Equity Research

Company Report | Technology | July 29, 2026

Maintained **Buy**

Target price NT$125

UMC (2303 TT)

Value Enhancement Amid a Favorable Landscape

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.

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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).

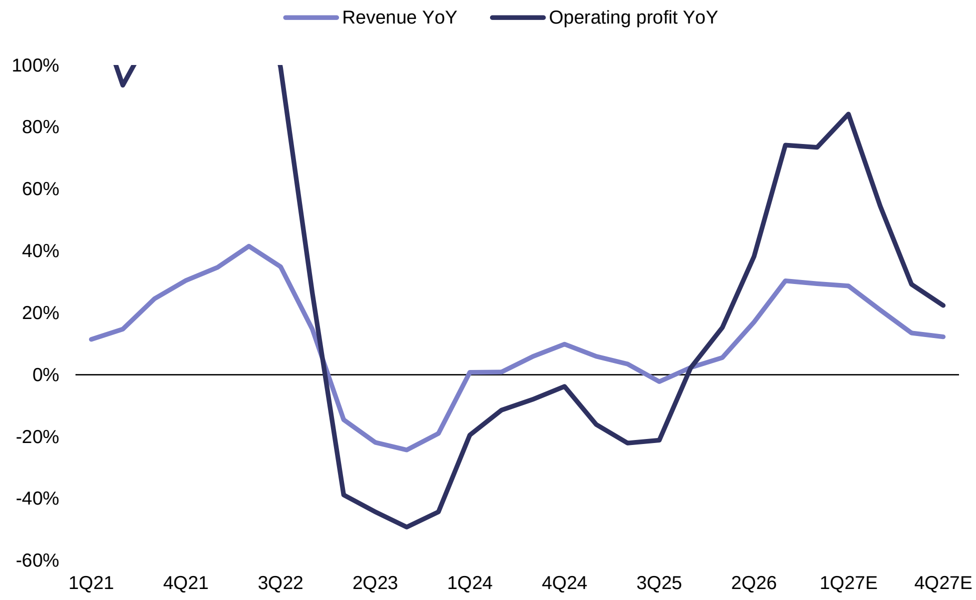
For 2026, UMC raised capex to $2bn, driven by its Singapore fab's cleanroom and the shell construction for the 12A P7/P8. The higher capex also leads to higher depreciation expenses in 2027 and 2028.

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%
			ppt.		ppt.		ppt.		ppt.
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

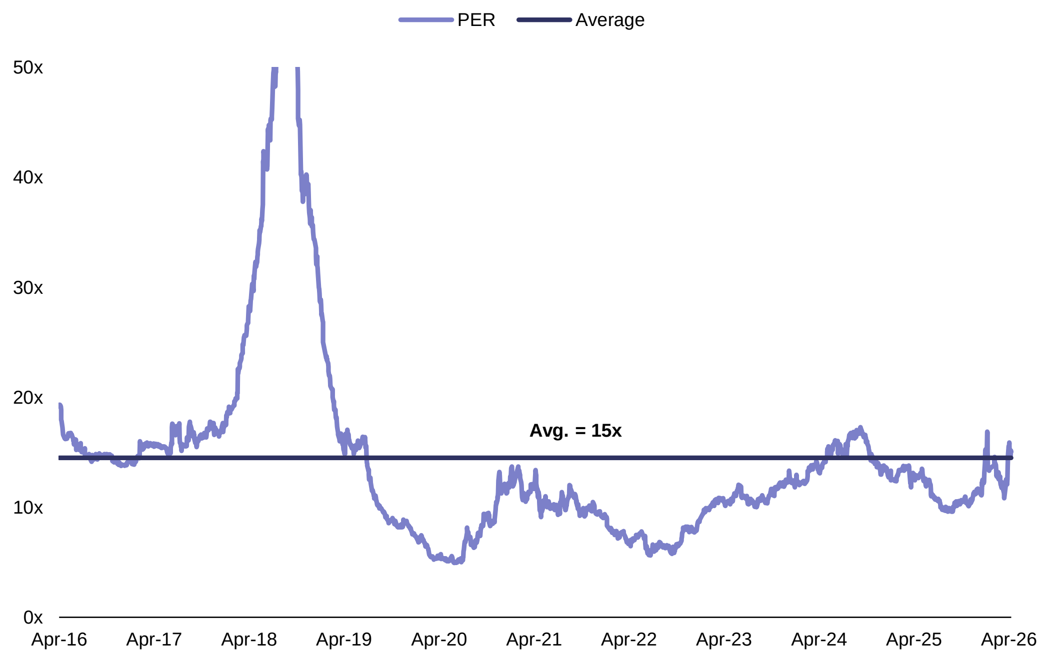
Valuation and Recommendation

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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