Daiwa Capital Markets Hong Kong Limited

Kinsus Interconnect Technology (3189 TT)

Target price: **TWD1,068.00** (from TWD588.00)

Share price (31 Jul): **TWD635.00** | Up/downside: **+68.2%**

5 4 3 2 **1**

Buy
(unchanged)

2Q26 results: gross margin expansion story continues

- Riding on a favourable pricing environment for both ABF/BT substrate
- New upsides from CPU market share and optical transceivers
- Reaffirming Buy (1) call; raising 12M TP to TWD1,068 (from TWD588)

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What's new: We provide our latest view on Kinsus after its 2Q26 results.

What's the impact: **2Q26 results beat on profitability.** Kinsus released its results on 31 July, with net income of TWD1.31bn (EPS: TWD2.80), beating our estimate and consensus by 25%/11%, respectively. 2Q26 sales (TWD12.5bn; up 13% QoQ; 31% YoY) were on track with the street's expectations; we attribute the QoQ growth to price hikes and rising utilisation rates, given solid AI server demand. Hence, gross margin rose by 4.9pp QoQ to 26.1%, mainly on price hikes, while operating margin further rose by 5.4pp QoQ to 13.4% on gross margin expansion and better opex control.

Business outlook. We hold a positive view on the substrate industry given the enlarging body-size trend and the slower capacity expansion plan, which should lead to a positive pricing trend ahead. Currently, we expect a c.10% price hike per quarter for both ABF/BT substrate from 2H26 to 2027. The higher-than-expected price hike would be key reasons why we lift GM by 1.9/5.0/7.4pp in 2026/27/28E, respectively. In terms of near-term outlook, we expect revenue to grow another 10% in both 3Q26 and 4Q26, due mainly to price hikes, while the new capacity will gradually ramp up from 2027. Based on our current understanding, Kinsus will have 40/50/65/80m ABF unit capacity in 2026-29E, respectively, with YoY growth of c.20%/30%/23%, while Kinsus targets to invest c.TWD14/16/18bn in 2026-28 to boost capacity. From 2028, 4-5 key end customers would purchase additional equipment for Kinsus to produce ABF substrates as Kinsus believes the equipment subsidy method will be better than long-term agreement (LTA) to maintain profitability. In terms of key products, we believe Kinsus controls c.50% market share in Nvidia's CPU product, which may increase to 100%, given the capacity constraints in the industry. Also, due to supply shortage of mSAP HDI, optical transceiver makers would also consider adopting BT substrate to facilitate DSP and optics chipsets. As of now, optical transceivers only account for 1-2% of its revenue but is likely to grow 10x and account for c.5% of revenue in 2027, we estimate.

What we recommend: We lift our 2026-28E earnings by 14-66% YoY to reflect higher-than-expected price hikes for substrates. We reaffirm our Buy (1) rating and raise our 12M TP to TWD1,068, based on a target PER of 36x (prior: 32x; high end of its past-3-year trading range of 10-36x), applied to 1-year-forward EPS, to reflect the improving pricing environment and c.134% earnings CAGR in 2026-2028E. Key downside risks: weaker-than-expected demand for memory/PCs/gaming GPUs/AI servers.

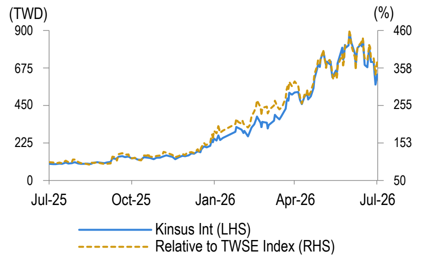
How we differ: Our 2026-28E EPS are 4-31% above the Bloomberg consensus, likely due to our more bullish view on price hikes.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	(4.8)	7.6	19.3
Net profit change	16.9	49.1	70.6
Core EPS (FD) change	13.6	44.9	65.8

Source: Daiwa forecasts

Share price performance



12-month range	97.64-891.00
Market cap (USDbn)	9.16
3m avg daily turnover (USDm)	420.77
Shares outstanding (m)	468
Major shareholder	Asus Investment Co Ltd (13.2%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	53,385	88,484	122,920
Operating profit (m)	7,578	20,449	38,330
Net profit (m)	5,855	17,344	33,395
Core EPS (fully-diluted)	12.498	37.023	71.287
EPS change (%)	256.5	196.2	92.5
Daiwa vs Cons. EPS (%)	3.8	31.4	27.5
PER (x)	50.8	17.2	8.9
Dividend yield (%)	0.6	0.7	0.7
DPS	3.5	4.5	4.5
PBR (x)	7.3	5.4	3.6
EV/EBITDA (x)	18.0	9.0	4.7
ROE (%)	12.1	27.1	37.6

Source: FactSet, Daiwa forecasts

Flash

Kinsus: revenue and earnings forecast revisions

	2026E			2027E			2028E		
(TWDm)	**Previous**	**New**	**Consensus**	**Previous**	**New**	**Consensus**	**Previous**	**New**	**Consensus**
Revenue	56,055	53,385	54,064	82,270	88,484	79,330	103,073	122,920	121,719
Diff (%)		-4.8%	-1.3%		7.6%	11.5%		19.3%	1.0%
Gross Margin (%)	25.0%	27.0%	26.4%	30.6%	35.6%	32.0%	35.8%	43.2%	36.9%
Operating profit	6,663	7,578	7,555	14,122	20,449	16,510	22,999	38,330	30,846
Op Margin (%)	11.9%	14.2%	14.0%	17.2%	23.1%	20.8%	22.3%	31.2%	25.3%
Net profit	5,010	5,855	5,641	11,635	17,344	13,203	19,579	33,395	26,182
EPS	11.00	12.50	12.04	25.55	37.02	28.18	43.00	71.29	55.89
Diff (%)		13.6%	3.8%		44.9%	31.4%		65.8%	27.5%

Source: Bloomberg, Daiwa forecasts

Kinsus: quarterly and annual P&L statement

	2026E				2027E				2025	2026E	2027E	2028E
(TWDm)	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE				
Net revenue	**11,105**	**12,496**	**14,137**	**15,646**	**17,624**	**20,789**	**24,135**	**25,936**	**39,351**	**53,385**	**88,484**	**122,920**
COGS	(8,755)	(9,235)	(10,059)	(10,907)	(11,852)	(13,562)	(15,436)	(16,107)	(31,037)	(38,956)	(56,957)	(69,840)
Gross profit	**2,349**	**3,261**	**4,079**	**4,739**	**5,772**	**7,226**	**8,700**	**9,829**	**8,314**	**14,428**	**31,527**	**53,080**
Operating expenses	1,459	1,582	1,838	1,971	2,221	2,599	3,017	3,242	5,645	6,850	11,078	14,750
Operating profit	**891**	**1,679**	**2,241**	**2,768**	**3,552**	**4,628**	**5,683**	**6,587**	**2,670**	**7,578**	**20,449**	**38,330**
Non-operating profit	74	106	87	89	92	84	89	92	417	355	357	356
Pre-tax profit	**964**	**1,784**	**2,328**	**2,857**	**3,644**	**4,712**	**5,772**	**6,679**	**3,087**	**7,933**	**20,806**	**38,686**
Income taxes	(89)	(101)	(233)	(286)	(364)	(471)	(577)	(668)	(370)	(708)	(2,081)	(3,869)
Net profit	**549**	**1,311**	**1,784**	**2,211**	**2,965**	**3,904**	**4,848**	**5,627**	**1,596**	**5,855**	**17,344**	**33,395**
Net EPS (TWD)	**1.17**	**2.80**	**3.81**	**4.72**	**6.33**	**8.33**	**10.35**	**12.01**	**3.5**	**12.5**	**37.0**	**71.3**
Operating Ratios												
Gross margin	21.2%	26.1%	28.9%	30.3%	32.8%	34.8%	36.0%	37.9%	21.1%	27.0%	35.6%	43.2%
Operating margin	8.0%	13.4%	15.9%	17.7%	20.2%	22.3%	23.5%	25.4%	6.8%	14.2%	23.1%	31.2%
Pre-tax margin	8.7%	14.3%	16.5%	18.3%	20.7%	22.7%	23.9%	25.8%	7.8%	14.9%	23.5%	31.5%
Net margin	4.9%	10.5%	12.6%	14.1%	16.8%	18.8%	20.1%	21.7%	4.1%	11.0%	19.6%	27.2%
YoY (%)												
Net revenue	29%	31%	37%	45%	59%	66%	71%	66%	29%	36%	66%	39%
Gross profit	21%	62%	108%	98%	146%	122%	113%	107%	-4%	74%	119%	68%
Operating profit	78%	171%	257%	201%	299%	176%	154%	138%	144%	184%	170%	87%
Pre-tax profit	38%	188%	227%	171%	278%	164%	148%	134%	93%	157%	162%	86%
Net profit	99%	288%	426%	244%	440%	198%	172%	154%	3164%	267%	196%	93%
QoQ (%)												
Net revenue	3%	13%	13%	11%	13%	18%	16%	7%				
Gross profit	-2%	39%	25%	16%	22%	25%	20%	13%				
Operating profit	-3%	88%	33%	24%	28%	30%	23%	16%				
Pre-tax profit	-9%	85%	30%	23%	28%	29%	22%	16%				
Net profit	-14%	139%	36%	24%	34%	32%	24%	16%				

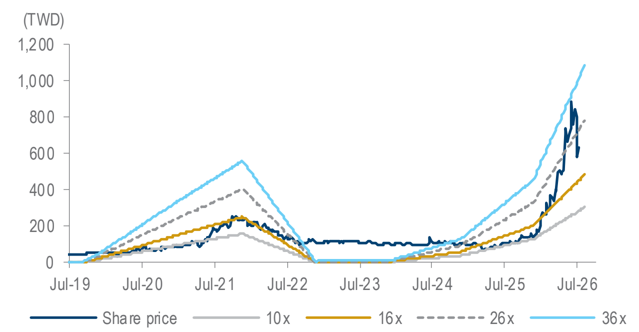
Source: Company, Daiwa forecasts

Kinsus: 2Q26 results vs. Daiwa and Bloomberg estimates

(TWDm)	Actual	QoQ%	YoY%	Daiwa	Diff %	Consensus	Diff %
Revenue	12,496	13%	31%	13,083	-4%	12,529	0%
Gross profit	3,261	39%	62%	3,123	4%	3,221	1%
Gross margin (%)	26.1%			23.9%		25.7%	
Operating profit	1,679	88%	171%	1,404	20%	1,623	3%
Operating margin (%)	13.4%			10.7%		13.0%	
Pre-tax profit	1,784	85%	188%	1,488	20%	1,691	6%
Net profit	1,311	139%	288%	1,048	25%	1,183	11%
EPS (TWD)	2.80	139%	288%	2.30	25%	2.52	11%

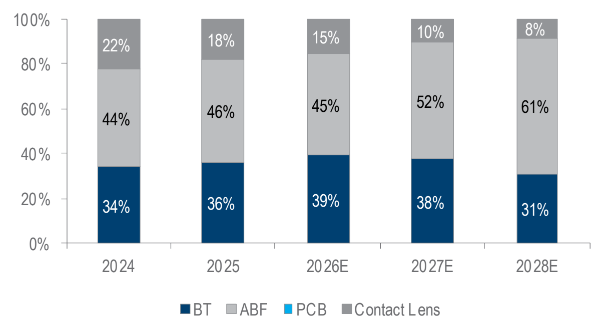
Source: Company data, Daiwa forecasts, Bloomberg

Kinsus: 1-year forward PER bands



Source: TEJ, Daiwa forecasts

Kinsus: revenue breakdown by product



Source: Company, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Global PC shipment (mn)	361	301	260	263	287	244	244	244
Regular server shipmnet (mn)	14	15	12	14	16	18	22	26
Global smartphone shipment (mn)	1,655	1,437	1,380	1,437	1,429	1,249	1,255	1,300

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
ABF	10,191	16,526	11,978	13,319	17,998	24,103	46,191	74,811
BT	17,565	18,796	8,065	10,398	14,314	21,010	33,194	38,101
Other Revenue	5,580	6,336	6,790	6,817	7,039	8,272	9,098	10,008
Total Revenue	**33,336**	**41,658**	**26,832**	**30,535**	**39,351**	**53,385**	**88,484**	**122,920**
Other income	0	0	0	0	0	0	0	0
COGS	(22,583)	(25,771)	(20,075)	(21,867)	(31,037)	(38,956)	(56,957)	(69,840)
SG&A	(2,879)	(3,532)	(3,301)	(5,010)	(3,433)	(4,218)	(6,963)	(9,108)
Other op.expenses	(2,413)	(2,484)	(2,397)	(2,612)	(2,212)	(2,632)	(4,115)	(5,642)
Operating profit	**5,456**	**9,851**	**1,042**	**1,095**	**2,670**	**7,578**	**20,449**	**38,330**
Net-interest inc./(exp.)	(68)	(172)	(332)	(394)	(391)	(394)	(391)	(393)
Assoc/forex/extraord./others	253	607	716	902	809	749	748	749
Pre-tax profit	**5,641**	**10,287**	**1,426**	**1,603**	**3,087**	**7,933**	**20,806**	**38,686**
Tax	(672)	(2,158)	(256)	(272)	(370)	(708)	(2,081)	(3,869)
Min. int./pref. div./others	(633)	(957)	(1,123)	(1,282)	(1,121)	(1,370)	(1,381)	(1,422)
Net profit (reported)	**4,336**	**7,172**	**48**	**49**	**1,596**	**5,855**	**17,344**	**33,395**
Net profit (adjusted)	**4,336**	**7,172**	**48**	**49**	**1,596**	**5,855**	**17,344**	**33,395**
EPS (reported)(TWD)	**9.622**	**15.901**	**0.105**	**0.108**	**3.505**	**12.498**	**37.023**	**71.287**
EPS (adjusted)(TWD)	**9.622**	**15.901**	**0.105**	**0.108**	**3.505**	**12.498**	**37.023**	**71.287**
EPS (adjusted fully-diluted)(TWD)	**9.622**	**15.901**	**0.105**	**0.108**	**3.505**	**12.498**	**37.023**	**71.287**
DPS (TWD)	**4.500**	**6.476**	**1.000**	**1.000**	**1.500**	**3.500**	**4.500**	**4.500**
EBIT	**5,456**	**9,851**	**1,042**	**1,095**	**2,670**	**7,578**	**20,449**	**38,330**
EBITDA	**9,833**	**14,958**	**6,394**	**7,228**	**9,914**	**15,646**	**29,324**	**48,092**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	5,641	10,287	1,426	1,603	3,087	7,933	20,806	38,686
Depreciation and amortisation	4,377	5,107	5,351	6,133	7,244	8,068	8,875	9,762
Tax paid	(672)	(2,158)	(256)	(272)	(370)	(708)	(2,081)	(3,869)
Change in working capital	(1,347)	(176)	1,528	(906)	(1,959)	(2,075)	(3,148)	(3,551)
Other operational CF items	2,575	2,901	(1,793)	1,147	91	(829)	0	(0)
Cash flow from operations	**10,574**	**15,961**	**6,256**	**7,705**	**8,093**	**12,389**	**24,452**	**41,028**
Capex	(13,384)	(17,094)	(10,136)	(10,408)	(6,117)	(5,436)	(3,805)	(2,664)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	489	559	(2,351)	1,301	(1,752)	(4,115)	(104)	(175)
Cash flow from investing	**(12,895)**	**(16,535)**	**(12,486)**	**(9,107)**	**(7,869)**	**(9,551)**	**(3,909)**	**(2,839)**
Change in debt	6,544	1,903	6,043	1,624	(1,333)	(8,836)	(529)	(222)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(451)	(2,443)	(3,438)	(454)	(457)	(288)	(1,640)	(2,108)
Other financing CF items	(94)	2,411	2,730	(173)	(1,481)	7,728	0	0
Cash flow from financing	**6,000**	**1,870**	**5,335**	**996**	**(3,270)**	**(1,397)**	**(2,169)**	**(2,330)**
Forex effect/others	(12)	56	(88)	71	(39)	41	33	28
Change in cash	**3,667**	**1,352**	**(983)**	**(335)**	**(3,084)**	**1,483**	**18,407**	**35,888**
Free cash flow	(2,809)	(1,133)	(3,880)	(2,703)	1,976	6,953	20,647	38,365

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	15,968	17,923	21,013	16,676	16,336	22,267	40,674	76,563
Inventory	3,466	3,481	2,612	2,981	4,828	6,675	9,858	11,306
Accounts receivable	5,679	5,050	4,299	5,284	6,804	9,630	15,962	20,963
Other current assets	1,312	1,647	1,445	4,735	970	1,076	1,076	1,076
Total current assets	**26,424**	**28,100**	**29,369**	**29,677**	**28,938**	**39,648**	**67,570**	**109,907**
Fixed assets	31,586	44,101	48,209	49,658	50,897	48,154	43,084	35,985
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	376	432	489	100	138	312	417	592
Total assets	**58,386**	**72,633**	**78,067**	**79,435**	**79,973**	**88,115**	**111,071**	**146,484**
Short-term debt	1,100	377	1,409	2,452	3,053	979	450	346
Accounts payable	10,150	10,798	8,457	7,521	10,030	13,356	19,723	22,620
Other current liabilities	2,733	4,199	4,393	7,018	7,023	5,816	5,816	5,816
Total current liabilities	**13,983**	**15,374**	**14,259**	**16,990**	**20,106**	**20,151**	**25,989**	**28,783**
Long-term debt	9,387	10,770	15,280	13,779	11,197	5,735	5,735	5,617
Other non-current liabilities	2,027	7,674	9,369	8,788	7,297	6,805	6,805	6,805
Total liabilities	**25,397**	**33,818**	**38,908**	**39,557**	**38,600**	**32,691**	**38,529**	**41,205**
Share capital	4,508	4,528	4,544	4,566	4,568	5,269	5,269	5,269
Reserves/R.E./others	28,481	34,288	34,615	35,312	36,805	50,154	67,272	100,010
Shareholders' equity	**32,989**	**38,816**	**39,159**	**39,878**	**41,373**	**55,423**	**72,542**	**105,279**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**58,386**	**72,633**	**78,067**	**79,435**	**79,973**	**88,115**	**111,071**	**146,484**
EV	291,995	290,700	293,151	297,031	295,391	281,923	262,986	226,876
Net debt/(cash)	**(5,481)**	**(6,776)**	**(4,325)**	**(445)**	**(2,085)**	**(15,553)**	**(34,490)**	**(70,600)**
BVPS (TWD)	**64.478**	**75.804**	**69.748**	**69.314**	**71.656**	**87.418**	**117.285**	**176.717**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	23.0	25.0	(35.6)	13.8	28.9	35.7	65.7	38.9
EBITDA (YoY)	70.8	52.1	(57.3)	13.1	37.1	57.8	87.4	64.0
Operating profit (YoY)	307.0	80.6	(89.4)	5.1	143.7	183.8	169.8	87.4
Net profit (YoY)	700.2	65.4	(99.3)	2.9	3,164.4	266.9	196.2	92.5
Core EPS (fully-diluted) (YoY)	698.1	65.3	(99.3)	2.5	3,153.4	256.5	196.2	92.5
Gross-profit margin	32.3	38.1	25.2	28.4	21.1	27.0	35.6	43.2
EBITDA margin	29.5	35.9	23.8	23.7	25.2	29.3	33.1	39.1
Operating-profit margin	16.4	23.6	3.9	3.6	6.8	14.2	23.1	31.2
Net profit margin	13.0	17.2	0.2	0.2	4.1	11.0	19.6	27.2
ROAE	13.9	20.0	0.1	0.1	3.9	12.1	27.1	37.6
ROAA	8.6	10.9	0.1	0.1	2.0	7.0	17.4	25.9
ROCE	14.0	21.1	2.0	2.0	4.8	12.9	29.0	40.4
ROIC	19.9	26.1	2.6	2.4	6.0	17.4	47.2	94.9
Net debt to equity	net cash	net cash	2.5	4.6	4.8	net cash	net cash	net cash
Effective tax rate	11.9	21.0	17.9	17.0	12.0	8.9	10.0	10.0
Accounts receivable (days)	55.2	47.0	63.6	57.3	56.1	56.2	52.8	54.8
Current ratio (x)	1.9	1.8	2.1	1.7	1.4	2.0	2.6	3.8
Net interest cover (x)	84.0	61.0	5.3	5.1	8.9	21.2	54.2	99.6
Net dividend payout	52.6	41.9	909.2	909.2	42.7	28.0	12.2	6.3
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	0.7	2.3	6.9	12.9

Source: FactSet, Daiwa forecasts

Company profile

Kinsus was founded in 2000 as a subsidiary of Asustek. The company mainly focus on niche ball grid array (BGA) substrates to avoid price competition among mainstream products like graphics card and chipsets, and it has become top-3 flip chip manufacturer in global. Besides, its manufacturing sites are based in Taiwan and China.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	Kinsus's leadership team comprises experienced professionals dedicated to steering the company towards sustainable growth. This diverse board composition ensures a comprehensive range of expertise and perspectives, contributing to Kinsus's strategic decision-making and corporate governamce.
G	Capital management	2	Kinsus maintains a robust financial framework, ensuring the availability of resources necessary for operational efficiency and strategic investments. The company's financial health is regularly disclosed through annual reports, providing transparency to stakeholders.
G	Related party & transaction	1	The company adheres to stringent corporate governance policies to manage related party transactions, ensuring transparency and compliance with regulatory standards. The company discloses such transactions in its financial reports, maintaining accountability and stakeholder trust. For instance, the company's annual general meeting documents provide details on related party transactions, ensuring transparency and accountability.
S	Supply chain management	1	Kinsus is committed to sustainable supply chain practices, emphasizing environmental, social, and governance considerations. The company has established comprehensive ESG policies, including commitments to labor standards, environmental health and safety, ethics, and conflict-free minerals. These policies guide the company's interactions with suppliers and partners, promoting sustainability throughout the supply chain.
E	Data security	3	The company recognizes the importance of information security in its operations. As part of its corporate governance framework, Kinsus is likely to implement standard data protection practices to safeguard sensitive information and ensure compliance with relevant regulations. Stakeholders are encouraged to consult the company's official communications or contact the company directly for detailed information on data security policies.

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: 31 Jan 2026

Source: Daiwa, Company

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Rating	Percentage of total
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Source: Daiwa

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