SDI Corp (2351 TT)

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

Share price (7 Aug): **TWD170.00** | Up/downside: **+55.9%**

5 4 3 2 **1**

Buy
(unchanged)

2Q26 review: net profit beat expectations

- AI lead frame revenue ramping up YTD
- Heat spreader products have started to contribute revenue in 2026
- Reaffirming our Buy (1) call with an unchanged 12M TP of TWD265

Helen Chien
(886) 2 8758 6254
helen.chien@daiwacm-cathay.com.tw

Neil Teng, CFA
(886) 2 8758 6256
neil.teng@daiwacm-cathay.com.tw

What's new: We had an update with SDI today (7 August). We see a brighter-than-expected revenue and gross margin outlook over 2H26, thanks to SDI's better-than-expected auto and consumer electronic segments plus upside potential for its AI lead frame and heat spreader sales. We reaffirm our Buy (1) call (see our latest memo, *2Q26 results review: EPS beat consensus*, 6 August).

What's the impact: Key highlights for 2Q26 results: SDI's gross margin came in at 20.7% in 2Q26, higher than 19.1% in 1Q26 and 10.5% in 2Q25, and beating both our (19.5%) and the Bloomberg consensus (18.8%) estimates. We attribute this to a higher utilisation rate and efficiency (+2pp impact), cost control (+2.7pp) and price hike effect YTD despite an unfavourable copper price trend (-3pp). However, given a more favourable copper and currency environment as well as larger revenue scale and better segment mix (rising auto and AI lead frame revenue), we expect its 2H26 gross margin to be sustained at the 1H26 level.

Brighter lead frame outlook in 2H26 with rising AI lead frame and heat spreader revenue. The company expects its 2H26 revenue to grow by a high-single-digit % HoH. In 2H26, we expect its auto segment to keep the strongest momentum compared to its industrial and consumer segments due to the low inventory at its clients, demand recovery, localisation trend in China, electrification trend and new products' contribution (eg, ADAS). Its AI lead frames accounted for 6% of revenue in 2Q26, and management targets the revenue to expand QoQ in 2H26. SDI highlighted that it has received many rush orders for AI lead frames, and 40 new AI-related products are expected to be contribute >TWD150m per month. For its heat spreader, the company has won orders from US-based clients and should have some revenue contribution in the next 6 months. SDI plans to have a new production site outside China and Taiwan in the next 1-2 years, mainly for lead frame products. We lift our 2026-28E EPS by 3-11%, mainly on our more aggressive gross and operating margins forecasts.

What we recommend: We reaffirm our Buy (1) rating with an unchanged 12M TP of TWD265, now based on a target PER of 35x (from 39x), still at the lower end of its past-5-year range of 12-72x [average PER: 30x]) given its decelerating earnings trajectory (net profit CAGR of 31.1% over 2026-28E, from 125.5% over 2025-27E) on our 1-year forward EPS. Key downside risks: worse-than-expected end demand; worse-than-expected gross-margin expansion.

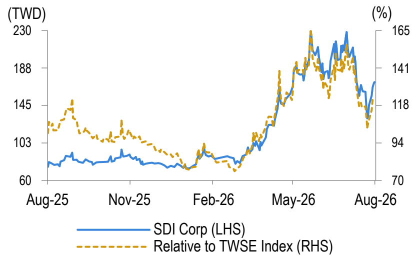
How we differ: Our 2026-28E EPS are 3-5% below the Bloomberg consensus, likely due to our slightly conservative view on its revenue.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	2.1	1.4	0.9
Net profit change	4.2	2.5	11.0
Core EPS (FD) change	4.2	2.5	11.0

Source: Daiwa forecasts

Share price performance



12-month range	73.20-229.00
Market cap (USDbn)	0.96
3m avg daily turnover (USDm)	43.48
Shares outstanding (m)	182
Major shareholder	Chen family (51.0%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	13,358	15,657	17,858
Operating profit (m)	1,555	2,060	2,646
Net profit (m)	1,167	1,541	2,005
Core EPS (fully-diluted)	5.868	7.753	10.083
EPS change (%)	257.8	32.1	30.0
Daiwa vs Cons. EPS (%)	(2.5)	(3.0)	(4.8)
PER (x)	29.0	21.9	16.9
Dividend yield (%)	2.4	3.1	4.1
DPS	4.0	5.3	6.9
PBR (x)	4.0	3.7	3.3
EV/EBITDA (x)	14.8	12.1	10.0
ROE (%)	15.5	18.4	21.8

Source: FactSet, Daiwa forecasts

See important disclosures, including any required research certifications, beginning on page 6

Flash

SDI: revisions to revenue and earnings forecasts

(TWDm)	2026E			2027E			2028E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	**13,358**	**13,078**	2.1%	**15,657**	**15,435**	1.4%	**17,858**	**17,694**	0.9%
Gross profit	**2,716**	**2,502**	8.6%	**3,266**	**3,088**	5.8%	**3,892**	**3,511**	10.8%
Gross profit margin	*20.3%*	*19.1%*	*1.2pp*	*20.9%*	*20.0%*	*0.8pp*	*21.8%*	*19.8%*	*1.9pp*
Operating profit	**1,555**	**1,465**	6.2%	**2,060**	**1,972**	4.4%	**2,646**	**2,355**	12.3%
Operating profit margin	*11.6%*	*11.2%*	*0.4pp*	*13.2%*	*12.8%*	*0.4pp*	*14.8%*	*13.3%*	*1.5pp*
Net profit	**1,167**	**1,120**	4.2%	**1,541**	**1,504**	2.5%	**2,005**	**1,806**	11.0%
Net profit margin	*8.7%*	*8.6%*	*0.2pp*	*9.8%*	*9.7%*	*0.1pp*	*11.2%*	*10.2%*	*1pp*
Diluted EPS (TWD)	**5.87**	**5.63**	4.2%	**7.75**	**7.56**	2.5%	**10.08**	**9.09**	11.0%

Source: Daiwa forecasts

SDI: 2Q26 results vs. Daiwa and Bloomberg forecasts

(TWDm)	SDI's 2Q26 results	Daiwa forecast	Differ	Bloomberg consensus	Differ
Revenue	3,559	3,421	4.0%	3,420	4.1%
Gross profit	737	667	10.6%	642	14.9%
Operating profit	417	411	1.4%	362	15.1%
Profit before tax	414	408	1.6%	363	14.1%
Net profit	303	307	-1.4%	273	10.9%
Basic EPS (TWD)	1.60	1.69	-5.0%	1.46	9.9%
Margin					
Gross margin	20.7%	19.5%	1.2pp	18.8%	2pp
Operating margin	11.7%	12.0%	-0.3pp	10.6%	1.1pp
Pre-tax margin	11.6%	11.9%	-0.3pp	10.6%	1pp
Net margin	8.5%	9.0%	-0.5pp	8.0%	0.5pp

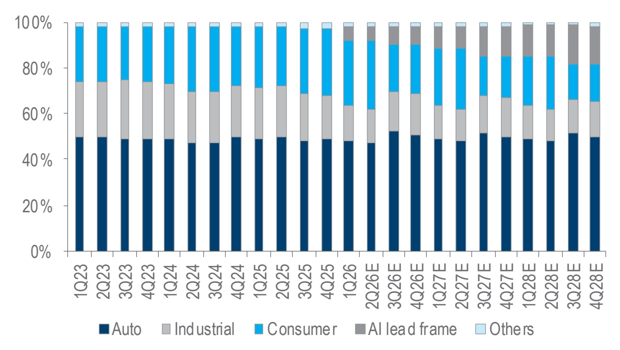
Source: Company, Bloomberg, Daiwa forecasts

SDI: quarterly P&L

	2026E				2027E				2026E	2027E	2028E
(TWDm)	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E			
Revenue	2,805	3,559	3,577	3,417	3,249	4,121	4,233	4,054	13,358	15,657	17,858
Gross profit	536	737	742	701	643	825	921	876	2,716	3,266	3,892
Operating profit	272	417	456	411	354	526	612	567	1,555	2,060	2,646
Pre-tax profit	292	414	453	408	351	523	610	564	1,567	2,048	2,635
Net profit	222	303	339	303	258	394	462	427	1,167	1,541	2,005
Basic EPS (TWD)	1.22	1.60	1.79	1.60	1.37	2.08	2.45	2.26	6.21	8.15	10.60
Margin											
Gross margin	19.1%	20.7%	20.7%	20.5%	19.8%	20.0%	21.8%	21.6%	20.3%	20.9%	21.8%
Operating margin	9.7%	11.7%	12.7%	12.0%	10.9%	12.8%	14.5%	14.0%	11.6%	13.2%	14.8%
Pre-tax margin	10.4%	11.6%	12.7%	11.9%	10.8%	12.7%	14.4%	13.9%	11.7%	13.1%	14.8%
Net margin	7.9%	8.5%	9.5%	8.9%	7.9%	9.6%	10.9%	10.5%	8.7%	9.8%	11.2%
YoY											
Revenue	11.0%	37.2%	40.7%	32.2%	15.8%	15.8%	18.3%	18.6%	30.4%	17.2%	14.1%
Gross profit	45.6%	170.9%	134.6%	71.6%	19.9%	11.9%	24.2%	25.0%	99.0%	20.2%	19.2%
Operating profit	85.0%	486.2%	339.9%	132.0%	30.3%	26.2%	34.4%	38.0%	211.8%	32.4%	28.5%
Pre-tax profit	92.3%	n.m.	256.3%	105.6%	20.3%	26.3%	34.6%	38.3%	256.7%	30.7%	28.6%
Net profit	97.1%	n.m.	287.6%	108.1%	16.5%	30.1%	36.6%	40.7%	284.7%	32.1%	30.0%
QoQ											
Revenue	8.6%	26.9%	0.5%	-4.5%	-4.9%	26.8%	2.7%	-4.2%			
Gross profit	31.4%	37.5%	0.6%	-5.5%	-8.2%	28.3%	11.7%	-4.9%			
Operating profit	53.5%	53.4%	9.3%	-9.8%	-13.8%	48.6%	16.4%	-7.4%			
Pre-tax profit	47.1%	41.9%	9.3%	-9.9%	-13.9%	49.0%	16.5%	-7.4%			
Net profit	52.2%	36.7%	11.7%	-10.5%	-14.8%	52.7%	17.3%	-7.7%			

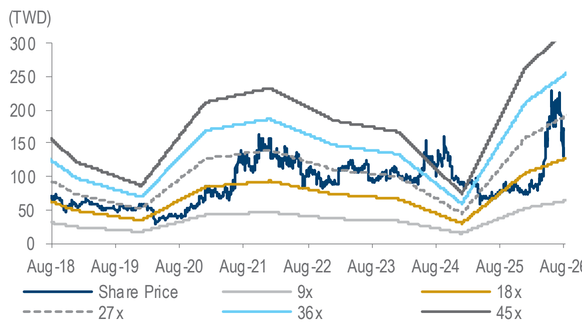
Source: Company, Daiwa forecasts

SDI: revenue breakdown by application



Source: Company, Daiwa Forecasts

SDI: 1-year forward PER



Source: Bloomberg, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Auto revenue growth (%)	78.2	26.0	(1.4)	(4.1)	(2.8)	37.2	20.0	15.0
Industrial revenue growth (%)	9.7	(0.3)	(11.4)	(8.6)	(12.7)	7.5	10.0	10.0
Consumer revenue growth (%)	26.9	(10.0)	(7.7)	11.3	(2.0)	23.0	2.0	2.0

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Electronics	9,455	10,112	9,418	9,277	8,865	12,053	14,353	16,554
Stationery	1,697	1,612	1,439	1,538	1,382	1,305	1,305	1,305
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**11,153**	**11,724**	**10,857**	**10,815**	**10,247**	**13,358**	**15,657**	**17,858**
Other income	0	0	0	0	0	0	0	0
COGS	(9,043)	(9,646)	(9,002)	(9,094)	(8,882)	(10,642)	(12,391)	(13,966)
SG&A	(637)	(655)	(633)	(633)	(597)	(716)	(756)	(776)
Other op.expenses	(248)	(254)	(242)	(259)	(269)	(445)	(450)	(470)
Operating profit	**1,225**	**1,169**	**979**	**829**	**499**	**1,555**	**2,060**	**2,646**
Net-interest inc./(exp.)	(57)	(71)	(50)	(50)	(52)	(57)	(56)	(56)
Assoc/forex/extraord./others	(1)	172	72	118	(7)	68	45	45
Pre-tax profit	**1,168**	**1,270**	**1,001**	**897**	**439**	**1,567**	**2,048**	**2,635**
Tax	(257)	(270)	(220)	(167)	(95)	(332)	(430)	(553)
Min. int./pref. div./others	(58)	(59)	(38)	(55)	(42)	(68)	(77)	(77)
Net profit (reported)	**852**	**941**	**743**	**675**	**303**	**1,167**	**1,541**	**2,005**
Net profit (adjusted)	**852**	**941**	**743**	**675**	**303**	**1,167**	**1,541**	**2,005**
EPS (reported)(TWD)	**4.679**	**5.164**	**4.078**	**3.706**	**1.665**	**6.214**	**8.151**	**10.600**
EPS (adjusted)(TWD)	**4.679**	**5.164**	**4.078**	**3.706**	**1.665**	**6.214**	**8.151**	**10.600**
EPS (adjusted fully-diluted)(TWD)	**4.679**	**5.164**	**4.078**	**3.706**	**1.640**	**5.868**	**7.753**	**10.083**
DPS (TWD)	**3.000**	**3.200**	**2.600**	**2.500**	**1.100**	**4.039**	**5.298**	**6.890**
EBIT	**1,225**	**1,169**	**979**	**829**	**499**	**1,555**	**2,060**	**2,646**
EBITDA	**1,899**	**1,830**	**1,651**	**1,535**	**1,200**	**2,325**	**2,898**	**3,552**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	1,168	1,270	1,001	897	439	1,567	2,048	2,635
Depreciation and amortisation	674	661	672	707	701	769	838	906
Tax paid	(257)	(270)	(220)	(167)	(95)	(332)	(430)	(553)
Change in working capital	(1,358)	188	375	(105)	276	(1,566)	(1,067)	(956)
Other operational CF items	294	148	(102)	(142)	(37)	(72)	(49)	(49)
Cash flow from operations	**521**	**1,996**	**1,726**	**1,190**	**1,284**	**366**	**1,340**	**1,982**
Capex	(1,194)	(815)	(695)	(587)	(933)	(1,300)	(1,300)	(1,300)
Net (acquisitions)/disposals	3	2	23	6	6	0	0	0
Other investing CF items	(32)	(26)	(17)	25	(77)	0	0	0
Cash flow from investing	**(1,223)**	**(838)**	**(689)**	**(556)**	**(1,005)**	**(1,300)**	**(1,300)**	**(1,300)**
Change in debt	1,023	(204)	(617)	121	(997)	1,077	0	500
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(328)	(546)	(583)	(474)	(455)	(200)	(758)	(1,002)
Other financing CF items	(53)	(52)	(57)	(50)	1,125	0	0	0
Cash flow from financing	**642**	**(803)**	**(1,257)**	**(402)**	**(328)**	**877**	**(758)**	**(502)**
Forex effect/others	(2)	1	(1)	4	2	0	0	0
Change in cash	**(62)**	**356**	**(222)**	**236**	**(46)**	**(57)**	**(718)**	**180**
Free cash flow	(673)	1,182	1,031	603	351	(934)	40	682

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	702	1,059	837	1,073	1,026	970	252	432
Inventory	4,087	3,866	3,578	3,654	3,807	4,419	5,229	5,846
Accounts receivable	2,563	2,140	1,933	2,129	2,033	2,616	3,070	3,500
Other current assets	223	195	186	193	202	202	202	202
Total current assets	**7,575**	**7,260**	**6,534**	**7,049**	**7,068**	**8,207**	**8,753**	**9,980**
Fixed assets	4,951	5,191	5,178	5,062	5,232	5,780	6,259	6,670
Goodwill & intangibles	74	57	52	57	78	78	78	78
Other non-current assets	444	418	381	368	358	358	358	358
Total assets	**13,045**	**12,926**	**12,145**	**12,535**	**12,736**	**14,422**	**15,447**	**17,086**
Short-term debt	1,002	1,201	1,189	1,205	1,250	2,327	2,327	2,327
Accounts payable	2,202	1,752	1,535	1,526	1,804	1,241	1,544	1,685
Other current liabilities	345	432	370	274	214	205	205	205
Total current liabilities	**3,549**	**3,386**	**3,094**	**3,004**	**3,269**	**3,774**	**4,077**	**4,217**
Long-term debt	2,381	1,998	1,381	1,535	1,616	1,616	1,616	2,116
Other non-current liabilities	581	556	554	578	574	574	574	574
Total liabilities	**6,511**	**5,940**	**5,028**	**5,117**	**5,459**	**5,964**	**6,267**	**6,908**
Share capital	1,821	1,821	1,821	1,821	1,821	1,877	1,891	1,891
Reserves/R.E./others	4,365	4,806	4,946	5,234	5,140	6,196	6,828	7,749
Shareholders' equity	**6,187**	**6,628**	**6,767**	**7,055**	**6,961**	**8,074**	**8,719**	**9,640**
Minority interests	346	358	350	363	316	385	461	538
Total equity & liabilities	**13,045**	**12,926**	**12,145**	**12,535**	**12,736**	**14,422**	**15,447**	**17,086**
EV	33,992	33,463	33,046	32,994	33,120	34,322	35,117	35,513
Net debt/(cash)	**2,681**	**2,141**	**1,732**	**1,667**	**1,840**	**2,974**	**3,692**	**4,011**
BVPS (TWD)	**33.967**	**36.388**	**37.154**	**38.735**	**38.219**	**43.006**	**46.105**	**50.978**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	32.0	5.1	(7.4)	(0.4)	(5.2)	30.4	17.2	14.1
EBITDA (YoY)	46.4	(3.6)	(9.8)	(7.0)	(21.9)	93.8	24.7	22.6
Operating profit (YoY)	103.7	(4.6)	(16.3)	(15.4)	(39.8)	211.8	32.4	28.5
Net profit (YoY)	144.1	10.4	(21.0)	(9.1)	(55.1)	284.7	32.1	30.0
Core EPS (fully-diluted) (YoY)	144.1	10.4	(21.0)	(9.1)	(55.8)	257.8	32.1	30.0
Gross-profit margin	18.9	17.7	17.1	15.9	13.3	20.3	20.9	21.8
EBITDA margin	17.0	15.6	15.2	14.2	11.7	17.4	18.5	19.9
Operating-profit margin	11.0	10.0	9.0	7.7	4.9	11.6	13.2	14.8
Net profit margin	7.6	8.0	6.8	6.2	3.0	8.7	9.8	11.2
ROAE	14.4	14.7	11.1	9.8	4.3	15.5	18.4	21.8
ROAA	7.2	7.2	5.9	5.5	2.4	8.6	10.3	12.3
ROCE	13.4	11.6	9.9	8.4	4.9	13.8	16.1	19.1
ROIC	11.4	10.0	8.5	7.5	4.3	11.9	13.4	15.4
Net debt to equity	43.3	32.3	25.6	23.6	26.4	36.8	42.3	41.6
Effective tax rate	22.0	21.3	22.0	18.6	21.5	21.2	21.0	21.0
Accounts receivable (days)	73.7	73.2	68.5	68.5	74.1	63.5	66.3	67.1
Current ratio (x)	2.1	2.1	2.1	2.3	2.2	2.2	2.1	2.4
Net interest cover (x)	21.4	16.4	19.5	16.4	9.5	27.4	36.6	47.0
Net dividend payout	64.1	62.0	63.8	67.4	66.1	65.0	65.0	65.0
Free cash flow yield	n.a.	3.8	3.3	1.9	1.1	n.a.	0.1	2.2

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1967, SDI started out as a stationery producer and set up its electronics department in 1983. SDI is currently the No.1 power lead frame manufacturer in the world, whose major segments are automotive (42% of total revenue in 2025), industrial (18%), consumer (24%), stationery (13%) and others (2%). Its electrical business accounted for 87% of total revenue in 2025. The company was listed on Taiwan's main board in April 1996.

Daiwa Capital Markets Hong Kong Limited

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	The CEO and chairperson of SDI are not the same individual. SDI's board has 10 members, including 4 independent directors (40% of total). This ratio is higher than the regulatory requirement of at least 20%. There is a compensation committee overseen by SDI's board.
	Capital management	1	SDI's payout ratio has been stable over the past decade (generally c.60%). SDI's dividend payout ratio was 66% in 2025; we believe SDI's long-term goal is to maintain a highly stable dividend payout policy.
	Related party & transaction	2	Revenue generated from related-party transactions is <1%, and the transaction conditions are no different than normal transactions. Thus, we see limited risk.
S	Supply chain management	1	SDI has set several evaluation standards for its existing and new suppliers; the company's supply chain adopts the Hazardous Substance Process Management standard in accordance with the IECQ QC080000 standard. The company also requires its direct materials suppliers (accounts for 85% of its suppliers) to have ISO 9001 certification.
E	Water & wastewater management	2	We note that SDI has made efforts in lowering water consumption, with three chemical treatment systems for processing waste water, one biological treatment system and one small-scale batch treatment system with a high-concentration degreasing agent.

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: 27 May 2026

Source: Daiwa, Company

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Rating	Percentage of total
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Source: Daiwa

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