United Microelectronics (2303 TT)

Target price: **TWD135.00** (from TWD145.00)

Share price (30 Oct): **TWD111.50** | Up/downside: **+21.1%**

5 4 3 2 **1**

Buy (from Hold)

Upgrading: value resurfacing

- Fine-tuning forecasts on broadly intact results and guidance
- Recent stock tumble seemingly not fundamentally justified
- Upgrading by 2 notches to Buy (1), with a lower 12M TP of TWD135

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What's new: Following our *results memo*, we upgrade our rating on UMC by 2 notches to Buy (1) on improved risk/reward profile, despite fine-tuning our forecast. Depicted in our Asia Foundry report (*A paradigm shift in specialty nodes*, 9 October), UMC stands well to benefit from a paradigm shift in specialty nodes, as a result of a ripple effect from AI scaling and augmented by TSMC's fab optimisation, which should keep UMC's fabs busy and boost its pricing power. Valuation had prevented us from turning positive, but the stock has since tumbled 30% in a month, opening a window of opportunity for bargain-hunting, as the fundamentals remain structurally intact.

What's the impact: **Forecast revisions.** Given UMC's intact quarterly results and guidance, we only fine-tune our forecasts, trimming our 2027E EPS by 4% to reflect a slightly lower margin trajectory. That said, operating profit has turned around since 1Q26, in terms of YoY growth, accelerating to 68% in 3Q26. We forecast it to sustain at such high levels throughout 2027, thanks to its price hikes as a result of fully loaded operations from 1Q27, in terms of wafer-in, and benefiting from AI demand scaling in breadth and depth and from TSMC's fab optimisation mentioned above (*Price hike to go through? Still likely*, 31 July).

From volume- to value-driven. At its results call on 28 October, management expected UMC's business growth to shift from volume-driven this year to value-driven in 2027, implying its regaining of pricing power after the COVID cycle, since fab loadings are approaching full capacity on robust demand, driven by AI in connectivity, power and memory integration, benefiting its products such as silicon photonics (SiPh), thin-film lithium niobate (TFLN) modulators, power management, silicon capacitors and field-programmable gate arrays (FPGAs). It targets UMC's 2027 wafer blended ASP to rise by 10% YoY, from both improved product mix and like-to-like price hikes. We model only a 5% YoY increase, preserving upside risk to our forecasts.

What we recommend: Given our forecast revisions, we trim our 12M TP for UMC to TWD135 (previous: TWD145) on our lower ROE-adjusted PBR target of 4.0x (previous: 4.2x) 2027E BVPS, due to a slightly lower ROE trajectory. That said, we upgrade our rating by 2 notches to Buy (1) on improved risk/reward profile, as we find the recent share price tumble not fundamentally justified. Downside risks to our call would be silicon inflation and geopolitical overhangs leading to global inflation and AI capex cut.

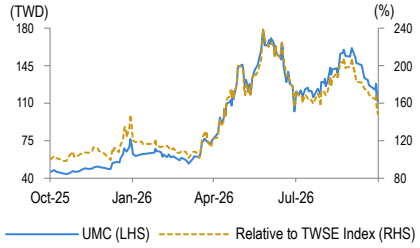
How we differ: Our 2027-28E EPS are 6-7% below consensus, likely on our lower assumption of the blended ASP hikes.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	(0.4)	(2.2)	(1.2)
Net profit change	-	(4.0)	2.2
Core EPS (FD) change	0.1	(4.0)	2.3

Source: Daiwa forecasts

Share price performance



12-month range	43.85-178.50
Market cap (USDbn)	43.01
3m avg daily turnover (USDm)	678.14
Shares outstanding (m)	12,570
Major shareholder	United Microelectronics Corp (5.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	280,688	351,023	388,471
Operating profit (m)	62,920	95,620	118,541
Net profit (m)	90,826	85,685	105,829
Core EPS (fully-diluted)	7.226	6.817	8.419
EPS change (%)	118.0	(5.7)	23.5
Daiwa vs Cons. EPS (%)	(2.2)	(7.0)	(5.8)
PER (x)	15.4	16.4	13.2
Dividend yield (%)	2.3	3.6	3.6
DPS	2.6	4.0	4.0
PBR (x)	3.6	3.3	2.9
EV/EBITDA (x)	10.2	7.6	6.5
ROE (%)	23.6	21.0	23.5

Source: FactSet, Daiwa forecasts

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

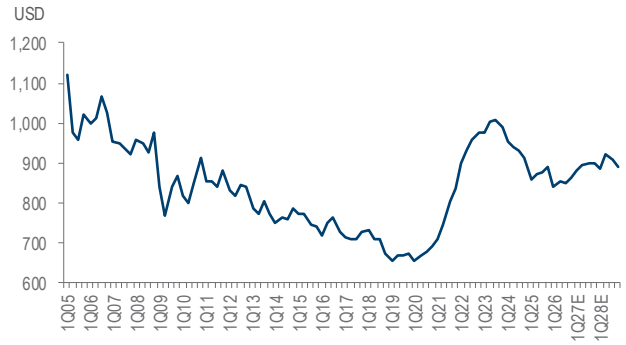
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UMC: quarterly assumptions and P&L forecasts

TWDm	1Q26	2Q26	3Q26	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Wafer shipment (000, 12" equ)	1,021	1,129	1,212	1,233	1,233	1,356	1,438	1,423	3,872	4,594	5,450	5,981
Capacity utilisation*	80%	86%	91%	92%	94%	99%	102%	100%	75%	88%	99%	101%
Blended ASP (USD)	1,890	1,926	1,914	1,944	1,988	2,010	2,026	2,025	1,970	1,920	2,013	2,030
Total revenue	61,038	68,733	74,239	76,679	78,424	87,211	93,178	92,210	237,553	280,688	351,023	388,471
Total revenue (USDm)	**1,930**	**2,174**	**2,320**	**2,396**	**2,451**	**2,725**	**2,912**	**2,882**	**7,629**	**8,820**	**10,969**	**12,140**
COGS	-43,219	-46,410	-49,035	-50,807	-51,343	-54,914	-57,514	-57,418	-168,647	-189,471	-221,189	-232,393
Gross profit	17,818	22,323	25,205	25,872	27,081	32,296	35,664	34,792	68,906	91,218	129,834	156,079
Opex	-6,542	-7,373	-6,562	-7,821	-7,960	-8,503	-8,852	-8,898	-24,958	-28,298	-34,213	-37,537
Operating profit	11,276	14,950	18,643	18,051	19,121	23,793	26,812	25,894	43,949	62,920	95,620	118,541
EBITDA	27,263	31,188	35,334	35,924	36,821	41,993	45,512	44,989	103,206	129,710	169,315	188,233
Non-op gain/loss	5,367	30,236	1,268	950	850	1,320	2,005	1,912	5,699	37,822	6,087	7,445
Pretax profit	16,644	45,186	19,911	19,001	19,971	25,113	28,817	27,806	49,648	100,742	101,707	125,986
Income taxes	-527	-2,962	-3,522	-3,040	-3,195	-3,767	-4,611	-4,449	-8,113	-10,051	-16,022	-20,158
Net profit	16,171	42,260	16,434	15,961	16,776	21,346	24,206	23,357	41,716	90,826	85,685	105,829
FD O/S (m)	12,579	12,577	12,570	12,570	12,570	12,570	12,570	12,570	12,588	12,570	12,570	12,570
FD EPS (TWD)	**1.29**	**3.36**	**1.31**	**1.27**	**1.33**	**1.70**	**1.93**	**1.86**	**3.31**	**7.23**	**6.82**	**8.42**
Margin												
Gross	29%	32%	34%	34%	35%	37%	38%	38%	29%	32%	37%	40%
Operating	18%	22%	25%	24%	24%	27%	29%	28%	19%	22%	27%	31%
EBITDA	45%	45%	48%	47%	47%	48%	49%	49%	43%	46%	48%	48%
Net	26%	61%	22%	21%	21%	24%	26%	25%	18%	32%	24%	27%
Growth (QoQ)												
Total revenue	-1%	13%	8%	3%	2%	11%	7%	-1%				
Gross profit	-6%	25%	13%	3%	5%	19%	10%	-2%				
Operating profit	-8%	33%	25%	-3%	6%	24%	13%	-3%				
EBITDA	-2%	14%	13%	2%	2%	14%	8%	-1%				
Net profit	61%	161%	-61%	-3%	5%	27%	13%	-4%				
FD EPS	61%	161%	-61%	-3%	5%	27%	13%	-4%				
Growth (YoY)												
Total revenue	5%	17%	26%	24%	28%	27%	26%	20%	2%	18%	25%	11%
Gross profit	15%	32%	43%	36%	52%	45%	41%	34%	-9%	32%	42%	20%
Operating profit	15%	38%	68%	48%	70%	59%	44%	43%	-15%	43%	52%	24%
EBITDA	14%	23%	35%	29%	35%	35%	29%	25%	3%	26%	31%	11%
Net profit	108%	375%	10%	59%	4%	-49%	47%	46%	-12%	118%	-6%	24%
FD EPS	108%	374%	10%	59%	4%	-49%	47%	46%	-12%	118%	-6%	24%

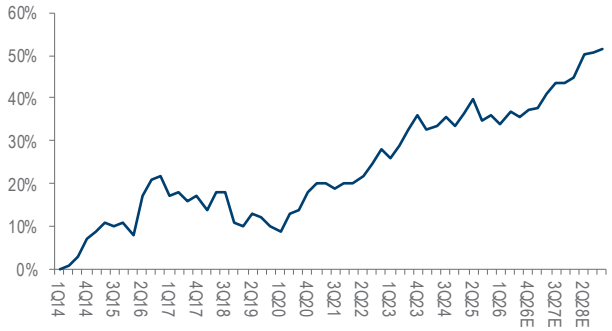
Source: Company, Daiwa estimates and forecasts
*Note: * wafer shipment divided by capacity, not wafer input or output*

UMC: blended ASP trend*



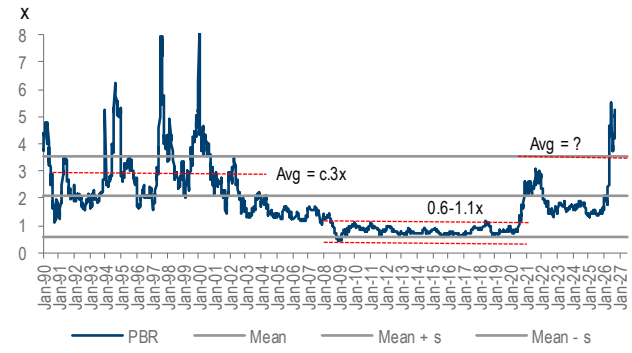
Source: Company, Daiwa estimates and forecasts
*Note: * In 8" equivalent wafer*

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



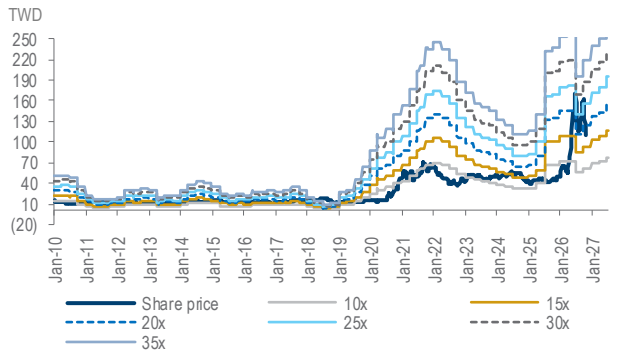
Source: Company, Daiwa estimates and forecasts
*Note: * Including 14nmFF*

UMC: PBR trend



Source: Company, TEJ, Daiwa forecasts

UMC: 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
Capacity utilisation (%)	104	99	68	69	75	88	99	101
Blended ASP (USD)	774	941	994	933	876	853	895	902
Wafer shipment (8" equ., '000)	9,860	9,946	7,190	7,754	8,712	10,337	12,262	13,457

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	280,688	351,023	388,471
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**	**280,688**	**351,023**	**388,471**
Other income	0	0	0	0	0	0	0	0
COGS	(140,961)	(152,941)	(144,789)	(156,649)	(168,647)	(189,471)	(221,189)	(232,393)
SG&A	(7,429)	(8,518)	(6,569)	(8,425)	(7,233)	(9,468)	(12,493)	(13,869)
Other op.expenses	(12,935)	(12,954)	(13,284)	(15,616)	(17,725)	(18,830)	(21,720)	(23,669)
Operating profit	**51,686**	**104,293**	**57,891**	**51,613**	**43,949**	**62,920**	**95,620**	**118,541**
Net-interest inc./(exp.)	(1,387)	156	3,283	1,914	676	900	1,684	2,837
Assoc/forex/extraord./others	11,504	1,649	9,739	2,693	5,023	36,922	4,403	4,608
Pre-tax profit	**61,803**	**106,097**	**70,912**	**56,220**	**49,648**	**100,742**	**101,707**	**125,986**
Tax	(6,691)	(18,079)	(9,472)	(9,113)	(8,113)	(10,051)	(16,022)	(20,158)
Min. int./pref. div./others	668	(820)	(450)	105	182	135	0	0
Net profit (reported)	**55,780**	**87,198**	**60,990**	**47,211**	**41,716**	**90,826**	**85,685**	**105,829**
Net profit (adjusted)	**55,780**	**87,198**	**60,990**	**47,211**	**41,716**	**90,826**	**85,685**	**105,829**
EPS (reported)(TWD)	**4.552**	**7.086**	**4.930**	**3.796**	**3.341**	**7.226**	**6.817**	**8.419**
EPS (adjusted)(TWD)	**4.552**	**7.086**	**4.930**	**3.796**	**3.341**	**7.226**	**6.817**	**8.419**
EPS (adjusted fully-diluted)(TWD)	**4.468**	**6.973**	**4.868**	**3.759**	**3.314**	**7.226**	**6.817**	**8.419**
DPS (TWD)	**1.622**	**3.043**	**3.639**	**3.022**	**2.866**	**2.604**	**4.006**	**4.006**
EBIT	**51,686**	**104,293**	**57,891**	**51,613**	**43,949**	**62,920**	**95,620**	**118,541**
EBITDA	**98,762**	**148,462**	**98,374**	**99,780**	**103,206**	**129,710**	**169,315**	**188,233**

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	100,742	101,707	125,986
Depreciation and amortisation	47,075	44,169	40,484	48,168	59,257	66,790	73,695	69,692
Tax paid	(6,691)	(18,079)	(9,472)	(9,113)	(8,113)	(10,051)	(16,022)	(20,158)
Change in working capital	(10,151)	(8,262)	916	(2,889)	1,617	(12,100)	(7,000)	(4,000)
Other operational CF items	(1,685)	21,935	(16,840)	1,488	(2,545)	(28,689)	(3,803)	(4,008)
Cash flow from operations	**90,352**	**145,861**	**86,000**	**93,872**	**99,864**	**116,691**	**148,577**	**167,512**
Capex	(48,035)	(80,128)	(91,474)	(88,545)	(47,744)	(63,646)	(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)**	**(55,235)**	**(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**	**24,539**	**28,181**	**44,601**
Free cash flow	42,317	65,732	(5,474)	5,327	52,120	53,046	97,377	114,711

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	145,199	173,380	217,982
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	42,274	49,274	52,774
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**	**230,701**	**269,882**	**317,483**
Fixed assets	129,942	170,982	237,377	277,344	271,395	247,286	231,136	220,389
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	104,198	108,000	112,008
Total assets	**464,427**	**533,052**	**559,187**	**570,201**	**578,996**	**606,685**	**636,419**	**677,181**
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	73,608	81,819	91,898
Total current liabilities	**105,454**	**108,565**	**99,015**	**75,260**	**87,598**	**102,429**	**115,054**	**119,194**
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	66,500	66,000
Total liabilities	**183,224**	**197,601**	**199,608**	**192,016**	**199,141**	**217,458**	**210,826**	**199,648**
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	263,158	299,424	351,264
Shareholders' equity	**280,980**	**335,107**	**359,238**	**377,928**	**379,768**	**389,039**	**425,305**	**477,146**
Minority interests	223	344	341	257	87	187	287	387
Total equity & liabilities	**464,427**	**533,052**	**559,187**	**570,201**	**578,996**	**606,685**	**636,419**	**677,181**
EV	1,309,640	1,270,390	1,331,047	1,360,991	1,345,540	1,325,324	1,278,399	1,214,141
Net debt/(cash)	**(92,138)**	**(131,509)**	**(70,849)**	**(40,821)**	**(56,102)**	**(76,418)**	**(123,443)**	**(187,801)**
BVPS (TWD)	**22.508**	**26.798**	**28.671**	**30.090**	**30.169**	**30.950**	**33.835**	**37.959**

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	18.2	25.1	10.7
EBITDA (YoY)	39.3	50.3	(33.7)	1.4	3.4	25.7	30.5	11.2
Operating profit (YoY)	134.9	101.8	(44.5)	(10.8)	(14.8)	43.2	52.0	24.0
Net profit (YoY)	91.1	56.3	(30.1)	(22.6)	(11.6)	117.7	(5.7)	23.5
Core EPS (fully-diluted) (YoY)	93.7	56.0	(30.2)	(22.8)	(11.8)	118.0	(5.7)	23.5
Gross-profit margin	33.8	45.1	34.9	32.6	29.0	32.5	37.0	40.2
EBITDA margin	46.4	53.3	44.2	43.0	43.4	46.2	48.2	48.5
Operating-profit margin	24.3	37.4	26.0	22.2	18.5	22.4	27.2	30.5
Net profit margin	26.2	31.3	27.4	20.3	17.6	32.4	24.4	27.2
ROAE	21.6	28.3	17.6	12.8	11.0	23.6	21.0	23.5
ROAA	13.3	17.5	11.2	8.4	7.3	15.3	13.8	16.1
ROCE	15.7	28.1	14.2	11.6	9.7	13.8	20.5	24.1
ROIC	23.5	44.0	20.4	13.8	11.1	17.8	26.2	33.6
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	10.0	15.8	16.0
Accounts receivable (days)	53.5	47.3	54.6	49.4	49.6	47.8	47.6	47.9
Current ratio (x)	2.2	2.3	2.2	2.5	2.3	2.3	2.3	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	58.7
Free cash flow yield	3.0	4.7	n.a.	0.4	3.7	3.8	6.9	8.2

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.

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 2017-24, 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.

Update Date: 30 Oct 2026

Source: Daiwa, Company

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