GCE (2368.TW)

Better pricing outlook and fast yield rate ramp up progress point to solid 2H26 earnings; improving HDI yield rate suggests P/E re-rating opportunity; Buy with new TP at NT$1,800

2368.TW	12m Price Target: NT$1,800.00	Price: NT$964.00	Upside: 86.7%

GCE's 2Q26 core business (OPI) was 6%/2% lower than GSe/BBG consensus, mainly due to the less favorable than expected GM (was 2.2%/1.4ppt below GSe/BBG consensus) **resulting from the mismatch on component cost hike vs. GCE's product pricing hike and the increasing ramp up cost in its new Thailand plant (the cost-pricing mismatch and high ramping up cost will both be solved in 3Q26)**. However, the company's net income was 3/8% higher than GSe/BBG consensus, thanks to the more favorable tax rate (24% vs. GSe/BBG consensus at 32%/32%) driven mainly by its increasing earnings contribution from its new Thailand plant (Thailand plant tax rate is significantly lower than Taiwan and mainland China plants).

For 3Q26, **we expect the company's revenue to grow by 26% QoQ** (in-line with 2Q revenue growth) with (1) the 12% more capacity value in 3Q vs. 2Q, (2) the increasing contribution from high ASP ASIC products, and (3) the much better pricing in 3Q vs. 2Q (we expect the company's overall product pricing to go up by 10-15%+ in 3Q). In terms of GM/OPM, **we expect the company's GM/OPM to increase to 37.9%/30.3% (up 3.2ppt/3.9ppt QoQ)** thanks to the much better product mix and pricing condition for its PCB products.

Investment view - GCE continues to be the most competitive AI ASIC PCB supplier, with easing yield rate risk on ASIC HDI

We continue to expect GCE will hold the major share for Trainium 3 (70%+ from 3Q26) with its smooth ramp up in its new Thailand capacity, which we believe will start to gain share in the TPU supply chain from the end of 2026 and should see significant improvement on the market share (<5% in 2026 to 20-30%+ in 2027), leading to a fast capacity expansion speed in coming years (we believe capacity volume will grow by ~30% 2025-28E CAGR vs. 7% 2021-25 CAGR). Based on our calculation, GCE could hold 15-17% of global AI PCB

BUY

Chao Wang
+886(2)2730-4195 | kuan-chao.wang@gs.com
Goldman Sachs (Asia) L.L.C., Taipei Branch

Allen Chang
+852-2978-2930 | allen.k.chang@gs.com
Goldman Sachs (Asia) L.L.C.

Al Wang
+886(2)2730-4081 | al.wang@gs.com
Goldman Sachs (Asia) L.L.C., Taipei Branch

Key Data

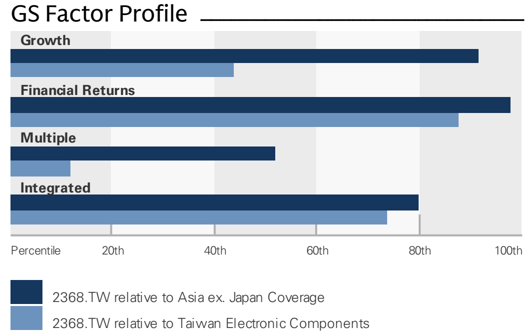
Market cap: NT$521.3bn / $16.2bn
Enterprise value: NT$531.1bn / $16.5bn
3m ADTV: NT$7.7bn / $242.0mn
Taiwan
Taiwan Electronic Components
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (NT$ mn) New	**60,003.8**	**112,103.0**	**197,073.8**	**269,434.4**
Revenue (NT$ mn) Old	60,003.8	108,823.2	184,735.5	253,129.2
EBITDA (NT$ mn)	15,359.3	34,558.9	69,958.6	98,090.6
EPS (NT$) New	**19.48**	**46.54**	**90.00**	**135.45**
EPS (NT$) Old	19.48	43.17	80.51	122.36
P/E (X)	18.0	20.7	10.7	7.1
P/B (X)	5.3	10.9	7.2	4.8
Dividend yield (%)	2.9	2.4	4.7	7.0
CROCI (%)	31.9	38.6	51.0	55.9

	6/26	9/26E	12/26E	3/27E
EPS (NT$)	9.27	12.97	17.43	15.16

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

BUY

GCE (2368.TW)

Rating since Nov 13, 2023

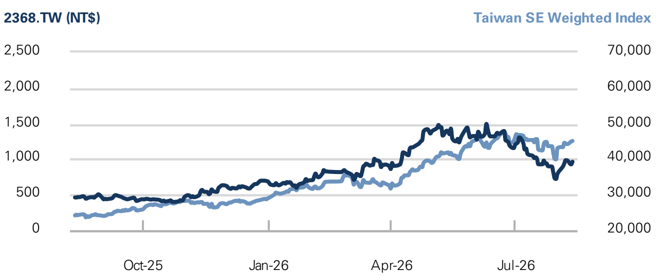
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	18.0	20.7	10.7	7.1
P/B (X)	5.3	10.9	7.2	4.8
FCF yield (%)	(2.6)	(1.0)	0.4	5.3
EV/EBITDAR (X)	11.3	14.6	7.4	5.2
EV/EBITDA (excl. leases) (X)	11.3	14.6	7.4	5.2
CROCI (%)	31.9	38.6	51.0	55.9
ROE (%)	35.1	60.7	81.4	81.1
Net debt/equity (%)	(0.4)	21.5	28.7	16.0
Net debt/equity (excl. leases) (%)	(0.4)	21.5	28.7	16.0
Interest cover (X)	51.5	72.8	123.7	149.5
Days inventory outst, sales	53.7	37.2	32.1	34.1
Receivable days	124.9	99.5	86.3	95.2
Days payable outstanding	87.3	68.6	64.4	69.8
DuPont ROE (%)	28.7	52.7	67.6	67.4
Turnover (X)	0.8	1.1	1.3	1.3
Leverage (X)	2.3	2.2	2.2	2.0
Gross cash invested (ex cash) (NT$)	53,996.0	77,393.5	112,273.6	146,056.9
Average capital employed (NT$)	26,369.3	44,301.9	71,821.2	104,295.4
BVPS (NT$)	65.58	88.32	133.10	200.82

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	54.0	86.8	75.8	36.7
EBITDA growth	67.8	125.0	102.4	40.2
EPS growth	68.9	138.9	93.4	50.5
DPS growth	66.7	132.7	93.4	50.5
EBIT margin	23.4	29.5	34.6	35.7
EBITDA margin	25.6	30.8	35.5	36.4
Net income margin	16.0	21.4	23.6	25.9

Price Performance



	3m	6m	12m
Absolute	(31.1)%	16.3%	118.8%
Rel. to the Taiwan SE Weighted Index	(36.2)%	(13.4)%	17.1%

Source: FactSet. Price as of 11 Aug 2026 close.

Income Statement (NT$ mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	60,003.8	112,103.0	197,073.8	269,434.4
Cost of goods sold	(40,321.0)	(70,350.5)	(115,456.2)	(154,979.9)
SG&A	(4,383.1)	(6,626.6)	(9,841.9)	(13,499.1)
R&D	(1,256.4)	(2,075.8)	(3,547.3)	(4,849.8)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**15,359.3**	**34,558.9**	**69,958.6**	**98,090.6**
Depreciation & amortization	(1,316.1)	(1,508.7)	(1,730.2)	(1,985.0)
EBIT	**14,043.2**	**33,050.2**	**68,228.4**	**96,105.6**
Net interest inc./(exp.)	0.9	116.6	(259.4)	(498.0)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**14,173.3**	**32,835.1**	**63,728.4**	**95,655.6**
Provision for taxes	(4,566.8)	(8,882.4)	(17,286.6)	(25,764.7)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**9,606.5**	**23,952.6**	**46,441.8**	**69,890.9**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**9,606.5**	**23,952.6**	**46,441.8**	**69,890.9**
EPS (basic, pre-except) (NT$)	**19.48**	**46.54**	**90.00**	**135.45**
EPS (diluted, pre-except) (NT$)	**19.48**	**46.54**	**90.00**	**135.45**
EPS (basic, post-except) (NT$)	**19.48**	**46.54**	**90.00**	**135.45**
EPS (diluted, post-except) (NT$)	**19.48**	**46.54**	**90.00**	**135.45**
DPS (NT$)	10.00	23.27	45.00	67.72
Div. payout ratio (%)	51.3	50.0	50.0	50.0

Balance Sheet (NT$ mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	18,114.5	9,417.0	4,703.0	13,065.1
Accounts receivable	27,309.7	33,784.5	59,392.1	81,199.4
Inventory	9,747.1	13,106.4	21,509.6	28,873.0
Other current assets	1,166.2	1,166.2	1,166.2	1,166.2
Total current assets	**56,337.5**	**57,474.0**	**86,771.0**	**124,303.7**
Net PP&E	17,840.3	41,363.5	61,665.1	84,712.0
Net intangibles	77.6	45.7	13.9	(18.0)
Total investments	851.3	851.3	851.3	851.3
Other long-term assets	639.7	639.7	639.7	639.7
Total assets	**75,746.3**	**100,374.2**	**149,941.0**	**210,488.7**
Accounts payable	11,028.5	15,419.3	25,305.5	33,968.2
Short-term debt	6,115.9	6,330.9	6,545.9	6,760.9
Short-term lease liabilities	–	–	–	–
Other current liabilities	10,409.4	17,455.2	28,699.8	40,424.4
Total current liabilities	**27,553.8**	**39,205.4**	**60,551.2**	**81,153.5**
Long-term debt	11,874.9	12,874.9	17,874.9	22,874.9
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	2,836.5	2,836.5	2,836.5	2,836.5
Total long-term liabilities	**14,711.4**	**15,711.4**	**20,711.4**	**25,711.4**
Total liabilities	**42,265.2**	**54,916.8**	**81,262.6**	**106,864.8**
Preferred shares	–	–	–	–
Total common equity	33,481.2	45,457.5	68,678.4	103,623.9
Minority interest	--	--	--	--
Total liabilities & equity	**75,746.3**	**100,374.2**	**149,941.0**	**210,488.7**
Net debt, adjusted	(123.7)	9,788.8	19,717.8	16,570.7

Cash Flow (NT$ mn)

	12/25	12/26E	12/27E	12/28E
Net income	9,606.5	23,952.6	46,441.8	69,890.9
D&A add-back	1,316.1	1,508.7	1,730.2	1,985.0
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(12,581.2)	(5,443.3)	(24,124.7)	(20,507.9)
Other operating cash flow	3,917.4	–	–	–
Cash flow from operations	**2,258.8**	**20,018.0**	**24,047.3**	**51,368.0**
Capital expenditures	(6,733.3)	(25,000.0)	(22,000.0)	(25,000.0)
Acquisitions	(261.8)	–	–	–
Divestitures	–	–	–	–
Others	(38.1)	–	–	–
Cash flow from investing	**(7,033.3)**	**(25,000.0)**	**(22,000.0)**	**(25,000.0)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(2,920.1)	(4,930.5)	(11,976.3)	(23,220.9)
Inc/(dec) in debt	8,924.0	1,215.0	5,215.0	5,215.0
Other financing cash flows	7,700.5	0.0	0.0	0.0
Cash flow from financing	**13,704.4**	**(3,715.5)**	**(6,761.3)**	**(18,005.9)**
Total cash flow	**8,929.9**	**(8,697.5)**	**(4,714.0)**	**8,362.1**
Free cash flow	(4,474.5)	(4,982.0)	2,047.3	26,368.0

Source: Company data, Goldman Sachs Research estimates.

market share in 2026-28E while its ASIC PCB market share should be consistently higher than 25% from 2026 (to 30-32% in 2027-28E), suggesting not only a solid revenue growth outlook, but also imply better profitability in the long term (we believe AI grade PCB GM is and will continue to be 45-50%+ vs. GCE 2Q GM at only at ~35%).

Moreover, the company mentioned its progress on ramping up thick-copper HDI (for AI server) capacity is smooth now and management believe the difficulty on producing AI HDI products should be similar to 800G switches (we believe the yield rate should be at least 70-80%), and we believe the positive comment on AI HDI yield rate suggests more opportunity for the company to enjoy an even better market share and profitability in coming quarters/years.

We suggest investors to build position on GCE after a significant de-rating on P/E multiple, before the yield rate ramp up on its new AI ASIC MLB/RPCB capacity, as we have already seen the company's stock price de-rate by 5-10x (was 20-25x in 2024-25, but the company only traded at 10-11x of 2027E EPS based on our estimate) due to (1) investors' concern on GCE's AI HDI yield rate (which could impact the company's market share and profitability in the LT), and (2) the relatively slow GM expansion speed especially in 1H26. We believe investors' concern on GCE AI HDI yield rate will gradually ease in coming quarters after the company ramps up all of its new high-end HDI capacity; also, considering the much better pricing condition and product mix in 3Q, we believe investors will start to revisit GCE's business once they realize the 2Q GM miss is only a one-time issue driven by the pricing/cost hike timing mismatch. As such, we see attractive upside on GCE (87% implied upside vs. today) with limited risk in the short term to long term.

Maintain Buy on GCE, with a new 12-m TP of NT$1,800 (from NT$1,585).

Exhibit 1: GCE's 2Q26 result comp table

GCE (2368.TW)	2Q26			QoQ		YoY		Bloomberg consensus	
P&L (NT$mn)	Actual	GS est.	Diff (%)	1Q26	QoQ	2Q25	YoY	Consensus	%
Revenue	24,279	23,947	1%	19,313	26%	13,853	75%	23,182	5%
Gross profits	8,413	8,814	-5%	6,722	25%	4,095	105%	8,349	1%
Operating profits	6,418	6,850	-6%	5,185	24%	2,868	124%	6,516	-2%
Pre-tax income	6,299	6,850	-8%	5,088	24%	2,509	151%	6,541	-4%
Net earnings	4,783	4,658	3%	3,484	37%	1,694	182%	4,433	8%
EPS, NT$	9.27	9.19	1%	6.87	35%	3.48	166%	8.82	5%
Gross margin (%)	34.7%	36.8%	-2.2ppt	34.8%	-0.2ppt	29.6%	5.1ppt	36.0%	-1.4ppt
EBIT margin (%)	26.4%	28.6%	-2.2ppt	26.8%	-0.4ppt	20.7%	5.7ppt	28.1%	-1.7ppt
Net margin (%)	19.7%	19.5%	0.2ppt	18.0%	1.7ppt	12.2%	7.5ppt	19.1%	0.6ppt

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

Earning and TP revision

Earnings revision

We revise up our 2026/27/28E earnings estimate by 9/14/13% to factor in the faster than expected ASP hike from high-end AI server, as well as the much faster than originally expected capacity expansion plans (revise up 2026/27/28E revenue estimate by 3/7/6%), despite our less positive view on the GM outlook (due to the unfavorable FX movement).

Exhibit 2: Earnings revision table

GCE P&L (NT$ mn)	2026E New	2026E Old	Diff.	2027E New	2027E Old	Diff.	2028E New	2028E Old	Diff.
Sales	112,103	108,823	3%	197,074	184,736	7%	269,434	253,129	6%
Gross Profit	41,753	41,542	1%	81,618	76,086	7%	114,455	106,880	7%
EBIT	33,050	33,256	-1%	68,228	63,535	7%	96,106	89,642	7%
Net Income	23,953	21,893	9%	46,442	40,824	14%	69,891	62,046	13%
EPS (NT$)	**46.54**	**43.17**	**8%**	**90.00**	**80.51**	**12%**	**135.45**	**122.36**	**11%**
Ratio analysis									
Gross margin	37.2%	38.2%	-0.9pp	41.4%	41.2%	0.2pp	42.5%	42.2%	0.3pp
EBIT margin	29.5%	30.6%	-1.1pp	34.6%	34.4%	0.2pp	35.7%	35.4%	0.3pp
Net margin	21.4%	20.1%	1.2pp	23.6%	22.1%	1.5pp	25.9%	24.5%	1.4pp

Source: Company data, Goldman Sachs Global Investment Research

TP revision

Maintain Buy with a new TP of NT$1,800 (from NT$1,585), based on the new 20x P/E (revise down from 22x, to factor in investors' concern on GCE's AI HDI yield rate; 20x P/E is in-line with the AI PCB industry average valuation in the past 3 years), also rollover of our valuation base from 4Q26-3Q27E to 2027E, and factoring in our earnings revision.

Exhibit 3: GCE P&L table

NT$mn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2024	2025	2026E	2027E	2028E
Revenue	12,063	13,853	17,680	16,408	19,313	24,279	30,645	37,866	35,855	45,436	54,318	61,465	38,952	60,004	112,103	197,074	269,434
Gross profit	3,776	4,095	6,288	5,524	6,722	8,413	11,624	14,993	14,589	18,676	22,501	25,851	11,396	19,683	41,753	81,618	114,455
Operating expense	(1,233)	(1,228)	(1,641)	(1,538)	(1,538)	(1,996)	(2,329)	(2,840)	(2,517)	(3,099)	(3,704)	(4,069)	(3,329)	(5,640)	(8,702)	(13,389)	(18,349)
Operating income	2,543	2,868	4,647	3,986	5,185	6,418	9,295	12,153	12,072	15,577	18,797	21,782	8,067	14,043	33,050	68,228	96,106
Pretax income	2,653	2,509	4,730	4,281	5,088	6,299	9,295	12,153	10,572	14,077	17,297	21,782	8,490	14,173	32,835	63,728	95,656
Taxes expense	(900)	(815)	(1,501)	(1,351)	(1,604)	(1,516)	(2,603)	(3,160)	(2,749)	(3,942)	(4,497)	(6,099)	(2,875)	(4,567)	(8,882)	(17,287)	(25,765)
Net income	1,753	1,694	3,229	2,930	3,484	4,783	6,693	8,993	7,823	10,136	12,799	15,683	5,616	9,607	23,953	46,442	69,891
EPS, NT$	**3.60**	**3.48**	**6.53**	**5.86**	**6.87**	**9.27**	**12.97**	**17.43**	**15.16**	**19.64**	**24.80**	**30.39**	**11.54**	**19.48**	**46.54**	**90.00**	**135.45**
Ratio analysis and assumption																	
As % of sales																	
Gross margin	31.3%	29.6%	35.6%	33.7%	34.8%	34.7%	37.9%	39.6%	40.7%	41.1%	41.4%	42.1%	29.3%	32.8%	37.2%	41.4%	42.5%
Operating expense ratio	10.2%	8.9%	9.3%	9.4%	8.0%	8.2%	7.6%	7.5%	7.0%	6.8%	6.8%	6.6%	8.5%	9.4%	7.8%	6.8%	6.8%
Operating margin	21.1%	20.7%	26.3%	24.3%	26.8%	26.4%	30.3%	32.1%	33.7%	34.3%	34.6%	35.4%	20.7%	23.4%	29.5%	34.6%	35.7%
Net margin	14.5%	12.2%	18.3%	17.9%	18.0%	19.7%	21.8%	23.7%	21.8%	22.3%	23.6%	25.5%	14.4%	16.0%	21.4%	23.6%	25.9%
QoQ growth (%)																	
Revenue	22.4%	14.8%	27.6%	-7.2%	17.7%	25.7%	26.2%	23.6%	-5.3%	26.7%	19.5%	13.2%	-	-	-	-	-
Gross profit	47.7%	8.5%	53.5%	-12.1%	21.7%	25.2%	38.2%	29.0%	-2.7%	28.0%	20.5%	14.9%	-	-	-	-	-
Operating income	55.5%	12.8%	62.0%	-14.2%	30.1%	23.8%	44.8%	30.7%	-0.7%	29.0%	20.7%	15.9%	-	-	-	-	-
Net income	36.7%	-3.4%	90.6%	-9.3%	18.9%	37.3%	39.9%	34.4%	-13.0%	29.6%	26.3%	22.5%	-	-	-	-	-
YoY growth (%)																	
Revenue	33.1%	44.7%	69.1%	66.5%	60.1%	75.3%	73.3%	130.8%	85.7%	87.1%	77.2%	62.3%	30%	54%	87%	76%	37%
Gross profit	55.0%	35.3%	86.2%	116.1%	78.0%	105.4%	84.9%	171.4%	117.0%	122.0%	93.6%	72.4%	48%	73%	112%	95%	40%
Operating income	47.3%	30.3%	85.5%	143.7%	103.8%	123.8%	100.0%	204.9%	132.9%	142.7%	102.2%	79.2%	57%	74%	135%	106%	41%
Net income	44.0%	11.4%	102.5%	128.5%	98.7%	182.4%	107.2%	206.9%	124.6%	111.9%	91.2%	74.4%	59%	71%	149%	94%	50%

Source: Company data, Goldman Sachs Global Investment Research

Investment thesis and Valuation & Risks

GCE is a key cloud (server+switch) PCB supplier globally with 20%+ market share in 2022. We expect cloud PCB market demand to grow at a 15% 2024-26E CAGR (far stronger than the overall RPCB+HDI market demand growth rate at 5% 2024-26E CAGR). We believe GCE's proactive capacity expansion plan (33% in 2026) and high annualized ROI (300%+) will continue to drive the company's revenue/margin level in the coming quarters/years. Additionally, we believe GCE can continue to see strong demand from the increasing content per server/switch, as we expect both markets to see a 20-50%+ layer count increase after the generation upgrade (upgrade to 400G/Eagle Stream). We are constructive on GCE's long-term growth opportunity given its solid position in the rapidly growing cloud PCB market, and we are Buy rated on the stock. GCE is trading higher than its historical P/E average level driven by strong AI server demand, but lower than the TW AI server players' average.

Price Target Risks and Methodology

Valuation methodology: Our 12m TP of NT$1,800 is based on a 20x 2027E P/E (in-line with the AI PCB leaders valuation in the past 3 years).

Key downside risks: (1) weaker-than-expected AI server market demand; (2) delays in the company's Nvidia OAM/UBB product qualification, (3) weaker-than-expected HDI demand, and (4) higher-than-expected ramp up cost for new capacity

Disclosure Appendix

Reg AC

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Contributing Authors: Chao Wang Goldman Sachs (Asia) L.L.C., Taipei Branch, Allen Chang Goldman Sachs (Asia) L.L.C., Al Wang Goldman Sachs (Asia) L.L.C., Taipei Branch.

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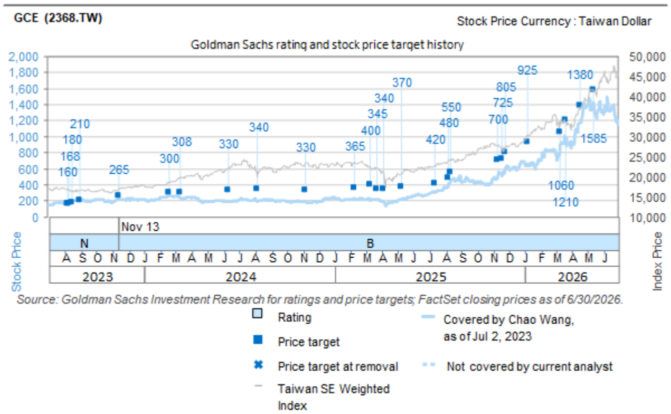
Price target and rating history chart(s)



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Target price history table(s)

GCE (2368.TW)

Date of report	Target price (NT$)	Closing price (NT$)
13-May-26	1,585.00	1,350.00
17-Apr-26	1,380.00	1,175.00
20-Mar-26	1,210.00	988.00
10-Mar-26	1,060.00	817.00
06-Jan-26	925.00	662.00
26-Nov-25	805.00	610.00
19-Nov-25	725.00	522.00
11-Nov-25	700.00	498.50
13-Aug-25	550.00	460.00
07-Aug-25	480.00	372.00
15-Jul-25	420.00	320.00
09-May-25	370.00	226.00
06-Apr-25	340.00	195.00
24-Mar-25	345.00	214.00
11-Mar-25	400.00	209.00
09-Feb-25	365.00	228.00
07-Nov-24	330.00	188.50
07-Aug-24	340.00	207.00
11-Jun-24	330.00	187.50
12-Mar-24	308.00	242.50
18-Feb-24	300.00	275.00
13-Nov-23	265.00	217.00
30-Aug-23	210.00	208.50
16-Aug-23	180.00	188.00

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