AVC (3017.TW): Liquid cooling component ASP and GM upside on the rising complexity of server racks; July in line; 2Q26 beat; Buy

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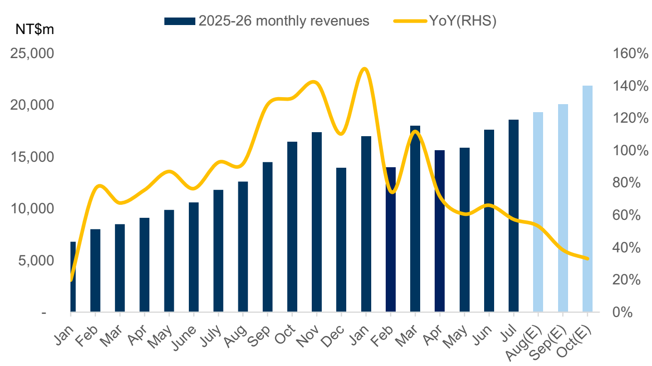
AVC's Jul revenue was up 57% YoY / 6% QoQ to NT$19bn, largely in line with our estimate. We attribute the strong YoY growth to the strong shipments of AI server liquid cooling components, riding on the increasing AI server end demand and a growing liquid cooling penetration rate. We model sequential revenue growth in Aug-Dec, considering (1) rising shipments of next-generation rack-level AI servers, (2) an increase in liquid cooling dollar content in next-generation AI server racks given their growing complexity, and (3) a rising liquid cooling penetration rate in both ASIC and GPU AI servers. We expect AVC's net income to grow at a +52% CAGR in 2025-28E, riding on the strong AI spending, a growing liquid cooling penetration rate, and AVC's leading market position in total solutions (air cooling, liquid cooling with various components / systems), strong R&D and manufacturing, and strong capacity expansion with diversification. Maintain Buy.

Exhibit 1: AVC monthly revenue trend



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: AVC monthly/quarterly revenue summary

	Jul-26	Aug-26E	Sep-26E	Oct-26E	Nov-26E	Dec-26E	3Q26E	4Q26E
Rev (NT$m)	18,590	19,334	20,084	21,892	24,300	27,557	58,008	73,749
Rev YoY	57%	53%	38%	33%	40%	98%	49%	54%
Rev MoM / QoQ	6%	4%	4%	9%	11%	13%	18%	27%
GS estimates (NT$m)	18,941							
Act vs. GS	-2%							

Source: Company data, Goldman Sachs Global Investment Research

2Q26 GM beat: AVC's 2Q26 revenue was up 66% YoY, largely in line with our estimate and Bloomberg consensus. GM delivered strong QoQ and YoY improvement, reaching 32.6%, which we attribute to a rising contribution from AI server liquid cooling components, which carry a higher GM than other product lines.

The 2Q26 opex ratio improved to 5.1%, better than our estimate and Bloomberg consensus; along with the higher-than-expected non-op income, this led 2Q26 net income to come in 23% / 11% higher than our estimate / Bloomberg consensus.

Exhibit 3: AVC 2Q26 result snapshot

NT$m	2Q25	1Q26	2Q26	QoQ	YoY	GS	Act / GS	Cons.	/ Cons.
Revenues	29,595	49,038	49,121	0%	66%	50,072	-2%	50,258	-2%
GP	7,224	14,597	15,999	10%	121%	14,890	7%	15,587	3%
OP	5,180	12,016	13,481	12%	160%	11,825	14%	12,646	7%
Net income	3,997	7,916	9,567	21%	139%	7,779	23%	8,656	11%
Margins									
GM	24.4%	29.8%	32.6%			29.7%		31.0%	
OPM	17.5%	24.5%	27.4%			23.6%		25.2%	
NM	13.5%	16.1%	19.5%			15.5%		17.2%	

Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

Earnings revisions: We factor in AVC's Jul revenue and 2Q26 results and raise our 2026-28E net incomes by 11% / 7% / 8%, mainly on higher revenues and GMs. Our 2026-28E revenues are revised up by 1% / 2% / 2%, mainly on a higher contribution from AI server liquid cooling components. 2026-28E GMs are revised up to reflect the 2Q26 GM beat, the rising complexity of liquid cooling components driving profitability, and AVC's rising adoption of automation equipment. 2026-28E opex ratios are largely unchanged.

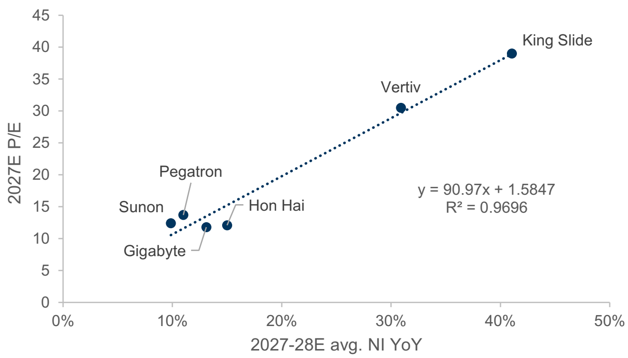
Exhibit 4: Earnings revisions

	2026E			2027E			2028E		
NT$m	Old	New	Diff %	Old	New	Diff %	Old	New	Diff %
Revenues	228,608	229,917	1%	296,412	302,446	2%	337,072	344,492	2%
GP	68,006	71,886	6%	88,329	94,949	7%	101,032	108,063	7%
OP	54,437	59,013	8%	74,101	79,524	7%	86,707	92,389	7%
Net income	36,253	40,313	11%	52,569	56,475	7%	62,039	66,823	8%
Margins									
GM	29.7%	31.3%		29.8%	31.4%		30.0%	31.4%	
OPM	23.8%	25.7%		25.0%	26.3%		25.7%	26.8%	
NM	15.9%	17.5%		17.7%	18.7%		18.4%	19.4%	

Source: Company data, Goldman Sachs Global Investment Research

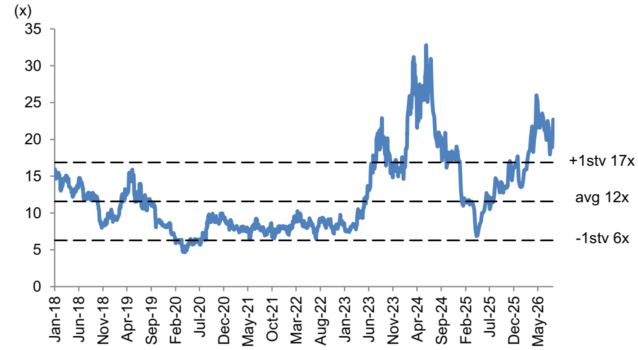
Valuation: We continue to use a near-term P/E to derive our 12-month target price and update our target P/E multiple to 28.2x 2027E EPS (vs. 26.7x previously), which is still derived from PC/server peers' EPS growth vs. P/E multiple correlation. Our target P/E multiple is above AVC's historical average +1stv. forward trading P/E, reflecting our positive view on AVC riding on the rising penetration rate of liquid-cooled AI servers. With our updated target P/E and earnings estimates, we raise our 12-month target price to NT$3,986. **Maintain Buy.**

Exhibit 5: AVC peers: EPS growth vs. P/E multiple correlation



Source: Company data, Goldman Sachs Global Investment Research, Refinitiv Eikon

Exhibit 6: AVC 12M forward P/E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: AVC P&L summary

NTD mn	2023	2024	2025	2026E	2027E	2028E	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E
Income statement														
Revenue	59,194	71,761	139,639	229,917	302,446	344,492	23,333	29,595	38,937	47,775	49,038	49,121	58,008	73,749
Gross profit	12,388	16,870	36,034	71,886	94,949	108,063	6,028	7,224	10,172	12,610	14,597	15,999	18,455	22,835
Opex	(4,921)	(5,993)	(8,292)	(12,873)	(15,425)	(15,674)	(1,682)	(2,045)	(1,993)	(2,571)	(2,582)	(2,518)	(3,422)	(4,351)
OP income	7,467	10,878	27,742	59,013	79,524	92,389	4,346	5,180	8,179	10,039	12,016	13,481	15,032	18,484
Net income	5,305	8,172	19,186	40,313	56,475	66,823	3,214	3,997	5,339	6,636	7,916	9,567	10,178	12,653
EPS (NTD, dilute	13.71	20.62	48.24	100.89	141.33	167.23	8.06	10.02	13.46	16.70	19.81	23.94	25.47	31.67
Margins														
Gross margin	20.9%	23.5%	25.8%	31.3%	31.4%	31.4%	25.8%	24.4%	26.1%	26.4%	29.8%	32.6%	31.8%	31.0%
Operating margir	12.6%	15.2%	19.9%	25.7%	26.3%	26.8%	18.6%	17.5%	21.0%	21.0%	24.5%	27.4%	25.9%	25.1%
Net margin	9.0%	11.4%	13.7%	17.5%	18.7%	19.4%	13.8%	13.5%	13.7%	13.9%	16.1%	19.5%	17.5%	17.2%
Ratios														
Opex ratio	-8%	-8%	-6%	-6%	-5%	-5%	-7%	-7%	-5%	-5%	-5%	-5%	-6%	-6%
Tax rate	28%	26%	27%	28%	28%	28%	24%	28%	28%	28%	28%	26%	28%	28%
YoY														
Revenue	6%	21%	95%	65%	32%	14%	52%	80%	104%	129%	110%	66%	49%	54%
Gross profit	14%	36%	114%	99%	32%	14%	79%	90%	127%	141%	142%	121%	81%	81%
OP income	18%	46%	155%	113%	35%	16%	126%	113%	160%	197%	176%	160%	84%	84%
Net income	27%	54%	135%	110%	40%	18%	105%	105%	130%	184%	146%	139%	91%	91%
QoQ														
Revenue							12%	27%	32%	23%	3%	0%	18%	27%
Gross profit							15%	20%	41%	24%	16%	10%	15%	24%
OP income							28%	19%	58%	23%	20%	12%	12%	23%
Net income							37%	24%	34%	24%	19%	21%	6%	24%

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - AVC

We are Buy-rated on AVC. Our 12-month target price for AVC is based on a near-term P/E, consistent with our Taiwan Technology coverage. We base our target price of **NT$3,986** on a target P/E multiple of **28.2x** applied to our forward-year EPS (2027E). Our target P/E is derived from the correlation between P/E and EPS growth of its peers in technology hardware.

Key downside risks: (1) slower-than-expected adoption of liquid cooling; (2) lower-than-expected demand for AI servers; (3) fiercer-than-expected competition; and (4) a slower-than-expected recovery in general servers.

3017.TW	12m Price Target: **NT$3,986.00**	Price: **NT$2,910.00**	Upside: **37.0%**

Buy

Market cap: NT$1.1tr / $34.7bn
Enterprise value: NT$1.1tr / $33.3bn
3m ADTV: NT$11.6bn / $364.4mn
Taiwan
Greater China Technology
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (NT$ mn) New	**139,639.4**	**229,916.5**	**302,446.0**	**344,491.6**
Revenue (NT$ mn) Old	139,639.4	228,607.9	296,412.4	337,072.0
EBITDA (NT$ mn)	30,988.5	63,187.4	86,227.5	101,375.7
EPS (NT$) New	**48.24**	**100.89**	**141.33**	**167.23**
EPS (NT$) Old	48.24	91.15	132.17	155.98
P/E (X)	18.0	28.8	20.6	17.4
P/B (X)	7.7	17.2	11.6	8.4
Dividend yield (%)	2.4	1.5	2.1	2.5
CROCI (%)	160.7	165.0	171.6	172.3

	6/26	9/26E	12/26E	3/27E
EPS (NT$)	23.94	25.47	31.67	32.18

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12 Aug 2026 close.

Disclosure Appendix

Reg AC

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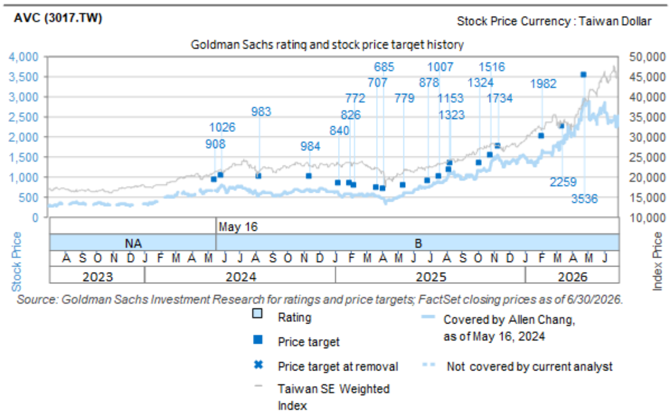

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Target price history table(s)

AVC (3017.TW)

Date of report	Target price (NT$)	Closing price (NT$)
26-Apr-26	3,536.00	2,945.00
15-Mar-26	2,259.00	1,865.00
04-Feb-26	1,982.00	1,675.00
12-Nov-25	1,734.00	1,505.00
28-Oct-25	1,516.00	1,300.00
07-Oct-25	1,324.00	1,150.00
13-Aug-25	1,323.00	1,120.00
11-Aug-25	1,153.00	1,080.00
21-Jul-25	1,007.00	872.00
30-Jun-25	878.00	743.00
13-May-25	779.00	563.00
06-Apr-25	685.00	466.00
24-Mar-25	707.00	520.00
09-Feb-25	772.00	549.00
31-Jan-25	826.00	-
10-Jan-25	840.00	549.00
14-Nov-24	984.00	685.00
11-Aug-24	983.00	568.00
29-May-24	1,026.00	811.00
16-May-24	908.00	651.00

Price targets shown in table(s) are unadjusted for corporate actions.

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