October 27, 2026 12:56 AM GMT

Lotes Co. Ltd. | Asia Pacific

Margins to trough in 3Q; Upgrade to OW

WHAT'S CHANGED

Lotes Co. Ltd. (3533.TW)	From	To
Rating	Equal-weight	**Overweight**
Price Target	NT$2,045.00	**NT$2,350.00**

We look beyond near-term cost pressures to margin recovery from 4Q as new CPU platforms enable better cost pass-through. AI products such as QD, SOCAMM and NPO should lift the AI revenue mix to >20% by 2028, supporting earnings growth and re-rating.

3Q GM likely to decline on higher costs and slower new product adoption… Lotes reported unaudited 3Q26 revenue of NT$9,924M (+4% q/q, +18% y/y). Higher copper, gold and plastics costs for legacy products, coupled with slower new product adoption, should continue to pressure GM. We forecast 3Q GM of 44.6% (-90bps q/q), below consensus of 45.8% (+30bps q/q). However, a decline in opex to NT$2.0B, consistent with management commentary, should support operating profit growth of 17% q/q to NT$2,452M, albeit still 6% below consensus. We forecast NP of NT$2,174M (+10% q/q) and EPS of NT$19.36, 4% below the Street.

…but we see 3Q as the GM trough, with recovery beginning in 4Q: Following slower server platform transitions, we expect adoption to accelerate from 4Q26. Socket production for AMD's Venice CPU will ramp from 4Q26 and socket production for Intel's Oak Stream CPU will ramp in 1Q27. These transitions should enable Lotes to reprice products and pass through higher input costs, supporting margin recovery. Our industry checks also point to a rebound in ODM server board production in 4Q, following a modest 3Q decline. We forecast 4Q revenue of ~NT $10.5B (+5% q/q), GM of 45.9% (+130bps q/q) and EPS of NT$21.11 (+9% q/q).

2027 - margin recovery and new AI product ramps should drive earnings growth: Rising adoption of new CPU platforms should support socket margin recovery, alongside growing contributions from QD, SOCAMM and NPO. QD reached 2–3% of revenue in September, with further growth expected in 4Q26 and 2027, and we forecast SOCAMM will reach ~7% of revenue in CY27. Lotes has two NPO opportunities, one through LINTES and another directly, with the direct program expected to ramp in 2H27. Although initial contributions should remain modest, we see NPO as a longer-term AI data center growth opportunity and a potential re-rating catalyst. Overall, we see the AI revenue mix, including QD, SOCAMM and NPO, rising from ~5% in CY25 to slightly above 20% by CY28.

Upgrade to OW and raise PT by 15% to NT$2,350, driven by our estimate increases for CY27-28. Our new PT implies 22x 2027e P/E and 16.5x 2028e P/E, above the past 3-year average of 17.4x, which we view as reasonable amid a rising AI revenue mix.

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Lotes Co. Ltd. (3533.TW, 3533 TT)

Greater China Technology Hardware | Taiwan

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	NT$2,350.00
Up/downside to price target (%)	31
Shr price, close (Oct 22, 2026)	NT$1,795.00
52-Week Range	NT$2,955.00-1,140.00
Sh out, dil, curr (mn)	105
Mkt cap, curr (mn)	NT$188,088
EV, curr (mn)	NT$174,852
Avg daily trading value (mn)	NT$2,639

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	70.18	79.63	106.88	142.26
Prior EPS (NT$)**	-	82.77	102.51	125.94
EPS (NT$)§	68.94	81.15	114.13	142.08
Revenue, net (NT$ mn)	33,783	39,271	47,293	57,352
EBITDA (NT$ mn)	12,955	12,683	16,879	21,749
ModelWare net inc (NT $ mn)	7,866	8,925	11,979	15,945
P/E	18.5	22.5	16.8	12.6
P/BV	3.6	4.4	3.8	3.2
RNOA (%)	37.7	29.7	42.8	54.6
ROE (%)	20.7	22.1	26.3	30.0
EV/EBITDA	10.2	13.4	9.7	7.2
Div yld (%)	3.3	1.9	2.2	3.0
FCF yld ratio (%)**	2.1	4.5	5.2	6.8
Leverage (EOP) (%)	(32.8)	(40.6)	(46.1)	(51.1)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

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AlphaSignals Earnings Preview

Focus KPI	Focus KPI Surprise	Likely impact to consensus EPS*
Lotes Co. Ltd. 3533.TW		
3Q GM	↓ Likely downside surprise	↓ Modest revision lower

• We think rising costs and slower new product adoption rate will continue to weigh on GM

*Likely impact to consensus EPS is for the next 12 months
Source: Company data, Morgan Stanley Research

3Q26 Results Preview

3Q26 preview: We forecast revenue of NT$9.92B (+4% q/q, +18% y/y), broadly in line with the Street. Although gross margin should decline 80bps q/q to 44.6%, a 12% sequential reduction in operating expenses should lift operating margin 270bps q/q to 24.7%. Nevertheless, this remains 130bps below consensus, implying operating profit of NT$2.45bn, 6% below the Street. We therefore see potential for an earnings miss, as we estimate net profit of ~NT$2,174M (+10% q/q, -6% y/y), for EPS of NT$19.36, 4% below the Street.

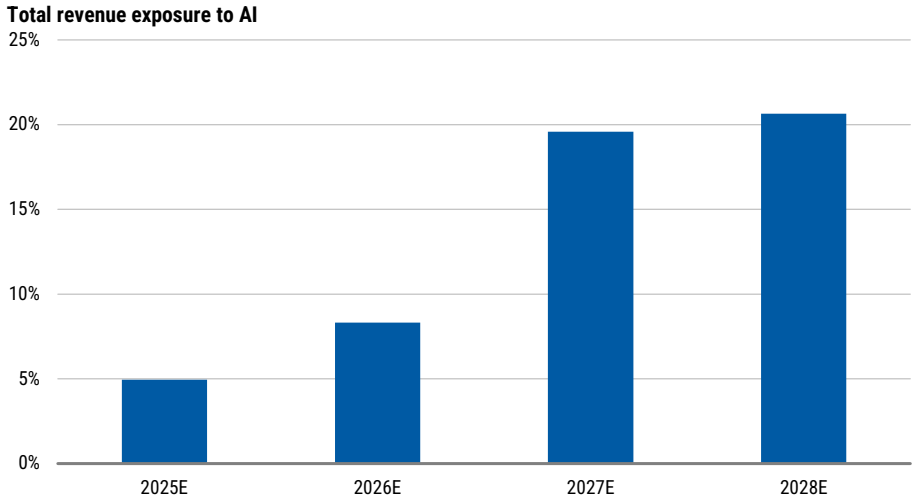
Exhibit 1: 3Q26 Results Preview

	3Q26E Results				
NT$mn	**MS Est.**	**QoQ**	**YoY**	**Cons**	**Var.**
Net sales	**9,924**	**4%**	**18%**	**9,978**	**-1%**
COGS	-5,493	5%	34%	-5,411	2%
Gross profit	**4,431**	**2%**	**3%**	**4,567**	**-3%**
Operating expenses	-1,979	-12%	11%	-1,969	0%
Operating income	**2,452**	**17%**	**-3%**	**2,598**	**-6%**
Non-operating income	245	-50%	-31%	263	-7%
Pre-tax income	**2,697**	**4%**	**-6%**	**2,861**	**-6%**
Income tax	-506	-19%	-10%	-605	-16%
Net income	**2,174**	**10%**	**-6%**	**2,257**	**-4%**
EPS (NT$)	**19.36**	**10%**	**-7%**	**20.12**	**-4%**
Margins (%)		***ppt***	***ppt***		***ppt***
Gross margin	44.6%	-0.8	-6.6	45.8%	-1.1
Operating margin	24.7%	2.7	-5.3	26.0%	-1.3
Pre-tax margin	27.2%	0.0	-7.0	28.7%	-1.5
Net margin	21.9%	1.2	-5.6	22.6%	-0.7

Source: Company data, Visible Alpha, Morgan Stanley Research estimates.

AI revenue mix - a sharp step-up in 2027 should strengthen the structural growth story: We forecast AI revenue contribution will rise from ~5% in CY25 to slightly above 20% by CY28, with the largest increase occurring in 2027. Rising adoption of QD and SOCAMM connectors should drive the initial acceleration, while NPO sockets provide an additional growth opportunity, with small-volume contributions expected in 2027 and larger volumes in 2028. We believe this expanding AI exposure, alongside expected margin recovery in CPU sockets, should strengthen Lotes' earnings growth profile and support a potential valuation re-rating as investors look beyond near-term cost pressures.

Exhibit 2: We forecast AI revenue mix will rise from ~5% in CY25 to ~20% by CY28



Source: Morgan Stanley Research (E) estimates.

Estimate Changes

We adjust our model to reflect unaudited 3Q26 revenue and our latest supply chain checks. This leads us to lower our CY26 EPS estimate by 4% but raise CY27 by 4% and CY28 by 13%.

Exhibit 3: Lotes: 2026-28 estimate changes

	2026e			2027e			2028e		
NT$ mn	New	Old	Variance	New	Old	Variance	New	Old	Variance
Net sales	**39,271**	**38,305**	**3%**	**47,293**	**43,197**	**9%**	**57,352**	**50,829**	**13%**
COGS	-21,075	-20,329	4%	-24,408	-22,232	10%	-28,973	-25,913	12%
Gross profit	**18,197**	**17,976**	**1%**	**22,885**	**20,965**	**9%**	**28,379**	**24,916**	**14%**
Operating expenses	-8,123	-8,017	1%	-8,388	-8,200	2%	-8,825	-8,811	0%
Operating income	10,073	9,960	1%	14,497	12,766	14%	19,554	16,105	21%
Non-operating income	1,282	1,778	-28%	986	1,979	-50%	986	1,979	-50%
Pre-tax income	11,355	11,738	-3%	15,483	14,745	5%	20,540	18,084	14%
Income tax	-2,371	-2,576	-8%	-3,434	-3,272	5%	-4,525	-3,985	14%
Net income	**8,925**	**9,277**	**-4%**	**11,979**	**11,490**	**4%**	**15,945**	**14,116**	**13%**
EPS (NT$)	**79.63**	**82.77**	**-4%**	**106.88**	**102.51**	**4%**	**142.26**	**125.94**	**13%**
Margins (%)			***ppt***			***ppt***			***ppt***
Gross margin	46.3%	46.9%	-0.6	48.4%	48.5%	-0.1	49.5%	49.0%	0.5
Operating margin	25.7%	26.0%	-0.4	30.7%	29.6%	1.1	34.1%	31.7%	2.4
Pre-tax margin	28.9%	30.6%	-1.7	32.7%	34.1%	-1.4	35.8%	35.6%	0.2
Net margin	22.7%	24.2%	-1.5	25.3%	26.6%	-1.3	27.8%	27.8%	0.0

Source: Morgan Stanley Research (e) estimates.

Where are we vs. consensus?

Exhibit 4: MSe vs. consensus

Lotes	MSe			Consensus			Variance		
	2026	2027	2028	2026	2027	2028	2026	2027	2028
Revenue	39,271	47,293	57,352	39,461	48,933	58,050	0%	-3%	-1%
GM	46.3%	48.4%	49.5%	47.0%	49.9%	51.1%	-0.6%	-1.5%	-1.6%
OpM	25.7%	30.7%	34.1%	26.3%	31.8%	33.7%	-0.6%	-1.2%	0.4%
Net income	8,925	11,979	15,945	9,073	12,680	15,667	-2%	-6%	2%
EPS	79.63	106.88	142.26	80.95	113.13	139.78	-2%	-6%	2%

Source: Visible Alpha, Morgan Stanley Research estimates.

Price Target Discussion and Valuation Methodology

Our price target increases ~15%, to NT$2,350 from NT$2,045, driven mainly by our higher earnings estimates for 2027-28.

Our new PT implies ~22x 2027e P/E, slightly above its three-year average forward P/E of 17.4x, but still below that of peer Amphenol (25-35x 2027e P/E, based on Visible Alpha consensus). We think Lotes stock could re-rate to a higher valuation multiple if margins hold up well and Lotes' exposure to AI PCs and AI servers grows in the coming years.

We continue to derive our PT, which is our base case scenario value, from a residual income model (RIM), consistent with the methodology we apply to the rest of our tech hardware coverage universe. To calculate the intrinsic value of the stock, we use the company's beginning equity plus the present value of all expected residual income of earnings in excess of the cost of capital. The RI is positive when ROAE is above the cost of capital and negative when it is below the cost of capital.

Our key RIM assumptions (all unchanged) include a cost of equity of 9.2% (beta of ~1.0, equity risk premium of ~8.7% and risk-free rate of ~1.0%), a medium-term growth rate of 12.5% and a terminal growth rate of 3%.

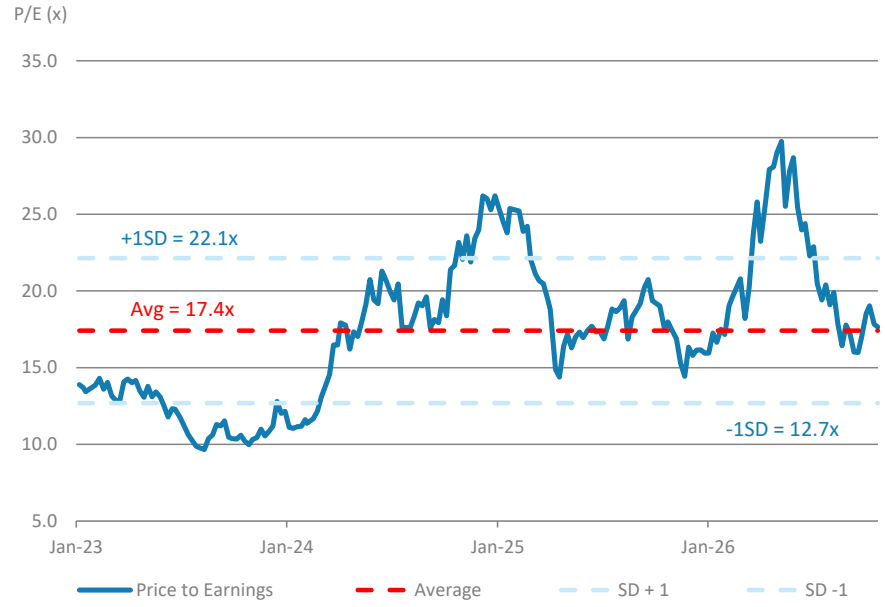
Our bull and bear case values rise to NT$3,400 and NT1,285, respectively, in line with the increase in magnitude of our base case scenario.

Exhibit 5: Lotes: Residual income model

		2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E
Total Equity		**45,603**	**53,171**	**63,183**	**73,889**	**85,933**	**99,483**	**114,726**	**131,875**	**151,168**	**172,872**	**193,835**
Net Profit		**8,925**	**11,979**	**15,945**	**17,938**	**20,180**	**22,702**	**25,540**	**28,733**	**32,324**	**36,365**	**37,456**
Return on Equity		**20.8%**	**24.3%**	**27.4%**	**26.2%**	**25.3%**	**24.5%**	**23.8%**	**23.3%**	**22.8%**	**22.4%**	**20.4%**
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Equity Risk Premium (Rm-Rf)	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Risk Free Rate (Rf)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of Equity	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Residual Income		**4,678**	**6,876**	**9,693**	**10,738**	**11,878**	**13,157**	**14,593**	**16,206**	**18,018**	**20,056**	**19,449**
Spread		**11.6%**	**15.1%**	**18.2%**	**17.0%**	**16.1%**	**15.3%**	**14.7%**	**14.1%**	**13.7%**	**13.3%**	**11.3%**
Beginning Equity Capital		45,603										
PV of Forecast Period		83,013										
PV of Continuing Value		134,772										
Equity Value		**263,387**										
No. of Shares		112										
Projected Price		**2,350.0**										
Implied 2027 P/E		22.0x										
Implied 2028 P/E		16.5x										

Source: Morgan Stanley Research (E) estimates.

Exhibit 6: Lotes' past 3-year forward P/E band



Source: TEJ, Morgan Stanley Research.

Financials

Exhibit 7: Quarterly and Annual Estimates

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	2025	2026E	2027E	2028E
Net sales	**7,765**	**8,336**	**8,422**	**9,260**	**9,328**	**9,569**	**9,924**	**10,451**	**33,783**	**39,271**	**47,293**	**57,352**
COGS	(3,769)	(4,085)	(4,109)	(4,487)	(4,706)	(5,218)	(5,493)	(5,658)	(16,450)	(21,075)	(24,408)	(28,973)
Gross profit	**3,997**	**4,251**	**4,313**	**4,773**	**4,622**	**4,351**	**4,431**	**4,793**	**17,334**	**18,197**	**22,885**	**28,379**
Operating expenses	(1,546)	(1,653)	(1,788)	(2,002)	(1,913)	(2,248)	(1,979)	(1,984)	(6,989)	(8,123)	(8,388)	(8,825)
SG&A	(762)	(810)	(899)	(1,015)	(938)	(1,101)	(1,096)	(1,092)	(3,486)	(4,227)	(4,708)	(5,066)
R&D	(784)	(843)	(889)	(987)	(975)	(1,147)	(883)	(892)	(3,503)	(3,897)	(3,680)	(3,758)
Operating income	**2,451**	**2,599**	**2,525**	**2,771**	**2,708**	**2,103**	**2,452**	**2,810**	**10,344**	**10,073**	**14,497**	**19,554**
Non-operating income	**420**	**(1,378)**	**357**	**447**	**295**	**495**	**245**	**247**	**(154)**	**1,282**	**986**	**986**
Interest income	110	93	54	48	48	57	57	57	305	217	226	226
Investment income	(12)	(10)	(11)	(9)	(9)	(10)	(11)	(10)	(42)	(41)	(41)	(41)
Disposal of investment	(0)	0	0	2	5	5	0	0	2	10	0	0
Exchange gain	234	(1,505)	215	110	7	(167)	0	0	(946)	(160)	0	0
Other	89	43	99	296	245	610	200	200	528	1,254	800	800
Pre-tax income	**2,871**	**1,220**	**2,882**	**3,218**	**3,003**	**2,598**	**2,697**	**3,056**	**10,191**	**11,355**	**15,483**	**20,540**
Income tax	(573)	(457)	(565)	(649)	(572)	(624)	(506)	(669)	(2,244)	(2,371)	(3,434)	(4,525)
Minority interest	23	14	(2)	46	35	(11)	17	17	81	59	70	70
Net income	**2,276**	**749**	**2,318**	**2,523**	**2,397**	**1,984**	**2,174**	**2,370**	**7,866**	**8,925**	**11,979**	**15,945**
Adj.wtd.avg.shrs (mn)	113	112	112	112	112	112	112	112	112	112	112	112
EPS	**20.22**	**6.69**	**20.71**	**22.51**	**21.37**	**17.68**	**19.36**	**21.11**	**70.18**	**79.63**	**106.88**	**142.26**
Fully Diluted shares (mn)	113	112	112	112	112	112	112	112	112	112	112	112
Diluted EPS (NT$)	**20.22**	**6.69**	**20.71**	**22.51**	**21.37**	**17.68**	**19.36**	**21.11**	**70.18**	**79.63**	**106.88**	**142.26**
Margins (%)												
Gross Margin	51.5	51.0	51.2	51.5	49.5	45.5	44.6	45.9	51.3	46.3	48.4	49.5
Operating Margin	31.6	31.2	30.0	29.9	29.0	22.0	24.7	26.9	30.6	25.7	30.7	34.1
Pretax Margin	37.0	14.6	34.2	34.8	32.2	27.1	27.2	29.2	30.2	28.9	32.7	35.8
Net Margin	29.3	9.0	27.5	27.2	25.7	20.7	21.9	22.7	23.3	22.7	25.3	27.8
QoQ Growth (%)												
Sales	-6	7	1	10	1	3	4	5				
Gross Profit	-9	6	1	11	-3	-6	2	8				
Operating Profit	-14	6	-3	10	-2	-22	17	15				
Pretax Profit	-20	-58	136	12	-7	-13	4	13				
Net Profit	-22	-67	209	9	-5	-17	10	9				
YoY Growth (%)												
Sales	22	13	4	12	20	15	18	13	12	16	20	21
Gross Profit	23	10	2	8	16	2	3	0	10	5	26	24
Operating Profit	21	1	-10	-3	11	-19	-3	1	1	(3)	44	35
Pretax Profit	7	-59	10	-11	5	113	-6	-5	(14)	11	36	33
Net Profit	10	-67	12	-13	5	165	-6	-6	(15)	13	34	33

Source: Company data, Morgan Stanley Research (E) estimates.

Exhibit 8: Consolidated Financial Summary

Consolidated Income Statement

NT$mn (Year End Dec 31)	2025	2026E	2027E	2028E
Net sales	**33,783**	**39,271**	**47,293**	**57,352**
COGS	(16,450)	(21,075)	(24,408)	(28,973)
Gross profit	**17,334**	**18,197**	**22,885**	**28,379**
Operating expenses	(6,989)	(8,123)	(8,388)	(8,825)
Operating income	**10,344**	**10,073**	**14,497**	**19,554**
Non-operating income	**(154)**	**1,282**	**986**	**986**
Interest income	305	217	226	226
Investment income	(42)	(41)	(41)	(41)
Disposal of investment	2	10	-	-
Exchange gain	(946)	(160)	-	-
Other	528	1,254	800	800
Pre-tax income	**10,191**	**11,355**	**15,483**	**20,540**
Income tax	(2,244)	(2,371)	(3,434)	(4,525)
Minority interests	81	59	70	70
Net income	**7,866**	**8,925**	**11,979**	**15,945**
Adj. wtd. Avg. shrs (m)	112	112	112	112
Reported EPS (NT$)	**70.18**	**79.63**	**106.88**	**142.26**
Diluted shrs (m)	112	112	112	112
Diluted EPS (NT$)	**70.18**	**79.63**	**106.88**	**142.26**

Consolidated Cash Flow Statement

NT$mn (Year End Dec 31)	2025	2026E	2027E	2028E
Operating Cashflow	**8,528**	**10,314**	**11,654**	**14,838**
Net Profits	7,866	8,925	11,979	15,945
Depreciation & Amort.	2,610	2,610	2,382	2,195
Investment losses/(income)	(2)	41	41	41
Working capital change	18,898	(1,065)	(2,475)	(3,000)
Other adjustments	(20,658)	(187)	(273)	(342)
Investing Cashflow	**(5,857)**	**(1,435)**	**(1,421)**	**(1,405)**
Capex	(4,976)	(1,500)	(1,500)	(1,500)
Change of L/T investment	(62)	0	0	0
Change of S/T investment	(746)	0	0	0
Other adjustments	(129)	0	0	0
Financing Cashflow	**(8,844)**	**(3,763)**	**(4,210)**	**(5,672)**
Increase in L/T debt	0	0	0	0
Increase in S/T debt	(3,551)	0	0	0
Issuance of stock	0	(5)	0	0
Cash dividends	(4,803)	(3,923)	(4,451)	(5,974)
Other adjustments	(490)	165	241	302
FX adjustment	15	160	0	0
Net change in cash	**(6,159)**	**5,276**	**6,022**	**7,761**

Consolidated Balance Sheet

NT$mn (Year End Dec 31)	2025	2026E	2027E	2028E
Cash	**12,500**	**17,776**	**23,798**	**31,559**
Mkt securities	1,029	1,029	1,029	1,029
AR/NR	14,182	16,486	19,853	24,076
Inventory	4,375	5,605	6,492	7,706
Others	1,148	1,335	1,608	1,949
Current Assets	**33,234**	**42,230**	**52,779**	**66,319**
Long-term investments	962	962	962	962
Fixed assets	13,429	12,254	11,294	10,503
Other assets	2,808	2,808	2,808	2,808
Total Assets	**50,433**	**58,254**	**67,843**	**80,592**
S/T borrowings	225	225	225	225
AP/NP	3,678	4,712	5,457	6,478
Other ST liabilities	5,102	6,536	7,570	8,986
Total Current Liabilities	**9,005**	**11,473**	**13,253**	**15,689**
L/T debt	-	-	-	-
Other LT libilities	1,013	1,178	1,419	1,721
Total Liabilities	**10,018**	**12,652**	**14,672**	**17,410**
Common shares	1,125	1,121	1,121	1,121
Retained Earnings	25,394	30,587	38,155	48,167
Other SH' Equity	13,895	13,895	13,895	13,895
Total Shareholders' Equity	**40,415**	**45,603**	**53,171**	**63,183**
Total Liab./SH's Equity	**50,433**	**58,254**	**67,843**	**80,592**

Consolidated Financial Ratios

	2025	2026E	2027E	2028E
Margins (%)				
Gross margin	51.3	46.3	48.4	49.5
Operating margin	30.6	25.7	30.7	34.1
Pretax margin	30.2	28.9	32.7	35.8
Net margin	23.3	22.7	25.3	27.8
YoY growth (%)				
Sales	12.3	16.2	20.4	21.3
Operating profits	1.0	(2.6)	43.9	34.9
Pretax profits	(14.1)	11.4	36.4	32.7
Net profits	(15.2)	13.5	34.2	33.1
Others				
Cash dividend payout (%)	50%	50%	50%	50%
Cash div (NT$)	35.00	39.71	53.30	70.95
Yield (%)	2%	2%	3%	4%
Net Debt/Equity (%)	-33%	-41%	-46%	-51%
Liabilities/Equity (%)	25%	28%	28%	28%
Liabilities/Assets (%)	20%	22%	22%	22%
ROAE (%)	20%	21%	24%	27%
ROAA (%)	16%	16%	19%	21%
AR/NR Turnover (days)	145	143	140	140
Inventory Turnover (days)	86	86	90	89
AP/NP Turnover (days)	72	73	76	75
Cash conversion cycle	159	156	155	154

Source: Company data, Morgan Stanley Research (E) estimates.

Risk Reward – Lotes Co. Ltd. (3533.TW)

Benefiting from better mix and increasing AI exposure; OW

PRICE TARGET NT$2,350.00

Primary - Residual Income
Base case, residual income model. Key assumptions include a cost of equity of 9.6% (beta of 1.0, equity risk premium of 8.7% and risk-free rate of 1.0%), a medium-term growth rate of 12.5%, and a terminal growth rate of 3%.

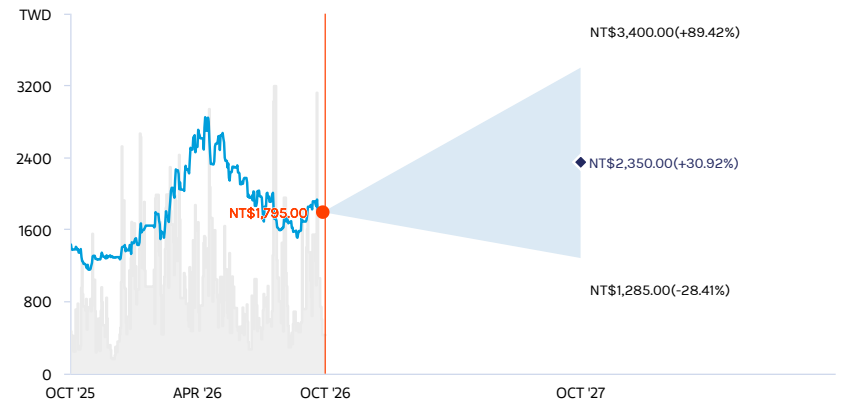
Consensus Price Target Distribution NT$1,670.00 NT$2,375.00 NT$2,850.00

MS PT

Mean Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



Key: Historical Stock Performance Current Stock Price Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- We believe GM will trough in 3Q and start to recover from 4Q onward, driven by rising adoption rates of new server platform CPU sockets, which help Lotes reflect a higher cost structure to its end customers.
- Adoption of QD and SOCAMM connectors for AI servers have been rising since 2H26 and should see more contributions into CY27. NPO socket is also expected to ramp in CY27 in small volume, with increases in 2028.
- We forecast the AI revenue mix will rise from ~5% in CY5 to slightly more than 20% by CY28.
- Our price target implies 22x 2027e P/E and 16.5x 2028e P/E, which we consider undemanding vs. its current valuation of 17x 2027e P/E.

Consensus Rating Distribution

71% Overweight
29% Equal-weight
0% Underweight

MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Electric Vehicles: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE NT$3,400.00

32x 2027e P/E

Faster server and PC demand growth in 2026 with strong EV project ramp-up: Server and PC demand enjoy significantly stronger growth in 2026, driven by new data center builds/replacements, as well as Windows replacement and PC upgrades. Demand from its strategic customers continues to grow in response to positive feedback on its own silicon. Growth from automotive is much better, with share gains and new project wins.

BASE CASE NT$2,350.00

22x 2027e P/E

Server business has content growth tailwinds; DT volumes to stabilize in the next two to three years, but enjoy content growth; limited room for margin expansion in the next three years: We forecast a total sales CAGR of ~19% in 2025-28, with operating profit margin rising to 34% by 2028 from ~31% in 2025.

BEAR CASE NT$1,285.00

12x 2027e P/E

Much weaker server and PC demand in 2026; automotive projects ramp-up is slower than expected in coming years: Server and PC demand decline much more than we anticipate in 2026, hampered by a weakening macro backdrop. Demand from its strategic customers also faces these challenging headwinds. Demand upturn for automotive is much slower, as are new project wins in the coming quarters.

Risk Reward – Lotes Co. Ltd. (3533.TW)

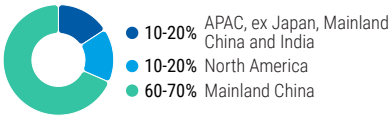
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Server revenue contribution (%)	39.8	55.6	62.6	65.6
Auto revenue contribution (%)	7.3	7.4	6.9	6.9

INVESTMENT DRIVERS

- CPU socket, DDR, PCIe upgrades for servers
- CPU socket, DDR, PCIe upgrades for desktops
- Rising EV penetration rate
- Margin expansion driven by more favorable product mix

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 MOST — 3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected growth in the server business, such as from cloud and enterprise in China
- Stronger-than-expected DT demand
- Sooner-than-expected inventory digestion of NB
- Faster ramp-up of its EV business

RISKS TO DOWNSIDE

- Further deceleration of server demand from US hyperscalers
- Weaker-than-expected DT demand
- Slower-than-expected inventory digestion of NB
- More severe pricing erosion driven by competition

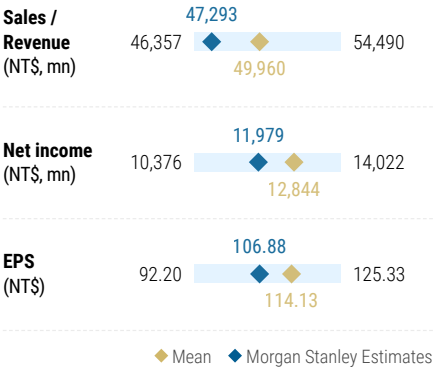
OWNERSHIP POSITIONING

Inst. Owners, % Active 67.4%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2027e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of September 30, 2026)
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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

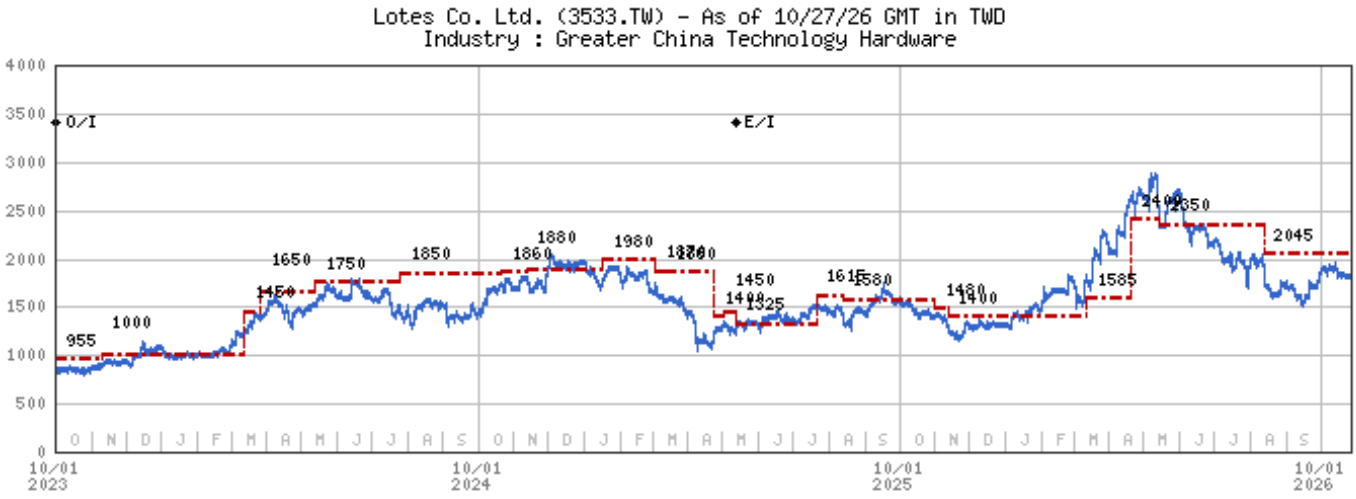
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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 10/6/22 : O/I; 5/12/25 : E/I

Price Target History: 10/6/22 : 959.17; 10/21/22 : 984.02; 3/21/23 : 984; 5/12/23 : 1100; 7/17/23 : 955; 11/10/23 : 1000; 3/13/24 : 1450; 3/27/24 : 1650; 5/13/24 : 1750; 7/25/24 : 1850; 10/21/24 : 1860; 11/12/24 : 1880; 1/17/25 : 1980; 3/4/25 : 1870; 3/12/25 : 1860; 4/23/25 : 1400; 5/2/25 : 1450; 5/12/25 : 1325; 7/21/25 : 1615; 8/13/25 : 1580; 11/1/25 : 1480; 11/12/25 : 1400; 3/13/26 : 1585; 4/20/26 : 2400; 5/15/26 : 2350; 8/13/26 : 2045

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Greater China Technology Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/26/2026)
Andy Meng, CFA		
AAC Technologies Holdings (2018.HK)	O (01/29/2024)	HK$35.38
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb122.53
BYD Electronics (0285.HK)	O (04/28/2023)	HK$22.58
China TransInfo Technology Co Ltd (002373.SZ)	E (07/18/2023)	Rmb8.05
Dahua Technology Co. Ltd. (002236.SZ)	E (12/12/2024)	Rmb14.69
Eoptolink Technology Inc Ltd (300502.SZ)	O (02/27/2026)	Rmb251.69
Genius Electronic Optical Co. Ltd. (3406.TW)	E (10/13/2026)	NT$1,160.00
GoerTek Inc (002241.SZ)	E (08/14/2026)	Rmb23.52
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb4.42
HIKVision Digital Technology (002415.SZ)	E (12/12/2024)	Rmb34.99
Largan Precision (3008.TW)	O (10/13/2026)	NT$6,175.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	U (06/12/2024)	Rmb5.70
Lingyi Itech Guangdong Co (002600.SZ)	U (04/23/2025)	Rmb11.59
Lingyi Itech Guangdong Co (1688.HK)	O (08/14/2026)	HK$4.81
Luxshare Precision Industry Co., Ltd. (2475.HK)	O (08/14/2026)	HK$49.00
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb49.81
OFILM Group Co Ltd (002456.SZ)	U (06/12/2024)	Rmb6.37
Q Technology (Group) Company Ltd (1478.HK)	U (03/23/2026)	HK$4.66
Quectel Wireless Solutions Co Ltd (603236.SS)	E (10/09/2024)	Rmb76.09
Shanghai Conant Optical Co Ltd (2276.HK)	O (04/10/2026)	HK$36.52
Shenzhen Transsion Holdings Co Ltd (688036.SS)	E (03/23/2026)	Rmb56.59
Sunny Optical (2382.HK)	E (03/23/2026)	HK$62.95
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	E (11/06/2025)	Rmb196.98

Wingtech Technology Co Ltd (600745.SS)	U (05/18/2026)	Rmb10.85
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK$26.90
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb297.80
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (07/15/2026)	HK$102.30
Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb96.23
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb22.13
Zhongji Innolight Co Ltd (300308.SZ)	O (09/07/2026)	Rmb594.50
Zhongji Innolight Co Ltd (3308.HK)	O (09/07/2026)	HK$721.50
ZTE Corporation (0763.HK)	O (06/04/2026)	HK$19.10
ZTE Corporation (000063.SZ)	E (06/04/2026)	Rmb28.03
Derrick Yang		
Accton Technology Corporation (2345.TW)	O (06/06/2024)	NT$1,775.00
Advantech (2395.TW)	O (01/20/2021)	NT$670.00
AirTAC International (1590.TW)	O (04/16/2025)	NT$1,100.00
Asia Vital Components Co. Ltd. (3017.TW)	O (07/30/2024)	NT$3,145.00
AU Optronics (2409.TW)	E (02/10/2026)	NT$35.40
Auras Technology Co Ltd (3324.TWO)	E (05/04/2023)	NT$1,360.00
Bizlink (3665.TW)	O (03/10/2025)	NT$1,875.00
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb4.87
Chenbro (8210.TW)	O (07/23/2025)	NT$764.00
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT$1,980.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT$1,560.00
E Ink Holdings Inc. (8069.TWO)	E (08/10/2026)	NT$153.50
Ennostar Inc (3714.TW)	U (09/23/2022)	NT$61.70
Fositek Corp (6805.TW)	O (06/25/2025)	NT$2,335.00
Hiwin Technologies Corp. (2049.TW)	O (03/30/2026)	NT$299.00
Innolux (3481.TW)	E (04/07/2025)	NT$46.75
King Slide Works Co. Ltd. (2059.TW)	O (11/08/2023)	NT$9,755.00
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb27.96
Lite-On Technology (2301.TW)	E (01/15/2025)	NT$255.50
TCL Corp. (000100.SZ)	E (04/07/2025)	Rmb4.47
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb5.92
Howard Kao		
Acer Inc. (2353.TW)	U (04/23/2025)	NT$32.45
Asustek Computer Inc. (2357.TW)	U (11/16/2025)	NT$946.00
Catcher Technology (2474.TW)	U (11/17/2025)	NT$196.50
Compal Electronics (2324.TW)	U (04/23/2025)	NT$37.30
Elite Material Co. (2383.TW)	O (09/14/2026)	NT$5,070.00
FIT Hon Teng Ltd (6088.HK)	O (11/03/2025)	HK$3.59
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb46.73
Giga-Byte Technology Co. Ltd. (2376.TW)	E (11/16/2025)	NT$349.00
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT$1,115.00
Hon Hai Precision (2317.TW)	O (03/15/2024)	NT$245.00
Inspur Electronic Information (000977.SZ)	E (08/28/2023)	Rmb57.16
Kingboard Laminates Holdings Ltd. (1888.HK)	O (09/14/2026)	HK$35.98
LandMark Optoelectronics Corporation (3081.TWO)	E (03/26/2026)	NT$2,375.00
Lenovo (0992.HK)	O (07/10/2026)	HK$21.74
Lotes Co. Ltd. (3533.TW)	O (10/27/2026)	NT$1,795.00
Nan Ya PCB (8046.TW)	O (02/23/2026)	NT$1,265.00
Pegatron Corporation (4938.TW)	E (03/25/2026)	NT$103.50
Quanta Computer Inc. (2382.TW)	O (05/01/2023)	NT$322.00
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb100.26
Shennan Circuits Co Ltd (002916.SZ)	E (08/24/2023)	Rmb267.51
Unimicron (3037.TW)	O (02/23/2026)	NT$1,085.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (09/11/2023)	NT$467.00

Wistron Corporation (3231.TW)	O (07/12/2023)	NT$190.00
Wiwynn Corp (6669.TW)	O (11/10/2025)	NT$1,840.00
Yageo Corp. (2327.TW)	O (10/28/2025)	NT$507.00
Zhen Ding (4958.TW)	++	NT$567.00
Irene Yen		
Co-Tech Development Corp. (8358.TWO)	O (09/14/2026)	NT$438.50
Taiwan Union Technology Corporation (6274.TWO)	O (09/14/2026)	NT$1,420.00

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