Daiwa Capital Markets Hong Kong Limited

Vanguard International Semiconductor (5347 TT)

Target price: **TWD210.00**

Share price (7 Oct): **TWD190.00** | Up/downside: **+10.5%**

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★ **Outperform** (initiation)

Initiation: fast ramp to capture the AI ripple effect

- Fully loaded through 2027 on AI scaling and fab optimisation
- Fast expansion to capture a paradigm shift in the foundry sector
- Initiating with an Outperform (2) rating and 12M TP of TWD210

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Investment case: We initiate coverage of Vanguard International Semiconductor (VIS), a leading specialty foundry, with an Outperform (2) rating and 12-month TP of TWD210. We expect VIS to enjoy fully loaded operations (in terms of wafer-in) through 2027 with pricing power, thanks to a ripple effect as AI demand scales from compute to power, further augmented by TSMC's fab optimisation. Given VIS's historical ties with TSMC, which have strategically helped it advance its business transformation towards value-added specialty foundry offerings, it looks well positioned to benefit from this multi-year AI scaling, cemented by the fast expansion of its first 12" fab in Singapore to capitalise on what we observe as a paradigm shift in the foundry industry.

Fully loaded operations on AI ripple effect. We expect VIS's wafer loadings to approach full levels in terms of wafer-in through 2027, thanks to the AI scaling out and across creating a ripple effect for demand spillover and benefitting specialty foundries. Given its strategic partnership with TSMC, VIS stands to benefit from this multi-year AI build. Despite its pull-in of the 12" ramp, we do not expect such fast expansion to dwarf utilisations since all the planned capacity is sold out, thanks to long-term agreements (LTA) signed with customers amid the supply constraint, which should help VIS manage surging depreciation and minimise margin dilution.

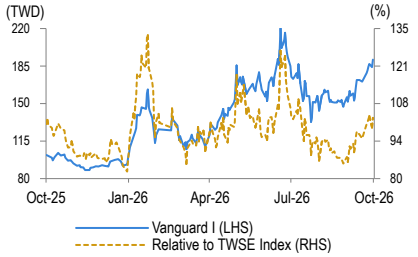
Fast expansion to capture the paradigm shift. To capitalise on the likely paradigm shift in the specialty foundry segment, as detailed in the sector section, driven by TSMC's fab optimisation, VIS is pulling its 12" fab construction in Singapore nearly half a year ahead of schedule. VIS aims to start mass production from 1Q27 after hosting an opening ceremony on 28 September. We expect this fab to reach its first-phase designed capacity of 44,000 wafers per month (wpm) by end-2028, with c.30% of it dedicated to TSMC's wafer interposers and the rest for customers' power semiconductor and embedded flash chips, mainly for AI applications. We forecast VIS to enjoy counter-seasonal quarters through 2027, delivering revenue CAGR of c.30% over 2026-28 for an EPS CAGR of 26%.

Catalysts: 1) Record-breaking monthly revenue run rates through 2027; 2) upbeat guidance for the coming quarters; and 3) margin resilience to ease investors' concerns about depreciation amid the 12" ramp.

Valuation: We derive our 12M TP of TWD210 for VIS by applying our ROE-adjusted PBR target of 5.2x to our one-year-forward BVPS forecast.

Risks: 1) Current chip upcycle ends earlier than expected; and 2) the 12" fab ramp/execution turns out below expectation.

Share price performance



12-month range	88.00-220.00
Market cap (USDbn)	11.22
3m avg daily turnover (USDm)	104.83
Shares outstanding (m)	1,878
Major shareholder	TSMC (18.9%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	57,494	76,662	95,017
Operating profit (m)	11,742	16,893	22,282
Net profit (m)	11,076	14,875	17,637
Core EPS (fully-diluted)	5.896	7.919	9.389
EPS change (%)	39.2	34.3	18.6
Daiwa vs Cons. EPS (%)	(1.9)	5.1	(2.4)
PER (x)	32.2	24.0	20.2
Dividend yield (%)	2.4	2.6	2.9
DPS	4.5	5.0	5.5
PBR (x)	5.3	4.7	4.4
EV/EBITDA (x)	19.0	13.1	9.7
ROE (%)	16.8	20.8	22.6

Source: FactSet, Daiwa forecasts

See important disclosures, including any required research certifications, beginning on page 43

Company

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Outperform
(initiation)

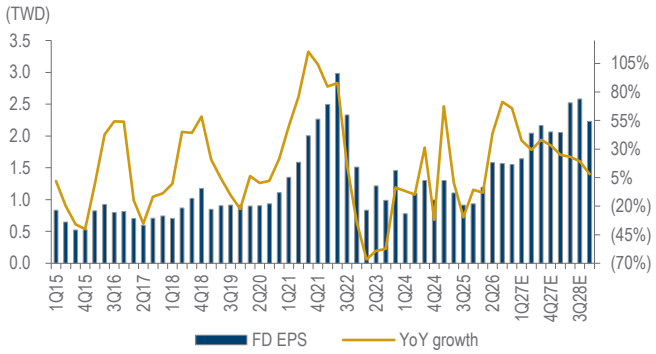
How do we justify our view?

Growth outlook	Valuation	Earnings revisions
✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔

Growth outlook

VIS's earnings have been volatile due to the cyclical nature of the semiconductor industry in which it operates. That said, barring its hefty growth during 2021-22 as an outlier due to the COVID-inflated chip demand, VIS will enjoy 30-70% YoY EPS growth over 2Q26E-4Q27E, according to our forecasts, with strength similar to that in 2016 and 2018. On an annual EPS basis, we forecast a 30% CAGR over 2025-28.

VIS: quarterly EPS growth trend

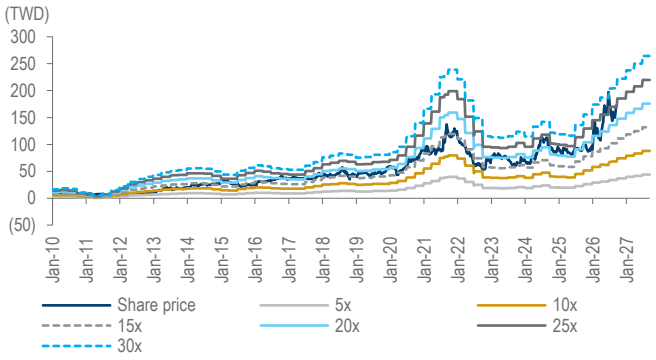


Source: Company, Daiwa estimates and forecasts

Valuation

Trading at 24x on our 4-quarter-forward EPS, the VIS stock is priced at the high end of its post-2009 GFC range of 5-30x, suggesting a not-so-compelling valuation vs. history. Yet, considering our forecast of a robust 30% EPS CAGR over 2025-28, 24x does not look demanding from a PEG point of view. Valued by our ROE-adjusted PBR target of 5.2x, our 12M TP of TWD210 for VIS translates into a 26x 4-quarter forward PER, which looks reasonable in combination of both PBR and PER methodologies.

VIS: 4-quarter-forward PER bands

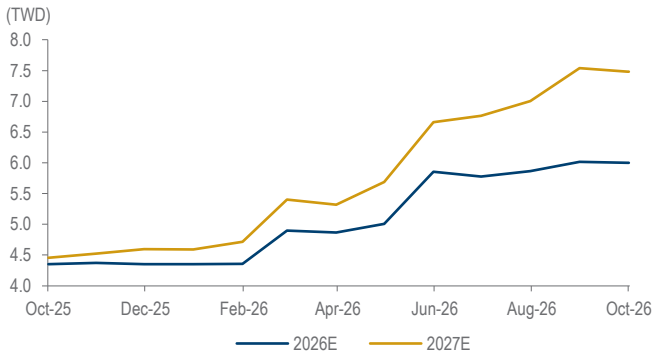


Source: Company, TEJ, Daiwa estimates and forecasts

Earnings revision

Bloomberg consensus 2026-27 EPS forecasts for VIS have been trending up since February 2026, indicating positive investor sentiment. Our 2027E EPS is 5% above consensus, implying room for further upward revisions from the market to act as an upside catalyst for the stock, in our opinion.

VIS: consensus EPS forecast revisions



Source: Bloomberg

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilization (%)	101	83	59	66	76	85	95	97
Blended ASP (USD)	543	670	629	624	616	637	686	723
Wafer shipment (8" equ., '000)	2,901	2,605	1,952	2,194	2,533	2,838	3,492	4,109

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer Foundry Revenue	43,952	51,694	38,273	44,056	48,591	57,495	76,662	95,017
Sub & Other Revenue	0	0	0	0	0	0	0	0
Other Revenue	(1)	1	(0)	(1)	0	(0)	0	0
Total Revenue	**43,951**	**51,694**	**38,273**	**44,055**	**48,591**	**57,494**	**76,662**	**95,017**
Other income	0	0	0	0	0	0	0	0
COGS	(24,799)	(27,771)	(27,827)	(32,122)	(34,937)	(38,893)	(51,107)	(62,341)
SG&A	(2,899)	(3,375)	(2,521)	(2,740)	(3,691)	(4,164)	(5,197)	(6,170)
Other op.expenses	(2,151)	(2,742)	(2,151)	(2,081)	(2,190)	(2,696)	(3,466)	(4,224)
Operating profit	**14,102**	**17,807**	**5,774**	**7,111**	**7,773**	**11,742**	**16,893**	**22,282**
Net-interest inc./(exp.)	159	588	1,536	1,754	1,554	900	295	445
Assoc/forex/extraord./others	28	457	1,524	(113)	(76)	206	28	31
Pre-tax profit	**14,290**	**18,851**	**8,834**	**8,752**	**9,251**	**12,848**	**17,216**	**22,758**
Tax	(2,470)	(3,571)	(1,464)	(1,705)	(1,480)	(2,112)	(2,909)	(3,669)
Min. int./pref. div./others	0	0	0	0	137	341	568	(1,452)
Net profit (reported)	**11,820**	**15,280**	**7,370**	**7,047**	**7,908**	**11,076**	**14,875**	**17,637**
Net profit (adjusted)	**11,820**	**15,280**	**7,370**	**7,047**	**7,908**	**11,076**	**14,875**	**17,637**
EPS (reported)(TWD)	**7.212**	**9.323**	**4.497**	**4.209**	**4.300**	**5.897**	**7.919**	**9.390**
EPS (adjusted)(TWD)	**7.212**	**9.323**	**4.497**	**4.209**	**4.300**	**5.897**	**7.919**	**9.390**
EPS (adjusted fully-diluted)(TWD)	**7.212**	**9.323**	**4.497**	**3.795**	**4.235**	**5.896**	**7.919**	**9.389**
DPS (TWD)	**3.500**	**4.500**	**4.500**	**4.405**	**4.568**	**4.500**	**5.000**	**5.510**
EBIT	**14,102**	**17,807**	**5,774**	**7,111**	**7,773**	**11,742**	**16,893**	**22,282**
EBITDA	**18,086**	**23,349**	**13,626**	**15,733**	**16,325**	**21,006**	**31,121**	**41,235**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	14,290	18,851	8,834	8,752	9,251	12,848	17,216	22,758
Depreciation and amortisation	3,984	5,542	7,852	8,622	8,552	9,264	14,228	18,953
Tax paid	(2,470)	(3,571)	(1,464)	(1,705)	(1,480)	(2,112)	(2,909)	(3,669)
Change in working capital	(4,449)	2,285	(1,385)	(1,958)	(2,465)	(2,250)	(5,500)	(1,300)
Other operational CF items	9,883	10,819	(5,205)	11,020	11,581	9,341	5,568	3,548
Cash flow from operations	**21,237**	**33,927**	**8,632**	**24,731**	**25,439**	**27,091**	**28,603**	**40,290**
Capex	(13,280)	(18,723)	(6,779)	(15,922)	(63,265)	(65,177)	(33,920)	(17,920)
Net (acquisitions)/disposals	(113)	(4,709)	(1,626)	4,357	1,183	82	0	0
Other investing CF items	(28)	(771)	46	(133)	2,372	0	0	0
Cash flow from investing	**(13,420)**	**(24,204)**	**(8,360)**	**(11,699)**	**(59,711)**	**(65,095)**	**(33,920)**	**(17,920)**
Change in debt	2,718	6,991	5,993	2,996	7,519	5,961	2,982	(5,155)
Net share issues/(repurchases)	0	0	0	17,593	0	0	0	0
Dividends paid	(5,736)	(7,375)	(7,375)	(7,375)	(8,400)	(8,453)	(9,393)	(10,351)
Other financing CF items	2,232	4,557	24	4,316	14,341	17,598	10,176	0
Cash flow from financing	**(786)**	**4,173**	**(1,359)**	**17,530**	**13,460**	**15,106**	**3,766**	**(15,506)**
Forex effect/others	(63)	575	72	291	(249)	0	0	0
Change in cash	**6,968**	**14,471**	**(1,015)**	**30,853**	**(21,060)**	**(22,899)**	**(1,551)**	**6,864**
Free cash flow	7,958	15,203	1,852	8,809	(37,826)	(38,086)	(5,317)	22,370

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	20,173	34,843	38,050	66,749	41,716	18,736	17,185	24,049
Inventory	4,030	5,880	5,672	6,221	6,937	6,937	10,437	9,937
Accounts receivable	9,452	4,962	5,523	6,235	6,748	8,948	11,948	13,948
Other current assets	533	570	834	7,007	11,496	10,000	10,000	11,000
Total current assets	**34,188**	**46,255**	**50,079**	**86,211**	**66,897**	**44,621**	**49,570**	**58,934**
Fixed assets	23,541	38,504	36,604	44,141	113,869	156,754	166,580	157,390
Goodwill & intangibles	3,361	6,382	6,771	10,905	10,282	7,000	7,500	8,000
Other non-current assets	4,458	9,798	8,997	7,448	9,420	9,420	9,420	9,420
Total assets	**65,548**	**100,940**	**102,450**	**148,706**	**200,469**	**217,795**	**233,070**	**233,744**
Short-term debt	0	0	0	0	10,520	9,039	17,176	16,042
Accounts payable	1,437	1,376	972	1,416	1,724	1,674	2,674	2,874
Other current liabilities	13,539	19,717	19,135	19,959	39,361	37,828	36,619	31,986
Total current liabilities	**14,976**	**21,093**	**20,107**	**21,375**	**51,604**	**48,541**	**56,469**	**50,902**
Long-term debt	4,993	11,987	17,983	20,984	15,990	23,432	18,277	14,256
Other non-current liabilities	10,413	22,509	18,646	37,679	49,285	49,285	49,285	49,285
Total liabilities	**30,382**	**55,589**	**56,737**	**80,039**	**116,879**	**121,258**	**124,031**	**114,443**
Share capital	16,390	16,390	16,390	18,666	18,671	18,783	18,783	18,783
Reserves/R.E./others	18,776	28,961	29,323	45,438	45,206	49,042	56,544	61,806
Shareholders' equity	**35,165**	**45,351**	**45,713**	**64,104**	**63,877**	**67,825**	**75,327**	**80,589**
Minority interests	0	0	0	4,563	19,713	28,713	33,713	38,713
Total equity & liabilities	**65,548**	**100,940**	**102,450**	**148,706**	**200,469**	**217,795**	**233,070**	**233,744**
EV	341,705	334,029	336,818	315,682	361,390	399,332	408,866	401,846
Net debt/(cash)	**(15,180)**	**(22,855)**	**(20,066)**	**(45,765)**	**(15,207)**	**13,735**	**18,268**	**6,249**
BVPS (TWD)	**21.456**	**27.670**	**27.891**	**34.342**	**34.212**	**36.109**	**40.103**	**42.904**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	32.7	17.6	(26.0)	15.1	10.3	18.3	33.3	23.9
EBITDA (YoY)	65.7	29.1	(41.6)	15.5	3.8	28.7	48.2	32.5
Operating profit (YoY)	90.1	26.3	(67.6)	23.2	9.3	51.1	43.9	31.9
Net profit (YoY)	87.4	29.3	(51.8)	(4.4)	12.2	40.1	34.3	18.6
Core EPS (fully-diluted) (YoY)	87.4	29.3	(51.8)	(15.6)	11.6	39.2	34.3	18.6
Gross-profit margin	43.6	46.3	27.3	27.1	28.1	32.4	33.3	34.4
EBITDA margin	41.2	45.2	35.6	35.7	33.6	36.5	40.6	43.4
Operating-profit margin	32.1	34.4	15.1	16.1	16.0	20.4	22.0	23.5
Net profit margin	26.9	29.6	19.3	16.0	16.3	19.3	19.4	18.6
ROAE	36.5	38.0	16.2	12.8	12.4	16.8	20.8	22.6
ROAA	21.6	18.4	7.2	5.6	4.5	5.3	6.6	7.6
ROCE	39.2	36.5	9.5	9.3	7.8	9.8	12.4	15.2
ROIC	60.1	68.0	20.0	23.6	14.3	11.0	11.8	14.8
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	20.3	24.3	7.8
Effective tax rate	17.3	18.9	16.6	19.5	16.0	16.4	16.9	16.1
Accounts receivable (days)	63.1	50.9	50.0	48.7	48.8	49.8	49.7	49.7
Current ratio (x)	2.3	2.2	2.5	4.0	1.3	0.9	0.9	1.2
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	91.0	62.4	48.3	100.1	119.2	106.9	84.8	69.6
Free cash flow yield	2.2	4.3	0.5	2.5	n.a.	n.a.	n.a.	6.3

Source: FactSet, Daiwa forecasts

Company profile

Founded in December 1994 and listed in March 1998, Vanguard International Semiconductor Corp. (VIS) successfully transformed its business model from memory to a complementary metal-oxide-semiconductor (CMOS) logic foundry focused on specialty technologies such as mixed-signal, power analog and embedded memory, becoming one of the world's leading specialty foundries. Leveraging its strategic relationship with major shareholder TSMC, VIS operates wafer fabs in Taiwan and Singapore, serving a wide variety of customers, including fabless chipmakers and IDMs globally.

Fast ramp to capture AI ripple effect

Initiating on VIS with an Outperform (2) rating and 12M TP of TWD210

We initiate coverage of VIS with an Outperform (2) rating and 12M TP of TWD210. Founded in December 1994, headquartered in Hsinchu Science Park and listed in March 1998 (see Appendix 1 for more details on the company), VIS looks set to enjoy fully loaded operations (in terms of wafer-in) through 2027, with sustained pricing power, thanks to the ripple effect of AI demand scaling from compute to connectivity and power, further augmented by TSMC's fab optimisation.

Given its longstanding ties with TSMC, which currently holds a c.19% stake in VIS and has strategically helped it advance its business transformation by moving up value verticals of specialty-foundry offerings to differentiate itself in the competitive specialty foundry market, VIS looks set to benefit from this multi-year AI scaling, among peers. The fast expansion of its first 12" fab in Singapore should help cement the AI business and capitalise on what we observe as a paradigm shift in the foundry industry, as mentioned in the main section of this report.

Fully loaded operations on AI ripple effect

Despite suffering from the post-COVID inventory correction …

Like many other semiconductor foundries, VIS enjoyed unusual pricing power during the COVID period as the virus, together with geopolitical tensions between China and the US, inflated chip demand across virtually all product applications to an unprecedented level. Consequently, the industry suffered from an unprecedented 2-year downturn on a prolonged inventory correction, if excluding the AI build that has helped rescue the advanced foundry segment, save the village (ie, the chip industry) and bring the global chip cycle back on its historical track of an average of a one-year downturn. This downturn caused choppy operations for many second-tier foundries which focused initially on the non-AI space over 2022-25, including VIS (see our series of Technology Outlook reports: 2023: *V-shape, U-shape or double dip?*, 2024: *The dragon is ready to soar,* 2025: *likely longer and stronger*).

… VIS has benefitted from AI scaling and is further …

Starting from 2H25, after the AI builds scaled out and across from compute into memory to connectivity and power, creating a ripple effect in demand that benefits not only advanced but also specialty foundries, we expect VIS's wafer loadings to approach full levels through 2027 (in terms of wafer-in), despite its fast 12" expansion. With its parent company TSMC's strategic partnership, VIS stands at a strong position to benefit from this multi-year AI scaling, in our view. To maximise the AI business potential, VIS is accelerating its first 12" fab in Singapore via a JV named VisionPower Semiconductor Manufacturing Corp (VSMC), with phase-one investment of USD6.8bn where, in terms of registered capital of USD4bn, VIS assumes USD2.4bn for a 60% stake, while NXP assumes USD1.6bn for a 40% stake.

In terms of the total investment on a cash basis, VIS will chip in only USD1.0bn, with USD2.8bn coming from NXP and USD1.1bn from TSMC with some equipment consignment, while the rest will come from other customer prepayments, loans and a subsidy from the Singapore government. Upon VSMC's completion, this will bring VIS a total of 6 fabs, with combined capacity reaching up to c.380,000 8"-equivalent wafers per month (wpm) by end-2028, based on our forecasts (see table on next page for details of our key business assumptions).

VIS: key business assumptions and cost analysis

('000 wpm*)	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	1Q28E	2Q28E	3Q28E	4Q28E
Capacity												
Fab 1 (8")	77	80	80	80	78	80	80	80	78	80	80	80
Fab 2 (8")	67	70	70	70	68	70	70	70	68	70	70	70
Fab 3 (8")	48	50	50	50	48	50	50	50	48	50	50	50
Fab VS1 (8")	38	40	40	40	39	40	40	40	39	40	40	40
Fab 5 (8")	38	40	40	40	39	40	40	40	39	40	40	40
Fab VSMC (12")	0	0	0	0	2	10	18	20	22	30	40	44
Total capacity (8" equ)	268	280	280	280	278	303	320	325	322	348	369	379
Shipment												
Quarterly shipment (8" equ)	642	713	734	749	757	855	940	940	931	1,043	1,095	1,040
Capacity utilisation**	80%	85%	87%	89%	91%	94%	98%	96%	96%	100%	99%	91%
Blended ASP (USD)	618	632	645	649	650	685	697	704	704	719	739	726
Revenue												
Revenue (USDm)	397	451	474	486	492	586	656	662	655	750	809	755
Revenue (TWDm)	12,532	14,245	15,160	15,558	15,737	18,753	20,983	21,189	20,975	24,003	25,876	24,164
Mix by node												
0.5u+	12%	12%	12%	12%	12%	11%	11%	11%	11%	11%	10%	10%
0.35u	13%	12%	12%	12%	12%	11%	11%	10%	11%	10%	9%	9%
0.25u	15%	16%	16%	16%	16%	14%	12%	12%	12%	11%	10%	10%
0.18/0.15u	15%	15%	15%	15%	15%	14%	13%	12%	12%	11%	10%	10%
0.13/0.11u	45%	46%	45%	44%	45%	41%	38%	37%	36%	33%	30%	30%
<=90nm	0%	0%	0%	0%	0%	9%	15%	18%	18%	25%	32%	32%
Cost structure												
Direct materials	1,724	1,916	1,998	2,037	2,058	2,325	2,558	2,558	2,532	2,836	2,978	2,829
Direct labour	1,136	1,240	1,293	1,318	1,332	1,505	1,655	1,655	1,639	1,835	1,927	1,831
Depreciation & amortisation	2,192	2,227	2,340	2,505	2,600	3,300	4,000	4,328	4,400	4,600	5,000	4,953
Other overheads	3,810	4,258	4,418	4,482	4,600	5,198	5,718	5,718	5,661	6,340	6,657	6,324
Total COGS (TWDm)	8,861	9,640	10,048	10,344	10,589	12,328	13,931	14,259	14,231	15,611	16,562	15,937
Mix by element												
Direct materials	19%	20%	20%	20%	19%	19%	18%	18%	18%	18%	18%	18%
Direct labour	13%	13%	13%	13%	13%	12%	12%	12%	12%	12%	12%	11%
Depreciation & amortisation	25%	23%	23%	24%	25%	27%	29%	30%	31%	29%	30%	31%
Other overheads	43%	44%	44%	43%	43%	42%	41%	40%	40%	41%	40%	40%
Gross profit (TWDm)	3,671	4,604	5,112	5,214	5,148	6,425	7,052	6,930	6,743	8,391	9,314	8,227
Gross margin	29%	32%	34%	34%	33%	34%	34%	33%	32%	35%	36%	34%

Source: Company, Daiwa estimates and forecasts
*Note: * wpm = wafers per month on average; ** based on shipment divided by installed capacity, not wafer-in*

Fast expansion to capture the paradigm shift

… speeding up its 12" expansion to maximise the AI potential

On top of the AI scaling creating a ripple effect for demand spillover, such strength looks to be further augmented by TSMC's fab optimisation, as assessed in the main section of this report. To capitalise on the likely paradigm shift in the specialty foundry segment by TSMC's fab optimisation, VIS is pulling in its first 12" fab construction around half a year ahead of schedule, aiming to start mass production from 1Q27 after it hosted an opening ceremony on 28 September.

Registered under VSMC, we expect this fab to reach its first-phase designed capacity of 44,000 wpm by end-2028, subject to market dynamics. c.30% of the fab's capacity will be dedicated to TSMC's wafer production of silicon interposers handling chip-on-wafer-on-substrate (CoWoS) advanced packaging, which has seen meaningful supply constraint due to strong AI high-performance compute (HPC) demand. The rest of the capacity is for other customers' power semiconductors (such as mixed-signal, analog and PMIC) and embedded flash, focusing on AI scaling and automotive and industrial (A&I) applications.

VIS could speed up phase-two 12" expansion under TSMC's continued effort of fab optimisation

Despite the 12" expansion pull-in, we do not expect the ramp to dwarf capacity utilisations since all the planned capacity is already sold out, thanks to the long-term agreements (LTA) signed with customers amid the supply constraints, which should help VIS manage surging depreciation and minimise margin dilution for financial resilience. Although this 12" fab has little to do with TSMC's 28/22/20nm fab optimisation addressed in the main section, since it covers only process nodes ranging from 0.13u to 40nm and thus enjoys only the 65/55nm wafer interposer spillover from TSMC, on our market research, we see possibilities for TSMC to shut down more legacy 12" fabs in the future. We believe this may incentivise VIS to speed up its second 12" fab construction in Singapore, namely the phase-two, or VSMC Fab 2, for 40,000-50,000 wpm capacity beyond 2028 and is scalable to 28nm-and-below and even the finFET (FF) process nodes.

Financial forecasts

In the near term, we expect VIS to enjoy counter-seasonal quarters through 2027, thanks to the ripple effect of AI scaling on wafer loadings and pricing power. We estimate that VIS earned 3Q26 EPS of TWD1.57, in line with the Bloomberg consensus estimate. For 4Q26, we are behind consensus since 1) we expect a diminished effect of price hikes after our estimated 2-3% QoQ EPS increases in 3Q26; and 2) we do not expect the 12" contribution to ramp that soon. In the long term, we forecast VIS to deliver a revenue CAGR of nearly 30% over 2026-28 for an EPS CAGR of 26%.

Revenue and customers

77% of revenue was from PMIC in 2Q26, with customers across Taiwan, China, Japan, Europe, and the US

As of 2Q26, power management IC (PMIC) accounted for the majority of revenue (77%; see chart on next page), on a rising trend from 40% a decade ago thanks to the co-efforts between VIS and TSMC strategically transforming the former's business up the value verticals from logic commodity display drivers (D/D) for consumer electronics devices to power discrete, analog, and PMIC for not only consumer but A&I applications. Riding on the escalating trend of demand for advanced high-V PMIC accommodating AI servers and power infrastructure under the AI cycle, we expect the PMIC revenue contribution to rise further over our forecast period, while the D/D contribution will drop to c.10%-plus for base-line customer demand support.

As of 2Q26, VIS found 16%, 16%, and 46% of revenue from major process nodes of 0.25u, 0.18u, and 0.13u-and-below, respectively, on our estimates. Since the VSMC fab will focus on 0.13u all the way to 40nm, and TSMC's wafer interposers will take c.30% of the capacity ramp on our estimates focusing on 65/55nm, we expect the 0.13u-and-below to increase to more than 60% of revenue over our forecast period. Both the PMIC and node advances should be blended ASP and margin accretive, helping mitigate the depreciation burden associated with the VSMC fab ramp. Illustrated in a chart on the next page, we expect VIS's blended ASP to trend upward from c.USD630 in 2Q26, rising by 1-5% QoQ through our forecast period to exceed USD700 by 2028.

High variety of customer base across D/D and PMIC

VIS services a high variety of customers around the world, including most fabless chipmakers in Taiwan and mainland China focusing on the D/D, power MOSFET and PMIC, and most integrated device manufacturers (IDM) across Japan, Europe and the US focusing on power semiconductor foundry works.

VIS: 3Q26 results preview and 4Q26 business outlook

			3Q26E			4Q26E
(in TWDm)	Daiwa	Consensus	Variance	Daiwa	Consensus	Variance
Revenue	15,160	15,369	-1%	15,558	16,302	-5%
Gross profit	5,112			5,214		
Operating profit	3,369			3,386		
Pretax profit	3,569			3,529		
Net profit	2,944	2,983	-1%	2,911	3,255	-11%
Adjusted EPS (TWD)	1.57	1.59	-1%	1.55	1.73	-11%
Margins						
Gross	33.7%			33.5%		
Operating	22.2%			21.8%		
Net	19.4%			18.7%		
Operation						
Shipment (12" equ. wafers) ('000 units)	734			749		
Utilisation*	87%			89%		
<=0.13u sales contribution	45%			44%		

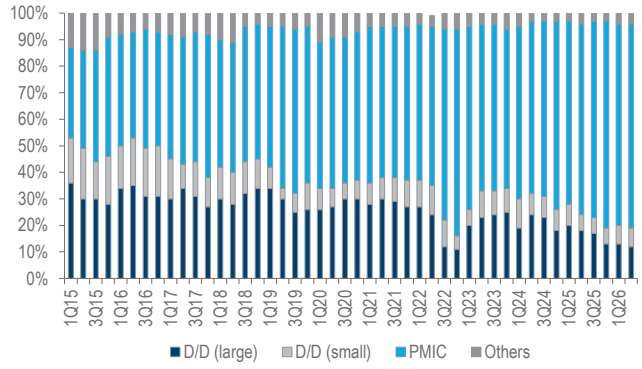
Source: Bloomberg, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided by capacity*

VIS: key operating assumptions, quarterly P&L estimates and forecasts

TWDm	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Wafer shipment (8" equ) ('000 units)	642	713	734	749	757	855	940	940	2,533	2,838	3,492	4,109
Capacity utilisation	80%	85%	87%	89%	91%	94%	98%	96%	76%	85%	95%	97%
Blended ASP (USD)	618	632	645	649	650	685	697	704	616	637	686	723
Foundry revenue (USDm)	397	451	474	486	492	586	656	662	1,560	1,807	2,396	2,969
Total revenue	**12,532**	**14,245**	**15,160**	**15,558**	**15,737**	**18,753**	**20,983**	**21,189**	**48,591**	**57,494**	**76,662**	**95,017**
COGS	-8,861	-9,640	-10,048	-10,344	-10,589	-12,328	-13,931	-14,259	-34,937	-38,893	-51,107	-62,341
Gross profit	3,671	4,604	5,112	5,214	5,148	6,425	7,052	6,930	13,654	18,602	25,555	32,676
Opex	-1,584	-1,704	-1,743	-1,828	-1,857	-2,082	-2,329	-2,394	-5,880	-6,859	-8,662	-10,394
Operating profit	2,087	2,901	3,369	3,386	3,291	4,343	4,723	4,536	7,773	11,742	16,893	22,282
EBITDA	4,278	5,128	5,709	5,891	5,891	7,643	8,723	8,864	16,325	21,006	31,121	41,235
Non-op gain/loss	350	412	200	143	120	118	30	35	1,477	1,106	303	521
Pretax profit	2,437	3,313	3,569	3,529	3,411	4,461	4,753	4,571	9,251	12,848	17,196	22,803
Income taxes & MI	-190	-339	-625	-618	-324	-618	-686	-692	-1,343	-1,771	-2,320	-5,167
Net profit	2,246	2,975	2,944	2,911	3,087	3,843	4,067	3,879	7,908	11,076	14,876	17,636
FD O/S (m)	1,880	1,879	1,879	1,879	1,879	1,879	1,879	1,879	1,867	1,879	1,879	1,879
FD EPS (TWD)	**1.19**	**1.58**	**1.57**	**1.55**	**1.64**	**2.05**	**2.16**	**2.06**	**4.24**	**5.90**	**7.92**	**9.39**
Margins												
Gross	29%	32%	34%	34%	33%	34%	34%	33%	28%	32%	33%	34%
Operating	17%	20%	22%	22%	21%	23%	23%	21%	16%	20%	22%	23%
EBITDA	34%	36%	38%	38%	37%	41%	42%	42%	34%	37%	41%	43%
Net	18%	21%	19%	19%	20%	20%	19%	18%	16%	19%	19%	19%
Growth (QoQ)												
Total revenue	0%	14%	6%	3%	1%	19%	12%	1%				
Gross profit	6%	25%	11%	2%	-1%	25%	10%	-2%				
Operating profit	15%	39%	16%	1%	-3%	32%	9%	-4%				
EBITDA	6%	20%	11%	3%	0%	30%	14%	2%				
Net profit	29%	32%	-1%	-1%	6%	24%	6%	-5%				
FD EPS	28%	33%	-1%	-1%	6%	24%	6%	-5%				
Growth (YoY)												
Total revenue	5%	22%	23%	24%	26%	32%	38%	36%	10%	18%	33%	24%
Gross profit	2%	40%	54%	50%	40%	40%	38%	33%	14%	36%	37%	28%
Operating profit	-7%	53%	84%	87%	58%	50%	40%	34%	9%	51%	44%	32%
EBITDA	0%	29%	41%	46%	38%	49%	53%	50%	4%	29%	48%	32%
Net profit	-7%	46%	73%	67%	37%	29%	38%	33%	12%	40%	34%	19%
FD EPS	-8%	44%	71%	66%	38%	29%	38%	33%	12%	39%	34%	19%

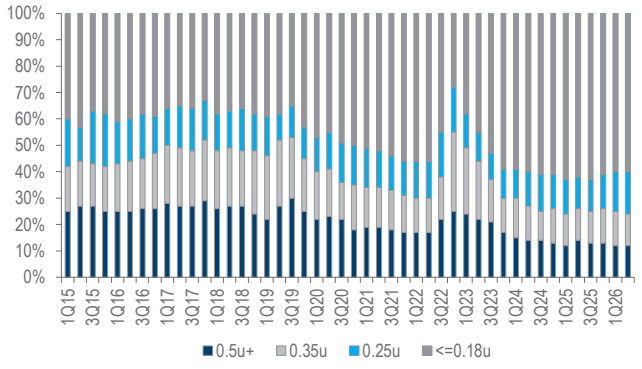
Source: Company, Daiwa estimates and forecasts

VIS: revenue mix by product*



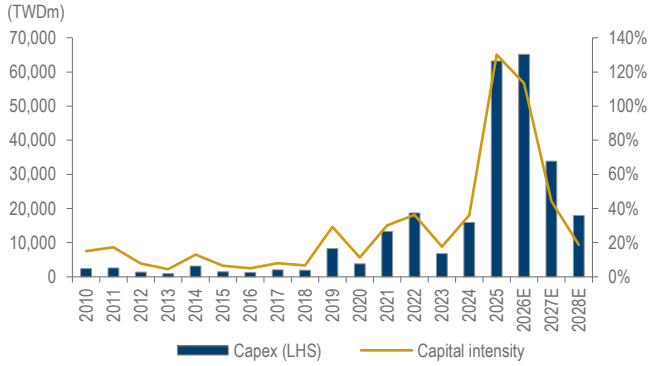
Source: Company
*Note: * D/D = display driver, PMIC = power management IC, others include LED driver, embedded memory, CMOS image sensor, etc.*

VIS: revenue mix by process node*



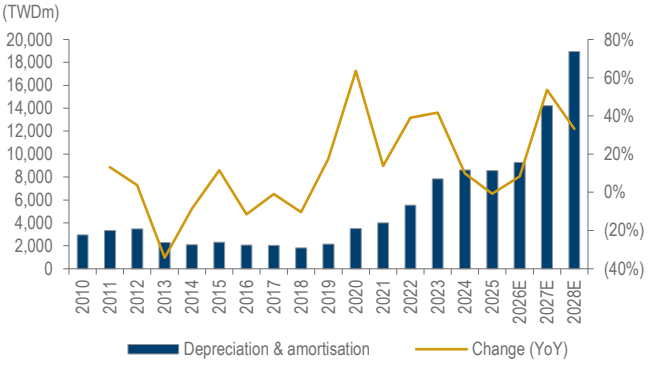
Source: Company
*Note: * <=0.18u including 0.18u, 0.15u, 0.13u and 0.11u*

VIS: capex and capital intensity trend*



Source: Company, Daiwa forecasts
*Note: * Capital intensity = capex divided by revenue*

VIS: depreciation and amortisation trend



Source: Company, Daiwa forecasts

Cost analysis

We forecast GM to stall at 32-34% over 2Q26-1Q28 and then pick up afterwards

Over the past decades, VIS's cost structure has fluctuated in fixed overheads (mainly D&A) from time to time, depending on its fab acquisitions, varying from 10% to 30% of COGS (refer back to the key assumption table). Given VSMC is about to ramp in production with a total capex of USD6.8bn for phase one, or roughly 2x VIS's 2025-26E aggregate revenue, we expect the D&A portion to return to the 30% level over our forecast period, acting as a margin dilutor. Yet with VIS's capex budget of TWD60-70bn (c.USD2bn) this year, we expect the capex to largely subside from 2027 for the depreciation cycle to peak in 2029. As a result, we forecast its D&A in absolute terms to rise by 54% YoY in 2027 to TWD14bn and 33% YoY in 2028 to nearly TWD19bn, with gross margin (GM) stalling at 32-34% over 2Q26-1Q28, then picking up to 35% or higher in 2H28 and likely rising further after the depreciation comes off the cycle into 2029.

Minority interest

We forecast MI expense to begin to dilute parent income from 2Q28

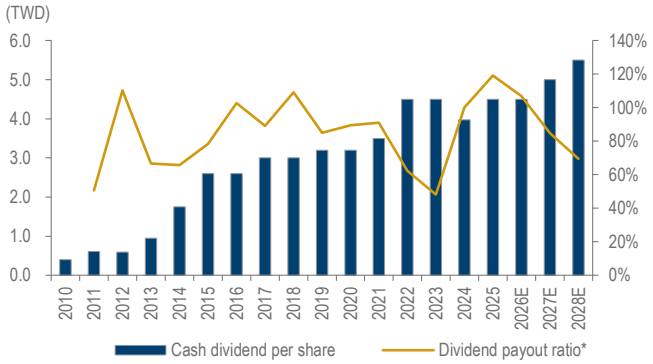
Minority interest (MI), or non-controlling interest as stated by VIS, kicked in from 1Q25 and rose to 2.4% of pretax income in 2Q26 due to preparation for the VSMC investment. We forecast the MI to rise to TWD341m this year (TWD137m in 2025), TWD568m in 2027 and TWD1.45bn in 2028, mainly from the 40% MI owned by NXP as VIS ramps the 12" fab investment in Singapore. As illustrated in a table below, we forecast VSMC to record revenue of nearly TWD9bn in 2027 and TWD26bn in 2028 for operating loss of TWD1.4bn and operating profit of TWD3.6bn, respectively, on the basis of a standalone operating entity.

Dividend policy

We expect c.80% payout ratio subject to capex requirement

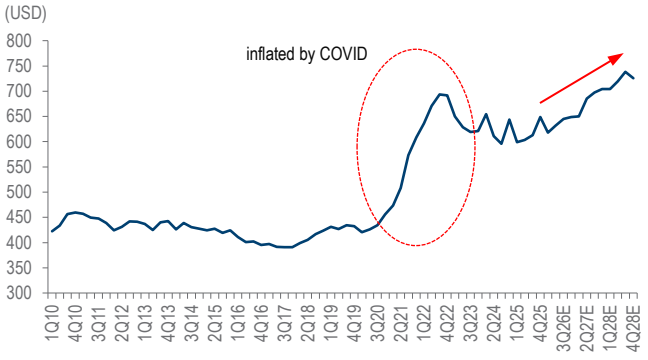
Over the past decade, VIS has stepped up its dividend payout ratios from 50% in 2011 to more than 100% this year. We expect the company to keep the ratios at c.80% over our forecast period, subject to the AI development which should determine the capex requirement for the VSMC investment, affecting its FCF generating power. VIS paid a TWD4.5/share cash dividend this year (against last year's earnings), and we forecast it to pay TWD5.0/share for 2027 with a payout ratio of 85% against this year's earnings for a 2.7% yield based on the closing price as of 5 October.

VIS: dividend trend and payout ratio*



Source: Company, Daiwa estimates and forecasts
*Note: * against previous year's P&L*

VIS: quarterly ASP trend*



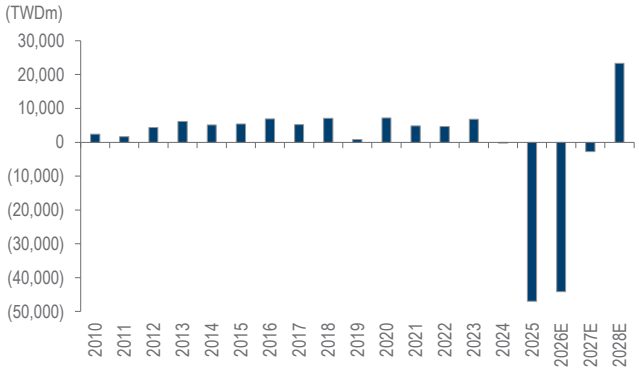
Source: Daiwa estimates and forecasts
*Note: * Blended basis in 8" equivalent*

VSMC: standalone P&L at core operation

	1Q27E	2Q27E	3Q27E	4Q27E	1Q28E	2Q28E	3Q28E	4Q28E
Wafer shipments (8" equ) ('000 units)	2	55	100	120	121	188	255	245
Blended ASP (USD; 8" equ)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	980
Revenue (USDm)	2	55	100	120	121	188	255	240
Revenue (TWDm)	50	1,758	3,213	3,853	3,872	6,007	8,156	7,687
COGS (TWDm)	(497)	(1,540)	(2,820)	(3,373)	(3,518)	(4,702)	(5,699)	(5,725)
Opex (TWDm)	(450)	(457)	(578)	(578)	(581)	(601)	(652)	(615)
Operating profit (TWDm)	(896)	(239)	(185)	(98)	(226)	704	1,804	1,347
MI against parent P&L (TWDm)	(359)	(96)	(74)	(39)	(91)	282	722	539
MI as % of VIS's pre-tax profit	11%	2%	2%	1%	2%	-5%	-11%	-10%

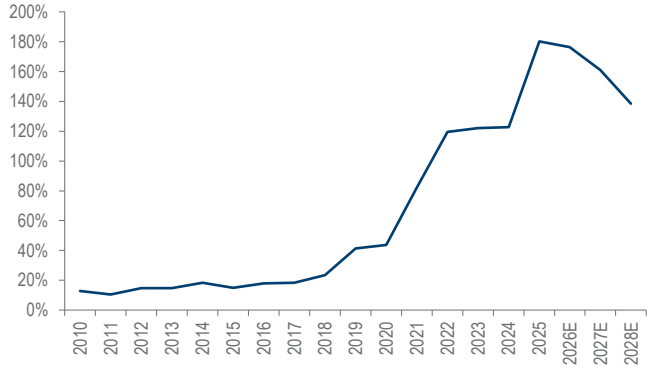
Source: Daiwa estimates and forecasts

VIS: free cashflow trend



Source: Company, Daiwa forecasts

VIS: debt-to-equity ratio



Source: Company, Daiwa forecasts

Cashflow and gearing

Given its hefty capex over 2025-27E, we expect VIS's free cashflow (FCF) to turn negative during the same period. Foreseeing the cash gap, VIS issued new shares of 228m in 2024 for a 12% per-share dilution and collected TWD17.6bn. It further issued ECBs in February this year to collect nearly TWD11bn; therefore, we forecast its debt-to-equity (D/E) ratio to approach 170% in 2026. Yet with the VSMC ramp in profitability for operating cash inflow, we forecast the FCF to turn positive in 2028, helping lower the gearing to c.140%.

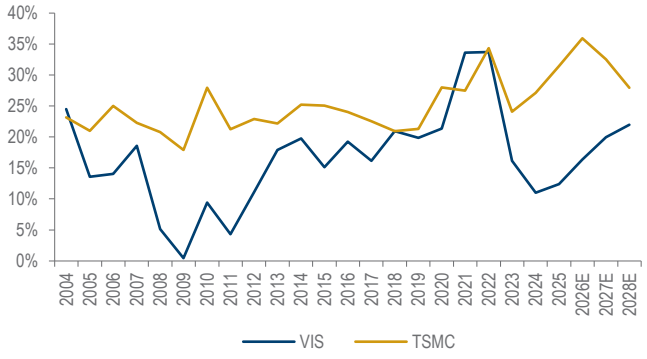
Valuation and risk

We set our 12M TP for VIS at TWD210, based on an ROE-adjusted PBR target of 5.2x

We employ an ROE-adjusted PBR methodology to value the foundry stocks under our coverage, where we compare a foundry's projected ROE with its historical ROE average, work out a premium or discount, and apply it to the foundry's historical average PBR for our ROE-adjusted PBR target. Given TSMC is VIS's strategic partner, we tweak our methodology a bit by anchoring VIS's ROE-adjusted PBR to TSMC's, where we compare their long-term ROE projections (2004-28E), work out a discount of 33% and then apply the discount to our 7.7x target PBR for TSMC, resulting in our target PBR of 5.2x and 12M TP of TWD210 for VIS on our one-year forward BVPS forecast.

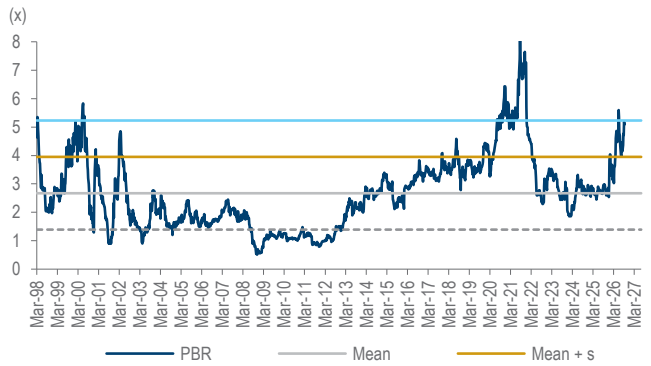
Key downside risks to our call would be: 1) the current chip upcycle ends earlier than expected; and 2) VSMC's 12" fab ramp/execution comes in below expectation.

ROE comparison: VIS vs. TSMC



Source: Company, Daiwa forecasts

VIS: PBR trend



Source: Company, TEJ, Daiwa forecasts

Asian foundry: valuation panel

Stock	Ticker	Price (LC)*	Daiwa rating	PER (x)			PBR (x)			ROE (%)			Earnings growth (%)		
				2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E	2025	2026E	2027E
TSMC	2330 TT	2,585.0	Buy (1)	39.0	23.6	19.2	12.4	8.5	6.3	35.4	42.8	37.6	46.4	65.5	22.9
HHGrace	1347 HK	105.3	Buy (1)	n.m.	126.5	87.2	3.5	3.4	3.3	0.9	2.7	3.9	-5.6	235.5	45.2
VIS	**5347 TT**	190.0	Outperform (2)	44.9	32.2	24.0	5.6	5.3	4.7	12.4	16.8	20.8	12.2	40.1	34.3
UMC	2303 TT	148.5	Hold (3)	44.8	20.6	20.9	4.9	4.8	4.4	11.0	23.6	21.8	-11.6	117.7	-1.7
SMIC	981 HK	60.90	Sell (5)	75.5	44.4	38.1	1.8	1.7	1.6	4.0	6.6	7.1	115.3	71.9	16.6
GlobalFoundries	GFS US	48.07	Not rated	21.9	24.6	18.6	1.6	2.2	2.0	7.8	8.3	10.9	10.3	13.5	32.8
Average				45.2	45.3	34.7	5.0	4.3	3.8	11.9	16.8	16.9	26.2	89.7	20.4

Source: Companies, Bloomberg, Daiwa forecasts
*Note: * Local currency based on closing prices as of 7 October 2026*

Appendix: company profile

Commanding 1.1% market share, VIS is a leading specialty foundry in the world

Founded in December 1994 with headquarters located in Hsinchu Science Park and shares listed in March 1998, Vanguard International Semiconductor (VIS) is a leading specialty foundry in the world focusing on mix signal, power semiconductor and embedded memory chip manufacturing for value-added differentiation against competition in the mature foundry market. With strategic help from its parent company TSMC on business transformation and technology transfer, VIS commanded a 1.1% share in the global foundry market by 2025 revenue on our estimates (total size c.USD140bn), or nearly 4% in the global mature foundry market (ex-TSMC as a proxy), behind SMIC, UMC, GlobalFoundries (GF) and Huahong Grace Semiconductor (HHGrace; see chart on the next page). Note: our foundry market calculation is for dedicated foundry works only, different from TSMC's revised definition of the Foundry 2.0 that includes not only the dedicated foundry but packaging, testing and other non-memory semiconductor manufacturing services.

The foundry market

We expect VIS to outgrow the global foundry market (ex-TSMC) over 2026-28

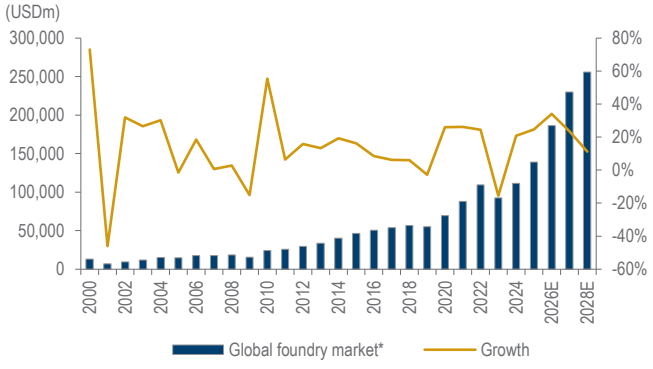
Ever since TSMC's founder innovated the semiconductor foundry service model, the foundry market has been in operation for more than 3 decades. Thanks to a rise in the global AI buildout, the global foundry revenue, after a dip in 2023 on the post-COVID inventory correction, recovered by more than 20% YoY pa over 2024-25. We forecast the growth to accelerate to more than 30% YoY this year, with revenue reaching USD186bn and exceeding USD255bn in 2028 for a robust 23% CAGR over 2025-28. If excluding TSMC, we forecast the market to grow by 14% YoY this year and approach USD60bn in 2028 for a CAGR of 13%, where we expect VIS to outgrow the market growth over our forecast period as illustrated in a chart below, thanks to its fast capacity expansion to capitalise on the AI scaling and paradigm shift in the specialty foundry segment.

Operation and customer

VIS has 5 fabs in operations, with its first 12" fab slated for mass-production from 1Q27

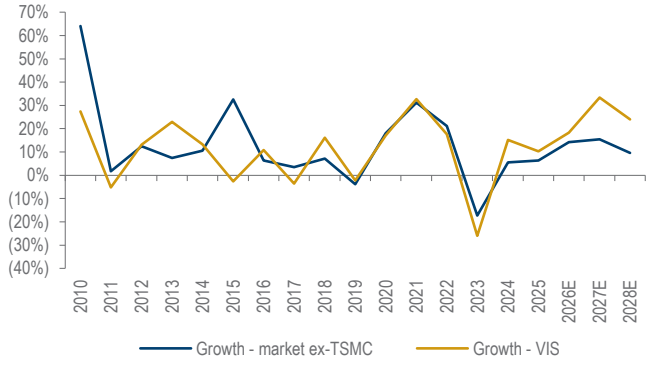
VIS currently operates 5 wafer fabs with 4 in Taiwan, including Fab 1 which commenced operations in 1994 as a memory setup and then converted to mixed signal, power metal oxide semiconductor field effect transistor (MOSFET) and logic foundry fab; Fab 2 which was acquired in 2007 from Winbond; Fab 3 which was acquired from Nanya Tech in 2014; and Fab 5 which was acquired from AUO in 2021, plus 1 in Singapore, Fab VS1, acquired from GF in 2019 and previously named 3E. The 5 fabs currently operate a total of 280,000 wpm capacity all in 8" wafer size, in which the Fab VS1 and 5 are scalable for an extra 10,000 wpm capacity each, though VIS doesn't seem to be keen in exercising the scalability since VSMC apparently is the focus for expansion. Following its opening ceremony on 28 September this year, VIS's first 12" fab via VSMC is slated for mass-production from 1Q27, aimed to bring up total capacity to c.380,000 wpm in 8" equivalent wafer by end-2028.

Global foundry market forecasts



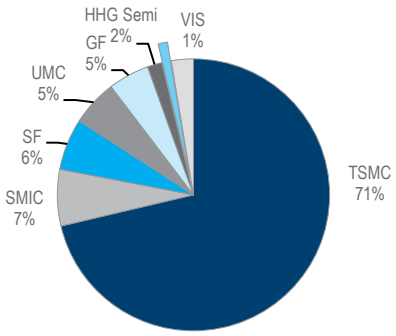
Source: Company, Daiwa estimates and forecasts
*Note: * Dedicated foundries only, not TSMC's definition of the Foundry 2.0*

Revenue growth: VIS vs. foundry market ex-TSMC*



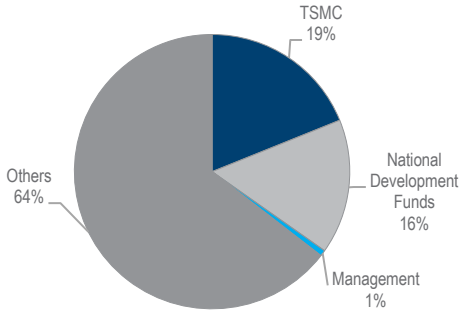
Source: Company, Daiwa estimates and forecasts
*Note: * As a proxy of the mature foundry market*

2025 global foundry market share*



Source: Company, Daiwa estimates
*Note: * GF = GlobalFoundries, SF = Samsung Foundry*

VIS: major shareholder structure



Source: Bloomberg

VIS covers a variety of fabless and IDM customers across Taiwan, China, Japan, Europe and the US

VIS doesn't disclose its key customers due to confidentiality issues, but we believe its key customers cover most of the fabless chipmakers in Taiwan and mainland China focusing on display driver (D/D), power MOSFET and power management IC (PMIC), as well as integrated device manufacturers (IDM) across Japan, Europe and the US. According to our industry survey, key D/D vendors in the greater China region are Novatek (3034 TT, TWD529, Hold [3]), Himax (HIMX US, not rated), Raydium (3592 TT, not rated), Ilitek (6962 TT, not rated), Sitronix Technology (8016 TT, not rated), FocalTech (3545 TT, not rated), Chipone Technology (not listed), OmniVision (603501 CH, CNY82.21, Hold [3]) and GalaxyCore (688728 CH, not rated), while key power semiconductor vendors in the world include Qualcomm (QCOM US, USD177.12, Outperform [2]; covered by Louis Miscioscia), Renesas (6723 JP, JPY3,924, Outperform [2]; covered by Junji Okawa), Monolithic Power Systems (MPS; MPWR US, not rated), NXP (NXPI US, not rated), STMicro (STM US, not rated), Infineon (IFX GR, not rated), Microchip (MCHP US, not rated), TI (TXN US, not rated), MediaTek (2454 TT, TWD4,835, Buy [1], via Richtek), Global Mixed-mode Technology (GMT; 8081 TT, not rated) and Niko Semiconductor (3317 TT, not rated).

Shareholder structure

Major shareholders are TSMC and Taiwan government

VIS's major shareholders were TSMC and the Taiwan government's Development Funds, with c.19% and c.16% of holdings, respectively, as of August 2026 under total share outstanding of 1.88bn. With management in aggregate holding an insignificant stake and the rest being held by institutional investors (QFII holding was 32.7% as of 5 October), we estimate a healthy free float of more than 60% for the stock, with decent cap of c.USD11bn and 3-month daily turnover of more than USD100m.

TSMC reduced its holding in VIS this year by 8pp, raising investor concerns on whether the move would jeopardise the former's strategic support to the latter. We see no direct link between the stake reduction and strategic support, and believe TSMC will continue the support, evidenced by its licence of gallium-nitride (GaN) and interposer technologies and equipment consignment to VSMC.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	VIS's board of directors (BoD) consists of 9 members, including 5 independent directors, representing 56% of the total board seats. The board comprises members with diverse backgrounds in business management, finance, industry, and academia, providing a broad range of expertise and perspectives. We believe the majority-independent board structure and the directors' collective experience in leadership, corporate governance, industry expertise, financial management, risk management, and sustainability strengthen the effectiveness of the BoD and support VIS's long-term growth and corporate governance practices.
	Capital management	1	VIS pays its dividend on a quarterly basis. In the past 5 years, it has managed its dividend payout well, as evidenced by its dividend in dollar terms, where it has never lowered its dividend.
	Related party & transaction	1	Sales to related parties were around 1-2% of its total revenue each year. The percentage is insignificant and thus we see limited risk for VIS.
S	Supply chain management	1	VIS has established a comprehensive sustainable supply chain management framework to ensure suppliers comply with its sustainability requirements covering environmental protection, labor and human rights, occupational health and safety, business ethics, and responsible sourcing. The company requires suppliers to adhere to its "VIS Supplier Code of Conduct" and "Corporate Sustainability Policy", and conducts supplier sustainability assessments and audits as part of its supplier management process. We believe these efforts strengthen VIS's supply chain resilience and help mitigate supply chain risks.
E	Water & wastewater management	2	VIS is committed to improving water efficiency and sustainable water management. In 2022, the company implemented the ISO 46001 Water Efficiency Management System to analyze water consumption patterns, identify significant water-use equipment, evaluate water-saving opportunities, and establish improvement measures. VIS also provides annual water management training at its Taiwan facilities to promote continuous improvement in water-use efficiency. We believe these efforts demonstrate the company's commitment to responsible water stewardship and help reduce operational risks associated with water resources.
E	Waste & hazardous materials management	1	VIS adopts a comprehensive resource management approach to waste management and has established waste management procedures in accordance with ISO 14001 standards. Through dedicated waste management personnel and regular employee training, the company promotes effective waste reduction, classification, collection, storage, and treatment practices across its operations.
E	GHG emissions	1	VIS adopts a source-segregation and multi-stage treatment approach, supported by high-efficiency air pollution control systems, to effectively manage VOC and acidic/alkaline gas emissions from semiconductor manufacturing processes. The company's emission levels remain well below regulatory limits, reflecting its commitment to environmental compliance and sustainable operations.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 8 Oct 2026

Source: Daiwa, Company

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Source: Daiwa

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