MediaTek

Buy

#Flashnote

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The Best-Case Blueprint

- **In its 2Q26 earnings call** (dated 31 Jul, post-market), MediaTek (MTK, 2454 TT, BUY, TP: TWD5,300) checked almost all the key boxes we anticipated in our preview: raising its 2026E/27E AI ASIC guidance, confirming the 1H28E ramp for its 2nd ASIC, verifying that the 1st (Zebrafish, TPUv8i) and 2nd (TPUv9, Humufish/Triggerfish) ASICs will coexist in 2028E, and reiterating that ASICs will be meaningfully and sizably accretive to operating margins. What is even better is that near-term 3Q26E revenue guidance (flat to up QoQ) beat our expectation of a low-single-digit QoQ decline—indicating that whether due to pull-in ahead of price hikes or other factors, the feared "air-pocket" prior to the ASIC ramp will no longer materialize. At current levels, the risk-reward profile for MTK shares appears highly attractive; MTK remains one of our top preferred picks in the compute space, trailing only TSMC (2330 TT/TSM US, BUY, TP: TWD3,500/$700).

- **On the ASIC front**, MTK raised its 2026 ASIC revenue guidance to $2bn+ (from $2bn), and its 2027E outlook from "a $70bn TAM with 10–15% market share" to "an $80bn TAM with 15–20% market share." The implied 2027E ASIC revenue comes to $12–16bn, compared with our estimate of $18bn. Given the company's typical conservatism, we believe MTK is internally targeting higher figures. In addition, MTK reported solid progress on Intel's EMIB-T packaging technology and expressed confidence in its readiness for 1H28E HVM for its 2nd ASIC. Although this timeline is slightly later than the end-2027E HVM guidance provided last quarter, it aligns with both our preview expectations and recent market rumors; we believe the Street has already priced in this adjustment. Meanwhile, MTK confirmed that both Zebrafish and Humufish will coexist in 2028E, which is already reflected in our model. Finally, MTK noted that its 448G SerDes design is progressing well, and it has multiple ASIC projects underway for other customers. The primary missing detail was whether its TPUs will be made available to external clients (beyond Google's internal use) and its bidding progress for TPUv10. Nevertheless, the updates provided on the call should be more than sufficient to bolster Street confidence over the next two years.

- **For the near term**, 2Q26 revenue of TWD152bn, GM of 46.3%, OPM of 15%, and EPS of TWD15.3 were broadly in line with our expectations. Smartphone revenue (41% of total) declined 14% QoQ / 20% YoY, while Smart-Edge (53% of total) grew +19% QoQ / +26% YoY. PMIC revenue accounted for 6% of the total (+11% QoQ / +6% YoY). Looking into 3Q26E, MTK guides revenue to be flat to +5% QoQ (TWD152.2–159.8bn) with 46% GM and 15% OPM, implying a slight uptick in earnings at the midpoint. MTK expects Smartphone revenue to be flat to down only slightly, supported by the resilient late-3Q26E launch of its new N2 flagship chip. Smart-Edge is expected to grow QoQ, while PMIC will remain flat QoQ. For FY26E, MTK expects consolidated revenue to grow high-single-digits YoY (at the high end of its prior guidance) with a 46% GM, despite 4Q26E margin dilution from initial ASIC revenue. This compares with our forecast of 13% YoY revenue growth and a 45.8% GM; the variance stems primarily from our higher ASIC revenue estimates ($2.5bn vs. guidance of $2bn+). We maintain our forecasts unchanged for now, anticipating further upside from its ASIC business relative to company guidance. Lastly, MTK announced a strategic supply-chain financing budget of $5bn—a strong indication of its aggressive stance to secure component supply to meet surging demand.

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