廣發証券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

ASE Holdings (3711 TT)

LEAP Set to Double in 2027

Maintained **Buy**

Target price NT$ 754

Reiterate Buy but lower TP to NT$754: ASE shares outperformed Taiex by 13% in the past one month amid the broad market sell-off, due to investors' appetite being away from price hike themes. Despite this, we continue to see better than expected business evolvement such as continued upside in its LEAP business and margin outlook for its ATM. On the back of mgmt's guidance raise and our bullish view on AMD/Nvidia's CPU, we now forecast LEAP at $3.8bn/$7.7bn in 2026E/2027E. Margin wise, mgmt now expects its ATM to exceed its structural margin range by end of this year, underpinned by leading-edge and resilient traditional segments and broad-based pricing actions. By incorporating results, guidance and stronger LEAP contributions, we revise our EPS estimates by +9%/+12% for 2026E/2027E; however, we lower our target multiple from 30x 2027E EPS to 25x due to recent tech sector de-rating, leading to a lower TP of $754.

Results & guidance: ASE reported 2Q26 revenue of NT$191bn which was up 10% QoQ and 27% YoY. Gross margin of 21% and operating margin of 11.1% was largely inline. Helped by investment gains, EPS came in at NT4.8, +48% QoQ/+177% YoY. For 3Q26, mgmt guided 3Q26 revenue to increase 21-22% QoQ, higher than expected, due to the combination of EMS' 40% QoQ and ATM's 11-13% QoQ. Gross margin of 20.5-21.5% was slightly below, but the ATM margin could be up to 28-29%, which is higher than expected and is much more important, reflecting continued strength in AI-driven LEAP and high UTR.

Raise guidance for LEAP: During the earnings call, mgmt indicated its LEAP run rate is couple hundred million ahead of its earlier guidance of $3.5bn and suggests it is expected to be doubled YoY in 2027, driven by all its four main businesses. Specifically, we reiterate our earlier view of its Full Process to benefit from the strong AMD Venice CPU builds (5.0~5.5m for all suppliers) and Nvidia Vera CPU. Capacity wise, mgmt suggests the focus in current production cluster to enhance efficiency rather than going to U.S. To support the growth, the company raised capex by another $2bn in 2026, and we retain our 2.5D capacity estimates of 15KPM/45KPM/55KPM by end-2026/2027/2028 and LEAP of $3.8bn/$7.7bn/$10.4bn, compared to earlier $3.6bn/$6.4bn/$8.3bn.

Risks: 1) AI slowdown; 2) consumer demand; 3) peer competition; 4) capacity delay.

Profit forecast

	2024	2025	2026E	2027E	2028E
Revenue (m)	595,410	645,388	824,852	1,050,270	1,208,628
Revenue YoY (%)	2.3	8.4	27.8	27.3	15.1
Net profit (m)	32,482	40,658	81,426	132,306	168,022
Net profit YoY (%)	2.4	25.2	100.3	62.5	27.0
EPS (NT$)	7.4	9.4	18.6	30.1	38.3
P/E	92.3	72.6	27.2	16.8	13.2
ROE (%)	9.4	10.9	19.0	26.0	28.3

Source: Company data, GF Securities (Hong Kong) Brokerage.

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Earnings Forecast

2Q26 Results Largely Inline

ASE reported 2Q26 revenue of NT$191bn which was up 10% QoQ and 27% YoY. Gross margin of 21% and operating margin of 11.1% was largely inline. Helped by investment gains, EPS came in at NT$4.8, +48% QoQ/+177% YoY.

3Q26 Guidance Ahead on EMS, with Solid ATM Margin

For 3Q26, mgmt guided 3Q26 revenue to increase 21-22% QoQ, higher than expected, due to the combination of EMS' 40% QoQ and ATM's 11-13% QoQ. Gross margin of 20.5-21.5% was slightly below, but the ATM margin could be up to 28-29%, which is higher than expected and is much more important, reflecting continued strength in AI-driven LEAP and high UTR.

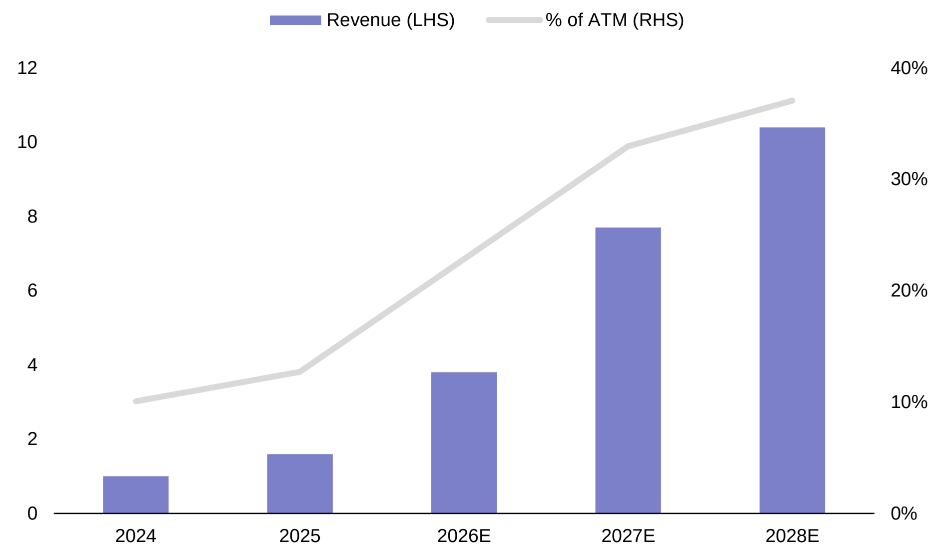
For 2026, mgmt adds additional $2bn capex to equipment and facilities, as it believes the revenue growth will largely depend on equipment installation. The company also believes its LEAP revenue will be ahead of its guidance by couple hundred million in 2026.

Figure 1: 2Q26 Results Review

NTD mn	2Q26	1Q26	QoQ	2Q25	YoY	GFHK	Diff	Cons.	Diff
Revenue	191,064	173,662	10.0%	150,750	26.7%	189,570	0.8%	188,753	1.2%
Gross profit	40,150	34,850	15.2%	25,688	56.3%	39,979	0.4%	39,293	2.2%
OPEX	19,016	17,318	9.8%	15,494	22.7%	18,300	3.9%	18,087	5.1%
Operating profit	21,134	17,532	20.5%	10,193	107.3%	21,679	-2.5%	21,206	-0.3%
Pre-tax profit	25,700	18,200	41.2%	9,254	177.7%	21,825	17.8%	21,541	19.3%
Net profit	21,068	14,148	48.9%	7,521	180.1%	17,002	23.9%	16,882	24.8%
EPS (NT$)	4.8	3.24	48.1%	1.7	176.5%	3.9	23.4%	3.8	26.3%
			ppt.		ppt.		ppt.		ppt.
Gross Margin	21.0%	20.1%	0.9	17.0%	4.0	21.1%	-0.1	20.8%	0.2
Operating Margin	11.1%	10.1%	1.0	6.8%	4.3	11.4%	-0.3	11.2%	-0.1
Pretax margin	13.5%	10.5%	3.0	6.1%	7.4	11.5%	2.0	11.4%	2.1
Net margin	11.0%	8.1%	2.9	5.0%	6.0	9.0%	2.0	8.9%	2.1

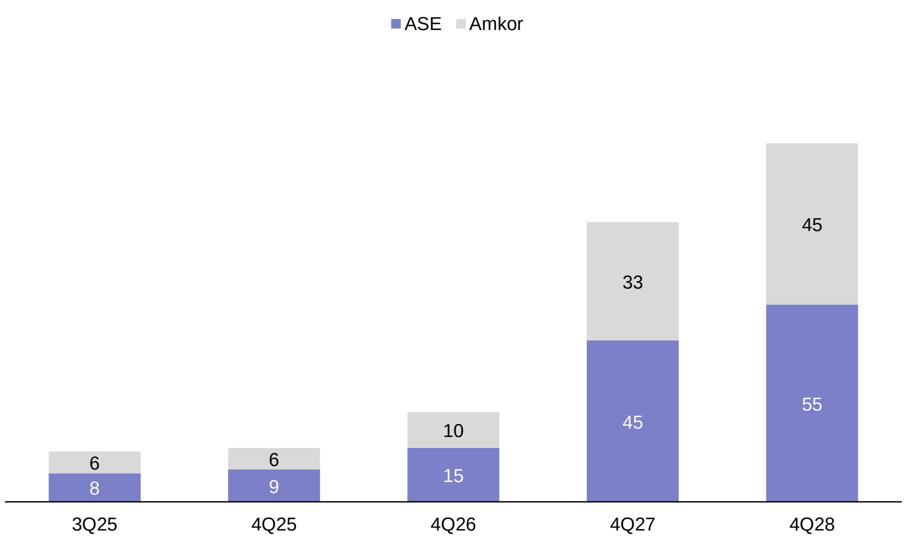
Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 2: ASE's LEAP revenue (USD bn)



Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 3: ASE/SPIL, Amkor CoWoS Capacity Forecast (kwpm)



Sources: Company data, GF Securities (Hong Kong) Brokerage

Earnings Revision

By incorporating results, guidance and stronger LEAP contributions, we revise our EPS estimates by +9%/+12% for 2026E/2027E.

Figure 4: Earnings revision

NTD m	2025	2026E		2027E		Change (%)	
		Old	New	Old	New	2026E	2027E
Net sales	645,388	790,064	824,852	965,797	1,050,270	4%	9%
Gross profit	114,193	169,742	176,062	238,795	262,334	4%	10%
EBIT	50,756	93,224	97,428	149,195	168,034	5%	13%
Pre-tax Income	51,301	94,321	102,383	149,366	168,333	9%	13%
Net profit	40,658	73,975	81,426	117,143	132,306	10%	13%
EPS (NT$)	9.35	16.94	18.55	26.83	30.14	9%	12%
Key ratios (%)							
Gross margin	17.7%	21.5%	21.3%	24.7%	25.0%		
Operating margin	7.9%	11.8%	11.8%	15.4%	16.0%		
Pre-tax margin	7.9%	11.9%	12.4%	15.5%	16.0%		
Net profit margin	6.3%	9.4%	9.9%	12.1%	12.6%		

Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 5: ASE's P&L forecast

(NTD m)	2025	1Q26	2Q26	3Q26E	4Q26E	2026E	1Q27E	2Q27E	3Q27E	4Q27E	2027E
Sales	**645,388**	173,662	191,064	231,634	228,492	**824,852**	228,313	251,108	282,246	288,603	**1,050,270**
COGS	**531,194**	138,812	150,914	182,960	176,103	**648,790**	174,847	188,644	211,243	213,202	**787,936**
Gross profit	**114,193**	34,850	40,150	48,674	52,389	**176,062**	53,466	62,464	71,003	75,401	**262,334**
Opex	**(63,437)**	-17,318	-19,016	-21,000	-21,300	**-78,634**	-21,300	-23,000	-24,500	-25,500	**-94,300**
Operating profit	**50,756**	17,532	21,134	27,674	31,089	**97,428**	32,166	39,464	46,503	49,901	**168,034**
Non-op profit	**545**	668	4,566	-670	390	**4,955**	75	75	75	75	**299**
Pre-tax profit	**51,301**	18,200	25,700	27,004	31,479	**102,383**	32,241	39,539	46,578	49,976	**168,333**
Income tax	**(9,460)**	-3,635	-4,172	-5,131	-5,981	**-18,919**	-6,448	-7,908	-9,316	-9,995	**-33,667**
Minority interest	**(1,182)**	-417	-460	-640	-520	**-2,037**	-500	-540	-720	-600	**-2,360**
Net Income	**40,658**	14,148	21,068	21,233	24,978	**81,426**	25,292	31,091	36,542	39,381	**132,306**
EPS (NT$)	**9.4**	3.2	4.8	4.8	5.7	**18.6**	5.8	7.1	8.3	9.0	**30.1**
Outstanding shares	**4,347**	4,366	4,389	4,389	4,389	**4,389**	4,389	4,389	4,389	4,389	**4,389**
Margin analysis											
Gross margin	**17.7%**	20.1%	21.0%	21.0%	22.9%	21.3%	23.4%	24.9%	25.2%	26.1%	25.0%
Operating margin	**7.9%**	10.1%	11.1%	11.9%	13.6%	11.8%	14.1%	15.7%	16.5%	17.3%	16.0%
Pre-tax margin	**7.9%**	10.5%	13.5%	11.7%	13.8%	12.4%	14.1%	15.7%	16.5%	17.3%	16.0%
Effective tax rate	**18.4%**	20.0%	16.2%	19.0%	19.0%	18.5%	20.0%	20.0%	20.0%	20.0%	20.0%
Growth (YoY%)											
Sales	**8%**	17%	27%	37%	28%	28%	31%	31%	22%	26%	27%
Operating profit	**30%**	81%	107%	110%	76%	92%	83%	87%	68%	61%	72%
Net income	**25%**	87%	180%	95%	70%	100%	79%	48%	72%	58%	62%
EPS	**27%**	86%	177%	93%	69%	98%	78%	48%	72%	58%	62%
Product mix (%)											
ATM	**60%**	63%	65%	60%	66%	64%	69%	71%	70%	72%	70%
EMS	**40%**	35%	34%	39%	34%	36%	31%	28%	30%	28%	29%
Others	**0%**	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Sources: Company data, GF Securities (Hong Kong) Brokerage

Valuation and Recommendation

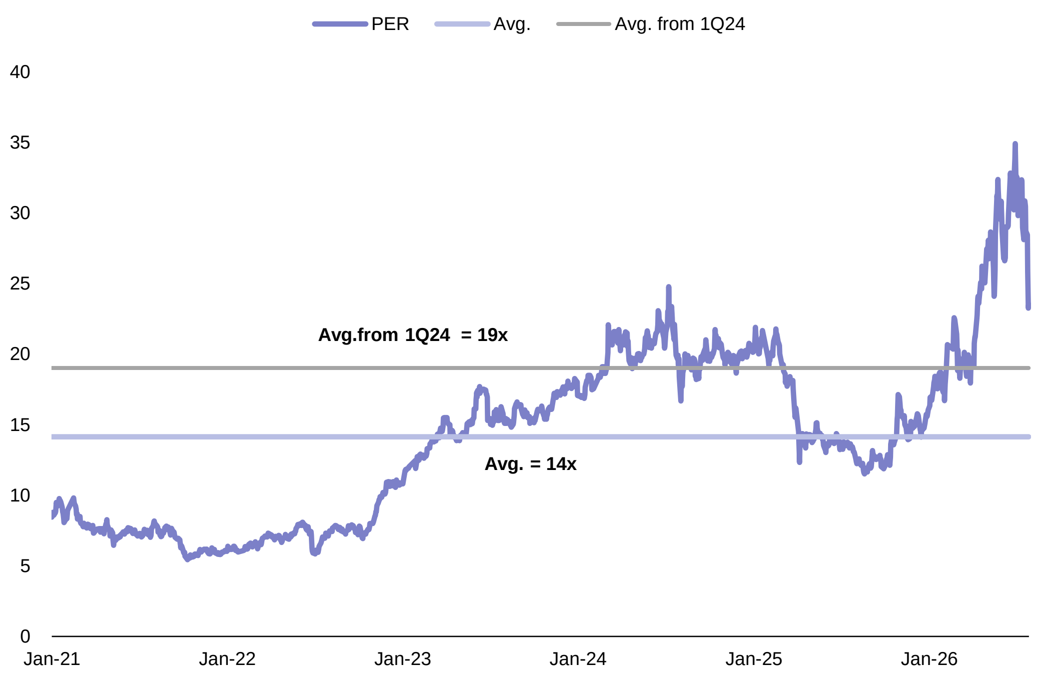
Maintain Buy with TP of NT$754

We rate ASE (3711 TT) Buy and set our TP at NT$754 which is based on 25x our 2027E EPS which is lower than our previous 30x due to recent tech sector de-rating. We adopt 2027 as valuation basis to capture its robust LEAP business potential which is the key market focus and is expected to see aggressive capacity expansion. We adopt P/E methodology as we believe the market now mainly focuses on the company's earnings outlook.

The ASE/SPIL is the highest-quality OSAT and NO.1 in market share worldwide, backed by superior operational management, M&As, economies of scale, and customer/product diversification. We like ASE as we view it as an AI beneficiary with increasing margin-accretive AI/LEAP business in 2026 and beyond. We believe the business will be driven by oS and CP in 2026, with emerging driver of full process business ramping in 2H26.

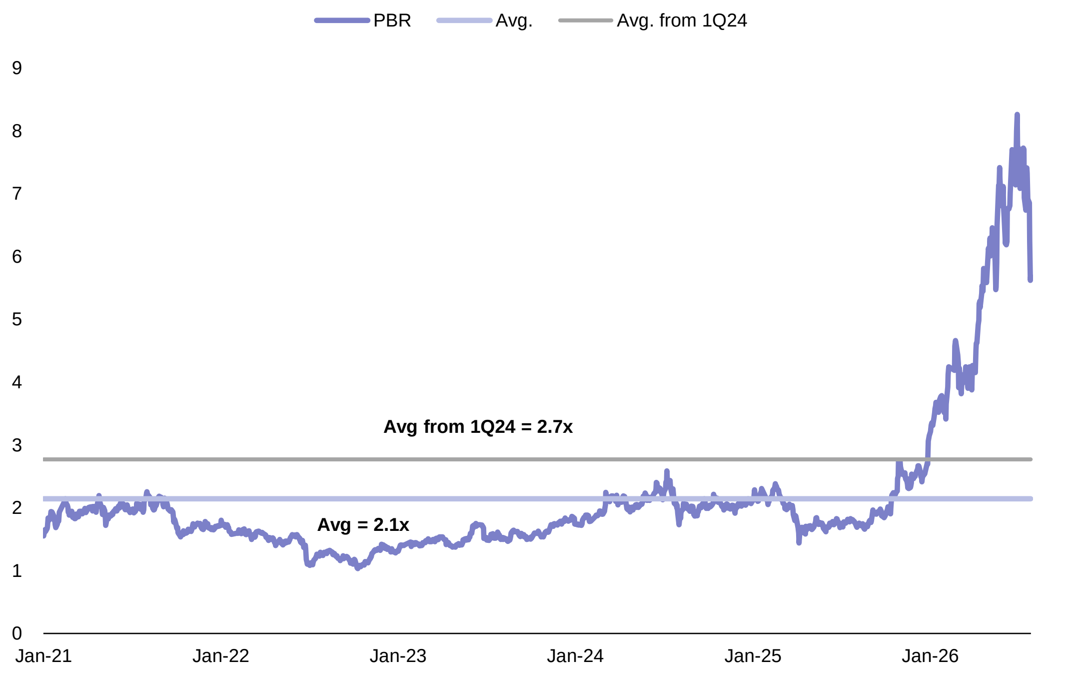
ASE's P/E traded at an average of 14x since 2021 but was up to an average of 19x since 1Q24 when the company meaningfully started AI business. We derive our target price based on 25x P/E, which is meaningfully higher than the mid-cycle level given its fast-growing AI momentum.

Figure 6: ASE's 12-month forward P/E



Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 7: ASE's 12-month forward P/B



Sources: Company data, GF Securities (Hong Kong) Brokerage

Risks

1) AI slowdown; 2) consumer demand; 3) peer competition; 4) capacity delay.

Balance Sheet (NTD mn)	2024	2025	2026E	2027E	2028E
Current assets	**275,285**	**313,795**	**343,714**	**408,912**	**457,090**
Cash and cash equivalents	84,883	100,223	74,477	70,815	70,763
Inventory	57,314	65,673	80,212	97,415	109,354
Accounts Receivable	113,420	125,042	159,813	203,487	234,169
Other current assets	19,668	22,857	29,213	37,196	42,804
Non-current assets	**465,413**	**575,538**	**836,332**	**1,100,258**	**1,318,607**
Long-term equity investment	37,118	41,569	43,569	45,569	47,569
Fixed assets	312,531	421,115	679,909	941,835	1,158,183
Other long-term assets	115,763	112,854	112,854	112,854	112,854
Total assets	**740,698**	**889,333**	**1,180,046**	**1,509,170**	**1,775,697**
Current liabilities	**230,940**	**244,349**	**343,114**	**443,404**	**515,186**
Accounts Payable	78,221	88,754	108,402	131,651	147,787
Short-term borrowings	53,872	40,734	87,911	124,834	152,297
Other current liabilities	98,847	114,861	146,800	186,919	215,102
Non-current liabilities	**163,972**	**271,617**	**409,180**	**556,871**	**666,724**
Long-term Debt	139,728	214,081	351,644	499,334	609,188
Other non-current liabilities	24,243	57,536	57,536	57,536	57,536
Total liabilities	**394,911**	**515,966**	**752,294**	**1,000,274**	**1,181,910**
Total Equity	**345,787**	**373,368**	**427,752**	**508,896**	**593,787**
Share Capital	44,153	44,480	44,480	44,480	44,480
Additional Paid-in Capital	155,424	162,249	162,249	162,249	162,249
Retained earnings	123,947	140,171	194,556	275,700	360,591
Preferred Stocks	22,264	26,468	26,468	26,468	26,468
Total Liabilities & Equity	**740,698**	**889,333**	**1,180,046**	**1,509,170**	**1,775,697**

Income Statement (NTD mn)	2024	2025	2026E	2027E	2028E
Revenue	**595,410**	**645,388**	**824,852**	**1,050,270**	**1,208,628**
Cost of sales	498,478	531,195	648,790	787,936	884,508
Gross profit	**96,932**	**114,193**	**176,062**	**262,334**	**324,120**
Operating Expense	57,765	63,437	78,634	94,300	107,500
Operating profit	**39,166**	**50,756**	**97,428**	**168,034**	**216,620**
Net Interest	6,777	7,503	-8,680	-11,701	-15,242
Associate & investments	868	814	3,526	4,000	4,000
Other Non-op.	-5,128	-7,772	10,108	8,000	8,000
Pre-tax profit	**41,683**	**51,301**	**102,383**	**168,333**	**213,378**
Income tax	6,315	8,278	18,919	33,667	42,676
Profit for the year	**35,369**	**43,023**	**83,464**	**134,666**	**170,702**
Minority interest	-1,443	-1,182	-2,037	-2,360	-2,680
Net profit to ord. equity	32,482	40,658	81,426	132,306	168,022
EPS (NT$)	**7.4**	**9.4**	**18.6**	**30.1**	**38.3**

Cash Flow Statement (NTD mn)	2024	2025	2026E	2027E	2028E
Operating cash flow	**114,867**	**110,661**	**148,879**	**211,379**	**259,306**
Profit for the year	32,482	40,658	81,426	132,306	168,022
Depreciation & amortization	59,815	67,440	75,056	88,566	99,194
Change in working capital	23,437	3,377	-4,077	-5,493	-3,910
Others	-868	-814	-3,526	-4,000	-4,000
Investing cash flow	**-119,132**	**-176,752**	**-332,324**	**-348,493**	**-313,543**
Capex	-103,715	-172,191	-333,850	-350,493	-315,543
Change in investment	-12,116	-3,637	1,526	2,000	2,000
Others	-3,301	-924	-	-	-
Free cash flow	**11,152**	**-61,530**	**-184,971**	**-139,113**	**-56,237**
Financing cash flow	**22,585**	**94,507**	**184,740**	**184,613**	**137,317**
Change in Capital	-	-	-	-	-
Net Change in Debt	22,605	61,214	184,740	184,613	137,317
Others	-20	33,293	-	-	-
Exchange influence	**9,600**	**-5,898**	-	-	-
Net increase in cash	**18,320**	**28,417**	**1,296**	**47,500**	**83,080**

Key Financial Ratios	2024	2025	2026E	2027E	2028E
Growth					
Revenue growth	2.3	8.4	27.8	27.3	15.1
Operating profit growth	-2.9	29.6	92.0	72.5	28.9
Net profit growth	2.4	25.2	100.3	62.5	27.0
Profitability					
Gross profit margin	16.3	17.7	21.3	25.0	26.8
Operating Profit Margin	6.6	7.9	11.8	16.0	17.9
Net profit margin	5.5	6.3	9.9	12.6	13.9
Key Ratio					
ROA	4.4	4.6	6.9	8.8	9.5
ROE	9.4	10.9	19.0	26.0	28.3
Stability					
Gross debt/equity	1.1	1.4	1.8	2.0	2.0
Interest Coverage	-17	-15	17	18	17
Current Ratio	1.2	1.3	1.0	0.9	0.9
Quick Ratio	0.9	1.0	0.8	0.7	0.7
Net debt/equity	0.6	0.7	1.0	1.2	1.3

Rating definitions Benchmark: Hang Seng Index (Hong Kong)

Company ratings

Buy	Stock expected to outperform benchmark by more than 10%
Hold	Expected stock relative performance ranges between -10% and 10%
Underperform	Stock expected to underperform benchmark by more than 10%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

Hong Kong

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