Action | Citi Research

14 Aug 2026 08:26:56 ET | 15 pages

Alchip (3661.TW)

The worst in the past, better visibility with new product cycle

CITI'S TAKE

Despite 2Q26 result miss, Alchip is positive on 2H momentum as its key 3nm AI accelerator moves into volume production. 2Q26 revenue reached US$242mn, +83% QoQ, with 3nm/2nm contribution rising to 47% from 21% in 1Q as the new accelerator began ramping in late May. Management expects another meaningful revenue step-up in 3Q followed by sequential growth in 4Q, and believes momentum can extend for at least the next three to four years. Importantly, visibility is increasingly supported by secured follow-on generations rather than a single product cycle: the current 3nm accelerator is ramping, its 2nm successor is in final implementation, automotive projects remain strong, and two CPU programs are already in mass production. Reiterate Buy with TP NT$6,800.

3nm Ramp, 2nm Tape-Out and Broader Pipeline — The current 3nm AI accelerator already in production and is expected to ramp sequentially in 2H26. Management indicated that almost all orders for this year's program have already been placed, leaving 2026 expectations largely unchanged; importantly, 2027 shipment/revenue assumptions now have upside potential. We are looking for US$1.6bn/US$3.8bn for its AI ASIC revenue in 2026/2027. The next-generation 2nm accelerator has entered final implementation and remains on track for tape-out by year-end, with production targeted around end-2027. Management expects both ASP and shipment scale to exceed the 3nm generation given higher chip complexity and content value. Beyond AI accelerators, Alchip has secured the next two generations of a major Chinese automotive ADAS program, while two CPU projects are already in mass production with shipments increasing meaningfully.

Competitive Landscape — COT Shift Strengthens Alchip's Position. Management sees the industry's transition from full stack ASIC service toward COT as a structural trend as hyperscalers seek greater design control and lower cost. This potentially expands Alchip's addressable market as CSPs increasingly separate compute die, I/O chiplet, packaging and manufacturing decisions rather than relying on one turnkey ASIC vendor. Alchip argues that its differentiation lies in complex physical design, schedule execution and advanced packaging integration. For its existing major AI customer, management emphasized that Alchip remains the design partner for the next-generation accelerator. Management also believes its advanced-packaging track record differentiates it from Asian peers, while its ability to support both CoWoS and EMIB-T approaches provides additional flexibility.

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	6,446	79.05	81.7	53.3	8.6	22.4	0.9
2025A	5,598	67.68	-14.4	62.2	8.4	14.0	0.8
2026E	9,509	114.85	69.7	36.7	6.8	20.9	1.4
2027E	16,027	193.57	68.5	21.7	5.2	27.5	2.4
2028E	24,560	296.63	53.2	14.2	3.8	31.2	3.5

Source: Powered by dataCentral

Buy

Short-Term View: Upside, expires 05-OCT-26

Price (14 Aug 26 13:30)	NT$4,210.00
Target price	NT$6,800.00↑
from NT$6,200.00	
Expected share price return	61.5%
Expected dividend yield	0.8%
Expected total return	62.3%
Market Cap	NT$362,922M
	US$11,291M

Price Performance
(RIC: 3661.TW, BB: 3661 TT)

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

3661.TW: Fiscal year end 31-Dec

Price: NT$4,210.00; TP: NT$6,800.00; Market Cap: NT$362,922m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	51,969	30,926	53,778	126,344	207,694
Cost of sales	-41,768	-22,772	-38,821	-98,712	-163,481
Gross profit	10,201	8,154	14,957	27,632	44,214
Gross Margin (%)	19.6	26.4	27.8	21.9	21.3
EBITDA (Adj)	**8,439**	**7,594**	**12,432**	**22,120**	**32,818**
EBITDA Margin (Adj) (%)	16.2	24.6	23.1	17.5	15.8
Depreciation	-1,943	-2,577	-2,200	-3,600	-3,600
Amortisation	0	0	0	0	0
EBIT (Adj)	**6,496**	**5,017**	**10,232**	**18,520**	**29,218**
EBIT Margin (Adj) (%)	12.5	16.2	19.0	14.7	14.1
Net interest	1,194	1,583	1,124	1,200	1,200
Associates	-3	-1	-28	-28	-28
Non-Op/Except/Other Adj	121	121	496	496	496
Pre-tax profit	**7,808**	**6,720**	**11,824**	**20,188**	**30,886**
Tax	-1,362	-1,124	-2,309	-4,145	-6,311
Extraord./Min.Int./Pref.div.	-1	2	-7	-16	-16
Reported net profit	**6,446**	**5,598**	**9,509**	**16,027**	**24,560**
Net Margin (%)	12.4	18.1	17.7	12.7	11.8
Core NPAT	6,446	5,598	9,509	16,027	24,560
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	79.05	67.68	114.85	193.57	296.63
Core EPS ($)	79.05	67.68	114.85	193.57	296.63
DPS ($)	36.24	34.51	59.18	100.04	146.51
CFPS ($)	45.98	144.93	181.79	319.54	478.58
FCFPS ($)	21.47	117.28	174.79	312.53	471.57
BVPS ($)	489.23	502.01	618.65	815.83	1,117.98
Wtd avg ord shares (m)	79.0	80.9	80.9	80.9	80.9
Wtd avg diluted shares (m)	81.5	82.7	82.8	82.8	82.8
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	70.5	-40.5	73.9	134.9	64.4
EBIT (Adj) (%)	72.7	-22.8	104.0	81.0	57.8
Core NPAT (%)	93.8	-13.1	69.9	68.5	53.2
Core EPS (%)	81.7	-14.4	69.7	68.5	53.2
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	27,044	32,627	47,597	73,474	112,519
Accounts receivables	5,730	3,011	10,807	21,866	37,633
Inventory	8,661	6,945	23,226	43,219	67,315
Net fixed & other tangibles	2,045	2,225	929	374	101
Goodwill & intangibles	481	553	553	553	553
Financial & other assets	6,349	12,677	36,421	70,102	118,123
Total assets	**50,309**	**58,039**	**119,533**	**209,589**	**336,243**
Accounts payable	1,826	1,986	7,272	14,793	25,166
Short-term debt	0	0	0	0	0
Long-term debt	0	0	0	0	0
Provisions & other liab	9,006	15,228	61,950	128,441	220,146
Total liabilities	**10,833**	**17,214**	**69,222**	**143,234**	**245,313**
Shareholders' equity	39,456	40,805	50,286	66,313	90,873
Minority interests	21	19	26	42	58
Total equity	**39,477**	**40,824**	**50,312**	**66,355**	**90,931**
Net debt (Adj)	**-27,044**	**-32,627**	**-47,597**	**-73,474**	**-112,519**
Net debt to equity (Adj) (%)	-68.5	-79.9	-94.6	-110.7	-123.7

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	53.3	62.2	36.7	21.7	14.2
PB (x)	8.6	8.4	6.8	5.2	3.8
EV/EBITDA (x)	40.7	43.6	25.8	13.6	8.2
FCF yield (%)	0.5	2.8	4.2	7.4	11.2
Dividend yield (%)	0.9	0.8	1.4	2.4	3.5
Payout ratio (%)	46	51	52	52	49
ROE (%)	22.4	14.0	20.9	27.5	31.2
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	8,439	7,594	12,432	22,120	32,818
Working capital	-4,825	3,645	2,819	7,911	12,828
Other	135	750	-199	-3,574	-6,021
Operating cashflow	**3,749**	**11,989**	**15,052**	**26,457**	**39,625**
Capex	-1,998	-2,287	-580	-580	-580
Net acq/disposals	-652	-880	545	0	0
Other	0	0	0	0	0
Investing cashflow	**-2,651**	**-3,167**	**-35**	**-580**	**-580**
Dividends paid	-1,818	-2,946	-2,805	-4,810	-8,132
Financing cashflow	**14,979**	**-4,170**	**-28**	**0**	**0**
Net change in cash	**16,077**	**4,652**	**14,989**	**25,877**	**39,045**
Free cashflow to s/holders	**1,751**	**9,702**	**14,472**	**25,877**	**39,045**

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

Existing Customer Secured; Next Major CSP Opportunity Emerging — Alchip believes its existing CSP relationship is increasingly sticky after multiple generations of cooperation, with the customer already assigning it the next few generational designs and architectures. Customer concentration nevertheless remains high, and management acknowledged that meaningful diversification requires winning another major hyperscaler, we believe is Google as it is the biggest AI ASIC customer with large volume. As CSPs increasingly adopt COT and multi-vendor sourcing, Alchip expects additional opportunities across compute-die design, KGD and packaging integration, supporting management's expectation for AI-related growth broadly in line with key customers through 2029.

Maintaining Buy, TP NT$6,800 — Given higher ASP, more value added from Alchip and also remaining strong capex expansion from its major CSP customers, we lift our earnings projection for Alchip by 11%/15%/32% for 2026/2027/2028. We maintain Buy on Alchip with higher target price NT$6,800 (from NT$6,200), based on 35x of our 2027 EPS estimate. We lower our target PER from 37x to 35x to reflect recent market uncertainties.

Figure 1. Alchip – 2Q26 results overview

(NT$mn)	2Q26 Actual	1Q26 Actual	Q/Q	2Q25 Actual	Y/Y	2Q26 Citi	Diff.	2Q26 Cons.	Diff.
Revenue	7,640	4,187	82%	9,144	-16%	6,029	27%	9,192	-17%
Gross profit	2,662	2,101	27%	1,887	41%	2,613	2%	2,855	-7%
Gross margin	34.8%	50.2%	-15.3 ppt	20.6%	+14.2 ppt	43.3%	-8.5 ppt	31.1%	+3.8 ppt
Op. profit	1,646	1,368	20%	1,150	43%	2,191	-25%	1,992	-17%
OP margin	21.5%	32.7%	-11.1 ppt	12.6%	+9.0 ppt	36.3%	-14.8 ppt	21.7%	-0.1 ppt
Net income	1,638	1,428	15%	1,324	24%	2,040	-20%	1,843	-11%
EPS (NT$)	20.25	17.65	15%	16.37	24%	25.21	-20%	22.04	-8%

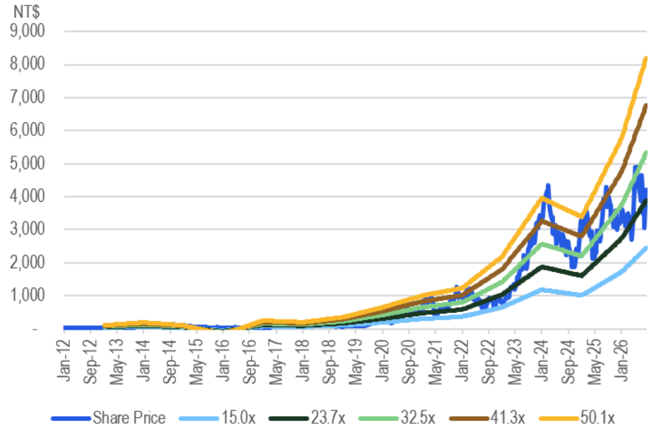
Source: Citi Research, Bloomberg, Company Reports

Figure 2. Alchip – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	53,778	35,401	52%	126,344	105,120	20%	207,694	155,878	33%
YoY growth	74%	14%		135%	197%		64%	48%	
Gross profit	14,957	12,030	24%	27,632	23,507	18%	44,214	33,042	34%
Opex	4,725	2,937	61%	9,112	7,582	20%	14,996	11,244	33%
Operating profit	10,232	9,094	13%	18,520	15,925	16%	29,218	21,798	34%
Pre-tax profit	11,824	10,686	11%	20,188	17,593	15%	30,886	23,466	32%
Net income	9,509	8,533	11%	16,027	13,969	15%	24,560	18,597	32%
EPS (NT$)	114.85	103.06	11%	193.57	168.72	15%	296.63	224.61	32%
Gross margin	27.8%	34.0%	-6.2 ppt	21.9%	22.4%	-0.5 ppt	21.3%	21.2%	+0.1 ppt
Opex ratio	8.8%	8.3%	+0.5 ppt	7.2%	7.2%	-0.0 ppt	7.2%	7.2%	+0.0 ppt
Operating margin	19.0%	25.7%	-6.7 ppt	14.7%	15.1%	-0.5 ppt	14.1%	14.0%	+0.1 ppt
Net margin	17.7%	24.1%	-6.4 ppt	12.7%	13.3%	-0.6 ppt	11.8%	11.9%	-0.1 ppt

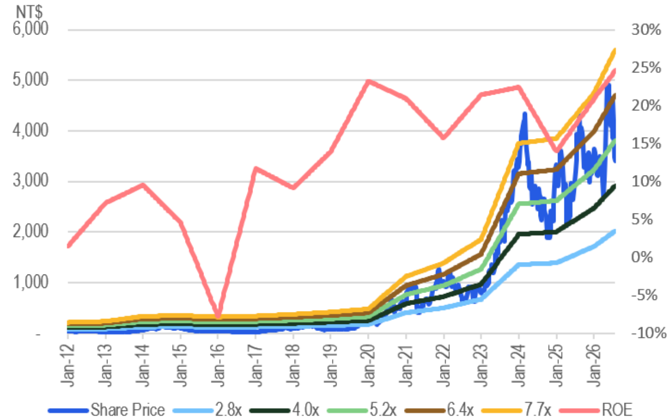
Source: Citi Research

Figure 3. Alchip – Forward P/E band



Source: Citi Research, Company Reports

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



Source: Citi Research, Company Reports

Figure 5. Alchip – Forward summary

Alchip	2025				2026				2027							
(NT$ in Mn, year-end Dec)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE	2025	2026E	2027E	2028E
Revenue	10,485	9,144	6,570	4,727	4,187	7,640	19,558	22,393	24,632	30,268	34,081	37,363	30,926	53,778	126,344	207,694
COGS	-8,056	-7,257	-4,729	-2,730	-2,086	-4,978	-14,913	-16,844	-19,372	-23,928	-26,553	-28,860	-22,772	-38,821	-98,712	-163,481
Depreciation costs	-789	-543	-578	-667	-400	-500	-600	-700	-900	-900	-900	-900	-2,577	-2,200	-3,600	-3,600
Gross Profit	2,429	1,887	1,841	1,997	2,101	2,662	4,645	5,549	5,260	6,341	7,528	8,503	8,154	14,957	27,632	44,214
Operating Expense	-934	-737	-684	-782	-733	-1,016	-1,408	-1,567	-1,798	-2,058	-2,454	-2,802	-3,138	-4,725	-9,112	-14,996
SG&A expenses	-249	-251	-233	-197	-251	-382	-528	-560	-739	-757	-920	-1,121	-930	-1,721	-3,537	-5,824
R&D expenses	-467	-494	-453	-417	-482	-634	-880	-1,008	-1,059	-1,302	-1,534	-1,681	-1,831	-3,004	-5,576	-9,171
EBIT	1,494	1,150	1,157	1,215	1,368	1,646	3,237	3,981	3,462	4,283	5,074	5,701	5,017	10,232	18,520	29,218
Pre-Tax Profit	1,793	1,599	1,591	1,737	1,784	2,035	3,654	4,323	3,878	4,700	5,491	6,119	6,720	11,824	20,188	30,886
Tax	-332	-277	-265	-250	-357	-397	-773	-781	-860	-1,016	-1,162	-1,106	-1,124	-2,309	-4,145	-6,311
Net Profit	1,464	1,324	1,328	1,483	1,428	1,638	2,876	3,538	3,014	3,679	4,325	5,009	5,598	9,509	16,027	24,560
EPS - diluted (NT$)	17.69	16.02	16.04	17.92	17.25	19.79	34.74	42.73	36.40	44.44	52.23	60.50	67.68	114.85	193.57	296.63
Margins (%)																
Gross Margin	23.2%	20.6%	28.0%	42.3%	50.2%	34.8%	23.8%	24.8%	21.4%	20.9%	22.1%	22.8%	26.4%	27.8%	21.9%	21.3%
Operating Margin	14.3%	12.6%	17.6%	25.7%	32.7%	21.5%	16.6%	17.8%	14.1%	14.1%	14.9%	15.3%	16.2%	19.0%	14.7%	14.1%
Net Margin	14.0%	14.5%	20.2%	31.4%	34.1%	21.4%	14.7%	15.8%	12.2%	12.2%	12.7%	13.4%	18.1%	17.7%	12.7%	11.8%
Sequential Growth (%)																
Revenue	-20%	-13%	-28%	-28%	-11%	82%	156%	14%	10%	23%	13%	10%	-40%	74%	135%	64%
Gross Profit	-12%	-22%	-2%	9%	5%	27%	74%	19%	-5%	21%	19%	13%	-20%	83%	85%	60%
EBIT	-15%	-23%	1%	5%	13%	20%	97%	23%	-13%	24%	18%	12%	-23%	104%	81%	58%
Net Profit	-20%	-10%	0%	12%	-4%	15%	76%	23%	-15%	22%	18%	16%	-13%	70%	69%	53%
EPS	-24%	-9%	0%	12%	-4%	15%	76%	23%	-15%	22%	18%	16%	-14%	70%	69%	53%

Source: Citi Research, Company Reports

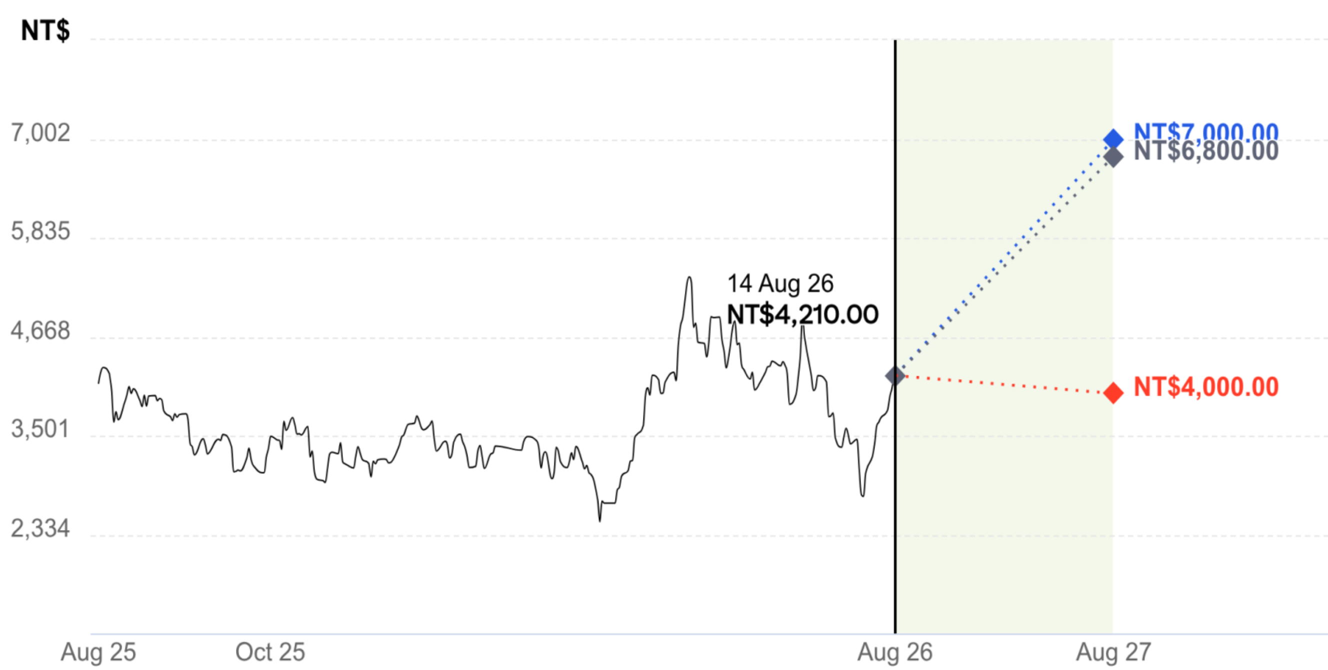
Short-Term View on Alchip (3661.TW)

Direction:	**Upside**
Duration:	Within 90 Days (expires 05 Oct 2026)
Date Added:	06 Jul 2026
Category:	Thematic driven

We expect Alchip to see better revenues momentum as its client's N3 AI accelerator starts to ramp up from 2H26 to support its share price performance.

Bull/Bear: Alchip (3661.TW)

NT$ 7,000.00 ▲66% Upside	NT$ 6,800.00 ▲62% Upside	NT$ 4,000.00 ▼5.0% Downside



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Current Price and expected returns (upside/downside) as of 14 Aug 2026

BULL Assumptions

- More-than-expected AI ASIC projects revenue contribution
- New projects wins from exist or new customers

BASE Assumptions

- Sales 2025-28E CAGR of around +50%

BEAR Assumptions

- Slower-than-expected NRE projects and revenue contribution
- Capacity constraint at advanced packaging
- More competition from its peers or/and insourcing at their customers

Alchip

Company description

Alchip is a leading provider of silicon design and manufacturing service, specializing in ASIC (Application-Specific Integrated Circuit) design, development, and production. Founded in 2003, the company has >1,000 employees and operates in Taipei, Shanghai, Japan, Korea, and the US. Alchip serves a wide range of industries, including automotive, industrials, consumer electronics, and computing.

Investment strategy

We rate Alchip as Buy. We expect Alchip to deliver a strong snapback in 2026/27 with its N3 project ramping up. Moreover, we are also positive over the long-term growth opportunity from its AI ASIC projects with its major CSP client. Alchip remains one of the few design service providers within TSMC's 3DFabric alliance. In our view, if CSPs work more aggressively on their internal design and become more competitive on product offerings, Alchip would be well positioned as a back-end/turnkey partner.

Valuation

Our target price for Alchip of NT$6,800 is based on 35x 2027E EPS. 35x target PER is largely in line with its historical 3-year PER range, which we see as justified on account of strong growth potential of its AI ASIC projects with its key CSP client, with better project cycle and strong growth momentum resuming next year. Our target price equates to 2026/27E P/B of 11x/8x.

Risks

Key downside risks to our target price include: 1) slower-than-expected NRE projects and revenue contributions; 2) capacity constraints at advanced packaging; and 3) more competition and/or insourcing by customers.

If you are visually impaired and would like to speak to a Citi representative regarding the details of the graphics in this document, please call USA 1-888-500-5008 (TTY: 711), from outside the US +1-210-677-3788

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

Alchip (3661.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Laura (Chia Yi) Chen

	Date	Rating	Target Price	Closing Price
1	20-Aug-23 18:42:38	1	*2,310.00	1,970.00
2	25-Sep-23 23:40:21	1	*3,080.00	2,625.00
3	02-Nov-23 19:35:26	1	*3,280.00	2,820.00
4	10-Dec-23 22:11:06	1	*3,840.00	3,335.00
5	20-Feb-24 08:20:35	1	*4,850.00	4,150.00
6	25-Apr-24 19:13:09	1	*3,900.00	2,830.00
7	25-Aug-24 17:11:26	1	*3,700.00	2,655.00
8	24-Oct-24 11:30:35	*2	*2,000.00	1,980.00
9	01-Nov-24 09:43:49	2	*2,200.00	2,030.00
10	09-Feb-25 15:55:03	2	*3,815.00	3,605.00
11	27-Feb-25 10:20:56	2	*3,700.00	3,285.00
12	01-May-25 14:24:22	2	*2,400.00	2,125.00
13	02-Jul-25 10:54:37	2	*3,180.00	3,190.00
14	13-Aug-25 10:10:55	*1	*4,800.00	4,120.00
15	06-Mar-26 09:46:22	1	*4,200.00	3,310.00
16	08-May-26 12:27:59	1	*6,200.00	4,890.00

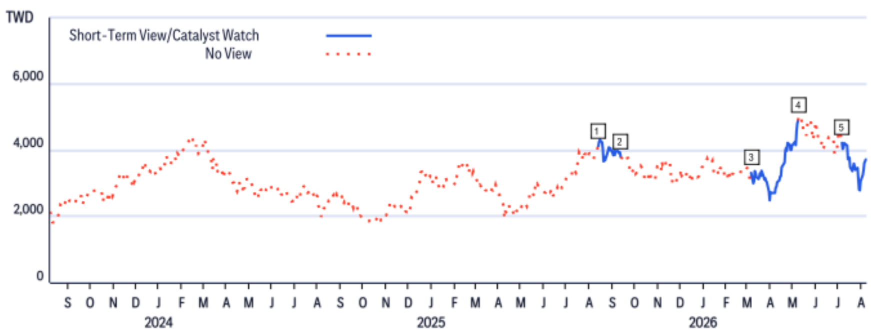
*Indicates Change

Rating/target price changes above reflect Eastern Time

Alchip (3661.TW)

Short-Term View/Catalyst Watch Research

Analyst: Laura (Chia Yi) Chen



	Date	Action	Expected Direction	Duration	Closing Price
1	13-Aug-25 06:10:55	Add STV	Upside	30 Days	4,120.00
2	12-Sep-25 14:04:30	Remove STV	Upside	30 Days	3,790.00
3	06-Mar-26 04:46:22	Add STV	Downside	90 Days	3,310.00
4	08-May-26 08:27:59	Remove STV	Downside	90 Days	4,890.00
5	06-Jul-26 07:37:18	Add STV	Upside	90 Days	4,215.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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