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Unimicron | Asia Pacific

3Q26 GM beat MSe/Street; stay OW

AlphaSignals Earnings Reaction

Unchanged	**Modest upside**	**Modest revision higher**
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Key Takeaways

- 3Q GM at 28.8% (+400bps q/q) is 120bps/150bps above MSe/Street, but slightly below buy-side expectation of ~30%.
- 3Q non-op gain of ~NT$2.6B is above MSe/Street, and above buy-side expectation of non-op losses, leading to NP of ~NT$10.1B or ~NT$6.41 EPS.
- We view the divestiture of UMJ positively, in-line with Unimicron's long-term strategy to focus on higher-end, more profitable businesses.
- The stock trades at ~14x 2028 P/E, undemanding versus its 5-year average of ~21x.

Divestiture of Unimicron Japan (UMJ): Unimicron to divest 100% of UMJ to Meiko Electronics (6787.T, covered by Sota Harashima). According to Meiko's filing (link), the share purchase agreement is targeted for December 2026 and the business handover for April 2027. The price has not been disclosed. UMJ is a niche specialty PCB maker with no IC substrate exposure. In F3/26, it reported revenue of JPY 8.0B, an operating loss of JPY 594M, and a loss per share of JPY 16,628.

Capex: Unimicron announced an additional NT$50.9B investment in long-lead-time equipment, raising the total to ~NT$82.6B, spanning beyond 2027.

Our view: We view the results as modestly negative, as buy-side investors are likely to place greater emphasis on GM than on non-operating performance. That said, this appears to reflect an expectations mismatch rather than any structural concern, with GM continuing to expand meaningfully, up 400bps q/q. We continue to like all ABF substrate names in our coverage, but prefer Unimicron given its more proactive expansion plans over the next ~5 years, which should help it gain share from competitors.

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Unimicron (3037.TW, 3037 TT)

Greater China Technology Hardware | Taiwan

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	NT$1,775.00
Up/downside to price target (%)	67
Shr price, close (Oct 27, 2026)	NT$1,060.00
52-Week Range	NT$1,420.00-156.38
Sh out, dil, curr (mn)	1,505
Mkt cap, curr (mn)	US$48,966
EV, curr (mn)	US$51,311
Avg daily trading value (mn)	US$628

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	4.34	23.99	43.46	74.32
EPS (NT$)§	3.93	22.47	42.04	70.11
Revenue, net (NT$ mn)	131,241	189,806	279,618	381,382
EBITDA (NT$ mn)	26,272	53,346	103,138	162,370
ModelWare net inc (NT $ mn)	6,673	36,923	66,887	114,374
P/E	50.7	44.2	24.4	14.3
P/BV	3.2	11.6	8.6	6.0
RNOA (%)	3.7	15.1	32.5	52.3
ROE (%)	6.7	34.5	47.6	60.1
EV/EBITDA	15.8	31.0	15.7	9.6
Div yld (%)	0.7	0.2	1.0	1.9
FCF yld ratio (%)	(0.6)	2.2	5.6	8.6
Leverage (EOP) (%)	(8.6)	(38.0)	(68.5)	(88.3)

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

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Exhibit 1: Unimicron 3Q26 Results

Year to Dec. 31 (NT$ mn)	Actual	Q/Q	Y/Y	MS Est.	Diff. %	Consensus	Diff. %
	3Q26E			3Q26E		3Q26E	
P&L Summary							
Net sales	**52,650**	**23%**	**55%**	**52,104**	**1%**	**49,333**	**7%**
COGS	(37,460)			(37,714)		(35,839)	
Gross profit	**15,189**	**43%**	**234%**	**14,390**	**6%**	**13,494**	**13%**
Operating expenses	(4,662)			(4,279)		(4,266)	
Operating income	**10,528**	**58%**	**587%**	**10,110**	**4%**	**9,228**	**14%**
Non-operating income	2,636			661		(1,495)	
Pre-tax income	**13,163**	**-15%**	**347%**	**10,771**	**22%**	**7,733**	**70%**
Net income	**10,052**	**-23%**	**358%**	**8,174**	**23%**	**5,972**	**68%**
EPS (NT$)	**6.41**			**5.21**		**3.81**	
Margins		**ppt**	**ppt**		**ppt**		**ppt**
Gross margin	28.8%	4.0%	15.5%	27.6%	1.2%	27.4%	1.5%
Operating margin	20.0%	4.5%	15.5%	19.4%	0.6%	18.7%	1.3%
Pretax margin	25.0%	-11.3%	16.3%	20.7%	4.3%	15.7%	9.3%
Net margin	19.1%	-11.5%	12.6%	15.7%	3.4%	12.1%	7.0%

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

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 14%, 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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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

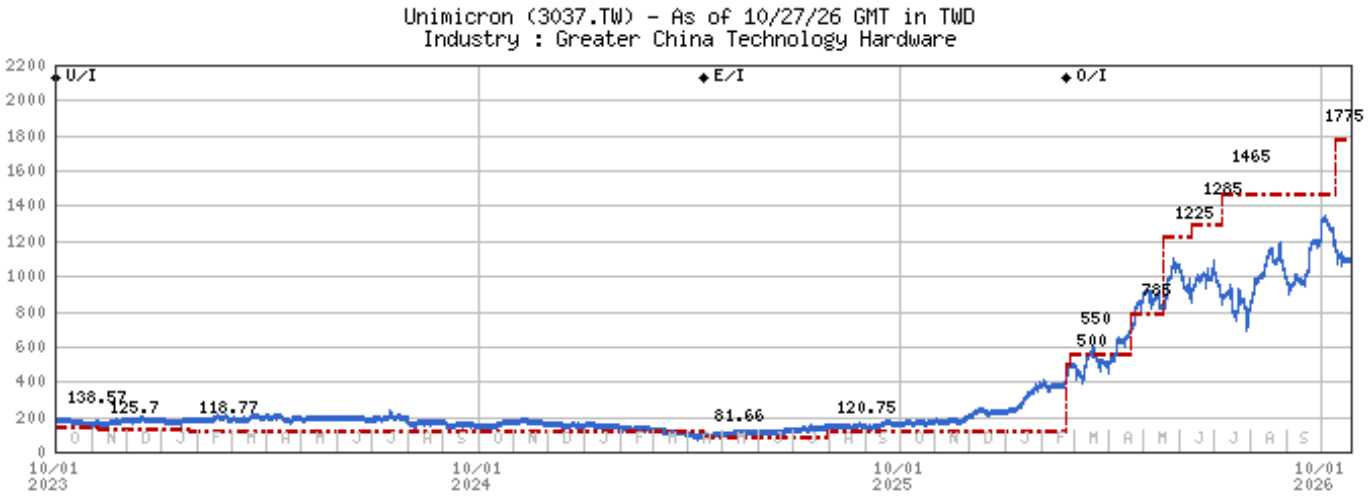
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Stock Rating History: 10/1/21 : NA/I; 10/22/21 : O/I; 6/1/22 : E/I; 2/22/23 : U/I; 4/15/25 : E/I; 2/23/26 : O/I

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; 10/14/26 : 1775

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* (10/27/2026)
Andy Meng, CFA		
AAC Technologies Holdings (2018.HK)	O (01/29/2024)	HK$35.20
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb119.97
BYD Electronics (0285.HK)	O (04/28/2023)	HK$21.98
China TransInfo Technology Co Ltd (002373.SZ)	E (07/18/2023)	Rmb7.99
Dahua Technology Co. Ltd. (002236.SZ)	E (12/12/2024)	Rmb14.54
Eoptolink Technology Inc Ltd (300502.SZ)	O (02/27/2026)	Rmb237.59
Genius Electronic Optical Co. Ltd. (3406.TW)	E (10/13/2026)	NT$1,210.00
GoerTek Inc (002241.SZ)	E (08/14/2026)	Rmb23.11
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb4.25
HIKVision Digital Technology (002415.SZ)	E (12/12/2024)	Rmb34.25
Largan Precision (3008.TW)	O (10/13/2026)	NT$6,000.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	U (06/12/2024)	Rmb5.58
Lingyi Itech Guangdong Co (002600.SZ)	U (04/23/2025)	Rmb11.35
Lingyi Itech Guangdong Co (1688.HK)	O (08/14/2026)	HK$4.78
Luxshare Precision Industry Co., Ltd. (2475.HK)	O (08/14/2026)	HK$48.20
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb48.80
OFILM Group Co Ltd (002456.SZ)	U (06/12/2024)	Rmb6.23
Q Technology (Group) Company Ltd (1478.HK)	U (03/23/2026)	HK$4.61
Quectel Wireless Solutions Co Ltd (603236.SS)	E (10/09/2024)	Rmb70.72
Shanghai Conant Optical Co Ltd (2276.HK)	O (04/10/2026)	HK$34.36
Shenzhen Transsion Holdings Co Ltd (688036.SS)	E (03/23/2026)	Rmb54.99
Sunny Optical (2382.HK)	E (03/23/2026)	HK$63.35
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	E (11/06/2025)	Rmb188.62

Wingtech Technology Co Ltd (600745.SS)	U (05/18/2026)	Rmb10.50
Xiaomi Corp (1810.HK)	O (04/14/2021)	HK$25.66
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb289.51
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (07/15/2026)	HK$103.70
Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb95.18
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb21.44
Zhongji Innolight Co Ltd (300308.SZ)	O (09/07/2026)	Rmb577.00
Zhongji Innolight Co Ltd (3308.HK)	O (09/07/2026)	HK$725.00
ZTE Corporation (0763.HK)	O (06/04/2026)	HK$19.94
ZTE Corporation (000063.SZ)	E (06/04/2026)	Rmb28.33
Derrick Yang		
Accton Technology Corporation (2345.TW)	O (06/06/2024)	NT$1,760.00
Advantech (2395.TW)	O (01/20/2021)	NT$687.00
AirTAC International (1590.TW)	O (04/16/2025)	NT$1,140.00
Asia Vital Components Co. Ltd. (3017.TW)	O (07/30/2024)	NT$3,130.00
AU Optronics (2409.TW)	E (02/10/2026)	NT$33.45
Auras Technology Co Ltd (3324.TWO)	E (05/04/2023)	NT$1,335.00
Bizlink (3665.TW)	O (03/10/2025)	NT$1,735.00
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb4.73
Chenbro (8210.TW)	O (07/23/2025)	NT$775.00
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT$1,955.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT$1,510.00
E Ink Holdings Inc. (8069.TWO)	E (08/10/2026)	NT$157.00
Ennostar Inc (3714.TW)	U (09/23/2022)	NT$61.90
Fositek Corp (6805.TW)	O (06/25/2025)	NT$2,250.00
Hiwin Technologies Corp. (2049.TW)	O (03/30/2026)	NT$328.50
Innolux (3481.TW)	E (04/07/2025)	NT$46.25
King Slide Works Co. Ltd. (2059.TW)	O (11/08/2023)	NT$9,810.00
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb26.58
Lite-On Technology (2301.TW)	E (01/15/2025)	NT$252.50
TCL Corp. (000100.SZ)	E (04/07/2025)	Rmb4.43
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb5.75
Howard Kao		
Acer Inc. (2353.TW)	U (04/23/2025)	NT$33.15
Asustek Computer Inc. (2357.TW)	U (11/16/2025)	NT$967.00
Catcher Technology (2474.TW)	U (11/17/2025)	NT$198.00
Compal Electronics (2324.TW)	U (04/23/2025)	NT$37.60
Elite Material Co. (2383.TW)	O (09/14/2026)	NT$4,750.00
FIT Hon Teng Ltd (6088.HK)	O (11/03/2025)	HK$3.56
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb45.92
Giga-Byte Technology Co. Ltd. (2376.TW)	E (11/16/2025)	NT$357.50
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT$1,080.00
Hon Hai Precision (2317.TW)	O (03/15/2024)	NT$247.50
Inspur Electronic Information (000977.SZ)	E (08/28/2023)	Rmb54.84
Kingboard Laminates Holdings Ltd. (1888.HK)	O (09/14/2026)	HK$37.22
LandMark Optoelectronics Corporation (3081.TWO)	E (03/26/2026)	NT$2,500.00
Lenovo (0992.HK)	O (07/10/2026)	HK$22.38
Lotes Co. Ltd. (3533.TW)	O (10/27/2026)	NT$1,925.00
Nan Ya PCB (8046.TW)	O (02/23/2026)	NT$1,255.00
Pegatron Corporation (4938.TW)	E (03/25/2026)	NT$105.00
Quanta Computer Inc. (2382.TW)	O (05/01/2023)	NT$327.50
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb97.61
Shennan Circuits Co Ltd (002916.SZ)	E (08/24/2023)	Rmb260.01
Unimicron (3037.TW)	O (02/23/2026)	NT$1,060.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (09/11/2023)	NT$466.00

Wistron Corporation (3231.TW)	O (07/12/2023)	NT$190.50
Wiwynn Corp (6669.TW)	O (11/10/2025)	NT$1,950.00
Yageo Corp. (2327.TW)	O (10/28/2025)	NT$521.00
Zhen Ding (4958.TW)	++	NT$520.00
Irene Yen		
Co-Tech Development Corp. (8358.TWO)	O (09/14/2026)	NT$420.50
Taiwan Union Technology Corporation (6274.TWO)	O (09/14/2026)	NT$1,280.00

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