752	1,982	2,797	3,829	4,520	5,256
Depreciation and amortisation	517	513	534	495	550	341	417	478
Tax paid	(156)	(337)	(418)	(490)	(631)	(864)	(1,020)	(1,186)
Change in working capital	(874)	292	387	(465)	(254)	(846)	(379)	(765)
Other operational CF items	118	264	(81)	160	836	(92)	(90)	(90)
Cash flow from operations	**191**	**2,158**	**2,175**	**1,682**	**3,297**	**2,367**	**3,448**	**3,693**
Capex	(444)	(394)	(298)	(513)	(953)	(1,500)	(1,000)	(1,000)
Net (acquisitions)/disposals	178	0	(14)	(2)	(29)	(29)	(29)	(29)
Other investing CF items	(215)	(44)	(43)	(229)	(132)	0	0	0
Cash flow from investing	**(480)**	**(438)**	**(354)**	**(745)**	**(1,114)**	**(1,529)**	**(1,029)**	**(1,029)**
Change in debt	1,279	(662)	(830)	470	(458)	117	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(602)	(301)	(652)	(957)	(1,012)	(1,499)	(2,055)	(2,425)
Other financing CF items	(91)	(226)	1,274	77	(49)	0	0	0
Cash flow from financing	**585**	**(1,189)**	**(208)**	**(410)**	**(1,519)**	**(1,382)**	**(2,055)**	**(2,425)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**296**	**531**	**1,612**	**527**	**664**	**(544)**	**364**	**239**
Free cash flow	(253)	1,764	1,877	1,169	2,344	867	2,448	2,693

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	1,912	2,457	4,031	4,678	5,256	4,762	5,249	5,610
Inventory	2,763	2,863	2,052	2,181	2,424	3,067	3,372	3,893
Accounts receivable	3,546	3,555	3,180	4,247	5,413	6,349	7,207	8,241
Other current assets	169	150	313	332	100	100	100	100
Total current assets	**8,391**	**9,026**	**9,576**	**11,438**	**13,193**	**14,278**	**15,929**	**17,844**
Fixed assets	2,059	2,273	2,171	2,461	3,054	4,213	4,796	5,318
Goodwill & intangibles	24	27	24	53	63	63	63	63
Other non-current assets	1,043	866	843	1,046	1,117	1,117	1,117	1,117
Total assets	**11,517**	**12,192**	**12,615**	**14,998**	**17,427**	**19,671**	**21,904**	**24,341**
Short-term debt	1,985	1,408	640	1,050	586	703	703	703
Accounts payable	3,986	4,530	3,846	4,759	6,174	6,907	7,692	8,481
Other current liabilities	268	385	235	273	429	429	429	429
Total current liabilities	**6,239**	**6,323**	**4,721**	**6,082**	**7,189**	**8,038**	**8,823**	**9,612**
Long-term debt	524	287	213	478	613	613	613	613
Other non-current liabilities	387	380	462	517	738	738	738	738
Total liabilities	**7,151**	**6,989**	**5,396**	**7,078**	**8,539**	**9,389**	**10,174**	**10,962**
Share capital	2,509	2,509	2,734	2,734	2,734	2,828	2,828	2,828
Reserves/R.E./others	1,857	2,693	4,484	5,186	6,153	7,454	8,903	10,551
Shareholders' equity	**4,367**	**5,202**	**7,219**	**7,920**	**8,887**	**10,282**	**11,731**	**13,379**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**11,517**	**12,192**	**12,615**	**14,998**	**17,427**	**19,671**	**21,904**	**24,341**
EV	42,024	40,664	38,249	38,277	37,369	37,980	37,493	37,131
Net debt/(cash)	**597**	**(763)**	**(3,178)**	**(3,150)**	**(4,058)**	**(3,447)**	**(3,934)**	**(4,295)**
BVPS (TWD)	**17.402**	**20.733**	**26.399**	**28.859**	**32.265**	**36.355**	**41.477**	**47.305**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	6.1	3.7	(8.2)	13.2	27.7	21.4	13.7	14.3
EBITDA (YoY)	(37.3)	66.6	26.3	5.2	54.7	18.2	19.6	16.8
Operating profit (YoY)	(58.4)	142.0	36.4	9.6	67.5	29.2	19.3	17.0
Net profit (YoY)	(49.6)	153.7	22.5	11.9	45.1	36.9	18.0	16.3
Core EPS (fully-diluted) (YoY)	(49.6)	153.0	17.3	7.4	45.5	31.8	17.0	16.3
Gross-profit margin	18.7	22.5	27.9	28.4	31.1	31.8	32.3	32.5
EBITDA margin	7.2	11.6	16.0	14.8	18.0	17.5	18.4	18.8
Operating-profit margin	3.4	8.0	11.8	11.5	15.0	16.0	16.8	17.2
Net profit margin	3.2	7.7	10.3	10.2	11.6	13.1	13.6	13.8
ROAE	9.6	22.8	21.5	19.7	25.8	30.9	31.8	32.4
ROAA	3.9	9.2	10.8	10.8	13.4	16.0	16.8	17.6
ROCE	7.3	16.3	20.4	19.1	28.8	33.5	35.1	36.5
ROIC	7.4	18.2	27.5	28.7	45.3	48.2	45.8	46.5
Net debt to equity	13.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	26.7	23.6	23.8	24.7	22.6	22.6	22.6	22.6
Accounts receivable (days)	92.9	92.1	95.2	92.7	94.4	94.6	96.0	95.7
Current ratio (x)	1.3	1.4	2.0	1.9	1.8	1.8	1.8	1.9
Net interest cover (x)	32.6	37.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	70.1	59.9	67.8	67.6	68.6	69.3	69.9	69.9
Free cash flow yield	n.a.	4.3	4.5	2.8	5.7	2.1	5.9	6.5

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1980 and listed on Taiwan's main board in 2000, Sunonwealth Electric Machine Industry (Sunon) is one of the top-4 fan and motor providers in the world, along with Delta Electronics, Nidec and ebm-papst. Its major clients are Apple, Dell, Lenovo, Bosch, Siemens and Tesla. Its applications include IT & OE, telecoms & servers, industrial & medical equipment, home applications, distribution, autos and LED lighting.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	The CEO and chairperson of Sunonwealth are the same individual; Sunonwealth's board is led by the Hung family. We see no issues with the company's board. We view the chairman leading the R&D team as a sign of the company's continuing focus on developing new products to achieve a long-term competitive advantage.
G	Capital management	2	Sunonwealth's dividend payout ratio was 83-88% in 2015-18, but it decreased to 60-69% during 2022-25 due to its capacity expansion plans.
G	Related party & transaction	2	Revenue generated from related-party transactions was less than 1% of total revenue during 2023-25.
E	Materials sourcing & efficiency	1	Sunonwealth's sourcing of raw materials has been relatively stable (including IC, copper, plastic, aluminium and steel), and we also note that Sunonwealth abides by RoHS regulations and relevant international standards (ISO14001, IECQ QC080000, ISO9001) for its material sourcing activities. With the ongoing ESG trend, its clients may move towards a more energy-efficient production cycle, which will likely benefit Sunonwealth's energy-efficient products.
E	Product design & lifecycle management	2	Sunonwealth has improved its product designs to stronger but lighter form factors. Besides, we have observed more green projects utilising Sunonwealth's capabilities. Thus, we believe Sunonwealth has strong product design and lifecycle management capabilities to address the ongoing changing business environment.
S	Product quality & safety	2	Sunonwealth has its own Quality Strategy Centre to evaluate quality issues. With international standards in place, we believe Sunonwealth has taken relevant measures to address product quality and safety issues.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 8 May 2026

Source: Daiwa, Company

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Rating	Percentage of total
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Source: Daiwa

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