Sunonwealth Electric Machine Industry (2421 TT)

Target price: **TWD265.00** (from TWD236.00)

Share price (3 Nov): **TWD138.00** | Up/downside: **+92.0%**

5 4 3 2 **1**

Buy (unchanged)

3Q26 results preview: ongoing gross margin expansion

- Rising liquid cooling and EC fans revenue mix in 2027E vs. 2026
- Likely upward revision in EPS forecasts in the near term
- Reaffirming our Buy (1) call; raising 12M TP to TWD265

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What's new: We provide a 3Q26 results preview on Sunon, which plans to release its 3Q26 results on 6 November. We reaffirm our Buy (1) call as we expect the 4Q26 and 2027 outlook for its telecom, servers, industrial and auto segments to remain intact with both gross and operating margin set to expand. We now forecast a net profit CAGR of 28.2% over 2026-28E from 21.2% previously (see our *flash*, 28 August).

What's the impact: 3Q26 results preview. Sunon's 3Q26 revenue of TWD6,143m (+13.4% QoQ and +24.5% YoY), a record-high level, accounted for 97.2% and 102.2%, respectively, of our previous (TWD6,319m, +16.6% QoQ and +28.1% YoY) and the Bloomberg consensus estimates for 3Q26 revenue. We forecast its 3Q26 gross margin to be 32.8% (vs. 31.3% in 2Q26 and 31.3% in 3Q25), slightly higher than the Bloomberg consensus estimate of 31.9%. We forecast an operating profit of TWD1,115m (+33.3% QoQ and +45.0% YoY), 3.0% higher than the Bloomberg consensus estimate of TWD1,082m and an operating margin of 18.1% (vs. 15.4% in 2Q26 and 15.6% in 3Q25). Overall, we forecast a net profit of TWD901m (+30.5% QoQ, +29.7% YoY), 1.9% higher than the consensus estimate of TWD884m. We forecast 4Q26 revenue to grow 7.5% QoQ, and 1Q27 revenue to grow 1.4% QoQ considering its ASIC and GPU projects.

Rising liquid cooling revenue and EC fan exposure in 2027E underpin its gross margin expansion. We expect Sunon's cold plate products (ie, enterprise and GPU clients), pump and CDU to be the key revenue drivers with certification also underway for CSP clients. We expect revenue from EC fans to reach 10% in 2027E for the industrial segment. We revise up our 2026-28E EPS by 1-13%, mainly on higher revenue, gross margin and operating margin assumptions.

What we recommend: We reaffirm our Buy (1) call and raise our 12M TP to TWD265 (from TWD236), still based on a target PER of 18x vs. its past-5-year PER range of 6-25x, on the 2027E EPS, given solid earnings visibility from intact demand in the server, telecom, industrial and auto segments. We believe its dividend yield of 5.6-9.2% over 2026-28E will offer downside support for its share price. Downside risks: worse-than-expected gross-margin expansion and AI server development progress.

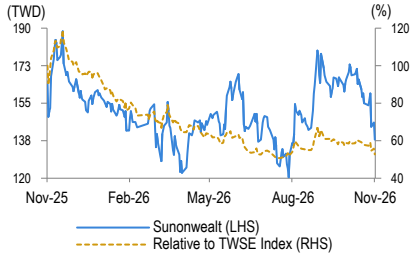
How we differ: We are one of only two overseas brokers covering the stock. Our 2026-28E EPS are 4-12% above the Bloomberg consensus, likely due to our more aggressive revenue, gross margin and operating margin estimates.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	-	-	3.3
Net profit change	1.0	5.3	12.9
Core EPS (FD) change	1.0	5.4	12.9

Source: Daiwa forecasts

Share price performance



12-month range	120.50-188.48
Market cap (USDbn)	1.16
3m avg daily turnover (USDm)	16.96
Shares outstanding (m)	273
Major shareholder	Hung family (33.0%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	23,186	27,364	32,295
Operating profit (m)	3,872	5,117	6,427
Net profit (m)	3,166	4,187	5,200
Core EPS (fully-diluted)	11.153	14.628	18.170
EPS change (%)	40.7	31.2	24.2
Daiwa vs Cons. EPS (%)	4.0	9.9	12.4
PER (x)	12.4	9.4	7.6
Dividend yield (%)	5.6	7.4	9.2
DPS	7.7	10.2	12.7
PBR (x)	3.7	3.1	2.6
EV/EBITDA (x)	8.1	6.0	4.7
ROE (%)	32.7	36.5	38.2

Source: FactSet, Daiwa forecasts

Sunon: revenue and earnings forecast revisions

	2026E			2027E			2028E		
(TWDm)	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	**23,186**	**23,186**	0.0%	**27,364**	**27,364**	0.0%	**32,295**	**31,278**	3.3%
Gross profit	**7,489**	**7,420**	0.9%	**9,304**	**9,030**	3.0%	**11,303**	**10,384**	8.8%
Gross margin	*32.3%*	*32.0%*	0.3pp	*34.0%*	*33.0%*	1pp	*35.0%*	*33.2%*	1.8pp
Operating profit	**3,872**	**3,803**	1.8%	**5,117**	**4,843**	5.6%	**6,427**	**5,661**	13.5%
Operating margin	*16.7%*	*16.4%*	0.3pp	*18.7%*	*17.7%*	1pp	*19.9%*	*18.1%*	1.8pp
Net profit	**3,166**	**3,136**	1.0%	**4,187**	**3,975**	5.3%	**5,200**	**4,608**	12.9%
Net margin	*13.7%*	*13.5%*	0.1pp	*15.3%*	*14.5%*	0.8pp	*16.1%*	*14.7%*	1.4pp
Fully diluted EPS (TWD)	**11.15**	**11.04**	1.0%	**14.63**	**13.88**	5.4%	**18.17**	**16.09**	12.9%

Source: Daiwa forecasts

Sunon: 3Q26 results preview

(TWDm)	Daiwa's 3Q26 forecast	Our previous forecast	Differ	Bloomberg consensus	Differ
Revenue	6,143	6,319	-2.8%	6,357	-3.4%
Gross profit	2,015	2,041	-1.3%	2,028	-0.6%
Operating profit	1,115	1,141	-2.3%	1,082	3.0%
Profit before tax	1,162	1,218	-4.6%	1,133	2.6%
Net profit	901	950	-5.2%	884	1.9%
EPS	3.15	3.33	-5.5%	3.10	1.7%
Margin					
Gross margin	32.8%	32.3%	0.5pp	31.9%	0.9pp
Operating margin	18.1%	18.1%	0.1pp	17.0%	1.1pp
Pre-tax margin	18.9%	19.3%	-0.4pp	17.8%	1.1pp
Net margin	14.7%	15.0%	-0.4pp	13.9%	0.8pp

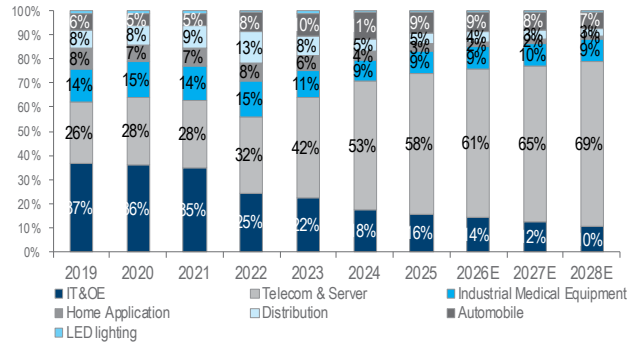
Source: Company, Bloomberg, Daiwa forecasts

Sunon: quarterly and annual P&L

	2026E				2027E				2026E	2027E	2028E
(TWDm)	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E			
Revenue	5,019	5,419	6,143	6,606	6,700	6,800	6,900	6,964	23,186	27,364	32,295
Gross profit	1,589	1,693	2,015	2,192	2,191	2,230	2,277	2,606	7,489	9,304	11,303
Operating profit	788	836	1115	1133	1191	1190	1257	1479	3,872	5,117	6,427
Pre-tax profit	805	912	1162	1210	1263	1263	1329	1551	4,089	5,407	6,716
Net profit	649	690	901	927	1023	960	1037	1167	3,166	4,187	5,200
Basic EPS (TWD)	2.36	2.41	3.15	3.24	3.58	3.36	3.63	4.08	11.16	14.64	18.18
Margin											
Gross margin	31.7%	31.3%	32.8%	33.2%	32.7%	32.8%	33.0%	37.4%	32.3%	34.0%	35.0%
Operating margin	15.7%	15.4%	18.1%	17.2%	17.8%	17.5%	18.2%	21.2%	16.7%	18.7%	19.9%
Pre-tax margin	16.0%	16.8%	18.9%	18.3%	18.9%	18.6%	19.3%	22.3%	17.6%	19.8%	20.8%
Net margin	12.9%	12.7%	14.7%	14.0%	15.3%	14.1%	15.0%	16.8%	13.7%	15.3%	16.1%
YoY											
Revenue	20.6%	16.2%	24.5%	34.3%	33.5%	25.5%	12.3%	5.4%	24.1%	18.0%	18.0%
Gross profit	30.5%	18.9%	30.3%	35.8%	37.9%	31.7%	13.0%	18.9%	29.1%	24.2%	21.5%
Operating profit	52.9%	16.9%	45.0%	39.9%	51.1%	42.4%	12.8%	30.5%	37.8%	32.2%	25.6%
Pre-tax profit	38.7%	76.5%	29.4%	51.0%	57.0%	38.4%	14.4%	28.2%	46.2%	32.2%	24.2%
Net profit	37.5%	84.5%	29.7%	48.3%	57.7%	39.1%	15.2%	25.9%	46.2%	32.2%	24.2%
QoQ											
Revenue	2.1%	8.0%	13.4%	7.5%	1.4%	1.5%	1.5%	0.9%			
Gross profit	-1.5%	6.5%	19.0%	8.8%	0.0%	1.8%	2.1%	14.4%			
Operating profit	-2.7%	6.1%	33.3%	1.6%	5.1%	0.0%	5.6%	17.6%			
Pre-tax profit	0.4%	13.4%	27.3%	4.2%	4.4%	0.0%	5.3%	16.7%			
Net profit	3.8%	6.3%	30.5%	2.9%	10.4%	-6.2%	8.0%	12.5%			

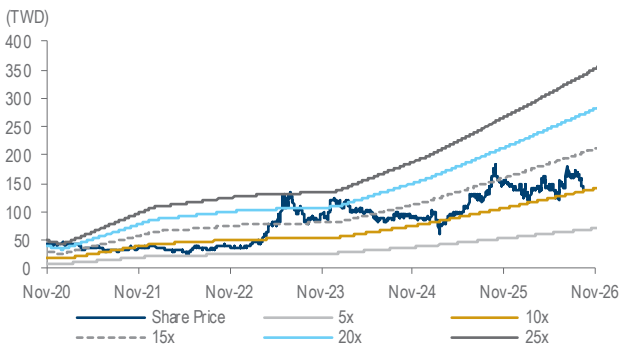
Source: Company, Daiwa forecasts

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	20.0	10.0	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	30.0	25.0	25.0

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	14,172	17,714	22,143
Industrial & Medical equipment & Automobile revenue	2,645	3,178	2,686	2,910	3,400	4,167	4,802	5,304
Other Revenue	7,079	6,427	4,817	3,948	4,377	4,848	4,848	4,848
Total Revenue	**13,562**	**14,063**	**12,915**	**14,624**	**18,678**	**23,186**	**27,364**	**32,295**
Other income	0	0	0	0	0	0	0	0
COGS	(11,026)	(10,892)	(9,313)	(10,467)	(12,876)	(15,697)	(18,060)	(20,992)
SG&A	(1,258)	(1,268)	(1,272)	(1,587)	(1,910)	(2,272)	(2,627)	(3,068)
Other op.expenses	(814)	(781)	(799)	(893)	(1,082)	(1,345)	(1,560)	(1,809)
Operating profit	**464**	**1,122**	**1,530**	**1,677**	**2,809**	**3,872**	**5,117**	**6,427**
Net-interest inc./(exp.)	(14)	(30)	49	95	71	97	90	90
Assoc/forex/extraord./others	136	334	172	210	(83)	120	200	200
Pre-tax profit	**585**	**1,426**	**1,752**	**1,982**	**2,797**	**4,089**	**5,407**	**6,716**
Tax	(156)	(337)	(418)	(490)	(631)	(923)	(1,220)	(1,516)
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**	**3,166**	**4,187**	**5,200**
Net profit (adjusted)	**429**	**1,089**	**1,334**	**1,492**	**2,165**	**3,166**	**4,187**	**5,200**
EPS (reported)(TWD)	**1.711**	**4.340**	**5.163**	**5.457**	**7.937**	**11.163**	**14.637**	**18.181**
EPS (adjusted)(TWD)	**1.711**	**4.340**	**5.163**	**5.457**	**7.937**	**11.163**	**14.637**	**18.181**
EPS (adjusted fully-diluted)(TWD)	**1.711**	**4.327**	**5.074**	**5.448**	**7.924**	**11.153**	**14.628**	**18.170**
DPS (TWD)	**1.200**	**2.600**	**3.500**	**3.687**	**5.442**	**7.735**	**10.228**	**12.705**
EBIT	**464**	**1,122**	**1,530**	**1,677**	**2,809**	**3,872**	**5,117**	**6,427**
EBITDA	**981**	**1,635**	**2,065**	**2,171**	**3,359**	**4,213**	**5,534**	**6,905**

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	4,089	5,407	6,716
Depreciation and amortisation	517	513	534	495	550	341	417	478
Tax paid	(156)	(337)	(418)	(490)	(631)	(923)	(1,220)	(1,516)
Change in working capital	(874)	292	387	(465)	(254)	(955)	(620)	(1,044)
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**	**2,460**	**3,894**	**4,546**
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)	(2,194)	(2,901)
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)**	**(2,194)**	**(2,901)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**296**	**531**	**1,612**	**527**	**664**	**(452)**	**670**	**615**
Free cash flow	(253)	1,764	1,877	1,169	2,344	960	2,894	3,546

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	4,854	5,648	6,386
Inventory	2,763	2,863	2,052	2,181	2,424	3,113	3,491	4,110
Accounts receivable	3,546	3,555	3,180	4,247	5,413	6,491	7,652	9,036
Other current assets	169	150	313	332	100	100	100	100
Total current assets	**8,391**	**9,026**	**9,576**	**11,438**	**13,193**	**14,559**	**16,891**	**19,632**
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**	**19,951**	**22,867**	**26,129**
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	6,986	7,905	8,865
Other current liabilities	268	385	235	273	429	429	429	429
Total current liabilities	**6,239**	**6,323**	**4,721**	**6,082**	**7,189**	**8,118**	**9,037**	**9,996**
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**	**9,468**	**10,387**	**11,347**
Share capital	2,509	2,509	2,734	2,734	2,734	2,837	2,837	2,837
Reserves/R.E./others	1,857	2,693	4,484	5,186	6,153	7,647	9,643	11,946
Shareholders' equity	**4,367**	**5,202**	**7,219**	**7,920**	**8,887**	**10,483**	**12,480**	**14,783**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**11,517**	**12,192**	**12,615**	**14,998**	**17,427**	**19,951**	**22,867**	**26,129**
EV	38,332	36,972	34,558	34,585	33,677	34,196	33,403	32,665
Net debt/(cash)	**597**	**(763)**	**(3,178)**	**(3,150)**	**(4,058)**	**(3,539)**	**(4,333)**	**(5,071)**
BVPS (TWD)	**17.402**	**20.733**	**26.399**	**28.859**	**32.265**	**36.958**	**43.996**	**52.116**

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	24.1	18.0	18.0
EBITDA (YoY)	(37.3)	66.6	26.3	5.2	54.7	25.4	31.4	24.8
Operating profit (YoY)	(58.4)	142.0	36.4	9.6	67.5	37.8	32.2	25.6
Net profit (YoY)	(49.6)	153.7	22.5	11.9	45.1	46.2	32.2	24.2
Core EPS (fully-diluted) (YoY)	(49.6)	153.0	17.3	7.4	45.5	40.7	31.2	24.2
Gross-profit margin	18.7	22.5	27.9	28.4	31.1	32.3	34.0	35.0
EBITDA margin	7.2	11.6	16.0	14.8	18.0	18.2	20.2	21.4
Operating-profit margin	3.4	8.0	11.8	11.5	15.0	16.7	18.7	19.9
Net profit margin	3.2	7.7	10.3	10.2	11.6	13.7	15.3	16.1
ROAE	9.6	22.8	21.5	19.7	25.8	32.7	36.5	38.2
ROAA	3.9	9.2	10.8	10.8	13.4	16.9	19.6	21.2
ROCE	7.3	16.3	20.4	19.1	28.8	35.4	40.0	43.0
ROIC	7.4	18.2	27.5	28.7	45.3	50.9	52.5	55.7
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	93.7	94.3	94.3
Current ratio (x)	1.3	1.4	2.0	1.9	1.8	1.8	1.9	2.0
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.	4.7	5.0	3.1	6.2	2.5	7.7	9.4

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.
	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.
	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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