Powerchip Semiconductor Manufacturing Co

Sustained pricing upcycle and diverse logic business support earnings expansion

Reiterate Rating: BUY | PO: 125.00 TWD | Price: 66.20 TWD

3Q26 margins surged on pricing uplift & higher utilization

3Q26 sales were +23% QoQ driven by +24% ASP across memory and logic businesses more than offsetting a mild decline in wafer shipment due to the capacity and clean room space adjustment following its P5 fab disposal to Micron. On stronger pricing and higher utilization, 3Q26 GMs jumped by 2,000bps QoQ to 48%. Solid sales and margins expansion took 3Q26 EPS to NT$1.38 well above BofAe/Street NT$0.98/0.96.

Power IC and legacy DRAM ASP hike solidify GMs into '27

We expect Powerchip's 4Q26 sales to grow 26% QoQ, backed by continued favorable pricing negotiation in both memory and 8"/mature 12" logic since 3Q26, suggesting further ASP uplift to be reflected in 4Q26 factoring 2-4 months production lead time. With its logic foundry focus shifting to power ICs where supply is tight and customers agree on LTA, it could have another round of 10-20% price hike in early '27. The memory business should also see healthy pricing outlook with strong legacy demand across its commodity and foundry customers, supporting its GM/OpM to 50%/40% levels in 4Q26.

3D AI expansion and niche product focus reduce cyclicality

We model Powerchip's sales will grow by 20% CAGR from '26-28. Beyond memory and logic foundry business, its silicon Interposer capacity is fully loaded benefiting from TSMC outflow. Its WoW for DRAM and logic die stacking for edge AI applications (e.g. smartglasses) and 8"/12" IPD for optical module/EMIB should also ramp, supplemented by a potential upside from HBM wafer processing for Micron from '28. The better niche memory/logic foundry landscape and diversifying drivers should expand its GM to 49-50% in '27-28 (vs. BofAe 38% in '26) more sustainable than its pure memory peers.

More sustained pricing upcycle expands EPS and valuation

We lift our 2026-28E EPS by 7-15% to NT$7.78/8.47/8.55. We reiterate our Buy rating and lift PO from NT$110 to NT$125, still based on 15x 2027E P/E (vs. its 8-27x P/E historical range), factoring in stronger sales growth and GM on pricing uptrend.

Estimates (Dec) (NT$)	2024A	2025A	2026E	2027E	2028E
Net Income (Adjusted - mn)	(6,777)	(7,813)	33,817	36,804	37,187
EPS	(1.64)	(1.86)	7.78	8.47	8.55
EPS Change (YoY)	-304.3%	-13.9%	NM	8.8%	1.0%
Free Cash Flow / Share	(4.10)	(0.183)	3.63	8.08	7.43
Valuation (Dec)					
P/E	NM	NM	8.51x	7.82x	7.74x
EV / EBITDA*	185.75x	57.43x	6.44x	5.47x	5.82x
Free Cash Flow Yield*	-5.45%	-0.246%	5.06%	11.27%	10.35%

* For full definitions of *iQmethod℠* measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price

22 October 2026

Equity

Key Changes

(NT$)	Previous	Current
Price Obj.	110.00	125.00
2026E EPS	6.78	7.78
2027E EPS	7.50	8.47
2028E EPS	8.00	8.55
2026E EBITDA (m)	42,513.1	46,195.3
2027E EBITDA (m)	50,541.1	54,399.6
2028E EBITDA (m)	49,423.8	51,076.7

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Stock Data

Price	66.20 TWD
Price Objective	125.00 TWD
Date Established	22-Oct-2026
Investment Opinion	C-1-9
52-Week Range	27.35 TWD-94.50 TWD
Mrkt Val / Shares Out (mn)	9,553 USD / 4,712.1
Market Value (mn)	311,940 TWD
Average Daily Value (mn)	239.74 USD
Free Float	77.8%
BofA Ticker / Exchange	XCHPF / TAI
Bloomberg / Reuters	6770 TT / 6770.TW
ROE (2026E)	31.9%
Net Dbt to Eqty (Dec-2025A)	-19.2%

iQprofile℠ Powerchip Semiconductor Manufacturing Co

Key Income Statement Data (Dec)	2024A	2025A	2026E	2027E	2028E
(NT$ Millions)					
Sales	44,726	46,730	79,059	112,192	113,579
Gross Profit	525	(1,537)	29,904	55,919	57,025
Sell General & Admin Expense	(4,737)	(2,797)	(3,837)	(4,446)	(4,593)
Operating Profit	(7,965)	(5,960)	36,605	44,097	44,748
Net Interest & Other Income	1,134	(1,517)	518	(409)	(584)
Associates	0	0	0	0	0
Pretax Income	(6,832)	(7,477)	37,123	43,688	44,163
Tax (expense) / Benefit	54	(336)	(3,306)	(6,883)	(6,977)
Net Income (Adjusted)	(6,777)	(7,813)	33,817	36,804	37,187
Average Fully Diluted Shares Outstanding	4,144	4,193	4,347	4,347	4,347
Key Cash Flow Statement Data					
Net Income	(6,777)	(7,813)	33,817	36,804	37,187
Depreciation & Amortization	9,566	11,137	9,590	10,303	6,329
Change in Working Capital	(2,058)	1,383	(9,015)	(875)	(319)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	5,764	3,116	(5,611)	409	584
Cash Flow from Operations	6,495	7,823	28,781	46,641	43,782
Capital Expenditure	(23,500)	(8,591)	(13,000)	(11,500)	(11,500)
(Acquisition) / Disposal of Investments	(11,856)	12,145	(28,532)	0	0
Other Cash Inflow / (Outflow)	57	0	42,886	0	0
Cash Flow from Investing	(35,298)	3,554	1,354	(11,500)	(11,500)
Shares Issue / (Repurchase)	1,043	693	29,093	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Cash Flow from Financing	6,579	(5,517)	(9,153)	0	0
Free Cash Flow	(17,005)	(767)	15,781	35,141	32,282
Net Debt	(22,314)	(15,709)	(54,963)	(94,500)	(127,642)
Change in Net Debt	42,303	(2,524)	(13,737)	(35,141)	(32,282)
Key Balance Sheet Data					
Property, Plant & Equipment	124,236	122,004	88,293	89,471	93,374
Other Non-Current Assets	14,324	12,534	14,744	14,794	14,797
Trade Receivables	6,417	6,550	15,210	15,679	16,041
Cash & Equivalents	32,034	26,749	65,451	104,988	138,130
Other Current Assets	11,910	10,849	18,506	19,682	19,849
Total Assets	188,921	178,686	202,204	244,614	282,191
Long-Term Debt	8,109	10,368	9,868	9,868	9,868
Other Non-Current Liabilities	61,741	63,532	40,335	39,669	39,746
Short-Term Debt	1,611	672	620	620	620
Other Current Liabilities	28,814	22,113	21,191	20,993	21,130
Total Liabilities	100,275	96,685	72,015	71,150	71,364
Total Equity	88,646	82,000	130,189	173,464	210,827
Total Equity & Liabilities	188,921	178,686	202,204	244,614	282,191
iQmethod℠ **- Bus Performance***					
Return On Capital Employed	-3.7%	-2.9%	20.0%	18.8%	15.9%
Return On Equity	-7.4%	-9.2%	31.9%	24.2%	19.4%
Operating Margin	-17.8%	-12.8%	46.3%	39.3%	39.4%
EBITDA Margin	3.6%	11.1%	58.4%	48.5%	45.0%
iQmethod℠ **- Quality of Earnings***					
Cash Realization Ratio	NM	NM	0.9x	1.3x	1.2x
Asset Replacement Ratio	2.5x	0.8x	1.4x	1.1x	1.8x
Tax Rate (Reported)	0.8%	NM	8.9%	15.8%	15.8%
Net Debt-to-Equity Ratio	-25.2%	-19.2%	-42.2%	-54.5%	-60.5%
Interest Cover	-5.2x	-3.3x	26.3x	28.8x	26.2x

Key Metrics

* For full definitions of *iQmethod*℠ measures, see page 6.

Company Sector

Semiconductors

Company Description

Powerchip (PSMC) is a semiconductor foundry for both logic and memory chips, with production based on both 8-inch and 12-inch wafers. The company helps manufacture various kinds of semiconductors, including driver IC, power IC/discrete, DRAM etc., and it has fabs located in Hsinchu and Miaoli.

Investment Rationale

We have an Buy rating on PSMC as we expect its EPS and book value to be boosted by better memory business outlook and logic business transformation.

Stock Data

Price to Book Value	2.4x

Focus table

Exhibit 1: Powerchip 3Q26-4Q26 and 2026-2027 estimates BofAe vs Street
We now model 2026/2027 EPS to be NT$7.78/8.47

	3Q26			4Q26E			2026E			2027E		
	Actual	Old	Street	BofAe	Old	Street	BofAe	Old	Street	BofAe	Old	Street
Sales (NT$mn)	$21,342	$14,810	$19,134	$26,855	$23,485	$23,471	$79,059	$69,159	$74,084	$112,192	$111,712	$108,553
Sales QoQ / YoY (%)	23.4%	-14.3%	10.7%	25.8%	58.6%	22.7%	69.2%	48.0%	58.5%	41.9%	61.5%	46.5%
Gross profit (NT$mn)	$10,148	$5,829	$6,895	$13,479	$9,765	$10,322	$29,904	$21,871	$23,733	$55,919	$45,428	$52,848
GMs (%)	47.5%	39.4%	36.0%	50.2%	41.6%	44.0%	37.8%	31.6%	32.0%	49.8%	40.7%	48.7%
Operating profit (NT$mn)	$7,830	$4,952	$5,169	$10,865	$8,769	-$1,470	$36,605	$31,631	$31,134	$44,097	$40,162	$40,336
OpMs (%)	36.7%	33.4%	27.0%	40.5%	37.3%	34.3%	46.3%	45.7%	42.0%	39.3%	36.0%	37.2%
Pretax profit (NT$mn)	$8,140	$4,632	$5,347	$10,763	$8,435	$8,045	$37,123	$31,287	$31,547	$43,688	$38,636	$40,759
Pretax margins (%)	38.1%	31.3%	27.9%	40.1%	35.9%	34.3%	47.0%	45.2%	42.6%	38.9%	34.6%	37.5%
Tax expense (NT$mn)	-$1,640	-$371	-$928	-$969	-$759	-$1,056	-$3,306	-$1,827	-$2,616	-$6,883	-$6,054	-$6,988
Tax rate (%)	20.1%	8.0%	17.4%	9.0%	9.0%	13.1%	8.9%	5.8%	8.3%	15.8%	15.7%	17.1%
Net profit (NT$mn)	$6,500	$4,262	$4,419	$9,794	$7,676	$6,990	$33,817	$29,459	$28,931	$36,804	$32,582	$33,771
Net margins (%)	30.5%	28.8%	23.1%	36.5%	32.7%	29.8%	42.8%	42.6%	39.1%	32.8%	29.2%	31.1%
EPS (NT$)	$1.38	$0.98	$0.96	$2.25	$1.77	$1.46	$7.78	$6.78	$6.35	$8.47	$7.50	$7.47

Source: BofA Global Research estimates, Bloomberg

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Exhibit 2: Terms and definitions
Glossary of abbreviations/acronyms

Term	Definition
AI	Artificial Intelligence
PMIC	Power Management IC
DDIC	Display driver IC
DRAM	Dynamic Random Access Memory
IPD	Intelligent Power Devices
HBM	High Bandwidth Memory
WoW	Wafer on Wafer
EMIB	Embedded Multi-die Interconnect Bridge

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Powerchip Semiconductor Manufacturing Co (XCHPF)
Our PO of NT$125 is based on 15x 2027E P/E (vs. the company's 8-27x P/E historical range) and at the lower-end of its 2nd tier foundry peers' 15-20x. We believe 15x, which is closed to its mid-cycle average and at a discount to peers, is justified as the company's core business has just turned profitable in recent quarters. We use P/E methodology to reflect our view that its earnings could be less cyclical following the restructuring in '26.

Upside risks: 1) faster-than-expected order transfer from non-China customers given the geopolitics and 2) lessened competition and/or stronger end demand to beef up utilization rate and margin profile.

Downside risks: 1) more aggressive capacity expansion to deteriorate balance sheet and cash flow with higher depreciation burden and 2) more aggressive expansion by memory IDMs on niche memory.

Analyst Certification

I, Haas Liu, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Semiconductor Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alchip	ALCPF	3661 TT	Haas Liu
	All Ring	XNQNF	6187 TT	Haas Liu
	AMEC	XRTOF	688012 CH	Dai Shen
	ASE Technology Holding	XSRIF	3711 TT	Haas Liu
	ASE Technology Holding -ADR	ASX	ASX US	Haas Liu

APR - Semiconductor Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ASMPT	ASMVF	522 HK	Simon Woo, CFA
	Aspeed	XLKMF	5274 TT	Mike Yang
	Chroma ATE	CRMJF	2360 TT	Haas Liu
	Doosan Corp	DOSAF	000150 KS	Simon Woo, CFA
	eMemory	XYLWF	3529 TT	Mike Yang
	GigaDevice	XGXIF	603986 CH	Daley Li, CFA
	Global Unichip Corp.	GBUHF	3443 TT	Haas Liu
	Grand Process Technology Corp	XZOWF	3131 TT	Haas Liu
	Hanmi Semiconductor	HNSIF	042700 KS	Simon Woo, CFA
	Hon Precision	XXPIF	7769 TT	Haas Liu
	Horizon Robotics	HRZRF	9660 HK	Daley Li, CFA
	Iluvatar CoreX	XSIBF	9903 HK	Daley Li, CFA
	Ingenic	XISCF	300223 CH	Dai Shen
	InnoScience Technology	XSCHF	2577 HK	Daley Li, CFA
	JCET Group Co Ltd	XJIEF	600584 CH	Dai Shen
	King Yuan Electronics Corp.	KYUFF	2449 TT	Haas Liu
	Kinik	KIKCF	1560 TT	Haas Liu
	Macronix International	MXICF	2337 TT	Dai Shen
	MediaTek	MDTKF	2454 TT	Haas Liu
	Montage Technology	XRDFF	688008 CH	Daley Li, CFA
	MPI Corporation	XMJCF	6223 TT	Mike Yang
	Nanya Technology	NNYAF	2408 TT	Simon Woo, CFA
	NCE Power	XVFFF	605111 CH	Daley Li, CFA
	OmniVision	XXHQF	603501 CH	Dai Shen
	Phison Electronics	PISNF	8299 TT	Simon Woo, CFA
	Powerchip Semiconductor Manufacturing Co	XCHPF	6770 TT	Haas Liu
	Powertech Technology	PWOGF	6239 TT	Simon Woo, CFA
	Rockchip	XRPXF	603893 CH	Daley Li, CFA
	Samsung C&T	XCDTF	028260 KS	Simon Woo, CFA
	Samsung Elec -G	SSNHZ	SMSN LI	Simon Woo, CFA
	Samsung Electronics	SSNLF	005930 KS	Simon Woo, CFA
	Samsung Electronics Preferred	SSNNF	005935 KS	Simon Woo, CFA
	Silergy Corp.	SLEGF	6415 TT	Mike Yang
	Silicon Motion	SIMO	SIMO US	Simon Woo, CFA
	SK Hynix	HXSCF	000660 KS	Simon Woo, CFA
	SK Hynix ADR	SKHY	SKHY US	Simon Woo, CFA
	SK Square	SKSQF	402340 KS	Simon Woo, CFA
	Taiwan Semiconductor Manufacturing Co.	TSM	TSM US	Haas Liu
	Taiwan Semiconductor Manufacturing Co.	TSMWF	2330 TT	Haas Liu
	Vanguard International Semiconductor Co	VGILF	5347 TT	Haas Liu
	Winbond Electronics	WBEKF	2344 TT	Dai Shen
	WinWay Technology	XWCLF	6515 TT	Mike Yang
	WT Microelectronics	XZOPF	3036 TT	Mike Yang
NEUTRAL				
	ASMedia Technology Inc.	XZSFF	5269 TT	Mike Yang
	Black Sesame Intl Holding	BSIHF	2533 HK	Daley Li, CFA
	Hangzhou Silan Microelectronics	XDFRF	600460 CH	Daley Li, CFA
	Lion Electronics	XDHFF	605358 CH	Dai Shen
	MetaX	XMEZF	688802 CH	Daley Li, CFA
	Novatek	NVKMF	3034 TT	Mike Yang
	Realtek	RLTKF	2379 TT	Haas Liu
	Shenzhen Goodix	XQPLF	603160 CH	Daley Li, CFA
	Soulbrain	XSBOF	357780 KS	Simon Woo, CFA
	VeriSilicon	XMLZF	688521 CH	Daley Li, CFA
UNDERPERFORM				
	Crystal Clear	XPPTF	300655 CH	Dai Shen
	Faraday	FDYTF	3035 TT	Haas Liu
	GlobalWafers	XWLFF	6488 TT	Mike Yang
	Hua Hong Grace	HHUSF	1347 HK	Dai Shen
	LX Semicon	XLXSF	108320 KS	Simon Woo, CFA
	M31 Technology	XMTZF	6643 TT	Mike Yang
	Maxscend	XMXSF	300782 CH	Daley Li, CFA
	Parade	PRDWF	4966 TT	Mike Yang
	United Microelectronics Corp.	XUMIF	2303 TT	Haas Liu



APR - Semiconductor Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	United Microelectronics Corp.	UMC	UMC US	Haas Liu
	Win Semiconductors	WSMIF	3105 TT	Haas Liu
	Wonik IPS	XRHQF	240810 KS	Simon Woo, CFA

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 − Tax Rate) + Goodwill Amortization	Total Assets − Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations − Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt − Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations − Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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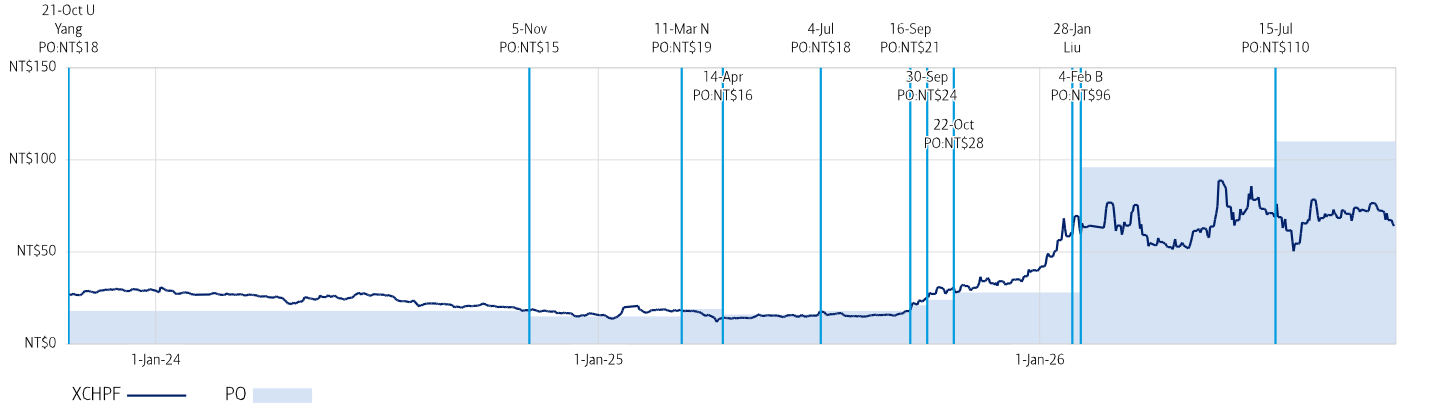
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Disclosures

Important Disclosures

Powerchip (PSMC) (XCHPF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 30 Sep 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	255	62.04%	Buy	157	61.57%
Hold	82	19.95%	Hold	46	56.10%
Sell	74	18.00%	Sell	31	41.89%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	2057	57.03%	Buy	1386	67.38%
Hold	806	22.35%	Hold	563	69.85%
Sell	744	20.63%	Sell	446	59.95%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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