Daiwa Capital Markets Hong Kong Limited

Asia Foundry

A paradigm shift in specialty nodes

- A ripple effect in demand from advanced to specialty foundries spurred by AI scaling from compute to power/connectivity
- Likely paradigm shift in the foundry industry driven by TSMC's fab optimisation augmenting demand for specialty nodes
- Reaffirming our Positive stance on the sector and initiating coverage of VIS, which we expect to benefit from this paradigm shift

Negative | Neutral | **Positive**

Positive (unchanged)

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What's new: TSMC at its series of *results calls* delivered not only escalated business guidance but its effort of fab optimisation to address supply constraints driven by accelerated AI HPC demand. This, together with a ripple effect from advanced to specialty foundry demand spurred by AI scaling from compute to power and connectivity, will likely shift the paradigm in the industry, unlocking demand for specialty nodes which we expect to structurally benefit peers from 2H26. Among TSMC's peers we cover offering specialty foundry works, we initiate coverage of Vanguard International Semiconductor (VIS) with an Outperform (2) rating and 12M TP of TWD210, as we believe VIS is benefiting from this paradigm shift.

What's the impact: **AI scaling spurring specialty foundry demand.** Flagged in our series of *AI thematic reports* since 2023, we envision the AI buildout a multi-year cycle scaling from generative to agentic to physical, and from cloud to edge to ubiquitous. The scaling is not only spurring demand for core chips benefiting advanced foundries but companion chips benefiting specialty foundries, in order to facilitate the entire ecosystem of compute, connectivity, and power. Since many AI companion chips do not require advanced nodes, second-tier foundries have followed TSMC as the second-wave beneficiary on the AI ramp, seeing improved capacity utilisation with improved pricing power, per our market research, thanks to a ripple effect in the specialty foundry demand which should help push utilisation higher into 2027 to reach full levels.

Augmented by TSMC's fab optimisation. We expect such a ripple effect to be further augmented by TSMC's fab optimisation, in order to address a supply shortfall in the advanced foundries caused by the strong AI HPC demand. This looks set to shift the paradigm in the foundry industry, structurally benefiting peers' operating specialty nodes. We expect the fab optimisation to unlock business worth of c.USD3bn pa, or c.40% of UMC's 2025 revenue, with spillover taking effect from this year and ramping into 2027-28E, considering different timings of TSMC's fab closures and associated lead times for customer qualifications of alternative fabs.

What we recommend: Among the specialty foundries under our coverage in Asia, we initiate on VIS with an Outperform (2) rating and expect it to benefit from this paradigm shift, in addition to UMC (Hold [3]). HHGrace (Buy [1]) and SMIC (Sell [5]) should also benefit, yet to a lesser extent for the latter due to geopolitical issues.

How we differ: We believe we are one of few brokers quantifying business potential from TSMC's fab optimisation to the second-tier foundries.

Key stock calls

	New	Prev.
Taiwan Semiconductor Manufacturing (2330 TT)		
Rating	**Buy**	Buy
Target	**3,000.00**	3,000.00
Upside ▲	**16.1%**	
United Microelectronics (2303 TT)		
Rating	**Hold**	Hold
Target	**145.00**	108.00
Downside ▼	**2.4%**	
Semiconductor Manufacturing Int'l Corp (981 HK)		
Rating	**Sell**	Sell
Target	**40.00**	40.00
Downside ▼	**34.3%**	
Hua Hong Grace Semiconductor (1347 HK)		
Rating	**Buy**	Buy
Target	**139.00**	139.00
Upside ▲	**32%**	
Vanguard International Semiconductor (5347 TT)		
Rating	**Outperform**	
Target	**210.00**	
Upside ▲	**10.5%**	

Source: Daiwa forecasts

Sector stocks: key indicators

								EPS (local curr.)					
		Share	Rating		Target price (local curr.)			FY1			FY2		
Company Name	Stock code	Price	New	Prev.	New	Prev.	% chg	New	Prev.	% chg	New	Prev.	% chg
Hua Hong Grace Semiconductor	1347 HK	105.30	Buy	Buy	139.00	139.00	0.0%	0.106	0.106	0.0%	0.154	0.154	0.0%
Semiconductor Manufacturing Int'l Corp	981 HK	60.90	Sell	Sell	40.00	40.00	0.0%	0.175	0.175	0.0%	0.204	0.204	0.0%
Taiwan Semiconductor Manufacturing	2330 TT	2,585.00	Buy	Buy	3,000.00	3,000.00	0.0%	109.608	109.612	(0.0%)	134.693	134.687	0.0%
United Microelectronics	2303 TT	148.50	Hold	Hold	145.00	108.00	34.3%	7.222	7.112	1.5%	7.099	5.826	21.9%
Vanguard International Semiconductor	5347 TT	190.00	Outperform		210.00			5.896			7.919		

Source: Bloomberg, Daiwa forecasts; note: share prices in local currency as of close on 7 October 2026

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A paradigm shift in specialty nodes

AI scaling augmented by fab optimisation for a paradigm shift in the foundry industry benefiting specialty nodes

TSMC at its series of quarterly results calls this year (*Too good to be true? (II)*, 16 April; *Yes, it's good and it's true*, 16 July) delivered not only escalated business guidance but its strategy of fab optimisation, in order to address supply constraints driven by rapidly growing demand for AI high-performance compute (HPC) chips that require advanced technology nodes. We view its fab optimisation as likely shifting the paradigm in the foundry industry, unlocking demand for specialty process nodes structurally benefiting peers from this year. TSMC's fab optimisation should help augment a ripple effect in demand being spurred by AI scaling from compute to power and connectivity, ever since this multi-year AI buildout cycle began from 2023 after OpenAI's ChatGPT dropped from the air.

Initiating coverage of VIS with an Outperform (2) call in this report

Among TSMC's peers we cover offering specialty foundry works, we see Vanguard International Semiconductor (VIS) as benefiting from this paradigm shift, thus initiating our coverage of the stock with an Outperform (2) rating and 12M TP of TWD210. Elsewhere, we believe UMC will benefit from this shift, thus raising our forecasts in this report, though we are comfortable with our Hold (3) rating on valuation grounds. While Huahong Grace Semiconductor (HHGrace; rated Buy [1]) stands to benefit from China's AI developments, we see SMIC (rated Sell [5]) also benefiting, but to a lesser extent, due to geopolitical issues such as the US's export controls prolonging its advanced technology developments.

AI scaling spurring specialty foundry demand

As flagged in our series of AI thematic reports since 2023 (*Let's talk about AI or … bubble?* 11 July 2023, *Let's talk about AI, not bubble*, 25 October 2024, and *Let's talk more about AI, ASIC AI this time*, 1 July 2025), we have envisioned the AI buildout a multi-year cycle scaling vertically by language from generative (data training) to agentic (data inference) to ultimately physical AI, and scaling horizontally by application from cloud to edge to ultimately ubiquitous AI (ie, AI everywhere).

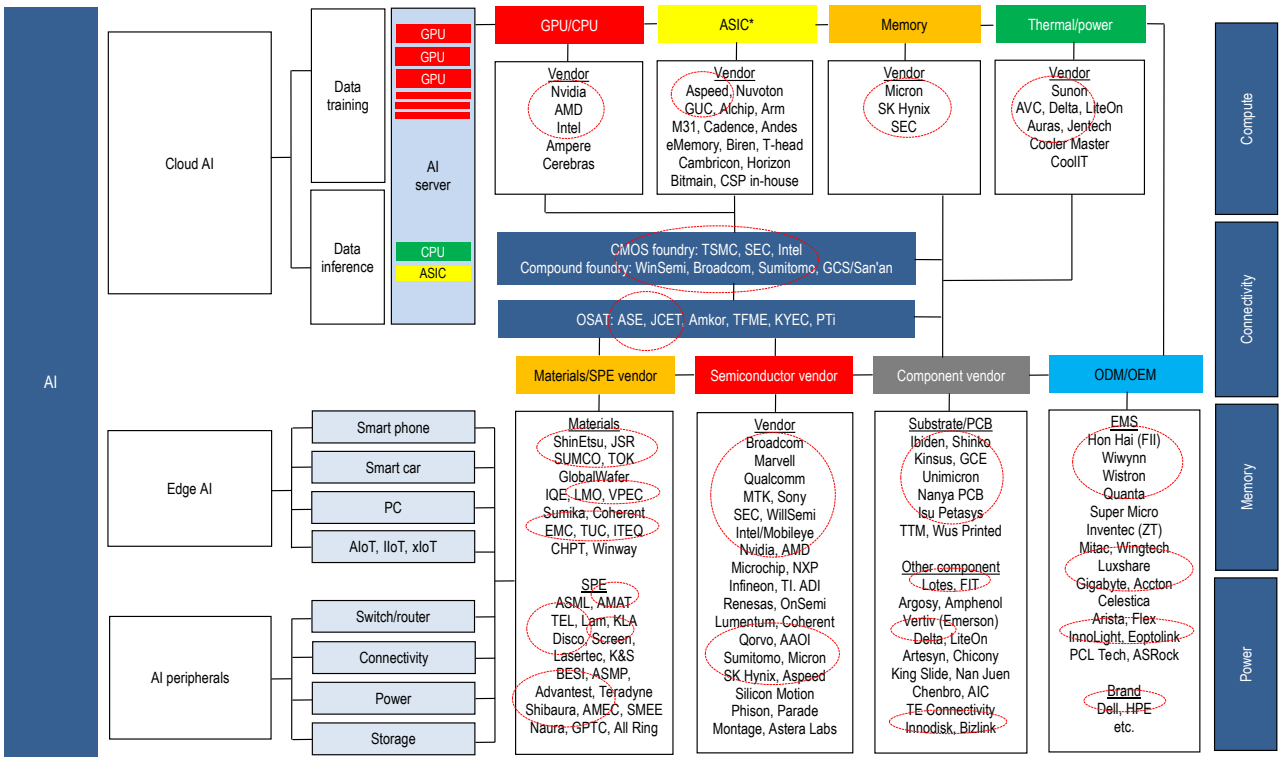
Ever since late-2022 when OpenAI's ChatGPT dropped from the air, followed by Nvidia kicking off the AI build from 2023, this multi-year AI scaling has not only spurred demand for core chips such as GPU and application specific IC (ASIC) as accelerators benefiting advanced foundries, but for companion chips such as optical engines, drivers, super transimpedance amplifier (TIA), digital signal processor (DSP), and power semiconductors benefiting specialty foundries, in order to facilitate the entire AI ecosystem of compute, connectivity, and power, as well as memory, illustrated in a chart next page.

CUR at second-tier foundries are improving as many AI companion chips don't require advanced nodes

Many AI companion chips do not require advanced process nodes but specialty technologies such as silicon-germanium (SiGe), silicon-on-insulator (SoI), and bipolar-CMOS-DMOS (BCD) with a variety of heavily doped wafer materials such as gallium-nitride (GaN), GaN-on-silicon and GaN-on-silicon-carbide (SiC) handling a variety of different voltage currents ranging from a few volts to over 1,000v. Therefore, we have seen improved capacity utilisation rates (CUR) across the second-tier foundries since the start of the year which offer these specialty technologies, following TSMC as the second-wave beneficiary on the AI ramps, thanks to a ripple effect in the specialty foundry demand which should help push the second-tier CUR higher through 2027 to reach full levels, according to our market research.

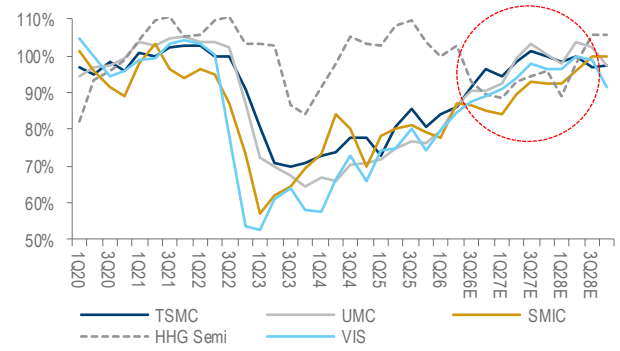
As illustrated in a chart next page, we expect the CUR among the second-tier foundries of UMC, HHGrace, and VIS, following the trough in 1Q23 on the post-COVID inventory correction, to follow TSMC's trajectory, accelerating in 2H26E to 90% or above and reaching the 100% level through most time of 2027-28E, resulting in improved pricing power for the like-to-like price hikes varied in different timings.

A broad-based AI ecosystem and key supply-chain players



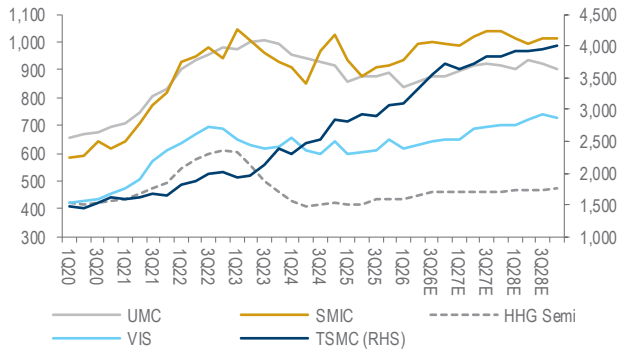
Source: Daiwa
*Note: * ASIC includes a variety of customized chips such as xPU, BMC and HSI controller (PCIe, SATA); CSP = cloud service provider*

Asia Foundry: capacity utilisation trends among foundry majors*



Source: Companies, Daiwa estimates and forecasts
*Note: * wafer shipment divided by installed capacity, not wafer output*

Asia Foundry: blended ASP trends among foundry majors*



Source: Companies, Daiwa estimates and forecasts
*Note: * in USD terms on 8" equivalent basis for the like-to-like comparison*

Augmented by TSMC's fab optimisation

TSMC's fab optimisation looks set to further augment the AI demand ripple effect

We expect such a ripple effect in the specialty foundry demand to be further augmented by TSMC's fab optimisation, in which the foundry leader aims to address a supply shortfall in the advanced foundry works caused by the strong AI HPC demand, including AI CPU, all types of xPU as accelerators and base dies for high bandwidth memory (HBM), by TSMC's definition. We expect its optimisation strategy to likely shift the paradigm in the foundry industry structurally to benefit peers operating specialty process nodes.

TSMC: expected schedule of mature fab closures

Wafer fab	Location	Wafer size	Process node	Capacity (wpm*)	Note
Fab 2	Hsinchu Science Park	6"	0.5-0.8u	85,000	
Fab 5	Hsinchu Science Park	8"	0.15-0.35u	50,000	
Subtotal (8" equivalent)				97,813	40%+ of VIS revenue
Fab 15/P3	Taichung Science Park	12"	28/22/20nm	50,000	c.30% of UMC revenue
Total (12" equivalent)				93,472	

Source: Company, Daiwa estimates
*Note: * wpm = wafers per month*

According to our market research, in order to accommodate more advanced packaging capacity such as chip-on-wafer-on-substrate (CoWoS), TSMC is shutting down one 6" fab (Fab 2) and one 8" fab (Fab 5) this year with a combined capacity of c.98k wafers per month (wpm) in 8" equivalent size (ie, 200mm in wafer diameter). Covering process nodes ranging from 0.8u to 0.15u, closures of the 2 mature fabs will likely unlock business ranging from USD700m to USD800m pa, depending on the average selling prices (ASP) for different nodes ranging from USD250 for 0.8u to more than USD700 for 0.15u, on our estimates, or more than 40% of VIS's 2025 revenue. We see VIS as the key beneficiary from this fab optimisation, given its strategic ties with TSMC.

TSMC's fab optimisation may unlock c.USD3bn in business pa

We further expect TSMC to close one 12" mega-fab in Taichung Science Park named Fab 15/P3 and convert it to accommodate more advanced capacity of N3, in order to meet the strong AI HPC demand. This mega-fab consists 2 phases thus operating a combined capacity of c.50k wpm in 300mm size, on our estimates, with process nodes mainly focused on 28/22/20nm for ASP ranging from USD3,800 to USD4,000. Therefore, the closure will likely unlock business of USD2.3bn pa on average, or c.30% of UMC's 2025 revenue. UMC and GlobalFoundries (GF) look well positioned to benefit here as both operate the 28/22nm process nodes. All together, we reckon the foundry leader's fab optimisation will likely unlock extra business worth of USD3bn pa, or nearly 40% of UMC's 2025 revenue, with likely an order spillover taking effect from this year and ramping into 2027-28, considering TSMC's different timings of fab closures and associated lead times for customers to qualify alternative fabs which should typically take 9-12 months.

Stock recommendations

Among the specialty foundries under our coverage, our preference goes to VIS and HHGrace

Among the specialty foundries under our coverage, we expect VIS to benefit from this likely paradigm shift thanks to its historical ties with TSMC which has strategically helped transform VIS's business from memory to mixed-signal processes and further advance it to value-add power semiconductors capitalising on the multi-year AI scaling. UMC stands to benefit from this scaling with its specialty foundry offerings and active 28/22nm ramps, though we view investors largely pricing in this potential. We expect HHGrace and SMIC to benefit from this AI scaling, but less than their Taiwan counterparts especially for SMIC, due to the geopolitical issues such as export controls and AI regulations from the US diluting the scaling benefit as the world appears to be divided into "China for China" and "non-China for non-China", in terms of the semiconductor supply chain.

Key downside risks to our Positive stance on the sector are "silicon inflation" in the supply chain and geopolitical overhangs (war, tariff, interest rate) leading to global inflation and AI capex cuts. Please refer to the company section for more company-specific details.

We initiate coverage of Vanguard International Semiconductor (VIS) with an Outperform (2) rating and 12M TP of TWD210 by applying our ROE-adjusted PBR target of 5.2x one-year forward BVPS forecast. Key downside risks: 1) current chip upcycle ends earlier than expected; and 2) the 12" fab ramp/execution turns out below expectation.

We reaffirm our Buy (1) rating for TSMC and 12M TP of TWD3,000, based on an unchanged ROE-adjusted PBR target of 7.7x on our one-year forward BVPS. Key downside risks are silicon inflation and geopolitical overhangs leading to global inflation and AI capex cuts.

We reaffirm our Buy (1) rating for HHGrace and SOTP-based 12M TP of HKD139. Key downside risk: changes in asset-injection plans.

We maintain our Hold (3) call for UMC but raise our 12M TP to TWD145 (previous: TWD108), based on our higher ROE-adjusted PBR target of 4.2x (previous: 3.3x). Upside/ downside risks: price hikes above our expectations/geopolitical overhangs (war, FX, interest rate) weighing on end-demand.

We maintain our Sell (5) rating for SMIC and 12M TP of HKD40, based on our ROE-adjusted PBR target of 1.1x applied to our one-year forward BVPS forecast. Key upside risk to our call would be any positive breakthrough on geopolitics and export controls.

Asian foundry: valuation panel

		Price	Daiwa	PER (x)			PBR (x)			ROE (%)			Earnings growth (%)		
Stock	Ticker	(LC)*	rating	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*

When a report covers six or more subject companies please access important disclosures for Daiwa Capital Markets Hong Kong Limited at http://www.hk.daiwacm.com/research_disclaimer.html or contact your investment representative or Daiwa Capital Markets Hong Kong Limited at Level 26, One Pacific Place, 88 Queensway, Hong Kong

Taiwan Semiconductor Manufacturing (2330 TT)

Daiwa Capital Markets Hong Kong Limited

Target price: **TWD3,000.00** (from TWD3,000.00)

Share price (7 Oct): **TWD2,585.00** | Up/downside: **+16.1%**

5 4 3 2 **1**

Buy (unchanged)

The man who cares about the supply chain

- AI scaling is benefiting peers on AI spillover demand
- Fab optimisation looks set to augment the benefit
- Maintain our Buy (1) call and 12M TP of TWD3,000

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What's new: We concur what the chairman said on the *2Q26 results call* that TSMC doesn't sell milk (ie, a commodity), which one can buy at another convenience store. Yet when AI demand is deriving from its leading advanced services vs. the 'milk' one can buy from other convenience stores, peers stand to benefit from a ripple effect in demand on the AI scaling (ie, AI spillover), from core compute to memory to connectivity to power, augmented by TSMC's fab optimisation addressed in the main section of this sector report. That said, as TSMC still under-ships demand in the advanced foundry and backend services, we see a good chance for it to exercise pricing power in 2027, striking a balance between profitability and supply-chain interests. We haven't embedded price hikes in our model, thus keep our forecasts and TP, reaffirming our Buy (1) call.

What's the impact: 3Q26 preview and 4Q26 outlook. We estimate TSMC to have earned 3Q26 EPS of c.TWD28.5, varying not much from the consensus estimate. Monthly revenue came in at TWD982bn (+49% YoY) QTD, reaching 67% of our 3Q26E revenue which we consider as tracking inline. We expect TSMC's 4Q26 revenue to advance 10% QoQ (+54% YoY) to USD50.4bn for an EPS of TWD31.8, also varying not much from the consensus. While we keep our 2027-28 forecasts unchanged, we see upside from a possibility that TSMC would raise wafer prices to mitigate cost pressure from its Arizona operation and materials cost hike across the supply chain. TSMC is scheduled to report on 15 October; we will offer our updates in due course.

Optimisation benefiting supply chain. As addressed in the main sector section of this report, TSMC is closing some of its legacy fabs over 2026-27 to address the supply constraint caused by the strong AI demand for advanced frontend wafer manufacturing and backend packaging & testing technologies. We expect its fab optimisation to unlock businesses worth c.USD3bn pa and benefit peers who offer specialty foundry services. We expect the optimisation to augment a ripple effect in the AI demand on scaling from compute to connectivity to power (AI spillover). We believe TSMC is happy to let go such spillover businesses given its limited bandwidth to handle the advanced foundry and backend demand.

What we recommend: We stick with our 12M TP of TWD3,000 for TSMC, based on an unchanged ROE-adjusted PBR target of 7.7x on our one-year forward BVPS. We maintain Buy (1) with downside risks of silicon inflation and geopolitical overhangs leading to global inflation and AI capex cuts.

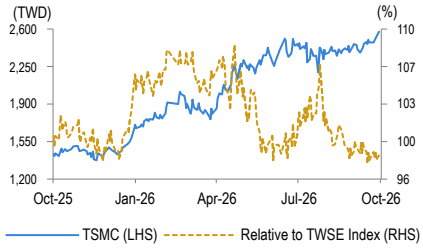
How we differ: Our 2028E EPS looks 15% below Bloomberg consensus likely due to our view calling for a soft-landing in the chip cycle.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	1,375.00-2,585.00
Market cap (USDbn)	2,107.13
3m avg daily turnover (USDm)	1,977.91
Shares outstanding (m)	25,932
Major shareholder	National Development Fund (6.4%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	5,482,671	6,896,580	7,707,441
Operating profit (m)	3,235,950	4,030,657	4,425,491
Net profit (m)	2,842,354	3,492,859	3,883,975
Core EPS (fully-diluted)	109.608	134.693	149.775
EPS change (%)	65.5	22.9	11.2
Daiwa vs Cons. EPS (%)	2.9	(4.5)	(15.0)
PER (x)	23.6	19.2	17.3
Dividend yield (%)	1.0	1.1	1.2
DPS	26.0	28.0	30.0
PBR (x)	8.5	6.3	4.8
EV/EBITDA (x)	15.9	12.2	10.3
ROE (%)	42.8	37.6	31.7

Source: FactSet, Daiwa forecasts

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

Company

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilization (%)	102	98	73	76	80	90	99	98
Blended ASP (USD)	1,642	1,933	2,101	2,546	2,930	3,439	3,764	3,950
Wafer shipment (8" equ., '000)	31,902	34,320	27,005	29,051	33,802	40,868	47,076	50,155

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer Foundry Revenue	1,463,157	1,979,286	1,770,430	2,378,253	3,079,347	4,473,682	5,670,880	6,337,629
Sub & Other Revenue	124,258	284,605	391,305	516,054	729,707	1,008,988	1,225,702	1,369,813
Other Revenue	0	0	0	0	0	1	(1)	(0)
Total Revenue	**1,587,415**	**2,263,891**	**2,161,736**	**2,894,308**	**3,809,054**	**5,482,671**	**6,896,580**	**7,707,441**
Other income	0	0	0	0	0	0	0	0
COGS	(767,878)	(915,536)	(986,625)	(1,269,954)	(1,527,760)	(1,799,646)	(2,297,170)	(2,649,940)
SG&A	(44,822)	(63,813)	(71,275)	(98,119)	(98,775)	(117,396)	(154,960)	(169,564)
Other op.expenses	(124,735)	(163,262)	(182,370)	(204,182)	(246,427)	(329,678)	(413,795)	(462,446)
Operating profit	**649,981**	**1,121,279**	**921,466**	**1,322,053**	**1,936,092**	**3,235,950**	**4,030,657**	**4,425,491**
Net-interest inc./(exp.)	488	10,672	48,295	76,718	93,369	121,900	162,500	237,920
Assoc/forex/extraord./others	12,657	12,239	9,411	7,068	12,202	73,622	10,043	10,446
Pre-tax profit	**663,126**	**1,144,190**	**979,171**	**1,405,839**	**2,041,663**	**3,431,472**	**4,203,200**	**4,673,856**
Tax	(66,053)	(127,290)	(141,404)	(233,407)	(326,266)	(590,459)	(714,544)	(794,556)
Min. int./pref. div./others	(533)	(370)	730	836	2,486	1,341	4,203	4,674
Net profit (reported)	**596,540**	**1,016,530**	**838,498**	**1,173,268**	**1,717,883**	**2,842,354**	**3,492,859**	**3,883,975**
Net profit (adjusted)	**596,540**	**1,016,530**	**838,498**	**1,173,268**	**1,717,883**	**2,842,354**	**3,492,859**	**3,883,975**
EPS (reported)(TWD)	**23.005**	**39.204**	**32.334**	**45.252**	**66.255**	**109.608**	**134.693**	**149.775**
EPS (adjusted)(TWD)	**23.005**	**39.204**	**32.334**	**45.252**	**66.255**	**109.608**	**134.693**	**149.775**
EPS (adjusted fully-diluted)(TWD)	**23.006**	**39.203**	**32.334**	**45.242**	**66.243**	**109.608**	**134.693**	**149.775**
DPS (TWD)	**10.250**	**11.001**	**11.249**	**14.003**	**18.003**	**26.000**	**28.000**	**30.000**
EBIT	**649,981**	**1,121,279**	**921,466**	**1,322,053**	**1,936,092**	**3,235,950**	**4,030,657**	**4,425,491**
EBITDA	**1,072,375**	**1,558,533**	**1,453,657**	**1,984,848**	**2,624,188**	**4,050,803**	**5,133,818**	**5,827,702**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	663,126	1,144,190	979,171	1,405,839	2,041,663	3,431,472	4,203,200	4,673,856
Depreciation and amortisation	422,395	437,254	532,191	662,795	688,096	814,853	1,103,162	1,402,211
Tax paid	(66,053)	(127,290)	(141,404)	(233,407)	(326,266)	(590,459)	(714,544)	(794,556)
Change in working capital	(100,384)	(53,286)	324	(90,088)	160	(270,000)	(35,000)	(175,000)
Other operational CF items	193,077	209,731	(128,316)	81,038	(128,677)	(5,171)	(2,634)	(2,505)
Cash flow from operations	**1,112,161**	**1,610,599**	**1,241,967**	**1,826,177**	**2,274,976**	**3,380,696**	**4,554,184**	**5,104,007**
Capex	(839,196)	(1,082,672)	(949,817)	(956,008)	(1,272,411)	(1,964,013)	(1,960,003)	(2,161,145)
Net (acquisitions)/disposals	4,676	(128,712)	(55,781)	(57,882)	(37,079)	738	0	0
Other investing CF items	(1,847)	20,456	99,477	149,047	165,097	0	0	0
Cash flow from investing	**(836,366)**	**(1,190,928)**	**(906,121)**	**(864,843)**	**(1,144,393)**	**(1,963,274)**	**(1,960,003)**	**(2,161,145)**
Change in debt	(1,090)	(1,730)	(17,407)	21,601	(46,362)	(136,926)	(128,434)	(109,169)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(265,786)	(285,234)	(291,722)	(363,055)	(466,779)	(674,232)	(726,096)	(777,960)
Other financing CF items	(3,622)	59,198	10,284	8,054	(64,022)	0	0	0
Cash flow from financing	**(270,499)**	**(227,766)**	**(298,844)**	**(333,399)**	**(577,163)**	**(811,158)**	**(854,530)**	**(887,129)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**5,296**	**191,905**	**37,002**	**627,935**	**553,420**	**606,264**	**1,739,651**	**2,055,732**
Free cash flow	272,965	527,927	292,151	870,169	1,002,565	1,416,683	2,594,181	2,942,861

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	1,188,442	1,561,483	1,687,644	2,422,009	3,068,595	3,674,120	5,413,771	7,469,504
Inventory	193,102	221,149	250,997	287,869	288,109	398,109	458,109	508,109
Accounts receivable	207,637	231,409	201,938	272,088	281,791	461,791	466,791	596,791
Other current assets	17,892	38,856	53,453	106,387	178,635	180,000	30,000	30,000
Total current assets	**1,607,073**	**2,052,897**	**2,194,033**	**3,088,352**	**3,817,131**	**4,714,021**	**6,368,672**	**8,604,404**
Fixed assets	1,975,119	2,693,837	3,064,475	3,234,980	3,691,841	5,187,203	6,400,151	7,379,748
Goodwill & intangibles	113,927	149,117	144,421	219,565	251,682	179,500	189,200	194,000
Other non-current assets	29,385	68,928	129,442	149,040	172,370	172,370	172,370	172,370
Total assets	**3,725,503**	**4,964,779**	**5,532,371**	**6,691,938**	**7,933,024**	**10,253,094**	**13,130,393**	**16,350,523**
Short-term debt	127,171	19,314	9,293	59,858	136,926	128,434	109,169	92,794
Accounts payable	48,911	56,522	57,293	74,227	84,330	104,330	134,330	139,330
Other current liabilities	563,421	868,391	846,997	1,130,441	1,236,763	1,220,430	1,363,338	1,522,250
Total current liabilities	**739,503**	**944,227**	**913,583**	**1,264,525**	**1,458,019**	**1,453,194**	**1,606,838**	**1,754,374**
Long-term debt	610,071	834,336	913,900	926,605	856,228	727,793	618,624	525,831
Other non-current liabilities	205,196	225,727	221,625	177,233	157,982	160,000	165,000	170,000
Total liabilities	**1,554,770**	**2,004,290**	**2,049,108**	**2,368,362**	**2,472,229**	**2,340,987**	**2,390,460**	**2,450,204**
Share capital	259,304	259,304	259,321	259,327	259,325	259,325	259,325	259,325
Reserves/R.E./others	1,908,983	2,686,349	3,199,593	4,029,218	5,160,271	7,610,241	10,433,862	13,589,576
Shareholders' equity	**2,168,287**	**2,945,653**	**3,458,914**	**4,288,545**	**5,419,596**	**7,869,567**	**10,693,187**	**13,848,902**
Minority interests	2,447	14,836	24,349	35,031	41,199	42,540	46,743	51,417
Total equity & liabilities	**3,725,503**	**4,964,779**	**5,532,371**	**6,691,938**	**7,933,024**	**10,253,094**	**13,130,393**	**16,350,523**
EV	66,585,466	66,341,223	66,294,118	65,633,704	64,999,978	64,258,867	62,394,985	60,234,758
Net debt/(cash)	**(451,200)**	**(707,833)**	**(764,451)**	**(1,435,546)**	**(2,075,442)**	**(2,817,893)**	**(4,685,978)**	**(6,850,879)**
BVPS (TWD)	**83.621**	**113.600**	**133.384**	**165.370**	**208.985**	**303.469**	**412.355**	**534.047**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	18.5	42.6	(4.5)	33.9	31.6	43.9	25.8	11.8
EBITDA (YoY)	19.4	45.3	(6.7)	36.5	32.2	54.4	26.7	13.5
Operating profit (YoY)	14.7	72.5	(17.8)	43.5	46.4	67.1	24.6	9.8
Net profit (YoY)	15.2	70.4	(17.5)	39.9	46.4	65.5	22.9	11.2
Core EPS (fully-diluted) (YoY)	15.2	70.4	(17.5)	39.9	46.4	65.5	22.9	11.2
Gross-profit margin	51.6	59.6	54.4	56.1	59.9	67.2	66.7	65.6
EBITDA margin	67.6	68.8	67.2	68.6	68.9	73.9	74.4	75.6
Operating-profit margin	40.9	49.5	42.6	45.7	50.8	59.0	58.4	57.4
Net profit margin	37.6	44.9	38.8	40.5	45.1	51.8	50.6	50.4
ROAE	29.7	39.8	26.2	30.3	35.4	42.8	37.6	31.7
ROAA	18.4	23.4	16.0	19.2	23.5	31.3	29.9	26.3
ROCE	25.5	33.4	22.4	27.2	32.9	42.5	39.8	34.1
ROIC	37.5	50.2	31.7	39.3	51.9	63.2	60.0	56.1
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	10.0	11.1	14.4	16.6	16.0	17.2	17.0	17.0
Accounts receivable (days)	41.7	35.4	36.6	29.9	26.5	24.8	24.6	25.2
Current ratio (x)	2.2	2.2	2.4	2.4	2.6	3.2	4.0	4.9
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	55.1	47.8	34.8	30.9	27.2	23.7	20.8	20.0
Free cash flow yield	0.4	0.8	0.4	1.3	1.5	2.1	3.9	4.4

Source: FactSet, Daiwa forecasts

Company profile

Incorporated in Taiwan in 1987, Taiwan Semiconductor Manufacturing Co. (TSMC) is the world's largest complementary metal oxide semiconductor (CMOS) foundry in revenue terms. TSMC offers foundry services such as wafer masking, fabrication, probing, packaging and testing, to a high variety of customers including fabless chipmakers and IDMs. Its manufacturing fabs are located in Taiwan, China, the US and Singapore.

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

TWDbn	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Wafer shipment (12" equ) ('000 units)	4,174	4,336	4,691	4,963	4,856	5,147	5,459	5,460	15,023	18,164	20,923	22,291
Capacity utilisation*	84%	86%	92%	97%	95%	98%	101%	100%	80%	90%	99%	98%
Blended ASP (USD)	6,937	7,500	8,014	8,358	8,211	8,399	8,608	8,630	6,592	7,738	8,470	8,887
Foundry revenue	915	1,028	1,203	1,328	1,277	1,383	1,503	1,508	3,079	4,474	5,671	6,338
Sub & other revenue	219	243	260	287	276	299	325	326	730	1,009	1,226	1,370
Total revenue	1,134	1,270	1,463	1,615	1,553	1,682	1,828	1,833	3,809	5,483	6,897	7,707
Total revenue (USDbn)	**35.9**	**40.2**	**45.7**	**50.4**	**48.5**	**52.6**	**57.1**	**57.3**	**122.5**	**172.2**	**215.5**	**240.9**
COGS	-383	-410	-477	-529	-528	-553	-605	-612	-1,528	-1,800	-2,297	-2,650
Gross profit	751	860	985	1,086	1,025	1,129	1,224	1,222	2,281	3,683	4,599	5,058
Opex	-92	-94	-130	-131	-129	-140	-150	-150	-345	-447	-569	-632
Operating profit	659	767	855	955	896	989	1,074	1,071	1,936	3,236	4,031	4,425
EBITDA	824	965	1,065	1,196	1,151	1,249	1,363	1,370	2,624	4,051	5,134	5,828
Pre-tax profit	688	862	888	993	936	1,034	1,117	1,117	2,042	3,431	4,203	4,674
Income taxes	-115	-156	-151	-169	-159	-176	-190	-190	-326	-590	-715	-795
Net profit	572	707	738	825	778	859	928	928	1,718	2,842	3,493	3,884
FD O/S (bn)	26	26	26	26	26	26	26	26	26	26	26	26
FD EPS (TWD)	**22.08**	**27.25**	**28.47**	**31.81**	**30.01**	**33.12**	**35.78**	**35.78**	**66.24**	**109.61**	**134.69**	**149.78**
Margins												
Gross	66%	68%	67%	67%	66%	67%	67%	67%	60%	67%	67%	66%
Operating	58%	60%	58%	59%	58%	59%	59%	58%	51%	59%	58%	57%
EBITDA	73%	76%	73%	74%	74%	74%	75%	75%	69%	74%	74%	76%
Net	50%	56%	50%	51%	50%	51%	51%	51%	45%	52%	51%	50%
Growth (QoQ)												
Total revenue	8%	12%	15%	10%	-4%	8%	9%	0%				
Gross profit	15%	15%	15%	10%	-6%	10%	8%	0%				
Operating profit	17%	16%	12%	12%	-6%	10%	9%	0%				
EBITDA	13%	17%	10%	12%	-4%	9%	9%	1%				
Net profit	13%	23%	4%	12%	-6%	10%	8%	0%				
FD EPS	13%	23%	4%	12%	-6%	10%	8%	0%				
Growth (YoY)												
Total revenue	35%	36%	48%	54%	37%	32%	25%	14%	32%	44%	26%	12%
Gross profit	52%	57%	67%	67%	36%	31%	24%	12%	40%	61%	25%	10%
Operating profit	62%	65%	71%	69%	36%	29%	26%	12%	46%	67%	25%	10%
EBITDA	42%	48%	61%	65%	40%	29%	28%	15%	32%	54%	27%	14%
Net profit	58%	77%	63%	63%	36%	22%	26%	12%	46%	65%	23%	11%
FD EPS	58%	77%	63%	63%	36%	22%	26%	12%	46%	65%	23%	11%

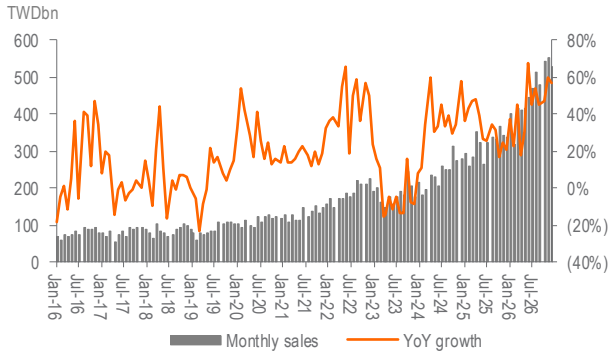
Source: Company, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided by capacity estimated by Daiwa*

TSMC: 3Q26 results preview and 4Q26 business outlook

	3Q26E			4Q26E		
TWDm	Daiwa	Consensus	Variance	Daiwa	Consensus	Variance
Revenue	1,462,926	1,454,000	1%	1,615,260	1,594,000	1%
Gross profit	985,471			1,085,946		
Operating profit	855,271			955,110		
Pretax profit	888,480			992,762		
Net profit	738,327	726,000	2%	824,985	793,000	4%
Adjusted EPS (TWD)	28.47	28.00	2%	31.81	30.58	4%
Margins						
Gross	67.4%			67.2%		
Operating	58.5%			59.1%		
Net	50.5%			51.1%		
Operation						
Shipment (12" equ.wafers) ('000 units)	4,691			4,963		
Utilisation*	92%			97%		
<=3nm sales contribution	38%			42%		

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

TSMC: monthly revenue run-rate*



Source: Company, Daiwa estimates and forecasts
*Note: * Figures over September-December 2026 are estimated by Daiwa*

TSMC: PBR trend



Source: Company, TEJ, Daiwa forecasts

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	TSMC's board of directors (BoD) has 10 members, including 6 independent directors representing 60% of total directors. The background of TSMC's BoD is diversified, with members from industries, academia, and law. Also, its board members include representatives from not only Taiwan but also Europe and the US, bringing their experience in operating international businesses to the board. We believe the high percentage of independent directors and a diverse mix of expertise from the board members strengthen the functionality of its BoD, as evidenced by TSMC's leading position in the foundry market.
	Capital management	1	TSMC 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. As the leader in advanced technology nodes, TSMC has kept expanding its capacity for advanced nodes; as such, we expect its capital intensity to increase to the level near or above 40% over 2025-26 (vs. its long-term target of mid-30%). However, we believe TSMC will at least sustain its cash dividend payout in dollar terms over 2025-26E. We see its balance between investment and dividend as appropriate.
	Related party & transaction	1	TSMC's sales to related parties remained insignificant, accounting for less than 1% of total revenue in recent years. Purchases from related parties also represented less than 1% of total cost of goods sold. Given the limited contribution of related-party transactions to TSMC's revenue and procurement base, we continue to view related-party exposure and concentration risk as minimal
S	Supply chain management	1	TSMC continues to strengthen its supply chain management through sustainability risk management and supply chain resilience initiatives. In 2024, 100% of tier-1 suppliers completed sustainability self-assessments, while 100% of targeted critical suppliers completed third-party RBA audits. The Company also maintained its responsible mineral sourcing program and enhanced human rights oversight across its supply chain. We believe these efforts help reduce supply chain and ESG-related risks
E	Water & wastewater management	2	TSMC continues to invest in water reclamation and conservation technologies to enhance water security. The Company has integrated reclaimed water into its manufacturing process and is expanding alternative water sourcing through partnerships with local governments. Together with ongoing investments in water recycling and efficiency improvement, we believe TSMC is well positioned to mitigate water supply risks and strengthen the sustainability of its operations
E	Waste & hazardous materials management	1	TSMC has maintained a waste recycling rate above 95% and kept landfill disposal at below 1% for many years. The Company continues to reduce waste intensity through process improvements and resource recovery initiatives. In 2024, TSMC established the semiconductor industry's first Zero Waste Manufacturing Center to further enhance circular economy practices and maximize resource utilization. We view TSMC's waste management performance as best-in-class and see limited environmental risk from waste disposal.
E	GHG emissions	1	TSMC continues to advance its net-zero strategy through renewable energy procurement and carbon reduction initiatives. All overseas fabs and offices achieved net zero emissions in 2024, while the Company expanded its contracted renewable energy capacity to 4 GW. TSMC maintains its commitment to achieve net zero emissions by 2050, with intermediate targets of 60% renewable electricity usage by 2030 and 100% by 2040. We view TSMC's climate strategy as best-in-class among global semiconductor manufacturers

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

Daiwa Capital Markets Hong Kong Limited

United Microelectronics (2303 TT)

Target price: **TWD145.00** (from TWD108.00)

Share price (7 Oct): **TWD148.50** | Up/downside: **-2.4%**

5 4 **3** 2 1

Hold (unchanged)

A beneficiary of the AI ripple effect, but …

- UMC looks set to benefit from AI demand spillover
- Yet we believe the AI ripple effect is being priced in
- Maintain our Hold (3) call, with a higher 12M TP of TWD145

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What's new: Given its longstanding position in the global foundry industry, ever challenging TSMC's leadership during the late 1990s, we believe UMC stands well to benefit from a ripple effect in demand spurred by AI scaling, as detailed in the main section of this report. We expect UMC's wafer loadings to reach 100% from 1Q27, with price hikes to go through (see *Price hike to go through? Still likely*, 31 July). That said, we believe the equity market has priced in this AI strength on extra volume and pricing power for UMC. Hence, we stick with our Hold (3) rating on the counter.

What's the impact: **3Q26 preview and 4Q26 outlook.** We expect UMC to report 3Q26 net profit of TWD16.4bn (+9% YoY), varying not much from the Bloomberg consensus. Its monthly revenue finished at c.TWD49bn QTD, reaching 65% of our/consensus 3Q26 estimates, which we consider tracking inline. For 4Q26, we expect UMC to earn net profit of TWD16bn, 13% below consensus, as the street seems to be assuming higher non-operating gains. UMC is scheduled to report results on 28 October; we will be offering updates in due course.

<=28nm ramp on AI scaling and fab optimisation. UMC's 28/22nm-and-below revenue contribution has hovered around the high-30% range over the past 2 years, after meaningful ramp during the COVID period on broadened demand applications from display drivers and TV SoCs to power management. With AI scaling creating a ripple effect in companion chip demand for connectivity (ie, silicon photonics) and power (ie, server PMICs), we believe UMC is well positioned to benefit from any spillover demand, with the strength augmented by TSMC's fab optimisation, which could strengthen UMC's pricing power. Given that UMC's wafer loadings are likely to reach 100% from 1Q27, we expect its price hikes to go through and model increases of 2-5%, effective from 1Q27, across nodes related to AI applications. This should resume its <=28nm ramp to exceed a half of revenue in 2028. All in, we raise our 2027-28E EPS by 22%.

What we recommend: Despite our forecast revisions, we remain comfortable with our Hold (3) rating for UMC, as we believe its AI strength is already priced in. We raise our 12M TP to TWD145 (previous: TWD108), based on our higher ROE-adjusted PBR target of 4.2x (previous: 3.3x) applied to 1-year-forward BVPS on a higher ROE trajectory. Upside/ downside risks would be any price hikes above our expectations/ geopolitical overhangs (war, FX, interest rate) weighing on end-demand.

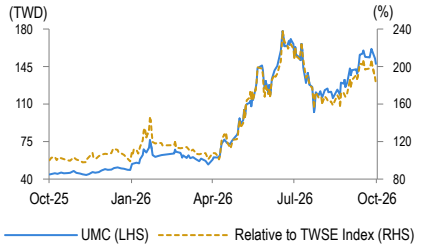
How we differ: Our 2026-28E EPS do not vary much from consensus, indicating that UMC's AI strength is already reflected in its valuation.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	0.9	7.5	7.9
Net profit change	1.5	21.9	21.6
Core EPS (FD) change	1.5	21.9	21.6

Source: Daiwa forecasts

Share price performance



12-month range	43.85-178.50
Market cap (USDbn)	58.71
3m avg daily turnover (USDm)	726.45
Shares outstanding (m)	12,577
Major shareholder	United Microelectronics Corp (5.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	281,729	358,798	393,029
Operating profit (m)	63,045	99,484	115,376
Net profit (m)	90,829	89,289	103,534
Core EPS (fully-diluted)	7.222	7.099	8.232
EPS change (%)	117.9	(1.7)	16.0
Daiwa vs Cons. EPS (%)	2.4	(1.6)	(3.5)
PER (x)	20.6	20.9	18.0
Dividend yield (%)	1.8	2.7	2.7
DPS	2.6	4.0	4.0
PBR (x)	4.8	4.4	3.9
EV/EBITDA (x)	13.8	10.1	9.1
ROE (%)	23.6	21.8	22.8

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilisation (%)	104	99	68	69	75	87	99	100
Blended ASP (USD)	774	941	994	933	876	862	914	916
Wafer shipment (8" equ., '000)	9,860	9,946	7,190	7,754	8,712	10,270	12,266	13,406

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer Foundry Revenue	213,011	278,705	222,533	232,303	237,553	281,729	358,798	393,029
New Business Revenue	0	0	0	0	0	0	0	0
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**213,011**	**278,705**	**222,533**	**232,303**	**237,553**	**281,729**	**358,798**	**393,029**
Other income	0	0	0	0	0	0	0	0
COGS	(140,961)	(152,941)	(144,789)	(156,649)	(168,647)	(188,965)	(224,020)	(239,340)
SG&A	(7,429)	(8,518)	(6,569)	(8,425)	(7,233)	(10,215)	(13,024)	(14,368)
Other op.expenses	(12,935)	(12,954)	(13,284)	(15,616)	(17,725)	(19,504)	(22,271)	(23,945)
Operating profit	**51,686**	**104,293**	**57,891**	**51,613**	**43,949**	**63,045**	**99,484**	**115,376**
Net-interest inc./(exp.)	(1,387)	156	3,283	1,914	676	1,110	2,095	3,270
Assoc/forex/extraord./others	11,504	1,649	9,739	2,693	5,023	36,244	4,403	4,608
Pre-tax profit	**61,803**	**106,097**	**70,912**	**56,220**	**49,648**	**100,399**	**105,981**	**123,255**
Tax	(6,691)	(18,079)	(9,472)	(9,113)	(8,113)	(9,660)	(16,692)	(19,721)
Min. int./pref. div./others	668	(820)	(450)	105	182	91	0	0
Net profit (reported)	**55,780**	**87,198**	**60,990**	**47,211**	**41,716**	**90,829**	**89,289**	**103,534**
Net profit (adjusted)	**55,780**	**87,198**	**60,990**	**47,211**	**41,716**	**90,829**	**89,289**	**103,534**
EPS (reported)(TWD)	**4.552**	**7.086**	**4.930**	**3.796**	**3.341**	**7.222**	**7.099**	**8.232**
EPS (adjusted)(TWD)	**4.552**	**7.086**	**4.930**	**3.796**	**3.341**	**7.222**	**7.099**	**8.232**
EPS (adjusted fully-diluted)(TWD)	**4.468**	**6.973**	**4.868**	**3.759**	**3.314**	**7.222**	**7.099**	**8.232**
DPS (TWD)	**1.622**	**3.043**	**3.639**	**3.022**	**2.866**	**2.602**	**4.004**	**4.004**
EBIT	**51,686**	**104,293**	**57,891**	**51,613**	**43,949**	**63,045**	**99,484**	**115,376**
EBITDA	**98,762**	**148,462**	**98,374**	**99,780**	**103,206**	**129,845**	**173,179**	**185,068**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	61,803	106,097	70,912	56,220	49,648	100,399	105,981	123,255
Depreciation and amortisation	47,075	44,169	40,484	48,168	59,257	66,800	73,695	69,692
Tax paid	(6,691)	(18,079)	(9,472)	(9,113)	(8,113)	(9,660)	(16,692)	(19,721)
Change in working capital	(10,151)	(8,262)	916	(2,889)	1,617	(10,600)	(10,000)	(400)
Other operational CF items	(1,685)	21,935	(16,840)	1,488	(2,545)	(27,454)	(3,803)	(4,008)
Cash flow from operations	**90,352**	**145,861**	**86,000**	**93,872**	**99,864**	**119,484**	**149,182**	**168,817**
Capex	(48,035)	(80,128)	(91,474)	(88,545)	(47,744)	(63,647)	(51,200)	(52,801)
Net (acquisitions)/disposals	(14,290)	28,229	(4,678)	2,625	(7,670)	8,411	0	0
Other investing CF items	162	(2,528)	(1,635)	(21)	2,259	0	0	0
Cash flow from investing	**(62,163)**	**(54,427)**	**(97,787)**	**(85,941)**	**(53,154)**	**(55,237)**	**(51,200)**	**(52,801)**
Change in debt	18,818	(34,087)	27,377	(337)	(1,812)	(4,188)	(18,843)	(19,757)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(19,871)	(37,445)	(45,015)	(37,586)	(35,784)	(32,729)	(50,353)	(50,353)
Other financing CF items	11,439	21,296	(11,840)	2,438	(3,454)	0	0	0
Cash flow from financing	**10,386**	**(50,237)**	**(29,478)**	**(35,484)**	**(41,050)**	**(36,917)**	**(69,196)**	**(70,110)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**38,574**	**41,197**	**(41,265)**	**(27,553)**	**5,660**	**27,330**	**28,786**	**45,907**
Free cash flow	42,317	65,732	(5,474)	5,327	52,120	55,837	97,982	116,016

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	171,224	178,973	145,621	115,865	129,071	147,990	176,776	222,683
Inventory	23,011	31,070	35,713	35,782	37,228	38,228	41,728	41,228
Accounts receivable	35,190	36,975	29,586	33,343	31,274	40,774	50,774	50,674
Other current assets	3,848	5,353	5,878	4,688	7,211	5,000	5,500	5,500
Total current assets	**233,273**	**252,371**	**216,797**	**189,678**	**204,783**	**231,992**	**274,778**	**320,085**
Fixed assets	129,942	170,982	237,377	277,344	271,395	247,287	231,137	220,390
Goodwill & intangibles	28,665	44,852	30,758	30,691	27,445	24,500	27,400	27,300
Other non-current assets	72,547	64,847	74,255	72,487	75,373	102,917	106,720	110,728
Total assets	**464,427**	**533,052**	**559,187**	**570,201**	**578,996**	**606,697**	**640,036**	**678,503**
Short-term debt	39,256	7,587	29,537	19,510	27,597	19,751	20,666	15,726
Accounts payable	8,364	8,982	7,526	7,633	9,170	9,070	12,570	11,570
Other current liabilities	57,833	91,996	61,952	48,117	50,832	73,412	81,958	92,119
Total current liabilities	**105,454**	**108,565**	**99,015**	**75,260**	**87,598**	**102,234**	**115,194**	**119,415**
Long-term debt	39,830	39,877	45,236	55,533	45,372	49,029	29,272	14,454
Other non-current liabilities	37,941	49,159	55,358	61,222	66,170	66,000	66,000	66,000
Total liabilities	**183,224**	**197,601**	**199,608**	**192,016**	**199,141**	**217,263**	**210,466**	**199,869**
Share capital	124,832	125,047	125,298	125,607	125,882	125,882	125,882	125,882
Reserves/R.E./others	156,147	210,060	233,939	252,321	253,887	263,366	303,401	352,366
Shareholders' equity	**280,980**	**335,107**	**359,238**	**377,928**	**379,768**	**389,247**	**429,283**	**478,247**
Minority interests	223	344	341	257	87	187	287	387
Total equity & liabilities	**464,427**	**533,052**	**559,187**	**570,201**	**578,996**	**606,697**	**640,036**	**678,503**
EV	1,775,767	1,736,517	1,797,175	1,827,118	1,811,667	1,788,660	1,741,130	1,675,567
Net debt/(cash)	**(92,138)**	**(131,509)**	**(70,849)**	**(40,821)**	**(56,102)**	**(79,210)**	**(126,839)**	**(192,503)**
BVPS (TWD)	**22.508**	**26.798**	**28.671**	**30.090**	**30.169**	**30.949**	**34.132**	**38.026**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	20.5	30.8	(20.2)	4.4	2.3	18.6	27.4	9.5
EBITDA (YoY)	39.3	50.3	(33.7)	1.4	3.4	25.8	33.4	6.9
Operating profit (YoY)	134.9	101.8	(44.5)	(10.8)	(14.8)	43.5	57.8	16.0
Net profit (YoY)	91.1	56.3	(30.1)	(22.6)	(11.6)	117.7	(1.7)	16.0
Core EPS (fully-diluted) (YoY)	93.7	56.0	(30.2)	(22.8)	(11.8)	117.9	(1.7)	16.0
Gross-profit margin	33.8	45.1	34.9	32.6	29.0	32.9	37.6	39.1
EBITDA margin	46.4	53.3	44.2	43.0	43.4	46.1	48.3	47.1
Operating-profit margin	24.3	37.4	26.0	22.2	18.5	22.4	27.7	29.4
Net profit margin	26.2	31.3	27.4	20.3	17.6	32.2	24.9	26.3
ROAE	21.6	28.3	17.6	12.8	11.0	23.6	21.8	22.8
ROAA	13.3	17.5	11.2	8.4	7.3	15.3	14.3	15.7
ROCE	15.7	28.1	14.2	11.6	9.7	13.8	21.2	23.3
ROIC	23.5	44.0	20.4	13.8	11.1	18.0	27.3	32.9
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	10.8	17.0	13.4	16.2	16.3	9.6	15.7	16.0
Accounts receivable (days)	53.5	47.3	54.6	49.4	49.6	46.7	46.6	47.1
Current ratio (x)	2.2	2.3	2.2	2.5	2.3	2.3	2.4	2.7
Net interest cover (x)	37.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	68.1	67.1	51.6	61.6	75.8	78.5	55.4	56.3
Free cash flow yield	2.3	3.5	n.a.	0.3	2.8	3.0	5.2	6.2

Source: FactSet, Daiwa forecasts

Company profile

Incorporated in Taiwan, United Microelectronics Corp (UMC) is one of the leading semiconductor foundries in the world and second largest in Taiwan. UMC offers a series of foundry services from photo-mask, wafer fabrication to wafer probe & test. Its wafer fabs are spread over Taiwan, China and Singapore, with technology offerings ranging from 0.25u and above, 0.18/0.15u, 0.13u, 90nm, 65nm, 45/40nm, 28/22nm to 14nm FF.

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

TWDm	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Wafer shipment (12" equ) ('000 units)	1,021	1,129	1,201	1,213	1,213	1,359	1,454	1,425	3,872	4,564	5,451	5,958
Capacity utilisation	80%	86%	91%	91%	92%	100%	103%	100%	75%	87%	99%	100%
Blended ASP (USD)	1,890	1,926	1,967	1,966	2,017	2,056	2,081	2,067	1,970	1,940	2,057	2,061
Total revenue	61,038	68,733	75,612	76,347	78,296	89,428	96,841	94,232	237,553	281,729	358,798	393,029
Total revenue (USDm)	**1,930**	**2,174**	**2,363**	**2,386**	**2,447**	**2,795**	**3,026**	**2,945**	**7,629**	**8,853**	**11,212**	**12,282**
COGS	-43,219	-46,410	-49,163	-50,173	-51,247	-55,577	-59,216	-57,980	-168,647	-188,965	-224,020	-239,340
Gross profit	17,818	22,323	26,449	26,174	27,049	33,852	37,625	36,252	68,906	92,764	134,778	153,690
Opex	-6,542	-7,373	-7,864	-7,940	-8,143	-8,764	-9,200	-9,188	-24,958	-29,719	-35,294	-38,313
Operating profit	11,276	14,950	18,585	18,234	18,907	25,088	28,425	27,065	43,949	63,045	99,484	115,376
EBITDA	27,263	31,188	35,485	35,909	36,607	43,288	47,125	46,160	103,206	129,845	173,179	185,068
Non-op gain/loss	5,367	30,236	900	850	900	1,420	2,135	2,043	5,699	37,354	6,498	7,878
Pre-tax profit	16,644	45,186	19,485	19,084	19,807	26,508	30,560	29,107	49,648	100,399	105,981	123,255
Income taxes	-527	-2,962	-3,118	-3,053	-3,169	-3,976	-4,890	-4,657	-8,113	-9,660	-16,692	-19,721
Net profit	16,171	42,260	16,367	16,031	16,637	22,532	25,670	24,450	41,716	90,829	89,289	103,534
FD O/S (m)	12,579	12,577	12,577	12,577	12,577	12,577	12,577	12,577	12,588	12,577	12,577	12,577
FD EPS (TWD)	**1.29**	**3.36**	**1.30**	**1.27**	**1.32**	**1.79**	**2.04**	**1.94**	**3.31**	**7.22**	**7.10**	**8.23**
Margin												
Gross	29%	32%	35%	34%	35%	38%	39%	38%	29%	33%	38%	39%
Operating	18%	22%	25%	24%	24%	28%	29%	29%	19%	22%	28%	29%
EBITDA	45%	45%	47%	47%	47%	48%	49%	49%	43%	46%	48%	47%
Net	26%	61%	22%	21%	21%	25%	27%	26%	18%	32%	25%	26%
Growth (QoQ)												
Total revenue	-1%	13%	10%	1%	3%	14%	8%	-3%				
Gross profit	-6%	25%	18%	-1%	3%	25%	11%	-4%				
Operating profit	-8%	33%	24%	-2%	4%	33%	13%	-5%				
EBITDA	-2%	14%	14%	1%	2%	18%	9%	-2%				
Net profit	61%	161%	-61%	-2%	4%	35%	14%	-5%				
FD EPS	61%	161%	-61%	-2%	4%	35%	14%	-5%				
Growth (YoY)												
Total revenue	5%	17%	28%	24%	28%	30%	28%	23%	2%	19%	27%	10%
Gross profit	15%	32%	50%	38%	52%	52%	42%	39%	-9%	35%	45%	14%
Operating profit	15%	38%	67%	49%	68%	68%	53%	48%	-15%	43%	58%	16%
EBITDA	14%	23%	36%	29%	34%	39%	33%	29%	3%	26%	33%	7%
Net profit	108%	375%	9%	59%	3%	-47%	57%	53%	-12%	118%	-2%	16%
FD EPS	108%	374%	9%	60%	3%	-47%	57%	53%	-12%	118%	-2%	16%

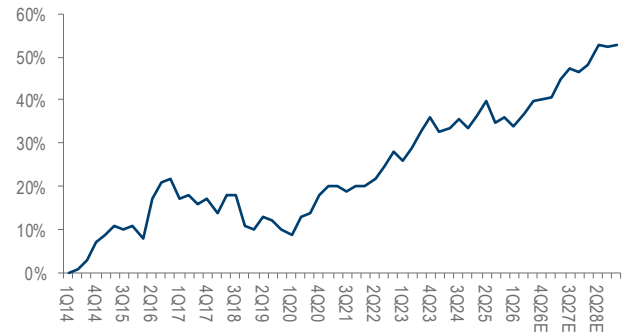
Source: Company, Daiwa estimates and forecasts

UMC: 3Q26 results preview and 4Q26 business outlook

	3Q26E			4Q26E		
TWDm	Daiwa	Consensus	Variance	Daiwa	Consensus	Variance
Revenue	75,612	75,517	0%	76,347	78,272	-2%
Gross profit	26,449	26,392	0%	26,174	27,621	-5%
Operating profit	18,585			18,234		
Pretax profit	19,485			19,084		
Net profit	16,367	17,018	-4%	16,031	18,371	-13%
Adjusted EPS (TWD)	1.30	1.35	-4%	1.27	1.46	-13%
Margin						
Gross	35.0%	34.9%		34.3%	35.3%	
Operating	24.6%			23.9%		
Net	21.6%			21.0%		
Operation						
Shipments (12" equ. wafers) ('000 units)	1,201			1,213		
Utilization*	91%			91%		
<=28nm sales contribution	40%			40%		

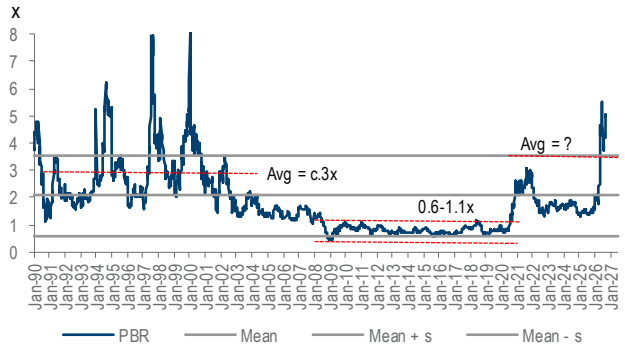
Source: Bloomberg, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided installed capacity*

UMC: 28/22nm-and-below revenue contribution*



Source: Company, Daiwa estimates and forecasts
*Note: * Including 14nm FF*

UMC: PBR trend



Source: Company, TEJ, Daiwa forecasts

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	UMC's Board of Directors consists of nine members whose expertise covers industry, academia, finance, accounting, and management. Among these directors, six are independent directors, representing 67% of total directors in 2024. The percentage of independent directors is high relative to the regulatory requirement of at least 20% or at least 2 independent directors. Although some of UMC's executive management are also directors, UMC's Chairman and President are not the same person. Considering this and its relative-high percentage of independent directors, we believe the board can perform its functionalities well
	Capital management	2	It kept its dividend payout ratios above 50% in 2017-25, which is at a healthy, sustainable level. Overall, we see the balance between investment and dividend as appropriate.
	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 UMC.
S	Supply chain management	2	UMC has constructed an evaluation framework for reviewing the sustainable development of its supply chains based on UMC's GG-026-004-C sustainable supply-chain management review guidelines to ensure its suppliers fulfil environmental protection, social responsibility, labour and human rights, safety & health and sustainable development guidelines. We believe these efforts could reduce its supply-chain risk.
E	Water & wastewater management	2	UMC developed its "Water Management Policy and Commitment" in 2015 to promote more effective utilisation of water resources. In line with this policy, UMC continues to enhance recycling through increased use of reclaimed and desalinated water, ongoing wastewater treatment R&D, and optimised discharge management. In 2024, the company achieved a 30.3% reduction in water withdrawal per unit product, surpassing its 14% goal and meeting its 2030 target ahead of schedule, which demonstrates UMC's strong commitment to water conservation.
E	Waste & hazardous materials management	2	To achieve the goal of zero pollution, UMC has established a comprehensive new material evaluation process to effectively screen and control new materials introduced into the development of new processes. Through this effort, it can avoid or reduce the use of raw materials and the associated environmental impact. UMC was the first semiconductor manufacturer company in the world to obtain QC-080000 IECQ Hazardous Substance Process Management (HSPM) certification for all its fabs by leading global semiconductor manufacturers in completing the third-party verification and audit of its HSPM system in 2006.
E	GHG emissions	2	UMC was the first semiconductor company in Taiwan to pass integrated environmental protection, safety and health management system certifications in 2001. UMC has established the UMC Low Carbon Commitment as a guide for future carbon reduction projects. Its GHG emission reduction goals include: 1) to reduce fluorinated greenhouse gas emissions intensity by 65% over 2013-25 vs. 2010, and 2) to reduce electricity consumption intensity by 15% in 10 years over 2016-25 vs. 2015.

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

Daiwa Capital Markets Hong Kong Limited

Semiconductor Manufacturing Int'l Corp (981 HK)

Target price: **HKD40.00** (from HKD40.00)

Share price (7 Oct): **HKD60.90** | Up/downside: **-34.3%**

5 4 3 2 1

Sell
(unchanged)

Yes, AI, yet constrained by geopolitics

- A foundry leader in China set to benefit from AI innovations
- Yet likely seeing suboptimal operations due to "national mission"
- Reaffirming our Sell (5) rating and 12-month TP of HKD40

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What's new: As China's foundry leader, SMIC should benefit, among local peers, from China's AI innovations to cope with geopolitical pressures, such as multiple lithography patterning, time scaling in advanced packaging technology and logic folding. Yet, to serve what we view as China's "national mission" to catch up with the West in AI, SMIC has to suboptimise its operations for suboptimal profitability, as evidenced by its abnormal capex cycle and resulting depreciation burden. As such, we remain comfortable with our Sell (5) rating on the stock, though we view such a rating in capital markets may not be fair and truly reflecting its authentic fundamentals.

What's the impact: **3Q26 preview and 4Q26 outlook.** We expect SMIC to report 3Q26 net profit of USD399m, 7% below consensus, as the street appears to be assuming higher non-operating gains. For 4Q26, we forecast net profit of USD364m, down 9% QoQ but up 40% YoY, on flat top-line of USD3.1bn (+25% YoY), due to seasonality, as customers tend to manage inventory towards year-end.

Geopolitical concerns lingering despite AI. As China's foundry leader, SMIC should benefit, among local peers, from China's innovative AI developments, such as multiple lithography patterning, time scaling in advanced packaging technology and logic folding. Yet, to serve what we view as China's "national mission" to catch up with the West in AI, SMIC has to suboptimise its operations for suboptimal profitability, as evidenced by its abnormal capex cycle over 2020-26 and the resulting depreciation burden. This, combined with lingering geopolitical uncertainty, prevents us from turning positive on the stock. President Xi and President Trump met in the US last month; we hope that any constructive breakthroughs in the future will help reset SMIC's competitiveness for normalised profitability.

What we recommend: We rate SMIC Sell (5), with a 12M TP of HKD40 (unchanged), based on our ROE-adjusted PBR target of 1.1x applied to our one-year-forward BVPS forecast. Though our rating may not truly reflect SMIC's fundamentals due to geopolitical issues, we await any breakthrough between the 2 power nations on trade conflicts to normalise SMIC's operations. Key upside risk to our call would be any positive breakthrough on geopolitics and export controls.

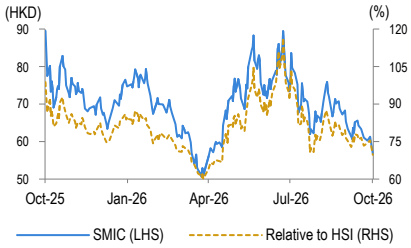
How we differ: Our 2028E EPS is 4% below Bloomberg consensus, likely due to our view calling for a soft-landing in the chip cycle.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	50.70-89.40
Market cap (USDbn)	60.19
3m avg daily turnover (USDm)	706.70
Shares outstanding (m)	8,316
Major shareholder	Datang Investment Holdings (19.9%)

Financial summary (USD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	11,748	14,045	15,540
Operating profit (m)	1,927	2,416	2,633
Net profit (m)	1,453	1,694	1,951
Core EPS (fully-diluted)(USD cents)	17.477	20.375	23.464
EPS change (%)	71.9	16.6	15.2
Daiwa vs Cons. EPS (%)	1.8	(10.0)	(18.4)
PER (x)	44.4	38.1	33.1
Dividend yield (%)	0.0	0.0	0.0
DPS	0.000	0.000	0.000
PBR (x)	1.7	1.6	1.5
EV/EBITDA (x)	12.1	9.8	8.5
ROE (%)	6.6	7.1	7.6

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilisation (%)	98	88	63	77	80	84	90	97
Blended ASP (USD)	738	949	981	937	907	982	1,021	1,007
Wafer shipment ('000, 8" equ.)	6,747	7,099	5,867	8,021	9,696	11,316	13,115	14,692

Profit and loss (USDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Foundry Revenue	4,982	6,736	5,757	7,516	8,796	11,113	13,395	14,790
Other Revenue	461	538	565	514	531	635	650	750
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**5,443**	**7,273**	**6,322**	**8,030**	**9,327**	**11,748**	**14,045**	**15,540**
Other income	0	0	0	0	0	0	0	0
COGS	(3,767)	(4,512)	(5,104)	(6,582)	(7,370)	(8,806)	(10,324)	(11,336)
SG&A	(303)	(528)	(517)	(620)	(569)	(552)	(663)	(777)
Other op.expenses	20	(398)	(343)	(353)	(277)	(463)	(642)	(794)
Operating profit	**1,392**	**1,836**	**358**	**475**	**1,110**	**1,927**	**2,416**	**2,633**
Net-interest inc./(exp.)	113	224	527	249	25	(70)	(45)	115
Assoc/forex/extraord./others	383	101	187	36	99	344	0	0
Pre-tax profit	**1,888**	**2,160**	**1,072**	**760**	**1,234**	**2,201**	**2,371**	**2,748**
Tax	(65)	(16)	(63)	(130)	(84)	(180)	(203)	(247)
Min. int./pref. div./others	(73)	(380)	(222)	(237)	(304)	(568)	(474)	(550)
Net profit (reported)	**1,750**	**1,764**	**787**	**393**	**845**	**1,453**	**1,694**	**1,951**
Net profit (adjusted)	**1,750**	**1,764**	**787**	**393**	**845**	**1,453**	**1,694**	**1,951**
EPS (reported)(USD cents)	**22.139**	**22.287**	**9.835**	**4.789**	**10.167**	**17.477**	**20.375**	**23.464**
EPS (adjusted)(USD cents)	**22.139**	**22.287**	**9.835**	**4.789**	**10.167**	**17.477**	**20.375**	**23.464**
EPS (adjusted fully-diluted)(USD cents)	**21.042**	**21.212**	**9.462**	**4.722**	**10.167**	**17.477**	**20.375**	**23.464**
DPS (USD)	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
EBIT	**1,392**	**1,836**	**358**	**475**	**1,110**	**1,927**	**2,416**	**2,633**
EBITDA	**3,262**	**4,107**	**3,025**	**3,698**	**4,920**	**6,729**	**8,065**	**8,769**

Cash flow (USDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	1,888	2,160	1,072	760	1,234	2,201	2,371	2,748
Depreciation and amortisation	1,869	2,271	2,667	3,223	3,810	4,802	5,649	6,136
Tax paid	(65)	(16)	(63)	(130)	(84)	(180)	(203)	(247)
Change in working capital	(537)	(1)	(579)	(62)	(1,518)	300	(470)	300
Other operational CF items	(135)	940	(42)	(665)	(247)	(568)	(474)	(550)
Cash flow from operations	**3,020**	**5,354**	**3,056**	**3,126**	**3,194**	**6,555**	**6,873**	**8,387**
Capex	(4,120)	(6,172)	(7,630)	(7,664)	(8,400)	(8,100)	(5,300)	(4,500)
Net (acquisitions)/disposals	(2,669)	(4,314)	1,240	3,033	1,853	0	0	0
Other investing CF items	134	94	183	112	52	0	0	0
Cash flow from investing	**(6,655)**	**(10,392)**	**(6,208)**	**(4,518)**	**(6,495)**	**(8,100)**	**(5,300)**	**(4,500)**
Change in debt	385	2,691	1,738	1,539	754	0	(999)	(999)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0
Other financing CF items	1,973	924	728	70	1,922	1,000	1,000	1,000
Cash flow from financing	**2,357**	**3,614**	**2,466**	**1,608**	**2,676**	**1,000**	**1**	**1**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**(1,279)**	**(1,423)**	**(686)**	**216**	**(625)**	**(545)**	**1,574**	**3,888**
Free cash flow	(1,100)	(818)	(4,574)	(4,538)	(5,206)	(1,545)	1,573	3,887

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (USDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	12,529	12,578	9,422	10,909	10,491	9,946	11,520	15,408
Inventory	1,194	1,911	2,736	2,958	3,630	3,830	4,030	4,230
Accounts receivable	1,215	1,303	1,170	840	1,433	1,383	1,983	1,733
Other current assets	279	802	286	76	71	75	75	75
Total current assets	**15,218**	**16,594**	**13,613**	**14,784**	**15,625**	**15,234**	**17,607**	**21,445**
Fixed assets	14,815	19,385	24,419	28,524	32,933	36,471	36,348	36,348
Goodwill & intangibles	68	45	34	24	20	20	20	20
Other non-current assets	6,011	7,783	9,722	5,829	3,693	4,310	4,310	2,810
Total assets	**36,111**	**43,808**	**47,787**	**49,161**	**52,271**	**56,034**	**58,285**	**60,623**
Short-term debt	789	1,268	1,216	2,926	2,593	2,593	2,593	2,593
Accounts payable	2,066	3,217	3,728	3,280	2,966	3,416	3,746	3,996
Other current liabilities	1,598	2,540	2,657	2,553	1,258	2,549	3,199	3,400
Total current liabilities	**4,454**	**7,025**	**7,602**	**8,760**	**6,817**	**8,559**	**9,539**	**9,989**
Long-term debt	5,535	7,317	8,934	8,038	9,995	9,995	8,995	7,996
Other non-current liabilities	684	505	406	494	439	449	551	937
Total liabilities	**10,673**	**14,846**	**16,942**	**17,292**	**17,251**	**19,002**	**19,085**	**18,921**
Share capital	32	32	32	32	32	32	32	32
Reserves/R.E./others	17,118	19,118	20,084	20,582	21,408	22,851	24,546	26,497
Shareholders' equity	**17,150**	**19,150**	**20,116**	**20,614**	**21,440**	**22,883**	**24,578**	**26,529**
Minority interests	8,288	9,811	10,730	11,256	13,581	14,149	14,623	15,173
Total equity & liabilities	**36,111**	**43,808**	**47,787**	**49,161**	**52,271**	**56,034**	**58,285**	**60,623**
EV	66,613	70,348	75,988	75,840	80,207	81,320	79,221	74,884
Net debt/(cash)	**(6,205)**	**(3,993)**	**729**	**55**	**2,097**	**2,642**	**68**	**(4,819)**
BVPS (USD cents)	**321.854**	**365.907**	**385.570**	**388.654**	**421.122**	**445.311**	**471.389**	**501.462**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	39.3	33.6	(13.1)	27.0	16.2	26.0	19.5	10.6
EBITDA (YoY)	100.8	25.9	(26.3)	22.2	33.0	36.8	19.9	8.7
Operating profit (YoY)	346.4	31.8	(80.5)	32.7	133.7	73.6	25.4	9.0
Net profit (YoY)	130.2	0.8	(55.4)	(50.1)	115.3	71.9	16.6	15.2
Core EPS (fully-diluted) (YoY)	130.2	0.8	(55.4)	(50.1)	115.3	71.9	16.6	15.2
Gross-profit margin	30.8	38.0	19.3	18.0	21.0	25.0	26.5	27.1
EBITDA margin	59.9	56.5	47.9	46.1	52.8	57.3	57.4	56.4
Operating-profit margin	25.6	25.2	5.7	5.9	11.9	16.4	17.2	16.9
Net profit margin	32.1	24.3	12.4	4.9	9.1	12.4	12.1	12.6
ROAE	10.8	9.7	4.0	1.9	4.0	6.6	7.1	7.6
ROAA	5.2	4.4	1.7	0.8	1.7	2.7	3.0	3.3
ROCE	4.7	5.3	0.9	1.1	2.5	4.0	4.8	5.1
ROIC	7.8	8.2	1.2	1.2	3.0	4.6	5.6	6.3
Net debt to equity	n.a.	n.a.	3.6	0.3	9.8	11.5	0.3	n.a.
Effective tax rate	3.5	0.7	5.8	17.1	6.8	8.2	8.5	9.0
Accounts receivable (days)	73.5	63.2	71.4	45.7	44.5	43.7	43.7	43.6
Current ratio (x)	3.4	2.4	1.8	1.7	2.3	1.8	1.8	2.1
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	27.5	53.7	n.a.
Net dividend payout	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	6.0

Source: FactSet, Daiwa forecasts

Company profile

Incorporated in China in 2000, Semiconductor Manufacturing International Corp (SMIC) is the largest dedicated semiconductor foundry in China. It offers product services, such as wafer fabrication, masking, packaging and testing. Its fab operations spread over major cities of China, including Shanghai (8", 12"), Beijing (12"), Tianjin (8") and Shenzhen (8", 12"). It has also set up JV fabs with the governments and teamed up with Jiangsu Changjiang Electronics Technology (JCET, 江蘇長電).

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

USDm	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Wafer shipments (12" equ) ('000 units)	1,115	1,275	1,313	1,326	1,299	1,442	1,543	1,543	4,309	5,029	5,829	6,530
Capacity utilisation	78%	87%	87%	85%	84%	90%	93%	93%	80%	84%	90%	97%
Blended ASP (USD)	2,110	2,230	2,252	2,233	2,219	2,287	2,337	2,336	2,041	2,210	2,298	2,265
Total revenue	2,505	3,006	3,116	3,121	3,034	3,459	3,777	3,775	9,327	11,748	14,045	15,540
COGS	-2,002	-2,245	-2,258	-2,301	-2,304	-2,497	-2,731	-2,792	-7,370	-8,806	-10,324	-11,336
Gross profit	504	761	858	820	730	962	1,046	983	1,957	2,942	3,721	4,204
Opex	-256	-226	-258	-275	-286	-308	-344	-367	-847	-1,015	-1,305	-1,571
Operating profit	248	534	600	545	444	654	702	616	1,110	1,927	2,416	2,633
EBITDA	1,336	1,746	1,840	1,807	1,724	2,004	2,172	2,165	4,920	6,729	8,065	8,769
Non-op gain/loss	-11	309	-13	-10	-10	-6	0	-29	124	274	-45	115
Pretax profit	236	843	587	535	434	648	702	587	1,234	2,201	2,371	2,748
Income taxes & MI	-58	-331	-188	-171	-122	-181	-204	-170	-388.1	-747.8	-676.8	-797.0
Net profit	178	512	399	364	312	467	498	417	845	1,453	1,694	1,951
FD O/S (bn)	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32	8.32
FD EPS (US¢)	**2.15**	**6.16**	**4.80**	**4.38**	**3.76**	**5.61**	**5.99**	**5.01**	**10.17**	**17.48**	**20.38**	**23.46**
FD EPS/ADS (USD)	1.07	3.08	2.40	2.19	1.88	2.81	3.00	2.51	5.08	8.74	10.19	11.73
Margin												
Gross	20%	25%	28%	26%	24%	28%	28%	26%	21%	25%	26%	27%
Operating	10%	18%	19%	17%	15%	19%	19%	16%	12%	16%	17%	17%
EBITDA	53%	58%	59%	58%	57%	58%	58%	57%	53%	57%	57%	56%
Net	7%	17%	13%	12%	10%	13%	13%	11%	9%	12%	12%	13%
Growth (QoQ)												
Total revenue	1%	20%	4%	0%	-3%	14%	9%	0%				
Gross profit	5%	51%	13%	-4%	-11%	32%	9%	-6%				
Operating profit	-17%	116%	12%	-9%	-19%	47%	7%	-12%				
EBITDA	-2%	31%	5%	-2%	-5%	16%	8%	0%				
Net profit	-31%	187%	-22%	-9%	-14%	49%	7%	-16%				
FD EPS	-31%	187%	-22%	-9%	-14%	49%	7%	-16%				
Growth (YoY)												
Total revenue	11%	36%	31%	25%	21%	15%	21%	21%	16%	26%	20%	11%
Gross profit	0%	69%	64%	71%	45%	26%	22%	20%	35%	50%	26%	13%
Operating profit	-20%	255%	71%	83%	79%	22%	17%	13%	134%	74%	25%	9%
EBITDA	14%	70%	37%	32%	29%	15%	18%	20%	33%	37%	20%	9%
Net profit	-13%	148%	131%	40%	75%	-9%	25%	14%	116%	72%	17%	15%
FD EPS	-13%	148%	131%	40%	75%	-9%	25%	14%	116%	72%	17%	15%

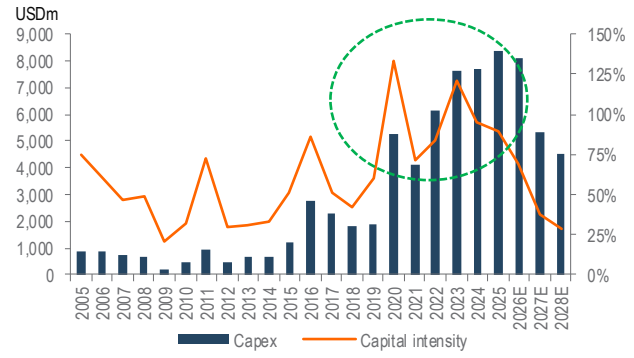
Source: Company, Daiwa estimates and forecasts

SMIC: 3Q26 results preview and 4Q26 business outlook

	3Q26E			4Q26E		
(in USDm)	Daiwa	Consensus	Variance	Daiwa	Consensus	Variance
Revenue	3,116.41	3,109.00	0%	3,120.97	3,232.00	-3%
Gross profit	858.03	805.20	7%	819.90	811.75	1%
Operating profit	599.64	541.77	11%	545.38	495.92	10%
EBITDA	1,839.64			1,807.39		
Pretax profit	586.64			535.38		
Net profit	398.91	427.00	-7%	364.06	421.00	-14%
FD EPS (US¢)	4.80	5.13	-7%	4.38	5.06	-14%
Margins						
Gross	27.5%	25.9%		26.3%	25.1%	
Operating	19.2%	17.4%		17.5%	15.3%	
Net	12.8%	13.7%		11.7%	13.0%	
Operation						
Shipment (8" equ.wafers) ('000 units)	2,954			2,984		
Utilisation*	87%			85%		
<=28nm sales contribution	49%			49%		

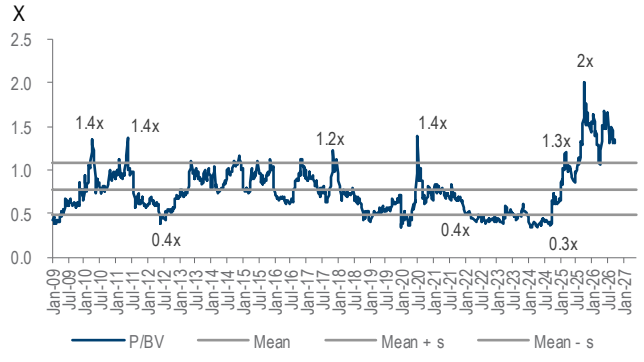
Source: Bloomberg, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided by capacity*

SMIC: capex and capital intensity*



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

SMIC: PBR trend*



Source: Company, Bloomberg, Daiwa forecasts
*Note: * PBR calculations do not include the A-share-listed market cap, thus deflating multiples*

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	SMIC's Board of Directors (BoD) has 9 members in 2025, including 1 executive director, 4 non-executive directors and 4 independent directors. Its BoD members have a diverse background, and SMIC's chairman and CEO are not the same person.
	Capital management	3	SMIC's capex in 2025 was approximately USD8.4bn. Management expects capex in 2026 to maintain roughly flat to slightly down compared to 2025, which exceeded 10% of the Company's latest audited net assets, with large capital needs.
	Related party & transaction	1	SMIC has established a comprehensive supplier management framework covering supplier onboarding, periodic evaluation, quality audits and ESG compliance, which helps mitigate potential related-party transaction and procurement risks. Suppliers are assessed through a cross-functional process covering quality, cost, delivery, service, environmental and compliance factors, while higher-risk suppliers are subject to enhanced monitoring and corrective actions. SMIC also emphasizes supplier diversification to reduce geographic and concentration risks, with raw material suppliers distributed across China (71.3%), Eurasia (22.9%) and the Americas (5.8%) in 2025. Overall, the Company's structured supplier evaluation and geographic diversification mechanisms provide a reasonable level of control over supply-chain and related-party transaction risks.
S	Supply chain management	2	SMIC continuously improves the specification of layered management for suppliers. The specification covers the whole life cycle of the supply chain and refines specific requirements for access, evaluation and management. Incorporating multiple aspects including strategic supply chain management, and raw materials and spare parts procurement, SMIC has established global supplychain management and planning, to ensure product quality and service capabilities of supply chain. The company supports the development of the local supply chain and aims to increase the proportion of its raw material suppliers based in mainland China annually. By increasing local supply, it can reduce its procurement cost and thus increase its operational efficiency and also partially mitigate the geopolitical risks, in our view.
E	Water & wastewater management	2	The company has implemented water-saving projects to improve water usage and reduce external water source consumption. These projects include reducing water consumption in the facility system, increasing wastewater reclamation, improving its water production rate and lowering water draining losses.
E	Waste & hazardous materials management	2	It has implemented cleaner production projects to optimise its raw materials usage, reduce resource consumption, and minimise waste generation at the source of production.
E	GHG emissions	1	SMIC is continuously implementing energy conservation and emission reduction projects. Every year, SMIC promotes energy-saving and emission reduction projects in an orderly manner so as to improve energy efficiency, reduce GHG emissions, and address climate change.

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: 7 Oct 2026

Source: Daiwa, Company

Daiwa Capital Markets Hong Kong Limited

Hua Hong Grace Semiconductor (1347 HK)

Target price: **HKD139.00** (from HKD139.00)

Share price (7 Oct): **HKD105.30** | Up/downside: **+32.0%**

5 4 3 2 **1**

Buy (unchanged)

3Q26 preview: steady ASP growth outlook

- Positive earnings growth momentum in 3Q26E and 4Q26E
- Favourable supply-demand environment, thanks to AI investment
- Reaffirming our Buy (1) rating and 12-month TP of HKD139.0

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What's new: We expect HHGrace to continue to post positive earnings growth momentum in 3Q26E and 4Q26E, on the back of both volume and ASP strength. We believe HHGrace will continue to inject Huali's (HLMC) assets into the listed company, thereby expanding HHGrace's business portfolio and manufacturing footprint.

What's the impact: 3Q26 preview and 4Q26 outlook. We forecast HHgrace to report revenue of USD775m in 3Q26E, up 22% YoY and 8% QoQ, driven by 15% YoY volume growth and a 6% YoY hike in ASPs. On a QoQ basis, we estimate a 3% improvement in ASPs. As a result, we expect net profit of USD58m in 3Q26E, up 124% YoY and 49% QoQ. We forecast the growth momentum to sustain into 4Q26, with 22% YoY expansion in revenue to USD804m, and 282% YoY growth in net profit to USD67m.

Mainstream business to benefit from AI ripple effects and TSMC's fab optimisation. HHGrace focuses on the production of Nor Flash, MCUs, power discretes, analog and RF products, covering 55nm and above process-node technology platforms. HHGrace began raising ASPs in 4Q25, thanks to demand tailwinds from AI investment. Also, we expect TSMC's capacity optimisation to cause short-term supply disruptions, resulting in sustained strength in pricing power for legacy-node foundry players.

Steady manufacturing footprint expansion. Despite wafer supply tightness, HHgrace maintains its Fab 9 expansion timeline, with wafer loading at Fab 9A (83,000wpm capacity) in 3Q26, reaching full utilisation in 2H27. Furthermore, Fab 9B (55,000wpm) is set to kick-start small-volume production in 2027, per HHgrace. We believe the expansion focus will be on the 55/40/28nm process nodes. HHGrace plans to complete HLMC's Fab 5 asset acquisition in 2H26. We expect more asset injections in 2027.

What we recommend: We maintain our SOTP-based 12-month TP of HKD139. We believe HHGrace will inject HLMC's assets into the listed company by 2030. We factor in the future asset value of HLMC through to 2030 by applying 2.5-4.0x PBRs to the fabs in Kangqiao, Zhangjiang and Chengdu, as well as HHSemi's assets, and then discounting back by 3.5 years at a 10% rate. We then apply a 70% discount due to the potential dilution from share issuance related to the acquisition of HLMC's assets. We reaffirm our Buy (1) rating. Key downside risk: changes in asset-injection plans.

How we differ: Our 2026-28E EPS are 9-30% below the Bloomberg consensus, likely as we are more cautious about its ASP and gross margin outlook.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	-	-	-
Net profit change	-	-	-
Core EPS (FD) change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	66.30-215.20
Market cap (USDbn)	17.84
3m avg daily turnover (USDm)	564.46
Shares outstanding (m)	1,330
Major shareholder	Hua Hong International (26.2%)

Financial summary (USD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	2,957	3,386	3,860
Operating profit (m)	48	120	145
Net profit (m)	184	267	290
Core EPS (fully-diluted)	0.106	0.154	0.167
EPS change (%)	235.5	45.2	8.3
Daiwa vs Cons. EPS (%)	(9.4)	(15.9)	(30.2)
PER (x)	126.5	87.2	80.5
Dividend yield (%)	0.0	0.0	0.0
DPS	0.000	0.000	0.000
PBR (x)	3.4	3.3	3.2
EV/EBITDA (x)	21.0	18.3	16.8
ROE (%)	2.7	3.9	4.0

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
55nm & 65nm shipment (k units)	255	593	527	904	1,268	1,800	2,130	2,750
90nm & 95nm shipment (k units)	747	1,100	960	1,181	1,610	1,840	2,180	2,400
≤0.13μm shipment (k units)	370	521	540	407	338	365	410	450
0.15μm & 0.18μm shipment (k units)	263	298	236	228	232	265	260	285
0.25μm shipment (k units)	43	26	50	39	28	40	37	38
≥0.35μm shipment (k units)	1,650	1,549	1,790	1,785	1,908	1,971	2,070	2,070

Profit and loss (USDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer revenue	1,562	2,377	2,182	1,901	2,302	2,849	3,275	3,746
Non-wafer revenue	69	99	105	103	100	109	111	114
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**1,631**	**2,475**	**2,286**	**2,004**	**2,402**	**2,957**	**3,386**	**3,860**
Other income	318	457	500	556	735	858	959	1,079
COGS	(1,196)	(1,632)	(1,799)	(1,799)	(2,119)	(2,464)	(2,788)	(3,143)
SG&A	(256)	(279)	(333)	(361)	(426)	(445)	(478)	(572)
Other op.expenses	(318)	(457)	(500)	(556)	(735)	(858)	(959)	(1,079)
Operating profit	**179**	**565**	**154**	**(156)**	**(142)**	**48**	**120**	**145**
Net-interest inc./(exp.)	0	(13)	(39)	5	(24)	(71)	(72)	(72)
Assoc/forex/extraord./others	118	(55)	59	17	77	77	103	103
Pre-tax profit	**296**	**496**	**174**	**(134)**	**(89)**	**54**	**151**	**176**
Tax	(65)	(89)	(47)	(7)	(22)	(12)	(24)	(27)
Min. int./pref. div./others	31	43	154	198	166	143	140	140
Net profit (reported)	**261**	**450**	**280**	**58**	**55**	**184**	**267**	**290**
Net profit (adjusted)	**261**	**450**	**280**	**58**	**55**	**184**	**267**	**290**
EPS (reported)(USD)	**0.201**	**0.345**	**0.189**	**0.034**	**0.032**	**0.106**	**0.154**	**0.167**
EPS (adjusted)(USD)	**0.201**	**0.345**	**0.189**	**0.034**	**0.032**	**0.106**	**0.154**	**0.167**
EPS (adjusted fully-diluted)(USD)	**0.198**	**0.342**	**0.188**	**0.034**	**0.032**	**0.106**	**0.154**	**0.167**
DPS (USD)	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
EBIT	**179**	**565**	**154**	**(156)**	**(142)**	**48**	**120**	**145**
EBITDA	**497**	**1,021**	**654**	**400**	**593**	**906**	**1,079**	**1,224**

Cash flow (USDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	296	496	174	(134)	(89)	54	151	176
Depreciation and amortisation	318	457	500	556	735	858	959	1,079
Tax paid	(13)	(27)	(61)	0	0	0	0	0
Change in working capital	(73)	(174)	(109)	103	8	(169)	48	(210)
Other operational CF items	(10)	(1)	138	(66)	(4)	202	188	185
Cash flow from operations	**518**	**751**	**642**	**460**	**650**	**944**	**1,347**	**1,231**
Capex	(939)	(996)	(907)	(2,780)	(1,814)	(1,300)	(2,000)	(2,000)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	76	66	73	108	95	0	0	0
Cash flow from investing	**(863)**	**(930)**	**(833)**	**(2,672)**	**(1,719)**	**(1,300)**	**(2,000)**	**(2,000)**
Change in debt	1,071	515	615	289	2,018	0	0	0
Net share issues/(repurchases)	(4)	(42)	2,833	(138)	34	0	0	0
Dividends paid	0	0	0	0	0	0	0	0
Other financing CF items	(52)	199	333	999	(553)	(71)	(72)	(72)
Cash flow from financing	**1,015**	**672**	**3,782**	**1,150**	**1,499**	**(71)**	**(72)**	**(72)**
Forex effect/others	17	(94)	(14)	(64)	71	0	0	0
Change in cash	**687**	**399**	**3,576**	**(1,126)**	**502**	**(427)**	**(725)**	**(841)**
Free cash flow	(420)	(245)	(265)	(2,320)	(1,164)	(356)	(653)	(769)

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (USDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	1,610	2,009	5,585	4,459	4,961	4,534	3,809	2,968
Inventory	433	578	450	467	544	698	677	873
Accounts receivable	181	292	279	270	282	447	388	564
Other current assets	167	197	256	636	819	819	819	819
Total current assets	**2,391**	**3,076**	**6,570**	**5,833**	**6,607**	**6,499**	**5,693**	**5,223**
Fixed assets	3,117	3,368	3,519	5,859	6,676	7,118	8,159	9,080
Goodwill & intangibles	35	33	50	31	36	36	36	36
Other non-current assets	659	579	805	692	1,135	1,135	1,135	1,135
Total assets	**6,202**	**7,055**	**10,943**	**12,415**	**14,454**	**14,787**	**15,023**	**15,474**
Short-term debt	195	427	193	281	404	404	404	404
Accounts payable	194	237	235	298	330	480	448	610
Other current liabilities	691	719	544	983	1,122	1,122	1,122	1,122
Total current liabilities	**1,080**	**1,382**	**972**	**1,562**	**1,856**	**2,006**	**1,974**	**2,135**
Long-term debt	1,395	1,482	1,907	1,917	2,787	2,787	2,787	2,787
Other non-current liabilities	42	56	50	29	646	646	646	646
Total liabilities	**2,518**	**2,920**	**2,929**	**3,508**	**5,290**	**5,439**	**5,407**	**5,569**
Share capital	1,986	1,994	4,934	4,938	4,987	4,987	4,987	4,987
Reserves/R.E./others	884	1,036	1,367	1,309	1,625	1,809	2,077	2,366
Shareholders' equity	**2,870**	**3,030**	**6,301**	**6,247**	**6,613**	**6,797**	**7,064**	**7,354**
Minority interests	814	1,105	1,714	2,660	2,552	2,552	2,552	2,552
Total equity & liabilities	**6,202**	**7,055**	**10,943**	**12,415**	**14,454**	**14,787**	**15,023**	**15,474**
EV	18,639	18,849	16,072	18,243	18,626	19,053	19,778	20,619
Net debt/(cash)	**(20)**	**(100)**	**(3,486)**	**(2,261)**	**(1,770)**	**(1,343)**	**(618)**	**223**
BVPS (USD)	**2.208**	**2.325**	**4.263**	**3.638**	**3.809**	**3.915**	**4.069**	**4.236**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	69.6	51.8	(7.7)	(12.3)	19.9	23.1	14.5	14.0
EBITDA (YoY)	189.1	105.6	(35.9)	(38.8)	48.1	52.9	19.1	13.4
Operating profit (YoY)	n.a.	215.8	(72.7)	n.a.	n.a.	n.a.	150.2	21.0
Net profit (YoY)	162.9	72.1	(37.8)	(79.2)	(5.6)	235.5	45.2	8.3
Core EPS (fully-diluted) (YoY)	161.0	72.9	(45.0)	(82.1)	(6.4)	235.5	45.2	8.3
Gross-profit margin	26.7	34.1	21.3	10.2	11.8	16.7	17.7	18.6
EBITDA margin	30.5	41.3	28.6	20.0	24.7	30.6	31.9	31.7
Operating-profit margin	11.0	22.8	6.7	n.a.	n.a.	1.6	3.5	3.8
Net profit margin	16.0	18.2	12.2	2.9	2.3	6.2	7.9	7.5
ROAE	9.7	15.2	6.0	0.9	0.9	2.7	3.9	4.0
ROAA	4.9	6.8	3.1	0.5	0.4	1.3	1.8	1.9
ROCE	3.9	10.0	1.9	n.a.	n.a.	0.4	0.9	1.1
ROIC	4.2	12.0	2.6	n.a.	n.a.	0.7	1.5	1.6
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	3.0
Effective tax rate	22.1	18.0	27.2	(5.2)	(5.2)	(5.2)	(5.2)	(5.2)
Accounts receivable (days)	33.8	34.9	45.5	50.0	42.0	45.0	45.0	45.0
Current ratio (x)	2.2	2.2	6.8	3.7	3.6	3.2	2.9	2.4
Net interest cover (x)	n.a.	42.2	3.9	n.a.	n.a.	0.7	1.7	2.0
Net dividend payout	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: FactSet, Daiwa forecasts

Company profile

Hua Hong Grace Semiconductor Limited manufactures semiconductors wafer foundry services. The Company produces embedded non-volatile memory, power discrete, analog, power management, and logic RF products. Hua Hong Semiconductor provides products for consumer electronics, communications, computing, industrial, and automotive fields.

HHGrace: financial forecasts

(in USDm)	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Revenue	661	718	775	804	789	830	870	898	2,402	2,957	3,386	3,860
COGS	(575)	(599)	(637)	(654)	(662)	(684)	(709)	(733)	(2,119)	(2,464)	(2,788)	(3,143)
Gross profit	86	118	138	150	128	145	160	165	283	493	598	717
Opex	(106)	(107)	(107)	(125)	(114)	(114)	(114)	(136)	(426)	(445)	(478)	(572)
Operating profit	(20)	11	31	25	14	31	46	29	(142)	48	120	145
Pretax profit	(22)	12	27	37	17	34	49	51	(89)	54	151	176
Income taxes	5	(8)	(4)	(6)	(4)	(5)	(7)	(8)	(22)	(12)	(24)	(27)
Net profit	21	39	58	67	48	64	77	78	55	184	267	290
Margin												
Gross	13.0%	16.5%	17.8%	18.7%	16%	18%	18%	18%	11.8%	16.7%	17.7%	18.6%
Opex	-16%	-15%	-14%	-16%	-14%	-14%	-13%	-15%	-17.7%	-15.0%	-14.1%	-14.8%
Operating	-3%	2%	4%	3%	2%	4%	5%	3%	-5.9%	1.6%	3.5%	3.8%
Net	3%	5%	7%	8%	6%	8%	9%	9%	2.3%	6.2%	7.9%	7.5%
Growth (QoQ)												
Revenue	0%	9%	8%	4%	-2%	5%	5%	3%				
Gross profit	0%	38%	17%	9%	-15%	14%	10%	3%				
Operating profit	nm	nm	181%	nm	-45%	128%	47%	-37%				
Net profit	20%	85%	49%	15%	-28%	33%	19%	2%				
Growth (YoY)												
Revenue	22%	27%	22%	22%	19%	16%	12%	12%	20%	23%	15%	14%
Gross profit	72%	92%	61%	75%	48%	23%	16%	10%	38%	74%	21%	20%
Operating profit	nm	nm	nm	nm	nm	184%	48%	15%	nm	nm	150%	21%
Net profit	**458%**	**386%**	**124%**	**282%**	**130%**	**66%**	**33%**	**18%**	**-6%**	**235%**	**45%**	**8%**

Source: Company, Daiwa forecasts

HHGrace: SOTP valuation

SOTP-based valuation (HHGrace)				
Fab	**Asset (USDm)**	**NAV (USDm)**	**PBR (x)**	**Equity (USDm)**
Fab 5	1,163	427	4.0x	1,710
Fab 6	4,000	2,600	2.5x	6,500
Fab X	5,600	3,640	3.0x	10,920
Fab Y	6,400	4,160	3.0x	12,480
Fab 10	3,200	2,080	2.5x	5,200
HLMC	**20,363**	**12,907**	**2.9**	**36,810**
HHSEMI	15,474	9,905	2.5	24,763
HH Group	**35,837**	**22,813**	**2.7**	**61,573**
	HKD/USD			7.80
	Discount factor (from end-2030E to mid-2027E @ 10%)			0.72
	Share issue dilutive effect (30% share dilution to purchase assets)			70%
	Shares outstanding (m)			1,736
	12M TP (HKD)			**139.0**

Source: Daiwa estimates and forecasts

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	Hua Hong Grace Semiconductor (HH Grace) has established various regulations and systems related to corporate governance, in accordance with local laws and regulations. In 2025, the Board of the Company consists of 9 members, including 1 female director.
G	Capital management	1	The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.
G	Related party & transaction	1	In 2025, HHGrace's connected transaction was minimal.
G	Supply chain management	2	HH Grace strategically forms medium- and long-term agreements with suppliers. The company also regularly reviews its inventory to maintain it at a rational level.
G	Water & wastewater management	2	In 2025, the company was 100% compliant in terms of its wasterwater discharge.
G	Waste & hazardous materials management	2	Under the philosophy of lean manufacturing management, the company continuously reduces its generation of hazardous waste.

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: 19 Aug 2026

Source: Daiwa, Company

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%**

5 4 3 **2** 1

★ **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.

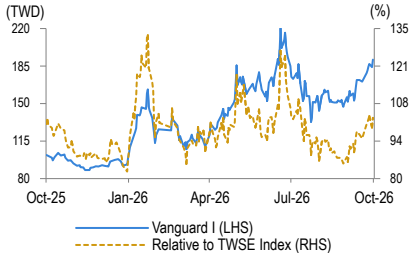
Fast expansion to capture the paradigm shift. To capitalise on the likely paradigm shift in the specialty foundry segment, as detailed in the sector section, driven by TSMC's fab optimisation, VIS is pulling its 12" fab construction in Singapore nearly half a year ahead of schedule. VIS aims to start 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

5 4 3 **2** 1

Outperform
(initiation)

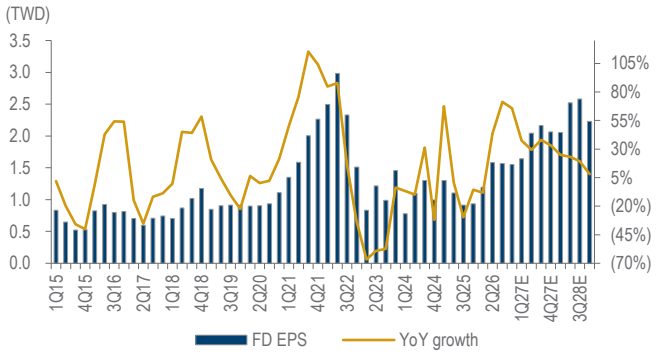
How do we justify our view?

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

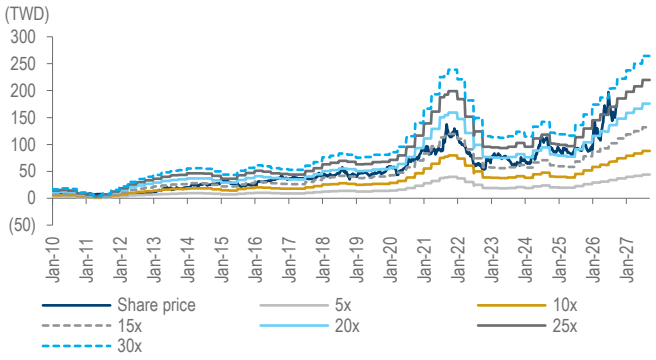


Source: Company, Daiwa estimates and forecasts

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

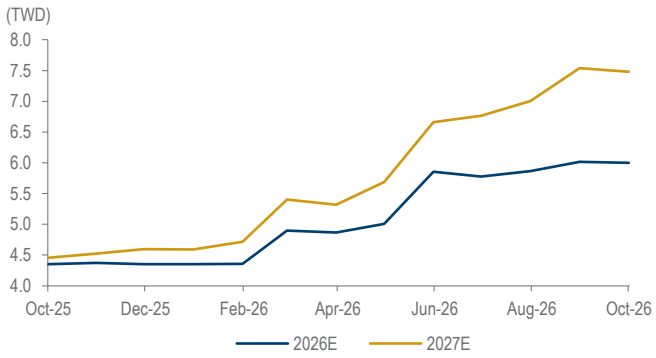


Source: Company, TEJ, Daiwa estimates and forecasts

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%		

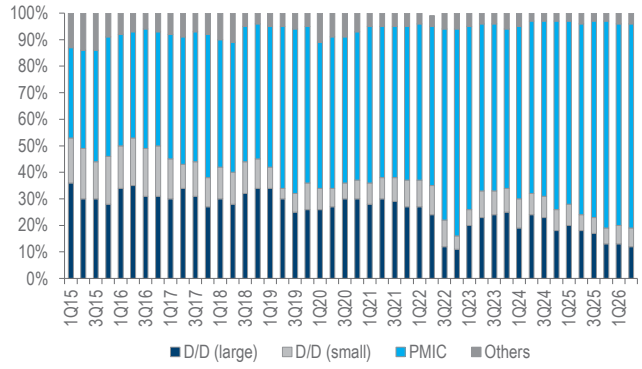
Source: Bloomberg, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided by capacity*

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%

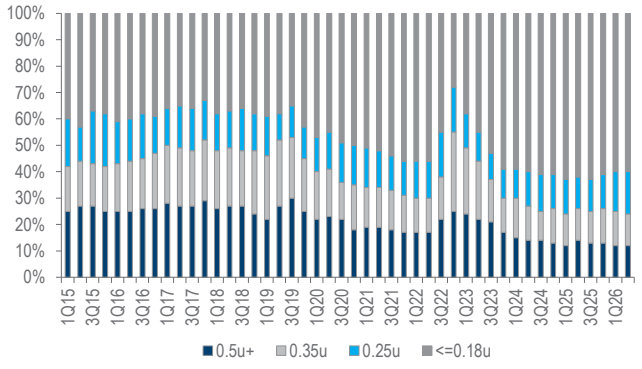
Source: Company, Daiwa estimates and forecasts

VIS: revenue mix by product*



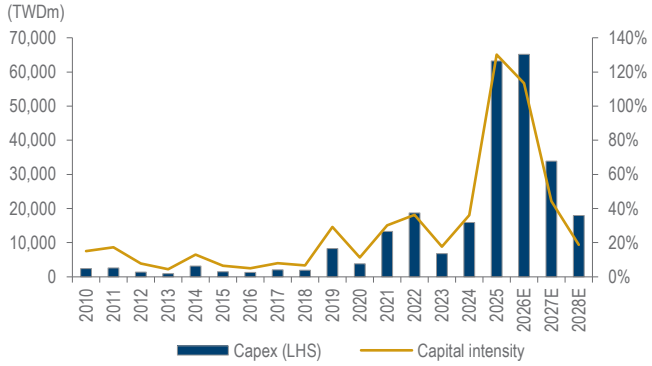
Source: Company
*Note: * D/D = display driver, PMIC = power management IC, others include LED driver, embedded memory, CMOS image sensor, etc.*

VIS: revenue mix by process node*



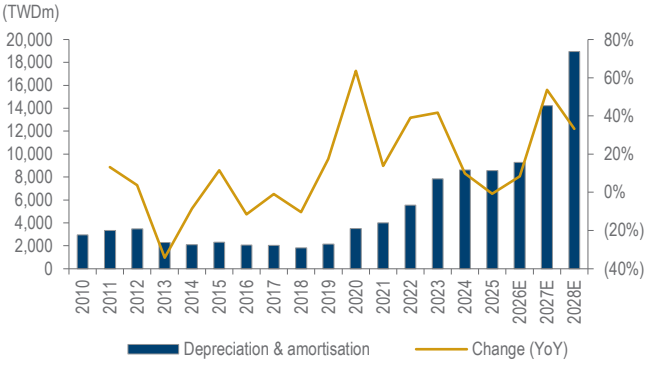
Source: Company
*Note: * <=0.18u including 0.18u, 0.15u, 0.13u and 0.11u*

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

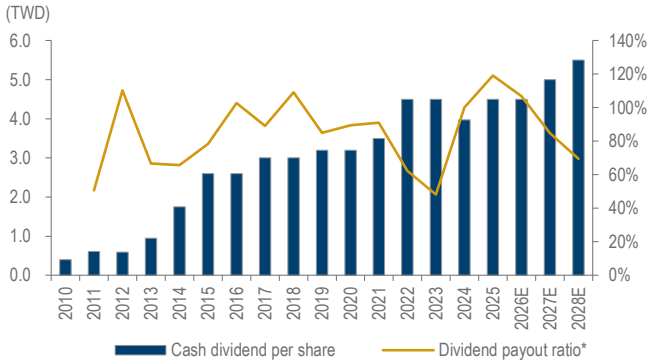
Minority interest (MI), or non-controlling interest as stated by VIS, kicked in from 1Q25 and rose to 2.4% of pretax income in 2Q26 due to preparation for the VSMC investment. We forecast the MI to rise to TWD341m this year (TWD137m in 2025), TWD568m in 2027 and TWD1.45bn in 2028, mainly from the 40% 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

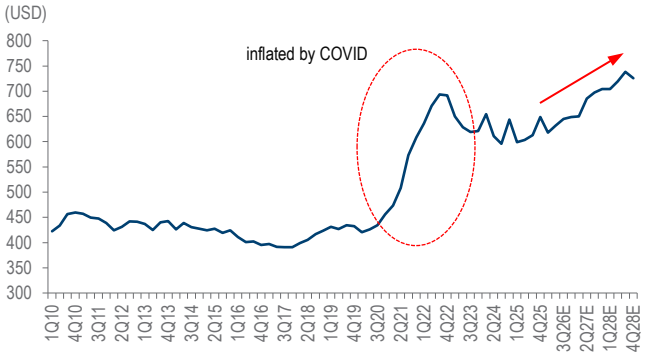
Over the past decade, VIS has stepped up its dividend payout ratios from 50% in 2011 to more than 100% this year. We expect the company to keep the ratios at c.80% over our forecast period, subject to the AI development which should determine the capex requirement for the VSMC investment, affecting its 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*



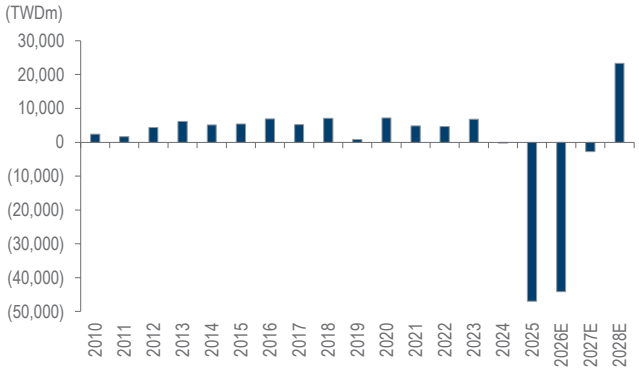
Source: Daiwa estimates and forecasts
*Note: * Blended basis in 8" equivalent*

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%

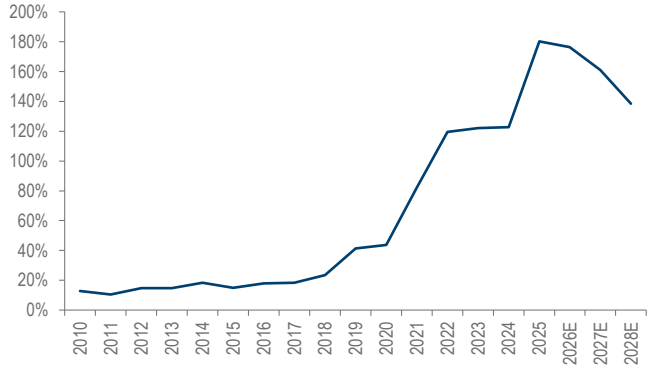
Source: Daiwa estimates and forecasts

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%.

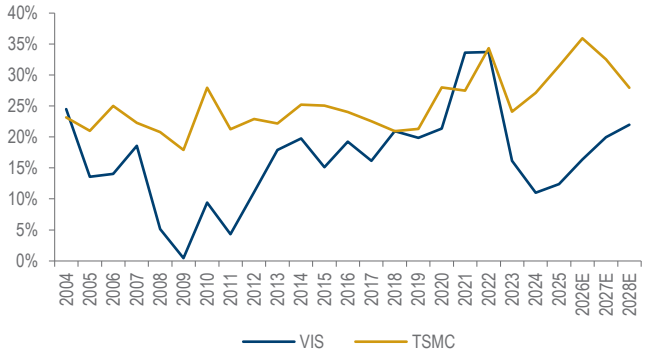
Valuation and risk

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.

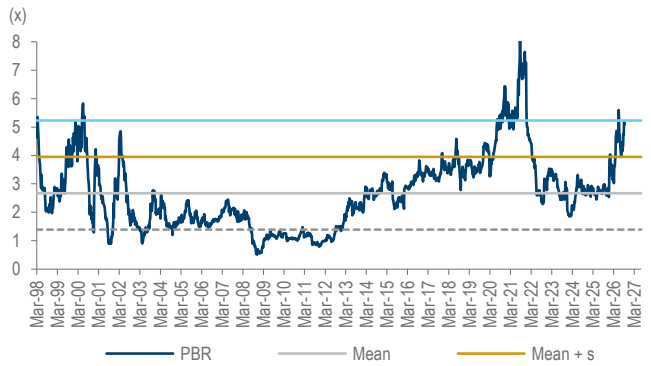
Key downside risks to our call would be: 1) the current chip upcycle ends earlier than expected; and 2) VSMC's 12" fab ramp/execution comes in below expectation.

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

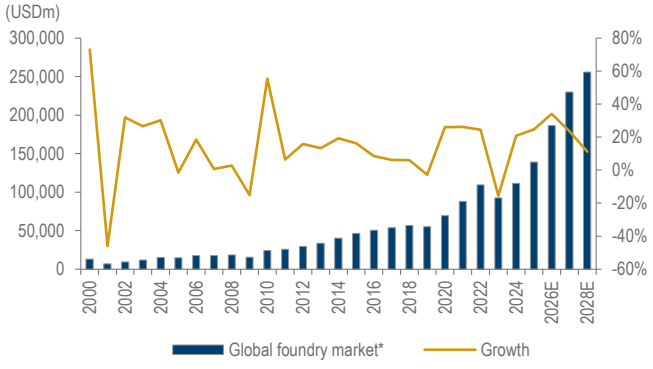
Ever since TSMC's founder innovated the semiconductor foundry service model, the foundry market has been in operation for more than 3 decades. Thanks to a rise in the global AI buildout, the global foundry revenue, after a dip in 2023 on the post-COVID inventory correction, recovered by more than 20% 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

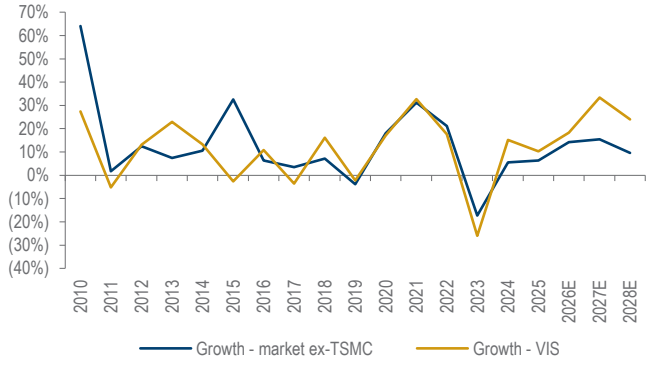
VIS currently operates 5 wafer fabs with 4 in Taiwan, including Fab 1 which commenced operations in 1994 as a memory setup and then converted to mixed signal, power metal oxide semiconductor field effect transistor (MOSFET) and logic foundry fab; Fab 2 which was acquired in 2007 from Winbond; Fab 3 which 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



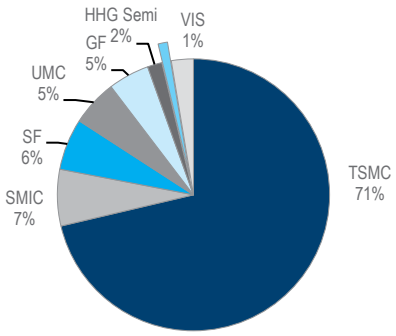
Source: Company, Daiwa estimates and forecasts
*Note: * Dedicated foundries only, not TSMC's definition of the Foundry 2.0*

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



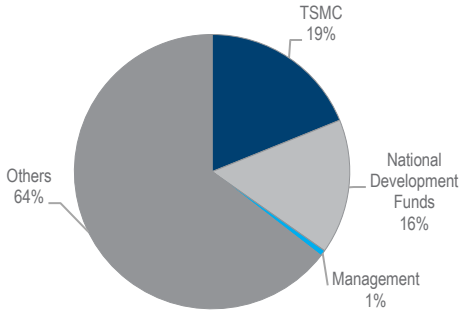
Source: Company, Daiwa estimates and forecasts
*Note: * As a proxy of the mature foundry market*

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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