HSBC Global Investment Research

23 June 2026

Asia Technology

Secondary Foundry: Faster-than-expected recovery with more favourable pricing

Equities
Semiconductors & Equipment

Asia & United States

- Capacity consolidation accelerate & surging AI peripheral demand to drive faster ramp of utilisation and better ASP
- Extension to new product exposure to drive value add to specialty foundry in the long run
- Upgrade UMC/VIS to Buy; maintain GFS/SMIC at Hold/Buy; increase TPs for all

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Faster ramp in utilisation from AI demand and further consolidation: While the capacity consolidation from leading foundries has already been the main catalyst for secondary foundries, we expect the trend to accelerate, with expectations of TSMC extending consolidation to legacy 12" (28-90nm), leading to a more disciplined supply environment. In addition, with ongoing AI data centre investment and deployment, the wafer foundries supply tightness has extended from AI accelerators into AI peripheral demand, such as PMIC, MCU, etc. The above drivers lead us to expect a faster ramp in the secondary foundry utilisation rate (UTR). We raise our average UTR assumptions to 91%/87%/93% for 2H26/1H27/2H27, higher than consensus expectations of 85%/84%/88%. The rise of AI also leads to demand in new areas, such as optical (for example, TFLN for UMC), which helps create new possibilities for secondary foundries to optimise value add on their speciality technologies, and highlights that leading foundries are not the only ones to benefit from the AI uptrend.

We expect better ASP into 2027 with better UTR in anticipation of tightness: With faster UTR improvements and customers expecting future foundry tightness, we now expect secondary foundry companies to have stronger pricing power, with price hikes extending from 2H26 to end-2027. We estimate ASP increases of 11%/27% for 2026/27, much higher than consensus estimates of 1%/7% YoY.

Upgrade UMC/VIS to Buy (from Hold); maintain GFS/SMIC at Hold/Buy: We increase our UMC TP to TWD235 (from TWD80), as we expect it to become the major beneficiary as TSMC extends its consolidation to legacy 12". We increase our VIS TP to TWD220 (from TWD171), GFS to USD92.00 (from USD65.03), and SMIC to HKD93 and CNY158 (from HKD89 and CNY146).

Exhibit 1: Secondary foundry summary table

				Target price		Rating			Market cap	P/E		P/B	
Company	Ticker	Currency	CMP	Old	New	Old	New	Upside	(USDm)	2027	2028	2027	2028
UMC	2303 TW	TWD	170.00	80.00	235.00	Hold	Buy	38.2%	67,543	18.3x	14.0x	6.9x	4.3x
VIS	5347 TW	TWD	186.50	171.00	220.00	Hold	Buy	18.0%	11,074	18.9x	15.8x	3.6x	2.9x
GFS	GFS US	USD	89.67	65.03	92.00	Hold	Hold	2.6%	49,202	40.1x	31.5x	4.1x	4.8x
SMIC H	0981 HK	HKD	77.85	89.00	93.00	Buy	Buy	19.5%	94,976	40.4x	27.3x	3.2x	2.8x
SMIC A	688981 CH	CNY	141.70	146.00	158.00	Buy	Buy	11.5%	95,950	85.0x	57.4x	6.7x	5.9x

Source: HSBC estimates, Bloomberg. Priced at close of 23 June, except for GFS, which is priced at close of 22 June 2026.

Issuer of report: HSBC Securities (Taiwan) Corporation Limited

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Why we are turning bullish and why now

In 2H25-1Q26, we were conservative on the secondary foundry sector due to its lack of exposure to AI and weaker demand from non-AI applications, leading to our expectations of a weaker utilisation (UTR) outlook and concerns about the companies' bargaining power with end-customers. In 1Q26, we observed a certain amount of pull-in bookings due to consistently raising memory prices, and we were concerned about consumer electronic demand visibility and the outlook for 2H26 after the strong pull-ins.

However, with AI infrastructure deployment accelerating, we started to see major IDMs turning positive on specific power semi products adopted in AI server racks. As massive AI peripheral demand is driving legacy node demand, we believe it should help improve the overall supply demand environment for secondary foundry, even with lacklustre non-AI demand. In addition, we now expect that the node consolidation from leading foundries, such as TSMC, is likely to accelerate, with consolidation extending from 6" and 8" wafers to 12" due to ongoing focus on the most advanced nodes as well as advanced packaging. As a result, we now model a faster ramp for secondary foundry's average UTR assumptions to 91%/87%/93% in 2H26/1H27/2H27, followed by 11%/27% ASP increases in 2026/27.

We also expect the rise and development of AI to provide new business opportunities for secondary foundries that possesses distinctive specialty processes. Examples include, but are not limited to, silicon interposer, memory, advanced packaging, and optical, We believe the secondary foundries can not only benefit from a favourable supply and demand environment, but also gain more value-add through this AI uptrend.

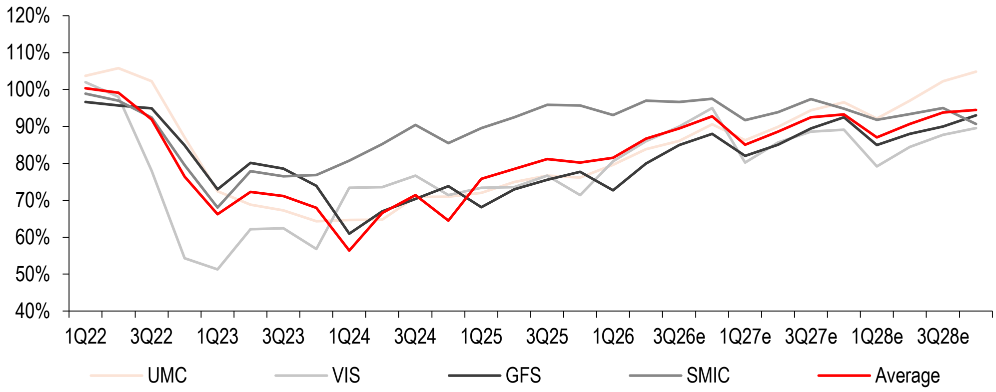
Therefore, despite the stock prices being up 102% on average since 1Q26 (vs TAIEX of 50%), we believe the market is still undervaluing the revenue and margin upside potential of secondary foundries during this upcycle. We view further price hike negotiations and for guidance upward revision as the near-term catalysts, and new business opportunities as the long-term surprises. As a result, we raise TPs for all companies while we upgrade UMC and VIS to Buy (from Hold) and maintain GFS and SMIC at Hold and Buy ratings, respectively. Among our secondary foundry coverage, we now prefer UMC given that it is set to be the major beneficiary of TSMC node consolidation. In addition, we expect UMC to benefit the most from the potential extension of its partnership with Intel, to potential opportunities in TFLN and advanced packaging, given the diverse speciality technologies the company has.

Demand extension from AI GPUs/ASICs to AI peripheral chips

We now observe foundry supply demand extending from AI accelerators to AI peripheral chips, mainly driven by aggressive capex from major CSPs (70-80% yoy in 2026e) and accelerating AI data centre deployment. We expect to see legacy foundry supply intensifying into 2H26 when several major CSP projects start to ramp up. In addition to the AI-related power semi demand, which is well-recognised by the market, we also see the potential for supply tightness extending to consumer-related products due the squeeze-out of capacity.

We are positive on the legacy node supply tightness and believe it should drive secondary foundries' UTRs. To better model the additional legacy node demand, we raise our blended UTR assumption 91%/87%/93% in 2H26/1H27/2H27 for global secondary foundries (from previous of 89%/84%/88%).

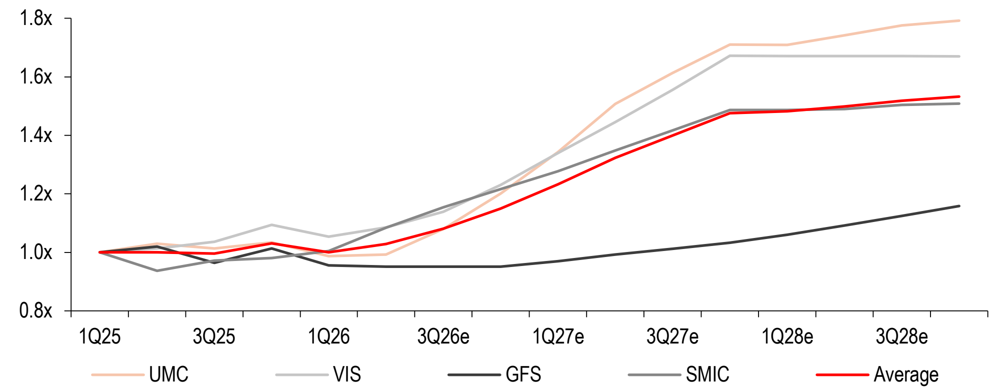
Exhibit 2: Secondary foundries' UTR assumptions



Source: Company data, HSBC estimates

With IDMs and IC design customers successfully reflecting increasing material costs, along with tightening secondary foundry UTR, we believe the foundries are also likely to take advantage of implementing price hikes given the tightening supply demand environments. Considering the potential supply tightness, we assume a better pricing environment for secondary foundry players, with price hikes extending until the end of 2027. In addition, the ongoing mature node capacity consolidation from TSMC is likely to further increase customers' concerns around being able to secure capacity, making the overall pricing environment (especially for foundries in Taiwan) even more favourable. Therefore, we model 11%/27% average price hikes for 2026/27 on average (vs only 6%/8% previously). Our assumptions are higher than current consensus estimates of 1%/7% increases. During the last upcycle in 2021/22, on average secondary foundries saw price hikes of 14%/19% due to demand increases for consumer electronics during the COVID-19 pandemic. We believe the price hike this cycle will start intensifying in 2H26, and the magnitude in 2027 will be larger than the previous cycle due to 1) the major source of demand changing from consumer electronics to AI, with customers being more flexible on pricing; and 2) leading foundries' consolidation helping to improve product mix/ASP even more.

Exhibit 3: Secondary foundries' pricing trends (1Q25 base)



Source: Company data, HSBC estimates

Leading foundry consolidation continues, likely to extend beyond on 6”/8”

We expect the technology consolidation from TSMC to not stop at 6” and 8”, but to continue into legacy 12”, as it continues reallocating its resource toward advanced node and advanced packaging expansion. Considering the supply chain efficiency, we believe Taiwanese mature foundry companies, UMC and Vanguard, should remain as the biggest beneficiaries.

We expect UMC to benefit the most if TSMC extends the consolidation to 14nm-90nm, given that it’s the better option for legacy 12” technologies vs Taiwan peers with sufficient capacity and leading positions in legacy processes.

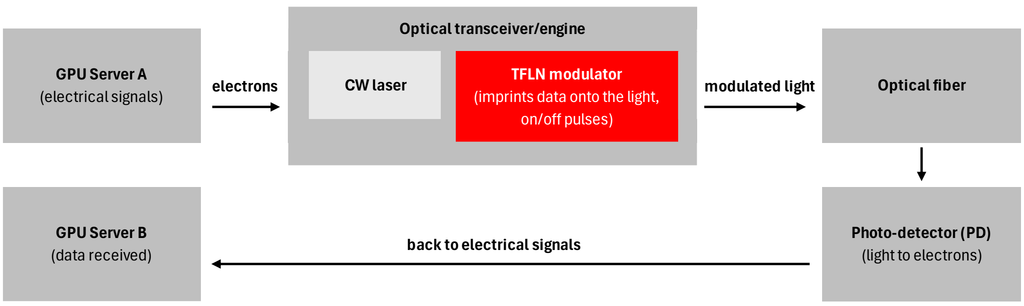
Extension to new product exposure to optimise speciality technologies

As discussed on Vanguard’s 1Q26 earnings call, its decision to add silicon interposer as a new product line to its upcoming Singapore fab is an example that more secondary foundries can now benefit from the strong demand of AI. Beyond interposer, advanced packaging continues to have strong demand, and we do not rule out the possibility that companies such as UMC will eventually join the alliance of leading foundry TSMC and OSAT players, such as Spil and Amkor, to start manufacturing for the whole CoWoS process.

We expect the rise of AI to create new possibilities for secondary foundries, as the buildout of AI data centres not only requires more AI chips but also generates value for the optical interconnect layer, which is the kind of specialty manufacturing in which a mature edge foundry can differentiate itself from peers.

For example, UMC is leaning into optical through thin-film lithium niobate (TFLN), a material choice for the photonic IC that has better speed/bandwidth, and optical loss vs silicon photonics (SiPh), another technology other foundry peers, such as GlobalFoundries focuses on (and previously guided a USD2bn revenue target by 2030). UMC’s partnership with HyperLight and its subsidiary Wavetek positions UMC as one of the very few foundries able to manufacture TFLN modulators, the core component that encodes data onto light, potentially at high volume across 6” and 8” wafers. Although the revenue contribution may note be significant in 2027 (we expect 20-30K wafer contribution initially from TFLN in 2027e), such technology adoption would be a strong example of new value generation for legacy foundry, rather than chasing the shrinking leading edge node market like leading foundries TSMC/Samsung.

Exhibit 4: TLFN modulator position in interconnection



Source: HSBC estimates

Exhibit 5: TFLN supply chain

	Global/Taiwan supply chain HyperLight-UMC-Jabil
Substrate LNOI wafer	**Outsourcing** (same source pool) chokepoint to monitor
Modulator PIC chip design	**HyperLight** TFLN Chiplet platform
Volume foundry fab at scale	**UMC (Wavetek)** 8" (UMC)+ 6" (Wavetek)
Packaging CPO assembly	**Jabil** high-volume assembly + packaging
Module -> **AI data center**	**1.6T/3.2T optical links, CPO, Interconnect**

Source: HSBC estimates

United Microelectronics (2303 TT): Upgrade to Buy (from Hold) with a higher TP of TWD235 (from TWD80)

As leading players gradually fade out of the legacy node market, we expect UMC to be one of the biggest beneficiaries of order overflow in PMIC, DDIC, industrial semis, etc. Benefiting from additional orders and to reflect the rising material costs, we assume UMC will increase ASPS by 21/45% in 2H26/2027 with UTR improving to 88%/92%. In addition to price hikes, we expect the company to 1) offer bridge die/DTC solutions for large-sized chiplet and advanced packaging; 2) work on a 12nm FinFET collaboration with Intel (tape-out in 1H27, MP in 2028); 3) expand its optical solution for PIC and TFLN (authorised from IMEC) as a margin-accretive business with more future upside.

We raise our 2027/28 EPS estimates by 100%/116% to reflect a faster ramp of UTR from 2H26, better product mix toward 22nm/28nm and specialty processes, as well as stronger ASP hikes of 5%/45% YoY in 2026e/27e, vs consensus expectations of 0%/6% YoY. These assumptions make our 2027/28 EPS estimates 75%/98% higher than consensus. Our new TP of TWD235 (from TWD80) is based on a target PE of 25x (from target PB of 2.3x) applied to 2027e EPS of TWD9.31 (from BVPS of TWD34.97). We change the valuation method from PB to PE due to UMC's better product mix, UTR, and earnings growth potential. We think our 5-year peak PE multiple of 25x reasonable for several reasons: 1) UMC is benefiting from ongoing foundry node consolidation from leading foundry for faster UTR ramp. Along with demand of AI peripheral, customers' fears of foundry product shortages, including mature nodes, and much better product mix vs previous cycles, these factors together will drive a strong ASP growth in 2027e (45% YoY vs last up cycle of 16%/19% in 2021/22) and UMC's ASP in 2027e will finally surpass its last peak during the COVID-19 upcycle. 2) Such momentum will also help UMC's ROE reach 20.2%/23.4%/26.2% in 2026e/27e/28e, surpassing the last ROE peak of 26% in 2022, 3) Lastly, we further expect more room for product mix and profitability improvement in the long run, when new product exposure as well as advanced packaging start contributing. Our new TP implies 38% upside, and we upgrade to a Buy rating.

Exhibit 6: Estimate changes and comparison to consensus

	New			Old			New vs old			Consensus			HSBCe vs consensus		
(TWDm)	**2026e**	**2027e**	**2028e**	**2026e**	**2027e**	**2028e**	**2026e**	**2027e**	**2028e**	**2026e**	**2027e**	**2028e**	**2026e**	**2027e**	**2028e**
Sales	286,294	470,404	575,222	269,382	303,501	340,142	6.3%	55.0%	69.1%	271,038	309,479	339,203	5.6%	52.0%	69.6%
- y-o-y	20.5%	64.3%	22.3%	13.4%	12.7%	12.1%				14.1%	14.2%	9.6%			
Gross profit	92,190	183,398	237,335	83,122	96,227	114,705	10.9%	90.6%	106.9%	84,641	103,599	118,361	8.9%	77.0%	100.5%
- GM	32.2%	39.0%	41.3%	30.9%	31.7%	33.7%				31.2%	33.5%	34.9%			
Operating profit	62,419	132,871	174,754	55,295	64,894	79,159	12.9%	104.8%	120.8%	57,427	73,769	85,692	8.7%	80.1%	103.9%
- OPM	21.8%	28.2%	30.4%	20.5%	21.4%	23.3%				21.2%	23.8%	25.3%			
Net income	61,615	115,765	151,334	55,561	57,985	70,078	10.9%	99.6%	116.0%	57,821	66,201	76,511	6.6%	74.9%	97.8%
EPS (TWD)	4.95	9.31	12.16	4.47	4.66	5.63	10.9%	99.6%	116.0%	4.65	5.32	6.15	6.6%	74.9%	97.8%
- y-o-y	48%	88%	31%	33.66%	4.36%	20.86%				39%	14%	16%			

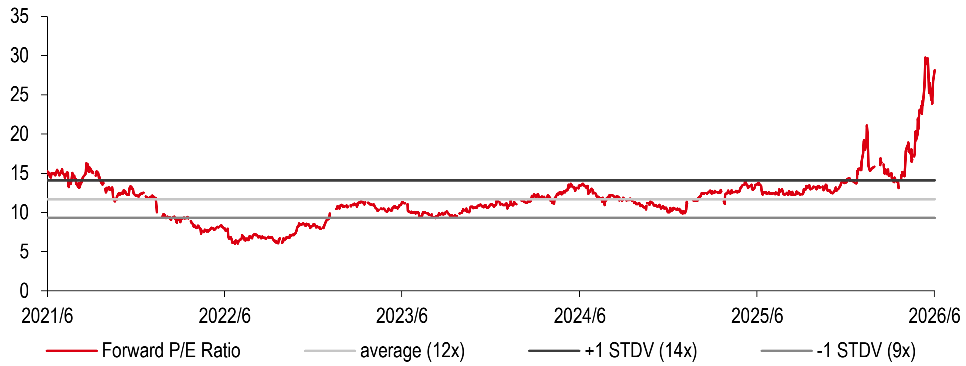
Source: HSBC estimates Visible Alpha consensus

Exhibit 7: UMC – quarterly and annual P&L estimates

(TWDm)	**2025**	**1Q26**	**2Q26e**	**3Q26e**	**4Q26e**	**2026e**	**1Q27e**	**2Q27e**	**3Q27e**	**4Q27e**	**2027e**	**2028e**
Sales	237,554	61,038	65,796	73,491	85,969	286,294	94,658	111,588	126,277	137,882	470,404	575,222
Gross profit	68,906	17,819	19,993	23,915	30,463	92,190	34,352	42,857	50,211	55,977	183,398	237,335
Operating profit	43,949	11,276	13,318	16,356	21,469	62,419	24,359	30,917	36,582	41,013	132,871	174,754
Net income	41,716	16,171	11,967	14,569	18,908	61,615	21,384	26,983	31,823	35,575	115,765	151,334
EPS (TWD)	3.34	1.29	0.96	1.17	1.52	4.95	1.72	2.17	2.56	2.86	9.31	12.16
Ratios (%)												
Gross margin	29.0%	29.2%	30.4%	32.5%	35.4%	32.2%	36.3%	38.4%	39.8%	40.6%	39.0%	41.3%
OP margin	18.5%	18.5%	20.2%	22.3%	25.0%	21.8%	25.7%	27.7%	29.0%	29.7%	28.2%	30.4%
Net margin	17.6%	26.5%	18.2%	19.8%	22.0%	21.5%	22.6%	24.2%	25.2%	25.8%	24.6%	26.3%
Q-o-Q												
Sales		-1.2%	7.8%	11.7%	17.0%		10.1%	17.9%	13.2%	9.2%		
Gross profit		-6.0%	12.2%	19.6%	27.4%		12.8%	24.8%	17.2%	11.5%		
Operating profit		-7.8%	18.1%	22.8%	31.3%		13.5%	26.9%	18.3%	12.1%		
Net income		60.8%	-26.0%	21.7%	29.8%		13.1%	26.2%	17.9%	11.8%		
EPS		60.8%	-26.0%	22.2%	29.8%		13.1%	26.2%	17.9%	11.8%		
Y-o-Y												
Sales	2.3%	5.5%	12.0%	24.3%	39.1%	20.5%	55.1%	69.6%	71.8%	60.4%	64.3%	22.3%
Gross profit	-8.9%	15.4%	18.5%	35.7%	60.7%	33.8%	92.8%	114.4%	110.0%	83.8%	98.9%	29.4%
Operating profit	-14.8%	15.2%	23.1%	47.1%	75.6%	42.0%	116.0%	132.2%	123.7%	91.0%	112.9%	31.5%
Net income	-11.6%	107.9%	34.4%	-2.8%	88.1%	47.7%	32.2%	125.5%	118.4%	88.1%	87.9%	30.7%
EPS	-12.1%	107.8%	34.4%	-2.4%	88.7%	48.2%	32.8%	126.4%	118.4%	88.1%	87.9%	30.7%

Source: Company data, HSBC estimates

Exhibit 8: UMC – 1-year forward PE chart



Source: Bloomberg

		Valuation	Risks to our view
UMC 2303 TT **Upgrade to Buy**	Current price: **TWD170.00** Target price: **TWD235.00** Up/downside: **+38.2%**	Our new TP of TWD235 (from TWD80) is based on a target PE of 25x (from target PB of 2.3x) applied to 2027e EPS of TWD9.31 (from BVPS of TWD34.97). We change our valuation method to PE from PB due to our better product mix, UTR and earnings growth outlook for UMC. We find our 5-year peak PE multiple of 25x reasonable for several reasons: 1) UMC is benefiting from ongoing foundry node consolidation from leading foundry for faster UTR ramp. 2) Such momentum will also help UMC's ROE reach 20.2%/23.4%/26.2% in 2026e/27e/28e, surpassing the last ROE peak of 26% in 2022. 3) Lastly, we expect more room for product mix and profitability improvement in the long run when new product exposure as well as advanced packaging start contributing. Our new TP implies 38% upside, and we upgrade to a Buy rating (from Hold). Our target price for the ADR (UMC US, CMP USD27.50 as of 22 June 2026) is USD37.42 (from USD11.66). This is derived using a 5:1 share conversion at TWD/USD FX of 31.4.	**Downside risks:** (1) Worse-than-expected pricing erosion; (2) intensifying competition from China peers; (3) weaker 28nm demand; and (4) reduced end-market demand due to tariffs, affecting utilisation rates.

Source: Bloomberg, HSBC estimates; priced as at close 23 June, 2026

Financials & valuation: United Microelectronics

Buy

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (TWDm)				
Revenue	237,554	286,294	470,404	575,222
EBITDA	101,111	127,736	203,650	245,400
Depreciation & amortisation	-57,165	-65,317	-70,779	-70,646
Operating profit/EBIT	43,949	62,419	132,871	174,754
Net interest	937	-1,100	-950	-950
PBT	49,648	70,814	137,135	178,981
HSBC PBT	49,648	70,814	137,135	178,981
Taxation	-8,113	-8,652	-20,570	-26,847
Net profit	41,716	61,615	115,765	151,334
HSBC net profit	41,716	61,615	115,765	151,334
Cash flow summary (TWDm)				
Cash flow from operations	62,825	138,599	171,711	233,714
Capex	-50,999	-47,951	-61,200	-61,200
Cash flow from investment	-53,154	-47,951	-61,200	-61,200
Dividends	-35,784	-25,030	-36,969	-69,459
Change in net debt	-41,186	-105,884	-140,539	-112,226
FCF equity	11,826	90,648	110,511	172,514
Balance sheet summary (TWDm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	271,395	254,029	244,449	235,004
Current assets	204,783	341,831	541,766	675,740
Cash & others	129,071	234,954	375,493	487,720
Total assets	578,996	633,978	883,370	1,005,067
Operating liabilities	176,793	307,057	365,785	405,607
Gross debt	22,348	22,348	22,348	22,348
Net debt	-106,723	-212,607	-353,146	-465,372
Shareholders' funds	379,768	304,233	494,896	576,771
Invested capital	170,315	53,849	44,937	17,417

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Y-o-y % change				
Revenue	2.3	20.5	64.3	22.3
EBITDA	1.8	26.3	59.4	20.5
Operating profit	-14.8	42.0	112.9	31.5
PBT	-11.7	42.6	93.7	30.5
HSBC EPS	-12.0	48.2	87.9	30.7
Ratios (%)				
Revenue/IC (x)	1.2	2.6	9.5	18.5
ROIC	19.3	48.9	228.7	476.4
ROE	11.0	18.0	29.0	28.2
ROA	7.2	10.2	15.4	16.1
EBITDA margin	42.6	44.6	43.3	42.7
Operating profit margin	18.5	21.8	28.2	30.4
EBITDA/net interest (x)		116.1	214.4	258.3
Net debt/equity	-28.1	-69.8	-71.3	-80.6
Net debt/EBITDA (x)	-1.1	-1.7	-1.7	-1.9
CF from operations/net debt				
Per share data (TWD)				
EPS Rep (diluted)	3.34	4.95	9.31	12.16
HSBC EPS (diluted)	3.34	4.95	9.31	12.16
DPS	2.87	2.01	2.97	5.58
Book value	30.42	24.48	39.81	46.39

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	8.2	6.5	3.6	2.8
EV/EBITDA	19.3	14.5	8.4	6.5
EV/IC	11.5	34.4	38.0	91.7
PE*	50.9	34.3	18.3	14.0
PB	5.6	6.9	4.3	3.7
FCF yield (%)	0.6	4.2	5.2	8.1
Dividend yield (%)	1.7	1.2	1.7	3.3

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2024a
GHG emission intensity*	224.2
Energy intensity*	426.5
CO_2 reduction policy	Yes
Social Indicators	**12/2024a**
Employee costs as % of revenues	14.1
Employee turnover (%)	6.1
Diversity policy	Yes

Governance Indicators	12/2025a
No. of board members	9
Average board tenure (years)	8.9
Female board members (%)	33.3
Board members independence (%)	66.7

Source: Company data, HSBC

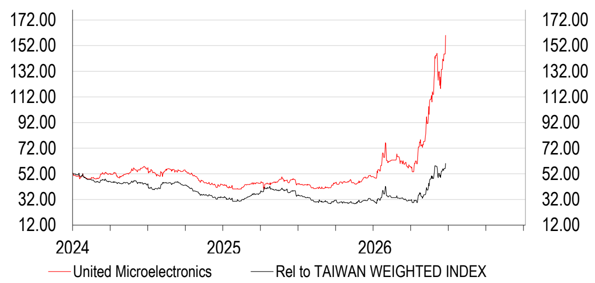
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TWD)	170.00
Target price (TWD)	235.00
RIC (Equity)	2303.TW
Bloomberg (Equity)	2303 TT
Market cap (USDm)	67,543

Free float	86%
Sector	Semiconductors
Country/Region	Taiwan
Analyst	Ted Lin
Contact	+886 2 6631 2870

Price relative



Source: HSBC

Note: Priced at close of 23 Jun 2026

Vanguard (5347 TT): Upgrade to Buy (from Hold) on a higher TP of TWD220 (from TWD171)

As we highlighted previously (*VIS 1Q26 result*, 6 May, 2026), TSMC is outsourcing interposer production to Vanguard's newly built Singapore fab (VSMC) given the capacity tightness. We reiterate that this change could not only alleviate Vanguard's capex burden with customers helping consign partial production equipment but also help it to secure future bookings (the capacity plan is sold out with solid LTAs). Although the company's capex and depreciation burden remains until it reaches its full run rate due in 2029, we are positive on Vanguard obtaining more AI-related orders for better 12" fab ramp-up. As for price hikes, we now assume 13%/36% in 2H26/2027.

We raise our 2027/28 EPS estimates by 45%/53% on healthier legacy node demand. Specifically, we expect its PMIC platform (70% of company revenue mix) to grow robustly with surging AI power demand. We also expect a faster ramp of UTR and customers' fears around foundry shortages to drive strong ASP hikes – we assume 8%/33% YoY ASP increases in 2026e/27e (vs 21%/16% in 2021/22 upcycle). Our numbers are 42%/37% higher than consensus. Our new TP of TWD220 (from TWD171) is based on a target PE of 22x. The target PE is higher than 5-year historical average of 19x, which we believe is justified as we expect Vanguard to continue benefiting from improving product mix and a better inventory environment.

Exhibit 9: Estimate changes and comparison to consensus

	New			Old			New vs old			Consensus			HSBCe vs consensus		
(TWDm)	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Sales	60,567	95,460	118,498	57,936	75,818	92,669	5%	26%	28%	58,334	73,539	89,635	4%	30%	32%
- y-o-y	25%	58%	24%	19%	31%	22%				20%	26%	22%			
Gross profit	19,175	31,367	38,144	17,946	22,134	26,005	7%	42%	47%	18,727	23,457	28,868	2%	34%	32%
- GM	32%	33%	32%	31%	29%	28%				32%	32%	32%			
Operating profit	11,738	20,866	25,109	10,828	13,794	15,811	8%	51%	59%	11,625	14,947	18,948	1%	40%	33%
- OPM	19%	22%	21%	19%	18%	17%				20%	20%	21%			
Net income	11,211	18,959	22,645	10,488	13,119	14,805	7%	45%	53%	11,105	13,341	16,535	1%	42%	37%
EPS (TWD)	5.83	9.87	11.78	5.46	6.83	7.70	7%	45%	53%	5.78	6.94	8.60	1%	42%	37%
- y-o-y	36%	69%	19%	27%	25%	13%				35%	20%	24%			

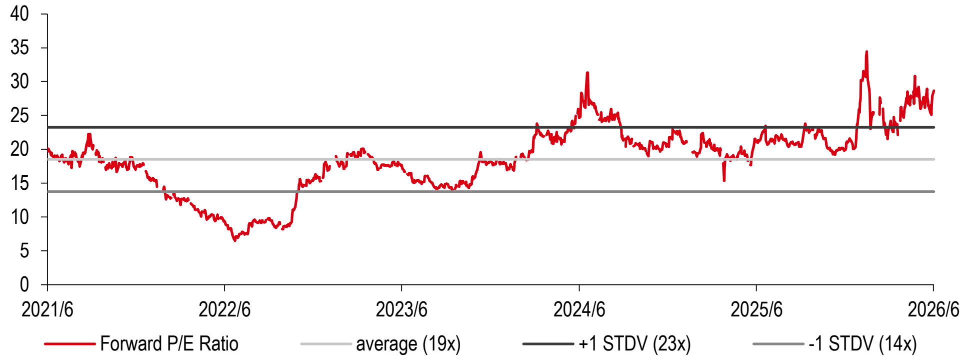
Source: HSBC estimates Visible Alpha consensus

Exhibit 10: Vanguard – quarterly and annual P&L estimates

(TWDm)	2025	1Q26	2Q26e	3Q26e	4Q26e	2026e	1Q27e	2Q27e	3Q27e	4Q27e	2027e	2028e
Sales	48,590	12,532	14,232	15,796	18,007	60,567	18,984	22,455	25,628	28,392	95,460	118,498
Gross profit	13,654	3,671	4,554	4,959	5,991	19,175	5,548	7,179	8,670	9,969	31,367	38,144
Operating profit	7,773	2,087	2,746	3,111	3,795	11,738	3,460	4,709	5,851	6,846	20,866	25,109
Net income	7,907	2,246	2,817	2,807	3,341	11,211	3,477	4,555	5,076	5,850	18,959	22,645
EPS (TWD)	4.28	1.18	1.47	1.46	1.74	5.85	1.81	2.37	2.64	3.04	9.87	11.78
Ratios (%)												
Gross margin	28.1%	29.3%	32.0%	31.4%	33.3%	31.7%	29.2%	32.0%	33.8%	35.1%	32.9%	32.2%
OP margin	16.0%	16.7%	19.3%	19.7%	21.1%	19.4%	18.2%	21.0%	22.8%	24.1%	21.9%	21.2%
Net margin	16.3%	17.9%	19.8%	17.8%	18.6%	18.5%	18.3%	20.3%	19.8%	20.6%	19.9%	19.1%
Q-o-Q												
Sales		-0.5%	13.6%	11.0%	14.0%		5.4%	18.3%	14.1%	10.8%		
Gross profit		6.0%	24.1%	8.9%	20.8%		-7.4%	29.4%	20.8%	15.0%		
Operating profit		15.5%	31.6%	13.3%	22.0%		-8.8%	36.1%	24.3%	17.0%		
Net income		28.5%	25.4%	-0.4%	19.0%		4.1%	31.0%	11.4%	15.3%		
EPS		26.3%	24.2%	-0.4%	19.0%		4.1%	31.0%	11.4%	15.3%		
Y-o-Y												
Sales	10.3%	4.9%	21.7%	27.9%	43.0%	24.6%	51.5%	57.8%	62.3%	57.7%	57.6%	24.1%
Gross profit	14.4%	2.1%	38.8%	49.7%	72.9%	40.4%	51.1%	57.6%	74.8%	66.4%	63.6%	21.6%
Operating profit	9.3%	-6.8%	44.8%	69.8%	110.0%	51.0%	65.8%	71.5%	88.1%	80.4%	77.8%	20.3%
Net income	12.2%	-7.0%	37.9%	64.8%	91.2%	41.8%	54.8%	61.7%	80.8%	75.1%	69.1%	19.4%
EPS	2.9%	-10.1%	32.0%	57.7%	86.0%	36.5%	53.3%	61.7%	80.8%	75.1%	68.8%	19.4%

Source: Company data, HSBC estimates

Exhibit 11: Vanguard: PE band – 1-year forward band



Source: HSBC, Bloomberg

		Valuation	Risks
Vanguard 5347 TT **Upgrade to Buy**	Current price: **TWD186.50** Target price: **TWD220.00** Up/downside: **18.0%**	Our new TP of TWD220 (from TWD171) is based on a target PE of 22x. The target PE is higher than 5-year historical average of 19x, which we believe is justified as we expect Vanguard to continue benefiting from improving product mix and a better inventory environment, therefore with 18% upside, we upgrade to Buy from Hold.	**Downside risks:** (1) Worse-than-expected pricing erosion; (2) intensifying competition from China peers; and (3) reduced end-market demand due to tariff, risking utilisation rates.

Priced at close of 23 June 2026
Source: HSBC estimates

Financials & valuation: Vanguard Int'l Semicon

Buy

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (TWDm)				
Revenue	48,590	60,567	95,460	118,498
EBITDA	16,231	21,380	35,865	44,609
Depreciation & amortisation	-8,458	-9,641	-14,999	-19,500
Operating profit/EBIT	7,773	11,738	20,866	25,109
Net interest	1,554	-62	-186	-186
PBT	9,251	13,042	22,292	26,535
HSBC PBT	9,251	13,042	22,292	26,535
Taxation	-1,480	-2,161	-3,663	-4,219
Net profit	7,907	11,211	18,959	22,645
HSBC net profit	7,907	11,211	18,959	22,645
Cash flow summary (TWDm)				
Cash flow from operations	25,439	25,234	24,757	38,920
Capex	-63,265	-65,000	-35,000	-35,000
Cash flow from investment	-75,000	-65,000	-35,000	-35,000
Dividends	-5,922	-6,162	-6,162	-6,162
Change in net debt	22,467	39,208	10,243	-3,920
FCF equity	-37,826	-39,766	-10,243	3,920
Balance sheet summary (TWDm)				
Intangible fixed assets	3,073	3,073	3,073	3,073
Tangible fixed assets	113,869	154,306	174,307	189,807
Current assets	66,897	25,055	25,864	33,815
Cash & others	41,716	2,509	-7,735	-3,814
Total assets	200,469	199,064	219,874	243,324
Operating liabilities	53,702	74,482	86,068	86,874
Gross debt	18,419	18,419	18,419	18,419
Net debt	-23,298	15,910	26,153	22,233
Shareholders' funds	63,877	61,055	80,343	103,317
Invested capital	88,421	105,444	124,911	143,635

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Y-o-y % change				
Revenue	10.3	24.6	57.6	24.1
EBITDA	3.2	31.7	67.8	24.4
Operating profit	9.3	51.0	77.8	20.3
PBT	5.7	41.0	70.9	19.0
HSBC EPS	2.9	36.2	69.1	19.4
Ratios (%)				
Revenue/IC (x)	0.9	0.6	0.8	0.9
ROIC	12.0	10.1	15.1	15.7
ROE	12.4	17.9	26.8	24.7
ROA	4.5	5.4	8.9	9.6
EBITDA margin	33.4	35.3	37.6	37.6
Operating profit margin	16.0	19.4	21.9	21.2
EBITDA/net interest (x)		345.2	192.6	239.6
Net debt/equity	-27.9	19.8	26.3	18.2
Net debt/EBITDA (x)	-1.4	0.7	0.7	0.5
CF from operations/net debt		158.6	94.7	175.1
Per share data (TWD)				
EPS Rep (diluted)	4.28	5.83	9.87	11.78
HSBC EPS (diluted)	4.28	5.83	9.87	11.78
DPS	3.21	3.21	3.21	3.21
Book value	45.26	41.86	51.72	63.51

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	6.5	5.9	3.8	3.1
EV/EBITDA	19.6	16.7	10.2	8.1
EV/IC	3.6	3.4	2.9	2.5
PE*	43.6	32.0	18.9	15.8
PB	4.1	4.5	3.6	2.9
FCF yield (%)	-10.8	-11.3	-2.9	1.1
Dividend yield (%)	1.7	1.7	1.7	1.7

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2024a
GHG emission intensity*	600.3
Energy intensity*	737.7
CO_2 reduction policy	Yes
Social Indicators	**12/2024a**
Employee costs as % of revenues	[n/a]
Employee turnover (%)	5.7
Diversity policy	Yes

Governance Indicators	12/2025a
No. of board members	9
Average board tenure (years)	11.9
Female board members (%)	11.1
Board members independence (%)	55.6

Source: Company data, HSBC

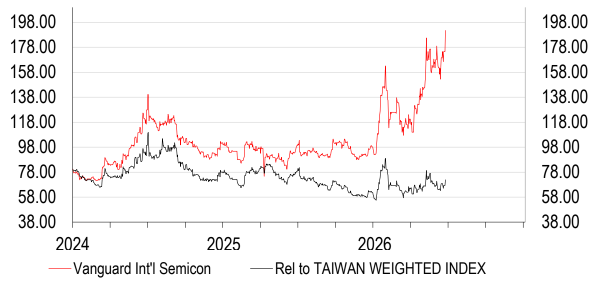
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TWD)	186.50
Target price (TWD)	220.00
RIC (Equity)	5347.TWO
Bloomberg (Equity)	5347 TT
Market cap (USDm)	11,074

Free float	86%
Sector	Semiconductors
Country/Region	Taiwan
Analyst	Ted Lin
Contact	+886 2 6631 2870

Price relative



Source: HSBC

Note: Priced at close of 23 Jun 2026

GlobalFoundries (GFS US): Retain Hold, raise TP to USD92.00 from USD65.03

We believe optical solutions differentiates GlobalFoundries from other secondary foundries peers, with portfolio of PIC, EIC, SiPh solution, etc. The optical segment is margin accretive for the company, and management expects to double its revenue to USD400m (from USD200+m in 2025). To meet increasing demand, GlobalFoundries is expanding its optical capacity by purchasing equipment and reallocating low-margin internal resources. However, we expect the price hike magnitude to be limited as most pricing adjustment are likely to take effect in 2027 due to the time gap from LTA negotiations. We now assume a 0%/9% price hikes in 2H26/2027.

We raise our 2027/28 EPS estimates by 8%/12% to factor in the company's growing optical segment and legacy node recovery. Our numbers are 5%/3% higher than consensus. Our new TP of TWD92.00 (from TWD65.03) is based on a target PB of 4.2x (from 3.0x) applied to 2027e BVPS of TWD21.87 (from TWD21.68). The target PB is higher than the 5-year historical average of 2.4x, which we believe is justified as we expect to see a sustainable margin expansion from the company. However, the multiple is lower than the one we assign to UMC's TP implied PB (9.6x) as we believe UMC will be the major beneficiary of further TSMC node consolidation given its geographical advantages, which help speed up UMC's UTR ramp and ASP improvement more than GFS's.

Exhibit 12: Estimate changes and comparison to consensus

	New			Old			New vs old			Consensus			HSBCe vs consensus		
(TWDm)	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Sales	7,205	8,192	9,211	7,205	7,838	8,595	0.0%	4.5%	7.2%	7,231	7,963	8,740	0%	3%	5%
- y-o-y chg	6%	14%	12%	6%	9%	10%				6%	10%	10%			
Adjusted gross profits	2,146	2,641	3,179	2,146	2,467	2,865	0.0%	7.0%	11.0%	2,137	2,573	3,063	0%	3%	4%
- Adjusted GM	29.8%	32.2%	34.5%	29.8%	31.5%	33.3%				29.6%	32.3%	35.0%			
Adjusted operating profits	1,274	1,733	2,144	1,274	1,604	1,907	0.0%	8.1%	12.4%	1,251	1,642	2,095	2%	6%	2%
- Adjusted OPM	17.7%	21.2%	23.3%	17.7%	20.5%	22.2%				17.3%	20.6%	24.0%			
Adjusted net income	1,093	1,440	1,777	1,093	1,334	1,582	0.0%	8.0%	12.3%	1,067	1,383	1,747	2%	4%	2%
Adjusted EPS	1.97	2.59	3.20	1.97	2.40	2.85	0.0%	8.0%	12.3%	1.91	2.47	3.12	3%	5%	3%
- y-o-y chg	13%	32%	23%	13%	22%	19%				10%	29%	26%			

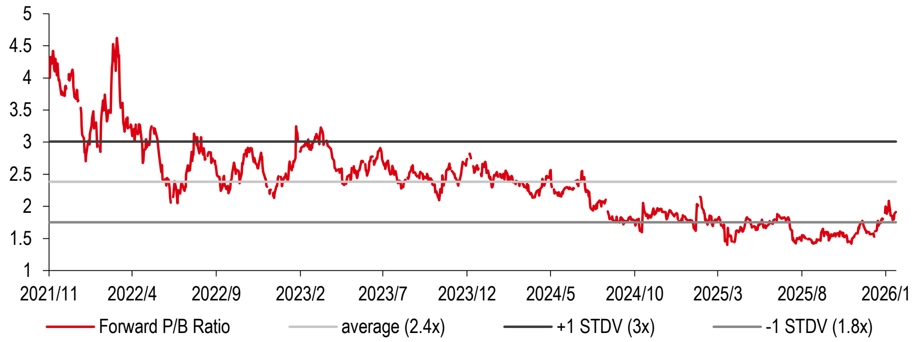
Source: HSBC estimates Visible Alpha consensus

Exhibit 13: GlobalFoundries – Quarterly and annual income statement

(USDm)	2025	1Q26	2Q26e	3Q26e	4Q26e	2026e	1Q27e	2Q27e	3Q27e	4Q27e	2027e	2028e
Sales	6,791	1,634	1,763	1,871	1,938	7,205	1,842	1,962	2,124	2,265	8,192	9,211
- q-o-q		-11%	8%	6%	4%		-5%	7%	8%	7%		
- y-o-y	1%	3%	4%	11%	6%	6%	13%	11%	14%	17%	14%	12%
Gross profits	1,690	451	486	559	592	2,087	560	574	678	748	2,561	3,099
Gross margin	24.9%	27.6%	27.5%	29.9%	30.5%	29.0%	30.4%	29.3%	31.9%	33.0%	31.3%	33.6%
Operating profits	797	180	204	316	340	1,039	330	329	413	465	1,537	1,948
OP margin	11.7%	11.0%	11.5%	16.9%	17.5%	14.4%	17.9%	16.8%	19.4%	20.5%	18.8%	21.1%
Pre-tax income	911	185	194	316	340	1,034	320	319	413	465	1,517	1,928
Net income	888	104	165	268	289	826	262	262	338	381	1,244	1,581
Net margin	13.1%	6.4%	9.3%	14.3%	14.9%	11.5%	14.3%	13.3%	15.9%	16.8%	15.2%	17.2%
EPS (USD)	1.59	0.19	0.30	0.48	0.52	1.49	0.47	0.47	0.61	0.69	2.24	2.84
Adjusted items												
Gross profit	1,762	474	506	559	608	2,146	580	594	698	768	2,641	3,179
Gross margin	25.9%	29.0%	28.7%	29.9%	31.4%	29.8%	31.5%	30.3%	32.9%	33.9%	32.2%	34.5%
Operating profit	1,066	271	281	348	374	1,274	383	382	465	503	1,733	2,144
Operating margin	15.7%	16.6%	16.0%	18.6%	19.3%	17.7%	20.8%	19.5%	21.9%	22.2%	21.2%	23.3%
Net income	964	227	242	301	323	1,093	315	315	391	419	1,440	1,777
EPS (USD)	1.73	0.41	0.44	0.54	0.58	1.97	0.57	0.57	0.70	0.75	2.59	3.20

Source: Company reports, HSBC estimates

Exhibit 14: GlobalFoundries forward PB trend



Source: Bloomberg

		Valuation	Risks to our view
GlobalFoundries GFS US **Hold**	Current price: **USD89.67** Target price: **USD92.00** Up/downside: **+2.6%**	Our new TP of TWD92.00 (from TWD65.03) is based on a target PB of 4.2x (from 3.0x) applied to 2027e BVPS of TWD21.87 (from TWD21.68). The target PB is higher than 5-year historical average of 2.4x, which we believe is justified as we expect to see a sustainable margin expansion from the company. However, the multiple is lower than the one we assign to UMC (9.6x) as we believe UMC will be the major beneficiary from further TSMC node consolidation given the geographical advantages, which help speed up UMC's UTR ramp and ASP improvement more than GFS.	**Upside risks:** 1) Faster-than-expected improvement in economies of scale at fabs; 2) faster-than-expected margin improvements as a result of stronger-than-expected pricing upside and cost management; and 3) higher- and faster-than-expected government subsidies. **Downside risks:** 1) The lack of economies of scale and increasing variable costs; 2) pricing power capped by high exposure to long-term agreements (LTA); and 3) increasing competition from mainland China, arising from any policy change.

Priced at close of 22 June 2026
Source: HSBC estimates

Financials & valuation: GlobalFoundries Inc

Hold

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (USDm)				
Revenue	6,791	7,205	8,192	9,211
EBITDA	2,111	2,360	2,990	3,546
Depreciation & amortisation	-1,314	-1,321	-1,453	-1,599
Operating profit/EBIT	797	1,039	1,537	1,948
Net interest	0	0	0	0
PBT	911	1,034	1,517	1,928
HSBC PBT	911	1,034	1,517	1,928
Taxation	-23	-208	-273	-347
Net profit	887	826	1,244	1,581
HSBC net profit	965	1,093	1,440	1,777
Cash flow summary (USDm)				
Cash flow from operations	3,769	3,764	2,628	3,103
Capex	-722	-1,461	-700	-700
Cash flow from investment	-740	-1,479	-718	-718
Dividends	0	0	0	0
Change in net debt	-272	-597	-1,020	-1,495
FCF equity	3,047	2,303	1,928	2,403
Balance sheet summary (USDm)				
Intangible fixed assets	3,713	3,437	3,437	3,437
Tangible fixed assets	7,223	7,363	6,610	5,711
Current assets	5,034	7,242	8,497	7,755
Cash & others	1,809	3,186	4,188	5,665
Total assets	15,970	18,042	18,543	16,903
Operating liabilities	4,007	4,281	4,471	4,614
Gross debt	1,151	1,931	1,913	1,896
Net debt	-658	-1,254	-2,275	-3,770
Shareholders' funds	10,812	11,831	12,159	10,394
Invested capital	10,154	10,576	9,884	6,624

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Y-o-y % change				
Revenue	0.6	6.1	13.7	12.4
EBITDA	55.9	11.8	26.7	18.6
Operating profit		30.5	47.9	26.7
PBT		13.6	46.7	27.1
HSBC EPS	10.4	13.3	31.8	23.4
Ratios (%)				
Revenue/IC (x)	0.7	0.7	0.8	1.1
ROIC	7.5	8.0	12.3	19.4
ROE	8.9	9.7	12.0	15.8
ROA	5.4	4.9	6.8	8.9
EBITDA margin	31.1	32.8	36.5	38.5
Operating profit margin	11.7	14.4	18.8	21.1
EBITDA/net interest (x)				
Net debt/equity	-6.1	-10.6	-18.7	-36.3
Net debt/EBITDA (x)	-0.3	-0.5	-0.8	-1.1
CF from operations/net debt				
Per share data (USD)				
EPS Rep (diluted)	1.59	1.49	2.24	2.84
HSBC EPS (diluted)	1.73	1.97	2.59	3.20
DPS	0.00	0.00	0.00	0.00
Book value	19.45	21.28	21.87	18.69

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	7.1	6.7	5.7	4.9
EV/EBITDA	23.0	20.3	15.7	12.8
EV/IC	4.8	4.5	4.7	6.9
PE*	51.7	45.6	34.6	28.1
PB	4.6	4.2	4.1	4.8
FCF yield (%)	6.2	4.7	3.9	4.9
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2024a
GHG emission intensity*	242.0
Energy intensity*	593.2
CO_2 reduction policy	Yes
Social Indicators	**12/2024a**
Employee costs as % of revenues	[n/a]
Employee turnover (%)	7.7
Diversity policy	Yes

Governance Indicators	12/2025a
No. of board members	11
Average board tenure (years)	[n/a]
Female board members (%)	18.2
Board members independence (%)	9.1

Source: Company data, HSBC

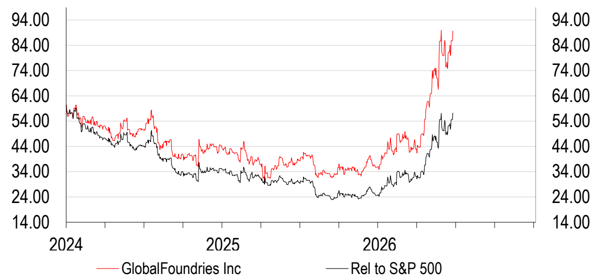
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (USD)	89.67
Target price (USD)	92.00
RIC (Equity)	GFS.O
Bloomberg (Equity)	GFS US
Market cap (USDm)	49,202

Free float	10%
Sector	Semiconductors
Country/Region	United States
Analyst	Frank Lee
Contact	+852 2996 6916

Price relative



Source: HSBC

Note: Priced at close of 22 Jun 2026

SMIC (981 HK/688981 CH): Retain Buy on a higher TP of HKD93/CNY158 (from HKD89/CNY146)

SMIC remains our top pick among the companies exposed to the "Back to China" reshoring trend among secondary foundry peers. As the largest Chinese domestic foundry with the leading developing pace toward advanced nodes, we believe SMIC stands in a decent position to enjoy domestic semi demand. In addition, the company should benefit from AI peripheral demand in areas such as PMIC, communication chip, edge AI, etc. In addition to logic semis demand, we observe the opportunity for SMIC on the specialty memory side, thanks to its production flexibility between specialty memory and logic semis (lots of equipment and process overlap). In terms of price hikes, we note that China foundries have been first movers on pricing adjustments given their lower ASPs vs global peers. We now assume 12%/22% price hikes in 2H26/2027 with UTR improving to 97%/94%.

We raise our 2027/28 EPS estimates by 21%/43% to factor in a better domestic bookings outlook and improving UTRs. Our numbers are 27%/47% higher than consensus. Our new TPs of HKD93/CNY158 (from HKD89/CNY146) are based on target PB multiples of 4.2x/8.0x (from 4.0x/7.4x) applied to 2026e BVPS of USD2.85 (unchanged). The target PB is higher than 5-year historical averages of 1.5x/3.6x, justified by our view that SMIC continues to benefit from localisation and further expansion to advanced nodes.

Exhibit 15: HSBC estimate changes and comparison to consensus

	New			Old			Diff			Consensus			HSBC vs consensus		
(USDm)	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Sales	11,897	15,877	18,536	11,897	15,042	16,399	0.0%	5.6%	13.0%	11,588	13,745	15,335	3%	16%	21%
- y-o-y	28%	33%	17%	28%	26%	9%				24%	19%	12%			
Gross profits	2,556	3,970	5,152	2,556	3,494	3,933	0.0%	13.6%	31.0%	2,513	3,159	3,713	2%	26%	39%
- GM	21.5%	25.0%	27.8%	21.5%	23.2%	24.0%				21.7%	23.0%	24.2%			
Operating profits	1,468	2,323	3,148	1,468	1,958	2,216	0.0%	18.6%	42.1%	1,393	1,793	2,162	5%	30%	46%
- OPM	12.3%	14.6%	17.0%	12.3%	13.0%	13.5%				12.0%	13.0%	14.1%			
Net income	1,164	1,969	2,914	1,164	1,626	2,038	0.0%	21.1%	43.0%	1,143	1,547	1,979	2%	27%	47%
EPS (ordinary, USD)	0.15	0.25	0.36	0.15	0.20	0.25	0.0%	21.1%	43.0%	0.14	0.19	0.25	2%	27%	47%
- y-o-y	67%	69%	48%	67%	40%	25%				67%	35%	28%			

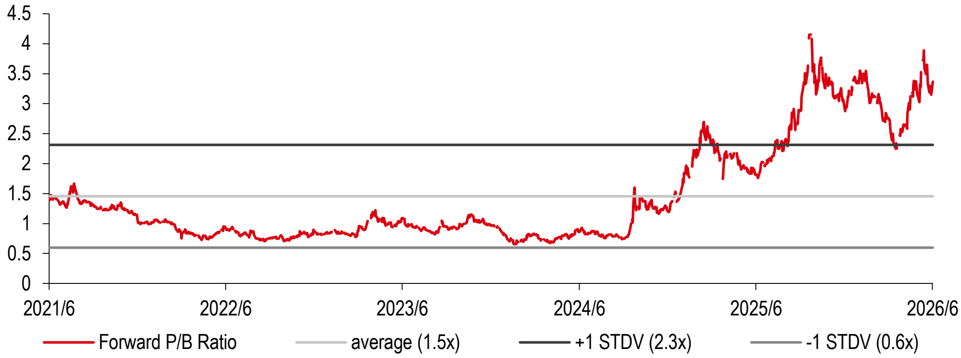
Source: HSBC estimates, Visible Alpha consensus forecasts

Exhibit 16: SMIC quarterly and annual P&L

(USDm)	2025	1Q26	2Q26e	3Q26e	4Q26e	2026e	1Q27e	2Q27e	3Q27e	4Q27e	2027e	2028e
Sales	9,327	2,505	2,873	3,132	3,385	11,897	3,444	3,799	4,218	4,416	15,877	18,536
- q-o-q		1%	15%	9%	8%		2%	10%	11%	5%		
- y-o-y	16%	11%	30%	32%	36%	28%	37%	32%	35%	30%	33%	17%
Gross profits	1,957	504	612	689	751	2,556	704	890	1,129	1,247	3,970	5,152
Gross margin	21.0%	20.1%	21.3%	22.0%	22.2%	21.5%	20.5%	23.4%	26.8%	28.2%	25.0%	27.8%
- q-o-q		5%	22%	12%	9%		-6%	26%	27%	10%		
- y-o-y	35%	0%	36%	32%	57%	31%	40%	45%	64%	66%	55%	30%
Operating profits	1,110	248	367	411	442	1,468	363	501	684	775	2,323	3,148
OP margin	11.9%	9.9%	12.8%	13.1%	13.0%	12.3%	10.5%	13.2%	16.2%	17.6%	14.6%	17.0%
- q-o-q		-17%	48%	12%	7%		-18%	38%	36%	13%		
- y-o-y	134%	-20%	144%	17%	48%	32%	46%	36%	66%	76%	58%	36%
Non-op income	-37	8	10	10	10	38	10	10	10	10	40	220
Pre-tax income	1,073	255	377	421	452	1,505	373	511	694	785	2,363	3,368
Tax expense	-84	-24	-38	-29	-27	-119	-22	-31	-42	-47	-142	-202
- effective tax rate	7.9%	9.6%	10.0%	7.0%	6.0%	7.9%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Net income	685	197	277	328	361	1,164	287	417	589	675	1,969	2,914
- q-o-q		14%	40%	19%	10%		-20%	45%	41%	15%		
- y-o-y	39%	5%	109%	71%	109%	70%	46%	51%	79%	87%	69%	48%
Net margin	7.3%	7.9%	9.6%	10.5%	10.7%	9.8%	8.3%	11.0%	14.0%	15.3%	12.4%	15.7%
EPS (ordinary, USD)	0.09	0.02	0.03	0.04	0.05	0.15	0.04	0.05	0.07	0.08	0.25	0.36
- q-o-q		14%	40%	19%	10%		-20%	45%	41%	15%		
- y-o-y	36%	1%	101%	71%	109%	67%	46%	51%	79%	87%	69%	48%

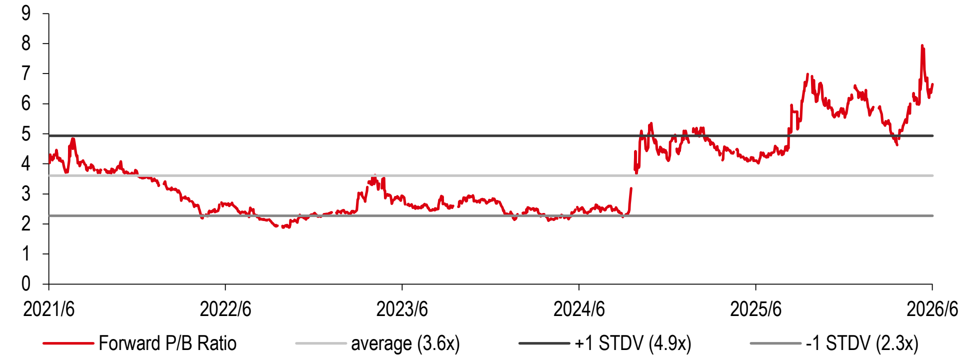
Source: Company data, HSBC estimates

Exhibit 17: SMIC (981 HK): 1-year forward PB trend



Source: Bloomberg

Exhibit 18: SMIC (688981 CH): 1-year forward PB trend



Source: Bloomberg

		Valuation	Risks
SMIC **981 HK** **688981 CH**	Current price: **H: HKD77.85** **A: CNY141.70**	Our new TPs of HKD93/CNY158 (from HKD89/CNY146) are based on a target PB of 4.2x/8.0x (from 4.0x/7.4x) applied to 2026e BVPS of USD2.85 (unchanged). The target PB is higher than 5-year historical average of 1.5x/3.6x, justified by our view that SMIC continues to benefit from localisation and further expansion to advanced nodes, which also supports our Buy ratings.	**Downside risks (H/A-shares):** Slower-than-expected semi demand; slower development progress of advanced nodes, higher depreciation burden; intensified competition; and less restriction from US & China government on semiconductor which could lower incentive for domestic customers to order at SMIC.
Buy	Target price: **H: HKD93.00** **A: CNY158.00** Up/downside: **H: 19.5%** **A: 11.5%**		

Priced at close of 23 June 2026
Source: HSBC estimates

Financials & valuation: SMIC

Buy

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (USDm)				
Revenue	9,327	11,897	15,877	18,536
EBITDA	4,920	6,413	8,366	9,589
Depreciation & amortisation	-3,810	-4,945	-6,043	-6,441
Operating profit/EBIT	1,110	1,468	2,323	3,148
Net interest	398	368	400	400
PBT	1,073	1,505	2,363	3,368
HSBC PBT	1,073	1,505	2,363	3,368
Taxation	-84	-119	-142	-202
Net profit	685	1,164	1,969	2,914
HSBC net profit	685	1,164	1,969	2,914
Cash flow summary (USDm)				
Cash flow from operations	4,920	6,413	8,366	9,589
Capex	-8,102	-6,251	-7,000	-7,000
Cash flow from investment	-6,495	-6,385	-7,000	-7,000
Dividends	0	0	0	0
Change in net debt	2,541	-115	709	-1,924
FCF equity	-3,182	162	1,366	2,589
Balance sheet summary (USDm)				
Intangible fixed assets	20	20	20	20
Tangible fixed assets	32,558	33,690	34,647	35,206
Current assets	15,625	18,658	19,697	22,188
Cash & others	10,023	12,060	11,351	13,275
Total assets	52,271	57,449	60,589	63,973
Operating liabilities	4,666	6,183	7,355	7,825
Gross debt	12,585	14,508	14,508	14,508
Net debt	2,562	2,447	3,156	1,232
Shareholders' funds	21,440	22,797	25,018	28,183
Invested capital	33,514	34,124	35,657	36,313

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Y-o-y % change				
Revenue	16.2	27.6	33.5	16.7
EBITDA	33.1	30.3	30.4	14.6
Operating profit	134.2	32.2	58.2	35.5
PBT	24.9	40.2	57.0	42.5
HSBC EPS	36.4	66.6	69.1	48.0
Ratios (%)				
Revenue/IC (x)	0.3	0.4	0.5	0.5
ROIC	3.5	4.0	6.3	8.2
ROE	3.3	5.3	8.2	11.0
ROA	1.9	2.5	3.8	5.1
EBITDA margin	52.8	53.9	52.7	51.7
Operating profit margin	11.9	12.3	14.6	17.0
EBITDA/net interest (x)				
Net debt/equity	7.3	6.7	8.1	3.0
Net debt/EBITDA (x)	0.5	0.4	0.4	0.1
CF from operations/net debt	192.1	262.1	265.1	778.3
Per share data (USD)				
EPS Rep (diluted)	0.09	0.15	0.25	0.36
HSBC EPS (diluted)	0.09	0.15	0.25	0.36
DPS	0.00	0.00	0.00	0.00
Book value	2.73	2.85	3.13	3.52

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	10.0	7.8	5.8	4.8
EV/EBITDA	19.0	14.4	11.0	9.3
EV/IC	2.8	2.7	2.6	2.5
PE*	113.7	68.3	40.4	27.3
PB	3.6	3.5	3.2	2.8
FCF yield (%)	-3.4	0.2	1.4	2.7
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2025a
GHG emission intensity*	279.6
Energy intensity*	[n/a]
CO_2 reduction policy	Yes
Social Indicators	**12/2025a**
Employee costs as % of revenues	12.6
Employee turnover (%)	13.8
Diversity policy	Yes

Governance Indicators	12/2025a
No. of board members	8
Average board tenure (years)	[n/a]
Female board members (%)	12.5
Board members independence (%)	50

Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (HKD)	77.85	Free float	77%
Target price (HKD)	93.00	Sector	Semiconductors
RIC (Equity)	0981.HK	Country/Region	Hong Kong
Bloomberg (Equity)	981 HK	Analyst	Ted Lin
Market cap (USDm)	94,976	Contact	+886 2 6631 2870

Price relative

Source: HSBC

Note: Priced at close of 23 Jun 2026

Financials & valuation: SMIC A

Buy

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (USDm)				
Revenue	9,327	11,897	15,877	18,536
EBITDA	4,920	6,413	8,366	9,589
Depreciation & amortisation	-3,810	-4,945	-6,043	-6,441
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HSBC net profit	685	1,164	1,969	2,914
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Change in net debt	2,541	-115	709	-1,924
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Current assets	15,625	18,658	19,697	22,188
Cash & others	10,023	12,060	11,351	13,275
Total assets	52,271	57,449	60,589	63,973
Operating liabilities	4,666	6,183	7,355	7,825
Gross debt	12,585	14,508	14,508	14,508
Net debt	2,562	2,447	3,156	1,232
Shareholders' funds	21,440	22,797	25,018	28,183
Invested capital	33,514	34,124	35,657	36,313

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Y-o-y % change				
Revenue	16.2	27.6	33.5	16.7
EBITDA	33.1	30.3	30.4	14.6
Operating profit	134.2	32.2	58.2	35.5
PBT	24.9	40.2	57.0	42.5
HSBC EPS	36.4	66.6	69.1	48.0
Ratios (%)				
Revenue/IC (x)	0.3	0.4	0.5	0.5
ROIC	3.5	4.0	6.3	8.2
ROE	3.3	5.3	8.2	11.0
ROA	1.9	2.5	3.8	5.1
EBITDA margin	52.8	53.9	52.7	51.7
Operating profit margin	11.9	12.3	14.6	17.0
EBITDA/net interest (x)				
Net debt/equity	7.3	6.7	8.1	3.0
Net debt/EBITDA (x)	0.5	0.4	0.4	0.1
CF from operations/net debt	192.1	262.1	265.1	778.3
Per share data (USD)				
EPS Rep (diluted)	0.09	0.15	0.25	0.36
HSBC EPS (diluted)	0.09	0.15	0.25	0.36
DPS	0.00	0.00	0.00	0.00
Book value	2.73	2.85	3.13	3.52

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	10.1	7.8	5.8	4.9
EV/EBITDA	19.2	14.6	11.1	9.5
EV/IC	2.8	2.7	2.6	2.5
PE*	239.6	143.8	85.0	57.4
PB	7.7	7.3	6.7	5.9
FCF yield (%)	-3.3	0.2	1.4	2.7
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2025a
GHG emission intensity*	279.6
Energy intensity*	[n/a]
CO_2 reduction policy	Yes
Social Indicators	**12/2025a**
Employee costs as % of revenues	12.6
Employee turnover (%)	13.8
Diversity policy	Yes

Governance Indicators	12/2025a
No. of board members	8
Average board tenure (years)	[n/a]
Female board members (%)	12.5
Board members independence (%)	50

Source: Company data, HSBC

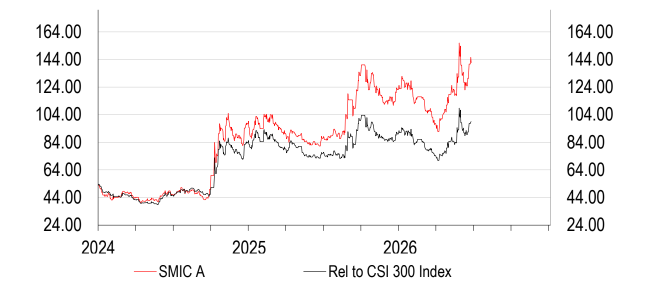
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (CNY)	141.70
Target price (CNY)	158.00
RIC (Equity)	688981.SS
Bloomberg (Equity)	688981 CH
Market cap (USDm)	95,950

Free float	50%
Sector	Semiconductors
Country/Region	Hong Kong
Analyst	Ted Lin
Contact	+886 2 6631 2870

Price relative



Source: HSBC

Note: Priced at close of 23 Jun 2026

Disclosure appendix

Analyst Certification
The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Ted Lin and Frank Lee

Important disclosures

Equities: Stock ratings and basis for financial analysis
HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:
The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:
For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 31 March 2026, the distribution of all independent ratings published by HSBC is as follows:

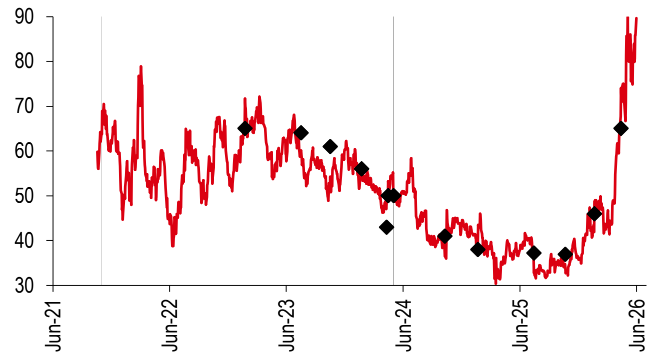
Buy	59%	(12% of these provided with Investment Banking Services in the past 12 months)
Hold	36%	(12% of these provided with Investment Banking Services in the past 12 months)
Sell	6%	(6% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at *http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures*.

Share price and rating changes for long-term investment opportunities

GlobalFoundries Inc (GFS.O) share price performance USD Vs HSBC rating history



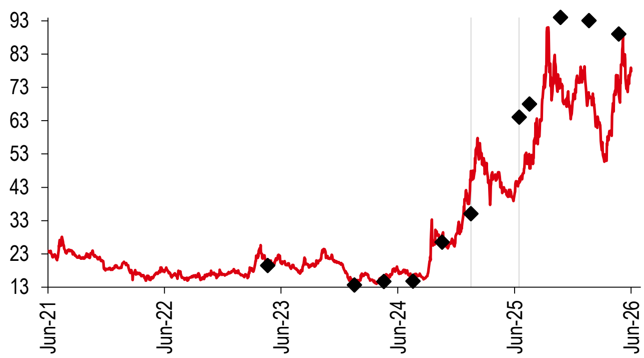
Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Hold	22 Nov 2021	Frank Lee
Hold	Restricted	22 May 2024	
Restricted	Hold	24 May 2024	Frank Lee
Target price	**Value**	**Date**	**Analyst**
Price 1	65.00	14 Feb 2023	Frank Lee
Price 2	64.00	08 Aug 2023	Frank Lee
Price 3	61.00	07 Nov 2023	Frank Lee
Price 4	56.00	13 Feb 2024	Frank Lee
Price 5	43.00	02 May 2024	Frank Lee
Price 6	50.00	07 May 2024	Frank Lee
Price 7	Restricted	22 May 2024	
Price 8	50.00	24 May 2024	Frank Lee
Price 9	41.00	31 Oct 2024	Frank Lee
Price 10	38.00	11 Feb 2025	Frank Lee
Price 11	37.21	05 Aug 2025	Frank Lee
Price 12	36.94	12 Nov 2025	Frank Lee
Price 13	45.93	11 Feb 2026	Frank Lee
Price 14	65.03	05 May 2026	Frank Lee

Source: HSBC

SMIC (0981.HK) share price performance HKD Vs HSBC rating history



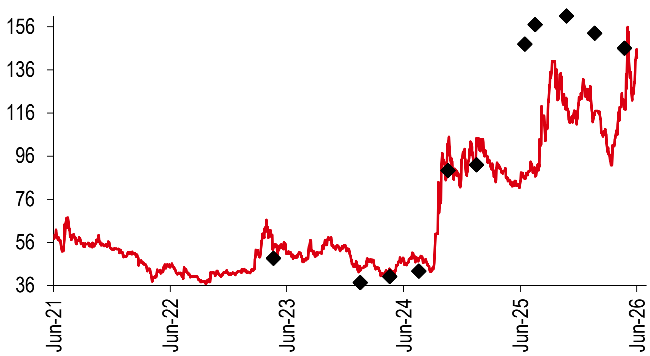
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Reduce	Hold	14 May 2021	Frank Lee
Hold	Reduce	06 Feb 2025	Ted Lin
Reduce	Buy	07 Jul 2025	Ted Lin
Target price	**Value**	**Date**	**Analyst**
Price 1	19.50	12 May 2023	Frank Lee
Price 2	13.60	07 Feb 2024	Frank Lee
Price 3	14.70	10 May 2024	Frank Lee
Price 4	14.75	09 Aug 2024	Frank Lee
Price 5	26.47	08 Nov 2024	Ted Lin
Price 6	35.00	06 Feb 2025	Ted Lin
Price 7	64.00	07 Jul 2025	Ted Lin
Price 8	68.00	08 Aug 2025	Ted Lin
Price 9	94.00	14 Nov 2025	Ted Lin
Price 10	93.00	11 Feb 2026	Ted Lin
Price 11	89.00	15 May 2026	Ted Lin

Source: HSBC

SMIC A (688981.SS) share price performance CNY Vs HSBC rating history



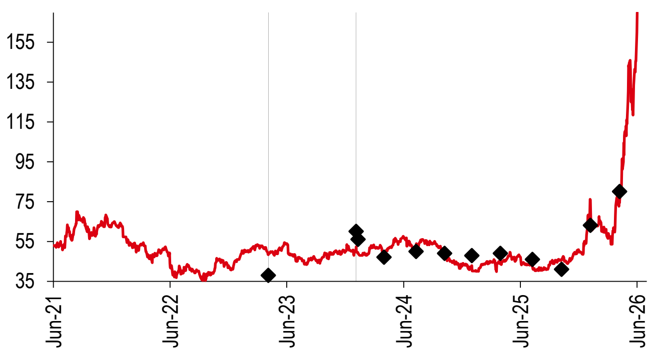
Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Hold	09 Aug 2020	Frank Lee
Hold	Buy	07 Jul 2025	Ted Lin
Target price	**Value**	**Date**	**Analyst**
Price 1	48.50	12 May 2023	Frank Lee
Price 2	37.20	07 Feb 2024	Frank Lee
Price 3	40.10	10 May 2024	Frank Lee
Price 4	42.62	09 Aug 2024	Frank Lee
Price 5	89.32	08 Nov 2024	Ted Lin
Price 6	92.00	06 Feb 2025	Ted Lin
Price 7	148.00	07 Jul 2025	Ted Lin
Price 8	157.00	08 Aug 2025	Ted Lin
Price 9	161.00	14 Nov 2025	Ted Lin
Price 10	153.00	11 Feb 2026	Ted Lin
Price 11	146.00	15 May 2026	Ted Lin

Source: HSBC

United Microelectronics (2303.TW) share price performance TWD Vs HSBC rating history



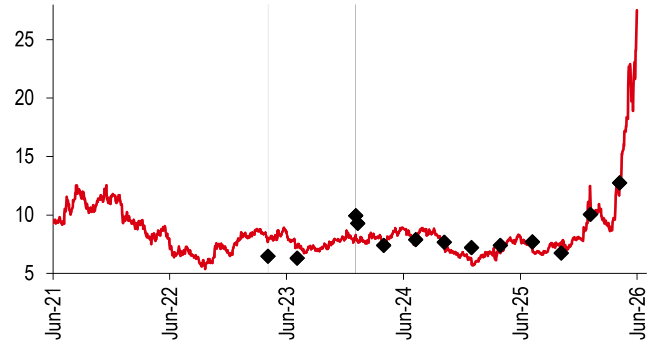
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Hold	Reduce	26 Apr 2023	Frank Lee
Reduce	Hold	25 Jan 2024	Frank Lee
Target price	**Value**	**Date**	**Analyst**
Price 1	38.00	26 Apr 2023	Frank Lee
Price 2	60.00	25 Jan 2024	Frank Lee
Price 3	56.00	31 Jan 2024	Frank Lee
Price 4	47.00	22 Apr 2024	Frank Lee
Price 5	50.00	31 Jul 2024	Frank Lee
Price 6	49.00	28 Oct 2024	Ted Lin
Price 7	47.80	21 Jan 2025	Ted Lin
Price 8	49.00	21 Apr 2025	Ted Lin
Price 9	46.00	30 Jul 2025	Ted Lin
Price 10	41.00	29 Oct 2025	Ted Lin
Price 11	63.00	28 Jan 2026	Ted Lin
Price 12	80.00	29 Apr 2026	Ted Lin

Source: HSBC

United Microelectronics (UMC.N) share price performance USD Vs HSBC rating history



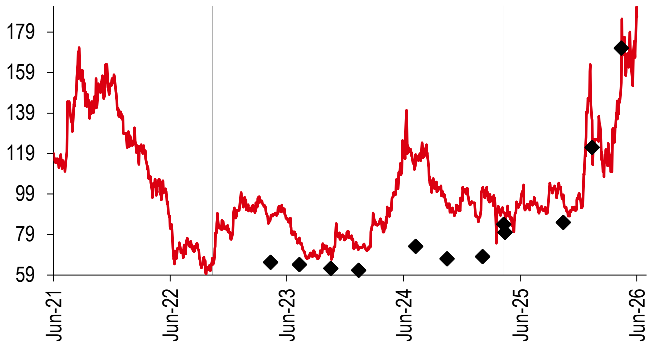
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Hold	Reduce	26 Apr 2023	Frank Lee
Reduce	Hold	25 Jan 2024	Frank Lee
Target price	**Value**	**Date**	**Analyst**
Price 1	6.46	26 Apr 2023	Frank Lee
Price 2	6.29	26 Jul 2023	Frank Lee
Price 3	9.93	25 Jan 2024	Frank Lee
Price 4	9.27	31 Jan 2024	Frank Lee
Price 5	7.39	22 Apr 2024	Frank Lee
Price 6	7.86	31 Jul 2024	Frank Lee
Price 7	7.66	28 Oct 2024	Frank Lee
Price 8	7.18	21 Jan 2025	Ted Lin
Price 9	7.38	21 Apr 2025	Ted Lin
Price 10	7.67	30 Jul 2025	Ted Lin
Price 11	6.72	29 Oct 2025	Ted Lin
Price 12	10.03	28 Jan 2026	Ted Lin
Price 13	12.74	29 Apr 2026	Ted Lin

Source: HSBC

Vanguard Int'l Semicon (5347.TWO) share price performance TWD Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Hold	Reduce	01 Nov 2022	Frank Lee
Reduce	Hold	02 May 2025	Ted Lin
Target price	**Value**	**Date**	**Analyst**
Price 1	65.17	03 May 2023	Frank Lee
Price 2	64.18	01 Aug 2023	Frank Lee
Price 3	62.21	07 Nov 2023	Frank Lee
Price 4	61.22	02 Feb 2024	Frank Lee
Price 5	73.07	30 Jul 2024	Frank Lee
Price 6	67.00	05 Nov 2024	Ted Lin
Price 7	68.00	25 Feb 2025	Ted Lin
Price 8	84.00	02 May 2025	Ted Lin
Price 9	80.00	06 May 2025	Ted Lin
Price 10	85.00	04 Nov 2025	Ted Lin
Price 11	122.00	03 Feb 2026	Ted Lin
Price 12	171.00	05 May 2026	Ted Lin

Source: HSBC

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Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
GLOBALFOUNDRIES INC	GFS.O	89.67	22 Jun 2026	7
SMIC	0981.HK	77.85	23 Jun 2026	4, 11
SMIC A	688981.SS	141.70	23 Jun 2026	4, 11
UNITED MICROELECTRONICS	2303.TW	170.00	23 Jun 2026	4, 7
VANGUARD INT'L SEMICONDUCTOR	5347.TWO	186.50	23 Jun 2026	–

Source: HSBC

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