Faraday Technology (3035 TT)

Target price: **TWD220.00** (from TWD195.00)

Share price (28 Jul): **TWD185.50** | Up/downside: **+18.6%**

5 4 3 2 **1**

Buy
(unchanged)

Turnaround confirmed

- 2Q26 results upbeat, yet 3Q26 guidance a mixed bag
- Near-term rebalancing no harm to structural turnaround
- Reaffirming Buy (1) rating with a higher 12M TP of TWD220

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What's new: Faraday disclosed upbeat 2Q26 results but mixed 3Q26 guidance due to stronger-than-expected MCU sales, which will likely be followed by a rebalancing on some demand pull-in. We view this as just seasonal and see no harm to our positive stance on Faraday which has, *as expected*, enjoyed a turnaround in profitability. We leave our forecasts little changed, raise our 12M TP and reaffirm our Buy (1) call on the counter.

What's the impact: Results upbeat; guidance a mixed bag. Faraday released 2Q26 EPS of TWD0.76, beating our/consensus estimates by 49%/37% thanks to: 1) higher revenue that beat our/consensus estimates by 19%/17% on stronger mass-production (MP) due to better MCU sales from its 50% owned Artery Tech (6907 TT, not rated); 2) better core operation where operating profit finished 54%/110% above our/consensus estimates on better opex control, helping offset the lower gross margin (GM) as a result of a less favourable product mix due to higher MP sales; and 3) higher non-operating gains mainly on dividend income. Guided metrics for 3Q26 were mixed, with GM and opex roughly intact but revenue a miss due to demand rebalancing as MCU strength in 2Q26 was partly from customers' order pull-in on price hikes and supply-chain uncertainties.

Positive on MCU, negative on AP ramp. Our takeaways from today's call were mixed, positive on Artery but negative on an advanced packaging (AP) ramp. Focusing on 32-bit MCUs, Artery targets high-end applications such as robot, drone, smart industry and 3D printer, to capture a fast-growing trend of physical AI where demand looks less price-sensitive vs. consumers amid the "silicon inflation". Despite seeing demand rebalancing in 3Q26, management expects Artery to double its revenue YoY this year. On the other hand, owing to prolonged development times for AI ASIC due to increased design complexity and a supply-chain bottleneck, which affect the timing of NRE recognition, Faraday expects its AP revenue ramp to be delayed into 2027. That said, it is positive on a cooperation with Intel for the A18 process, and with Intel/UMC for the 12nmFF process, which should help gain traction with customers on localised manufacturing in the US.

What we recommend: Given the mixed dynamics mentioned above, we leave our forecasts little changed but raise our 12M TP for Faraday to TWD220 (previous: TWD195), based on our fine-tuned 4-quarter PER target of 37x (previous: 38x). We reiterate our Buy (1) rating with key downside risk of any geopolitical overhang (war, FX, interest rate) weighing on end-demand and prolonging a non-AI recovery.

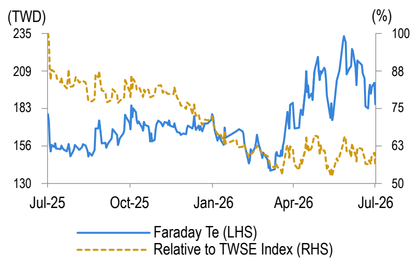
How we differ: Our 2026E EPS is 13% below the consensus as we believe the street has yet to factor in a lower GM on higher MP contribution.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	2.1	(0.2)	1.2
Net profit change	(0.1)	(0.2)	0.7
Core EPS (FD) change	(0.1)	(0.2)	0.7

Source: Daiwa forecasts

Share price performance



12-month range	139.00-233.00
Market cap (USDbn)	1.50
3m avg daily turnover (USDm)	76.11
Shares outstanding (m)	261
Major shareholder	UMC (13.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	12,736	15,475	17,419
Operating profit (m)	1,137	2,284	2,812
Net profit (m)	889	1,759	2,172
Core EPS (fully-diluted)	3.412	6.749	8.336
EPS change (%)	21.5	97.8	23.5
Daiwa vs Cons. EPS (%)	(12.9)	1.7	(7.5)
PER (x)	54.4	27.5	22.3
Dividend yield (%)	1.0	1.3	2.4
DPS	1.8	2.5	4.5
PBR (x)	3.6	3.2	3.0
EV/EBITDA (x)	18.9	11.2	8.9
ROE (%)	6.7	12.4	14.0

Source: FactSet, Daiwa forecasts

Flash

Faraday: quarterly P&L estimates and forecasts

TWDm	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Revenue	2,589	3,314	3,194	3,639	3,551	3,625	4,075	4,223	17,993	12,736	15,475	17,419
COGS	-1,364	-1,815	-1,746	-1,990	-1,944	-1,945	-2,190	-2,269	-13,135	-6,916	-8,349	-9,435
Gross profit	1,224	1,499	1,448	1,649	1,607	1,680	1,885	1,954	4,857	5,820	7,126	7,985
Opex	1,129	1,228	1,115	1,212	1,190	1,200	1,202	1,250	4,305	4,683	4,842	5,173
Operating profit	96	271	333	437	418	480	683	704	552	1,137	2,284	2,812
Non-op gains (losses)	83	111	21	21	22	24	26	26	449	236	98	123
Pretax profit	179	382	354	458	440	504	709	730	1,002	1,373	2,382	2,935
Income taxes & MI	-75	-184	-99	-126	-97	-111	-156	-161	-270	-485	-524	-763
Net profit	104	198	255	332	321	373	525	540	731	889	1,759	2,172
EPS (TWD, fully diluted)	**0.40**	**0.76**	**0.98**	**1.27**	**1.23**	**1.43**	**2.01**	**2.07**	**2.81**	**3.41**	**6.75**	**8.34**
Revenue mix												
MP	63%	73%	73%	75%	74%	72%	72%	72%	79%	72%	72%	72%
NRE	21%	14%	13%	13%	14%	14%	14%	15%	13%	15%	14%	15%
IP	16%	13%	14%	12%	12%	14%	13%	13%	8%	14%	13%	13%
Margin												
Gross	47.3%	45.2%	45.3%	45.3%	45.3%	46.3%	46.3%	46.3%	27.0%	45.7%	46.1%	45.8%
Opex	43.6%	37.0%	34.9%	33.3%	33.5%	33.1%	29.5%	29.6%	23.9%	36.8%	31.3%	29.7%
Operating	3.7%	8.2%	10.4%	12.0%	11.8%	13.2%	16.8%	16.7%	3.1%	8.9%	14.8%	16.1%
Pretax	6.9%	11.5%	11.1%	12.6%	12.4%	13.9%	17.4%	17.3%	5.6%	10.8%	15.4%	16.8%
Net	4.0%	6.0%	8.0%	9.1%	9.0%	10.3%	12.9%	12.8%	4.1%	7.0%	11.4%	12.5%
Growth (QoQ)												
Revenue	-8%	28%	-4%	14%	-2%	2%	12%	4%				
Gross profit	3%	22%	-3%	14%	-3%	5%	12%	4%				
Operating profit	19%	182%	23%	31%	-4%	15%	42%	3%				
Net profit	-50%	90%	29%	30%	-3%	16%	41%	3%				
EPS (FD)	-50%	90%	29%	30%	-3%	16%	41%	3%				
Growth (YoY)												
Revenue	-65%	-27%	-1%	30%	37%	9%	28%	16%	63%	-29%	22%	13%
Gross profit	-19%	37%	35%	39%	31%	12%	30%	18%	-4%	20%	22%	12%
Operating profit	-74%	324%	nm	444%	336%	77%	105%	61%	-48%	106%	101%	23%
Net profit	-70%	666%	68%	60%	208%	89%	106%	63%	-30%	22%	98%	24%
EPS (FD)	-70%	666%	68%	60%	208%	89%	106%	63%	-31%	22%	98%	24%

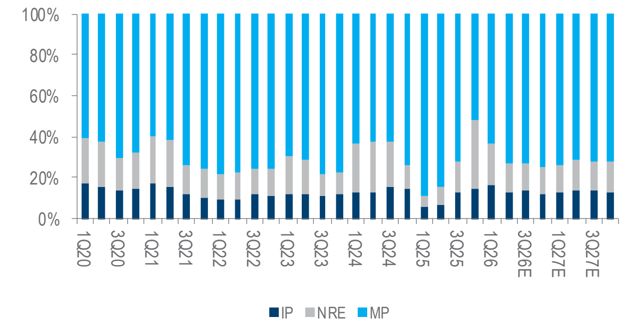
Source: Company, Daiwa estimates and forecasts
*Note: * MP = mass-production, which includes HBM consigned revenue in 1H25, thus deflating organic GM; NRE = non-recurrent engineering; IP = intellectual property*

Faraday: 2Q26 results review and 3Q26 guidance check

	2Q26			Variance		Growth		3Q26E	
TWDm	Actual	Daiwa	Consensus	Daiwa	Consensus	QoQ	YoY	Guidance	Daiwa (previous)
Revenue	3,314	2,795	2,836	19%	17%	28%	-27%	down a single-digit % QoQ	up 2% QoQ (TWD3.4bn)
MP	2,430	1,824	na	33%	na	48%	-36%		
NRE	451	524	na	-14%	na	-16%	9%		
IP	433	448	na	-3%	na	5%	50%		
Gross profit	1,499	1,322	1,276	13%	17%	22%	37%	GM c.45%	GM = 46%
Opex	1,228	1,146	1,147	7%	7%	9%	20%	opex up single-digit % QoQ	opex up 3% QoQ
Operating profit	271	176	129	54%	110%	183%	325%		
Pretax profit	382	196	192	95%	99%	113%	756%		
Net profit	198	133	145	49%	37%	90%	666%		
FD EPS (TWD)	0.76	0.51	0.56	49%	37%	90%	667%		
Margin									
Gross	45.2%	47.3%	45.0%	-2.0%	0.2%				
Operating	8.2%	6.3%	4.6%	1.9%	3.6%				
Net	6.0%	4.7%	5.1%	1.2%	0.9%				
Revenue mix*									
IP	13%	16%							
NRE	14%	19%							
MP	73%	65%							

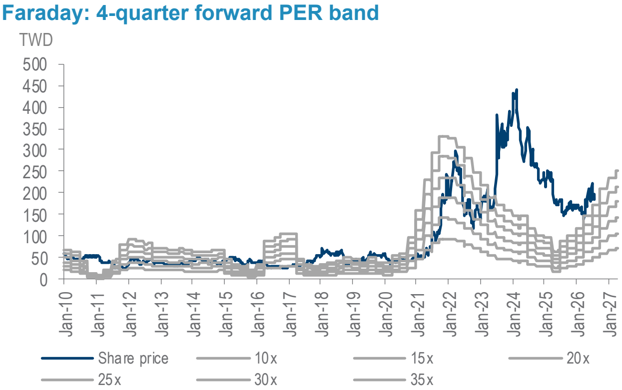
Source: Company, Daiwa estimates and forecasts
*Note: * IP = intellectual property, NRE = non-recurrent engineering, MP = mass-production*

Faraday: revenue mix by business



Source: Company, Daiwa estimates and forecasts
*Note: * IP = intellectual property, NRE = non-recurrent engineering, MP = mass-production*

Faraday: 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
IP revenue growth (%)	26.5	26.4	4.5	11.3	(2.8)	14.5	17.6	11.3
NRE revenue growth (%)	32.4	22.1	0.2	30.4	1.7	(17.8)	17.9	18.1
MP revenue growth (%)	56.3	78.2	(11.6)	(17.9)	95.6	(35.7)	23.0	11.7

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
NRE	1,410	1,721	1,725	2,250	2,289	1,881	2,217	2,618
MP	5,614	10,002	8,839	7,255	14,188	9,119	11,215	12,528
Other Revenue	1,062	1,342	1,402	1,560	1,516	1,736	2,042	2,274
Total Revenue	**8,085**	**13,065**	**11,966**	**11,065**	**17,993**	**12,736**	**15,475**	**17,419**
Other income	0	0	0	0	0	0	0	0
COGS	(3,995)	(6,690)	(6,658)	(6,013)	(13,135)	(6,916)	(8,349)	(9,435)
SG&A	(726)	(1,018)	(983)	(989)	(1,114)	(1,253)	(1,222)	(1,257)
Other op.expenses	(1,962)	(2,436)	(2,369)	(2,991)	(3,191)	(3,430)	(3,620)	(3,916)
Operating profit	**1,402**	**2,921**	**1,956**	**1,071**	**552**	**1,137**	**2,284**	**2,812**
Net-interest inc./(exp.)	7	27	52	100	83	83	98	123
Assoc/forex/extraord./others	93	109	63	173	366	153	0	0
Pre-tax profit	**1,502**	**3,057**	**2,070**	**1,343**	**1,002**	**1,373**	**2,382**	**2,935**
Tax	(212)	(547)	(509)	(271)	(229)	(312)	(524)	(646)
Min. int./pref. div./others	(134)	(56)	28	(30)	(42)	(173)	(100)	(117)
Net profit (reported)	**1,156**	**2,455**	**1,589**	**1,041**	**731**	**889**	**1,759**	**2,172**
Net profit (adjusted)	**1,156**	**2,455**	**1,589**	**1,041**	**731**	**889**	**1,759**	**2,172**
EPS (reported)(TWD)	**4.651**	**9.876**	**6.395**	**4.042**	**2.807**	**3.412**	**6.749**	**8.336**
EPS (adjusted)(TWD)	**4.651**	**9.876**	**6.395**	**4.042**	**2.807**	**3.412**	**6.749**	**8.336**
EPS (adjusted fully-diluted)(TWD)	**4.651**	**9.791**	**6.379**	**3.995**	**2.807**	**3.412**	**6.749**	**8.336**
DPS (TWD)	**1.000**	**3.300**	**5.000**	**4.341**	**3.000**	**1.800**	**2.500**	**4.500**
EBIT	**1,402**	**2,921**	**1,956**	**1,071**	**552**	**1,137**	**2,284**	**2,812**
EBITDA	**1,807**	**3,394**	**2,457**	**1,880**	**1,481**	**2,214**	**3,537**	**4,227**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	1,502	3,057	2,070	1,343	1,002	1,373	2,382	2,935
Depreciation and amortisation	405	473	502	810	929	1,077	1,252	1,415
Tax paid	(212)	(547)	(509)	(271)	(229)	(312)	(524)	(646)
Change in working capital	(256)	(2,368)	1,487	1,331	(1,123)	(748)	(61)	(137)
Other operational CF items	1,067	584	(543)	(312)	351	(0)	(0)	(0)
Cash flow from operations	**2,506**	**1,200**	**3,007**	**2,901**	**930**	**1,391**	**3,050**	**3,568**
Capex	(41)	(86)	(49)	(148)	(162)	(127)	(155)	(174)
Net (acquisitions)/disposals	(842)	1,082	(670)	0	0	0	0	0
Other investing CF items	295	(1,373)	16	(2,414)	(938)	0	0	0
Cash flow from investing	**(588)**	**(377)**	**(704)**	**(2,562)**	**(1,100)**	**(127)**	**(155)**	**(174)**
Change in debt	0	127	(30)	(70)	0	(46)	(37)	(29)
Net share issues/(repurchases)	0	0	0	3,720	0	0	0	0
Dividends paid	(249)	(820)	(1,243)	(1,118)	(782)	(469)	(651)	(1,172)
Other financing CF items	49	(89)	(148)	(354)	(50)	(564)	(46)	(37)
Cash flow from financing	**(200)**	**(782)**	**(1,421)**	**2,178**	**(832)**	**(1,078)**	**(734)**	**(1,238)**
Forex effect/others	(3)	69	(40)	80	(28)	0	0	0
Change in cash	**1,715**	**110**	**842**	**2,596**	**(1,030)**	**185**	**2,161**	**2,156**
Free cash flow	2,465	1,114	2,958	2,752	768	1,263	2,895	3,394

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	4,823	4,899	5,741	8,337	7,293	7,478	9,639	11,795
Inventory	1,321	3,017	1,187	1,074	955	1,319	1,426	1,676
Accounts receivable	939	1,354	1,559	1,054	1,726	1,275	2,117	1,701
Other current assets	310	485	386	560	1,227	1,227	1,227	700
Total current assets	**7,392**	**9,754**	**8,873**	**11,024**	**11,201**	**11,299**	**14,409**	**15,872**
Fixed assets	518	514	553	582	617	582	549	724
Goodwill & intangibles	505	615	683	2,115	1,761	1,115	363	80
Other non-current assets	3,621	2,629	3,309	4,609	5,354	5,354	5,354	5,354
Total assets	**12,037**	**13,513**	**13,418**	**18,330**	**18,932**	**18,350**	**20,676**	**22,030**
Short-term debt	0	127	95	448	589	71	62	54
Accounts payable	1,372	1,129	999	1,675	1,649	814	1,702	1,400
Other current liabilities	2,134	2,899	2,142	1,750	2,447	2,447	2,447	2,447
Total current liabilities	**3,506**	**4,156**	**3,236**	**3,872**	**4,685**	**3,331**	**4,210**	**3,901**
Long-term debt	0	0	0	416	228	183	146	117
Other non-current liabilities	376	388	328	569	491	600	700	1,000
Total liabilities	**3,881**	**4,544**	**3,564**	**4,857**	**5,403**	**4,114**	**5,056**	**5,018**
Share capital	2,486	2,486	2,486	2,606	2,606	2,606	2,606	2,606
Reserves/R.E./others	5,354	6,114	7,048	10,469	10,451	10,985	12,269	13,545
Shareholders' equity	**7,840**	**8,599**	**9,533**	**13,075**	**13,056**	**13,591**	**14,874**	**16,150**
Minority interests	315	369	321	399	472	645	745	862
Total equity & liabilities	**12,037**	**13,513**	**13,418**	**18,330**	**18,932**	**18,350**	**20,676**	**22,030**
EV	43,825	43,930	43,007	41,257	42,328	41,752	39,645	37,570
Net debt/(cash)	**(4,823)**	**(4,772)**	**(5,646)**	**(7,473)**	**(6,476)**	**(7,225)**	**(9,432)**	**(11,624)**
BVPS (TWD)	**31.543**	**34.597**	**38.356**	**50.743**	**50.111**	**52.162**	**57.089**	**61.984**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	47.1	61.6	(8.4)	(7.5)	62.6	(29.2)	21.5	12.6
EBITDA (YoY)	210.0	87.8	(27.6)	(23.5)	(21.2)	49.5	59.7	19.5
Operating profit (YoY)	840.3	108.4	(33.1)	(45.3)	(48.4)	105.9	100.9	23.1
Net profit (YoY)	330.6	112.3	(35.2)	(34.5)	(29.8)	21.5	97.8	23.5
Core EPS (fully-diluted) (YoY)	332.1	110.5	(34.8)	(37.4)	(29.7)	21.5	97.8	23.5
Gross-profit margin	50.6	48.8	44.4	45.7	27.0	45.7	46.1	45.8
EBITDA margin	22.4	26.0	20.5	17.0	8.2	17.4	22.9	24.3
Operating-profit margin	17.3	22.4	16.3	9.7	3.1	8.9	14.8	16.1
Net profit margin	14.3	18.8	13.3	9.4	4.1	7.0	11.4	12.5
ROAE	16.4	29.9	17.5	9.2	5.6	6.7	12.4	14.0
ROAA	11.4	19.2	11.8	6.6	3.9	4.8	9.0	10.2
ROCE	19.3	33.9	20.5	8.8	3.9	7.9	15.1	17.0
ROIC	37.3	63.7	35.1	16.7	6.5	12.5	27.0	37.9
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	14.1	17.9	24.6	20.2	22.8	22.7	22.0	22.0
Accounts receivable (days)	36.8	32.0	44.4	43.1	28.2	43.0	40.0	40.0
Current ratio (x)	2.1	2.3	2.7	2.8	2.4	3.4	3.4	4.1
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	92.6	71.0	50.6	69.7	75.1	64.1	73.3	66.7
Free cash flow yield	5.1	2.3	6.1	5.7	1.6	2.6	6.0	7.0

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1993, Faraday is a hybrid design service provider offering IP and ASIC design services to fabless, foundry and system houses. It has R&D and marketing locations in the US, Japan, China, India, and Vietnam.

ESG analysis

ESG risks

	Risks	Management	Analyst comments
G	Executive/board quality	2	Faraday's Board of Directors (BoD) consists of 10 members, including 4 independent directors, representing 40% of the board—significantly above the regulatory minimum of 20%. Three of the 10 directors are female, reflecting progress toward gender diversity at the board level. The roles of Chairman and President are separated, supporting stronger governance checks and balances. However, most non independent directors concurrently serve as executive managers, which may elevate concerns regarding board independence and management oversight from an ESG governance perspective.
G	Capital management	1	Over the past 10 years, Faraday has kept its dividend payout ratio at above 70% most of the time, in spite of an up or down cycle. As an IC design service company without capex for manufacturing fabs, Faraday's high dividend payout is appropriate, in our view.
G	Related party & transaction	1	UMC, which is Faraday's largest shareholder, is Faraday's major foundry for its turnkey business. For IC design service companies, a close relationship with foundries is essential since their design should build on a foundry's process node and their turnkey businesses also require a foundry's capacity support. UMC's support offers Faraday a competitive advantage, in our view. Faraday has developed many standard cell and I/O libraries for UMC, covering logic and mixed-signal specialty processes across 0.5μ to 22nm.
S	Supply chain management	1	Faraday has set several evaluation standards for its existing and new suppliers and it requires all suppliers to get ISO9001 and ISO14001 certifications for quality and environmental management. In 2024, 100% of its wafer, packaging and testing providers had ISO9001 and ISO14001 certifications. In addition, Faraday also has on-site audits (quality system and process quality audit, CSR evaluation and environment management system) for its suppliers with a mid-to-long term target of conducting annual onsite audits for 100% of its suppliers.
E	Water & wastewater management	1	As an IC design service company, Faraday outsources its manufacturing and thus has no own production sites. As such, Faraday's water use is primarily for general operations, not for production. Faraday continues to conduct several water reduction measures to manage water usage.
E	Waste & hazardous materials management	1	Faraday has established a green supply chain in accordance with the EU Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) and with the EU Chemicals Policy (REACH). Faraday has a mid-to-long term target of carefully evaluating and selecting raw materials with low hazard levels to comply with the Hazardous Substance-Free Product Standard. All of its packaging materials are 100% lead-free and halogen-free.
E	GHG emissions	1	With Faraday's energy saving measures, it reduced the GHG emissions intensity gradually. As an IC design service company without onsite production, Faraday's GHG emissions are much lower than other semiconductor manufacturing companies. Faraday's low power design also helps reduce GHG emissions. In 2019, Faraday completed the development of its ultra-low power consumption 22nm IP solution.

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: 10 Feb 2026

Source: Daiwa, Company

Daiwa Capital Markets Hong Kong Limited

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