June 22, 2026 03:45 PM GMT

King Yuan Electronics Co Ltd | Asia Pacific

Longer burn-in and strong CPU demand drive revenue upside

WHAT'S CHANGED		
King Yuan Electronics Co Ltd (2449.TW)	From	To
Price Target	NT$338.00	**NT$388.00**

CPU demand from the largest customer should grow robustly in 2027. Next-gen XPU burn-in is also running longer than we expected. Raise our price target to NT$388 and reiterate OW.

Next-generation XPU burn-in time is longer than we expected, suggesting 3-5% revenue upside in 2026: Over the past two months, KYEC's share price has been relatively subdued (up 12%) vs. ASE's (>40%), mostly as the largest customer's R-series XPU slipped slightly. (The TAIEX is up 22%.) However, as we noted in Asia AI Summit 2026 Feedback , R-series XPU should start contributing in late 2Q26 and ramp quickly in 3Q26. Moreover, our recent industry checks suggest that R-series XPU burn-in time could double from our initial forecast, to 5-6 hours, owing to thermal design challenges, driving 3-5% 2026e revenue upside.

How much could KYEC benefit from strong Agentic AI demand? Previously, in KYEC: Benefiting from Google TPU/CPU demand upside; OW, we mentioned that KYEC could benefit from strong Google CPU demand. We've also seen CPU demand from the largest customer growing rapidly in recent weeks, especially after it showcased stronger V-series CPU performance than x86 and guided for US$20bn in V-series CPU revenue for the current fiscal year. See our Key Computex Takeaways.

KYEC handles nearly 100% of final testing and burn-in for that CPU. We now forecast that CPU demand from the largest customer could reach 8-10% of total revenue in 2026e and 2027e. Combined with Google CPU, total CPU demand could exceed 15% of total revenue in 2026, one of the company's fastest-growing segments. See Exhibit 1 for our AI demand breakdown.

3Q26 should show strong sequential growth – at least 15% Q/Q: We cite (1) sustainable B-series XPU demand, (2) R-series XPU ramp, (3) new Google 3nm TPU ramp, and (4) traditional smartphone peak season demand.

KYEC may further expand capacity: With longer test time for next-gen XPU and rising testing needs from its major US customer, we believe KYEC may expand capacity further in Taiwan or the US in 2026-2027, creating revenue upside.

Reiterate our 2026e revenue growth of 40% y/y; raise price target to NT$388 (implies 26x 2027e EPS) – stay OW: We believe the major investor concern (R-series XPU delay) has cleared, and there might be additional 2026-2027e revenue upside. P/E is 22x our slightly increased 2027 EPS estimate, which we still view as attractive vs. its 2025-2028e revenue CAGR of 38%.

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King Yuan Electronics Co Ltd (2449.TW, 2449 TT)

Greater China Technology Semiconductors | Taiwan

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	NT$388.00
Up/downside to price target (%)	14
Shr price, close (Jun 22, 2026)	NT$339.00
52-Week Range	NT$364.50-98.20
Sh out, dil, curr (mn)	1,230
Mkt cap, curr (mn)	NT$416,855
Avg daily trading value (mn)	NT$6,824

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	8.96	9.96	15.06	19.99
Prior EPS (NT$)**	-	9.84	14.45	18.77
EPS (NT$)§	8.94	9.77	15.16	20.41
Revenue, net (NT$ mn)	34,934	49,090	69,955	91,959
EBITDA (NT$ mn)	16,516	28,314	44,330	53,971
ModelWare net inc (NT $ mn)	11,016	12,238	18,498	24,552
Div yld (%)	1.8	1.5	3.0	3.0
P/E**	27.6	34.0	22.5	17.0

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

KYEC XPU testing business updates

Our detailed analysis of AI semi revenue contribution to KYEC: Overall, AI-related offerings contributed 25-30% to revenue in 2025; that may be >35% in 2026 (including TPU and chip probing). In addition, from our latest checks, the burn-in of R-series XPU from its largest customers is increasing to 5-6 hours vs. our initial expectation of 3 hours given the thermal design challenge. The final test time remains at 1,200 seconds.

Further, we also break down the CPU demand from the major customer, including G-series and V-Series CPU. We expect hugh testing time improvement from c. 300 seconds to c. 700 seconds – CPU design and chip size are both getting more complicated as generation/geometry migrates for heavier AI inferencing and orchestration workload. Those CPUs also require burn-in for better performance.

Overall, we expect that B-series XPU could maintain momentum in 3Q26 despite the ramp-up of R-series. Combining the new products like 3nm TPU and 2nm smartphone SoC from MediaTek, we forecast strong revenue growth of >15% QoQ in 3Q26. Overall revenue from the largest customer should be more than 40% of KYEC's total revenue in 2026.

Exhibit 1: Major XPU testing time for KYEC

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26e	3Q26e	4Q26e		2025	2026e	2027e
Units (k)												
H-series	650	200	250	500	400	400	600	600		1,600	2,000	
B-series with GDDR7	-	-	300	500	250	250	250	250		800	1,000	
B-series with HBM	1,000	1,100	1,400	1,500	1,500	1,500	1,600	300		5,000	4,900	560
R-series							800	1,200			2,000	6,500
G-series CPU										1,100	2,450	250
V-series CPU											2,500	5,500
Google TPU										1,750	3,680	6,000
Google CPU											2,000	2,500
Test time												
Per chip test time (seconds)												
H-series test time	350	350	350	350	350	350	350	350		350	350	350
B-series with GDDR7 test time			350	350	350	350	350	350		350	350	350
B-series with HBM test time	700	750	900	1,000	1,000	1,000	1,000	1,000		1,000	1,000	1,000
R-series test time				1,200	1,200	1,200	1,200	1,200			1,200	1,800
G-series CPU test time										300	300	300
V-series CPU test time											700	700
Google TPU blended test time										186	340	450
Google CPU test time											300	300
Total test demand (k hrs)												
H-series	63	19	24	49	39	39	58	58		156	194	-
B-series with GDDR7			29	49	24	24	24	24		78	97	-
B-series with HBM	194	229	350	417	417	417	444	83		1,190	1,361	156
R-series					-	-	267	400			667	3,250
G-series CPU										92	204	21
V-series CPU											486	1,069
Google TPU										90	348	750
Google CPU											167	208
Test hour rate (for the largest customer including burn-in)	***170***	***170***	***170***	***170***	***170***	***170***	***180***	***190***		***170***	***178***	***200***
Test hour rate (for TPU with self-bought testers)										***200***	***250***	***280***
Largest customer's AI revenue to KYEC (US$ mn)	43.8	42.3	68.6	87.4	81.6	81.6	142.9	107.5		257.6	536.1	899.2
% of KYEC MSe Revenue (quarterly figures without CPU)	19%	15%	23%	27%	25%	22%	34%	23%		23%	34%	40%
TPU revenue to KYEC (US$ mn)										18.1	86.9	210.0
% of KYEC MSe Revenue										1.6%	5.5%	9.3%
Google CPU revenue to KYEC (US$ mn)											41.7	58.3
% of KYEC MSe Revenue											2.6%	2.6%

Source: Company data, Morgan Stanley Research estimates; Note: Table not includes CP revenue contribution

Strong Google TPU demand: In our prior MediaTek report, we mentioned that we have observed demand upside from Google TPU, contributing strong revenue growth for KYEC in 2026 and 2027. We now forecast total TPU shipments of 3.7mn for 2026 and >6mn for 2027. We believe TPU could account for 7-8% of KYEC's 2026 total revenue, including final testing and part of chip probing. In addition, MediaTek's TPU will also adopt burn-in for its 3nm AI ASIC, which we believe will be the trend for those AI chips – burn-in and longer testing times are adopted to ensure chip performance.

Strong Google CPU demand too: In our previous GUC report, we mentioned that the raised demand forecast is not just for Google TPU but CPU as well. We now forecast Google CPU shipments of 2mn in 2026 and 2.5mn units in 2027. Our checks also indicate that this Google CPU requests burn-in and system-level testing, which we believe could generate 1-2% of 2026 revenue.

To sum up, we now forecast that Google-related demand could account for ~10% of KYEC's 2026 total revenue, including TPU, CPU, final testing, and part of chip probing (vs. 1-2% of total revenue in 2026).

Exhibit 2: Strong TPU shipments could contribute >10% of revenue in 2027

k Units	2023	2024	2025e	2026e	2027e	2028e
v5	500	2,400	250			
v6 (Trillium)			1,000			
v7 (Ironwood, by Broadcom)			500	2,300	500	
v8i (Sunfish; 3nm, by Broadcom)				900	3,000	2,500
v8t (Zebrafish; 3nm, by MediaTek)				500	2,500	1,000
v9 (Humufish; 2nm, by MediaTek)					150	2,500
v9a (Merope; 2nm, by US design service)						unknown
v10 (Icefish; 1.4nm, by MediaTek)						unknown
Total	**500**	**2,400**	**1,750**	**3,700**	**6,150**	**>6000**

Source: Morgan Stanley Research estimates

High capex to meet customers' needs and future growth: The OSAT industry continues to face challenges in keeping up with the robust growth: Looking back at 2025, KYEC had already raised its capex twice, to NT$37bn. Now, with another jump in 2026 to NT$50bn, the message is clear: testing demand is remarkably strong. We don't rule out KYEC's maintaining high capex into 2027. We believe testing demand from the major customer in both Taiwan and the US is growing robustly.

For a breakdown of the NT$50bn capex, here are our assumptions:

- 50% – construction/cleanroom build
- 20-30% – testers
- 5-15% – probers and handlers
- 5-15% – burn-in
- 5-10% – others

KYEC can sustain its high market share in AI chip final testing

ASEH (3711.TW, also OW-rated) will depend on Advantest's burn-in tool, and become a minor second source (<20%) for major customer final testing in 2026, in our view. ASE is also running out of capacity; most of what it has already is busy with chip probing (higher margin than final test). Its cost structure for burn-in is also much higher than KYEC's, which designs its own burn-in ovens. We expect ASE's testing revenue opportunity to come mostly from wafer-sorting (or chip-probing) outsourced from TSMC.

All in all, KYEC still has high market share in overall AI final testing demand, thanks to strength from both AI GPUs and ASICs. We estimate that its AI-related testing business will account for >35% of 2026 consolidated revenue, including the new business in AI ASIC testing, such as Google TPU (v8).

Earnings estimate revisions

We raise our EPS estimates 1% for 2026, 4% for 2027, and 6% for 2028: This reflects stronger and longer burn-in and CPU demand.

Exhibit 3: KYEC: Earnings estimate revisions

(NT$ mn)	New 2026e	Old 2026e	*Diff.%*	New 2027e	Old 2027e	*Diff.%*	New 2028e	Old 2028e	*Diff.%*
Net sales	49,090	48,325	*2%*	69,955	67,496	*4%*	91,959	87,196	*5%*
Gross profit	19,875	19,470	*2%*	28,967	27,969	*4%*	38,221	36,253	*5%*
Operating profit	14,884	14,709	*1%*	22,515	21,711	*4%*	29,933	28,328	*6%*
Pretax income	15,031	15,106	*0%*	22,718	22,184	*2%*	30,154	28,819	*5%*
Net income	12,238	12,085	*1%*	18,498	17,747	*4%*	24,552	23,055	*6%*
Reported EPS	**9.96**	**9.84**	***1%***	**15.06**	**14.45**	***4%***	**19.99**	**18.77**	***6%***
Margins									
Gross margin	40.5%	40.3%		41.4%	41.4%		41.6%	41.6%	
Opex ratio	10.2%	9.9%		9.2%	9.3%		9.0%	9.1%	
Operating margin	30.3%	30.4%		32.2%	32.2%		32.6%	32.5%	
Pretax margin	30.6%	31.3%		32.5%	32.9%		32.8%	33.1%	
Net margin	24.9%	25.0%		26.4%	26.3%		26.7%	26.4%	

Source: Morgan Stanley Research estimates

Valuation methodology

We raise our price target from NT$338 to NT$388: We continue to derive our price target (our base case scenario value) from a residual income model. Along with our slight earnings estimate increases, our revised price target mostly reflects a rise in our intermediate growth rate from 10.5% to 11.5%, which we think is well justified considering its 2025-2028e revenue CAGR of 38%), Our other key valuation assumptions are the same: a cost of equity of 9.8% (risk premium of 6%, risk-free rate of 2%, and beta of 1.3), and terminal growth rate of 3.0%.

Our bull case value rises from NT$415 to NT$475 and our bear case increases from NT $215 to NT$245, implying 31x and 16x our 2027e EPS, respectively.

Exhibit 4: KYEC: Residual income model

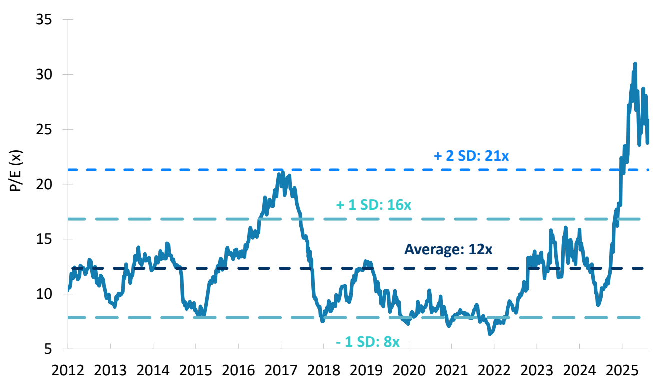
(NT$ mn)	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e
Total Equity	**57,168**	**69,547**	**84,850**	**92,294**	**100,593**	**109,847**	**120,165**	**131,670**	**144,498**	**158,800**	**174,748**	**192,530**
Net Profit	**12,238**	**18,498**	**24,552**	**27,376**	**30,524**	**34,034**	**37,948**	**42,312**	**47,178**	**52,604**	**58,653**	**65,398**
ROAE	**22.7%**	**29.2%**	**31.8%**	**30.9%**	**31.6%**	**32.3%**	**33.0%**	**33.6%**	**34.2%**	**34.7%**	**35.2%**	**35.6%**
Residual Income	6,530	11,088	15,303	17,910	21,979	24,766	27,874	31,341	35,209	39,522	44,332	49,696
Spread	**12.9%**	**19.4%**	**22.0%**	**21.1%**	**21.8%**	**22.5%**	**23.2%**	**23.8%**	**24.4%**	**24.9%**	**25.4%**	**25.8%**
Ending Equity Capital	57,168											
PV of Forecast Period	150,268											
PV of Continuing Value	269,170											
Equity Value	**476,606**											
No. of Shares	1,228											
Projected Price (NT$)	**388**											

Source: Company data, Morgan Stanley Research (e) estimates

Relative valuation

Our price target implies a target multiple of 26x based on our 2027 EPS estimate, which we consider to be well justified by the revenue CAGR of >30% that we project over 2025-28, with significantly higher AI earnings exposure in 2026 and beyond. We expect KYEC's gross margin profile to expand with increasing AI testing revenue exposure.

Exhibit 5: KYEC: One-year forward P/E chart



Source: Company data, TEJ, Morgan Stanley Research estimates

Exhibit 6: KYEC: One-year forward P/B vs. ROAE chart

Source: Company data, TEJ, Morgan Stanley Research estimates

Exhibit 7:

KYEC: Quarterly financials

(NT$ mn)	1Q26	2Q26e	3Q26e	4Q26e	1Q27e	2Q27e	3Q27e	4Q27e	2025	2026e	2027e	2028e
Total Revenues	**10,192**	**11,246**	**13,108**	**14,544**	**15,323**	**16,593**	**18,274**	**19,764**	**34,934**	**49,090**	**69,955**	**91,959**
Q/Q %	*2.3%*	*10.3%*	*16.6%*	*11.0%*	*5.4%*	*8.3%*	*10.1%*	*8.2%*				
Y/Y %	*39.3%*	*34.5%*	*41.1%*	*45.9%*	*50.3%*	*47.5%*	*39.4%*	*35.9%*	*30.1%*	*40.5%*	*42.5%*	*31.5%*
Cost of Sales	(6,141)	(6,772)	(7,758)	(8,544)	(9,095)	(9,748)	(10,602)	(11,544)	(22,411)	(29,215)	(40,988)	(53,738)
Percent of Revenues	*60.3%*	*60.2%*	*59.2%*	*58.7%*	*59.4%*	*58.7%*	*58.0%*	*58.4%*	*64.2%*	*59.5%*	*58.6%*	*58.4%*
Gross Profit before dep and amort	6,472	7,425	8,302	9,482	9,180	9,797	10,624	18,457	19,390	31,681	48,058	59,244
Percent of Revenues	*63.5%*	*66.0%*	*63.3%*	*65.2%*	*59.9%*	*59.0%*	*58.1%*	*93.4%*	*55.5%*	*64.5%*	*68.7%*	*64.4%*
Gross Profit	**4,051**	**4,474**	**5,351**	**6,000**	**6,229**	**6,846**	**7,672**	**8,221**	**12,522**	**19,875**	**28,967**	**38,221**
Gross Margin	39.7%	39.8%	40.8%	41.3%	40.6%	41.3%	42.0%	41.6%	35.8%	40.5%	41.4%	41.6%
Incremental Margins												
Total Opex	(1,279)	(1,041)	(1,161)	(1,511)	(1,476)	(1,543)	(1,672)	(1,761)	(3,520)	(4,991)	(6,452)	(8,288)
Percent of Revenues	*12.5%*	*9.3%*	*8.9%*	*10.4%*	*9.6%*	*9.3%*	*9.1%*	*8.9%*	*10.1%*	*10.2%*	*9.2%*	*9.0%*
R&D	(307)	(272)	(278)	(288)	(357)	(332)	(338)	(318)	(930)	(1,145)	(1,345)	(1,575)
Percent of Revenues	*3.0%*	*2.4%*	*2.1%*	*2.0%*	*2.3%*	*2.0%*	*1.8%*	*1.6%*	*2.7%*	*2.3%*	*1.9%*	*1.7%*
Sales and Marketing	(98)	(146)	(170)	(204)	(199)	(216)	(238)	(257)	(464)	(618)	(909)	(1,195)
Percent of Revenues	*1.0%*	*1.3%*	*1.3%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*	*1.3%*
General and Admin	(873)	(623)	(713)	(1,019)	(919)	(996)	(1,096)	(1,186)	(2,126)	(3,228)	(4,197)	(5,518)
Percent of Revenues	*8.6%*	*5.5%*	*5.4%*	*7.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.1%*	*6.6%*	*6.0%*	*6.0%*
Operating Income	**2,772**	**3,433**	**4,189**	**4,489**	**4,753**	**5,302**	**6,000**	**6,460**	**9,003**	**14,884**	**22,515**	**29,933**
Operating margin	*27.2%*	*30.5%*	*32.0%*	*30.9%*	*31.0%*	*32.0%*	*32.8%*	*32.7%*	*25.8%*	*30.3%*	*32.2%*	*32.6%*
Total Non-operating Income	36	30	36	45	52	55	48	48	1,626	147	203	221
Profit Before Taxes	2,808	3,463	4,225	4,534	4,805	5,358	6,048	6,508	10,629	15,031	22,718	30,154
Percent of Revenues	*27.6%*	*30.8%*	*32.2%*	*31.2%*	*31.4%*	*32.3%*	*33.1%*	*32.9%*	*30.4%*	*30.6%*	*32.5%*	*32.8%*
Taxes	(522)	(643)	(785)	(842)	(893)	(995)	(1,124)	(1,209)	(2,624)	(2,793)	(4,221)	(5,602)
Tax Rate	*18.6%*	*18.6%*	*18.6%*	*18.6%*	*18.6%*	*18.6%*	*18.6%*	*18.6%*	*24.7%*	*18.6%*	*18.6%*	*18.6%*
Net Income, Cont Ops	2,287	2,820	3,440	3,692	3,912	4,362	4,924	5,299	8,005	12,239	18,498	24,552
Reported Income (TW GAAP)	**2,287**	**2,820**	**3,440**	**3,692**	**3,912**	**4,362**	**4,924**	**5,299**	**11,016**	**12,238**	**18,498**	**24,552**
Percent of Revenues	*22.4%*	*25.1%*	*26.2%*	*25.4%*	*25.5%*	*26.3%*	*26.9%*	*26.8%*	*31.5%*	*24.9%*	*26.4%*	*26.7%*
Change vs Year Ago	*-46.7%*	*29.6%*	*49.4%*	*64.2%*	*71.1%*	*54.7%*	*43.1%*	*43.5%*	*41.6%*	*11.1%*	*51.1%*	*32.7%*
ModelWare EPS (NT$)	**1.86**	**2.30**	**2.80**	**3.01**	**3.18**	**3.55**	**4.01**	**4.31**	**8.96**	**9.96**	**15.06**	**19.99**
Basic shares (mn units)	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223
Diluted	1,228	1,228	1,228	1,228	1,228	1,228	1,228	1,228	1,230	1,228	1,228	1,228
Basic period End share	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223

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

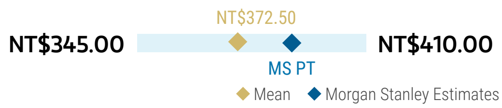
Risk Reward – King Yuan Electronics Co Ltd (2449.TW)

AI testing business upside still underappreciated

PRICE TARGET NT$388.00

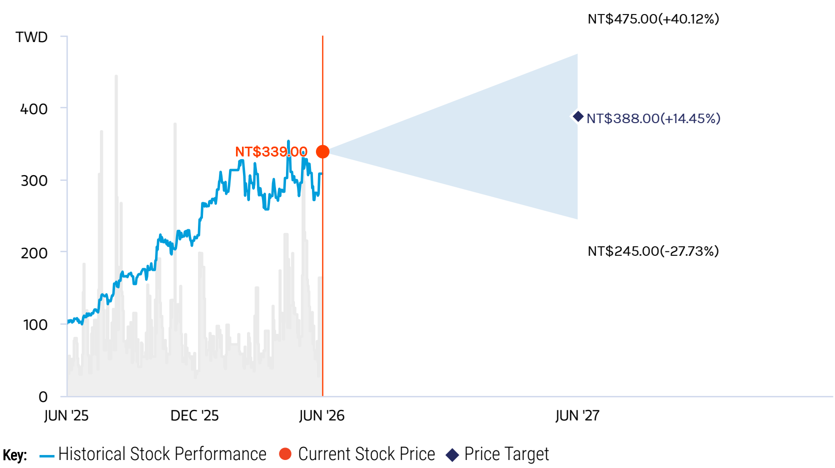
Base case, residual income model. Key assumptions: cost of equity of 9.8%, intermediate-term growth rate of 11.5%, terminal growth rate of 3.0%, and cash dividend payout ratio of 65%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

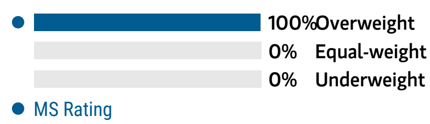


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- KYEC is a key supplier for AI GPU and ASIC final testing, which should benefit from ongoing AI demand strength.
- Our supply chain checks suggest notably elongated testing time for NVIDIA's new AI GPUs.
- KYEC's 2026 revenue and earnings exposures to AI GPU and ASIC could be among the highest within our Greater China semi coverage.
- We expect stable market share for KYEC's AI GPU testing business and some share gains in the AI ASIC testing business.
- Our price target implies 26x 2027e EPS, well justified by our 2025-28e revenue CAGR of >30%. We see further re-rating potential given a structurally improved gross margin profile and continued acceleration in AI revenue and earnings growth.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE NT$475.00

31x 2027e EPS

Strong semiconductor cycle after macro uncertainties have eased: 1) AI testing demand continues to surprise to the upside, with AI GPU testing market share remaining stable before 2027. 2) 5G progress is faster than in our base case, leading to higher mmWave testing demand. 3) IDM outsourcing to OSAT is faster than expected, notably in 5G and AI-related testing demand. 4) US/China tensions ease. 5) Consumer/smartphone testing demand is stronger than expected.

BASE CASE NT$388.00

26x 2027e EPS

Strong HPC and auto demand offset by weak consumer semi testing demand: 1) AI GPU testing market share remains stable. 2) Longer testing time of 5G SoC and increasing penetration of 5G smartphone help KYEC's smartphone SoC testing business to offset a bit of unit decline in 2026. 3) HPC and automotive customers testing demand stays healthy in 2026, thanks to longer testing times for GPUs and FPGAs. 4) More normalized non-AI testing demand in 2026.

BEAR CASE NT$245.00

16x 2027e EPS

US-China trade tensions linger, coupled with inventory correction: 1) A sluggish 5G smartphone penetration rate hampers 5G smartphone demand. 2) Logic semi inventory correction persists longer than expected. 3) Testers are severely underutilized, leading to significant margin contraction. 4) Meaningful AI GPU testing market share loss before 2026.

Risk Reward – King Yuan Electronics Co Ltd (2449.TW)

KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Wafer Sort revenue (NT$, mn)	2,624	2,793	2,393	3,010
Final Test revenue (NT$, mn)	3,781	3,757	3,294	5,989
Burn-In revenue (NT$, mn)	171	180	479	767

INVESTMENT DRIVERS

- 5G smartphone shipment/penetration rate
- Gross margin improvement/erosion
- China's semiconductor localization demand

GLOBAL REVENUE EXPOSURE

- **10-20%** North America
- **30-40%** Mainland China
- **40-50%** APAC, ex Japan, Mainland China and India

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

MS ALPHA MODELS

4/5 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

- Rise in shipments for core customers such as MediaTek
- Strong AI demand from both GPU and ASIC
- Penetration of wafer sorting business
- Rise in IDM outsourcing to OSAT

RISKS TO DOWNSIDE

- Overall non-AI demand remaining weak
- Significant testing market share loss
- Drop in shipments for core customers such as MediaTek

OWNERSHIP POSITIONING

Inst. Owners, % Active 60.8%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e

	Low	Morgan Stanley Estimates	Mean	High
EPS (NT$)	9.06	9.96	9.77	10.79
Sales / Revenue (NT$, mn)	47,329	49,090	49,499	51,481

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Financial summary

Exhibit 8: Financial Summary

Income Statement

NT$mn (Years End Dec)	2025	2026e	2027e	2028e
Net sales	34,934	49,090	69,955	91,959
COGS	(22,411)	(29,215)	(40,988)	(53,738)
Depreciation Expense	(6,865)	(10,763)	(18,048)	(19,980)
Variable Cost	(15,547)	(18,452)	(22,940)	(33,758)
Gross profit	12,522	19,875	28,967	38,221
Operating expenses	(3,520)	(4,991)	(6,452)	(8,288)
Operating income	**9,003**	**14,884**	**22,515**	**29,933**
Non-operating income	1,626	147	203	221
Pre-tax income	10,629	15,031	22,718	30,154
Income tax	387	(2,793)	(4,221)	(5,602)
Reported net Income	**11,016**	**12,238**	**18,498**	**24,552**
Adj.wtd.avg.shrs(m)	1,230	1,228	1,228	1,228
Basic EPS (NT$)	**9.01**	**10.01**	**15.13**	**20.08**
EPS for consensus (NT$)	**8.96**	**9.96**	**15.06**	**19.99**

Balance Sheet

NT$mn (Years End Dec)	2025	2026e	2027e	2028e
Cash	17,964	(5,316)	(11,553)	(2,920)
Mkt Securities	0	0	0	0
AR/NR	7,203	9,954	14,185	18,647
Inventory	1,332	3,376	4,811	6,324
Other	2,420	1,581	1,898	2,233
Current Assets	28,919	9,596	9,342	24,285
Long-term investments	8,416	8,452	8,488	8,524
Fixed assets	60,554	98,166	112,394	114,399
Other assets	3,289	2,246	1,203	160
Total Assets	101,178	118,460	131,427	147,368
S/T borrowings	0	10,000	10,000	10,000
AP/NP	909	1,461	2,049	2,687
Other ST liabilities	15,010	15,010	15,010	15,010
LT debt	30,275	30,275	30,275	30,275
Other LT liabilities	4,546	4,546	4,546	4,546
Total Liabilities	**50,740**	**61,292**	**61,880**	**62,518**
Common stocks	12,227	12,227	12,227	12,227
Preferred stocks	0	0	0	0
Capital Researve	5,081	5,081	5,081	5,081
Retained earning	33,121	39,852	52,230	67,533
Other shareholders' equity	0	0	0	0
Total Equity	50,438	57,168	69,547	84,850
Total Liab. & Shrhldr's Equity	**101,178**	**118,460**	**131,427**	**147,368**

e = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company Data

Cash Flow Statement

NT$mn (Years End Dec)	2025	2026e	2027e	2028e
Cashflow from Operations	**13,152**	**22,228**	**34,882**	**42,882**
Net profits	11,016	12,238	18,498	24,552
Depreciation	7,508	12,388	20,772	22,995
Working Capital Change	(2,028)	(4,244)	(5,077)	(5,338)
Other adjustments	(3,344)	1,846	690	672
Cashflow from Investing	**(13,078)**	**(50,000)**	**(35,000)**	**(25,000)**
Capex	(31,732)	(50,000)	(35,000)	(25,000)
Change of LT Investment	18,652	0	0	0
Change of ST Investment	52	0	0	0
Other adjustments	(50)	0	0	0
Cashflow from financing	**4,613**	**4,492**	**(6,119)**	**(9,249)**
Increase in L/T debt	9,918	0	0	0
Increase in S/T debt	0	10,000	0	0
Cash Dividend Paid	(4,891)	(5,508)	(6,119)	(9,249)
Dir& Emp Bonus Paid	0	0	0	0
Other adjustments	(414)	0	0	0
Exchange rate adjustment	(326)	0	0	0
Net change in cash	**4,361**	**-23,279**	**-6,237**	**8,633**

Financial Ratios

	2025	2026e	2027e	2028e
Growth(%)				
Turnover	30.1	40.5	42.5	31.5
Operating profits	45.9	65.3	51.3	32.9
Pretax profits	78.0	41.4	51.1	32.7
Net profits	41.6	11.1	51.1	32.7
EPS	41.5	11.2	51.1	32.7
Margins (%)				
Gross Margin	35.8	40.5	41.4	41.6
Operating Margin	25.8	30.3	32.2	32.6
EBITA Margin	45.4	52.2	58.0	54.3
Pretax Margin	30.4	30.6	32.5	32.8
Net Profit	31.5	24.9	26.4	26.7
Return (%)				
ROAE	23.2	22.7	29.2	31.8
ROAA	11.7	11.1	14.8	17.6
Gearing (%)				
Net Debt/Equity	(35.6)	26.8	31.0	15.2
Liabilities/Equity	100.6	107.2	89.0	73.7
Ratios (X)				
Current ratio	1.8	0.4	0.3	0.9
Quick ratio	1.6	0.2	0.1	0.6
Others				
AR/NR Turnover (days)	74	74	74	74
Inventory Turnover (days)	16	12	18	21
AP Turnover (days)	18	18	18	18
Cash Conversion (days)	72	68	73	77

Valuation Methodology and Risks

ASE Technology Holding Co. Ltd. (3711.TW)

Base case, residual income model. Key assumptions: cost of equity of 9.8%, intermediate growth rate of 9.0%, terminal growth rate of 3.0%, and cash dividend payout ratio of 60%.

Risks to Upside

- Stronger-than-expected global economic and semiconductor growth
- Margin expansion through merger consolidation
- New wearables project wins with higher margins

Risks to Downside

- Slower-than-expected global economic and semiconductor growth
- Further margin erosion amid price competition
- Lack of new features in wearables, causing consumers to lose interest

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 May 31, 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	1542	42%	465	51%	30%	707	43%
Equal-weight/Hold	1571	43%	369	40%	23%	723	44%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	551	15%	86	9%	16%	201	12%
Total	3,667		920			1632	

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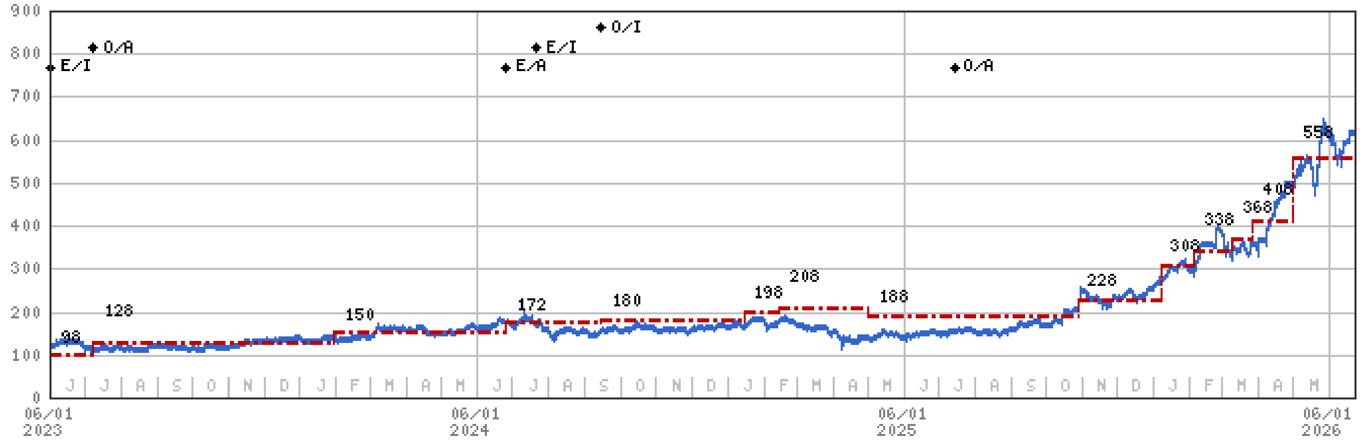
Stock Price, Price Target and Rating History (See Rating Definitions)

ASE Technology Holding Co. Ltd. (3711.TW) - As of 06/22/26 GMT in TWD
Industry : Greater China Technology Semiconductors



Stock Rating History: 6/1/21 : O/I; 10/12/21 : E/C; 10/4/22 : E/A; 2/22/23 : E/I; 7/7/23 : O/A; 6/25/24 : E/A; 7/21/24 : E/I; 9/15/24 : O/I; 7/14/25 : O/A

Price Target History: 5/20/21 : 123; 7/30/21 : 128; 10/12/21 : 108; 7/12/22 : 90; 7/28/22 : 98; 7/7/23 : 128; 1/30/24 : 150; 6/25/24 : 172; 9/15/24 : 180; 1/15/25 : 198; 2/14/25 : 208; 5/1/25 : 188; 10/28/25 : 228; 1/7/26 : 308; 2/5/26 : 338; 3/9/26 : 368; 3/27/26 : 408; 4/30/26 : 558

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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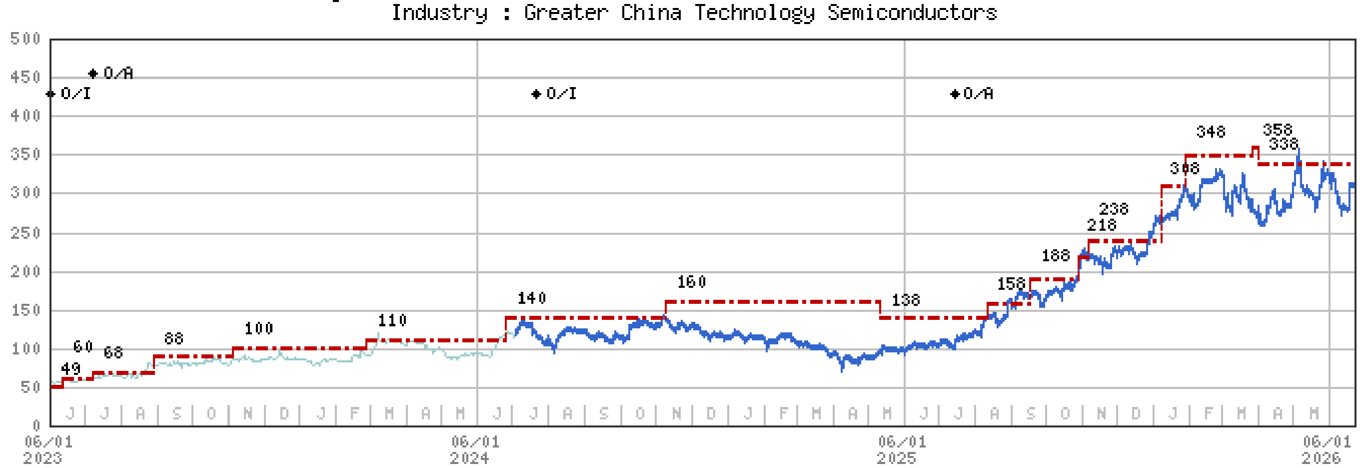
King Yuan Electronics Co Ltd (2449.TW) - As of 06/22/26 GMT in TWD
Industry : Greater China Technology Semiconductors



Stock Rating History: 6/1/21 : E/I; 6/4/21 : O/I; 10/12/21 : E/C; 10/4/22 : E/A; 2/22/23 : E/I; 3/3/23 : O/I; 7/7/23 : O/A; 7/21/24 : O/I; 7/14/25 : O/A

Price Target History: 4/25/21 : 45; 6/4/21 : 48; 8/3/21 : 52; 10/12/21 : 43; 1/24/22 : 45; 5/6/22 : 48; 7/12/22 : 40; 3/3/23 : 49; 6/12/23 : 60; 7/7/23 : 68; 8/29/23 : 88; 11/4/23 : 100; 2/26/24 : 110; 6/25/24 : 140; 11/9/24 : 160; 5/12/25 : 138; 8/11/25 : 158; 9/17/25 : 188; 10/28/25 : 218; 11/7/25 : 238; 1/7/26 : 308; 1/29/26 : 348; 3/27/26 : 358; 4/1/26 : 338

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 Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/22/2026)
Charlie Chan		

ACM Research Inc (ACMR.O)	O (03/07/2023)	US$109.87
Advanced Micro-Fabrication Equipment Inc (688012.SS)	O (11/06/2023)	Rmb372.74
Advanced Wireless Semiconductor Co (8086.TWO)	U (07/14/2025)	NT$165.50
Alchip Technologies Ltd (3661.TW)	O (05/14/2021)	NT$4,325.00
ASE Technology Holding Co. Ltd. (3711.TW)	O (09/15/2024)	NT$674.00
Cambricon Technology Corporation (688256.SS)	O (04/27/2026)	Rmb1,456.99
Global Unichip Corp (3443.TW)	E (05/28/2026)	NT$4,755.00
GlobalWafers Co Ltd (6488.TWO)	E (05/19/2026)	NT$1,115.00
Gudeng Precision (3680.TWO)	O (11/25/2025)	NT$547.00
Hua Hong Semiconductor Ltd (1347.HK)	E (03/12/2026)	HK$164.60
Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)	O (04/27/2026)	HK$726.50
King Yuan Electronics Co Ltd (2449.TW)	O (03/03/2023)	NT$339.00
Maxscend Microelectronics Co Ltd (300782.SZ)	U (01/11/2021)	Rmb112.38
MediaTek (2454.TW)	O (11/28/2025)	NT$4,465.00
MetaX Integrated Circuits (688802.SS)	E (04/27/2026)	Rmb758.00
Nanya Technology Corp. (2408.TW)	O (05/28/2026)	NT$505.00
NAURA Technology Group Co Ltd (002371.SZ)	O (11/06/2023)	Rmb745.00
OmniVision Integrated Circuits Group Inc (603501.SS)	E (11/17/2025)	Rmb90.56
Phison Electronics Corp (8299.TWO)	E (02/25/2026)	NT$2,580.00
SG Micro Corp. (300661.SZ)	E (11/03/2025)	Rmb136.81
Silergy Corp. (6415.TW)	U (05/19/2026)	NT$673.00
SMIC (0981.HK)	O (10/21/2025)	HK$78.90
TSMC (2330.TW)	O (02/07/2022)	NT$2,510.00
UMC (2303.TW)	O (05/19/2026)	NT$160.00
Vanguard International Semiconductor (5347.TWO)	E (01/14/2026)	NT$191.50
WIN Semiconductors Corp (3105.TWO)	U (07/14/2025)	NT$541.00
Daisy Dai, CFA		
ASMPT Ltd (0522.HK)	O (07/24/2025)	HK$207.40
China Resources Microelectronics Limited (688396.SS)	U (03/02/2026)	Rmb78.20
Elan Microelectronics Corp (2458.TW)	O (10/03/2025)	NT$178.50
Empyrean Technology Co Ltd (301269.SZ)	E (01/17/2025)	Rmb101.71
Hangzhou Silan Microelectronics Co. Ltd. (600460.SS)	U (08/25/2025)	Rmb44.80
Innoscience (2577.HK)	E (10/13/2025)	HK$73.85
JCET Group Co Ltd (600584.SS)	E (01/16/2026)	Rmb91.33
Shanghai Fudan Microelectronics (1385.HK)	O (03/07/2025)	HK$28.06
SICC Co Ltd (688234.SS)	O (03/20/2026)	Rmb158.00
StarPower Semiconductor Ltd (603290.SS)	E (05/14/2026)	Rmb135.59
Unigroup Guoxin Microelectronics Co Ltd (002049.SZ)	U (01/10/2023)	Rmb81.96
Universal Scientific Ind. (Shanghai) (601231.SS)	O (11/05/2025)	Rmb37.49
Yangjie Technology (300373.SZ)	O (06/10/2022)	Rmb128.11
Daniel Yen, CFA		
AP Memory Technology Corp (6531.TW)	O (07/11/2025)	NT$1,115.00
ASMedia Technology Inc (5269.TW)	U (10/03/2025)	NT$1,450.00
Aspeed Technology (5274.TWO)	O (06/09/2025)	NT$19,275.00
Egis Technology Inc (6462.TWO)	E (01/28/2026)	NT$122.00
Espressif Systems (688018.SS)	O (05/15/2023)	Rmb123.11
GigaDevice Semiconductor Beijing Inc (603986.SS)	O (05/15/2025)	Rmb689.70
Macronix International Co Ltd (2337.TW)	O (09/18/2025)	NT$185.50
Montage Technology Co Ltd (6809.HK)	O (03/18/2026)	HK$466.20
Montage Technology Co Ltd (688008.SS)	O (03/18/2026)	Rmb280.05
Novatek (3034.TW)	U (02/04/2026)	NT$567.00
Nuvoton Technology Corporation (4919.TW)	U (11/10/2025)	NT$216.00
Parade Technologies Ltd (4966.TWO)	O (05/27/2026)	NT$695.00
Powerchip Semiconductor Manufacturing Co (6770.TW)	O (10/27/2025)	NT$81.60
Realtek Semiconductor (2379.TW)	E (01/30/2026)	NT$900.00

Shenzhen Goodix Technology Co Ltd (603160.SS)	U (07/14/2025)	Rmb59.19
Winbond Electronics Corp (2344.TW)	O (05/28/2026)	NT$222.00
WPG Holdings (3702.TW)	O (03/16/2026)	NT$112.50
WT Microelectronics Co. Ltd. (3036.TW)	O (01/27/2026)	NT$225.00
Duan Liu		
Dosilicon Co Ltd (688110.SS)	U (09/06/2024)	Rmb159.28
Shenzhen Longsys Electronics Co Ltd (301308.SZ)	E (02/25/2026)	Rmb616.16
Tiffany Yeh		
AllRing Tech Co. (6187.TWO)	O (09/23/2025)	NT$1,260.00
FOCI Fiber Optic Communications Inc (3363.TWO)	O (01/15/2025)	NT$712.00
Himax Technologies Inc (HIMX.O)	E (02/04/2026)	US$18.11
Hon Precision (7769.TW)	O (04/17/2026)	NT$6,915.00
MPI Corporation (6223.TWO)	O (04/17/2026)	NT$6,425.00
Silicon Motion (SIMO.O)	O (05/06/2024)	US$321.66
WinWay Technology Co Ltd (6515.TW)	O (04/17/2026)	NT$9,460.00

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