Daiwa Capital Markets Hong Kong Limited

Taiwan Microloops (6831 TT)

Target price: **TWD1,325.00** (from TWD1,325.00)

Share price (28 Jul): **TWD567.00** | Up/downside: **+133.7%**

5 4 3 2 **1**

Buy
(unchanged)

Positive outlook over 2026-28

- Strong earnings visibility over 2026-28E on liquid-cooling penetration
- Better-than-expected gross and operating margins outlook in 2H26
- Reaffirming our Buy (1) rating and 12-month TP of TWD1,325

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What's new: We received an update from Microloops. We believe the progress on its project with its key CSP client is better than we previously expected, and its gross margin profile in 2H26 appears more upbeat. In 2027, we believe there is revenue upside potential from one new CSP client (as it transitions from air-cooling products to liquid-cooling products) and liquid cooling for probe cards. The company is underway to obtain RVL for its cold plate from Nvidia, per management. The stock is currently trading at 15.1x PER on our 2027E EPS, in addition to 139.7% earnings CAGR over 2026-28E. We reaffirm our Buy (1) rating, as we believe Microloops' progress in liquid-cooling projects will continue to gain order share in ASIC AI servers. See our *latest flash*, 22 July 2026.

What's the impact: Intact revenue outlook over 2026-28E - at least double YoY. Due to likely rising liquid-cooling penetration over 2026-28 in ASIC and NIC cards, management maintains its revenue guidance of at least doubling YoY over 2026-28. Besides, amid a rising level of automation and improving production procedures, management expects its gross and operating margins to improve QoQ in 2H26. Management also expects its revenue momentum to pick up MoM in 2H26, translating into record-high monthly revenue from July to December 2026. In 4Q26, the revenue drivers will include ASICs and CPUs, in our view. Microloops aims for a new CSP client to start contributing revenue in 2Q27, with another new CSP client expected to come on board in 2028.

Order share gain potential; progress on key ASIC orders better than expected. Microloops is a key partner of its main ODM client for air- and liquid-cooling solutions. Its air-cooling order share for one of its key US CSPs has currently surpassed 40% (vs. 60%+ in the previous generation). Additionally, it is looking to target a 30% order share in liquid cooling in 2027. We believe its better quality, pricing, R&D, manufacturing and delivery would be the key factors for order share wins in the coming years. The company has also expanded its liquid cooling capacity in China and Vietnam. Our 2026-28E EPS remains unchanged.

What we recommend: We reaffirm our Buy (1) call, with an unchanged 12M TP of TWD1,325, based on a target PER of 40x, equivalent to a 0.29x PEG over 2026-28E, on our 1-year-forward EPS. Key downside risks: weaker-than-expected global AI server demand and slower-than-expected progress in ASIC AI server development.

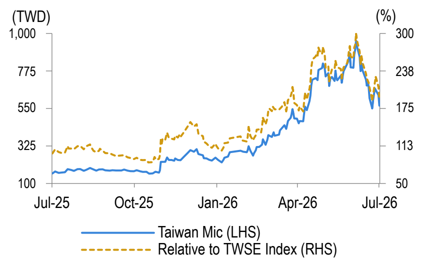
How we differ: Our 2027E EPS is 18% above the Bloomberg consensus, likely on our more aggressive revenue and gross/operating margin assumptions.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	155.00-956.00
Market cap (USDbn)	1.19
3m avg daily turnover (USDm)	30.34
Shares outstanding (m)	68
Major shareholder	Chao family (20.0%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	7,407	14,813	29,626
Operating profit (m)	1,369	3,377	7,792
Net profit (m)	1,017	2,533	5,844
Core EPS (fully-diluted)	15.067	37.527	86.575
EPS change (%)	205.1	149.1	130.7
Daiwa vs Cons. EPS (%)	(0.1)	17.8	(0.0)
PER (x)	37.6	15.1	6.5
Dividend yield (%)	1.6	4.0	9.2
DPS	9.0	22.5	51.9
PBR (x)	10.9	7.1	3.9
EV/EBITDA (x)	23.9	10.6	5.0
ROE (%)	32.2	57.2	77.6

Source: FactSet, Daiwa forecasts

Microloops: 2Q26 results preview

(TWDm)	Daiwa's 2Q26 forecasts	Our previous forecasts	Differ	Bloomberg consensus	Differ
Revenue	1,047	1,047	0.0%	1,447	-27.7%
Gross profit	230	230	0.0%	365	-36.9%
Operating profit	114	114	0.0%	238	-52.1%
Profit before tax	100	100	0.0%	225	-55.7%
Net profit	74	74	0.0%	171	-56.8%
EPS	1.09	1.09	0.0%	2.35	-53.5%
Margin					
Gross margin	22.0%	22.0%	0pp	25.2%	-3.2pp
Operating margin	10.9%	10.9%	0pp	16.5%	-5.6pp
Pre-tax margin	9.5%	9.5%	0pp	15.5%	-6pp
Net margin	7.1%	7.1%	0pp	11.8%	-4.8pp

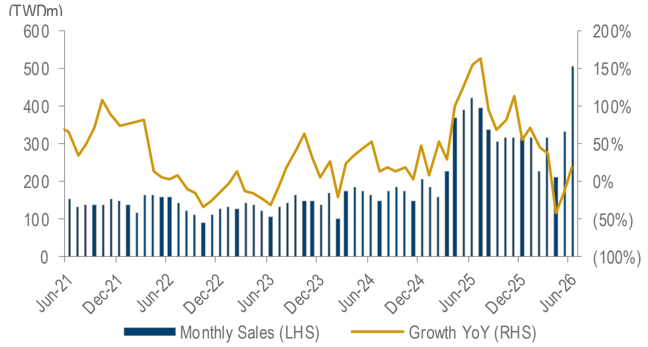
Source: Company, Bloomberg, Daiwa forecasts

Microloops: quarterly and annual P&L

	2026E				2027E						
(TWDm)	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2026E	2027E	2028E
Revenue	854	1,047	2,400	3,105	3,000	3,300	3,900	4,613	7,407	14,813	29,626
Gross profit	156	230	648	892	780	891	1,092	1,385	1,926	4,148	8,888
Operating profit	56	114	504	695	630	726	917	1,105	1,369	3,377	7,792
Pre-tax profit	56	100	505	696	630	726	917	1,105	1,356	3,377	7,792
Net profit	45	74	373	525	473	545	687	829	1,017	2,533	5,844
Basic EPS (TWD)	0.66	1.09	5.53	7.78	7.00	8.07	10.18	12.28	15.07	37.53	86.58
Margin											
Gross margin	18.2%	22.0%	27.0%	28.7%	26.0%	27.0%	28.0%	30.0%	26.0%	28.0%	30.0%
Operating margin	6.5%	10.9%	21.0%	22.4%	21.0%	22.0%	23.5%	24.0%	18.5%	22.8%	26.3%
Pre-tax margin	6.5%	9.5%	21.0%	22.4%	21.0%	22.0%	23.5%	24.0%	18.3%	22.8%	26.3%
Net margin	5.2%	7.1%	15.6%	16.9%	15.8%	16.5%	17.6%	18.0%	13.7%	17.1%	19.7%
YoY											
Revenue	50.7%	0.6%	107.9%	230.1%	251.1%	215.3%	62.5%	48.6%	100.0%	100.0%	100.0%
Gross profit	30.7%	10.0%	102.1%	306.7%	401.6%	286.9%	68.5%	55.2%	121.8%	115.4%	114.3%
Operating profit	150.6%	3.4%	137.1%	759.0%	1025.9%	536.3%	81.8%	58.9%	221.3%	146.7%	130.7%
Pre-tax profit	232.5%	143.5%	147.3%	703.1%	1030.3%	627.7%	81.6%	58.8%	289.2%	149.1%	130.7%
Net profit	232.5%	190.9%	150.1%	366.5%	959.7%	637.5%	84.1%	57.8%	238.3%	149.1%	130.7%
QoQ											
Revenue	-9.2%	22.5%	129.3%	29.4%	-3.4%	10.0%	18.2%	18.3%			
Gross profit	-29.1%	48.1%	181.4%	37.6%	-12.5%	14.2%	22.6%	26.8%			
Operating profit	-30.9%	103.9%	341.7%	37.9%	-9.4%	15.2%	26.2%	20.6%			
Pre-tax profit	-35.7%	79.0%	405.8%	37.9%	-9.5%	15.2%	26.2%	20.6%			
Net profit	-60.4%	65.6%	405.8%	40.6%	-10.0%	15.2%	26.2%	20.6%			

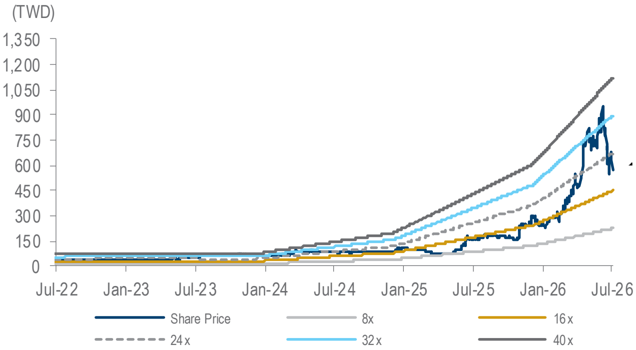
Source: Company, Daiwa forecasts

Microloops: monthly sales



Source: Company, Daiwa forecasts

Microloops: 1-year-forward PER



Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Thermal module revenue growth (%)	74.4	7.6	2.1	22.1	84.7	100.0	100.0	100.0
Others revenue growth (%)	111.1	81.5	(51.9)	(9.7)	289.9	100.0	100.0	100.0
Key ASIC project revenue (TWDm)	0.0	0.0	0.0	0.0	0.0	2,520.0	6,804.0	15,750.0

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Thermal module	1,493	1,607	1,641	2,005	3,702	7,403	14,806	29,612
Others	1	1	1	0	2	4	7	14
Other Revenue	30	0	0	0	0	0	0	0
Total Revenue	**1,524**	**1,608**	**1,642**	**2,005**	**3,703**	**7,407**	**14,813**	**29,626**
Other income	0	0	0	0	0	0	0	0
COGS	(1,245)	(1,245)	(1,258)	(1,542)	(2,835)	(5,481)	(10,666)	(20,739)
SG&A	(141)	(169)	(184)	(205)	(268)	(348)	(489)	(681)
Other op.expenses	(100)	(85)	(91)	(130)	(174)	(208)	(281)	(415)
Operating profit	**38**	**108**	**109**	**127**	**426**	**1,369**	**3,377**	**7,792**
Net-interest inc./(exp.)	(6)	(7)	8	8	(9)	3	0	0
Assoc/forex/extraord./others	(5)	9	17	6	(69)	(16)	0	0
Pre-tax profit	**28**	**111**	**134**	**141**	**348**	**1,356**	**3,377**	**7,792**
Tax	18	(23)	(31)	(35)	(48)	(339)	(844)	(1,948)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	**46**	**87**	**103**	**106**	**301**	**1,017**	**2,533**	**5,844**
Net profit (adjusted)	**46**	**87**	**103**	**106**	**301**	**1,017**	**2,533**	**5,844**
EPS (reported)(TWD)	**1.215**	**2.223**	**2.033**	**1.800**	**4.943**	**15.067**	**37.527**	**86.575**
EPS (adjusted)(TWD)	**1.215**	**2.223**	**2.033**	**1.800**	**4.943**	**15.067**	**37.527**	**86.575**
EPS (adjusted fully-diluted)(TWD)	**1.214**	**2.214**	**2.024**	**1.794**	**4.938**	**15.067**	**37.527**	**86.575**
DPS (TWD)	**0.000**	**0.190**	**0.780**	**1.250**	**3.000**	**9.040**	**22.516**	**51.945**
EBIT	**38**	**108**	**109**	**127**	**426**	**1,369**	**3,377**	**7,792**
EBITDA	**112**	**185**	**204**	**246**	**493**	**1,602**	**3,742**	**8,325**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	28	111	134	141	348	1,356	3,377	7,792
Depreciation and amortisation	79	67	78	113	136	249	364	534
Tax paid	(3)	(7)	(9)	(3)	(53)	(339)	(844)	(1,948)
Change in working capital	(141)	29	(12)	(114)	(679)	(1,113)	(2,888)	(5,023)
Other operational CF items	53	74	(12)	(0)	6	(3)	0	0
Cash flow from operations	**16**	**274**	**180**	**137**	**(240)**	**150**	**10**	**1,355**
Capex	(393)	(85)	(167)	(511)	(325)	(520)	(900)	(1,200)
Net (acquisitions)/disposals	19	(17)	325	10	(105)	(105)	(105)	(105)
Other investing CF items	(13)	(17)	(18)	(17)	(12)	0	0	0
Cash flow from investing	**(387)**	**(119)**	**140**	**(518)**	**(442)**	**(625)**	**(1,005)**	**(1,305)**
Change in debt	274	(95)	(248)	20	363	617	2,500	2,500
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	0	0	(23)	(44)	(75)	(203)	(610)	(1,520)
Other financing CF items	(12)	268	(42)	320	956	0	0	0
Cash flow from financing	**262**	**172**	**(313)**	**296**	**1,245**	**414**	**1,890**	**980**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**(109)**	**327**	**7**	**(85)**	**563**	**(61)**	**895**	**1,030**
Free cash flow	(377)	121	16	(382)	(563)	(370)	(890)	155

Source: FactSet, Daiwa forecasts

Daiwa Capital Markets Hong Kong Limited

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	277	603	609	528	1,106	1,046	1,940	2,971
Inventory	226	207	194	207	439	790	1,394	2,648
Accounts receivable	546	442	657	869	1,932	3,403	7,121	13,927
Other current assets	37	23	25	69	188	188	188	188
Total current assets	**1,086**	**1,275**	**1,485**	**1,673**	**3,665**	**5,427**	**10,643**	**19,734**
Fixed assets	498	534	329	809	1,017	1,422	2,153	3,104
Goodwill & intangibles	12	8	10	36	24	24	24	24
Other non-current assets	96	138	93	312	312	312	312	312
Total assets	**1,692**	**1,956**	**1,917**	**2,830**	**5,018**	**7,184**	**13,132**	**23,174**
Short-term debt	126	38	0	20	383	500	1,500	2,500
Accounts payable	587	535	697	888	1,379	2,246	3,838	7,033
Other current liabilities	29	41	67	91	217	217	217	217
Total current liabilities	**743**	**613**	**764**	**999**	**1,980**	**2,963**	**5,555**	**9,751**
Long-term debt	218	210	0	0	0	500	2,000	3,500
Other non-current liabilities	44	54	18	257	220	220	220	220
Total liabilities	**1,004**	**877**	**781**	**1,257**	**2,200**	**3,683**	**7,775**	**13,471**
Share capital	374	434	509	600	675	675	675	675
Reserves/R.E./others	313	644	626	973	2,143	2,826	4,682	9,029
Shareholders' equity	**688**	**1,079**	**1,135**	**1,573**	**2,818**	**3,501**	**5,357**	**9,704**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**1,692**	**1,956**	**1,917**	**2,830**	**5,018**	**7,184**	**13,132**	**23,174**
EV	38,340	37,918	37,664	37,765	37,550	38,227	39,832	41,302
Net debt/(cash)	**67**	**(355)**	**(609)**	**(508)**	**(723)**	**(46)**	**1,560**	**3,029**
BVPS (TWD)	**18.370**	**27.413**	**22.313**	**26.725**	**46.337**	**51.872**	**79.364**	**143.757**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	70.8	5.5	2.1	22.1	84.7	100.0	100.0	100.0
EBITDA (YoY)	3.7	64.5	10.6	20.5	100.7	224.8	133.5	122.5
Operating profit (YoY)	(51.7)	181.1	0.9	16.9	234.4	221.3	146.7	130.7
Net profit (YoY)	(32.0)	92.2	18.2	2.4	183.8	238.3	149.1	130.7
Core EPS (fully-diluted) (YoY)	(40.3)	82.3	(8.6)	(11.4)	175.3	205.1	149.1	130.7
Gross-profit margin	18.3	22.6	23.4	23.1	23.4	26.0	28.0	30.0
EBITDA margin	7.4	11.5	12.4	12.3	13.3	21.6	25.3	28.1
Operating-profit margin	2.5	6.7	6.6	6.4	11.5	18.5	22.8	26.3
Net profit margin	3.0	5.4	6.3	5.3	8.1	13.7	17.1	19.7
ROAE	6.8	9.9	9.3	7.8	13.7	32.2	57.2	77.6
ROAA	3.2	4.8	5.3	4.5	7.7	16.7	24.9	32.2
ROCE	4.4	9.2	8.9	9.3	17.8	35.6	50.6	63.4
ROIC	11.7	11.6	13.4	12.0	23.3	37.0	48.8	59.5
Net debt to equity	9.8	n.a.	n.a.	n.a.	n.a.	n.a.	29.1	31.2
Effective tax rate	(64.9)	20.9	22.9	25.1	13.7	25.0	25.0	25.0
Accounts receivable (days)	102.2	112.2	122.2	138.9	138.0	131.5	129.7	129.7
Current ratio (x)	1.5	2.1	1.9	1.7	1.9	1.8	1.9	2.0
Net interest cover (x)	6.7	16.4	n.a.	n.a.	48.1	n.a.	n.a.	n.a.
Net dividend payout	0.0	8.5	38.4	69.4	60.7	60.0	60.0	60.0
Free cash flow yield	n.a.	0.3	0.0	n.a.	n.a.	n.a.	n.a.	0.4

Source: FactSet, Daiwa forecasts

Company profile

Founded in 2002, Taiwan Microloops Corp. (Microloops) is a leading global provider of system-level thermal modules for AI data centres, including ASICs, network interface cards (NICs) and switches, as well as notebooks and graphics cards (VGAs). Headquartered in New Taipei City, Taiwan, the company operates manufacturing facilities in China and Vietnam. Its core product offerings currently focus on air-cooling solutions, including 2.5DVC and 3DVC modules, while it is also expanding into liquid cooling, and developing immersion cooling technologies for next-generation servers in collaboration with Intel.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	The positions of Chairperson and President (CEO equivalent) are held by Mr. Yuan-Shan Chao and Mr. Chun-Hung Lin, respectively. We note that Chairperson Chao has extensive senior management experience in finance, having previously served as CFO of Walsin Lihwa Corporation and Vice President of Finance at Winbond Electronics, while President Lin holds a PhD in Mechanical Engineering and brings significant R&D and project management experience from the Cooler Master Group. This separation of roles — combined with a Board consisting of 7 directors including 3 independent directors who possess diverse professional qualifications across finance, accounting, law, business management, and industrial knowledge — is a positive sign from a corporate governance perspective.
G	Capital management	1	Over 2023-2025, Microloop recorded dividend payout ratios of 38%, 69% and 61%. Management aims to further increase the ratio to 70% over the mid-to-long-term to balance shareholder returns while meeting reinvestment needs. This approach reflects a prudent capital management policy and consistent financial discipline.
G	Related party & transaction	1	The company engages in transactions with subsidiaries (such as those in Samoa, Huizhou, and Vietnam) primarily for normal operational purposes, such as the procurement of equipment by Microloops Huizhou. To ensure risk control and firewall mechanisms, all interactions are governed by established internal controls, including the "Regulations Governing the Financial and Business Matters Between Related Parties" and the "Regulations Governing the Supervision and Management of Subsidiaries", ensuring that no irregular or non-transparent transactions were identified.
E	Supply chain management	1	Microloops has a structured procurement process utilising its "Procurement Management Regulations" to select suppliers, giving preference to those with environment-related licenses who emphasise environmental protection and social responsibility. The company maintains stable, mutual-trust relationships with major raw material suppliers (including Sankou Precision and Thermal Science Technology) and promotes ethical management policies by requiring cooperating partners to sign an "Integrity Commitment Letter". This reflects strong supply chain transparency, environmental compliance regarding RoHS and lead-free regulations, and robust quality control measures.
S	Data security	1	The company has established a dedicated Information Security Department led by an Information Security Officer to oversee security management, officially obtaining the ISO 27001 Information Security Management System certificate in 2025/4. Guided by its "Computer Processing Operations Cycle" and "Information Security Management Regulations", the company conducts regular asset inventory and risk assessments while enforcing anti-virus mandates, server password updates, and strict employee access controls. Backup systems, redundancies, and regular disaster recovery drills are actively in place, allowing the company to ensure system availability and minimise operational damage during major incidents or equipment failures.

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: 18 Jun 2026
Source: Daiwa, Company

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Disclosure of investment ratings

Rating	Percentage of total
Buy*	72.63%
Hold**	20.53%
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Source: Daiwa

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* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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