Faraday Technology (3035 TT)

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

Share price (27 Oct): **TWD191.50** | Up/downside: **+14.9%**

5 4 3 2 **1**

Buy (unchanged)

Turnaround confirmed (II)

- 3Q26 results a mixed bag; 4Q26 guidance broadly intact
- Firing on all cylinders into 2027 after near-term hiccups
- Reiterating our Buy (1) call and 12M TP of TWD220

Rick Hsu
(886) 2 8758 6261
rick.hsu@daiwacm-cathay.com.tw

Sam Weng
(886) 2 8758 6255
sam.weng@daiwacm-cathay.com.tw



What's new: Faraday released a mixed set of results and guidance on 27 October. 3Q26 core results missed consensus on an unfavourable product mix and higher opex, while 4Q26 guidance was broadly intact on delayed MCU business rebalancing. Regardless of the near-term hiccup, management expects its 3 product lines of mass-production (MP), IP and non-recurrent engineering (NRE) to fire on all cylinders into 2027 for a double-digit % YoY revenue growth. This concurs with our turnaround story for the counter, and we reiterate our Buy (1) rating and 12M TP of TWD220.

What's the impact: Results mixed, guidance intact. Faraday's 3Q26 net profit came in at TWD279m, 9% above our estimate and beating consensus by a meaningful 38%. Despite the beat, dynamics were mixed (table on p.2). Core operations missed despite a higher top line, which was spurred by MP on stronger-than-expected MCU sales from its 50%-owned Artery (6907 TT, not rated) for a lower gross margin (GM) due to an unfavourable revenue mix as MP carries a lower GM than the other 2 lines. Higher opex, as a result of salary hikes and employee bonuses, further pressured core operations with operating profit missing our/consensus estimates by 36%/11%, but non-operating gains from marked-to-market investments more than offset the miss. Guidance calls for a roughly flat 4Q26 top line with a 45% GM, broadly in line with our expectation.

Firing on all cylinders across all 3 lines. In our *previous note*, we expected rebalancing in the MCU business due to demand pull-in on price hikes and supply chain uncertainties. It failed to happen in 3Q26 thanks to early pull-in of OSAT capacity support, thus pushing back the rebalancing to 4Q26 — a key reason why top line was guided to be flat despite the other 2 lines of IP and NRE growing QoQ. That said, management expects the MCU business to return to a growth track in 2027 after the near-term hiccup. Its delayed advanced packaging (AP) ramp on design complexity and supply constraint looks set to accelerate in 2027 on OSAT capacity improvement which, together with a milestone of 2nm/GAA design-win for a cloud ASIC, should add to upside for the NRE and MP business next year. All in, we lower our 2026-27E EPS by 9-13% to factor in the higher opex.

What we recommend: Despite our forecast revisions, we keep our 12M TP for Faraday unchanged at TWD220 as we maintain our 4-quarter forward PER target of 37x. We reaffirm our Buy (1) rating with key downside risks of silicon inflation and geopolitical overhangs leading to global inflation and prolonging a non-AI recovery.

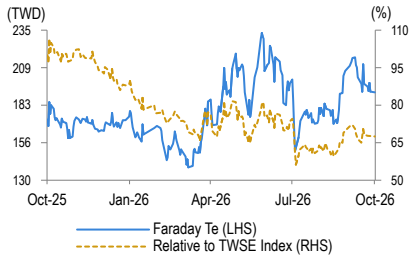
How we differ: Our 2026-28E EPS are 6-9% below the consensus forecasts likely on the street's lower opex assumptions.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	3.6	3.6	5.6
Net profit change	(9.1)	(12.9)	(0.4)
Core EPS (FD) change	(9.1)	(12.9)	(0.4)

Source: Daiwa forecasts

Share price performance



12-month range	139.00-233.00
Market cap (USDbn)	1.53
3m avg daily turnover (USDm)	25.55
Shares outstanding (m)	261
Major shareholder	UMC (13.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	13,193	16,024	18,391
Operating profit (m)	942	2,263	3,083
Net profit (m)	808	1,532	2,164
Core EPS (fully-diluted)	3.103	5.878	8.304
EPS change (%)	10.5	89.4	41.3
Daiwa vs Cons. EPS (%)	(6.4)	(5.7)	(8.6)
PER (x)	61.7	32.6	23.1
Dividend yield (%)	0.9	1.0	2.1
DPS	1.8	2.0	4.0
PBR (x)	3.7	3.4	3.1
EV/EBITDA (x)	21.3	11.5	8.6
ROE (%)	6.1	10.8	14.0

Source: FactSet, Daiwa forecasts

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

Flash

Faraday: quarterly P&L estimates and forecasts

TWDm	1Q26	2Q26	3Q26	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Revenue	2,589	3,314	3,664	3,627	3,580	3,782	4,256	4,406	17,993	13,193	16,024	18,391
COGS	-1,364	-1,815	-2,107	-1,996	-1,969	-2,038	-2,280	-2,374	-13,135	-7,282	-8,662	-9,970
Gross profit	1,224	1,499	1,557	1,631	1,611	1,744	1,976	2,032	4,857	5,911	7,362	8,420
Opex	1,129	1,228	1,343	1,270	1,260	1,267	1,281	1,291	4,305	4,969	5,099	5,337
Operating profit	96	271	214	361	350	477	695	741	552	942	2,263	3,083
Non-op gains (losses)	83	111	266	21	32	35	36	36	449	481	139	168
Pretax profit	179	382	480	382	382	512	731	777	1,002	1,424	2,402	3,251
Income taxes & MI	-75	-184	-202	-155	-84	-113	-161	-171	-270	-615	-528	-1,088
Net profit	104	198	279	227	227	306	486	513	731	808	1,532	2,164
EPS (TWD, fully diluted)	**0.40**	**0.76**	**1.07**	**0.87**	**0.87**	**1.17**	**1.87**	**1.97**	**2.81**	**3.10**	**5.88**	**8.30**
Revenue mix*												
MP	63%	73%	79%	77%	77%	75%	76%	76%	79%	74%	76%	76%
NRE	21%	14%	8%	10%	11%	11%	11%	11%	13%	13%	11%	11%
IP	16%	13%	12%	12%	12%	14%	13%	13%	8%	13%	13%	12%
Margin												
Gross	47.3%	45.2%	42.5%	45.0%	45.0%	46.1%	46.4%	46.1%	27.0%	44.8%	45.9%	45.8%
Opex	43.6%	37.1%	36.7%	35.0%	35.2%	33.5%	30.1%	29.3%	23.9%	37.7%	31.8%	29.0%
Operating	3.7%	8.2%	5.9%	10.0%	9.8%	12.6%	16.3%	16.8%	3.1%	7.1%	14.1%	16.8%
Pretax	6.9%	11.5%	13.1%	10.5%	10.7%	13.5%	17.2%	17.6%	5.6%	10.8%	15.0%	17.7%
Net	4.0%	6.0%	7.6%	6.3%	6.3%	8.1%	11.4%	11.6%	4.1%	6.1%	9.6%	11.8%
Growth (QoQ)												
Revenue	-8%	28%	11%	-1%	-1%	6%	13%	4%				
Gross profit	3%	22%	4%	5%	-1%	8%	13%	3%				
Operating profit	19%	182%	-21%	69%	-3%	36%	46%	7%				
Net profit	-50%	90%	41%	-19%	0%	35%	59%	5%				
EPS (FD)	-50%	90%	41%	-19%	0%	35%	59%	5%				
Growth (YoY)												
Revenue	-65%	-27%	13%	29%	38%	14%	16%	21%	63%	-27%	21%	15%
Gross profit	-19%	37%	45%	38%	32%	16%	27%	25%	-4%	22%	25%	14%
Operating profit	-74%	324%	nm	349%	266%	76%	224%	105%	-48%	71%	140%	36%
Net profit	-70%	666%	84%	10%	118%	54%	74%	126%	-30%	11%	89%	41%
EPS (FD)	-70%	667%	84%	10%	118%	54%	74%	126%	-31%	11%	89%	41%

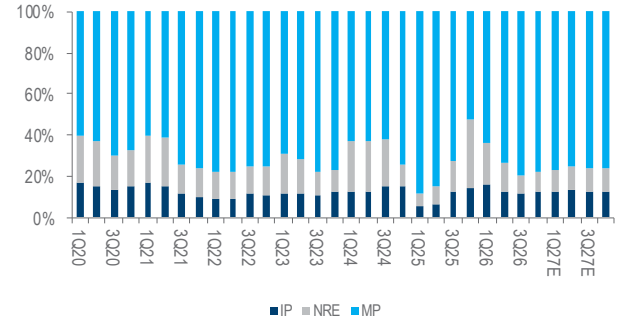
Source: Company, Daiwa estimates and forecasts
*Note: * MP = mass-production, which includes HBM consigned revenue in 1H25, thus deflating organic GM; NRE = non-recurrent engineering; IP = intellectual property*

Faraday: 3Q26 results and 4Q26 guidance check

			3Q26	Variance		Growth			4Q26E
TWDm	Actual	Daiwa	Consensus	Daiwa	Consensus	QoQ	YoY	Guidance	Daiwa (previous)
Revenue	3,664	3,194	3,235	15%	13%	11%	13%	c.flat QoQ	c.flat at TWD3.6bn
MP	2,907	2,320	na	25%	na	20%	25%		
NRE	448	425	na	5%	na	-1%	-9%		
IP	309	449	na	-31%	na	-29%	-25%		
Gross profit	1,557	1,448	1,446	8%	8%	4%	45%	GM c.45%	GM = 45%
Opex	1,343	1,115	1,206	20%	11%	9%	30%	opex down single-digit % QoQ	opex down 9% QoQ
Operating profit	214	333	240	-36%	-11%	-21%	442%		
Pretax profit	480	354	290	36%	66%	26%	126%		
Net profit	279	255	202	9%	38%	41%	84%		
FD EPS (TWD)	1.07	0.98	0.78	9%	38%	41%	84%		
Margin									
Gross	42.5%	45.3%	44.7%	-2.8%	-2.2%				
Operating	5.8%	10.4%	7.4%	-4.6%	-1.6%				
Net	7.6%	8.0%	6.2%	-0.4%	1.4%				
Revenue mix*									
IP	8%	14%							
NRE	12%	13%							
MP	79%	73%							

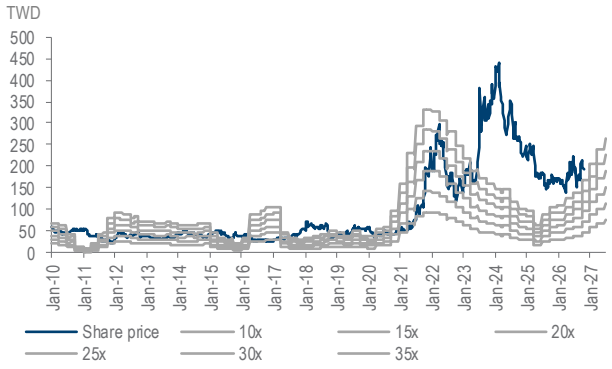
Source: Company, Bloomberg, Daiwa estimates and forecasts
*Note: * IP = intellectual property, NRE = non-recurrent engineering, MP = mass-production*

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)	15.0	18.1	11.3
NRE revenue growth (%)	32.4	22.1	0.2	30.4	1.7	(27.1)	5.7	18.1
MP revenue growth (%)	56.3	78.2	(11.6)	(17.9)	95.6	(31.1)	24.7	14.9

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	1,669	1,765	2,083
MP	5,614	10,002	8,839	7,255	14,188	9,780	12,199	14,013
Other Revenue	1,062	1,342	1,402	1,560	1,516	1,744	2,061	2,294
Total Revenue	**8,085**	**13,065**	**11,966**	**11,065**	**17,993**	**13,193**	**16,024**	**18,391**
Other income	0	0	0	0	0	0	0	0
COGS	(3,995)	(6,690)	(6,658)	(6,013)	(13,135)	(7,282)	(8,662)	(9,970)
SG&A	(726)	(1,018)	(983)	(989)	(1,114)	(1,405)	(1,449)	(1,502)
Other op.expenses	(1,962)	(2,436)	(2,369)	(2,991)	(3,191)	(3,564)	(3,650)	(3,835)
Operating profit	**1,402**	**2,921**	**1,956**	**1,071**	**552**	**942**	**2,263**	**3,083**
Net-interest inc./(exp.)	7	27	52	100	83	88	99	128
Assoc/forex/extraord./others	93	109	63	173	366	394	40	40
Pre-tax profit	**1,502**	**3,057**	**2,070**	**1,343**	**1,002**	**1,424**	**2,402**	**3,251**
Tax	(212)	(547)	(509)	(271)	(229)	(333)	(528)	(715)
Min. int./pref. div./others	(134)	(56)	28	(30)	(42)	(283)	(342)	(372)
Net profit (reported)	**1,156**	**2,455**	**1,589**	**1,041**	**731**	**808**	**1,532**	**2,164**
Net profit (adjusted)	**1,156**	**2,455**	**1,589**	**1,041**	**731**	**808**	**1,532**	**2,164**
EPS (reported)(TWD)	**4.651**	**9.876**	**6.395**	**4.042**	**2.807**	**3.103**	**5.878**	**8.304**
EPS (adjusted)(TWD)	**4.651**	**9.876**	**6.395**	**4.042**	**2.807**	**3.103**	**5.878**	**8.304**
EPS (adjusted fully-diluted)(TWD)	**4.651**	**9.791**	**6.379**	**3.995**	**2.807**	**3.103**	**5.878**	**8.304**
DPS (TWD)	**1.000**	**3.300**	**5.000**	**4.341**	**3.000**	**1.800**	**2.000**	**4.000**
EBIT	**1,402**	**2,921**	**1,956**	**1,071**	**552**	**942**	**2,263**	**3,083**
EBITDA	**1,807**	**3,394**	**2,457**	**1,880**	**1,481**	**2,046**	**3,562**	**4,579**

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	1,424	2,402	3,251
Depreciation and amortisation	405	473	502	810	929	1,103	1,299	1,496
Tax paid	(212)	(547)	(509)	(271)	(229)	(333)	(528)	(715)
Change in working capital	(256)	(2,368)	1,487	1,331	(1,123)	(846)	243	(761)
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**	**1,349**	**3,416**	**3,270**
Capex	(41)	(86)	(49)	(148)	(162)	(132)	(160)	(184)
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)**	**(132)**	**(160)**	**(184)**
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)	(521)	(1,042)
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)**	**(603)**	**(1,108)**
Forex effect/others	(3)	69	(40)	80	(28)	0	0	0
Change in cash	**1,715**	**110**	**842**	**2,596**	**(1,030)**	**138**	**2,652**	**1,978**
Free cash flow	2,465	1,114	2,958	2,752	768	1,217	3,255	3,086

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	7,431	10,084	12,062
Inventory	1,321	3,017	1,187	1,074	955	1,439	1,409	1,869
Accounts receivable	939	1,354	1,559	1,054	1,726	1,383	2,130	1,901
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**	**11,480**	**14,849**	**16,533**
Fixed assets	518	514	553	582	617	583	548	732
Goodwill & intangibles	505	615	683	2,115	1,761	1,099	319	20
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**	**18,516**	**21,070**	**22,639**
Short-term debt	0	127	95	448	589	71	62	54
Accounts payable	1,372	1,129	999	1,675	1,649	944	1,903	1,375
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**	**3,462**	**4,412**	**3,875**
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**	**4,244**	**5,258**	**4,992**
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	10,911	12,110	13,572
Shareholders' equity	**7,840**	**8,599**	**9,533**	**13,075**	**13,056**	**13,517**	**14,716**	**16,177**
Minority interests	315	369	321	399	472	755	1,097	1,470
Total equity & liabilities	**12,037**	**13,513**	**13,418**	**18,330**	**18,932**	**18,516**	**21,070**	**22,639**
EV	45,388	45,493	44,570	42,821	43,892	43,472	41,116	39,474
Net debt/(cash)	**(4,823)**	**(4,772)**	**(5,646)**	**(7,473)**	**(6,476)**	**(7,178)**	**(9,876)**	**(11,891)**
BVPS (TWD)	**31.543**	**34.597**	**38.356**	**50.743**	**50.111**	**51.878**	**56.479**	**62.089**

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	(26.7)	21.5	14.8
EBITDA (YoY)	210.0	87.8	(27.6)	(23.5)	(21.2)	38.1	74.2	28.5
Operating profit (YoY)	840.3	108.4	(33.1)	(45.3)	(48.4)	70.6	140.2	36.2
Net profit (YoY)	330.6	112.3	(35.2)	(34.5)	(29.8)	10.5	89.4	41.3
Core EPS (fully-diluted) (YoY)	332.1	110.5	(34.8)	(37.4)	(29.7)	10.5	89.4	41.3
Gross-profit margin	50.6	48.8	44.4	45.7	27.0	44.8	45.9	45.8
EBITDA margin	22.4	26.0	20.5	17.0	8.2	15.5	22.2	24.9
Operating-profit margin	17.3	22.4	16.3	9.7	3.1	7.1	14.1	16.8
Net profit margin	14.3	18.8	13.3	9.4	4.1	6.1	9.6	11.8
ROAE	16.4	29.9	17.5	9.2	5.6	6.1	10.8	14.0
ROAA	11.4	19.2	11.8	6.6	3.9	4.3	7.7	9.9
ROCE	19.3	33.9	20.5	8.8	3.9	6.5	14.8	18.2
ROIC	37.3	63.7	35.1	16.7	6.5	10.2	27.1	41.1
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	23.4	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	3.3	3.4	4.3
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	64.5	68.0
Free cash flow yield	4.9	2.2	5.9	5.5	1.5	2.4	6.5	6.2

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.
	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.
	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

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