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UPDATE

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Innolux | Asia Pacific

Modest Margin Expansion in 2Q26 Well Expected

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AlphaSignals Earnings Reaction

Unchanged	Modest shortfall	Modest revision lower
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Core business will soften in 2H26 and the overly hyped glass opportunities in advanced packaging should come in 2028 at the earliest. At the current valuation of 1.7x 2027e P/B, we see risk/ reward as uncompelling. Stay EW.

2Q details:

- Off revenue of NT$63,700mn (-4% QoQ/+13% YoY), GM improved 0.1ppt QoQ, to 14.6%, largely in line with our estimate at 14.7% and consensus at 14.6%.
- With opex of NT$7,642mn (opex ratio 12.0%), operating profit came in at NT $1,633mn (OPM 2.6%), short of our NT$2,360mn estimate (OPM 3.6%) but surpassing consensus of NT$1,452mn (OPM 2.1%).
- With narrower non-op gains of NT$173mn, NP was NT$4,532mn (EPS NT $0.57) vs. our estimate at NT$5,486mn (EPS NT$0.69) and consensus at NT $16,671mn (EPS NT$2.09).

Looking into 3Q26 revenue guidance:

- Commodity displays (47% of 2Q26 revenue mix) to be down in high single digits (%) QoQ;
- Non-commodity displays (13% of 2Q26 revenue mix) to be flat QoQ; and
- Non-display (40% of 2Q26 revenue mix) to be flat QoQ.

Our view:

- We think the guidance is pointing to a below seasonal 3Q26. The commodity segment has seen earlier restocking in 1H26 and the automobile demand outlook appears lackluster.
- In its advanced packaging business, Innolux is one of the most aggressive players among panel makers. It is currently involved in one foundry player's glass core substrate project, where the proof of concept is completed and more verifications are undergoing now. That said, we maintain the view that mass production is likely from 2028 at the earliest and there might be more suppliers joining at that stage.
- At current valuation of 1.7x 2027e P/B, we view risk/reward as uncompelling.

Innolux (3481.TW, 3481 TT)

Greater China Technology Hardware | Taiwan

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	NT$60.00
Up/downside to price target (%)	20
Shr price, close (Aug 14, 2026)	NT$50.10
52-Week Range	NT$72.60-12.10
Sh out, dil, curr (mn)	7,985
Mkt cap, curr (mn)	NT$400,055
EV, curr (mn)	NT$384,248
Avg daily trading value (mn)	NT$9,598

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	0.03	1.57	1.67	3.07
EPS (NT$)§	(0.09)	0.74	1.09	1.79
Revenue, net (NT$ bn)	226.7	264.3	278.8	316.4
EBITDA (NT$ bn)	27.1	39.3	43.0	55.1
ModelWare net inc (NT $ bn)	0.2	12.5	13.3	24.5
P/E	545.1	31.9	30.0	16.3
P/BV	0.6	1.7	1.7	1.6
RNOA (%)	(0.9)	3.0	4.9	10.3
ROE (%)	0.1	5.6	5.7	10.3
EV/EBITDA	4.4	9.0	7.8	5.6
Div yld (%)	2.9	1.6	1.7	3.1
FCF yld ratio (%)	(13.8)	7.4	4.8	7.3
Leverage (EOP) (%)	(13.6)	(26.8)	(32.8)	(40.8)

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

Exhibit

Exhibit 1: Innolux: Results summary

	2Q26E results						
NT$mn	**Actual**	**QoQ**	**YoY**	**MS est.**	**Variance**	**Cons**	**Variance**
Net sales	**63,700**	**-4%**	**13%**	**66,412**	**-4%**	**67,652**	**-6%**
COGS	-54,424	-5%	6%	-56,681	-4%	-57,802	-6%
Gross profit	**9,275**	**-4%**	**97%**	**9,731**	**-5%**	**9,850**	**-6%**
Operating expenses	-7,642	-6%	39%	-7,372	4%	-8,398	10%
Operating income	**1,633**	**9%**	**-310%**	**2,360**	**-31%**	**1,452**	**12%**
Non-operating income	173	-81%	-29%	3,420	-95%	17,171	-99%
Pre-tax income	1,806	-25%	-438%	5,780	-69%	18,623	-90%
Net income	**4,532**	**178%**	**-696%**	**5,486**	**-17%**	**16,671**	**-73%**
EPS (NT$)	**0.57**	**178%**	**-696%**	**0.69**	**-17%**	**2.09**	**-73%**
Margins (%)		***ppt***	***ppt***		***ppt***		***ppt***
Gross margin	14.6%	0.1	6.2	14.7%	-0.1	14.6%	0.0
Operating margin	2.6%	0.3	3.9	3.6%	-1.0	2.1%	0.4
Pre-tax margin	2.8%	-0.8	3.8	8.7%	-5.9	27.5%	-24.7
Net margin	7.1%	4.7	8.5	8.3%	-1.1	24.6%	-17.5

Source: Company data, FactSet consensus, Morgan Stanley Research estimates

Valuation Methodology and Risks

Innolux (3481.TW)

Base case, 2.1x 2026e P/B. We use price/book value as our methodology because we believe it better reflects Innolux's intrinsic value, in view of the industry's relatively cyclical nature. Innolux has generally traded at an average of 0.6x P/B, but the stock has re-rated from the FOPLP/advanced packaging angle, We view 2.1x as justified because we see do not see semi contribution kicking in until 2028.

Risks to Upside

- More panel price hikes amid slower ramps of Chinese players
- Higher contribution from assembly business
- Stronger TV/IT demand recovery
- Faster progress on semi businesses

Risks to Downside

- Macro demand slowdown
- Fiercer competition from Chinese panel makers
- Faster OLED panel adoptions in large size applications
- Slower progress on semi businesses

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(as of July 31, 2026)

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Equal-weight/Hold	1582	43%	396	42%	25%	773	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	560	15%	97	10%	17%	217	12%
Total	3,674		936			1741	

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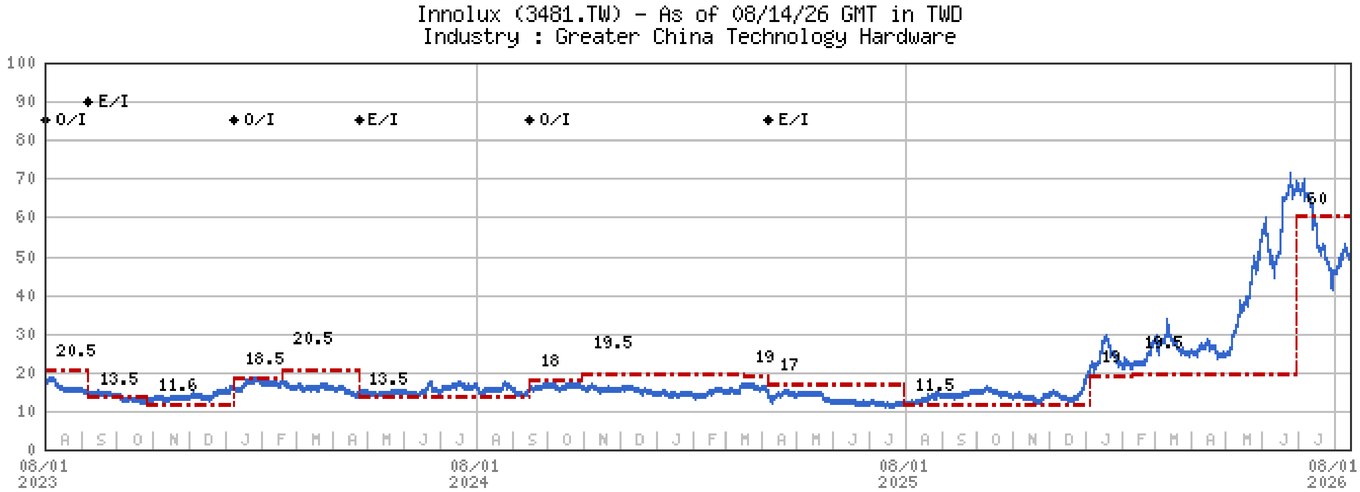

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INDUSTRY COVERAGE: Greater China Technology Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/14/2026)
Andy Meng, CFA		
AAC Technologies Holdings (2018.HK)	O (01/29/2024)	HK$42.90
Accelink Technologies Co. Ltd. (002281.SZ)	U (05/12/2022)	Rmb191.52
BYD Electronics (0285.HK)	O (04/28/2023)	HK$23.68
China TransInfo Technology Co Ltd (002373.SZ)	E (07/18/2023)	Rmb7.77
Dahua Technology Co. Ltd. (002236.SZ)	E (12/12/2024)	Rmb16.47
Eoptolink Technology Inc Ltd (300502.SZ)	O (02/27/2026)	Rmb448.08
Genius Electronic Optical Co. Ltd. (3406.TW)	E (04/23/2025)	NT$615.00
GoerTek Inc (002241.SZ)	E (08/14/2026)	Rmb21.88
Gosuncn Technology Group Co Ltd (300098.SZ)	U (11/07/2022)	Rmb4.64
HIKVision Digital Technology (002415.SZ)	E (12/12/2024)	Rmb34.88
Largan Precision (3008.TW)	O (07/10/2026)	NT$4,610.00
LianChuang Electronic Technology Co Ltd (002036.SZ)	U (06/12/2024)	Rmb7.00
Lingyi Itech Guangdong Co (002600.SZ)	U (04/23/2025)	Rmb12.69
Lingyi Itech Guangdong Co (1688.HK)	O (08/14/2026)	HK$6.41
Luxshare Precision Industry Co., Ltd. (2475.HK)	O (08/14/2026)	HK$60.40
Luxshare Precision Industry Co., Ltd. (002475.SZ)	O (10/24/2016)	Rmb56.58
OFILM Group Co Ltd (002456.SZ)	U (06/12/2024)	Rmb7.27
Q Technology (Group) Company Ltd (1478.HK)	U (03/23/2026)	HK$6.88
Quectel Wireless Solutions Co Ltd (603236.SS)	E (10/09/2024)	Rmb60.69
Shanghai Conant Optical Co Ltd (2276.HK)	O (04/10/2026)	HK$38.26
Shenzhen Transsion Holdings Co Ltd (688036.SS)	E (03/23/2026)	Rmb55.02
Sunny Optical (2382.HK)	E (03/23/2026)	HK$58.75
Suzhou TFC Optical Communication Co Ltd. (300394.SZ)	E (11/06/2025)	Rmb267.71
Wingtech Technology Co Ltd (600745.SS)	U (05/18/2026)	Rmb17.46

Xiaomi Corp (1810.HK)	O (04/14/2021)	HK$25.62
Yangtze Optical Fibre and Cable JSC Ltd (601869.SS)	U (10/13/2021)	Rmb355.18
Yangtze Optical Fibre and Cable JSC Ltd (6869.HK)	O (07/15/2026)	HK$132.20
Yongxin Optics Co Ltd (603297.SS)	E (11/15/2022)	Rmb106.08
Zhejiang Crystal-Optech Co Ltd (002273.SZ)	O (11/15/2022)	Rmb27.62
Zhongji Innolight Co Ltd (300308.SZ)	++	Rmb943.00
ZTE Corporation (0763.HK)	O (06/04/2026)	HK$25.02
ZTE Corporation (000063.SZ)	E (06/04/2026)	Rmb35.05
Derrick Yang		
Accton Technology Corporation (2345.TW)	O (06/06/2024)	NT$2,300.00
Advantech (2395.TW)	O (01/20/2021)	NT$683.00
AirTAC International (1590.TW)	O (04/16/2025)	NT$1,460.00
Asia Vital Components Co. Ltd. (3017.TW)	O (07/30/2024)	NT$3,235.00
AU Optronics (2409.TW)	E (02/10/2026)	NT$25.80
Auras Technology Co Ltd (3324.TWO)	E (05/04/2023)	NT$1,010.00
Bizlink (3665.TW)	O (03/10/2025)	NT$2,200.00
BOE Technology (000725.SZ)	O (09/06/2019)	Rmb5.81
Chenbro (8210.TW)	O (07/23/2025)	NT$1,000.00
Chroma Ate Inc. (2360.TW)	O (10/05/2021)	NT$2,300.00
Delta Electronics Inc. (2308.TW)	O (07/13/2017)	NT$1,885.00
E Ink Holdings Inc. (8069.TWO)	E (08/10/2026)	NT$165.50
Ennostar Inc (3714.TW)	U (09/23/2022)	NT$56.90
Fositek Corp (6805.TW)	O (06/25/2025)	NT$1,805.00
Hiwin Technologies Corp. (2049.TW)	O (03/30/2026)	NT$373.50
Innolux (3481.TW)	E (04/07/2025)	NT$50.10
King Slide Works Co. Ltd. (2059.TW)	O (11/08/2023)	NT$12,500.00
Lens Technology (300433.SZ)	E (07/22/2020)	Rmb35.74
Lite-On Technology (2301.TW)	E (01/15/2025)	NT$267.00
TCL Corp. (000100.SZ)	E (04/07/2025)	Rmb5.14
Tianma Microelectronics (000050.SZ)	U (01/24/2018)	Rmb6.62
Wuhan Jingce Electronic Group Co Ltd (300567.SZ)	E (11/26/2021)	Rmb223.44
Howard Kao		
Acer Inc. (2353.TW)	U (04/23/2025)	NT$32.30
Asustek Computer Inc. (2357.TW)	U (11/16/2025)	NT$996.00
Catcher Technology (2474.TW)	U (11/17/2025)	NT$204.50
Compal Electronics (2324.TW)	U (04/23/2025)	NT$43.20
FIT Hon Teng Ltd (6088.HK)	O (11/03/2025)	HK$5.28
Foxconn Industrial Internet Co. Ltd. (601138.SS)	O (07/10/2019)	Rmb66.19
Giga-Byte Technology Co. Ltd. (2376.TW)	E (11/16/2025)	NT$397.50
Gold Circuit Electronics Ltd. (2368.TW)	O (10/06/2022)	NT$1,015.00
Hon Hai Precision (2317.TW)	O (03/15/2024)	NT$259.50
Inspur Electronic Information (000977.SZ)	E (08/28/2023)	Rmb78.80
LandMark Optoelectronics Corporation (3081.TWO)	E (03/26/2026)	NT$2,540.00
Lenovo (0992.HK)	O (07/10/2026)	HK$33.60
Lotes Co. Ltd. (3533.TW)	E (05/12/2025)	NT$1,720.00
Nan Ya PCB (8046.TW)	O (02/23/2026)	NT$1,305.00
Pegatron Corporation (4938.TW)	E (03/25/2026)	NT$94.80
Quanta Computer Inc. (2382.TW)	O (05/01/2023)	NT$327.50
Shengyi Technology Co Ltd. (600183.SS)	E (05/26/2022)	Rmb143.21
Shennan Circuits Co Ltd (002916.SZ)	E (08/24/2023)	Rmb378.00
Unimicron (3037.TW)	O (02/23/2026)	NT$1,020.00
Visual Photonics Epitaxy Co Ltd (2455.TW)	E (09/11/2023)	NT$379.50
Wistron Corporation (3231.TW)	O (07/12/2023)	NT$193.50
Wiwynn Corp (6669.TW)	O (11/10/2025)	NT$6,435.00
Yageo Corp. (2327.TW)	O (10/28/2025)	NT$622.00

Zhen Ding (4958.TW)	++	NT$489.50

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* Historical prices are not split adjusted.