Daiwa Capital Markets
Hong Kong Limited

data

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MEMO

Eternal Precision Mechanics (7795 TT)

Share price (11 Aug): **TWD460.00** 12-mth rating: **Buy (1)** **Industrials: Taiwan**

Capacity expansion accelerates as new growth avenues emerge

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Summary: Eternal hosted its investor conference this afternoon, with discussions centred on 3 key topics: 1) **Order momentum:** Order backlog as of end-July increased by >180% from the end of 1Q26, with order visibility extending into 2030 and equipment lead times lengthening to 30 months (normally 6-8 months). 2) **Capacity expansion:** External assembly partners in Japan began supporting assembly in August, with monthly capacity scheduled to increase by two units per month from October. The company also raised its 2027 capacity target for the Japan plant to 28 units per month (from 25 units). The China plant monthly capacity will increase to 5 units (from 4 units), accompanied by a shift from low-end to mid-range equipment. 3) **New semiconductor opportunities:** While investors have been concerned about Eternal's heavy reliance on the ABF industry, the company is leveraging not only its longstanding partnership with Ajinomoto but also its collaboration with other top-tier Japanese material suppliers to qualify new equipment. Eternal currently faces no competition in the emerging molding dry-film equipment segment. Successful qualification could create an additional growth driver and support a re-rating of Eternal as a semiconductor equipment company.

Key Takeaways:

Guidance

- High-end product shipments are expected to begin ramping from late 3Q26, driving substantial HoH growth in both revenue and shipment volume in 2H26, while the product mix should recover to at least the 2025 level.
- Most three-stage laminators shipped in 1H26 were 90-tonne models, indicating that demand for high-end products is shifting from 45-tonne to 90-tonne systems. Management expects 90-tonne models to account for the vast majority of three-stage laminator shipments going forward.
- Contract liabilities previously peaked at TWD800m in 2023. Elevated contract liabilities and inventories during 2023-24 primarily reflected delayed equipment installation amid post-COVID inventory destocking in the substrate industry. The current increase in contract liabilities carries a different implication, as customers are now accelerating installation schedules amid strong demand.
- Order visibility now extends into 2030, while equipment lead times have lengthened to 30 months.

Capacity expansion

- In Japan, the company is using short-term leased facilities and external assembly partners to expand capacity. Monthly capacity at the Chiryu plant currently stands at 18 units and is scheduled to increase by 2 units in each of October, November and December. The maximum annual capacity is expected to reach 336 units in 2027, versus 218 units currently. As order demand continues to exceed the planned capacity additions, management will explore further expansion.
- The Guangzhou subsidiary completed a CNY20m capital increase in 2H26 and is expanding its assembly workforce through leased facilities. The monthly capacity will increase to 5 units from 4, while its product mix will shift toward mid-range two-stage laminators.
- Construction of the newly acquired Toyota plant is scheduled for completion in 2Q29. Its assembly and machining areas will be c.1.7-2.0x larger than the existing facilities, with phase-one annual capacity targeted at 350 units.

New growth opportunities

- Development of new molding equipment for EMIB applications is underway, with equipment completion possible as early as February-March 2027.
- Glass-substrate equipment has completed validation and can laminate substrates ranging from 0.1mm to 1.8mm in thickness without breakage. The equipment will be ready for deployment once the glass-substrate market reaches commercial maturity.
- The FOPLP demonstration system specifications have been finalised, with the system expected to be delivered for customer qualification as early as November 2026.
- Eternal is participating in Resonac's JOINT3 project to develop a four-stage vacuum laminator. A system was shipped last week to test process parameters for new materials, targeting the stringent planarity requirements of vacuum lamination in advanced packaging.
- The company continues to develop wafer-level vacuum lamination equipment for Taiwan's leading foundry, with the pilot system scheduled for completion by the end of 1Q27.
- Molding applications require a tighter process control than ABF lamination, particularly in preventing resin bleed-out and maintaining precision. Eternal currently faces no competing equipment suppliers in the molding dry-film segment.

In the interests of timeliness, this document has not been edited.

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