Equity Research

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

Zhen Ding Tech. Group (4958 TT)

AI Upside Continues

Maintained **Buy**
Target price NT$633

Maintain Buy, TP raised to NT$633: Since we initiated coverage on Zhen Ding in January, its stock price has rallied more than 220%, significantly outperforming peers. Moving forward, we still favor Zhen Ding for its market share gain in AI PCB and substrate supercycle. We now forecast Zhen Ding's EPS to be NT$16.41/31.63 for 2026/2027, highest among the street backed by its AI upside. We raised our multiple to 20x 2027E P/E, supported by the company's rapidly increasing AI exposure. In addition, we see further re-rating potential driven by its leadership in mSAP and the growing importance of mSAP in next-generation AI PCB.

AI market share gain: 1) Our checks indicate that Zhen Ding has captured ~20% share in Nvidia's compute tray, with ramp-up expected from late June and further penetration into switch trays beginning late 3Q26. **2)** Zhen Ding has started shipments to Google in 1Q26. As Google's orders transit to V7 platform, we expect order to reaccelerate in 3Q26. **3)** Driven by strong demand, mSAP pricing for optical modules increased by ~30% in 1Q26, while Zhen Ding maintains the leading global share in 1.6T optical module PCBs. As a result, we forecast Zhen Ding's AI revenue to reach RMB 6.3bn in 2026. Based on our estimates of AI PCB market TAM (RBM 92/197bn in 2026/2027) and Zhen Ding's market share gain, we expect Zhending's AI revenue to potentially reach RMB20bn in 2027.

ABF revenue contribution accelerates: ABF substrate pricing increased significantly in 1Q26, with domestic prices rising 20–30% and overseas prices up 10–20%, with another round of price adjustment expected in 2H26. Supported by higher ASP, capacity expansion, and improved utilization, we expect Zhen Ding's IC substrate GPM to improve significantly across 2026/2027.

mSAP to be the future of AI PCB: Due to more stringent line width and spacing requirements, we believe mSAP will become a critical technology trend for future AI PCB. We expect mSAP adoption to expand across 800G/1.6T optical modules, Nvidia's CoWoP solutions, and future CPO switches. As highlighted in our initiation report, we viewed AI exposure as the key re-rating catalyst for Zhen Ding — a thesis that has already materialized, with the valuation re-rating from 10–12x P/E to around 20x P/E. Looking ahead, we see another potential re-rating driven by mSAP, where Zhen Ding is well positioned to emerge as a leading beneficiary and capture incremental AI market share.

Risks: 1) AI demand slowing down; 2) Geo-political risks; 3) Intensifying competition.

Profit forecast

	FY2023	FY2024	FY2025	FY2026E	FY2027E
Revenue (m)	151,398	171,663	182,522	240,095	333,640
Revenue YoY (%)	*-11.6%*	*13.4%*	*6.3%*	*31.5%*	*39.0%*
Net profit (m)	6,189	9,179	6,791	19,017	36,803
Net profit YoY (%)	*-56.4%*	*48.3%*	*-26.0%*	*180.0%*	*93.5%*
EPS ($)	6.55	9.62	6.91	16.41	31.63
P/E	78.8	53.7	74.7	31.4	16.3
ROE (%)	*7.0%*	*8.6%*	*6.2%*	*9.4%*	*14.6%*

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

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Earnings Review

1Q26 results review

Zhen Ding reported 1Q26 revenue of NT$40.7bn, -28.4% QoQ and +1.6% YoY. By end market, Mobile Communication revenue totaled NT$22.2bn (-41.4% QoQ, -9.7% YoY); Computers & Consumer Electronics totaled NT$10.5bn (-14.8% QoQ, -4.7% YoY); Server, Optical Communication & Others revenue totaled NT$4.1bn (+29.7% QoQ, +93.6% YoY); IC Substrate totaled NT$3.9bn (+12.3% QoQ, +65.3% YoY). The company's gross profit was NT$8.8bn, representing a 21.6% GPM (down 1ppt QoQ, up 7ppt YoY). The company's 1Q26 basic EPS was NT$1.33 +101% YoY and -58% QoQ.

We forecast revenue of NT$240/334bn in FY2026/2027

We expect Zhen Ding's revenue for 2026 and 2027 to reach NT$240.1bn and $333.6bn, representing YoY growth of 31.5% and 39.0%, respectively; Gross profit is forecasted at NT$58.9/100.2bn; GPM is forecasted to be 24.5%/30.0%; Net income is expected to reach NT$19.0/36.8bn, reflecting YoY changes of +180.0% and +93.5%. By segment, Mobile Communication contributes to 54%/43% of total revenue in 2026/2027; Computers & Consumer Electronics contributes to 21%/16% of total revenue in 2026/2027; Server, Optical Communication & Others contributes to 15%/30% of total revenue in 2026/2027.

Figure 1: Earnings revision

NTD m	FY2025	FY2026E		FY2027E		Change (%)	
		Old	New	Old	New	FY2026E	FY2027E
Net sales	182,522	226,246	240,095	285,527	333,640	6.1%	16.9%
Gross profit	36,136	51,230	58,918	72,075	100,170	15.0%	39.0%
Op. profit	13,932	26,450	32,269	43,114	66,727	22.0%	54.8%
Pre-tax Income	14,063	26,358	32,387	43,212	67,237	22.9%	55.6%
Net profit	6,791	15,023	19,017	24,157	36,803	26.6%	52.4%
Key ratios (%)							
Gross margin	19.8%	22.6%	24.5%	25.2%	30.0%		
Operating margin	7.6%	11.7%	13.4%	15.1%	20.0%		
Net profit margin	3.7%	6.6%	7.9%	8.5%	11.0%		

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

Figure 2: Zhen Ding's P&L forecast

(NTD m)	FY25	1Q26	2Q26E	3Q26E	4Q26E	FY26E	1Q27E	2Q27E	3Q27E	4Q27E	FY27E
Sales	**182,522**	40,728	44,414	70,458	84,495	**240,095**	71,857	72,711	87,178	101,894	**333,640**
COGS	**-146,385**	-31,917	-33,916	-53,805	-61,539	**-181,177**	-53,053	-51,502	-60,442	-68,473	**-233,470**
Gross profit	**36,136**	8,812	10,497	16,653	22,956	**58,918**	18,804	21,209	26,736	33,421	**100,170**
Opex	**-22,205**	-6,308	-5,335	-7,201	-7,804	**-26,649**	-8,164	-6,878	-8,501	-9,900	**-33,443**
Operating profit	**13,932**	2,503	5,162	9,452	15,152	**32,269**	10,640	14,330	18,236	23,521	**66,727**
Non-op profit	**-131**	-103	65	59	97	**118**	110	92	118	190	**510**
Pre-tax profit	**14,063**	2,400	5,227	9,511	15,249	**32,387**	10,750	14,422	18,353	23,711	**67,237**
Minority interest	**3,815**	511	990	1,762	2,858	**6,121**	2,014	2,943	3,972	5,200	**14,129**
Income tax	**-3,458**	-353	-1,202	-2,188	-3,507	**-7,250**	-2,473	-3,317	-4,588	-5,928	**-16,306**
Non-GAAP Net Income	**6,791**	1,537	3,035	5,561	8,884	**19,017**	6,263	8,162	9,793	12,583	**36,803**
Diluted EPS (NT$)	**7**	1.33	2.62	4.80	7.67	**16.43**	5.40	7.03	8.43	10.82	**31.67**
Diluted shares	**1,002**	1,155	1,156	1,158	1,159	**1,159**	1,160	1,161	1,162	1,163	**1,163**
Margin analysis											
Gross margin	**20%**	22%	24%	24%	27%	**25%**	26%	29%	31%	33%	**30%**
Operating margin	**8%**	6%	12%	13%	18%	**13%**	15%	20%	21%	23%	**20%**
Pre-tax margin	**8%**	6%	12%	13%	18%	**13%**	15%	20%	21%	23%	**20%**
Effective tax rate	**25%**	15%	23%	23%	23%	**22%**	23%	23%	25%	25%	**24%**
Growth (YoY%)											
Sales	**6%**	**2%**	**16%**	**49%**	**49%**	**32%**	**76%**	**64%**	**24%**	**21%**	**39%**
Operating profit	**20%**	**137%**	**113%**	**109%**	**156%**	**132%**	**325%**	**178%**	**93%**	**55%**	**107%**
Net income	**-26%**	**143%**	**402%**	**133%**	**181%**	**180%**	**308%**	**169%**	**76%**	**42%**	**94%**
EPS	**-28%**	**101%**	**314%**	**95%**	**143%**	**138%**	**306%**	**168%**	**75%**	**41%**	**93%**

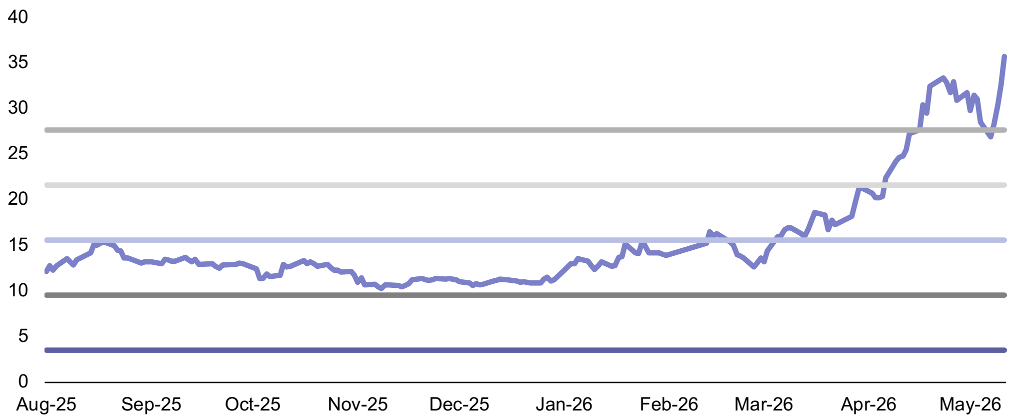
Sources: Company data, GF Securities (Hong Kong) Brokerage

Valuation and Recommendation

Maintain Buy with TP of NT$633

We favor Zhen Ding for its market share gain in AI PCB and substrate supercycle. We now forecast Zhen Ding's EPS to be NT$16.41/31.63 for 2026/2027, highest among the street backed by its AI upside. We raised our multiple to 20x 2027E P/E, supported by the company's rapidly increasing AI exposure. In addition, we see further re-rating potential driven by its leadership in mSAP and the growing importance of mSAP in next-generation AI PCB.

Figure 3: Zhen Ding's Forward P/E



Sources: Bloomberg, GF Securities (Hong Kong) Brokerage

Risks

1) AI demand slowing down; 2) Geo-political risks; 3) Intensifying competition.

Balance Sheet

NTD m

	FY23	FY24	FY25	FY26E	FY27E
Current assets	**114046**	**132509**	**127641**	**171215**	**206356**
Cash and cash equivalents	65970	79830	71116	87532	108018
Inventory	15508	17990	19616	33263	38873
Accounts Receivable	29229	30183	27228	44817	53046
Other current assets	3339	4506	9681	5603	6418
Non-current assets	**128730**	**133485**	**152402**	**209632**	**253078**
Long-term equity investment	-	-	-	-	-
Fixed assets	105714	110173	123737	176989	217744
Other long-term assets	23016	23312	28665	32643	35334
Total assets	**242776**	**265993**	**280043**	**380846**	**459434**
Current liabilities	**78939**	**69204**	**72821**	**89920**	**95046**
Accounts Payable	19567	21716	22274	25008	25880
Short-term borrowings	33853	21706	12839	35265	39858
Other current liabilities	25519	25781	37708	29647	29308
Non-current liabilities	**29510**	**44765**	**36509**	**26582**	**22883**
Long-term Debt	18026	34012	15359	16607	12814
Other non-current liabilities	11484	10754	21151	9976	10070
Total liabilities	**108450**	**113970**	**109330**	**116503**	**117929**
Total Equity	**134326**	**152024**	**170713**	**264344**	**341505**
Common stock	9470	9567	10706	10058	10249
Capital Reserves	38556	40540	52902	40438	41233
Retained earnings	53049	59158	9957	73226	107093
Other equities	(5378)	(447)	50416	91655	133964
Total Liabilities & Equity	**242776**	**265993**	**280043**	**380846**	**459434**

Income Statement

NTD m

	FY23	FY24	FY25	FY26E	FY27E
Revenue	**151398**	**171663**	**182522**	**240095**	**333640**
Cost of sales	(123939)	(139203)	(146385)	(181177)	(233470)
Gross profit	**27459**	**32460**	**36136**	**58918**	**100170**
Operating Expense	(18300)	(20875)	(22205)	(26649)	(33443)
Operating profit	**9160**	**11585**	**13932**	**32269**	**66727**
Interest Income	548	565	244	285	510
Interest Expense	-	-	-	-	-
Net other Non-op. Income/(Loss)	1064	(1126)	2078	2006	2300
Pre-tax profit	**10048**	**15044**	**14063**	**32387**	**67237**
Income tax	616	1949	3458	7250	16306
Profit for the year	**9432**	**13096**	**10605**	**25137**	**50931**
Minority interest	3243	3917	3815	6121	14129
Net profit to ord. equity	**6189**	**9179**	**6791**	**19017**	**36803**
EPS (NT$)	**6.55**	**9.62**	**6.91**	**16.41**	**31.63**

Cash Flow Statement

NTD m

	FY23	FY24	FY25	FY26E	FY27E
Operating cash flow	**33599**	**30339**	**27617**	**71087**	**79865**
Profit for the year	6189	9179	6791	19017	36803
Depreciation & amortization	16140	17562	18552	22623	29435
Change in working capital	6887	386	(2458)	26034	9247
Others	4382	3212	4732	3414	4380
Investing cash flow	**(25730)**	**(8101)**	**(31960)**	**(52067)**	**(39184)**
Capex	(25719)	(16257)	(33083)	(54329)	(40755)
Others	(12)	8156	1123	2262	1571
Free cash flow	7880	14082	(5467)	16757	39109
Financing cash flow	**(495)**	**(7151)**	**(1865)**	**(4416)**	**(21691)**
Change in Capital	-	-	-	-	-
Net Change in Debt	10498	17068	15426	10745	(2605)
Others	(10994)	(24219)	(17291)	(15161)	(19086)
Exchange influence	(1196)	2994	(2177)	1812	1496
Total cash generated	**7373**	**15087**	**(6209)**	**14603**	**18990**

Key Financial Ratios

	FY23	FY24	FY25	FY26E	FY27E
Growth					
Revenue growth	-11.6%	13.4%	6.3%	31.5%	39.0%
Operating profit growth	-59.2%	26.5%	20.3%	131.6%	106.8%
Net profit growth	-56.4%	48.3%	-26.0%	180.0%	93.5%
Profitability					
Gross profit margin	18.1%	18.9%	19.8%	24.5%	30.0%
Operating Profit Margin	6.1%	6.7%	7.6%	13.4%	20.0%
Net profit margin	6.2%	7.6%	5.8%	10.4%	15.0%
Key Ratio					
ROA	4.0%	5.1%	3.9%	7.5%	11.9%
ROE	7.0%	8.6%	6.2%	9.4%	14.6%
Stability					
Gross debt/equity	80.7	75.0	57.8	44.1	34.5
Interest Coverage	-	-	-	-	-
Current Ratio	1.4	1.9	1.8	1.9	2.2
Quick Ratio	1.2	1.7	1.5	1.5	1.8
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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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%

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