04 Aug 2026 10:02:44 ET | 15 pages

Vanguard International Semi. (5347.TWO)

Tight capacity reinforces pricing upside

CITI'S TAKE

VIS's 2Q earnings were roughly inline with expectations with GM/OPM at 32.3% and 20.4%. Net profit was NT$2.98bn (up 32% QoQ and 46% YoY). The UTR was about 87% in 2Q26 and management expects an increase to 90% in 3Q and higher into 4Q. Beyond AI, management sees improving fundamentals across several mature-node end markets. Industrial demand has resumed growth, while automotive has stabilized with increasing semiconductor content and market share gains offsetting lower vehicle production. Customer inventories outside AI remain healthy and well controlled despite selective inventory builds. Supported by accelerating AI infrastructure deployment, management believes the mature-node foundry market is entering a broader recovery phase with improving utilization and pricing trends. Maintain Buy, with TP higher to NT$185.

Capacity expansion amid tight supply — To address persistent strong demand extending into 2027, VIS emphasized it remains as one of the few foundries still meaningfully expanding 8-inch fabs to support customers' power semiconductor demand. Currently, PMIC contributes 77% of its 2Q revenue with AI contribution to reach double-digit % in 2026 (vs LSD % last year). VSMC's Singapore 12-inch fab is ramping ahead of schedule, with breakeven and full utilization expected earlier than originally planned. Phase one 44kwpm capacity has been largely committed, mainly for power and interposer. Management also continues sourcing second-hand equipment and upgrading existing fabs to maximize capacity expansion at attractive economics.

Pricing Momentum Reflects Rising Costs and Strong Demand — For 3Q26, wafer shipment is expected to be up 1-3% QoQ and blended ASP to increase 2–4% QoQ, primarily reflecting direct pricing actions with additional support from product mix improvements. GM to improve to 33.5% (mid-point) on higher UTR but rising depreciation cost. 3Q guidance is roughly inline with market expectations. Management expects pricing to remain on an upward trajectory into 2027, driven by structural cost inflation and sustained tight capacity. Rising labor, material, and equipment costs require price adjustments to preserve long-term competitiveness and support continued investment. Management indicated 2027 price increases are unlikely to be smaller than those implemented in 2026.

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	7,046	4.27	-4.0	36.2	4.2	12.3	2.9
2025A	7,908	4.25	-0.4	36.3	3.5	10.4	2.9
2026E	11,352	5.91	38.8	26.2	3.0	12.7	3.7
2027E	14,243	7.41	25.5	20.8	2.9	14.6	4.7
2028E	17,545	9.13	23.2	16.9	2.8	17.4	5.8

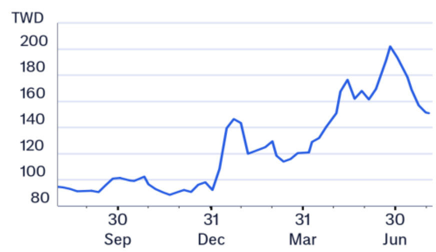
Source: Powered by dataCentral

Buy

Short-Term View: Upside

Price (04 Aug 26 15:00)	NT$154.50
Target price	NT$185.00↑
from NT$170.00	
Expected share price return	19.7%
Expected dividend yield	4.6%
Expected total return	24.3%
Market Cap	NT$290,393M
	US$8,960M

Price Performance (RIC: 5347.TWO, BB: 5347 TT)



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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

5347.TWO: Fiscal year end 31-Dec

Price: NT$154.50; TP: NT$185.00; Market Cap: NT$290,393m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	44,055	48,591	59,310	78,094	89,205
Cost of sales	-32,122	-34,937	-39,780	-51,338	-57,495
Gross profit	11,933	13,654	19,530	26,756	31,710
Gross Margin (%)	27.1	28.1	32.9	34.3	35.5
EBITDA (Adj)	**15,578**	**16,231**	**21,709**	**32,142**	**40,488**
EBITDA Margin (Adj) (%)	35.4	33.4	36.6	41.2	45.4
Depreciation	-8,467	-8,458	-9,482	-15,130	-19,695
Amortisation	0	0	0	0	0
EBIT (Adj)	**7,111**	**7,773**	**12,226**	**17,012**	**20,794**
EBIT Margin (Adj) (%)	16.1	16.0	20.6	21.8	23.3
Net interest	1,665	1,484	964	-51	145
Associates	-15	93	-329	0	0
Non-Op/Except/Other Adj	-10	-100	553	200	200
Pre-tax profit	**8,752**	**9,251**	**13,414**	**17,161**	**21,138**
Tax	-1,705	-1,480	-2,225	-2,917	-3,594
Extraord./Min.Int./Pref.div.	-1	137	164	0	0
Reported net profit	**7,046**	**7,908**	**11,352**	**14,243**	**17,545**
Net Margin (%)	16.0	16.3	19.1	18.2	19.7
Core NPAT	7,046	7,908	11,352	14,243	17,545
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	4.27	4.25	5.91	7.41	9.13
Core EPS ($)	4.27	4.25	5.91	7.41	9.13
DPS ($)	4.50	4.45	5.78	7.25	8.93
CFPS ($)	6.53	19.72	5.53	50.23	34.71
FCFPS ($)	-3.17	-22.35	-25.56	22.91	8.69
BVPS ($)	36.79	44.77	51.16	53.01	55.16
Wtd avg ord shares (m)	1,650	1,858	1,922	1,922	1,922
Wtd avg diluted shares (m)	1,650	1,858	1,922	1,922	1,922
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	15.1	10.3	22.1	31.7	14.2
EBIT (Adj) (%)	23.2	9.3	57.3	39.1	22.2
Core NPAT (%)	-4.4	12.2	43.6	25.5	23.2
Core EPS (%)	-4.0	-0.4	38.8	25.5	23.2
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	57,820	39,076	8,664	39,003	42,251
Accounts receivables	6,235	6,748	9,596	12,072	13,358
Inventory	6,221	6,937	9,999	12,578	13,918
Net fixed & other tangibles	55,230	124,335	175,356	212,726	243,031
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	23,384	23,556	30,881	36,571	39,526
Total assets	**148,889**	**200,652**	**234,495**	**312,951**	**352,083**
Accounts payable	1,416	1,724	2,312	2,583	2,704
Short-term debt	0	10,520	17,674	14,767	14,850
Long-term debt	0	0	0	0	0
Provisions & other liab	78,622	104,635	118,991	196,624	231,539
Total liabilities	**80,039**	**116,879**	**138,977**	**213,974**	**249,093**
Shareholders' equity	68,667	83,590	95,518	98,976	102,990
Minority interests	0	0	0	0	0
Total equity	**68,667**	**83,590**	**95,518**	**98,976**	**102,990**
Net debt (Adj)	**-57,820**	**-28,556**	**9,010**	**-24,236**	**-27,401**
Net debt to equity (Adj) (%)	-84.2	-34.2	9.4	-24.5	-26.6

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	36.2	36.3	26.2	20.8	16.9
PB (x)	4.2	3.5	3.0	2.9	2.8
EV/EBITDA (x)	15.4	14.7	12.5	8.5	6.3
FCF yield (%)	-2.1	-14.5	-16.5	14.8	5.6
Dividend yield (%)	2.9	2.9	3.7	4.7	5.8
Payout ratio (%)	105	105	98	98	98
ROE (%)	12.3	10.4	12.7	14.6	17.4
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	15,578	16,231	21,709	32,142	40,488
Working capital	-817	-922	-5,322	-4,785	-2,504
Other	-3,992	21,336	-5,763	69,174	28,712
Operating cashflow	**10,770**	**36,645**	**10,625**	**96,530**	**66,696**
Capex	-16,004	-78,186	-59,737	-52,500	-50,000
Net acq/disposals	0	0	0	0	0
Other	-2,586	-1,349	-173	0	0
Investing cashflow	**-18,590**	**-79,535**	**-59,910**	**-52,500**	**-50,000**
Dividends paid	-7,375	-8,400	-8,303	-10,785	-13,531
Financing cashflow	**37,940**	**24,283**	**19,220**	**-13,691**	**-13,448**
Net change in cash	**30,120**	**-18,607**	**-30,065**	**30,339**	**3,248**
Free cashflow to s/holders	**-5,235**	**-41,541**	**-49,113**	**44,030**	**16,696**

For definitions of the items in this table, please click here.

AI Power Portfolio Remains Anchored on 8-inch Manufacturing — With higher power demand for AI infrastructure, management believes discrete power solutions will remain as the mainstream architecture for AI servers over the next several years. While fully integrated Smart Power Stages (SPS) manufactured on 12-inch nodes are emerging, high-power AI applications continue to favor discrete controller plus MOSFET solutions due to superior robustness. Meanwhile, VIS continues expanding silicon carbide capabilities, targeting engineering samples in early 2027 to address future AI data center and automotive power applications.

Reiterate Buy; TP higher to NT$185 — Anticipating improving earnings outlook and better UTR, we lift our 2026/27/28 earnings projection by 3%/3%/18%. We maintain Buy with TP NT$185 (unchanged 25x PER but moving to 2027 EPS).

Figure 1. Vanguard – 2Q26 results comparison

	2Q26	1Q26		2Q25		2Q26		2Q26	
(NT$mn)	Actual	Actual	Q/Q	Actual	Y/Y	Citi	Diff.	Cons.	Diff.
Revenue	14,245	12,532	14%	11,699	22%	14,356	-1%	14,441	-1%
Gross profit	4,604	3,671	25%	3,280	40%	4,655	-1%	4,662	-1%
Gross margin	32.3%	29.3%	+3.0 ppt	28.0%	+4.3 ppt	32.4%	-0.1 ppt	32.3%	+0.0 ppt
Op. profit	2,901	2,087	39%	1,897	53%	2,860	1%	2,914	0%
OP margin	20.4%	16.7%	+3.7 ppt	16.2%	+4.2 ppt	19.9%	+0.4 ppt	20.2%	+0.2 ppt
Net income	2,975	2,246	32%	2,043	46%	2,780	7%	2,845	5%
EPS (NT$)	1.55	1.17	32%	1.10	40%	1.49	4%	1.52	2%

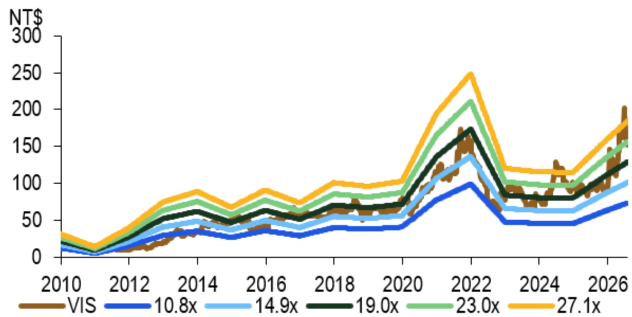
Source: Citi Research, Bloomberg

Figure 2. Vanguard – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	59,310	59,120	0%	78,094	75,406	4%	89,205	85,738	4%
YoY growth	22%	22%		32%	28%		14%	14%	
Gross profit	19,530	19,390	1%	26,756	25,899	3%	31,710	28,117	13%
Opex	7,304	7,358	-1%	9,744	9,412	4%	10,916	10,492	4%
Operating profit	12,226	12,032	2%	17,012	16,487	3%	20,794	17,625	18%
Pre-tax profit	13,414	13,070	3%	17,161	16,635	3%	21,138	17,969	18%
Net income	11,352	11,033	3%	14,243	13,807	3%	17,545	14,914	18%
EPS (NT$)	5.91	5.93	0%	7.41	7.42	0%	9.13	8.01	14%
Gross margin	32.9%	32.8%	+0.1 ppt	34.3%	34.3%	-0.1 ppt	35.5%	32.8%	+2.8 ppt
Opex ratio	12.3%	12.4%	-0.1 ppt	12.5%	12.5%	-0.0 ppt	12.2%	12.2%	+0.0 ppt
Operating margin	20.6%	20.4%	+0.3 ppt	21.8%	21.9%	-0.1 ppt	23.3%	20.6%	+2.8 ppt
Net margin	19.1%	18.7%	+0.5 ppt	18.2%	18.3%	-0.1 ppt	19.7%	17.4%	+2.3 ppt

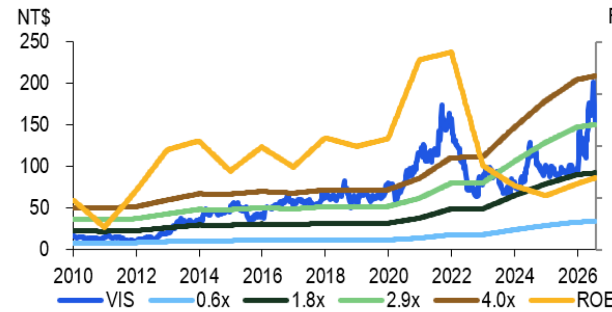
Source: Citi Research, Bloomberg

Figure 3. Vanguard – Forward P/E band



Source: Citi Research

Figure 4. Vanguard – Forward P/B band & ROE



Source: Citi Research

Figure 5. Vanguard – Forecast summary

	2025				2026				2027							
Unit: NT$mn	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3QE*	*4QE*	*1QE*	*2QE*	*3QE*	*4QE*	*2025*	*2026E*	*2027E*	*2028E*
Revenue	11,949	11,699	12,349	12,594	12,532	14,245	15,837	16,696	17,544	18,862	20,684	21,004	48,591	59,310	78,094	89,205
COGS	8,352	8,419	9,037	9,129	8,861	9,641	10,516	10,762	11,586	12,312	13,736	13,704	-34,937	-39,780	-51,338	-57,495
Gross Profit	3,597	3,280	3,312	3,465	3,671	4,604	5,321	5,934	5,958	6,550	6,948	7,300	13,654	19,530	26,756	31,710
Operating Expense	1,359	1,384	1,480	1,658	1,584	1,703	1,980	2,037	2,281	2,358	2,585	2,520	-5,880	-7,304	-9,744	-10,916
EBIT	2,238	1,897	1,832	1,807	2,087	2,901	3,342	3,897	3,677	4,192	4,363	4,780	7,773	12,226	17,012	20,794
Net Interest Income	473.4	390.6	307.0	313.5	325.2	313.7	212.7	112.7	12.7	-37.3	11.7	-38.3	1,484.5	964.3	-51.2	144.8
Net Other Income	-36.8	94.5	-39.7	-25.1	24.8	98.6	50.0	50.0	50.0	50.0	50.0	50.0	-7.1	223.5	200.0	200.0
Pre Tax Profit	2,675	2,382	2,099	2,095	2,437	3,313	3,604	4,060	3,740	4,205	4,424	4,791	9,251	13,414	17,161	21,138
Tax Expense/(Credit)	269	369	414	429	273	420	721	812	636	715	752	815	-1,480	-2,225	-2,917	-3,594
Net Profit	2,414	2,043	1,703	1,748	2,246	2,975	2,883	3,248	3,104	3,490	3,672	3,977	7,908	11,352	14,243	17,545
EPS (NT$)	1.30	1.10	0.91	0.94	1.17	1.55	1.50	1.69	1.62	1.82	1.91	2.07	4.25	5.91	7.41	9.13
Margins (%)																
Gross Margin	30.1	28.0	26.8	27.5	29.3	32.3	33.6	35.5	34.0	34.7	33.6	34.8	28.1	32.9	34.3	35.5
Operating Margin	18.7	16.2	14.8	14.3	16.7	20.4	21.1	23.3	21.0	22.2	21.1	22.8	16.0	20.6	21.8	23.3
Net Margin	20.2	17.5	13.8	13.9	17.9	20.9	18.2	19.5	17.7	18.5	17.8	18.9	16.3	19.1	18.2	19.7
Sequential Growth (%)																
Volume	10	7	4	-7	3	11	6	4	-2	3	6	-2	16	14	12	2
Revenue	3	-2	6	2	0	14	11	5	5	8	10	2	10	22	32	14
Gross Profit	9	-9	1	5	6	25	16	12	0	10	6	5	14	43	37	19
EBIT	16	-15	-3	-1	15	39	15	17	-6	14	4	10	9	57	39	22
Net Profit	31	-15	-17	3	29	32	-3	13	-4	12	5	8	12	44	25	23

Source: Citi Research, Company Reports

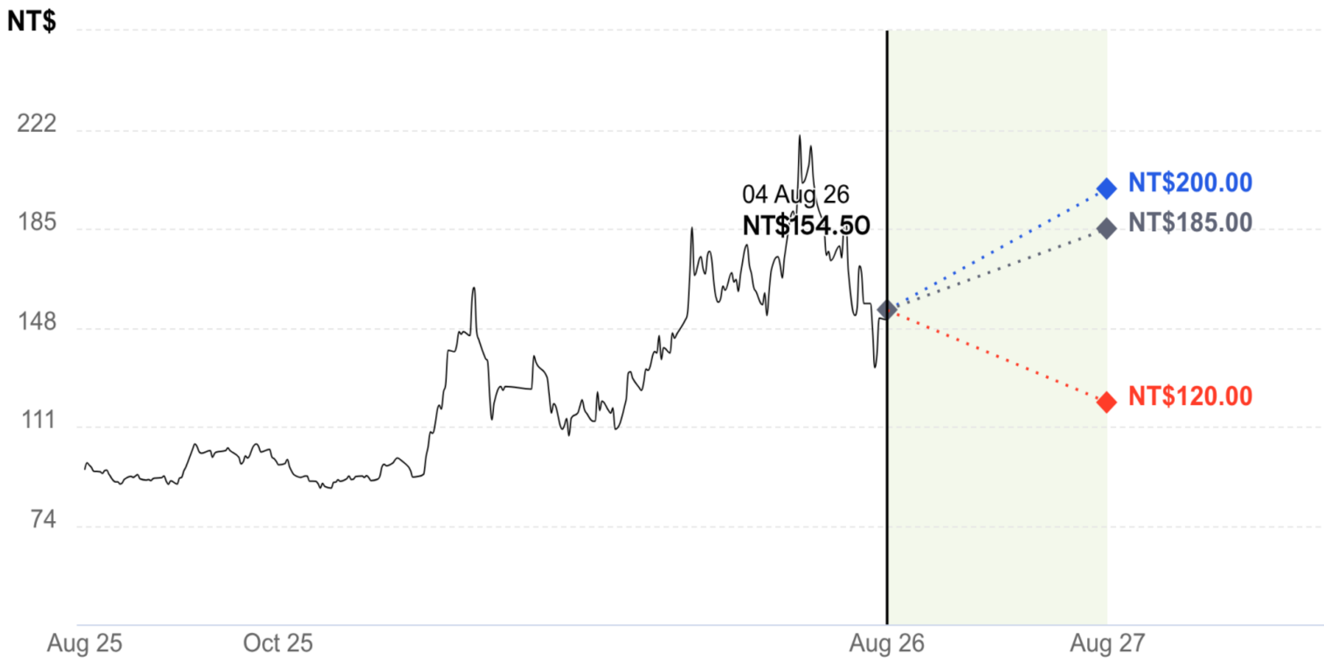
Adding Upside 90-Day Short-Term View on Vanguard International Semi. (5347.TWO)

Direction:	**Upside**
Duration:	Within 90 Days
Category:	Thematic driven

We see VIS' improving gross margin on higher UTR and pricing to support its share price performance in the coming months.

Bull/Bear: Vanguard International Semi. (5347.TWO)

NT$200.00 ▲29% Upside	NT$185.00 ▲20% Upside	NT$120.00 ▼22% Downside



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Current Price and expected returns (upside/downside) as of 04 Aug 2026

BULL Assumptions

- Better-than-expected PMIC and consumer demand
- Shorter learning curve and higher utilization ramp for the Singapore fab

BASE Assumptions

- Robust sales gowth with some GM pressure from increasing depreciation
- Some margin impact from the Singapore fab

BEAR Assumptions

- Worse-than-expected 8-inch recovery
- Weaker-than-expected PMIC growth

Vanguard International Semi.

Company description

Vanguard International Semiconductor Corporation (VIS) is a specialty IC foundry service provider, with existing capacity mainly focused on 8-inch. VIS offers a wide range of process technologies, including high voltage, ultra-high voltage, and BCD. In 2024, VIS and NXP Semiconductors established the VSMC joint venture in Singapore, with its first 12-inch fab set to begin initial production in 2027.

Investment strategy

We rate Vanguard a Buy as we expect it to benefit from robust PMIC sales momentum, driven by strong AI demand and improving industrial demand. VIS is gaining market share in PMIC as clients are looking for non-Chinese suppliers. Moreover, we believe VIS should benefit from transfer orders from TSMC on the 8-inch wafer process. We think VIS has already passed its trough and expect a gradual recovery into 2027.

Valuation

Our target price for VIS of NT$185 is based on 25x 2027E P/E, which we see as justified by its robust PMIC sales growth momentum and increasing outflow order opportunity from TSMC with support from its consistent cash dividend policy. Our target price equates to 2026/27E P/B of 3.6x/3.5x.

Risks

Key downside risks to our target price include: 1) weaker 8-inch demand along with higher costs due to inflation or more severe ASP competition from Chinese peers; 2) lower UTR of the new capacity at the newly acquired fab, with depreciation burden; and 3) less-than-expected outsourcing opportunities from IDMs.

Appendix A-1

ANALYST CERTIFICATION

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global

Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Vanguard International Semi. (5347.TWO)

Ratings and Target Price History
Fundamental Research

Analyst: Laura (Chia Yi) Chen

Date	Rating	Target Price	Closing Price
1 07-Nov-23 07:30:32	3	*60.01	71.52
2 25-Jan-24 18:23:32	3	*47.22	75.06
3 30-Apr-24 07:23:56	*2	*92.47	84.60
4 30-Jul-24 09:32:19	2	*114.11	118.05
5 05-Nov-24 10:33:28	2	*92.00	93.60
6 21-Mar-25 15:53:47	*1	*112.00	95.20
7 29-Jul-25 09:19:50	1	*107.00	95.10
8 25-Sep-25 09:04:47	1	*125.00	101.50
9 04-Nov-25 06:36:27	1	*115.00	98.70
10 23-Jan-26 10:47:04	1	*165.00	146.50
11 03-Feb-26 07:44:06	1	*150.00	135.50
12 05-May-26 08:26:59	1	*170.00	154.00

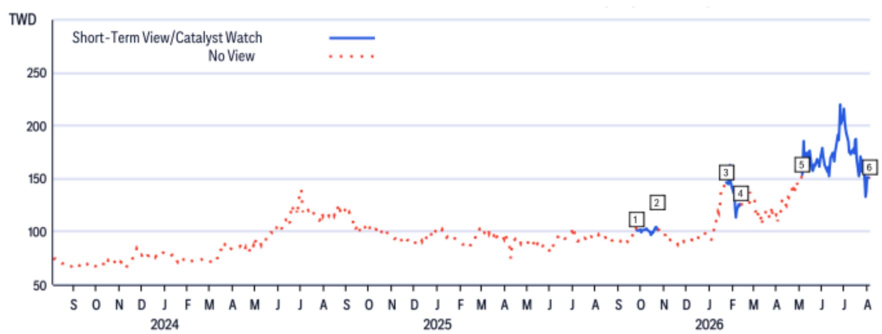
*Indicates Change

Rating/target price changes above reflect Eastern Time

Vanguard International Semi. (5347.TWO)

Short-Term View/Catalyst Watch Research

Analyst: Laura (Chia Yi) Chen



Date	Action	Expected Direction	Duration	Closing Price
1 25-Sep-25 05:04:47	Add STV	Upside	30 Days	101.50
2 24-Oct-25 14:20:21	Remove STV	Upside	30 Days	101.50
3 23-Jan-26 05:47:04	Add STV	Upside	30 Days	146.50
4 22-Feb-26 20:01:25	Remove STV	Upside	30 Days	126.00
5 05-May-26 04:26:59	Add STV	Upside	90 Days	154.00
6 03-Aug-26 22:05:45	Remove STV	Upside	90 Days	151.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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