Daiwa Capital Markets Hong Kong Limited

Gold Circuit Electronics (2368 TT)

Target price: **TWD1,650.00** (from TWD1,650.00)

Share price (11 Aug): **TWD964.00** | Up/downside: **+71.2%**

5 4 3 2 **1**

Buy
(unchanged)

2Q26 results review: profitability missed slightly

- Near-term fundamentals are largely on track
- Investors' concern over HDI technology is excessive
- Maintaining our Buy (1) rating and 12M TP of TWD1,650

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What's new: We provide updates after its 2Q26 results on 11 August.

What's the impact: **2Q26 core business miss on profitability.** GCE's 2Q26 earnings came in at TWD4.78bn (EPS: TWD9.4), which was 9% and 8% higher than our and consensus estimates on a lower tax rate. While revenue was 5% higher than expectation on solid AI server demand, 2Q26 gross margin decreased by 0.1pp QoQ to 34.7% due likely to a c.30% price hike by its CCL vendors in 2Q26. GCE could not pass through the cost immediately to end customers. Meanwhile, the operating margin fell by 0.4pp QoQ to 26.4% on the gross margin contraction and higher-than-expected opex ratio (increased 0.2pp QoQ despite the 26% revenue QoQ growth in 2Q26). Lastly, net income was impacted by a higher non-operating loss of TWD118m in 2Q26, although it was offset by lower tax rate of 24.1% in 2Q26 (vs. 32-33% in 2024-25).

Business outlook. GCE's share price has corrected 36% from the recent peak in June. We believe investors' concern about potential spec changes are one reason. Given higher computing power requirements and I/O support, AI server mainboards from the next generation (eg, Trainium 4 or TPU v9) would also shift from a pure high layer count (HLC) board to a fusion between HLC board and high-density interconnect (HDI), with the surface layer adopting HDI so that it can input more traces due to its strength of a smaller trace/space ratio. However, as GCE has specialised in HLC for many years, investors are worried about GCE's capability with HDI. We believe the concern is unwarranted given GCE's excellent track record in execution. Second, given the strong price hikes within the PCB sector, investors might shift from GCE to other companies, which might case a derating given limited funding. We believe GCE's progress is largely on track as it controls the highest market share from its key CSP client, and it is likely to penetrate a second CSP from 1H27. In this note, we factor in the capacities from the Suzhou and Taiwan plants in 2027-28, which support a 32% upward revision in the 2028E revenue.

What we recommend: We raise our 2026-28E EPS by 10-38% to reflect the capacity ramp-ups and ongoing ASP increases by GCE. We reaffirm our Buy (1) call and maintain our 12M TP of TWD1,650, with a lower PER target of 26x (from 35x; high end of its past-3-year range of 7-28x), on our 4-quarter forward diluted EPS forecast, to reflect market concerns over HDI. Key downside risk: worse-than-expected AI server demand.

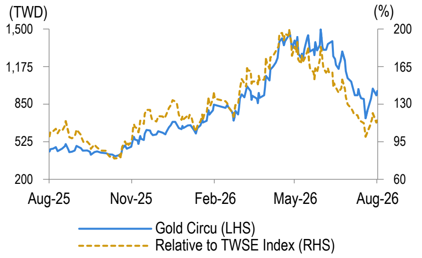
How we differ: Our 2026-28E earnings are 8-14% higher than the consensus, due likely to our higher revenue assumptions.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	9.3	15.9	31.8
Net profit change	11.5	18.4	39.2
Core EPS (FD) change	10.3	17.2	37.8

Source: Daiwa forecasts

Share price performance



12-month range	399.00-1,495.00
Market cap (USDbn)	15.28
3m avg daily turnover (USDm)	237.03
Shares outstanding (m)	511
Major shareholder	Yang Chang-Yi (19.7%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	107,164	157,914	218,256
Operating profit (m)	29,573	48,569	73,797
Net profit (m)	21,082	34,600	52,511
Core EPS (fully-diluted)	41.295	67.772	102.856
EPS change (%)	117.1	64.1	51.8
Daiwa vs Cons. EPS (%)	7.5	9.0	13.6
PER (x)	23.3	14.2	9.4
Dividend yield (%)	1.0	2.0	3.1
DPS	10.0	19.0	30.0
PBR (x)	9.9	6.6	4.4
EV/EBITDA (x)	16.3	10.1	6.5
ROE (%)	50.8	55.8	56.5

Source: FactSet, Daiwa forecasts

Flash

GCE: Daiwa's revenue and earnings forecasts vs. consensus

	2026E			2027E			2028E		
(TWDm)	Previous	New	Consensus	Previous	New	Consensus	Previous	New	Consensus
Revenue	98,075	107,164	99,504	136,201	157,914	142,210	165,608	218,256	180,508
Diff (%)		9.3%	7.7%		15.9%	11.0%		31.8%	20.9%
Gross Margin (%)	36.4%	35.5%	36.3%	38.8%	38.0%	38.3%	40.6%	40.2%	38.6%
Operating profit	27,739	29,573	28,870	42,041	48,569	46,773	54,328	73,797	65,013
Op Margin (%)	28.3%	27.6%	29.0%	30.9%	30.8%	32.9%	32.8%	33.8%	36.0%
Net profit	18,905	21,082	19,614	29,219	34,600	31,740	37,715	52,511	46,213
EPS (TWD)	37.43	41.29	38.42	57.84	67.77	62.17	74.66	102.86	90.52
Diff (%)		10.3%	7.5%		17.2%	9.0%		37.8%	13.6%

Source: Bloomberg, Daiwa forecasts

GCE: quarterly and annual P&L statement

	2026E				2027E				2025	2026	2027E	2028E
(TWDm)	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE				
Net revenue	**19,313**	**24,279**	**31,849**	**31,723**	**32,792**	**38,161**	**41,962**	**44,999**	**60,004**	**107,164**	**157,914**	**218,256**
COGS	-12,590	-15,866	-20,398	-20,213	-20,744	-23,902	-25,849	-27,478	-40,321	-69,068	-97,974	-130,552
Gross profit	**6,722**	**8,413**	**11,451**	**11,510**	**12,048**	**14,259**	**16,113**	**17,521**	**19,683**	**38,097**	**59,941**	**87,704**
Operating expenses	-1,538	-1,996	-2,484	-2,506	-2,492	-2,748	-2,937	-3,195	-5,640	-8,524	-11,372	-13,907
Operating profit	**5,185**	**6,418**	**8,967**	**9,004**	**9,556**	**11,511**	**13,175**	**14,326**	**14,043**	**29,573**	**48,569**	**73,797**
Non-operating profit	-97	-118	39	40	41	41	41	40	130	-136	163	163
Pre-tax profit	**5,088**	**6,299**	**9,006**	**9,043**	**9,597**	**11,552**	**13,216**	**14,366**	**14,173**	**29,437**	**48,732**	**73,960**
Income taxes	-1,604	-1,516	-2,612	-2,623	-2,783	-3,350	-3,833	-4,166	-4,567	-8,354	-14,132	-21,448
Net profit	**3,484**	**4,783**	**6,394**	**6,421**	**6,814**	**8,202**	**9,384**	**10,200**	**9,607**	**21,082**	**34,600**	**52,511**
Net EPS (TWD)	**6.82**	**9.37**	**12.53**	**12.58**	**13.35**	**16.07**	**18.38**	**19.98**	**19.02**	**41.29**	**67.77**	**102.86**
Operating Ratios												
Gross margin	34.8%	34.7%	36.0%	36.3%	36.7%	37.4%	38.4%	38.9%	32.8%	35.5%	38.0%	40.2%
Operating margin	26.8%	26.4%	28.2%	28.4%	29.1%	30.2%	31.4%	31.8%	23.4%	27.6%	30.8%	33.8%
Pre-tax margin	26.3%	25.9%	28.3%	28.5%	29.3%	30.3%	31.5%	31.9%	23.6%	27.5%	30.9%	33.9%
Net margin	18.0%	19.7%	20.1%	20.2%	20.8%	21.5%	22.4%	22.7%	16.0%	19.7%	21.9%	24.1%
YoY (%)												
Net revenue	60%	75%	80%	93%	70%	57%	32%	42%	54%	79%	47%	38%
Gross profit	78%	105%	82%	108%	79%	69%	41%	52%	73%	94%	57%	46%
Operating profit	104%	124%	93%	126%	84%	79%	47%	59%	74%	111%	64%	52%
Pre-tax profit	92%	151%	90%	111%	89%	83%	47%	59%	67%	108%	66%	52%
Net profit	99%	182%	98%	119%	96%	71%	47%	59%	71%	119%	64%	52%
QoQ (%)												
Net revenue	18%	26%	31%	0%	3%	16%	10%	7%				
Gross profit	22%	25%	36%	1%	5%	18%	13%	9%				
Operating profit	30%	24%	40%	0%	6%	20%	14%	9%				
Pre-tax profit	19%	24%	43%	0%	6%	20%	14%	9%				
Net profit	19%	37%	34%	0%	6%	20%	14%	9%				

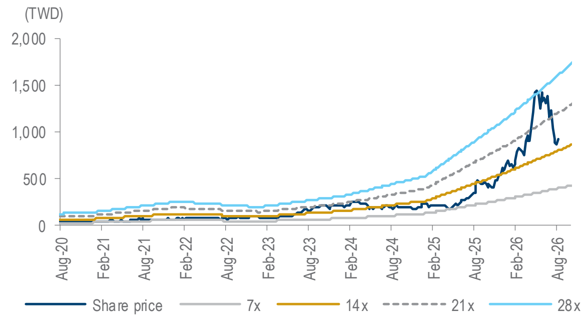
Source: Company, Daiwa forecasts

GCE: 2Q26 comparison table

(TWDm)	Actual	QoQ%	YoY%	Daiwa	Diff %	Consensus	Diff %
Revenue	24,279	26%	75%	23,186	5%	23,182	5%
Gross profit	8,413	25%	105%	8,326	1%	8,349	1%
Gross margin (%)	34.7%			35.9%		36.0%	
Operating profit	6,418	24%	124%	6,425	0%	6,516	-2%
Operating margin (%)	26.4%			27.7%		28.1%	
Pre-tax profit	6,299	24%	151%	6,469	-3%	6,541	-4%
Net profit	4,783	37%	182%	4,399	9%	4,413	8%
EPS (TWD)	9.37	37%	182%	8.71	9%	8.74	8%

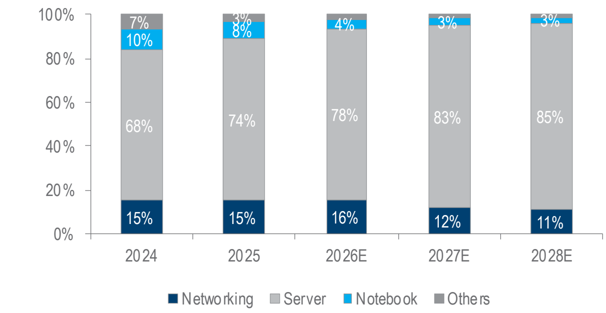
Source: Company data, Daiwa forecasts, Bloomberg

GCE: 1-year forward PER bands



Source: TEJ, Daiwa forecasts

GCE: revenue breakdown by product



Source: Company, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Networking PCB shipment (k sqft)	7,492.8	9,106.7	6,894.0	8,096.6	11,598.2	16,534.2	15,803.3	18,108.6
Server PCB shipment (k sqft)	24,031.1	33,555.9	29,493.9	34,972.5	54,601.1	65,526.0	79,611.0	105,558.0
Server PCB ASP (TWD per K sqft)	496.6	395.1	651.2	547.4	488.5	678.4	1,047.9	1,241.2

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Networking	5,319	6,704	5,064	5,909	8,997	16,784	18,793	23,619
Server	13,257	19,206	19,143	26,674	44,453	83,427	131,023	186,330
Other Revenue	8,032	6,874	5,837	6,369	6,553	6,953	8,098	8,307
Total Revenue	**26,607**	**32,785**	**30,044**	**38,952**	**60,004**	**107,164**	**157,914**	**218,256**
Other income	0	0	0	0	0	0	0	0
COGS	(20,236)	(24,057)	(22,320)	(27,556)	(40,321)	(69,068)	(97,974)	(130,552)
SG&A	(1,625)	(1,973)	(1,785)	(2,355)	(4,383)	(5,875)	(7,806)	(9,893)
Other op.expenses	(623)	(718)	(803)	(974)	(1,256)	(2,648)	(3,566)	(4,014)
Operating profit	**4,123**	**6,037**	**5,136**	**8,067**	**14,043**	**29,573**	**48,569**	**73,797**
Net-interest inc./(exp.)	(51)	(27)	78	78	55	45	43	42
Assoc/forex/extraord./others	(23)	383	3	345	75	(181)	120	120
Pre-tax profit	**4,049**	**6,392**	**5,218**	**8,490**	**14,173**	**29,437**	**48,732**	**73,960**
Tax	(1,122)	(1,820)	(1,689)	(2,875)	(4,567)	(8,354)	(14,132)	(21,448)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	**2,927**	**4,571**	**3,529**	**5,616**	**9,607**	**21,082**	**34,600**	**52,511**
Net profit (adjusted)	**2,927**	**4,571**	**3,529**	**5,616**	**9,607**	**21,082**	**34,600**	**52,511**
EPS (reported)(TWD)	**5.356**	**9.294**	**7.174**	**11.418**	**19.018**	**41.295**	**67.772**	**102.856**
EPS (adjusted)(TWD)	**5.356**	**9.294**	**7.174**	**11.418**	**19.018**	**41.295**	**67.772**	**102.856**
EPS (adjusted fully-diluted)(TWD)	**5.356**	**9.294**	**7.174**	**11.418**	**19.018**	**41.295**	**67.772**	**102.856**
DPS (TWD)	**1.500**	**2.177**	**3.463**	**3.463**	**5.937**	**10.000**	**19.000**	**30.000**
EBIT	**4,123**	**6,037**	**5,136**	**8,067**	**14,043**	**29,573**	**48,569**	**73,797**
EBITDA	**4,898**	**6,911**	**6,103**	**9,156**	**15,359**	**30,615**	**50,214**	**76,099**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	4,049	6,392	5,218	8,490	14,173	29,437	48,732	73,960
Depreciation and amortisation	776	874	967	1,089	1,316	1,042	1,645	2,302
Tax paid	(1,122)	(1,820)	(1,689)	(2,875)	(4,567)	(8,354)	(14,132)	(21,448)
Change in working capital	(2,372)	(2,438)	(70)	(2,647)	(12,581)	(5,847)	(15,198)	(18,119)
Other operational CF items	1,058	1,440	891	1,568	3,917	0	0	0
Cash flow from operations	**2,390**	**4,447**	**5,317**	**5,625**	**2,259**	**16,277**	**21,047**	**36,694**
Capex	(826)	(1,360)	(1,623)	(5,131)	(6,733)	(18,861)	(20,529)	(9,385)
Net (acquisitions)/disposals	0	(13)	(12)	(17)	(262)	0	0	0
Other investing CF items	(5)	17	(27)	(56)	(38)	0	0	0
Cash flow from investing	**(831)**	**(1,357)**	**(1,662)**	**(5,205)**	**(7,033)**	**(18,861)**	**(20,529)**	**(9,385)**
Change in debt	(1,237)	989	485	2,044	16,242	0	0	0
Net share issues/(repurchases)	0	(541)	0	0	0	54	0	0
Dividends paid	(820)	(1,190)	(1,703)	(1,703)	(2,920)	(5,105)	(9,700)	(15,316)
Other financing CF items	(92)	(75)	(118)	(18)	(81)	0	0	0
Cash flow from financing	**(2,149)**	**(816)**	**(1,337)**	**323**	**13,241**	**(5,051)**	**(9,700)**	**(15,316)**
Forex effect/others	23	(114)	(552)	700	463	0	0	0
Change in cash	**(568)**	**2,160**	**1,767**	**1,444**	**8,930**	**(7,635)**	**(9,182)**	**11,994**
Free cash flow	1,564	3,087	3,694	495	(4,475)	(2,583)	518	27,309

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	3,843	6,017	7,820	9,191	18,517	10,882	1,701	13,694
Inventory	4,822	5,616	5,970	7,900	9,747	15,138	21,474	28,614
Accounts receivable	9,214	10,825	10,844	13,743	27,310	33,764	49,754	68,766
Other current assets	283	268	278	640	763	763	763	763
Total current assets	**18,162**	**22,726**	**24,913**	**31,474**	**56,337**	**60,548**	**73,692**	**111,837**
Fixed assets	5,679	6,294	6,945	11,635	17,840	35,659	54,543	61,626
Goodwill & intangibles	27	43	58	46	78	78	78	78
Other non-current assets	1,112	977	1,185	1,430	1,491	1,491	1,491	1,491
Total assets	**24,980**	**30,041**	**33,101**	**44,584**	**75,746**	**97,776**	**129,803**	**175,031**
Short-term debt	1,341	2,188	217	1,282	6,010	6,010	6,010	6,010
Accounts payable	5,502	5,661	6,021	8,268	11,032	17,030	24,158	32,191
Other current liabilities	3,431	4,008	4,237	7,419	10,512	10,512	10,512	10,512
Total current liabilities	**10,274**	**11,857**	**10,475**	**16,969**	**27,554**	**33,553**	**40,680**	**48,713**
Long-term debt	2,874	3,340	4,859	4,531	11,875	11,875	11,875	11,875
Other non-current liabilities	430	520	936	1,771	2,836	2,836	2,836	2,836
Total liabilities	**13,578**	**15,717**	**16,270**	**23,272**	**42,265**	**48,264**	**55,391**	**63,424**
Share capital	5,465	4,918	4,918	4,918	5,051	5,105	5,105	5,105
Reserves/R.E./others	5,937	9,406	11,913	16,394	28,430	44,407	69,306	106,502
Shareholders' equity	**11,402**	**14,324**	**16,831**	**21,312**	**33,481**	**49,512**	**74,412**	**111,607**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**24,980**	**30,041**	**33,101**	**44,584**	**75,746**	**97,776**	**129,803**	**175,031**
EV	492,523	491,662	489,406	488,773	491,518	499,153	508,335	496,341
Net debt/(cash)	**373**	**(489)**	**(2,745)**	**(3,377)**	**(633)**	**7,002**	**16,184**	**4,191**
BVPS (TWD)	**20.864**	**29.123**	**34.221**	**43.332**	**66.282**	**96.982**	**145.754**	**218.610**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	13.7	23.2	(8.4)	29.6	54.0	78.6	47.4	38.2
EBITDA (YoY)	28.8	41.1	(11.7)	50.0	67.8	99.3	64.0	51.6
Operating profit (YoY)	34.1	46.4	(14.9)	57.1	74.1	110.6	64.2	51.9
Net profit (YoY)	41.6	56.2	(22.8)	59.1	71.1	119.5	64.1	51.8
Core EPS (fully-diluted) (YoY)	41.6	73.5	(22.8)	59.1	66.6	117.1	64.1	51.8
Gross-profit margin	23.9	26.6	25.7	29.3	32.8	35.5	38.0	40.2
EBITDA margin	18.4	21.1	20.3	23.5	25.6	28.6	31.8	34.9
Operating-profit margin	15.5	18.4	17.1	20.7	23.4	27.6	30.8	33.8
Net profit margin	11.0	13.9	11.7	14.4	16.0	19.7	21.9	24.1
ROAE	28.3	35.5	22.7	29.4	35.1	50.8	55.8	56.5
ROAA	12.6	16.6	11.2	14.5	16.0	24.3	30.4	34.5
ROCE	27.6	34.0	24.6	32.9	35.8	49.8	60.8	66.5
ROIC	27.5	33.7	24.9	33.3	37.5	47.4	46.9	50.8
Net debt to equity	3.3	n.a.	n.a.	n.a.	n.a.	14.1	21.7	3.8
Effective tax rate	27.7	28.5	32.4	33.9	32.2	28.4	29.0	29.0
Accounts receivable (days)	110.9	111.6	131.6	115.2	124.9	104.0	96.5	99.1
Current ratio (x)	1.8	1.9	2.4	1.9	2.0	1.8	1.8	2.3
Net interest cover (x)	80.7	219.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	39.7	23.4	48.3	30.3	31.2	24.2	28.0	29.2
Free cash flow yield	0.3	0.6	0.8	0.1	n.a.	n.a.	0.1	5.5

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1981 and listed on the Taiwan Stock Exchange in 1998, Gold Circuit Electronics (GCE) was, in its early years, one of the world's top-3 printed circuit board (PCB) vendors providing double-sided and multi-layer PCBs for notebooks. However, as the notebook market became saturated from 2011, GCE started reshuffling its revenue mix to more high-end products (servers, workstations and networking boards). The requirement of higher-layer PCBs from these products has not only proved GCE's manufacturing capabilities but also created a high entry barrier. GCE's revenue contribution from the server and networking segments has surged to over 80% in 2024 (from 37% in 2010), the highest among its PCB peers.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	GCE's Board consists of 9 directors, including 3 independent directors. The number of independent directors is above Taiwan securities law's requirement of more than two and exceeds one-fifth of the total number of directors on the board. The backgrounds of the independent directors are diverse with expertise in the areas of business management, finance & audit, and law, which should be positive for executive and board quality. That said, the roles of CEO and chairman are held by one person, who is a second-generation family member of GCE's founder. The organisation structure appears to us to be a family business, which could lead to conflicts of interest between key executives and outside shareholders.
G	Capital management	2	GCE declared a DPS of TWD6.0 in 2024. GCE has only declared a cash or stock dividend 6 times in the past 14 years mainly due to fierce competition in the PCB industry (especially in notebook applications) and high earnings volatility from its 3 plants in China caused by low utilisation rates. We expect the company's strategy to focus on high-end products (eg, servers and networking) to start bearing fruit shortly, which was also the main reason GCE was able to declare a record-high cash dividend in 2024. Overall, we expect GCE to continue to benefit from ASP and gross-margin expansion, driven by server and networking spec upgrades, which should be value-accretive for investors in the long term.
G	Related party & transaction	1	Sales to related parties were 0% of total 2025 sales and purchases from related parties were also 0% of total 2025 purchases. We see limited risk from related-party transactions.
S	Supply chain management	1	GCE is a multi-layer PCB manufacturer with major raw materials, such as thin core, copper foil, pre-preg, copper ball, dry film, solder mask and various chemical materials used in the manufacturing process. GCE has acquired the ISO 9001 and IECQ QC 08000 certifications to improve its supply chain management capabilities in product quality and hazardous material usage. Like most hardware vendors, GCE is also committed to refusing procurement of conflict metals and to comply with the Responsible Business Alliance (RBA) Code of Conduct. According to its 2024 CSR report, top 30 suppliers have signed the RBA's code of conduct. As required by the RBA, GCE holds an annual supply chain meeting to review the achievement rate of its previous target and set new goals for suppliers and also audit its top-10 suppliers. In 2021, the company set up a risk evaluation system to assess the risk level of its suppliers.
S	Data security	2	Information security is one of the key topics under the company's risk management guidelines. GCE constructed an information security system, under the "information security committee", to minimise the risk of information loss, sabotage, and leakage caused by human errors, malicious destructions or natural disasters. Below are several measures the company has taken to improve data security: GCE will conduct regular awareness training to ensure employees' security awareness and fulfilment of information security system requirements. Also, the information security committee will develop an information security continuity plan and conduct drills to ensure continuous operation of the company.

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: 13 Apr 2026

Source: Daiwa, Company

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