Daiwa Capital Markets Hong Kong Limited

United Microelectronics (2303 TT)

Target price: **TWD145.00** (from TWD108.00)

Share price (7 Oct): **TWD148.50** | Up/downside: **-2.4%**

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Hold (unchanged)

A beneficiary of the AI ripple effect, but …

- UMC looks set to benefit from AI demand spillover
- Yet we believe the AI ripple effect is being priced in
- Maintain our Hold (3) call, with a higher 12M TP of TWD145

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What's new: Given its longstanding position in the global foundry industry, ever challenging TSMC's leadership during the late 1990s, we believe UMC stands well to benefit from a ripple effect in demand spurred by AI scaling, as detailed in the main section of this report. We expect UMC's wafer loadings to reach 100% from 1Q27, with price hikes to go through (see *Price hike to go through? Still likely*, 31 July). That said, we believe the equity market has priced in this AI strength on extra volume and pricing power for UMC. Hence, we stick with our Hold (3) rating on the counter.

What's the impact: **3Q26 preview and 4Q26 outlook.** We expect UMC to report 3Q26 net profit of TWD16.4bn (+9% YoY), varying not much from the Bloomberg consensus. Its monthly revenue finished at c.TWD49bn QTD, reaching 65% of our/consensus 3Q26 estimates, which we consider tracking inline. For 4Q26, we expect UMC to earn net profit of TWD16bn, 13% below consensus, as the street seems to be assuming higher non-operating gains. UMC is scheduled to report results on 28 October; we will be offering updates in due course.

<=28nm ramp on AI scaling and fab optimisation. UMC's 28/22nm-and-below revenue contribution has hovered around the high-30% range over the past 2 years, after meaningful ramp during the COVID period on broadened demand applications from display drivers and TV SoCs to power management. With AI scaling creating a ripple effect in companion chip demand for connectivity (ie, silicon photonics) and power (ie, server PMICs), we believe UMC is well positioned to benefit from any spillover demand, with the strength augmented by TSMC's fab optimisation, which could strengthen UMC's pricing power. Given that UMC's wafer loadings are likely to reach 100% from 1Q27, we expect its price hikes to go through and model increases of 2-5%, effective from 1Q27, across nodes related to AI applications. This should resume its <=28nm ramp to exceed a half of revenue in 2028. All in, we raise our 2027-28E EPS by 22%.

What we recommend: Despite our forecast revisions, we remain comfortable with our Hold (3) rating for UMC, as we believe its AI strength is already priced in. We raise our 12M TP to TWD145 (previous: TWD108), based on our higher ROE-adjusted PBR target of 4.2x (previous: 3.3x) applied to 1-year-forward BVPS on a higher ROE trajectory. Upside/ downside risks would be any price hikes above our expectations/ geopolitical overhangs (war, FX, interest rate) weighing on end-demand.

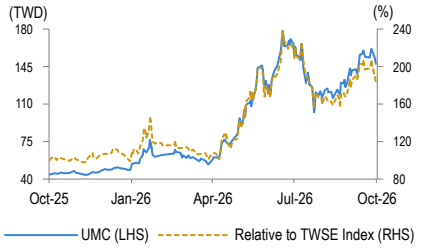
How we differ: Our 2026-28E EPS do not vary much from consensus, indicating that UMC's AI strength is already reflected in its valuation.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	0.9	7.5	7.9
Net profit change	1.5	21.9	21.6
Core EPS (FD) change	1.5	21.9	21.6

Source: Daiwa forecasts

Share price performance



12-month range	43.85-178.50
Market cap (USDbn)	58.71
3m avg daily turnover (USDm)	726.45
Shares outstanding (m)	12,577
Major shareholder	United Microelectronics Corp (5.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	281,729	358,798	393,029
Operating profit (m)	63,045	99,484	115,376
Net profit (m)	90,829	89,289	103,534
Core EPS (fully-diluted)	7.222	7.099	8.232
EPS change (%)	117.9	(1.7)	16.0
Daiwa vs Cons. EPS (%)	2.4	(1.6)	(3.5)
PER (x)	20.6	20.9	18.0
Dividend yield (%)	1.8	2.7	2.7
DPS	2.6	4.0	4.0
PBR (x)	4.8	4.4	3.9
EV/EBITDA (x)	13.8	10.1	9.1
ROE (%)	23.6	21.8	22.8

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilisation (%)	104	99	68	69	75	87	99	100
Blended ASP (USD)	774	941	994	933	876	862	914	916
Wafer shipment (8" equ., '000)	9,860	9,946	7,190	7,754	8,712	10,270	12,266	13,406

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer Foundry Revenue	213,011	278,705	222,533	232,303	237,553	281,729	358,798	393,029
New Business Revenue	0	0	0	0	0	0	0	0
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**213,011**	**278,705**	**222,533**	**232,303**	**237,553**	**281,729**	**358,798**	**393,029**
Other income	0	0	0	0	0	0	0	0
COGS	(140,961)	(152,941)	(144,789)	(156,649)	(168,647)	(188,965)	(224,020)	(239,340)
SG&A	(7,429)	(8,518)	(6,569)	(8,425)	(7,233)	(10,215)	(13,024)	(14,368)
Other op.expenses	(12,935)	(12,954)	(13,284)	(15,616)	(17,725)	(19,504)	(22,271)	(23,945)
Operating profit	**51,686**	**104,293**	**57,891**	**51,613**	**43,949**	**63,045**	**99,484**	**115,376**
Net-interest inc./(exp.)	(1,387)	156	3,283	1,914	676	1,110	2,095	3,270
Assoc/forex/extraord./others	11,504	1,649	9,739	2,693	5,023	36,244	4,403	4,608
Pre-tax profit	**61,803**	**106,097**	**70,912**	**56,220**	**49,648**	**100,399**	**105,981**	**123,255**
Tax	(6,691)	(18,079)	(9,472)	(9,113)	(8,113)	(9,660)	(16,692)	(19,721)
Min. int./pref. div./others	668	(820)	(450)	105	182	91	0	0
Net profit (reported)	**55,780**	**87,198**	**60,990**	**47,211**	**41,716**	**90,829**	**89,289**	**103,534**
Net profit (adjusted)	**55,780**	**87,198**	**60,990**	**47,211**	**41,716**	**90,829**	**89,289**	**103,534**
EPS (reported)(TWD)	**4.552**	**7.086**	**4.930**	**3.796**	**3.341**	**7.222**	**7.099**	**8.232**
EPS (adjusted)(TWD)	**4.552**	**7.086**	**4.930**	**3.796**	**3.341**	**7.222**	**7.099**	**8.232**
EPS (adjusted fully-diluted)(TWD)	**4.468**	**6.973**	**4.868**	**3.759**	**3.314**	**7.222**	**7.099**	**8.232**
DPS (TWD)	**1.622**	**3.043**	**3.639**	**3.022**	**2.866**	**2.602**	**4.004**	**4.004**
EBIT	**51,686**	**104,293**	**57,891**	**51,613**	**43,949**	**63,045**	**99,484**	**115,376**
EBITDA	**98,762**	**148,462**	**98,374**	**99,780**	**103,206**	**129,845**	**173,179**	**185,068**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	61,803	106,097	70,912	56,220	49,648	100,399	105,981	123,255
Depreciation and amortisation	47,075	44,169	40,484	48,168	59,257	66,800	73,695	69,692
Tax paid	(6,691)	(18,079)	(9,472)	(9,113)	(8,113)	(9,660)	(16,692)	(19,721)
Change in working capital	(10,151)	(8,262)	916	(2,889)	1,617	(10,600)	(10,000)	(400)
Other operational CF items	(1,685)	21,935	(16,840)	1,488	(2,545)	(27,454)	(3,803)	(4,008)
Cash flow from operations	**90,352**	**145,861**	**86,000**	**93,872**	**99,864**	**119,484**	**149,182**	**168,817**
Capex	(48,035)	(80,128)	(91,474)	(88,545)	(47,744)	(63,647)	(51,200)	(52,801)
Net (acquisitions)/disposals	(14,290)	28,229	(4,678)	2,625	(7,670)	8,411	0	0
Other investing CF items	162	(2,528)	(1,635)	(21)	2,259	0	0	0
Cash flow from investing	**(62,163)**	**(54,427)**	**(97,787)**	**(85,941)**	**(53,154)**	**(55,237)**	**(51,200)**	**(52,801)**
Change in debt	18,818	(34,087)	27,377	(337)	(1,812)	(4,188)	(18,843)	(19,757)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(19,871)	(37,445)	(45,015)	(37,586)	(35,784)	(32,729)	(50,353)	(50,353)
Other financing CF items	11,439	21,296	(11,840)	2,438	(3,454)	0	0	0
Cash flow from financing	**10,386**	**(50,237)**	**(29,478)**	**(35,484)**	**(41,050)**	**(36,917)**	**(69,196)**	**(70,110)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**38,574**	**41,197**	**(41,265)**	**(27,553)**	**5,660**	**27,330**	**28,786**	**45,907**
Free cash flow	42,317	65,732	(5,474)	5,327	52,120	55,837	97,982	116,016

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	171,224	178,973	145,621	115,865	129,071	147,990	176,776	222,683
Inventory	23,011	31,070	35,713	35,782	37,228	38,228	41,728	41,228
Accounts receivable	35,190	36,975	29,586	33,343	31,274	40,774	50,774	50,674
Other current assets	3,848	5,353	5,878	4,688	7,211	5,000	5,500	5,500
Total current assets	**233,273**	**252,371**	**216,797**	**189,678**	**204,783**	**231,992**	**274,778**	**320,085**
Fixed assets	129,942	170,982	237,377	277,344	271,395	247,287	231,137	220,390
Goodwill & intangibles	28,665	44,852	30,758	30,691	27,445	24,500	27,400	27,300
Other non-current assets	72,547	64,847	74,255	72,487	75,373	102,917	106,720	110,728
Total assets	**464,427**	**533,052**	**559,187**	**570,201**	**578,996**	**606,697**	**640,036**	**678,503**
Short-term debt	39,256	7,587	29,537	19,510	27,597	19,751	20,666	15,726
Accounts payable	8,364	8,982	7,526	7,633	9,170	9,070	12,570	11,570
Other current liabilities	57,833	91,996	61,952	48,117	50,832	73,412	81,958	92,119
Total current liabilities	**105,454**	**108,565**	**99,015**	**75,260**	**87,598**	**102,234**	**115,194**	**119,415**
Long-term debt	39,830	39,877	45,236	55,533	45,372	49,029	29,272	14,454
Other non-current liabilities	37,941	49,159	55,358	61,222	66,170	66,000	66,000	66,000
Total liabilities	**183,224**	**197,601**	**199,608**	**192,016**	**199,141**	**217,263**	**210,466**	**199,869**
Share capital	124,832	125,047	125,298	125,607	125,882	125,882	125,882	125,882
Reserves/R.E./others	156,147	210,060	233,939	252,321	253,887	263,366	303,401	352,366
Shareholders' equity	**280,980**	**335,107**	**359,238**	**377,928**	**379,768**	**389,247**	**429,283**	**478,247**
Minority interests	223	344	341	257	87	187	287	387
Total equity & liabilities	**464,427**	**533,052**	**559,187**	**570,201**	**578,996**	**606,697**	**640,036**	**678,503**
EV	1,775,767	1,736,517	1,797,175	1,827,118	1,811,667	1,788,660	1,741,130	1,675,567
Net debt/(cash)	**(92,138)**	**(131,509)**	**(70,849)**	**(40,821)**	**(56,102)**	**(79,210)**	**(126,839)**	**(192,503)**
BVPS (TWD)	**22.508**	**26.798**	**28.671**	**30.090**	**30.169**	**30.949**	**34.132**	**38.026**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	20.5	30.8	(20.2)	4.4	2.3	18.6	27.4	9.5
EBITDA (YoY)	39.3	50.3	(33.7)	1.4	3.4	25.8	33.4	6.9
Operating profit (YoY)	134.9	101.8	(44.5)	(10.8)	(14.8)	43.5	57.8	16.0
Net profit (YoY)	91.1	56.3	(30.1)	(22.6)	(11.6)	117.7	(1.7)	16.0
Core EPS (fully-diluted) (YoY)	93.7	56.0	(30.2)	(22.8)	(11.8)	117.9	(1.7)	16.0
Gross-profit margin	33.8	45.1	34.9	32.6	29.0	32.9	37.6	39.1
EBITDA margin	46.4	53.3	44.2	43.0	43.4	46.1	48.3	47.1
Operating-profit margin	24.3	37.4	26.0	22.2	18.5	22.4	27.7	29.4
Net profit margin	26.2	31.3	27.4	20.3	17.6	32.2	24.9	26.3
ROAE	21.6	28.3	17.6	12.8	11.0	23.6	21.8	22.8
ROAA	13.3	17.5	11.2	8.4	7.3	15.3	14.3	15.7
ROCE	15.7	28.1	14.2	11.6	9.7	13.8	21.2	23.3
ROIC	23.5	44.0	20.4	13.8	11.1	18.0	27.3	32.9
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	10.8	17.0	13.4	16.2	16.3	9.6	15.7	16.0
Accounts receivable (days)	53.5	47.3	54.6	49.4	49.6	46.7	46.6	47.1
Current ratio (x)	2.2	2.3	2.2	2.5	2.3	2.3	2.4	2.7
Net interest cover (x)	37.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	68.1	67.1	51.6	61.6	75.8	78.5	55.4	56.3
Free cash flow yield	2.3	3.5	n.a.	0.3	2.8	3.0	5.2	6.2

Source: FactSet, Daiwa forecasts

Company profile

Incorporated in Taiwan, United Microelectronics Corp (UMC) is one of the leading semiconductor foundries in the world and second largest in Taiwan. UMC offers a series of foundry services from photo-mask, wafer fabrication to wafer probe & test. Its wafer fabs are spread over Taiwan, China and Singapore, with technology offerings ranging from 0.25u and above, 0.18/0.15u, 0.13u, 90nm, 65nm, 45/40nm, 28/22nm to 14nm FF.

UMC: key operating assumptions, quarterly P&L estimates and forecasts

TWDm	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Wafer shipment (12" equ) ('000 units)	1,021	1,129	1,201	1,213	1,213	1,359	1,454	1,425	3,872	4,564	5,451	5,958
Capacity utilisation	80%	86%	91%	91%	92%	100%	103%	100%	75%	87%	99%	100%
Blended ASP (USD)	1,890	1,926	1,967	1,966	2,017	2,056	2,081	2,067	1,970	1,940	2,057	2,061
Total revenue	61,038	68,733	75,612	76,347	78,296	89,428	96,841	94,232	237,553	281,729	358,798	393,029
Total revenue (USDm)	**1,930**	**2,174**	**2,363**	**2,386**	**2,447**	**2,795**	**3,026**	**2,945**	**7,629**	**8,853**	**11,212**	**12,282**
COGS	-43,219	-46,410	-49,163	-50,173	-51,247	-55,577	-59,216	-57,980	-168,647	-188,965	-224,020	-239,340
Gross profit	17,818	22,323	26,449	26,174	27,049	33,852	37,625	36,252	68,906	92,764	134,778	153,690
Opex	-6,542	-7,373	-7,864	-7,940	-8,143	-8,764	-9,200	-9,188	-24,958	-29,719	-35,294	-38,313
Operating profit	11,276	14,950	18,585	18,234	18,907	25,088	28,425	27,065	43,949	63,045	99,484	115,376
EBITDA	27,263	31,188	35,485	35,909	36,607	43,288	47,125	46,160	103,206	129,845	173,179	185,068
Non-op gain/loss	5,367	30,236	900	850	900	1,420	2,135	2,043	5,699	37,354	6,498	7,878
Pre-tax profit	16,644	45,186	19,485	19,084	19,807	26,508	30,560	29,107	49,648	100,399	105,981	123,255
Income taxes	-527	-2,962	-3,118	-3,053	-3,169	-3,976	-4,890	-4,657	-8,113	-9,660	-16,692	-19,721
Net profit	16,171	42,260	16,367	16,031	16,637	22,532	25,670	24,450	41,716	90,829	89,289	103,534
FD O/S (m)	12,579	12,577	12,577	12,577	12,577	12,577	12,577	12,577	12,588	12,577	12,577	12,577
FD EPS (TWD)	**1.29**	**3.36**	**1.30**	**1.27**	**1.32**	**1.79**	**2.04**	**1.94**	**3.31**	**7.22**	**7.10**	**8.23**
Margin												
Gross	29%	32%	35%	34%	35%	38%	39%	38%	29%	33%	38%	39%
Operating	18%	22%	25%	24%	24%	28%	29%	29%	19%	22%	28%	29%
EBITDA	45%	45%	47%	47%	47%	48%	49%	49%	43%	46%	48%	47%
Net	26%	61%	22%	21%	21%	25%	27%	26%	18%	32%	25%	26%
Growth (QoQ)												
Total revenue	-1%	13%	10%	1%	3%	14%	8%	-3%				
Gross profit	-6%	25%	18%	-1%	3%	25%	11%	-4%				
Operating profit	-8%	33%	24%	-2%	4%	33%	13%	-5%				
EBITDA	-2%	14%	14%	1%	2%	18%	9%	-2%				
Net profit	61%	161%	-61%	-2%	4%	35%	14%	-5%				
FD EPS	61%	161%	-61%	-2%	4%	35%	14%	-5%				
Growth (YoY)												
Total revenue	5%	17%	28%	24%	28%	30%	28%	23%	2%	19%	27%	10%
Gross profit	15%	32%	50%	38%	52%	52%	42%	39%	-9%	35%	45%	14%
Operating profit	15%	38%	67%	49%	68%	68%	53%	48%	-15%	43%	58%	16%
EBITDA	14%	23%	36%	29%	34%	39%	33%	29%	3%	26%	33%	7%
Net profit	108%	375%	9%	59%	3%	-47%	57%	53%	-12%	118%	-2%	16%
FD EPS	108%	374%	9%	60%	3%	-47%	57%	53%	-12%	118%	-2%	16%

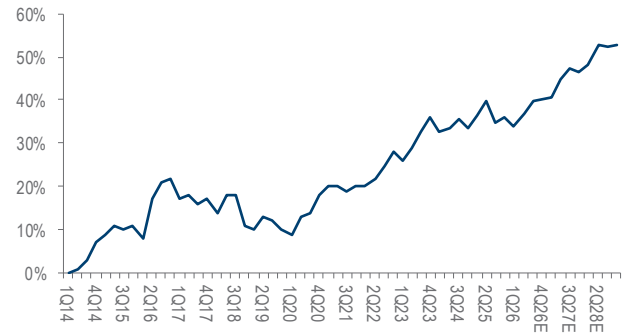
Source: Company, Daiwa estimates and forecasts

UMC: 3Q26 results preview and 4Q26 business outlook

	3Q26E			4Q26E		
TWDm	Daiwa	Consensus	Variance	Daiwa	Consensus	Variance
Revenue	75,612	75,517	0%	76,347	78,272	-2%
Gross profit	26,449	26,392	0%	26,174	27,621	-5%
Operating profit	18,585			18,234		
Pretax profit	19,485			19,084		
Net profit	16,367	17,018	-4%	16,031	18,371	-13%
Adjusted EPS (TWD)	1.30	1.35	-4%	1.27	1.46	-13%
Margin						
Gross	35.0%	34.9%		34.3%	35.3%	
Operating	24.6%			23.9%		
Net	21.6%			21.0%		
Operation						
Shipments (12" equ. wafers) ('000 units)	1,201			1,213		
Utilization*	91%			91%		
<=28nm sales contribution	40%			40%		

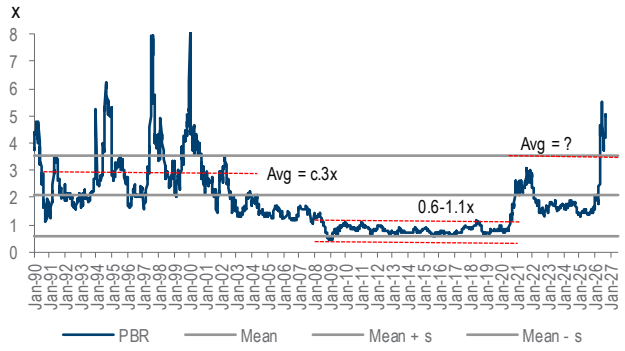
Source: Bloomberg, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided installed capacity*

UMC: 28/22nm-and-below revenue contribution*



Source: Company, Daiwa estimates and forecasts
*Note: * Including 14nm FF*

UMC: PBR trend



Source: Company, TEJ, Daiwa forecasts

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	UMC's Board of Directors consists of nine members whose expertise covers industry, academia, finance, accounting, and management. Among these directors, six are independent directors, representing 67% of total directors in 2024. The percentage of independent directors is high relative to the regulatory requirement of at least 20% or at least 2 independent directors. Although some of UMC's executive management are also directors, UMC's Chairman and President are not the same person. Considering this and its relative-high percentage of independent directors, we believe the board can perform its functionalities well
	Capital management	2	It kept its dividend payout ratios above 50% in 2017-25, which is at a healthy, sustainable level. Overall, we see the balance between investment and dividend as appropriate.
	Related party & transaction	1	Sales to related parties were around 1-2% of its total revenue each year. The percentage is insignificant and thus we see limited risk for UMC.
S	Supply chain management	2	UMC has constructed an evaluation framework for reviewing the sustainable development of its supply chains based on UMC's GG-026-004-C sustainable supply-chain management review guidelines to ensure its suppliers fulfil environmental protection, social responsibility, labour and human rights, safety & health and sustainable development guidelines. We believe these efforts could reduce its supply-chain risk.
E	Water & wastewater management	2	UMC developed its "Water Management Policy and Commitment" in 2015 to promote more effective utilisation of water resources. In line with this policy, UMC continues to enhance recycling through increased use of reclaimed and desalinated water, ongoing wastewater treatment R&D, and optimised discharge management. In 2024, the company achieved a 30.3% reduction in water withdrawal per unit product, surpassing its 14% goal and meeting its 2030 target ahead of schedule, which demonstrates UMC's strong commitment to water conservation.
E	Waste & hazardous materials management	2	To achieve the goal of zero pollution, UMC has established a comprehensive new material evaluation process to effectively screen and control new materials introduced into the development of new processes. Through this effort, it can avoid or reduce the use of raw materials and the associated environmental impact. UMC was the first semiconductor manufacturer company in the world to obtain QC-080000 IECQ Hazardous Substance Process Management (HSPM) certification for all its fabs by leading global semiconductor manufacturers in completing the third-party verification and audit of its HSPM system in 2006.
E	GHG emissions	2	UMC was the first semiconductor company in Taiwan to pass integrated environmental protection, safety and health management system certifications in 2001. UMC has established the UMC Low Carbon Commitment as a guide for future carbon reduction projects. Its GHG emission reduction goals include: 1) to reduce fluorinated greenhouse gas emissions intensity by 65% over 2013-25 vs. 2010, and 2) to reduce electricity consumption intensity by 15% in 10 years over 2016-25 vs. 2015.

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.

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Source: Daiwa, Company

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Rating	Percentage of total
Buy*	73.96%
Hold**	19.58%
Sell***	6.46%

Source: Daiwa

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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- 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.

** The ratio of margin requirements etc. to the amount of the transaction 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name:	Daiwa Securities Co. Ltd.
Registered:	Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships:	Japan Securities Dealers Association, The Financial Futures Association of Japan, Investment Management Association of Japan, Type II Financial Instruments Firms Association, Japan Security Token Offering Association