

UMC (2303 TT)

Value Enhancement Amid a Favorable Landscape

Maintained **Buy**
Target price NT\$125

Lower TP to NT\$125: UMC's share price has underperformed the Taiex by 26% over the past two weeks amid the broad market sell-off, due to TSMC's comment of "mature nodes not in shortage" and investors rotating away from price hike theme. Nevertheless, UMC's >90% UTR guidance appears better than expected, and we expect margins to improve not only from pricing but also from product value enhancement, driven by mix upgrades toward 22nm/28nm and AI revenue, which mgmt expects to exceed \$1bn in 3 years. We also view the foundry landscape as favorable, given growing AI/optics demand and TSMC's capacity planning (mature-node largely on overseas/specialty) while Samsung continues to scale down. However, rising depreciation expense should partially offset margin expansion. Meanwhile, optics and advanced packaging remain re-rating catalysts. Regarding Intel, mgmt reiterated that the collaboration remains on track for tape-out in 2027 on Intel 12, and we now remove our earlier expectation of Intel 3/4 given lacking engineering power on leading nodes. Incorporating results and guidance, we raise 2026E/2027E EPS estimates by 45%/3% but lower target multiple from 20x to 18x on sector de-rating, resulting in a lower TP of NT\$125.

Earnings call highlights on capex: 2Q26 revenue rose by 13% QoQ/17% YoY to NT\$68.7bn, and GM was up to 32.5% from 29.2% a quarter ago, slightly higher than consensus. Helped by sizable investment gains, EPS came in at NT\$3.4, +162% QoQ/+375% YoY. For 3Q26, it guided: 1) wafer shipments to be up high single digit; 2) ASP to be firm; 3) GM at mid-30s; 4) UTR to be >90% (vs. 85% in 2Q26). For 2026, UMC raised capex to \$2bn, driven by its Singapore fab's cleanroom and the shell construction for the 12A P7/P8.

Modest margin expansion: Following the mid-30s margin guidance for 3Q26, we expect it to be expanded to high-30s in 2027, driven by favorable pricing environment, high UTRs and product mix enhancement. We expect its UTR to be at 90%+ in 2H26, underpinned by 8" improvement to high-80s on customers (Samsung LSI, Novatek, MTK) and/or products (as HV, BCD, etc). Pricing wise, mgmt indicated a favorable pricing environment into 2027 with UMC continuing highlighting its product value. For optics, we believe that optics will be a high-margin business, due to the process node of 65nm/55nm and 8" for PIC and TFLN, the latter is expected to reach 5KPM by 2H27. On the other hand, the margin expansion could be modest, due to the growing depreciation expenses.

Risks: 1) Geo-political risk; 2) Demand uncertainties; 3) Competition; 4) New product delay.

Profit forecast

	2023	2024	2025	2026E	2027E
Revenue (m)	222,533	232,303	237,553	286,813	338,898
Revenue YoY (%)	-20.2	4.4	2.3	20.7	18.2
Net profit (m)	60,990	47,211	41,716	90,672	86,824
Net profit YoY (%)	-30.1	-22.6	-11.6	117.4	-4.2
EPS (NT\$)	4.9	3.8	3.3	7.3	7.0
P/E	15.3	19.6	22.3	10.3	10.7
ROE (%)	17.0	12.5	11.0	20.8	19.3

Source: Company data, GF Securities (Hong Kong) Brokerage.

Please be sure to read the disclosures at the end of this report carefully.

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Earnings Forecast

2Q26 Results Slightly Ahead on Margins

2Q26 revenue rose by 13% QoQ/17% YoY to NT\$68.7bn, and GM was up to 32.5% from 29.2% a quarter ago, slightly higher than consensus and earlier company's guidance of low-30s. Helped by sizable investment gains due to strong stock market performance, EPS came in at NT\$3.4, +162% QoQ/+375% YoY.

2Q26 Guidance Inline, Capex Raised

For 3Q26, it guided: 1) wafer shipments to be up high single digit; 2) ASP to be firm; 3) GM at mid-30s; 4) UTR to be >90% (vs. 85% in 2Q26).

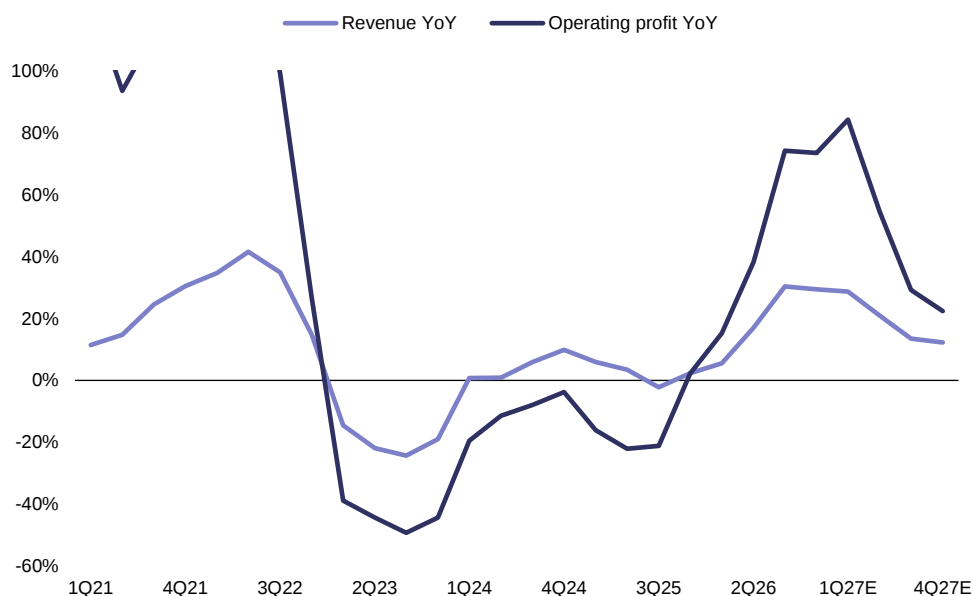
For 2026, UMC raised capex to \$2bn, driven by its Singapore fab's cleanroom and the shell construction for the 12A P7/P8. The higher capex also leads to higher depreciation expenses in 2027 and 2028.

Figure 1: 2Q26 Results Review

NTD mn	2Q26	1Q26	QoQ	2Q25	YoY	GFHK	Diff	Cons.	Diff
Revenue	68,733	61,038	12.6%	58,758	17.0%	67,555	1.7%	67,599	1.7%
Gross profit	22,323	17,818	25.3%	16,878	32.3%	21,073	5.9%	20,688	7.9%
OPEX	7,373	6,542	12.7%	6,058	21.7%	7,070	4.3%	7,017	5.1%
Operating profit	14,950	11,276	32.6%	10,820	38.2%	14,003	6.8%	13,671	9.4%
Pre-tax profit	45,186	16,643	171.5%	10,154	345.0%	15,304	195.3%	15,827	185.5%
Net profit	42,260	16,171	161.3%	8,903	374.7%	12,986	225.4%	13,480	213.5%
EPS (NT\$)	3.39	1.29	162.8%	0.71	377.5%	1.04	226.0%	1.07	216.8%
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Gross Margin	32.5%	29.2%	3.3	28.7%	3.8	31.2%	1.3	30.6%	1.9
Operating Margin	21.8%	18.5%	3.3	18.4%	3.4	20.7%	1.1	20.2%	1.6
Pretax margin	65.7%	27.3%	38.4	17.3%	48.4	22.7%	43.0	23.4%	42.3
Net margin	61.5%	26.5%	35.0	15.2%	46.3	19.2%	42.3	19.9%	41.6

Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 2: UMC's revenue YoY and operating profit YoY (%)



Sources: Company data, GF Securities (Hong Kong) Brokerage

Earnings Revision

By factoring in results and guidance, we revise our EPS estimates for 2026E/2027E by +45%/+3%.

Figure 3: Earnings revision

NTD m	2025	2026E		2027E		Change (%)	
		Old	New	Old	New	2026E	2027E
Net sales	237,553	277,979	286,813	335,025	338,898	3%	1%
Gross profit	68,906	90,136	96,217	124,293	126,859	7%	2%
EBIT	43,949	61,554	66,798	92,463	94,861	9%	3%
Pre-tax Income	49,648	70,824	99,454	98,423	101,935	40%	4%
Net profit	41,716	62,506	90,672	83,918	86,824	45%	3%
EPS (NT\$)	3.34	5.01	7.26	6.72	6.95	45%	3%
Key ratios (%)							
Gross margin	29.0%	32.4%	33.5%	37.1%	37.4%		
Operating margin	18.5%	22.1%	23.3%	27.6%	28.0%		
Pre-tax margin	20.9%	25.5%	34.7%	29.4%	30.1%		
Net profit margin	17.6%	22.5%	31.6%	25.0%	25.6%		

Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 4: UMC's P&L forecast

(NTD m)	2025	1Q26	2Q26E	3Q26E	4Q26E	2026E	1Q27E	2Q27E	3Q27E	4Q27E	2027E
Sales	237,553	61,038	68,733	77,056	79,986	286,813	78,552	83,138	87,424	89,783	338,898
COGS	168,647	43,219	46,410	49,957	51,010	190,596	50,215	52,130	54,183	55,510	212,038
Gross profit	68,907	17,818	22,323	27,099	28,977	96,217	28,337	31,008	33,241	34,273	126,859
Opex	24,959	6,542	7,373	7,737	7,767	29,419	7,567	7,897	8,217	8,317	31,998
Operating profit	43,948	11,276	14,950	19,362	21,210	66,798	20,770	23,111	25,024	25,956	94,861
Non-op profit	5,699	5,367	30,236	-4,623	1,677	32,656	1,768	1,768	1,768	1,768	7,074
Pre-tax profit	49,647	16,643	45,186	14,738	22,886	99,454	22,538	24,879	26,793	27,724	101,935
Income tax	8,113	527	2,962	2,137	3,319	8,945	3,493	3,856	3,885	4,020	15,255
Minority interest	182	54	36	36	36	162	36	36	36	36	144
Net Income	41,717	16,171	42,260	12,637	19,604	90,672	19,081	21,059	22,944	23,740	86,824
EPS (NT\$)	3.34	1.29	3.39	1.01	1.57	7.27	1.53	1.69	1.84	1.90	6.96
Outstanding shares	12,485	12,491	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475	12,475
Margin analysis											
Gross margin	29.0%	29.2%	32.5%	35.2%	36.2%	33.5%	36.1%	37.3%	38.0%	38.2%	37.4%
Operating margin	18.5%	18.5%	21.8%	25.1%	26.5%	23.3%	26.4%	27.8%	28.6%	28.9%	28.0%
Pre-tax margin	20.9%	27.3%	65.7%	19.1%	28.6%	34.7%	28.7%	29.9%	30.6%	30.9%	30.1%
Effective tax rate	16.3%	3.2%	6.6%	14.5%	14.5%	9.0%	15.5%	15.5%	14.5%	14.5%	15.0%
Growth (YoY%)											
Sales	2%	5%	17%	30%	29%	21%	29%	21%	13%	12%	18%
Operating profit	-15%	15%	38%	74%	73%	52%	84%	55%	29%	22%	42%
Net income	-12%	108%	375%	-16%	95%	117%	18%	-50%	82%	21%	-4%
EPS	-12%	108%	375%	-16%	95%	118%	18%	-50%	82%	21%	-4%
Product mix (%)											
Wafer	98%	95%	97%	97%	97%	108%	97%	97%	96%	96%	96%
Others	2%	5%	3%	3%	3%	-8%	3%	3%	4%	4%	4%

Sources: Company data, GF Securities (Hong Kong) Brokerage

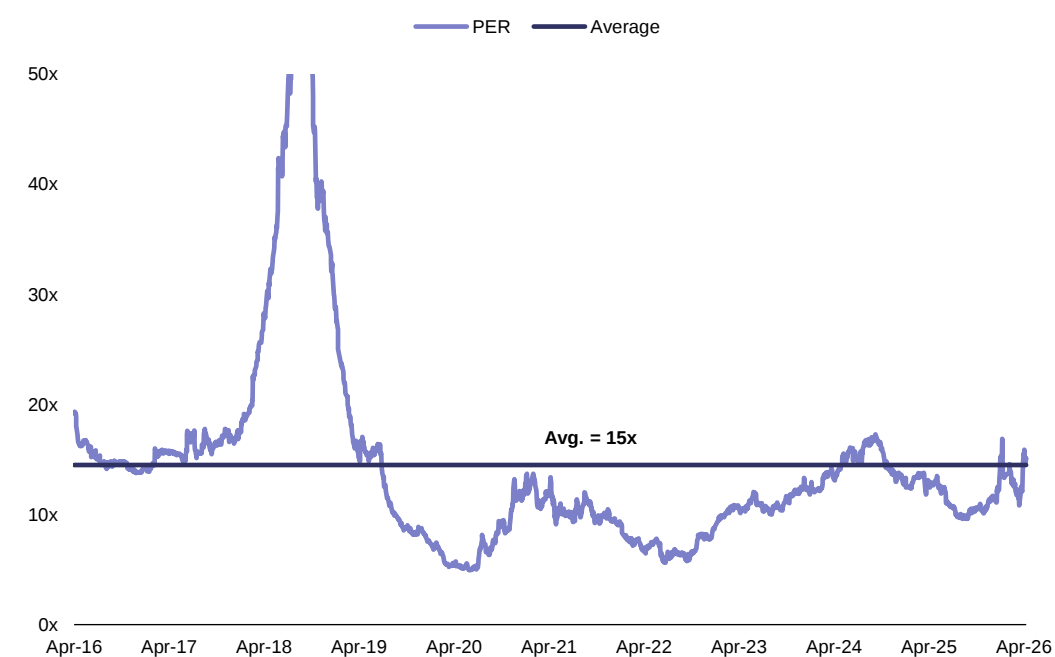
Valuation and Recommendation

Buy with TP of NT\$125

We rate UMC (2330 TT, UMC US) Buy and set our TP at NT\$125, which is based on 18x our 2027E EPS estimate from previous 20x due to recent sector de-rating. We adopt P/E methodology as we believe the market will be mainly focused on the company's earnings outlook, and its earnings volatility has reduced since 2021 due to a much more diversified application mix and specialty position. We adopt the 2027 P/E valuation is due to the improving pricing environment in the longer term. Overall, we believe the mature node industry outlook has become more favorable, and UMC's mgmt. also guided a favorable pricing environment in 2026/2027.

UMC P/E traded at an average of 15x since 2021, when the market accepted the P/E valuation. Our target price is 20% higher than the mid-cycle level, as we believe the rerating catalysts are emerging amid favorable industry supply/demand. Meanwhile, the company continued to gain AI related business (i.e., networking, silicon photonics, advanced packaging).

Figure 5: UMC's 12-month forward P/E



Sources: Company data, GF Securities (Hong Kong) Brokerage

Risks

1) Geo-political risk; 2) Demand uncertainties; 3) Competition; 4) New product delay.

Balance Sheet						NTD mn
	2023	2024	2025	2026E	2027E	
Current assets	216,797	189,678	204,783	248,279	237,853	
Cash and cash equivalents	144,882	115,239	128,365	158,889	135,137	
Inventory	35,713	35,782	37,228	42,074	46,807	
Accounts Receivable	29,586	33,343	31,274	37,759	44,616	
Other current assets	6,618	5,313	7,915	9,557	11,292	
Non-current assets	342,390	380,523	374,213	377,978	406,554	
Long-term equity investment	74,255	72,487	75,373	78,373	81,373	
Fixed assets	239,123	279,059	271,395	272,161	297,737	
Other long-term assets	29,012	28,976	27,445	27,445	27,445	
Total assets	559,187	570,201	578,996	626,257	644,407	
Current liabilities	99,015	75,260	87,598	91,881	101,170	
Accounts Payable	7,526	7,633	9,170	10,363	11,529	
Short-term borrowings	29,537	19,510	27,597	20,146	17,124	
Other current liabilities	61,952	48,117	50,831	61,372	72,517	
Non-current liabilities	99,015	75,260	87,598	91,881	101,170	
Long-term Debt	45,236	55,533	45,372	33,122	28,153	
Other non-current liabilities	55,358	61,222	66,170	66,170	66,170	
Total liabilities	199,608	192,016	199,141	191,173	195,494	
Total Equity	359,579	378,185	379,855	435,084	448,913	
Share Capital	125,298	125,607	125,882	125,882	125,882	
Additional Paid-in Capital	16,886	25,473	21,004	15,004	6,004	
Retained earnings	217,053	226,849	232,883	294,112	316,941	
Preferred Stocks	341	257	87	87	87	
Total Liabilities & Equity	559,187	570,201	578,996	626,257	644,407	

Income Statement						NTD mn
	2023	2024	2025	2026E	2027E	
Revenue	222,533	232,303	237,553	286,813	338,898	
Cost of sales	144,789	156,649	168,647	190,596	212,038	
Gross profit	77,744	75,654	68,906	96,217	126,859	
Operating Expense	19,853	24,042	24,958	29,419	31,998	
Operating profit	57,891	51,613	43,949	66,798	94,861	
Interest Income	4,853	3,670	2,279	1,506	1,874	
Interest Expense	1,483	1,679	1,602	31,297	5,200	
Net other Non-op. Income/(Loss)	9,651	2,616	5,022	-147	--	
Pre-tax profit	70,912	56,220	49,648	99,454	101,935	
Income tax	9,022	9,218	8,294	9,107	15,399	
Profit for the year	61,890	47,002	41,353	90,347	86,536	
Minority interest	-450	105	182	162	144	
Net profit to ord. equity	60,990	47,211	41,716	90,672	86,824	
EPS (NT\$)	4.9	3.8	3.3	7.3	7.0	

Cash Flow Statement						NTD mn
	2023	2024	2025	2026E	2027E	
Operating cash flow	66,689	79,970	103,286	152,068	155,333	
Profit for the year	60,990	47,211	41,716	90,672	86,824	
Depreciation & amortization	40,484	48,168	59,259	62,634	69,524	
Change in working capital	-29,645	-16,251	2,272	-1,238	-1,015	
Others	-5,140	843	39	--	--	
Investing cash flow	-97,053	-87,144	-52,988	-63,400	-95,100	
Capex	-105,899	-85,408	-48,764	-63,400	-95,100	
Change in investment	-4,267	924	-2,924	--	--	
Others	13,113	-2,660	-1,300	--	--	
Free cash flow	-39,210	-5,438	54,523	88,668	60,233	
Financing cash flow	33,508	6,135	2,874	-19,702	-7,990	
Change in Capital	-	-	-	--	--	
Net Change in Debt	27,309	271	-2,075	-19,702	-7,990	
Others	6,199	5,864	4,948	--	--	
Exchange influence	-392	3,715	-1,846	--	--	
Net increase in cash	3,144	-1,038	53,172	68,967	52,243	

Key Financial Ratios					
	2023	2024	2025	2026E	2027E
Growth (%)					
Revenue growth	-20.2	4.4	2.3	20.7	18.2
Operating profit growth	-44.5	-10.8	-14.8	52.0	42.0
Net profit growth	-18.7	-7.8	5.2	138.4	12.4
Profitability (%)					
Gross profit margin	34.9	32.6	29.0	33.5	37.4
Operating Profit Margin	26.0	22.2	18.5	23.3	28.0
Net profit margin	27.4	20.3	17.6	31.6	25.6
Key Ratio (%)					
ROA	10.9	8.3	7.2	14.5	13.5
ROE	17.0	12.5	11.0	20.8	19.3
Stability					
Gross debt/equity	0.6	0.5	0.5	0.4	0.4
Interest Coverage	45	48	64	111	146
Current Ratio	2.2	2.5	2.3	2.7	2.4
Quick Ratio	1.8	2.0	1.9	2.2	1.9
Net debt/equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Rating definitions Benchmark: Hang Seng Index (Hong Kong)

Company ratings	Buy	Stock expected to outperform benchmark by more than 10%
	Hold	Expected stock relative performance ranges between -10% and 10%
	Underperform	Stock expected to underperform benchmark by more than 10%

Sector ratings	Positive	Sector expected to outperform benchmark by more than 10%
	Neutral	Expected sector relative performance ranges between -10% and 10%
	Cautious	Sector expected to underperform benchmark by more than 10%

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