Taiwan | Information Technology | 6 August 2026

Daiwa Capital Markets Hong Kong Limited

Novatek Microelectronics (3034 TT)

Target price: **TWD515.00** (from TWD430.00)

Share price (6 Aug): **TWD543.00** | Up/downside: **-5.2%**

5 4 **3** 2 1

Hold
(unchanged)

Rebalancing still yet resilience on share gain

- 2Q26 results and 3Q26 guidance all upbeat
- Consumer rebalancing offset by high-end smartphone share gain
- Reiterating Hold (3) rating with a higher 12M TP of TWD515

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What's new: Novatek disclosed upbeat 2Q26 results and 3Q26 guidance thanks to continued supply-chain cost pass-through, as well as share gain in the high-end smartphone OLED display driver (D/D) market. Though we raise forecasts and TP to reflect these unusual business dynamics amid the "silicon inflation", we remain comfortable with our Hold (3) rating. That said, we are structurally positive on its leading position in design and technology for SoC diversification to cope with the D/D competition.

What's the impact: Results and guidance all beat yet ... Novatek reported 2Q26 EPS of TWD10.4, beating our/consensus estimates by 31%/36% thanks to robust gross margin (GM) that beat guidance (38-41%) and market expectation on supply-chain cost pass-through, favourable SoC mix and low-cost inventory, as well as frugal opex control and higher non-operating gains associated with investment and dividend incomes (table on p.2). Guidance calls for 3Q26 revenue to still grow 5-9% QoQ regardless of a demand slowdown in the consumer space. Yet guided GM of 38.5-41.5% implies a QoQ drop due to no more low-cost inventory and an unfavourable mix as small-and-medium D/D will drive the growth, while SoC revenue will be flat and large D/D will drop QoQ, per management.

... business dynamics don't seem to be structural. While *our view* calling for a demand rebalancing across TV and PC in the consumer space after customers' order pull-in in 1H26 appears to be materialising, per management's comments at today's call, Novatek's share gain in the high-end smartphone OLED D/D market looks to be helping it offset the impact, with extra delta to be contributed by the continued pass-through of wafer and OSAT cost hikes through the supply chain. We therefore lift our 2026-28E EPS by 2-21% but view these dynamics as unusual amid the "silicon inflation" environment. That said, we remain structurally positive on Novatek's leading position in design capability and process technology for diversification into a broadened SoC portfolio to cope with any intense D/D competition, including machine-vision solutions for applications from surveillance to drones, smart wearables, smart appliances to robotics.

What we recommend: Given our forecast revisions, we raise our 12M TP for Novatek to TWD515 (previous: TWD430), still based on our 4-quarter forward PER target of 13x. We reaffirm our Hold (3) rating with key upside/downside risks of any further cost pass-through/deteriorated end-demand on commodity price hikes.

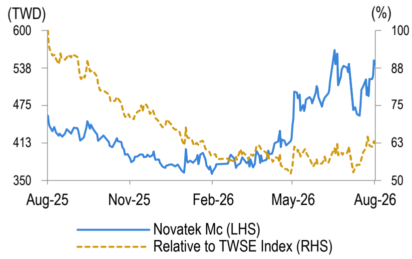
How we differ: Our 2026-28E EPS are 20-24% above the consensus, as we believe the street has yet to factor in the full effect of the cost pass-through.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	5.5	9.9	8.1
Net profit change	20.5	14.1	2.2
Core EPS (FD) change	20.5	14.1	2.2

Source: Daiwa forecasts

Share price performance



12-month range	361.00-567.00
Market cap (USDbn)	10.23
3m avg daily turnover (USDm)	101.63
Shares outstanding (m)	608
Major shareholder	Polaris Securities Inv. Trust (4.2%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	113,207	135,074	150,682
Operating profit (m)	23,850	27,380	30,249
Net profit (m)	22,065	23,821	26,253
Core EPS (fully-diluted)	36.240	39.123	43.118
EPS change (%)	35.0	8.0	10.2
Daiwa vs Cons. EPS (%)	23.9	19.9	20.5
PER (x)	15.0	13.9	12.6
Dividend yield (%)	4.2	4.7	5.3
DPS	23.0	25.5	29.0
PBR (x)	4.4	3.9	3.6
EV/EBITDA (x)	10.8	9.5	8.1
ROE (%)	30.7	29.8	29.7

Source: FactSet, Daiwa forecasts

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

Flash

Novatek: quarterly P&L estimates and forecasts

TWDm	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Revenue	23,145	28,660	31,052	30,350	29,911	33,605	35,910	35,648	100,663	113,207	135,074	150,682
COGS	-14,105	-16,503	-18,333	-18,182	-17,987	-20,361	-21,745	-21,572	-62,755	-67,123	-81,666	-90,933
Gross profit	9,040	12,157	12,719	12,168	11,924	13,244	14,165	14,076	37,908	46,084	53,409	59,749
Opex	-5,012	-5,691	-5,869	-5,662	-5,727	-6,337	-6,886	-7,078	-19,671	-22,234	-26,028	-29,500
Operating profit	4,028	6,466	6,850	6,506	6,197	6,907	7,279	6,998	18,237	23,850	27,380	30,249
Pretax profit	4,389	7,782	7,348	7,004	6,495	7,205	7,577	7,296	19,534	26,524	28,572	31,441
Income taxes	-622	-1,454	-1,220	-1,163	-1,072	-1,203	-1,273	-1,204	-3,186	-4,459	-4,752	-5,188
Net profit	3,767	6,328	6,129	5,842	5,423	6,001	6,304	6,092	16,348	22,065	23,821	26,253
FD O/S (m)	609	609	609	609	609	609	609	609	609	609	609	609
FD EPS (TWD)	**6.19**	**10.39**	**10.07**	**9.59**	**8.91**	**9.86**	**10.35**	**10.01**	**26.85**	**36.24**	**39.12**	**43.12**
Revenue mix												
Large D/D	23%	20%	21%	21%	19%	20%	21%	20%	23%	21%	20%	17%
Small/medium D/D	33%	28%	31%	32%	32%	31%	30%	30%	40%	31%	31%	34%
SoC	44%	52%	47%	47%	49%	49%	49%	50%	36%	48%	49%	49%
Margin												
Gross	39.1%	42.4%	41.0%	40.1%	39.9%	39.4%	39.4%	39.5%	37.7%	40.7%	39.5%	39.7%
Opex	-21.7%	-19.9%	-18.9%	-18.7%	-19.1%	-18.9%	-19.2%	-19.9%	-19.5%	-19.6%	-19.3%	-19.6%
Operating	17.4%	22.6%	22.1%	21.4%	20.7%	20.6%	20.3%	19.6%	18.1%	21.1%	20.3%	20.1%
Net	16.3%	22.1%	19.7%	19.2%	18.1%	17.9%	17.6%	17.1%	16.2%	19.5%	17.6%	17.4%
Growth (QoQ)												
Revenue	1%	24%	8%	-2%	-1%	12%	7%	-1%				
Gross profit	4%	34%	5%	-4%	-2%	11%	7%	-1%				
Operating profit	4%	61%	6%	-5%	-5%	11%	5%	-4%				
Net profit	2%	68%	-3%	-5%	-7%	11%	5%	-3%				
FD EPS	2%	68%	-3%	-5%	-7%	11%	5%	-3%				
Growth (YoY)												
Revenue	-15%	10%	26%	33%	29%	17%	16%	17%	-2%	12%	19%	12%
Gross profit	-16%	28%	43%	40%	32%	9%	11%	16%	-9%	22%	16%	12%
Operating profit	-29%	34%	78%	68%	54%	7%	6%	8%	-16%	31%	15%	10%
Net profit	-28%	69%	68%	58%	44%	-5%	3%	4%	-19%	35%	8%	10%
FD EPS	-28%	69%	68%	58%	44%	-5%	3%	4%	-19%	35%	8%	10%

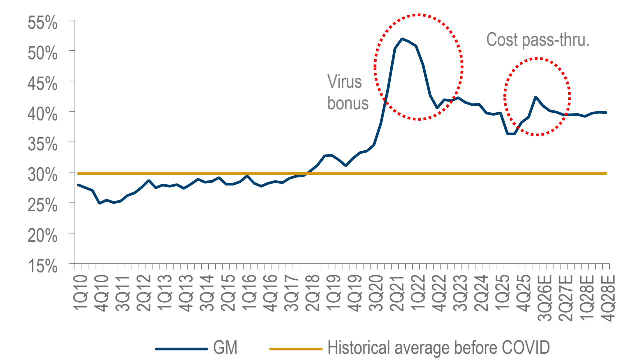
Source: Company, Daiwa estimates and forecasts

Novatek: 2Q26 results review and 3Q26 guidance check

	2Q26			Variance		Growth		3Q26E	
TWDm	**Actual**	**Daiwa**	**Consensus**	**Daiwa**	**Consensus**	**QoQ**	**YoY**	**Guidance**	**Daiwa (previous)**
Revenue	28,660	28,412	27,980	1%	2%	24%	10%	Revenue = TWD30.0-31.2bn	c.TWD28bn
Gross profit	12,157	11,198	11,083	9%	10%	34%	28%	GM=38.5-41.5%	39.5%
Opex	5,691	5,910	5,857	-4%	-3%	14%	22%	OPM=19-22%	20.1%
Operating profit	6,466	5,288	5,226	22%	24%	61%	34%		
Pretax profit	7,782	5,786	5,645	34%	38%	77%	69%		
Net profit	6,328	4,825	4,640	31%	36%	68%	69%		
Adjusted EPS (TWD)	10.39	7.93	7.62	31%	36%	68%	69%		
Margin									
Gross	42.4%	39.4%	39.6%	3.0%	2.8%				
Operating	22.6%	18.6%	18.7%	3.9%	3.9%				
Net	22.1%	17.0%	16.6%	5.1%	5.5%				
Revenue mix*									
Large D/D		22%							
Small/medium D/D		43%							
SoC		35%							

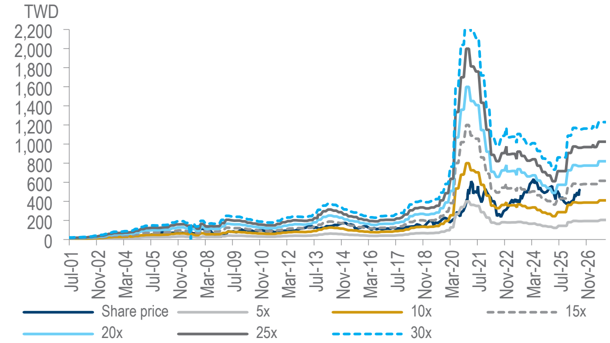
Source: Company, Daiwa estimates and forecasts
*Note: * D/D = display driver IC, SoC = system on a chip*

Novatek: quarterly gross margin trend



Source: Company, Daiwa estimates and forecasts

Novatek: 4-quarter forward PER bands



Source: Company, TEJ, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Large-size D/D shipment (mn unit)	3,520	2,319	2,708	2,693	2,746	2,960	3,217	3,326
Large-size D/D ASP (USD)	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Small-size D/D shipment (mn unit)	557	442	441	415	485	419	465	612

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Large-size D/D Revenue	40,778	29,566	29,103	25,947	23,566	23,998	27,086	25,974
SoC Revenue	43,653	37,265	43,408	39,568	36,527	54,236	66,390	74,096
Other Revenue	50,935	43,126	37,918	37,273	40,570	34,973	41,599	50,612
Total Revenue	**135,366**	**109,957**	**110,429**	**102,788**	**100,663**	**113,207**	**135,074**	**150,682**
Other income	0	0	0	0	0	0	0	0
COGS	(67,974)	(59,015)	(78,184)	(61,315)	(62,755)	(67,123)	(81,666)	(90,933)
SG&A	(3,018)	(2,802)	(2,759)	(2,859)	(2,946)	(3,069)	(3,427)	(3,839)
Other op.expenses	(16,601)	(15,410)	(20,565)	(16,807)	(16,725)	(19,165)	(22,601)	(25,661)
Operating profit	**47,773**	**32,729**	**8,921**	**21,806**	**18,237**	**23,850**	**27,380**	**30,249**
Net-interest inc./(exp.)	107	509	1,234	1,296	1,019	1,460	1,192	1,192
Assoc/forex/extraord./others	234	1,274	336	776	278	1,214	0	0
Pre-tax profit	**48,115**	**34,511**	**10,490**	**23,878**	**19,534**	**26,524**	**28,572**	**31,441**
Tax	(9,249)	(6,542)	(6,024)	(3,784)	(3,186)	(4,459)	(4,752)	(5,188)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	**38,866**	**27,970**	**4,466**	**20,094**	**16,348**	**22,065**	**23,821**	**26,253**
Net profit (adjusted)	**38,866**	**27,970**	**4,466**	**20,094**	**16,348**	**22,065**	**23,821**	**26,253**
EPS (reported)(TWD)	**63.771**	**45.868**	**7.331**	**32.991**	**26.849**	**36.240**	**39.123**	**43.118**
EPS (adjusted)(TWD)	**63.771**	**45.868**	**7.331**	**32.991**	**26.849**	**36.240**	**39.123**	**43.118**
EPS (adjusted fully-diluted)(TWD)	**63.771**	**45.868**	**7.331**	**32.991**	**26.849**	**36.240**	**39.123**	**43.118**
DPS (TWD)	**15.576**	**51.393**	**36.959**	**31.971**	**27.984**	**22.984**	**25.482**	**28.980**
EBIT	**47,773**	**32,729**	**8,921**	**21,806**	**18,237**	**23,850**	**27,380**	**30,249**
EBITDA	**48,874**	**33,961**	**10,261**	**23,120**	**19,573**	**25,302**	**29,014**	**32,068**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	48,115	34,511	10,490	23,878	19,534	26,524	28,572	31,441
Depreciation and amortisation	1,101	1,233	1,340	1,314	1,336	1,452	1,633	1,819
Tax paid	(9,249)	(6,542)	(6,024)	(3,784)	(3,186)	(4,459)	(4,752)	(5,188)
Change in working capital	(8,976)	784	7,092	(5,433)	(2,047)	6,454	(12,928)	8,197
Other operational CF items	10,731	(7,295)	17,084	678	(2,008)	0	0	0
Cash flow from operations	**41,721**	**22,691**	**29,981**	**16,652**	**13,629**	**29,972**	**12,526**	**36,269**
Capex	(845)	(839)	(808)	(1,175)	(1,211)	(679)	(810)	(904)
Net (acquisitions)/disposals	(13)	(258)	(201)	0	(154)	0	0	0
Other investing CF items	(7,556)	(1,770)	(693)	326	134	(250)	(250)	(250)
Cash flow from investing	**(8,414)**	**(2,867)**	**(1,702)**	**(849)**	**(1,232)**	**(929)**	**(1,060)**	**(1,154)**
Change in debt	0	0	0	0	0	0	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(9,493)	(31,338)	(22,515)	(19,472)	(17,038)	(13,994)	(15,515)	(17,645)
Other financing CF items	13,447	531	(1,037)	(1,484)	(1,703)	0	0	0
Cash flow from financing	**3,955**	**(30,807)**	**(23,552)**	**(20,956)**	**(18,741)**	**(13,994)**	**(15,515)**	**(17,645)**
Forex effect/others	(8)	25	(8)	34	(8)	0	0	0
Change in cash	**37,254**	**(10,958)**	**4,719**	**(5,119)**	**(6,352)**	**15,048**	**(4,050)**	**17,470**
Free cash flow	40,876	21,852	29,173	15,478	12,417	29,292	11,716	35,365

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	61,672	51,483	54,738	49,048	42,697	57,745	53,695	71,165
Inventory	14,186	12,029	8,551	8,701	8,641	10,117	12,705	12,707
Accounts receivable	23,572	15,765	16,935	20,274	21,099	19,842	29,007	25,486
Other current assets	685	607	825	1,018	1,104	1,104	1,104	1,104
Total current assets	**100,115**	**79,884**	**81,048**	**79,041**	**73,540**	**88,807**	**96,511**	**110,462**
Fixed assets	6,906	7,052	6,876	7,023	7,210	7,017	6,848	6,661
Goodwill & intangibles	2,485	2,432	2,509	2,609	2,652	2,321	1,918	1,441
Other non-current assets	11,087	11,178	14,009	13,728	13,964	13,964	13,964	13,964
Total assets	**120,593**	**100,546**	**104,443**	**102,401**	**97,366**	**112,110**	**119,240**	**132,527**
Short-term debt	0	0	0	0	0	0	0	0
Accounts payable	27,123	15,655	19,870	17,664	15,788	22,461	21,286	25,965
Other current liabilities	8,786	8,777	5,869	6,700	4,064	4,064	4,064	4,064
Total current liabilities	**35,909**	**24,432**	**25,739**	**24,364**	**19,851**	**26,525**	**25,350**	**30,028**
Long-term debt	0	0	0	0	0	0	0	0
Other non-current liabilities	14,233	10,544	11,487	10,113	9,775	9,775	9,775	9,775
Total liabilities	**50,142**	**34,976**	**37,226**	**34,477**	**29,627**	**36,300**	**35,125**	**39,804**
Share capital	6,085	6,085	6,085	6,085	6,085	6,085	6,085	6,085
Reserves/R.E./others	64,366	59,485	61,132	61,838	61,654	69,725	78,030	86,639
Shareholders' equity	**70,451**	**65,570**	**67,217**	**67,923**	**67,739**	**75,810**	**84,115**	**92,724**
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	**120,593**	**100,546**	**104,443**	**102,401**	**97,366**	**112,110**	**119,240**	**132,527**
EV	268,716	278,904	275,650	281,339	287,691	272,643	276,692	259,222
Net debt/(cash)	**(61,672)**	**(51,483)**	**(54,738)**	**(49,048)**	**(42,697)**	**(57,745)**	**(53,695)**	**(71,165)**
BVPS (TWD)	**115.776**	**107.755**	**110.461**	**111.622**	**111.319**	**124.596**	**138.246**	**152.394**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	69.3	(18.8)	0.4	(6.9)	(2.1)	12.5	19.3	11.6
EBITDA (YoY)	209.7	(30.5)	(69.8)	125.3	(15.3)	29.3	14.7	10.5
Operating profit (YoY)	223.3	(31.5)	(72.7)	144.4	(16.4)	30.8	14.8	10.5
Net profit (YoY)	228.9	(28.0)	(84.0)	349.9	(18.6)	35.0	8.0	10.2
Core EPS (fully-diluted) (YoY)	228.7	(28.1)	(84.0)	350.0	(18.6)	35.0	8.0	10.2
Gross-profit margin	49.8	46.3	29.2	40.3	37.7	40.7	39.5	39.7
EBITDA margin	36.1	30.9	9.3	22.5	19.4	22.4	21.5	21.3
Operating-profit margin	35.3	29.8	8.1	21.2	18.1	21.1	20.3	20.1
Net profit margin	28.7	25.4	4.0	19.5	16.2	19.5	17.6	17.4
ROAE	70.4	41.1	6.7	29.7	24.1	30.7	29.8	29.7
ROAA	43.5	25.3	4.4	19.4	16.4	21.1	20.6	20.9
ROCE	86.5	48.1	13.4	32.3	26.9	33.2	34.2	34.2
ROIC	n.a	n.a	28.6	n.a	69.5	92.1	94.2	97.2
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	19.2	19.0	57.4	15.8	16.3	16.8	16.6	16.5
Accounts receivable (days)	49.8	65.3	54.0	66.1	75.0	66.0	66.0	66.0
Current ratio (x)	2.8	3.3	3.1	3.2	3.7	3.3	3.8	3.7
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	80.3	80.6	80.5	436.0	84.8	85.6	70.3	74.1
Free cash flow yield	12.4	6.6	8.8	4.7	3.8	8.9	3.5	10.7

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1997, Novatek is a fabless IC-design company. Its product range encompasses LCD-driver and control ICs, as well as video display, commercial and IM products.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	Novatek's Board of Directors (BoD) has 9 members with a diverse background, including 3 members who are independent directors, representing 33% of total directors, higher than the regulatory requirement of at least 20%. Its Chairman and President are not the same person and most of its directors are not executive management. It has established the Audit Committee and Remuneration Committee, both of which are composed of independent directors. To strengthen the functionality of the Board, Novatek carries out the performance evaluation of its BoD every year by passing the "Guidelines for Director Performance Evaluation" in 2019, and the internal results of the evaluation were "Excellent" in 2023.
G	Capital management	1	In the past 2018-2023 years, Novatek's dividend payout ratios were above 80%. As a fabless company, it does not need high capital expenditures for manufacturing sites. Thus, we see its dividend policy with high payout ratio as appropriate.
G	Related party & transaction	3	Novatek has related-party transactions with one of its directors, United Microelectronics Corporation (UMC) and its related parties. The transaction amount accounted for 42% and 39% of Novatek's total purchases in 2021 and 2022, respectively, implying Novatek is highly reliant on UMC as a supplier. Thus, Novatek may have limited bargaining power for transactions with UMC, which may increase the possibility of unfair transactions and thus result in corporate governance issues.
S	Supply chain management	2	Novatek has established a Responsible Business Alliance self-assessment questionnaire and supply chain risk assessment for its suppliers. To improve its supply chain management, it formulated the "Novatek Supplier Code of Conduct" and a total of 45 suppliers completed the signing, with a signing rate of 100% in 2022.
E	Water & wastewater management	2	As a fabless without manufacturing plants, Novatek does not produce much of wastewater compared to manufacturing companies, and thus has a relatively limited impact to the environment. It has established management procedures for wastewater with effective disposal measures.
E	Waste & hazardous materials management	1	As a fabless company, Novatek does not manufacture its product but leverages on its suppliers. The company has established a green product management system and requested its suppliers to comply with its "Novatek Hazardous Substances Management Rules". It conducts a regular review of operations to ensure the effectiveness of the management system. It continuously complies with RoHS/halogen-free and REACH requirements.
E	GHG emissions	1	The major source of Novatek's GHG emissions is externally purchased electricity, which accounted for 98% of its total emissions in 2022. Thus, electricity consumption reduction measures are essential for Novatek to reduce GHG emissions. The company achieved the annual energy-saving target of 1%. To reduce GHG emissions by increasing the percentage of renewable energy, it targets to complete its evaluation of its Plan for the Use of Renewable Energy, and start using renewable energy in 2022. In addition, the company aims to achieve net-zero emission in 2050.

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: 6 Feb 2026
Source: Daiwa, Company

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