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UMC | Asia Pacific

Near term in line but larger long-term AI opportunity; stay OW

AlphaSignals Earnings Reaction

Strengthens our thesis	In-line	Largely unchanged
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Key Takeaways

- The company reported 3Q26 gross margin of 34%, slightly above our estimate and in line with consensus.
- 4Q26 wafer shipments should rise in low single digits (%) QoQ and wafer ASP should firm – both in line with our expectations.
- We forecast 4Q26 revenue to grow in low single digits QoQ with gross margin flat vs. 3Q26.

Larger AI opportunity into 2029: The company raised 2029 AI-related revenue guidance from >US$1bn to 25% of total revenue. Assuming ~15% YoY growth on our 2028e revenue (c. US$14bn), 2029 pro forma AI revenue could reach ~US$4bn (25% of ~US$16bn) – well above the prior US$1bn. Also, newly announced 12-inch silicon photonics capacity of 18kwpm could generate at least US$1.7–1.8bn assuming ~US $8k wafer ASP – not to mention newly announced capacity of another 22kwpm for DTC/silicon capacitors and 20kwpm for Teflon modulators.

2027 price hike plan in line with our estimate: The company guided for a 10% improvement in 2027 blended wafer ASP. Excluding better product mix, like-for-like wafer ASP would rise 5–10%, which is in line with our estimate but slightly below the buy-side bogey of 10-15%.

Weak consumer could be covered by other non-AI demand: UMC does see some weakness showing up in PCs and midrange/low-end smartphones, but communications, automotive, and industrial demand remains robust.

Exhibit 1: UMC: 3Q26 Earnings Review

(NT$ mn)	3Q26				
	Preliminary	Q/Q	Y/Y	MS Est.	Consensus
Financials					
Revenue	74,239	8.0%	25.6%	73,187	74,367
Opex	(6,562)	-11.0%	0.9%	(7,480)	(7,587)
EPS (NT$)	1.32	-61.0%	10.0%	1.15	1.35
Ratios					
GM (%)	34.0%	147bps	415bps	32.5%	34.5%
Opex (%)	8.8%	-189bps	-216bps	10.2%	10.2%
OPM (%)	25.1%	336bps	631bps	22.3%	24.3%

Source: Company Data, Morgan Stanley Research estimates, Visible Alpha.

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UMC (2303.TW, 2303 TT)

Greater China Technology Semiconductors | Taiwan

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	NT$188.00
Up/downside to price target (%)	47
Shr price, close (Oct 28, 2026)	NT$128.00
52-Week Range	NT$185.50-43.80
Sh out, dil, curr (mn)	12,624
Mkt cap, curr (mn)	NT$1,615,913
EV, curr (mn)	NT$1,502,936
Avg daily trading value (mn)	NT$16,168

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	3.32	7.02	7.11	9.05
Prior EPS (NT$)**	-	-	-	-
EPS (NT$)§	3.35	7.18	7.16	8.70
Revenue, net (NT$ bn)	237.6	279.6	357.8	419.1
EBITDA (NT$ bn)	103.2	126.9	168.6	196.5
ModelWare net inc (NT $ bn)	41.716	88.133	89.233	113.591
P/E	14.8	18.2	18.0	14.1
P/BV	1.6	3.7	3.5	3.2

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RNOA (%)	12.0	16.9	29.6	38.3
ROE (%)	11.0	23.2	20.2	24.5
EV/EBITDA	4.9	11.1	8.2	6.8
Div yld (%)	5.1	4.1	4.2	5.3
FCF yld ratio (%)	6.8	2.2	4.8	6.2
Leverage (EOP) (%)	(29.8)	(45.9)	(48.4)	(52.7)

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

Valuation Methodology and Risks

UMC (2303.TW)

Base case, residual income model. Key assumptions: 9.2% cost of equity, 13.5% medium-term growth, and 3.0% terminal growth.

Risks to Upside

- Stronger-than-expected global economic and semiconductor growth
- Looser pricing competition, increasing margins and utilization rates
- Favorable customer mix changes

Risks to Downside

- Softer-than-expected global economic and semiconductor growth
- Increasing pricing competition, reducing margins and utilization rates
- Unfavorable customer mix changes

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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.

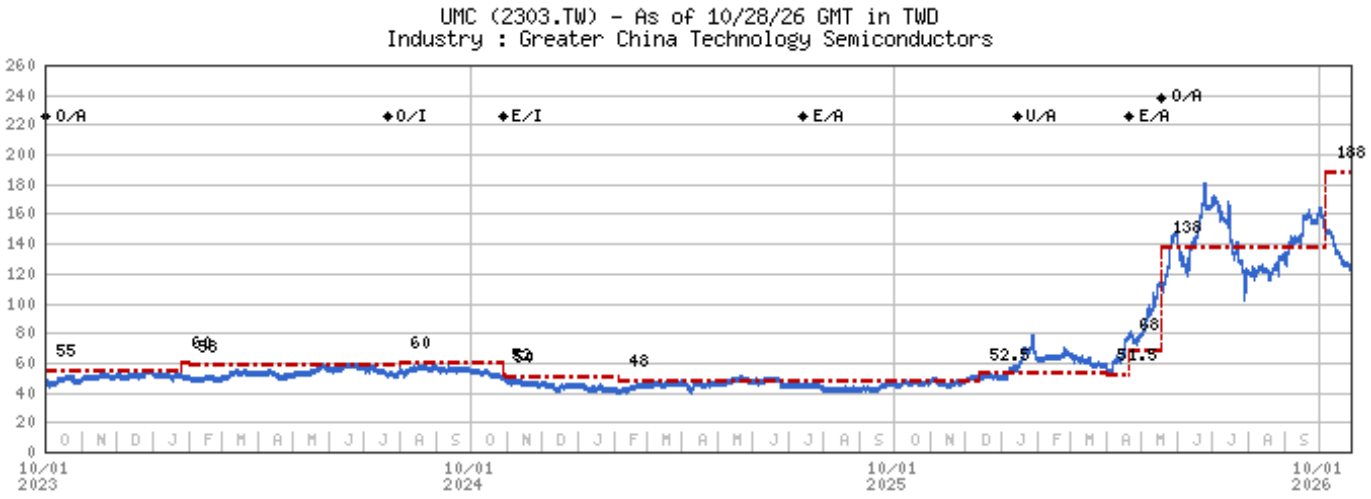
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Price Target History: 7/29/21 : 62; 10/28/21 : 68; 1/26/22 : 72; 4/20/22 : 68; 7/12/22 : 58; 12/14/22 : 55; 4/27/23 : 53; 7/7/23 : 55; 1/26/24 : 60; 2/1/24 : 58; 8/1/24 : 60; 10/28/24 : 52; 10/30/24 : 50; 2/6/25 : 48; 12/12/25 : 52.5; 4/1/26 : 51.5; 4/20/26 : 68; 5/19/26 : 138; 10/6/26 : 188

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
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INDUSTRY COVERAGE: Greater China Technology Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/28/2026)
Charlie Chan		
Advanced Wireless Semiconductor Co (8086.TWO)	U (07/14/2025)	NT$125.00
Alchip Technologies Ltd (3661.TW)	O (05/14/2021)	NT$3,800.00
ASE Technology Holding Co. Ltd. (3711.TW)	O (09/15/2024)	NT$695.00
Cambricon Technology Corporation (688256.SS)	O (04/27/2026)	Rmb958.00
CXMT Corp (688825.SS)	O (08/26/2026)	Rmb44.36
Global Unichip Corp (3443.TW)	O (06/24/2026)	NT$8,170.00
GlobalWafers Co Ltd (6488.TWO)	E (05/19/2026)	NT$849.00
Gudeng Precision (3680.TWO)	O (11/25/2025)	NT$532.00
Hua Hong Semiconductor Ltd (1347.HK)	E (03/12/2026)	HK$70.00
Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)	O (04/27/2026)	HK$73.60
MediaTek (2454.TW)	O (11/28/2025)	NT$4,235.00
MetaX Integrated Circuits (688802.SS)	E (04/27/2026)	Rmb489.40
Nanya Technology Corp. (2408.TW)	O (05/28/2026)	NT$477.00
OmniVision Integrated Circuits Group Inc (603501.SS)	E (11/17/2025)	Rmb85.20
Phison Electronics Corp (8299.TWO)	E (02/25/2026)	NT$2,040.00
SG Micro Corp. (300661.SZ)	E (11/03/2025)	Rmb90.03
Silergy Corp. (6415.TW)	U (05/19/2026)	NT$525.00
SMIC (0981.HK)	O (10/21/2025)	HK$47.80
TSMC (2330.TW)	O (02/07/2022)	NT$2,425.00
UMC (2303.TW)	O (05/19/2026)	NT$128.00
Vanguard International Semiconductor (5347.TWO)	E (01/14/2026)	NT$167.50
WIN Semiconductors Corp (3105.TWO)	E (10/09/2026)	NT$540.00

Daisy Dai, CFA

ASMPT Ltd (0522.HK)	O (07/24/2025)	HK$118.30
China Resources Microelectronics Limited (688396.SS)	U (03/02/2026)	Rmb49.10
Empyrean Technology Co Ltd (301269.SZ)	E (01/17/2025)	Rmb101.92
Hangzhou Silan Microelectronics Co. Ltd. (600460.SS)	U (08/25/2025)	Rmb25.07
Hygon Information Technology Co., Ltd. (688041.SS)	O (07/03/2026)	Rmb192.70
Innoscience (2577.HK)	E (10/13/2025)	HK$30.92
JCET Group Co Ltd (600584.SS)	O (09/16/2026)	Rmb55.41
Shanghai Fudan Microelectronics (1385.HK)	O (03/07/2025)	HK$23.22
SICC Co Ltd (688234.SS)	O (03/20/2026)	Rmb81.00
SJ Semiconductor Corp (688820.SS)	E (09/16/2026)	Rmb87.90
StarPower Semiconductor Ltd (603290.SS)	E (05/14/2026)	Rmb70.98
Unigroup Guoxin Microelectronics Co Ltd (002049.SZ)	U (01/10/2023)	Rmb50.13
Universal Scientific Ind. (Shanghai) (601231.SS)	O (11/05/2025)	Rmb22.02
Yangjie Technology (300373.SZ)	O (06/10/2022)	Rmb74.94
Daniel Yen, CFA		
AP Memory Technology Corp (6531.TW)	O (07/11/2025)	NT$843.00
ASMedia Technology Inc (5269.TW)	U (10/03/2025)	NT$1,505.00
Aspeed Technology (5274.TWO)	O (06/09/2025)	NT$17,295.00
Egis Technology Inc (6462.TWO)	E (01/28/2026)	NT$99.00
Elan Microelectronics Corp (2458.TW)	O (10/03/2025)	NT$130.00
eMemory Technology Inc (3529.TWO)	O (08/18/2026)	NT$2,655.00
Espressif Systems (688018.SS)	O (05/15/2023)	Rmb142.55
GigaDevice Semiconductor Beijing Inc (603986.SS)	O (05/15/2025)	Rmb289.88
Himax Technologies Inc (HIMX.O)	E (02/04/2026)	US$11.94
Macronix International Co Ltd (2337.TW)	O (09/18/2025)	NT$103.50
Montage Technology Co Ltd (6809.HK)	O (03/18/2026)	HK$230.20
Montage Technology Co Ltd (688008.SS)	O (03/18/2026)	Rmb174.70
Novatek (3034.TW)	U (02/04/2026)	NT$598.00
Nuvoton Technology Corporation (4919.TW)	U (11/10/2025)	NT$142.00
Parade Technologies Ltd (4966.TWO)	O (05/27/2026)	NT$525.00
Powerchip Semiconductor Manufacturing Co (6770.TW)	O (10/27/2025)	NT$71.30
Realtek Semiconductor (2379.TW)	E (01/30/2026)	NT$791.00
Shenzhen Goodix Technology Co Ltd (603160.SS)	U (07/14/2025)	Rmb61.38
Silicon Motion (SIMO.O)	O (05/06/2024)	US$204.17
Winbond Electronics Corp (2344.TW)	O (05/28/2026)	NT$172.00
WPG Holdings (3702.TW)	O (03/16/2026)	NT$116.00
WT Microelectronics Co. Ltd. (3036.TW)	O (01/27/2026)	NT$217.00
Henry Zhao		
ACM Research Inc (ACMR.O)	O (03/07/2023)	US$51.97
Advanced Micro-Fabrication Equipment Inc (688012.SS)	O (11/06/2023)	Rmb240.00
Maxscend Microelectronics Co Ltd (300782.SZ)	U (01/11/2021)	Rmb56.00
NAURA Technology Group Co Ltd (002371.SZ)	O (11/06/2023)	Rmb511.68
Lucas Wang		
AllRing Tech Co. (6187.TWO)	O (09/23/2025)	NT$1,345.00
FOCI Fiber Optic Communications Inc (3363.TWO)	E (10/09/2026)	NT$533.00
Hon Precision (7769.TW)	O (04/17/2026)	NT$5,565.00
King Yuan Electronics Co Ltd (2449.TW)	O (03/03/2023)	NT$277.50
MPI Corporation (6223.TWO)	O (04/17/2026)	NT$5,115.00

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