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

ASE Holdings (3711 TT)

Dual Tailwinds from Pricing and LEAP

Maintained **Buy**

Target price NT$ 843

Lift TP to NT$843: Despite broader market softness, we remain positive on ASE, as packaging emerges as a key bottleneck across AI and non-AI applications. Our supply chain research indicates severe packaging constraints and price hikes among leading analog players. Meanwhile, LEAP demand across GPUs, CPUs and ASICs continues to accelerate, supported by AMD's full-process packaging business, pricing gains and slower-than-expected competitor capacity expansion. We expect LEAP's ATM revenue contribution to rise from 23% in 2026 to 32% in 2027, driving margin expansion despite higher capex. Factoring in stronger ASPs, LEAP growth and our earnings preview, we raise 2026E/2027E EPS by 6%/12% and lift our TP from NT$754 to NT$843, based on 25x 2027E EPS.

Packaging supply tightness broadens: Our supply chain research suggests that packaging has emerged as a critical bottleneck, extending beyond AI GPUs into mature-node applications, including analog, with lead times lengthening by >30% and unfilled orders rising. Advanced packaging and testing pricing should also remain aggressive, driven by AI demand and longer testing times. According to an Oct 13 EDN report, OSAT prices have risen 10–30% amid tightening supply, reinforcing our expectations of 10–80% price hikes for FC/Wirebond/QFN and 10–20% for CoWoS in 3Q26–4Q26.

LEAP on AMD's higher wafer allocation, limited competition, etc: We believe AMD's server CPU roadmap to accelerate, by full adoption of CoWoS for Venice and beyond including the recently announced Verano. Additionally, our supply chain research suggests increased wafer supply for AMD's CPU in 2Q-4Q27, due to Intel's shift from TSMC's 2nm to its own 18A. Additionally, we believe another OSAT CoWoS supplier's expansion is slower than expected, likely the U.S. expansion in 2028. Together with increasing demand from TSMC for CP and oS, we forecast its LEAP to be $4bn/$8bn in 2026E/2027E, vs. guidance of $3.6bn/$7.2bn.

Earnings preview: 3Q26 sales rose 28% QoQ on IC ATM of +20% QoQ and EMS of +42% QoQ. We expect GM to be at the high end of guidance and EPS of $5.3 in 3Q26. For 4Q26, we expect IC ATM sales to be +9% QoQ and EMS to be -5% QoQ; with price hikes and higher mix of LEAP, we expect GM to be 23% in 4Q26.

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	861,642	1,149,154	1,356,976
Revenue YoY (%)	2.3	8.4	33.5	33.4	18.1
Net profit (m)	32,482	40,658	86,638	148,035	193,198
Net profit YoY (%)	2.4	25.2	113.1	70.9	30.5
EPS (NT$)	7.4	9.4	19.7	33.7	44.0
P/E	92.3	72.6	34.4	20.1	15.4
ROE (%)	9.4	10.9	20.1	28.1	30.7

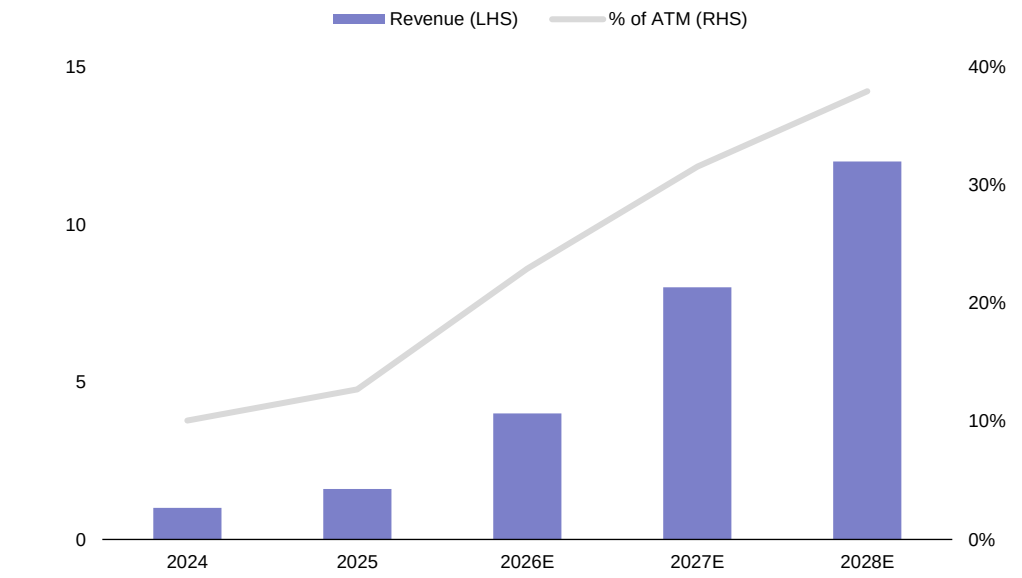
Source: Company data, GF Securities (Hong Kong) Brokerage.

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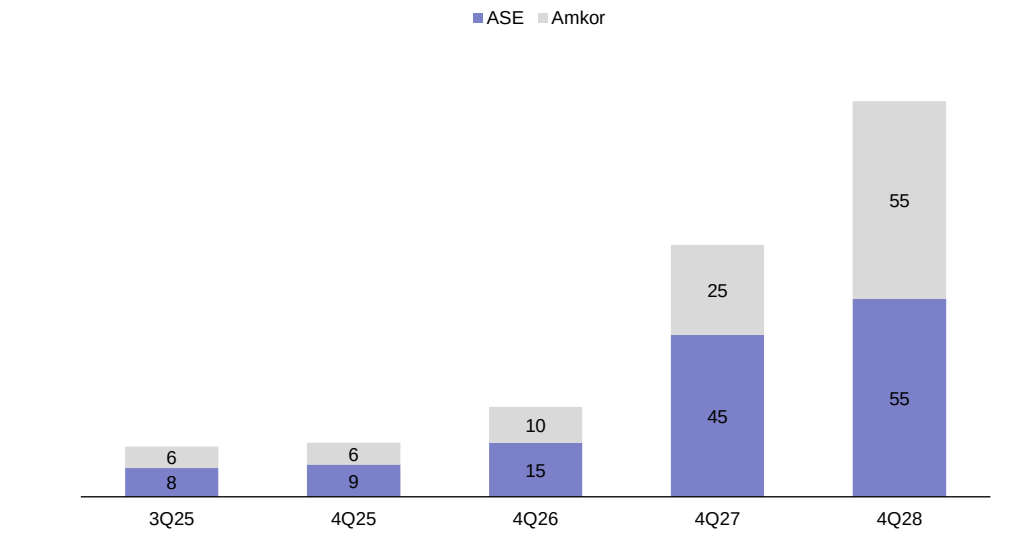
Earnings Forecast

Figure 1: ASE's LEAP revenue (USD bn)



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

Figure 2: ASE/SPIL, Amkor CoWoS Capacity Forecast (kwpm)



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

Earnings Revision

Factoring in stronger ASPs, LEAP growth and our earnings preview, we raise 2026E/2027E EPS by 6%/12%.

Figure 3: Earnings revision

NTD m	2025	2026E		2027E		Change (%)	
		Old	New	Old	New	2026E	2027E
Net sales	645,388	824,852	861,642	1,050,270	1,149,154	4%	9%
Gross profit	114,193	176,062	185,470	262,334	291,191	5%	11%
EBIT	50,756	97,428	103,135	168,034	187,591	6%	12%
Pre-tax Income	51,301	102,383	108,816	168,333	187,993	6%	12%
Net profit	40,658	81,426	86,638	132,306	148,035	6%	12%
EPS (NT$)	9.35	18.55	19.74	30.14	33.73	6%	12%
Key ratios (%)							
Gross margin	17.7%	21.3%	21.5%	25.0%	25.3%		
Operating margin	7.9%	11.8%	12.0%	16.0%	16.3%		
Pre-tax margin	7.9%	12.4%	12.6%	16.0%	16.4%		
Net profit margin	6.3%	9.9%	10.1%	12.6%	12.9%		

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

Figure 4: 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	244,161	252,756	**861,642**	252,420	275,426	308,489	312,820	**1,149,154**
COGS	**531,194**	138,812	150,914	191,923	194,524	**676,173**	191,596	204,819	229,950	231,598	**857,963**
Gross profit	**114,193**	34,850	40,150	52,238	58,232	**185,470**	60,823	70,607	78,539	81,222	**291,191**
Opex	**-63,437**	-17,318	-19,016	-22,700	-23,300	**-82,334**	-23,100	-25,000	-27,600	-27,900	**-103,600**
Operating profit	**50,756**	17,532	21,134	29,538	34,932	**103,135**	37,723	45,607	50,939	53,322	**187,591**
Non-op profit	**545**	668	4,566	-236	682	**5,681**	100	100	100	100	**401**
Pre-tax profit	**51,301**	18,200	25,700	29,302	35,614	**108,816**	37,824	45,707	51,039	53,422	**187,993**
Income tax	**-9,460**	-3,635	-4,172	-5,567	-6,767	**-20,142**	-7,565	-9,141	-10,208	-10,684	**-37,599**
Minority interest	**-1,182**	-417	-460	-640	-520	**-2,036**	-500	-540	-720	-600	**-2,359**
Net Income	**40,658**	14,148	21,068	23,095	28,327	**86,638**	29,759	36,026	40,112	42,138	**148,035**
EPS (NT$)	**9.4**	3.2	4.8	5.3	6.5	**19.7**	6.8	8.2	9.1	9.6	**33.7**
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%	21.4%	23.0%	**21.5%**	24.1%	25.6%	25.5%	26.0%	**25.3%**
Operating margin	**7.9%**	10.1%	11.1%	12.1%	13.8%	**12.0%**	14.9%	16.6%	16.5%	17.0%	**16.3%**
Pre-tax margin	**7.9%**	10.5%	13.5%	12.0%	14.1%	**12.6%**	15.0%	16.6%	16.5%	17.1%	**16.4%**
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%	45%	42%	**34%**	45%	44%	26%	24%	**33%**
Operating profit	**30%**	81%	107%	124%	97%	**103%**	115%	116%	72%	53%	**82%**
Net income	**25%**	87%	180%	112%	93%	**113%**	110%	71%	74%	49%	**71%**
EPS	**27%**	86%	177%	110%	92%	**111%**	109%	71%	74%	49%	**71%**
Product mix (%)											
ATM	**60%**	63%	65%	62%	65%	**64%**	68%	71%	69%	71%	**70%**
EMS	**40%**	35%	34%	38%	35%	**36%**	32%	29%	31%	29%	**30%**
Others	**0%**	1%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**

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

Valuation and Recommendation

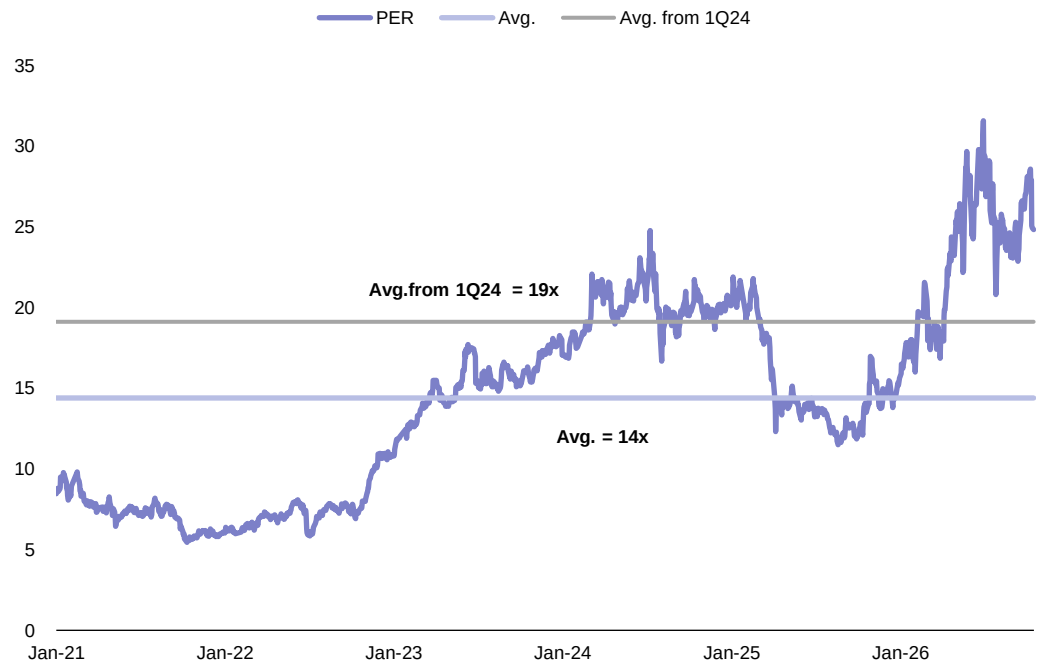
Maintain Buy with TP of NT$843

We rate ASE (3711 TT) Buy and set our TP at NT$843 which is based on 25x our 2027E EPS. 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 5: ASE's 12-month forward P/E



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**	**353,702**	**445,582**	**513,648**
Cash and cash equivalents	84,883	100,223	72,649	76,167	80,362
Inventory	57,314	65,673	83,597	106,072	122,316
Accounts Receivable	113,420	125,042	166,941	222,646	262,911
Other current assets	19,668	22,857	30,516	40,698	48,058
Non-current assets	**465,413**	**575,538**	**834,060**	**1,157,329**	**1,466,247**
Long-term equity investment	37,118	41,569	42,569	43,569	44,569
Fixed assets	312,531	421,115	678,637	1,000,906	1,308,823
Other long-term assets	115,763	112,854	112,854	112,854	112,854
Total assets	**740,698**	**889,333**	1,187,762	1,602,911	1,979,894
Current liabilities	**230,940**	**244,349**	**344,299**	**468,727**	**566,342**
Accounts Payable	78,221	88,754	112,977	143,352	165,305
Short-term borrowings	53,872	40,734	77,973	120,858	159,533
Other current liabilities	98,847	114,861	153,348	204,517	241,504
Non-current liabilities	**163,972**	**271,617**	**412,748**	**608,114**	**784,299**
Long-term Debt	139,728	214,081	355,211	550,577	726,762
Other non-current liabilities	24,243	57,536	57,536	57,536	57,536
Total liabilities	**394,911**	**515,966**	**757,046**	**1,076,841**	**1,350,640**
Total Equity	**345,787**	**373,368**	**430,716**	**526,070**	**629,254**
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	197,519	292,874	396,058
Preferred Stocks	22,264	26,468	26,468	26,468	26,468
Total Liabilities & Equity	**740,698**	**889,333**	**1,187,762**	**1,602,911**	**1,979,894**

Income Statement

NTD mn

	2024	2025	2026E	2027E	2028E
Revenue	**595,410**	**645,388**	**861,642**	**1,149,154**	**1,356,976**
Cost of sales	498,478	531,195	676,173	857,963	989,353
Gross profit	**96,932**	**114,193**	**185,470**	**291,191**	**367,623**
Operating Expense	57,765	63,437	82,334	103,600	119,200
Operating profit	**39,166**	**50,756**	**103,135**	**187,591**	**248,423**
Net Interest	6,777	7,503	-8,944	-11,599	-15,577
Associate & investments	868	814	4,026	4,000	4,000
Other Non-op.	-5,128	-7,772	10,599	8,000	8,000
Pre-tax profit	**41,683**	**51,301**	**108,816**	**187,993**	**244,846**
Income tax	7,758	9,460	20,142	37,599	48,969
Profit for the year	**33,926**	**41,841**	**88,675**	**150,394**	**195,877**
Minority interest	-1,443	-1,182	-2,036	-2,359	-2,679
Net profit to ord. equity	32,482	40,658	86,638	148,035	193,198
EPS (NT$)	**7.4**	**9.4**	**19.7**	**33.7**	**44.0**

Cash Flow Statement

NTD mn

	2024	2025	2026E	2027E	2028E
Operating cash flow	**114,867**	**110,661**	**154,170**	**228,047**	**289,450**
Profit for the year	32,482	40,658	86,638	148,035	193,198
Depreciation & amortization	59,815	67,440	76,328	90,831	105,182
Change in working capital	23,437	3,377	-4,771	-6,819	-4,930
Others	-868	-814	-4,026	-4,000	-4,000
Investing cash flow	**-119,132**	**-176,752**	**-330,824**	**-410,100**	**-410,100**
Capex	-103,715	-172,191	-333,850	-413,100	-413,100
Change in investment	-12,116	-3,637	3,026	3,000	3,000
Others	-3,301	-924	-	-	-
Free cash flow	**11,152**	**-61,530**	**-179,680**	**-185,053**	**-123,650**
Financing cash flow	**22,585**	**94,507**	**178,370**	**238,251**	**214,859**
Change in Capital	-	-	-	-	-
Net Change in Debt	22,605	61,214	178,370	238,251	214,859
Others	-20	33,293	-	-	-
Exchange influence	**9,600**	**-5,898**	**-**	**-**	**-**
Net increase in cash	**18,320**	**28,417**	**1,716**	**56,199**	**94,210**

Key Financial Ratios

	2024	2025	2026E	2027E	2028E
Growth					
Revenue growth	2.3	8.4	33.5	33.4	18.1
Operating profit growth	-2.9	29.6	103.2	81.9	32.4
Net profit growth	2.4	25.2	113.1	70.9	30.5
Profitability					
Gross profit margin	16.3	17.7	21.5	25.3	27.1
Operating Profit Margin	6.6	7.9	12.0	16.3	18.3
Net profit margin	5.5	6.3	10.1	12.9	14.2
Key Ratio					
ROA	4.4	4.6	7.3	9.2	9.8
ROE	9.4	10.9	20.1	28.1	30.7
Stability					
Gross debt/equity	1.1	1.4	1.8	2.0	2.1
Interest Coverage	-17	-15	17	20	19
Current Ratio	1.2	1.3	1.0	1.0	0.9
Quick Ratio	0.9	1.0	0.8	0.7	0.7
Net debt/equity	0.6	0.7	1.0	1.3	1.4

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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