Morgan Stanley | RESEARCH

UPDATE

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Unimicron | Asia Pacific

2Q26 post-results briefing takeaways

Expansion of AI in the mix and solid position in EMIB-T projects signal strong long-term margin tailwinds. Stay OW.

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Key Takeaways

- Management targets 50-60% overall company GM in the longer term.
- Unimicron is one of the three substrate suppliers developing EMIB-T substrates, with initial yield targets of 50%, ramping in CY27.

AI mix and proactive pricing to drive structural margin expansion: Management provided a positive outlook for revenue growth in 2H26 and guided for q/q GM expansion in 3Q26, supported by a rise of AI products in the mix, ongoing debottlenecking efforts, and proactive pricing adjustments. Moving into 2H26, management expects AI to reach 70%+ of the ABF substrate segment mix (including AI GPUs, ASICs, CPUs, and DPUs) and 65-70% within the PCB/HDI segment, driven by AI system boards and 800G/1.6T optical module boards.

In the longer term, management views a 50-60% GM as a reasonable structural range for the company: We believe this will be driven by Unimicron's improved pricing power from being a key technology partner for all of its chip customers, providing highly complex large-sized ABF substrates, and the integration of advanced technology, such as EMIB-T, rather than solely replying with like-for-like price hikes.

EMIB-T provides longer-term visibility: EMIB-T became a focus during the Q&A session. Unimicron confirmed that EMIB-T substrate mass production is scheduled for 2027, with an initial yield target of 50% across all three suppliers, including Unimicron and 2 Japanese suppliers. Yield is something to be monitored, but management appears to view the financial risk associated with EMIB-T as highly manageable, given that customers have promised a certain level of profitability to its substrate suppliers even if yield rates do not reach 50%. Also, with the lack of interposer in an EMIB-T package, more value-added is shifting to substrate makers, so they should command more favorable profits.

Elevated capex investments support strategic capacity build-outs: Signaling strong visibility into future demand, Unimicron has raised its 2026 capex plan to NT $53.7bn. This encompasses additional investments for long lead-time equipment purchases for Kuangfu (KF) plant 2 and Yangmei (YM) plant 2. Furthermore, construction for YM plant 3 is slated to commence between the end of 2026 and early 2027 to serve strategic customers. Unimicron is also retrofitting older capacity for 1.6T optical modules, which utilize mSAP technology. This will open up in 4Q26 to capture direct demand from hyperscalers seeking alternatives to Chinese suppliers.

Unimicron (3037.TW, 3037 TT)

Greater China Technology Hardware | Taiwan

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	NT$1,465.00
Up/downside to price target (%)	113
Shr price, close (Jul 29, 2026)	NT$688.00
52-Week Range	NT$1,130.00-128.18
Sh out, dil, curr (mn)	1,505
Mkt cap, curr (mn)	US$31,992
EV, curr (mn)	US$34,352
Avg daily trading value (mn)	US$456

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	4.34	14.85	33.48	58.07
EPS (NT$)§	3.93	16.08	33.71	52.70
Revenue, net (NT$ mn)	131,241	184,755	265,117	355,074
EBITDA (NT$ mn)	26,272	45,798	84,898	131,827
ModelWare net inc (NT $ mn)	6,673	22,855	51,521	89,367
P/E	50.7	46.3	20.6	11.8
P/BV	3.2	8.4	6.3	4.5
RNOA (%)	3.7	11.3	25.6	41.9
ROE (%)	6.7	21.4	40.7	53.4
EV/EBITDA	15.8	24.2	12.7	7.8
Div yld (%)	0.7	0.3	1.0	2.2
FCF yld ratio (%)	(0.6)	2.8	7.2	10.8
Leverage (EOP) (%)	(8.6)	(31.2)	(64.3)	(86.1)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

2Q26 Results Summary

2Q results recap here: Incremental color on 2Q results from management included a NT $9.2bn financial asset revaluation gain, a NT$40mn FX loss, a NT$1.37bn asset impairment loss, a NT$560mn gain on disposal of a non-current asset classified as held for sale, and net interest income of NT$220mnM.

Management attributed the sequential increase in 2Q GM primarily to like-for-like price hikes, as well as higher utilization rates, better product mix, improved yield rates, and lower inventories write-off impacts.

Exhibit 1: Unimicron: 2Q26 Results Summary

Year to Dec. 31 (NT$ mn)	Actual 2Q26	Q/Q	Y/Y	MS Est. 2Q26E	Diff. %	Consensus 2Q26E	Diff. %
P&L Summary							
Net sales	**42,890**	**15%**	**32%**	**42,509**	**1%**	**42,264**	**1%**
COGS	(32,252)			(33,108)		(32,970)	
Gross profit	**10,638**	**58%**	**151%**	**9,402**	**13%**	**9,294**	**14%**
Operating expenses	(3,987)			(4,272)		(3,858)	
Operating income	**6,651**	**141%**	**341%**	**5,130**	**30%**	**5,436**	**22%**
Non-operating income	8,925			491		1,417	
Pre-tax income	**15,576**	**147%**	**4266%**	**5,620**	**177%**	**6,853**	**127%**
Net income	**13,115**	**160%**	**44197%**	**3,877**	**238%**	**5,174**	**153%**
EPS (NT$)	**8.45**			**2.50**		**3.33**	
Margins		**ppt**	**ppt**		**ppt**		**ppt**
Gross margin	24.8%	6.8%	11.7%	22.1%	2.7%	22.0%	2.8%
Operating margin	15.5%	8.1%	10.9%	12.1%	3.4%	12.9%	2.6%
Pretax margin	36.3%	19.5%	35.2%	13.2%	23.1%	16.2%	20.1%
Net margin	30.6%	17.1%	30.5%	9.1%	21.5%	12.2%	18.3%

Source: Company data, Visible Alpha, Morgan Stanley Research estimates

Other key takeaways from the meeting

Glass (core) substrate: Unimicron is currently engaging with 2-3 customers for glass core substrates across the supply chain. However, management noted that mass production for glass core technology will not occur until at least 2030, emphasizing that it will coexist with – rather than completely replace – organic core substrates.

Capacity retrofitting: To optimize its manufacturing footprint, Unimicron is actively retrofitting its legacy ABF and BT facilities to enhance high-end production capabilities. Management noted that repurposing these plants to support advanced ABF production will take approximately 1-1.5 years to ramp fully.

BT substrate updates: Unimicron's BT substrate business is currently in a transitional phase, with internal resources being reallocated toward higher-end products while deliberately de-prioritizing consumer electronics applications. However, the company will retain some BT capacity for some legacy products with strong demand and decent margins, such as memory controller IC.

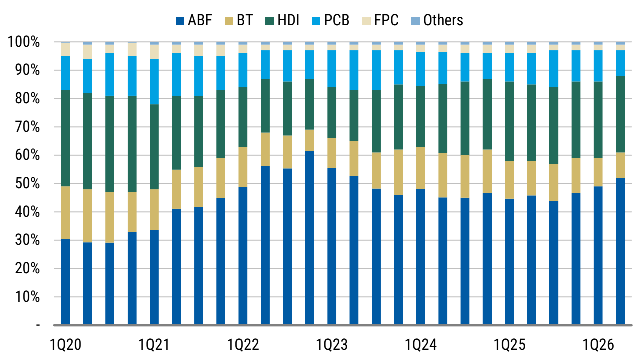
PCB/HDI updates: Unimicron is strategically avoiding head-to-head capacity and pricing competition with Chinese suppliers, which are generally more aggressive in capacity expansion. Instead, the company is shifting its focus toward capturing the Out-of-China demand by leveraging its production sites in Taiwan and Thailand.

More on EMIB-T: Management said key equipment for EMIB-T is currently being centrally allocated among the three substrate suppliers, with Unimicron securing roughly one-third of the total allocations. To mitigate uncertainties surrounding exact delivery schedules, the company is actively seeking secondary suppliers for these critical tools as well.

Key materials updates: Unimicron's progress on material diversification remains smooth, with new T glass and CCL suppliers successfully passing qualifications. These alternative materials have already been in production for six months now and will initially be adopted for legacy/lower-end products, which should help alleviate broader supply constraints while prioritizing top-tier materials for AI applications.

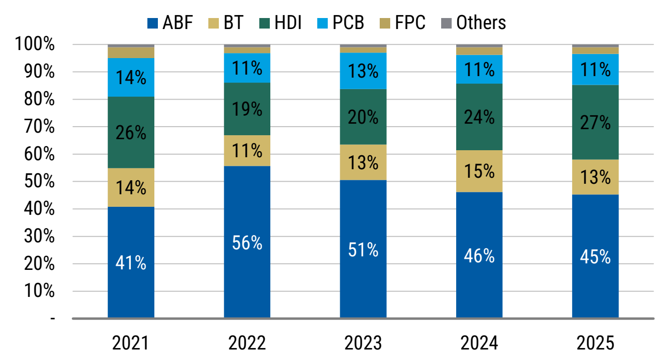
2Q utilization rates: ABF 90%+, BT 80-85%, PCB & HDI 85-90%.

Exhibit 2: Revenue mix, by technology (quarterly)



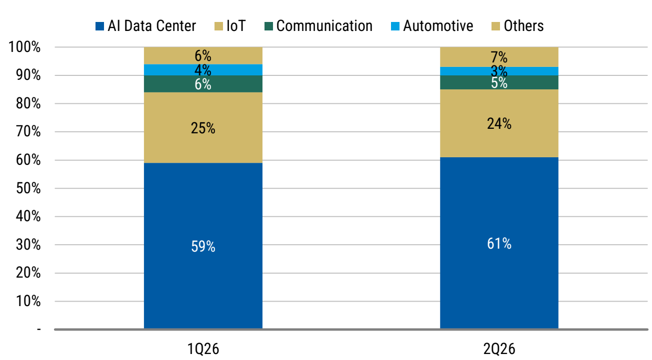
Source: Company data, Morgan Stanley Research.

Exhibit 3: Revenue mix, by technology (annual)



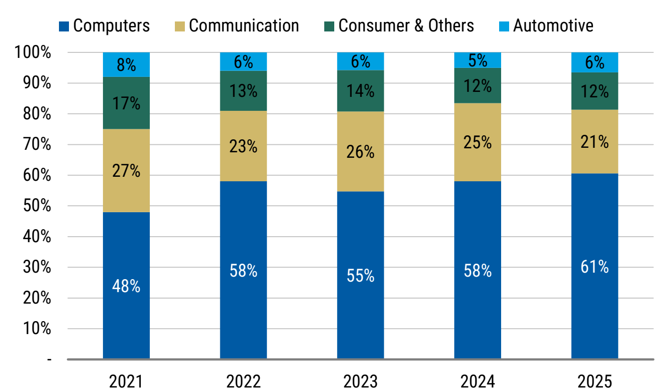
Source: Company data, Morgan Stanley Research.

Exhibit 4: Revenue mix, by new end segment (quarterly)



Source: Company data, Morgan Stanley Research.

Exhibit 5: Revenue mix, by end segment (annual)



Source: Company data, Morgan Stanley Research.

Valuation Methodology and Risks

Unimicron (3037.TW)

Base case, residual income (RI) valuation model, which we think derives the most accurate value of the firm given that it takes into account cost of equity. We use a cost of equity of 9.2% [risk-free rate of 1% (10-year Taiwan government note yield), equity risk premium of 8.7%, and a beta of 1.0], a medium-term growth rate of 15%, and a terminal growth rate of 3%.

Risks to Upside

- Better-than-expected ABF substrate demand from PC and server customers
- Capex cuts; halt to its capacity expansion plan
- Continued yield issues of alternative technology that doesn't require substrate (e.g., CoWoP)

Risks to Downside

- Sudden demand shortfall
- Technological change that would not require ABF substrates
- Intensifying competition
- Yield issues or production hiccups when ramping new capacity

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(as of June 30, 2026)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

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Unimicron (3037.TW) - As of 07/29/26 GMT in TWD
Industry : Greater China Technology Hardware

Stock Rating History: 7/1/21 : NA/I; 10/22/21 : O/I; 6/1/22 : E/I; 2/22/23 : U/I; 4/15/25 : E/I; 2/23/26 : O/I

Price Target History: 10/22/21 : 188.06; 10/27/21 : 237.55; 2/9/22 : 267.24; 2/24/22 : 366.22; 6/1/22 : 237.55; 8/23/22 : 178.16; 10/27/22 : 133.62; 12/21/22 : 123.72; 2/2/23 : 116.79; 2/22/23 : 98.98; 6/7/23 : 138.57; 11/7/23 : 125.7; 1/24/24 : 118.77; 4/15/25 : 81.66; 7/30/25 : 120.75; 2/23/26 : 500; 2/26/26 : 550; 4/20/26 : 785; 5/18/26 : 1225; 6/12/26 : 1285; 7/7/26 : 1465

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
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INDUSTRY COVERAGE: Greater China Technology Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/29/2026)
Andy Meng, CFA		
AAC Technologies Holdings (2018.HK)	O (01/29/2024)	HK$39.24
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb169.26
BYD Electronics (0285.HK)	O (04/28/2023)	HK$24.60
China TransInfo Technology Co Ltd (002373.SZ)	E (07/18/2023)	Rmb7.65
Dahua Technology Co. Ltd. (002236.SZ)	E (12/12/2024)	Rmb16.42
Eoptolink Technology Inc Ltd (300502.SZ)	O (02/27/2026)	Rmb421.20
Genius Electronic Optical Co. Ltd. (3406.TW)	E (04/23/2025)	NT$466.50
GoerTek Inc (002241.SZ)	U (04/23/2025)	Rmb23.69
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb4.56
HIKVision Digital Technology (002415.SZ)	E (12/12/2024)	Rmb35.74
Largan Precision (3008.TW)	O (07/10/2026)	NT$3,850.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	U (06/12/2024)	Rmb7.23
Lingyi Itech Guangdong Co (002600.SZ)	U (04/23/2025)	Rmb12.23
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb62.35
OFILM Group Co Ltd (002456.SZ)	U (06/12/2024)	Rmb7.05
Q Technology (Group) Company Ltd (1478.HK)	U (03/23/2026)	HK$7.01
Quectel Wireless Solutions Co Ltd (603236.SS)	E (10/09/2024)	Rmb50.46
Shanghai Conant Optical Co Ltd (2276.HK)	O (04/10/2026)	HK$29.48
Shenzhen Transsion Holdings Co Ltd (688036.SS)	E (03/23/2026)	Rmb65.69
Sunny Optical (2382.HK)	E (03/23/2026)	HK$61.20
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	E (11/06/2025)	Rmb182.09
Wingtech Technology Co Ltd (600745.SS)	U (05/18/2026)	Rmb16.70
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK$31.88
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb281.70
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (07/15/2026)	HK$102.80

Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb93.06
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb26.35
Zhongji Innolight Co Ltd (300308.SZ)	++	Rmb951.00
ZTE Corporation (0763.HK)	O (06/04/2026)	HK$25.08
ZTE Corporation (000063.SZ)	E (06/04/2026)	Rmb34.08
Derrick Yang		
Accton Technology Corporation (2345.TW)	O (06/06/2024)	NT$1,910.00
Advantech (2395.TW)	O (01/20/2021)	NT$550.00
AirTAC International (1590.TW)	O (04/16/2025)	NT$1,325.00
Asia Vital Components Co. Ltd. (3017.TW)	O (07/30/2024)	NT$2,095.00
AU Optronics (2409.TW)	E (02/10/2026)	NT$23.65
Auras Technology Co Ltd (3324.TWO)	E (05/04/2023)	NT$855.00
Bizlink (3665.TW)	O (03/10/2025)	NT$2,090.00
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb5.71
Chenbro (8210.TW)	O (07/23/2025)	NT$981.00
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT$1,835.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT$1,495.00
E Ink Holdings Inc. (8069.TWO)	O (05/11/2026)	NT$179.00
Ennostar Inc (3714.TW)	U (09/23/2022)	NT$46.10
Fositek Corp (6805.TW)	O (06/25/2025)	NT$1,265.00
Hiwin Technologies Corp. (2049.TW)	O (03/30/2026)	NT$290.50
Innolux (3481.TW)	E (04/07/2025)	NT$41.80
King Slide Works Co. Ltd. (2059.TW)	O (11/08/2023)	NT$7,145.00
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb33.39
Lite-On Technology (2301.TW)	E (01/15/2025)	NT$185.00
TCL Corp. (000100.SZ)	E (04/07/2025)	Rmb4.93
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb6.57
Wuhan Jingce Electronic Group Co Ltd (300567.SZ)	E (11/26/2021)	Rmb199.00
Howard Kao		
Acer Inc. (2353.TW)	U (04/23/2025)	NT$28.65
Asustek Computer Inc. (2357.TW)	U (11/16/2025)	NT$761.00
Catcher Technology (2474.TW)	U (11/17/2025)	NT$180.50
Compal Electronics (2324.TW)	U (04/23/2025)	NT$34.85
FIT Hon Teng Ltd (6088.HK)	O (11/03/2025)	HK$4.85
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb57.75
Giga-Byte Technology Co. Ltd. (2376.TW)	E (11/16/2025)	NT$321.50
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT$729.00
Hon Hai Precision (2317.TW)	O (03/15/2024)	NT$237.00
Inspur Electronic Information (000977.SZ)	E (08/28/2023)	Rmb74.94
LandMark Optoelectronics Corporation (3081.TWO)	E (03/26/2026)	NT$1,540.00
Lenovo (0992.HK)	O (07/10/2026)	HK$22.98
Lotes Co. Ltd. (3533.TW)	E (05/12/2025)	NT$1,725.00
Nan Ya PCB (8046.TW)	O (02/23/2026)	NT$879.00
Pegatron Corporation (4938.TW)	E (03/25/2026)	NT$82.00
Quanta Computer Inc. (2382.TW)	O (05/01/2023)	NT$309.50
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb108.18
Shennan Circuits Co Ltd (002916.SZ)	E (08/24/2023)	Rmb316.01
Unimicron (3037.TW)	O (02/23/2026)	NT$688.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (09/11/2023)	NT$272.50
Wistron Corporation (3231.TW)	O (07/12/2023)	NT$169.50
Wiwynn Corp (6669.TW)	O (11/10/2025)	NT$5,135.00
Yageo Corp. (2327.TW)	O (10/28/2025)	NT$507.00
Zhen Ding (4958.TW)	O (05/18/2026)	NT$404.50

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* Historical prices are not split adjusted.