Action | Citi Research

06 Aug 2026 13:13:22 ET | 14 pages

Novatek (3034.TW)

Resilient 1H but early pull-in demand fading now; Neutral

CITI'S TAKE

Despite limited exposure to AI server, Novatek benefited from early pull-in demand and new product launches (eg, SoC), resulting in resilient 1H26 performance. However, looking forward, we think consumer demand could gradually fade away from 3Q26 onward. On the bright side, Novatek's market share gain in its US smartphone customer could help partially offset 2H headwinds. Overall, we still see limited catalysts in 2H for Novatek and stay at a Neutral rating with lifted TP of NT$555 (15x 2027E EPS).

2Q26 GM beat — 2Q26 sales grew 24% QoQ with strong growth from SoC (>40% QoQ), followed by milder growth in LDDIC (+8% QoQ) and SMDDIC (+5% QoQ). 2Q26 GM of 42.4% surprised to the upside, beating Citi/consensus forecasts by 5.2ppt/2.8ppt, due to price adjustment, more low-cost inventory and favorable product mix. OP also saw better leverage given increasing sales scale. Overall OP levels beat Citi/consensus forecasts by 28%/24%.

3Q26 on high season but early pull-in demand fading now — The company guided 3Q26 sales to grow 7% QoQ at the mid-point, mostly thanks to high season for smartphone. By application, mgmt. sees fading early pull-in demand, resulting in QoQ decline in TV, NB, monitor and LDDIC, while SoC demand would be flat QoQ backed by edge AI/image vision products. 2Q26 GM is guided to decline 2.4ppt QoQ at the midpoint due to rising material and OSAT costs. The company continuously negotiates with clients to reflect inflation.

Conservatism over consumer demand; share gain in its US smartphone customer — Due to the memory shortage and rising costs, mgmt. is conservative with 2H 26 end demand, given early pull-in in 1H. The company still targets introduction of more new products to maintain its sales growth and GM profile, such as edge AI, machine learning, foldable phone, OLED TDDI. For its US smartphone customer, given its superior technology capabilities in 22nm high-voltage process, we forecast the company wins a major share in iPhone adopting OLED DDIC from LG Display vs even share in last generation. Thus, we expect iPhone would help partially offset other consumer weakness. For FinFET process, the product is still under evaluation.

Earnings/TP raise; maintain Neutral — We raise our 2026/27E earnings by 12%/6% to factor in resilient GM profile despite inflation headwinds. We also introduce our 2028E earnings forecast. We lift our TP to NT$555 (15x 2027E EPS) from NT$460 (15x 2026E EPS) and maintain our Neutral rating.

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	20,342	33.41	-12.7	16.3	4.9	30.1	5.2
2025A	16,348	26.85	-19.6	20.2	4.9	24.1	4.2
2026E	21,042	34.55	28.7	15.7	4.4	29.4	5.3
2027E	22,623	37.15	7.5	14.6	4.1	29.1	5.8
2028E	24,500	40.23	8.3	13.5	3.9	29.6	6.2

Source: Powered by dataCentral

Neutral

Price (06 Aug 26 13:30)	NT$543.00
Target price	NT$555.00↑
from NT$460.00	
Expected share price return	2.2%
Expected dividend yield	5.3%
Expected total return	7.6%
Market Cap	NT$330,422M
	US$10,237M

Price Performance (RIC: 3034.TW, BB: 3034 TT)

Jack Chen AC
+886-2-8726-9091
jack1.chen@citi.com

Laura (Chia Yi) Chen
+886-2-8726-9090
laura.cy.chen@citi.com

Nicholas Lai
+886-2-8726-9093
nicholas.lai@citi.com

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

3034.TW: Fiscal year end 31-Dec

Price: NT$543.00; TP: NT$555.00; Market Cap: NT$330,422m; Recomm: Neutral

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	102,788	100,663	112,924	119,597	126,996
Cost of sales	-61,315	-62,755	-68,232	-72,919	-77,321
Gross profit	41,472	37,908	44,692	46,679	49,676
Gross Margin (%)	40.3	37.7	39.6	39.0	39.1
EBITDA (Adj)	**22,035**	**18,328**	**23,281**	**25,865**	**28,079**
EBITDA Margin (Adj) (%)	21.4	18.2	20.6	21.6	22.1
Depreciation	-229	-91	-80	-80	-80
Amortisation	0	0	0	0	0
EBIT (Adj)	**21,806**	**18,237**	**23,201**	**25,785**	**27,999**
EBIT Margin (Adj) (%)	21.2	18.1	20.5	21.6	22.0
Net interest	1,296	1,019	909	931	955
Associates	113	83	199	180	180
Non-Op/Except/Other Adj	911	195	1,130	40	40
Pre-tax profit	**24,126**	**19,534**	**25,439**	**26,937**	**29,174**
Tax	-3,784	-3,186	-4,397	-4,313	-4,674
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	**20,342**	**16,348**	**21,042**	**22,623**	**24,500**
Net Margin (%)	19.8	16.2	18.6	18.9	19.3
Core NPAT	20,342	16,348	21,042	22,623	24,500

Per share data	2024	2025	2026E	2027E	2028E
Reported EPS ($)	33.41	26.85	34.55	37.15	40.23
Core EPS ($)	33.41	26.85	34.55	37.15	40.23
DPS ($)	28.00	23.00	29.05	31.23	33.82
CFPS ($)	27.35	19.22	25.48	36.49	38.45
FCFPS ($)	25.80	17.73	25.15	35.84	37.79
BVPS ($)	111.62	111.32	123.59	131.72	140.75
Wtd avg ord shares (m)	609	609	609	609	609
Wtd avg diluted shares (m)	609	609	609	609	609

Growth rates	2024	2025	2026E	2027E	2028E
Sales revenue (%)	-6.9	-2.1	12.2	5.9	6.2
EBIT (Adj) (%)	-18.2	-16.4	27.2	11.1	8.6
Core NPAT (%)	-12.8	-19.6	28.7	7.5	8.3
Core EPS (%)	-12.7	-19.6	28.7	7.5	8.3

Balance Sheet (NT$m)	2024	2025	2026E	2027E	2028E
Cash & cash equiv.	48,771	42,419	43,570	47,391	51,074
Accounts receivables	20,274	21,099	23,291	23,663	25,265
Inventory	8,701	8,641	14,100	14,325	15,296
Net fixed & other tangibles	19,385	19,208	19,698	20,117	20,537
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	5,271	5,999	7,322	7,584	7,954
Total assets	**102,401**	**97,366**	**107,980**	**113,080**	**120,126**
Accounts payable	10,635	9,352	14,232	14,247	15,206
Short-term debt	0	0	0	0	0
Long-term debt	0	0	0	0	0
Provisions & other liab	23,843	20,274	18,541	18,678	19,270
Total liabilities	**34,477**	**29,627**	**32,773**	**32,925**	**34,475**
Shareholders' equity	67,923	67,739	75,207	80,155	85,651
Minority interests	0	0	0	0	0
Total equity	**67,923**	**67,739**	**75,207**	**80,155**	**85,651**
Net debt (Adj)	**-48,771**	**-42,419**	**-43,570**	**-47,391**	**-51,074**
Net debt to equity (Adj) (%)	-71.8	-62.6	-57.9	-59.1	-59.6

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	16.3	20.2	15.7	14.6	13.5
PB (x)	4.9	4.9	4.4	4.1	3.9
EV/EBITDA (x)	12.5	15.3	12.1	10.8	9.8
FCF yield (%)	4.8	3.3	4.6	6.6	7.0
Dividend yield (%)	5.2	4.2	5.3	5.8	6.2
Payout ratio (%)	84	86	84	84	84
ROE (%)	30.1	24.1	29.4	29.1	29.6

Cashflow (NT$m)	2024	2025	2026E	2027E	2028E
EBITDA	22,035	18,328	23,281	25,865	28,079
Working capital	-3,919	-4,735	-5,605	-478	-1,163
Other	-1,464	-1,889	-2,160	-3,162	-3,499
Operating cashflow	**16,652**	**11,704**	**15,517**	**22,226**	**23,417**
Capex	-943	-907	-197	-400	-400
Net acq/disposals	0	0	0	0	0
Other	182	-280	-767	-330	-330
Investing cashflow	**-761**	**-1,187**	**-965**	**-730**	**-730**
Dividends paid	-19,472	-17,038	-13,996	-17,675	-19,004
Financing cashflow	**-21,010**	**-16,869**	**-13,402**	**-17,675**	**-19,004**
Net change in cash	**-5,119**	**-6,352**	**1,151**	**3,821**	**3,683**
Free cashflow to s/holders	**15,709**	**10,797**	**15,319**	**21,826**	**23,017**

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

Figure 1. Novatek – 2Q26 Results

(NT$mn)	2Q26 Actual	1Q26 Actual	Q/Q	2Q25 Actual	Y/Y	2Q26 Citi	Diff.	2Q26 Cons.	Diff.
Revenue	28,660	23,145	24%	26,152	10%	25,270	13%	27,980	2%
Gross profit	12,157	9,040	34%	9,494	28%	9,396	29%	11,082	10%
Gross margin	42.4%	39.1%	+3.4 ppt	36.3%	+6.1 ppt	37.2%	+5.2 ppt	39.6%	+2.8 ppt
Op. profit	6,466	4,028	61%	4,823	34%	5,034	28%	5,226	24%
OP margin	22.6%	17.4%	+5.2 ppt	18.4%	+4.1 ppt	19.9%	+2.6 ppt	18.7%	+3.9 ppt
Net income	6,328	3,767	68%	3,739	69%	4,775	33%	4,640	36%
EPS (NT$)	10.39	6.19	68%	6.14	69%	7.84	32%	7.64	36%

Source: Citi Research Estimates, Company Reports, Bloomberg

Figure 2. Novatek – Earnings Revisions

	3Q26E			4Q26E			2026E			2027E			2028E
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.	New
Sales	31,043	28,344	10%	30,076	28,344	6%	112,924	105,007	8%	119,597	111,543	7%	126,996
Sequential growth (%)	8%	12%		-3%	0%		12%	4%		6%	6%		6%
Gross profit	11,933	10,879	10%	11,562	10,879	6%	44,692	39,724	13%	46,679	43,436	7%	49,676
Opex	5,464	5,272	4%	5,323	5,017	6%	21,490	18,801	14%	20,894	19,488	7%	21,677
Operating profit	6,469	5,607	15%	6,239	5,862	6%	23,201	20,924	11%	25,785	23,948	8%	27,999
Pre-tax profit	6,701	5,929	13%	6,567	6,272	5%	25,439	22,336	14%	26,937	25,390	6%	29,174
Net income	5,562	4,921	13%	5,385	5,143	5%	21,042	18,747	12%	22,623	21,325	6%	24,500
EPS (NT$)	9.13	8.08	13%	8.84	8.45	5%	34.55	30.79	12%	37.15	35.02	6%	40.23
Gross margin (%)	38.4%	38.4%	+0.1 ppt	38.4%	38.4%	+0.1 ppt	39.6%	37.8%	+1.7 ppt	39.0%	38.9%	+0.1 ppt	39.1%
Opex ratio (%)	17.6%	18.6%	-1.0 ppt	17.7%	17.7%	-0.0 ppt	19.0%	17.9%	+1.1 ppt	17.5%	17.5%	-0.0 ppt	17.1%
Operating margin (%)	20.8%	19.8%	+1.1 ppt	20.7%	20.7%	+0.1 ppt	20.5%	19.9%	+0.6 ppt	21.6%	21.5%	+0.1 ppt	22.0%
Net margin (%)	17.9%	17.4%	+0.6 ppt	17.9%	18.1%	-0.2 ppt	18.6%	17.9%	+0.8 ppt	18.9%	19.1%	-0.2 ppt	19.3%

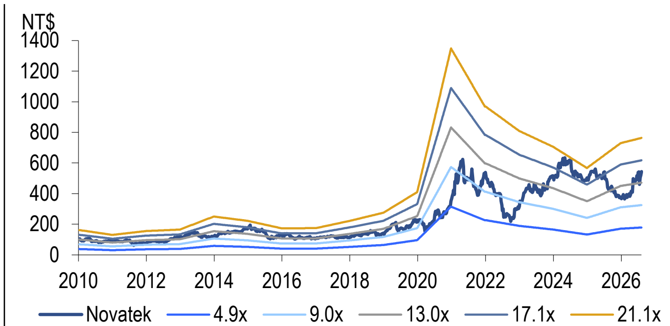
Source: Citi Research Estimates

Figure 3. Novatek – Forecast Summary

	2026				2027														
(NT$ in Mn, year-end Dec)	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Revenue	23,145	28,660	31,043	30,076	28,815	29,671	30,556	30,556	54,834	64,372	79,956	135,366	109,957	110,429	102,788	100,663	112,924	119,597	126,996
COGS	-14,105	-16,503	-19,110	-18,513	-17,679	-18,174	-18,533	-18,533	-37,818	-43,758	-51,998	-67,974	-59,015	-64,217	-61,315	-62,755	-68,232	-72,919	-77,321
Gross Profit	9,040	12,157	11,933	11,562	11,135	11,497	12,023	12,023	17,015	20,614	27,958	67,392	50,941	46,212	41,472	37,908	44,692	46,679	49,676
Operating Expense	-5,012	-5,691	-5,464	-5,323	-5,187	-5,074	-5,500	-5,133	-9,400	-10,757	-13,180	-19,618	-18,212	-19,550	-19,666	-19,671	-21,490	-20,894	-21,677
SG&A expenses	-736	-860	-807	-812	-778	-801	-733	-794	-1,659	-1,855	-2,186	-3,018	-2,802	-2,759	-2,859	-2,946	-3,215	-3,107	-3,044
R&D expenses	-4,276	-4,831	-4,656	-4,511	-4,409	-4,273	-4,767	-4,339	-7,741	-8,902	-10,994	-16,601	-15,410	-16,791	-16,807	-16,725	-18,275	-17,787	-18,633
EBIT	4,028	6,466	6,469	6,239	5,949	6,423	6,523	6,890	7,615	9,857	14,778	47,773	32,729	26,662	21,806	18,237	23,201	25,785	27,999
Net Interest Income	226	237	224	222	231	243	230	227	57	78	96	107	509	1,234	1,296	1,019	909	931	955
Net Other Income	136	1,079	8	106	8	98	8	106	233	-121	-324	234	1,274	336	1,024	278	1,329	220	220
Pre-Tax Profit	4,389	7,782	6,701	6,567	6,188	6,764	6,761	7,223	7,906	9,815	14,549	48,115	34,511	28,231	24,126	19,534	25,439	26,937	29,174
Tax	622	1,454	1,139	1,182	1,052	812	1,149	1,300	-1,515	-1,888	-2,732	-9,249	-6,542	-4,914	-3,784	-3,186	-4,397	-4,313	-4,674
Net Profit	3,767	6,328	5,562	5,385	5,136	5,952	5,612	5,923	6,391	7,927	11,817	38,866	27,970	23,318	20,342	16,348	21,042	22,623	24,500
EPS (NT$)	6.19	10.39	9.13	8.84	8.43	9.77	9.21	9.73	10.50	13.02	19.41	63.81	45.88	38.29	33.41	26.85	34.55	37.15	40.23
Margins (%)																			
Gross Margin	39.1	42.4	38.4	38.4	38.6	38.7	39.3	39.3	31.0	32.0	35.0	49.8	46.3	41.8	40.3	37.7	39.6	39.0	39.1
Operating Margin	17.4	22.6	20.8	20.7	20.6	21.6	21.3	22.5	13.9	15.3	18.5	35.3	29.8	24.1	21.2	18.1	20.5	21.6	22.0
Net Margin	16.3	22.1	17.9	17.9	17.8	20.1	18.4	19.4	11.7	12.3	14.8	28.7	25.4	21.1	19.8	16.2	18.6	18.9	19.3
Sequential Growth (%)																			
Revenue	1.4	23.8	8.3	-3.1	-4.2	3.0	3.0	0.0	16.5	17.4	24.2	69	-19	0	-7	-2	12	6	6
Gross Profit	3.8	34.5	-1.8	-3.1	-3.7	3.2	4.6	0.0	25.5	21.2	35.6	141	-24	-9	-10	-9	18	4	6
EBIT	4.3	60.5	0.0	-3.6	-4.6	8.0	1.6	5.6	32.3	29.4	49.9	223	-31	-19	-18	-16	27	11	9
Net Profit	2.1	68.0	-12.1	-3.2	-4.6	15.9	-5.7	5.5	27.2	24.0	49.1	229	-28	-17	-13	-20	29	8	8
EPS	2.1	68.0	-12.1	-3.2	-4.6	15.9	-5.7	5.5	27.2	24.0	49.1	229	-28	-17	-13	-20	29	8	8

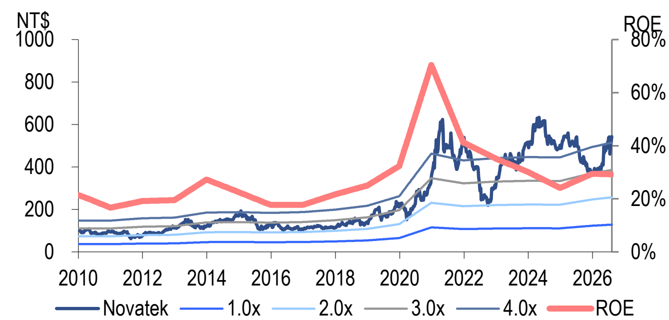
Source: Citi Research Estimates, Company Reports

Figure 4. Novatek – 12M Forward P/E Band



Source: dataCentral, Citi Research

Figure 5. Novatek – 12M Forward P/B Band



Source: dataCentral, Citi Research

Bull/Bear: Novatek (3034.TW)

NT$ 600.00 ▲10% Upside	NT$ 555.00 ▲2.2% Upside	NT$ 400.00 ▼26% Downside

Spread 37pp
Current Price and expected returns (upside/downside) as of 06 Aug 2026

BULL Assumptions

- Better than expected OLED driver shipment in 2026/27E
- More share gain in iPhone OLED business

BASE Assumptions

- Weak TDDI demand with mild growth in OLED shipments in 2026/27E
- 39.6%/39.0% GPM and 18.6%/18.9% OPM in 2026/27E

BEAR Assumptions

- Tougher competition from peers in TDDI leading to some share loss
- More impact from the entity list change
- Ease of the supply chain tightness

Novatek

Company description

Novatek Microelectronics Corp., Ltd. designs, manufactures, and markets integrated circuits (ICs). The company's products are used in telecommunication, computer peripherals, consumer electronics, and LCD (liquid crystal display) drivers.

Investment strategy

We rate Novatek shares as Neutral. 2026 headwinds mainly came from rising memory costs and inflation (eg, OSATs), pressuring its GM profile. Although rising costs are negatively impacting end demand, we believe downside is likely limited given lean inventory levels both in Novatek itself and customers. Looking forward, we do expect Novatek to see good progress in 2026 in OLED DDIC for both the Android camp and iPhone camp with potential market share gain. However, considering lack of catalysts in sight in 2H26, we believe its share price would be range bound in the near term. A high dividend yield of c.5% would provide some protection to the shares, in our view.

Valuation

Our target price of NT$555 is based on a 15x 2027E PE, which is higher than the average level of its 1-year forward consensus PE average of 13x over the past five years, justified by lean inventory levels in the industry, better S/D in the TV market, likely better progress in AMOLED DDIC for Apple business starting in 2026 (higher-than-expected market share) and ASIC upside. Our target price is equivalent to 2026/27E PB of 4.5x/4.2x.

Risks

Key upside risks that could cause the stock to trade above our target price include: 1) less macro uncertainty and recovering consumer demand; 2) fast edge AI ramp and resolution migration; 3) SoC business growth faster than expected; and 4) less increase in gold prices. Key downside risks include: 1) foundry hike pressure along with muted end demand; 2) foundry capacity constraints for certain nodes to limit growth potential; 3) edge AI ramp and resolution migration slowdown; 4) SoC business growth slows; and 5) more increase in gold prices.

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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

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IMPORTANT DISCLOSURES

Novatek (3034.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Jack Chen

	Date	Rating	Target Price	Closing Price
1	08-Aug-23 12:46:56	1	*500.00	417.50
2	07-Nov-23 12:39:36	1	*550.00	499.00
3	07-Feb-24 03:23:56	1	*560.00	506.00
4	20-May-24 09:42:35	1	*671.00	612.00
5	06-Aug-24 09:47:23	1	*640.00	499.50
6	06-Nov-24 12:37:56	1	*590.00	495.50
7	12-Feb-25 06:44:16	1	*620.00	546.00
8	12-May-25 07:37:30	1	*590.00	525.00
9	06-Aug-25 20:28:52	*2	*460.00	458.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

Novatek (3034.TW)

Short-Term View/Catalyst Watch Research

Analyst: Jack Chen

	Date	Action	Expected Direction	Duration	Closing Price
1	06-Nov-24 07:37:56	Add STV	Upside	90 Days	495.50
2	04-Feb-25 19:44:22	Remove STV	Upside	90 Days	539.00
3	07-May-25 17:06:10	Add CW	Downside	30 Days	519.00
4	06-Jun-25 14:27:57	Remove CW	Downside	30 Days	498.00
5	06-Aug-25 16:28:52	Add STV	Downside	30 Days	458.00
6	05-Sep-25 14:02:34	Remove STV	Downside	30 Days	438.50

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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