Daiwa Capital Markets Hong Kong Limited

MediaTek (2454 TT)

Target price: **TWD4,088.00** (from TWD2,454.00)

Share price (31 Jul): **TWD3,555.00** | Up/downside: **+15.0%**

5 4 3 2 **1**

Buy (from Hold)

Upgrading: value unlocked after expectation reset

- 2Q26 results upbeat but 3Q26 guidance downbeat
- Mobile irrelevant now given likely strong AI ramp ahead
- Upgrading rating to Buy (1) with higher 12M TP of TWD4,088

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What's new: MediaTek (MTK) released upbeat 2Q26 results but downbeat 3Q26 guidance. Though the cash-cow mobile business looks to be weakening on commodity cost inflation, its new AI business appears to be running ahead of expectation. We raise our AI accelerator assumption and expect MTK's AI ASIC revenue contribution to overtake Mobile in mid-2027, a year earlier than our previous forecast. Aided by the recent reset of equity market's hefty expectation unlocking value for reinvestment, in our view, we upgrade our rating 2 notches to Buy (1) with a refreshed TP of TWD4,088.

What's the impact: **Results upbeat but guidance downbeat.** MTK reported 2Q26 net profit of TWD24bn, 5%/8% above our/consensus estimates, thanks to lower income tax and higher top line, which beat guidance (TWD140-149bn) and market expectations on better share gain in its Smart-edge business, partially offset by lower margins (table on p.2 for more details). Guided 3Q26 top line missed our previous forecast due to weaker-than-expected Mobile business, where management failed to realise its previous expectation calling 2Q26 as *the trough*, though it maintains its forecast for this year's global smartphone shipment to drop c.15% YoY. That said, it sees its AI ASIC business as progressing even stronger for "substantial" growth into 2027.

Weaker Mobile more than offset by stronger AI. Following its upward revision in the previous quarter, MTK at today's call further lifted its AI accelerator (ex-HBM) serviceable addressable market (SAM) to USD80bn for 2027 (previous: USD70-80bn), targeting a market share of 15-20% (previous: 10-15%), which translates into USD12-16bn potential revenue for the company. This suggests its first AI ASIC for a hyperscale customer is on track for mass production (MP) in 4Q26, while the second chip for the same customer is on track for MP by early 2028, with higher dollar value on stronger performance/watt and lower total cost of ownership (TCO). Net of the AI strength and mobile weakness, we raise our 2027-28E EPS by 23-30%, where we now forecast MTK's AI ASIC revenue to reach USD2.1bn, USD15bn, and USD22bn for 2026, 2027 and 2028, respectively.

What we recommend: Given our forecast revisions, we lift our 12M TP for MTK to TWD4,088 (previous: TWD2,454), now based on our 4-quarter forward PER target of 36x (previous: 27x), justified by our 2025-28E EPS CAGR of 36% on 1x PEG. We upgrade our rating 2 notches to Buy (1) with key downside risk of any AI accelerator ramps below our expectation.

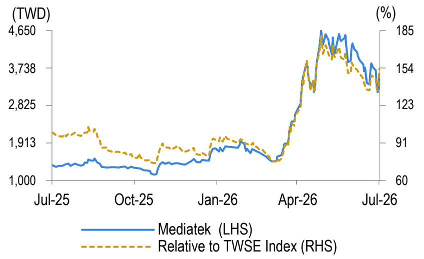
How we differ: While our 2026-27E EPS are 7-10% above the consensus forecasts, we see the street as too aggressive on MTK's 2028 AI business.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	1.6	26.9	27.4
Net profit change	(2.2)	29.6	22.6
Core EPS (FD) change	(2.2)	29.6	22.6

Source: Daiwa forecasts

Share price performance



12-month range	1,145.00-4,640.00
Market cap (USDbn)	175.59
3m avg daily turnover (USDm)	1,465.34
Shares outstanding (m)	1,604
Major shareholder	Vanguard Group Inc (3.7%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	661,687	1,125,506	1,363,441
Operating profit (m)	112,100	252,796	293,039
Net profit (m)	112,878	229,616	267,463
Core EPS (fully-diluted)	70.377	143.160	166.757
EPS change (%)	7.2	103.4	16.5
Daiwa vs Cons. EPS (%)	7.4	9.9	(37.9)
PER (x)	50.5	24.8	21.3
Dividend yield (%)	1.5	1.7	2.8
DPS	54.0	60.0	100.0
PBR (x)	13.1	10.0	8.4
EV/EBITDA (x)	39.2	18.0	15.0
ROE (%)	27.0	45.8	42.9

Source: FactSet, Daiwa forecasts

Flash

MTK: quarterly P&L estimates and forecasts

TWDm	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Total revenue	149,151	152,183	158,928	201,425	203,429	236,753	281,135	404,189	595,966	661,687	1,125,506	1,363,441
Total revenue (USDm)	**4,721**	**4,811**	**4,967**	**6,295**	**6,357**	**7,399**	**8,785**	**12,631**	**19,102**	**20,810**	**35,172**	**42,608**
COGS	-80,095	-81,875	-85,417	-108,239	-109,863	-128,895	-153,734	-221,237	-312,886	-355,626	-613,729	-758,920
Gross profit	69,055	70,308	73,511	93,186	93,566	107,858	127,401	182,952	283,080	306,060	511,777	604,521
Opex	-46,165	-47,440	-48,791	-51,565	-53,298	-58,005	-65,223	-82,455	-179,610	-193,960	-258,981	-311,482
Operating profit	22,891	22,868	24,720	41,621	40,268	49,853	62,177	100,498	103,470	112,100	252,796	293,039
EBITDA	28,892	29,009	31,126	49,739	48,508	59,521	73,707	117,091	126,444	138,766	298,826	349,958
Non-op gain/loss	4,129	5,094	4,900	4,959	4,680	4,740	4,840	5,000	21,418	19,082	19,260	23,860
Pretax profit	27,019	27,962	29,620	46,580	44,948	54,593	67,017	105,498	124,888	131,182	272,056	316,899
Income taxes & MI	-2,865	-3,627	-4,591	-7,220	-7,012	-8,517	-10,455	-16,458	-19,569	-18,303	-42,441	-49,436
Net profit	24,154	24,335	25,029	39,360	37,936	46,077	56,563	89,040	105,319	112,878	229,616	267,463
FD O/S (m)	1,604	1,604	1,604	1,604	1,604	1,604	1,604	1,604	1,604	1,604	1,604	1,604
FD EPS (TWD)	**15.06**	**15.17**	**15.60**	**24.54**	**23.65**	**28.73**	**35.27**	**55.51**	**65.66**	**70.38**	**143.16**	**166.76**
Margin												
Gross	46%	46%	46%	46%	46%	46%	45%	45%	47%	46%	45%	44%
Operating	15%	15%	16%	21%	20%	21%	22%	25%	17%	17%	22%	21%
EBITDA	19%	19%	20%	25%	24%	25%	26%	29%	21%	21%	27%	26%
Net	16%	16%	16%	20%	19%	19%	20%	22%	18%	17%	20%	20%
Revenue mix												
Mobile phone	50%	42%	40%	32%	31%	29%	28%	18%	55%	40%	25%	22%
Smart edge	45%	53%	54%	63%	64%	66%	68%	79%	40%	54%	71%	74%
Power IC	5%	6%	6%	5%	5%	5%	4%	3%	5%	6%	4%	4%
Growth (QoQ)												
Total revenue	-1%	2%	4%	27%	1%	16%	19%	44%				
Gross profit	0%	2%	5%	27%	0%	15%	18%	44%				
Operating profit	5%	0%	8%	68%	-3%	24%	25%	62%				
EBITDA	4%	0%	7%	60%	-2%	23%	24%	59%				
Net profit	5%	1%	3%	57%	-4%	21%	23%	57%				
FD EPS	5%	1%	3%	57%	-4%	21%	23%	57%				
Growth (YoY)												
Total revenue	-3%	1%	12%	34%	36%	56%	77%	101%	12%	11%	70%	21%
Gross profit	-6%	-5%	11%	35%	35%	53%	73%	96%	7%	8%	67%	18%
Operating profit	-24%	-22%	11%	90%	76%	118%	152%	141%	1%	8%	126%	16%
EBITDA	-19%	-17%	11%	80%	68%	105%	137%	135%	3%	10%	115%	17%
Net profit	-18%	-13%	-1%	72%	57%	89%	126%	126%	-1%	7%	103%	16%
FD EPS	-18%	-13%	-1%	72%	57%	89%	126%	126%	-1%	7%	103%	16%

Source: Company, Daiwa estimates and forecasts

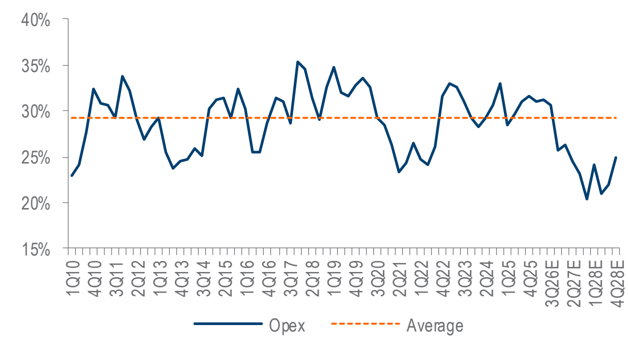
MTK: 2Q26 results review and 3Q26 guidance check

	2Q26			Growth		3Q26E	
TWDm	Actual	Daiwa	Variance	QoQ	YoY	Guidance	Daiwa (previous)
Revenue	152,183	145,255	5%	2%	1%	Sales = TWD152.2-159.8bn at FX of TWD32/USD	TWD168bn (+10% QoQ)
Gross profit	70,308	68,179	3%	2%	-5%	GM = 46% +/- 1.5pp	46.3%
Operating profit	22,868	22,569	1%	0%	-22%	Opex = 31% +/- 2pp	27.3%
Pretax profit	27,962	27,469	2%	3%	-16%		
Income tax & MI	3,627	4,258	-15%	37%	-30%		
Net profit	24,335	23,212	5%	1%	-13%		
Adjusted EPS (TWD)	15.17	14.47	5%	1%	-13%		
Margin							
Gross	46.2%	46.9%	-0.7%				
Operating	15.0%	15.5%	-0.5%				
Tax rate	13.0%	15.5%	-2.5%				
Net	16.0%	16.0%	0.0%				
Revenue mix*							
Mobile phone	41%	48%	below				
Smart edge	53%	46%	above				
Power IC	6%	6%	in line				

Source: Company, Daiwa estimates and forecasts

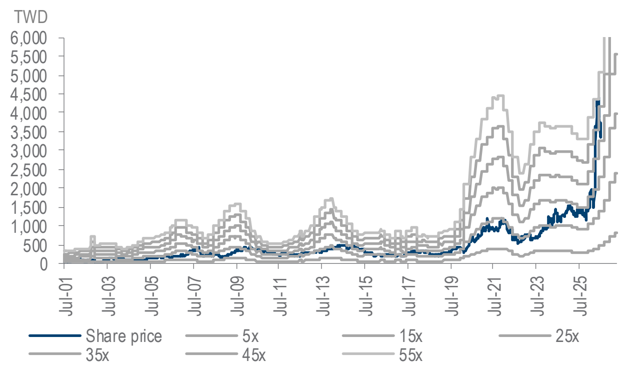
*Note: * Mobile phone includes smartphone and tablet; Smart edge includes IoT, computing & ASIC, digital TV, monitor & optical storage; Power IC includes PMIC and power discrete that support mobile phone and smart edge products*

MTK: opex ratio trend



Source: Company, Daiwa estimates and forecasts

MTK: 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
Smartphone chipset ASP (US$)	13.91	16.39	15.99	16.66	18.29	18.11	17.58	16.99
Smartphone chipset shipment ('000)	647	588	439	545	555	441	486	541
Total handset market share (%)	50.8	50.2	41.4	49.9	50.1	39.4	42.4	45.2

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Optical Storage Revenue	12,670	13,662	14,172	15,201	15,132	15,519	15,715	15,784
Digital Home Revenue	38,270	39,307	40,345	44,076	47,508	51,119	52,473	53,294
Other Revenue	442,475	495,827	378,929	471,309	533,326	595,048	1,057,318	1,294,364
Total Revenue	**493,415**	**548,796**	**433,446**	**530,586**	**595,966**	**661,687**	**1,125,506**	**1,363,441**
Other income	0	0	0	0	0	0	0	0
COGS	(261,810)	(277,892)	(226,079)	(267,200)	(312,886)	(355,626)	(613,729)	(758,920)
SG&A	(27,484)	(27,242)	(24,182)	(28,980)	(31,289)	(33,428)	(45,765)	(57,614)
Other op.expenses	(96,081)	(116,874)	(111,385)	(131,993)	(148,321)	(160,532)	(213,216)	(253,868)
Operating profit	**108,040**	**126,788**	**71,800**	**102,412**	**103,470**	**112,100**	**252,796**	**293,039**
Net-interest inc./(exp.)	1,458	2,847	6,908	10,696	10,167	11,120	13,260	17,360
Assoc/forex/extraord./others	17,354	5,925	8,074	6,410	11,251	7,962	6,000	6,500
Pre-tax profit	**126,852**	**135,561**	**86,783**	**119,519**	**124,888**	**131,182**	**272,056**	**316,899**
Tax	(14,980)	(16,936)	(9,591)	(12,378)	(18,770)	(17,430)	(40,808)	(47,535)
Min. int./pref. div./others	(451)	(484)	(212)	(754)	(799)	(873)	(1,632)	(1,901)
Net profit (reported)	**111,421**	**118,141**	**76,979**	**106,387**	**105,319**	**112,878**	**229,616**	**267,463**
Net profit (adjusted)	**111,421**	**118,141**	**76,979**	**106,387**	**105,319**	**112,878**	**229,616**	**267,463**
EPS (reported)(TWD)	**70.561**	**74.593**	**48.509**	**66.924**	**66.157**	**70.377**	**143.160**	**166.757**
EPS (adjusted)(TWD)	**70.561**	**74.593**	**48.509**	**66.924**	**66.157**	**70.377**	**143.160**	**166.757**
EPS (adjusted fully-diluted)(TWD)	**69.687**	**73.864**	**48.122**	**66.422**	**65.664**	**70.377**	**143.160**	**166.757**
DPS (TWD)	**37.101**	**73.330**	**76.238**	**55.075**	**54.066**	**54.000**	**60.000**	**100.000**
EBIT	**108,040**	**126,788**	**71,800**	**102,412**	**103,470**	**112,100**	**252,796**	**293,039**
EBITDA	**118,661**	**141,768**	**90,000**	**123,348**	**126,444**	**138,766**	**298,826**	**349,958**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	126,852	135,561	86,783	119,519	124,888	131,182	272,056	316,899
Depreciation and amortisation	10,621	14,980	18,200	20,936	22,974	26,666	46,030	56,919
Tax paid	(14,980)	(16,936)	(9,591)	(12,378)	(18,770)	(17,430)	(40,808)	(47,535)
Change in working capital	(53,649)	164	30,356	(1,001)	(19,508)	(2,500)	(100,000)	20,000
Other operational CF items	(21,750)	10,814	40,344	28,979	53,209	(873)	(1,632)	(1,901)
Cash flow from operations	**47,095**	**144,583**	**166,091**	**156,055**	**162,793**	**137,044**	**175,645**	**344,382**
Capex	(16,985)	(13,622)	(9,325)	(13,787)	(15,059)	(16,542)	(28,138)	(34,086)
Net (acquisitions)/disposals	2,170	(19,666)	(12,042)	(14,671)	(10,649)	0	0	0
Other investing CF items	(14,109)	(4,247)	(7,379)	(7,471)	(12,046)	0	0	0
Cash flow from investing	**(28,924)**	**(37,535)**	**(28,746)**	**(35,928)**	**(37,754)**	**(16,542)**	**(28,138)**	**(34,086)**
Change in debt	31,335	(48,575)	(2,328)	(1,260)	60	(3,368)	(1,684)	(842)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(58,585)	(116,141)	(120,981)	(87,551)	(86,070)	(86,611)	(96,235)	(160,391)
Other financing CF items	(701)	8,435	4,740	(1,309)	(1,665)	0	0	0
Cash flow from financing	**(27,951)**	**(156,280)**	**(118,569)**	**(90,119)**	**(87,675)**	**(89,979)**	**(97,918)**	**(161,233)**
Forex effect/others	(3,094)	13,030	(883)	8,292	(5,770)	0	0	0
Change in cash	**(12,875)**	**(36,202)**	**17,894**	**38,300**	**31,594**	**30,523**	**49,589**	**149,063**
Free cash flow	30,109	130,961	156,767	142,268	147,734	120,502	147,508	310,296

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	204,764	164,810	180,673	219,624	247,709	278,232	327,821	476,884
Inventory	73,271	70,703	43,220	58,414	67,235	77,235	157,235	137,235
Accounts receivable	58,660	40,842	55,834	44,713	62,121	61,621	141,621	121,621
Other current assets	10,171	21,298	11,161	28,275	20,391	15,000	15,000	15,000
Total current assets	**346,865**	**297,654**	**290,889**	**351,025**	**397,456**	**432,088**	**641,677**	**750,740**
Fixed assets	49,111	53,862	53,291	56,917	60,427	50,672	41,986	30,537
Goodwill & intangibles	73,526	73,455	81,245	82,257	80,262	77,000	75,000	72,000
Other non-current assets	191,375	183,430	209,614	207,668	205,640	201,912	201,912	201,912
Total assets	**660,877**	**608,399**	**635,038**	**697,868**	**743,785**	**761,671**	**960,574**	**1,055,188**
Short-term debt	51,267	3,700	2,200	940	940	940	940	940
Accounts payable	96,748	74,028	130,541	151,181	156,525	165,710	225,710	205,710
Other current liabilities	63,091	63,843	99,258	114,782	145,885	123,368	126,684	130,842
Total current liabilities	**211,106**	**141,570**	**231,999**	**266,902**	**303,350**	**290,018**	**353,334**	**337,492**
Long-term debt	1,684	863	4,605	2,681	6,735	3,368	1,684	842
Other non-current liabilities	14,439	22,907	24,229	23,228	24,504	24,500	26,000	26,500
Total liabilities	**227,229**	**165,341**	**260,833**	**292,812**	**334,590**	**317,885**	**381,018**	**364,834**
Share capital	15,988	15,994	15,996	16,017	16,039	16,039	16,039	16,039
Reserves/R.E./others	416,027	424,115	352,209	380,610	384,562	418,279	552,418	661,314
Shareholders' equity	**432,015**	**440,109**	**368,206**	**396,627**	**400,601**	**434,319**	**568,457**	**677,353**
Minority interests	1,633	2,949	6,000	8,428	8,594	9,467	11,100	13,001
Total equity & liabilities	**660,877**	**608,399**	**635,038**	**697,868**	**743,785**	**761,671**	**960,574**	**1,055,188**
EV	5,551,720	5,544,603	5,534,031	5,494,326	5,470,460	5,437,443	5,387,802	5,239,799
Net debt/(cash)	**(151,813)**	**(160,246)**	**(173,868)**	**(216,002)**	**(240,034)**	**(273,925)**	**(325,198)**	**(475,102)**
BVPS (TWD)	**273.588**	**277.882**	**232.031**	**249.503**	**251.642**	**270.787**	**354.420**	**422.314**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	53.2	11.2	(21.0)	22.4	12.3	11.0	70.1	21.1
EBITDA (YoY)	123.4	19.5	(36.5)	37.1	2.5	9.7	115.3	17.1
Operating profit (YoY)	150.0	17.4	(43.4)	42.6	1.0	8.3	125.5	15.9
Net profit (YoY)	172.3	6.0	(34.8)	38.2	(1.0)	7.2	103.4	16.5
Core EPS (fully-diluted) (YoY)	170.8	6.0	(34.8)	38.0	(1.1)	7.2	103.4	16.5
Gross-profit margin	46.9	49.4	47.8	49.6	47.5	46.3	45.5	44.3
EBITDA margin	24.0	25.8	20.8	23.2	21.2	21.0	26.6	25.7
Operating-profit margin	21.9	23.1	16.6	19.3	17.4	16.9	22.5	21.5
Net profit margin	22.6	21.5	17.8	20.1	17.7	17.1	20.4	19.6
ROAE	27.7	27.1	19.0	27.8	26.4	27.0	45.8	42.9
ROAA	18.7	18.6	12.4	16.0	14.6	15.0	26.7	26.5
ROCE	24.4	27.1	17.3	25.9	25.1	25.9	49.1	46.0
ROIC	40.4	39.3	26.4	47.2	49.1	57.3	n.a	n.a
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	11.8	12.5	11.1	10.4	15.0	13.3	15.0	15.0
Accounts receivable (days)	34.0	33.1	40.7	34.6	32.7	34.1	33.0	35.2
Current ratio (x)	1.6	2.1	1.3	1.3	1.3	1.5	1.8	2.2
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	142.8	103.8	102.1	125.6	80.8	82.2	85.3	69.9
Free cash flow yield	0.5	2.3	2.7	2.5	2.6	2.1	2.6	5.4

Source: FactSet, Daiwa forecasts

Company profile

Ranked No.5 in the world by 2023 fabless semiconductor revenue, MediaTek (MTK) offers diverse products across optical storage, digital home, smartphone, PC, ASIC, automotive and other IoT applications. MTK has successfully captured the industry demand cycles from optical disk drives to feature phones to smartphones, and now positions itself well as a platform provider to capitalise on the next demand cycle of the BigData/AI to help facilitate digital transformation in human lives.

ESG analysis

ESG risks

	Risks	Management	Analyst comments
G	Executive/board quality	2	MTK's Board of Directors (BoD) has 8 members with diverse backgrounds in foundry, IC design and electronics. Among its BoD, 4 members are independent directors, representing 50% of total directors. Its Chairman and CEO are not the same person, but its CEO is also one of the directors. MTK conducts internal annual performance evaluation of the BoD, individual directors and functional committees. The board currently includes only one female director out of eight members, which represents 12.5% of the total. The company recognizes this gender imbalance and is actively working toward a more inclusive and balanced board composition
G	Capital management	2	MTK's dividend payout ratios in the past 5 years were above 60% with increasing cash dividend in the past 3 years in dollar amount. In addition, MTK is committed to paying a special dividend of TWD16/share over 2021-24 on top of its regular annual dividend. MTK is one of the leading fabless chipmakers in the world with continued efforts in new product development for diversified applications; therefore, it will continue to invest in its research & development. We see its dividend payout as appropriate.
G	Related party & transaction	1	MTK's revenue from related parties was less than 1% of its total revenue in 2024 and transaction terms were not abnormal compared to other customers. It also had related-party transactions with King Yuan Electronics Co., Ltd. and King Long Tech (Suzhou) Ltd for IC testing, experimental services, and manufacturing technology services in 2021. The purchase amount from related parties was less than 7% of its total cost of goods sold/purchases in 2024. Thus, we do not see meaningful impact on its business operation.
S	Supply chain management	2	MTK has established its "Supplier Code of Conduct", which covers areas such as labour and human rights, health and safety, environmental protection, code of ethics, and management. It requires all suppliers to sign a guarantee to comply with this code of conduct. MTK implements an annual review to continuously track the actual compliance of suppliers. We believe these measures can help MTK reduce supply chain risk.
E	Water & wastewater management	1	As a fabless without manufacturing plants, MTK does not produce much wastewater compared to manufacturing companies, and thus has relatively limited impact on the environment. MTK has initiated water conservation methods, including efficient enhancement of using water-saving apparatuses, installing rainwater recycling tanks and using recycled water in cooling towers.
E	Waste & hazardous materials management	1	MTK prioritises waste reduction, classification for reuse, adherence to recycling, and reutilisation to manage waste efficiently and maximise the benefits of recycling. Also, it chooses only qualified partners for waste disposal and recycling, and also audits the waste processes regularly to ensure legal disposal of its waste and to fulfil its responsibility in waste management supervision.
E	GHG emissions	1	The main source for MTK's GHG emissions is externally purchased electricity, which accounts for over 90% of its total emissions. To enhance energy efficiency and reduce emissions, the company implemented several measures, including ongoing improvements to data center efficiency, full adoption of LED lighting in offices, and optimized operation of chiller units. MediaTek continued advancing its renewable energy strategy and alignment with global climate initiatives such as SBT and RE100. In early 2025, the Company passed the SBTi review and set targets based on a 2020 baseline, including a 40% reduction in Scope 1 and 2 emissions by 2030, net zero by 2050, and achieving 100% renewable energy use across global offices (excluding data centers) by 2030.

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: 4 Feb 2026

Source: Daiwa, Company

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