Daiwa Capital Markets Hong Kong Limited

Visual Photonics Epitaxy (2455 TT)

Target price: **TWD555.00** (from TWD535.00)

Share price (5 Nov): **TWD346.00** | Up/downside: **+60.4%**

5 4 3 2 **1**

Buy
(from Outperform)

Upgrading: value resurfaces after jitters rise

- Raising forecasts on both higher top-line and margin trajectories
- Intact optical ramp in AI connectivity despite market volatility
- Upgrading our rating to Buy (1) with a higher 12M TP of TWD555

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What's new: Following VPEC's robust 3Q26 earnings release on 30 October and our subsequent market research, we raise our forecasts and 12M TP, premised upon: 1) a higher top-line growth, thanks to its faster capacity conversion to meet strong demand for AI optical communication (OC) devices; and 2) a higher substrate supply consigned by customers, helping margin. Our thesis remains intact for VPEC to enjoy strong growth from its share gains in the AI OC market, with broadened customer base and applications. Given increased jitters on AI bubble and macro issues post the US mid-term elections, we upgrade our rating one notch to Buy (1) and suggest investors take advantage of market volatility to bargain-hunt.

What's the impact: **Forecast changes.** We raise our 2026-27E EPS by 3-4% to factor in VPEC's robust 3Q26 results and higher revenue growth in 4Q26, on our latest market research. This is premised upon: 1) faster-than-expected capacity conversion from GaAs for mobile to InP for AI OC at its MOCVD reactors to mitigate supply constraints and meet more optical demand; and 2) increased InP substrate supply consigned by customers, helping to increase GM. As such, we expect VPEC's earnings growth to remain strong through 2027, supporting its hefty valuation.

Speeding up capacity conversion to meet more demand. Given a limited floor space in its Fab 2, VPEC may accommodate 70+ MOCVD reactors in 2027 (currently: 65). Yet, given still-suboptimal utilisation in its RF business due to weak consumer demand for smartphones on cost inflation, VPEC is accelerating capacity conversion to accommodate strong AI OC demand, in order to narrow the supply/demand gap.

Increasing substrate consignment to benefit GM. Due to the InP substrate supply constraint and strong AI demand, customers with strong purchasing power are increasing substrate consignment to VPEC, adding to GM since the consigned materials are excluded from the GM calculation. We continue to expect the company to register AI-related revenue, including PD, LD and HAMR, with broadened customer base, of TWD1.2-1.3bn this year, TWD3bn in 2027E and at least TWD4bn in 2028E, from TWD550m in 2025 (see our *preview note*, 8 September).

What we recommend: We raise our 12M TP for VPEC to TWD555 (previous: TWD535), still based on our 4-quarter-forward PER of 58x. We upgrade our rating by one notch to Buy (1), with key downside risk of China's export control inducing any unexpected supply chain hiccups.

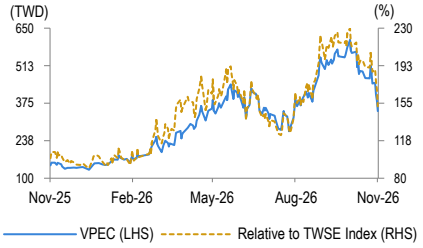
How we differ: Our 2027-28E EPS are 14-36% below Bloomberg consensus, as we believe the street is too aggressive on VPEC's AI ramp.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	2.1	2.3	(0.5)
Net profit change	4.7	3.9	0.2
Core EPS (FD) change	4.2	3.4	(0.3)

Source: Daiwa forecasts

Share price performance



12-month range	131.00-606.00
Market cap (USDbn)	1.99
3m avg daily turnover (USDm)	153.50
Shares outstanding (m)	189
Major shareholder	Investco Ltd (6.6%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	4,770	6,723	7,863
Operating profit (m)	1,340	2,148	2,613
Net profit (m)	1,129	1,768	2,152
Core EPS (fully-diluted)	5.979	9.366	11.401
EPS change (%)	102.7	56.6	21.7
Daiwa vs Cons. EPS (%)	2.9	(13.8)	(36.3)
PER (x)	57.9	36.9	30.3
Dividend yield (%)	0.8	1.3	1.9
DPS	2.7	4.5	6.6
PBR (x)	16.7	13.5	11.4
EV/EBITDA (x)	39.1	25.8	21.6
ROE (%)	31.3	40.3	40.6

Source: FactSet, Daiwa forecasts

See important disclosures, including any required research certifications, beginning on page 6

Flash

VPEC: quarterly P&L forecasts

TWDm	1Q26	2Q26	3Q26	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Total revenue	959	965	1,342	1,503	1,486	1,621	1,740	1,875	3,380	4,770	6,723	7,863
COGS	-594	-593	-739	-824	-817	-887	-946	-1,007	-2,160	-2,750	-3,658	-4,199
Gross profit	365	373	603	679	669	734	794	868	1,220	2,019	3,065	3,665
Opex	-139	-149	-183	-209	-208	-222	-235	-251	-550	-680	-916	-1,051
Operating profit	227	224	419	470	461	512	559	617	669	1,340	2,148	2,613
EBITDA	301	301	498	550	547	596	646	704	960	1,651	2,493	2,936
Non-op gain/loss	17	13	4	8	8	8	8	8	-2	41	32	39
Pretax profit	244	237	423	477	468	520	567	625	667	1,381	2,180	2,652
Income taxes	-49	-23	-85	-95	-94	-78	-113	-127	-119	-252	-412	-500
Net profit	195	214	338	382	375	442	454	498	548	1,129	1,768	2,152
FD O/S (m)	185	187	188	189	189	189	189	189	185	189	189	189
FD EPS (TWD)	**1.06**	**1.14**	**1.80**	**2.02**	**1.98**	**2.34**	**2.40**	**2.64**	**2.96**	**5.98**	**9.37**	**11.40**
Revenue mix												
MC*	74%	73%	57%	50%	47%	46%	43%	39%	75%	61%	44%	38%
OC**	16%	18%	33%	41%	43%	44%	46%	49%	16%	29%	46%	48%
OS***	9%	9%	10%	9%	10%	10%	11%	12%	9%	9%	11%	14%
Margin												
Gross	38%	39%	45%	45%	45%	45%	46%	46%	36%	42%	46%	47%
Operating	24%	23%	31%	31%	31%	32%	32%	33%	20%	28%	32%	33%
Net	20%	22%	25%	25%	25%	27%	26%	27%	16%	24%	26%	27%
Growth (QoQ)												
Total revenue	0%	1%	39%	12%	-1%	9%	7%	8%				
Gross profit	2%	2%	62%	13%	-1%	10%	8%	9%				
Operating profit	8%	-1%	87%	12%	-2%	11%	9%	10%				
EBITDA	7%	0%	66%	10%	-1%	9%	9%	9%				
Net profit	1%	9%	58%	13%	-2%	18%	3%	10%				
FD EPS	1%	8%	58%	12%	-2%	18%	3%	10%				
Growth (YoY)												
Total revenue	21%	35%	47%	57%	55%	68%	30%	25%	4%	41%	41%	17%
Gross profit	15%	52%	101%	90%	83%	97%	32%	28%	-5%	66%	52%	20%
Operating profit	27%	83%	164%	125%	103%	129%	33%	31%	-7%	100%	60%	22%
EBITDA	20%	55%	115%	95%	82%	98%	30%	28%	-5%	72%	51%	18%
Net profit	24%	488%	111%	97%	92%	107%	34%	30%	-18%	106%	57%	22%
FD EPS	24%	482%	107%	93%	88%	105%	34%	30%	-18%	102%	57%	22%

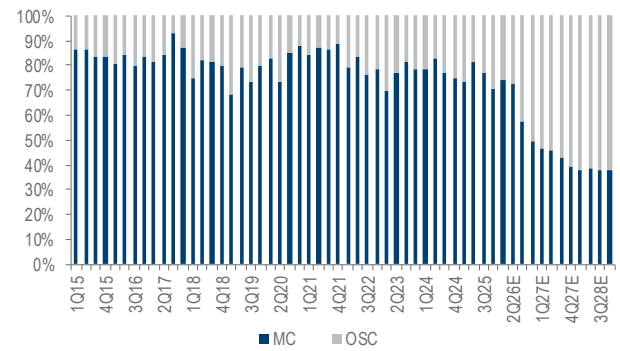
Source: Company, Daiwa forecasts
*Note: * MC = microwave communication such as RF PA; ** OC = optical communication including PD and LD; *** OS = optical sensing & imaging including VCSEL and EEL for consumer and automotive applications*

VPEC: 3Q26 results and 4Q26 outlook updates

			3Q26	Growth			4Q26E
TWDm	Actual	Daiwa	Variance	QoQ	YoY	Guidance	Daiwa (previous)
Revenue	1,342	1,345	0%	39%	47%	na	c.TWD1.4bn (+5% QoQ)
Gross profit	603	577	4%	62%	101%	na	44%
Operating profit	419	390	8%	87%	164%		
Pretax profit	423	397	7%	79%	111%		
Net profit	338	318	6%	58%	111%		
Adjusted EPS (TWD)	1.80	1.69	6%	58%	107%		
Margin							
Gross	44.9%	42.9%	2.0%				
Operating	31.3%	29.0%	2.3%				
Net	25.2%	23.6%	1.6%				
Revenue mix*							
MC	57%	55%					
OSC	43%	45%					

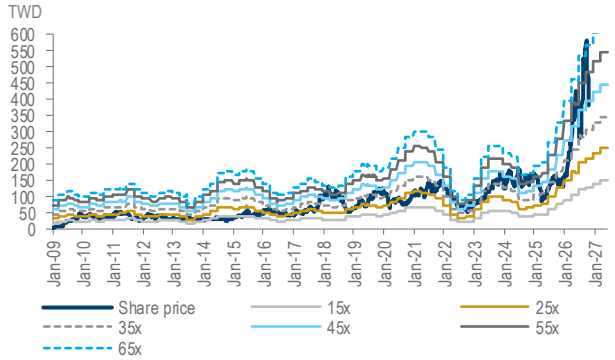
Source: Company, Daiwa forecasts
*Note: * MC = microwave communication mainly RF PA; OSC = optical sensing & communication including PD and LD (VCSEL and EEL)*

VPEC: revenue mix by application*



Source: Company, Daiwa estimates and forecasts
*Note: * MC = microwave communication mainly RF PA; OSC = optical sensing & communication including PD, LD and 3D laser sensing*

VPEC: 4-quarter-forward PER band



Source: Company, TEJ, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer shipment ('000)	557	362	351	418	438	486	564	647
Capacity utilization (%)	92	57	54	63	65	70	81	94
Blended ASP (USD)	232	244	245	241	248	309	373	380

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Microwave communication	3,135	2,074	2,091	2,550	2,544	2,932	2,932	2,996
Optical sensing & communication	473	530	603	691	836	1,837	3,791	4,868
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**3,609**	**2,604**	**2,694**	**3,241**	**3,380**	**4,770**	**6,723**	**7,863**
Other income	0	0	0	0	0	0	0	0
COGS	(2,089)	(1,515)	(1,585)	(1,962)	(2,160)	(2,750)	(3,658)	(4,199)
SG&A	(182)	(151)	(139)	(169)	(167)	(254)	(343)	(381)
Other op.expenses	(282)	(358)	(427)	(389)	(383)	(425)	(573)	(670)
Operating profit	**1,057**	**580**	**542**	**721**	**669**	**1,340**	**2,148**	**2,613**
Net-interest inc./(exp.)	(5)	(2)	2	14	8	7	12	31
Assoc/forex/extraord./others	1	90	(3)	83	(12)	34	20	8
Pre-tax profit	**1,053**	**667**	**542**	**818**	**665**	**1,381**	**2,180**	**2,652**
Tax	(198)	(123)	(91)	(147)	(119)	(252)	(412)	(500)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	**855**	**545**	**450**	**671**	**546**	**1,129**	**1,768**	**2,152**
Net profit (adjusted)	**855**	**545**	**450**	**671**	**546**	**1,129**	**1,768**	**2,152**
EPS (reported)(TWD)	**4.624**	**2.946**	**2.435**	**3.629**	**2.955**	**5.979**	**9.366**	**11.401**
EPS (adjusted)(TWD)	**4.624**	**2.946**	**2.435**	**3.629**	**2.955**	**5.979**	**9.366**	**11.401**
EPS (adjusted fully-diluted)(TWD)	**4.624**	**2.946**	**2.435**	**3.629**	**2.951**	**5.979**	**9.366**	**11.401**
DPS (TWD)	**2.590**	**4.000**	**2.300**	**2.200**	**3.220**	**2.650**	**4.500**	**6.600**
EBIT	**1,057**	**580**	**542**	**721**	**669**	**1,340**	**2,148**	**2,613**
EBITDA	**1,326**	**823**	**826**	**1,009**	**960**	**1,651**	**2,493**	**2,936**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	1,053	667	542	818	665	1,381	2,180	2,652
Depreciation and amortisation	269	243	284	288	291	311	345	322
Tax paid	(198)	(123)	(91)	(147)	(119)	(252)	(412)	(500)
Change in working capital	(109)	26	(128)	68	(170)	(90)	(330)	40
Other operational CF items	163	(170)	(34)	59	(29)	(0)	0	(0)
Cash flow from operations	**1,179**	**644**	**572**	**1,086**	**637**	**1,350**	**1,783**	**2,514**
Capex	(467)	(418)	(71)	(44)	(361)	(654)	(800)	(320)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	(3)	(52)	(0)	(3)	(3)	0	0	0
Cash flow from investing	**(470)**	**(470)**	**(71)**	**(47)**	**(364)**	**(654)**	**(800)**	**(320)**
Change in debt	(100)	110	10	(300)	100	(150)	(75)	(38)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(479)	(740)	(425)	(407)	(592)	(500)	(849)	(1,246)
Other financing CF items	(2)	(2)	(3)	(4)	(4)	0	0	0
Cash flow from financing	**(581)**	**(632)**	**(419)**	**(711)**	**(496)**	**(650)**	**(924)**	**(1,283)**
Forex effect/others	16	1	(9)	22	(11)	0	0	0
Change in cash	**144**	**(457)**	**73**	**350**	**(233)**	**46**	**58**	**911**
Free cash flow	711	226	501	1,042	276	696	983	2,194

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	1,210	753	826	1,176	945	991	1,049	1,960
Inventory	415	487	505	619	706	776	926	976
Accounts receivable	585	291	622	380	517	657	1,007	927
Other current assets	92	89	93	109	138	80	90	90
Total current assets	**2,302**	**1,620**	**2,045**	**2,284**	**2,307**	**2,504**	**3,073**	**3,954**
Fixed assets	2,405	2,712	2,490	2,262	2,315	2,714	3,008	2,934
Goodwill & intangibles	5	6	7	8	8	6	5	5
Other non-current assets	138	74	35	30	47	44	44	44
Total assets	**4,851**	**4,412**	**4,578**	**4,583**	**4,677**	**5,269**	**6,130**	**6,937**
Short-term debt	480	200	100	0	0	0	0	0
Accounts payable	372	176	397	337	392	512	682	692
Other current liabilities	520	356	302	410	387	535	455	423
Total current liabilities	**1,372**	**732**	**799**	**747**	**778**	**1,047**	**1,137**	**1,114**
Long-term debt	200	590	700	500	600	300	150	75
Other non-current liabilities	0	7	9	7	4	0	0	0
Total liabilities	**1,573**	**1,329**	**1,508**	**1,254**	**1,382**	**1,347**	**1,287**	**1,189**
Share capital	1,849	1,849	1,849	1,849	1,849	1,849	1,849	1,849
Reserves/R.E./others	1,429	1,234	1,220	1,480	1,446	2,073	2,994	3,899
Shareholders' equity	**3,278**	**3,083**	**3,069**	**3,329**	**3,295**	**3,922**	**4,843**	**5,748**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**4,851**	**4,412**	**4,578**	**4,583**	**4,677**	**5,269**	**6,130**	**6,937**
EV	64,784	65,351	65,289	64,639	64,969	64,623	64,415	63,429
Net debt/(cash)	**(530)**	**37**	**(26)**	**(676)**	**(345)**	**(691)**	**(899)**	**(1,885)**
BVPS (TWD)	**17.728**	**16.671**	**16.599**	**18.006**	**17.845**	**20.777**	**25.656**	**30.449**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	36.4	(27.8)	3.5	20.3	4.3	41.1	40.9	17.0
EBITDA (YoY)	36.3	(37.9)	0.4	22.2	(4.9)	72.0	51.0	17.7
Operating profit (YoY)	53.7	(45.1)	(6.5)	33.0	(7.2)	100.2	60.4	21.6
Net profit (YoY)	60.6	(36.3)	(17.3)	49.0	(18.7)	106.9	56.6	21.7
Core EPS (fully-diluted) (YoY)	60.6	(36.3)	(17.3)	49.0	(18.7)	102.7	56.6	21.7
Gross-profit margin	42.1	41.8	41.2	39.5	36.1	42.3	45.6	46.6
EBITDA margin	36.7	31.6	30.7	31.1	28.4	34.6	37.1	37.3
Operating-profit margin	29.3	22.3	20.1	22.3	19.8	28.1	32.0	33.2
Net profit margin	23.7	20.9	16.7	20.7	16.1	23.7	26.3	27.4
ROAE	27.7	17.1	14.6	21.0	16.5	31.3	40.3	40.6
ROAA	18.7	11.8	10.0	14.7	11.8	22.7	31.0	32.9
ROCE	27.7	14.8	14.0	18.7	17.3	33.0	46.6	48.3
ROIC	32.0	16.1	14.6	20.8	19.6	35.4	48.6	54.3
Net debt to equity	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	18.8	18.4	16.9	17.9	18.0	18.2	18.9	18.8
Accounts receivable (days)	53.0	61.4	61.9	56.4	48.5	45.0	45.2	44.9
Current ratio (x)	1.7	2.2	2.6	3.1	3.0	2.4	2.7	3.5
Net interest cover (x)	207.2	281.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	89.9	86.5	78.1	90.4	88.7	91.3	75.3	70.5
Free cash flow yield	1.1	0.3	0.8	1.6	0.4	1.1	1.5	3.4

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1996, Visual Photonics Epitaxy (VPEC) is a veteran epiwafer maker in Taiwan. The company started with growing epiwafers for LED applications and then transitioned to microwave communications. Strategically moving up the technology verticals, in recent years VPEC has tapped into the high-value-add applications of optical sensing & communications for both blended ASP and margin accretion.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	VPEC's board of directors (BoD) has 11 members, including 3 independent directors, representing 27% of total directors in 2023, which is slightly higher than the regulatory requirement but lower than at other semiconductor companies under our coverage. Its chairman and general manager are not the same person and most of the directors are not executive management. In addition to the annual internal performance evaluation of the BoD, VPEC also requests an external evaluation of its BoD at least once every 3 years. We believe this helps strengthen the functionalities of the BoD despite a relatively low percentage of independent directors.
	Capital management	1	In the past 10 years, the company's payout ratio has been above 78%. In terms of the dollar amount, its cash dividends were TWD2.3 per share in 2017-23. We view VPEC has well-managed dividend policy and see its dividend payout ratio is appropriate.
	Related party & transaction	1	The company does not have any meaningful related-party transactions.
S	Supply chain management	2	VPEC has set up a "Supplier Management Procedure (M0047)" and evaluates its suppliers in terms of environmental management, compliance, and green products. The company audits its suppliers to ensure a good performance in environmental sustainability, health & safety and corporate social responsibility.
E	Water & wastewater management	2	It has appointed professionals according to regulations to conduct environmental management of air pollution, waste water, waste and hazardous substances. Also, it has introduced the ISO14001 environmental management system and passed the SGS certification in 2002.
E	Waste & hazardous materials management	3	VPEC conducts audits on companies that handle the company's environmentally sensitive waste disposal to ensure the fulfilment of environmental sustainability and the implementation of corporate social responsibility.
E	GHG emissions	3	It has set a target to reduce its GHG emissions and energy consumption per unit of product by 5% per year and verify greenhouse gas inventories bt ISO 14064 regulations.

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: 5 Nov 2026

Source: Daiwa, Company

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Disclosure of investment ratings

Rating	Percentage of total
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Hold**	19.58%
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Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 30 September 2026.
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- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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