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Angus Lin
+852 9250 7088
angus.lin@aletheia-capital.com

The Ramp Arrives; Next-Gen on Track, More to Come

- In line 3Q print and moderate 4Q beat. ASIC delivery confirmed. MTK has begun shipping its TPUv8t (Zebrafish) and guides 4Q accelerator revenue of US$2.5bn, in line with our forecast and above both Street and prior guidance of US$2bn. It also reaffirmed 1Q28 HVM for TPUv9t (Humufish) and confirmed a second customer (we believe Meta), with first revenue from 2028E. Management targets c.US$16bn of 2027E revenue from TPUv8t (the top end of the prior US$12–16bn range). We see upside towards US$20bn as more substrate supply is secured, which management sounded confident about. The accelerator business turns OPM-accretive from 4Q26, setting up further OPM expansion. We remain constructive on MTK's ASIC transformation and reiterate BUY with a TP of NT$6,500.

- **3Q results in line with us, ahead of Street**. Revenue of NT$168bn (+10% QoQ, +18% YoY), GM of 46.3%, OPM of 16.1% and EPS of NT$17.5 (in line with us but 13% above Street). Smart Edge led growth (+20% QoQ; 58% of sales) on new modem, AI tablet, AI PC and automotive programs, plus higher DRAM content and pricing in TV SoCs. Handsets -1% QoQ (37% of sales) despite flagship strength, while PMIC +1% (5% of sales). GM was broadly flat (+10bps QoQ), which we partly attribute to cost pass-through pricing that CEO said began in 3Q. OPM +110bps QoQ as revenue growth outpaced opex (+7%) despite higher R&D.

- **4Q outlook above Street on a stronger accelerator outlook**. The revenue guidance midpoint of NT$216.0bn (+28% QoQ) is 4% above Street but 15% below us, mainly reflecting our higher non-accelerator business assumption. 4Q revenue growth is driven by the US$2.5bn TPUv8t ramp (in line with our forecast and above prior guidance and Street of US$2bn), backed by strong demand and improved supply, including substrates, and partly offset by seasonal consumer softness. The 45% GM guidance midpoint implies a 130bps QoQ decline, as datacenter accelerator margins are below the group average; pricing adjustments on non-datacenter products partly offset supply-chain cost inflation. OPM is guided at 19% (+290bps QoQ, in line with us but above Street by ~1pts) as the ASIC ramp and pricing lift operating leverage. For 2027E, management expects OPM above 20% (vs. our 23.4%) and noted that the ASIC segment will be OPM-accretive from 4Q26.

- **TPUv9 on track; volume upside remains supply dependent**. Management reaffirmed 1Q28 HVM for its second accelerator, which we identify as TPUv9t. The SerDes die and sub-die have taped out, and the larger, more complex compute die is due to follow within two to three weeks, in line with the plan. Management expects packaging/substrate yields to improve but did not provide updated yield figures or a 2028 revenue target. This supports our modelled initial 1H28 shipments and stronger 2H28 ramp. Work on the third generation (TPUv10) is ongoing, but neither an award nor a production schedule has been confirmed.

- **Second customer confirmed, scheduled for 2028 contribution**. Management said the second customer is based outside China and will generate first revenue in 2028E. We believe this refers to Meta's ASIC project (MTIA700 Apollo), which we expect to contribute mainly from late 2028E, following capacity support from MTK. NVLink Fusion engagements have received positive feedback and could lead to customer announcements, supporting our view that networking and rack integration will expand MTK's addressable market.

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- **Michael Chambers** — 65 9858 9759 — ASIA - SINGAPORE
- **Graeme Saleman** — 852 2534 7437 — ASIA - HONG KONG
- **Wayne Chang** — 1 646 256 3366 — AMERICAS - NEW YORK
- **Daren Riley** — 44 748 31 59 865 — EUROPE - LONDON
- **Richard Wallace** — 852 2534 7429 — ASIA / EUROPE - HONG KONG
- **Terrence Alford** — 1 469 403 9936 — AMERICAS - DALLAS
- **Dhananjay Mahurkar** — 44 777 55 26 870 — EUROPE - LONDON
- **Augustine Chen** — 8869 2739 8793 — ASIA - HONG KONG

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