Global Silicon Wafer Sector

Thoughts on Micron's $500mn strategic financing into GlobalWafers

Technology

Jimmy Huang [AC]
(886-2) 2725-9865
jimmy.huang@jpmorgan.com
J.P. Morgan Securities (Taiwan) Limited

Yasuhiro Nakada
(81-3) 6736-8692
yasuhiro.nakada@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

Gokul Hariharan
(852) 2800-8564
gokul.hariharan@jpmorgan.com
J.P. Morgan Securities (Asia Pacific) Limited/ J.P. Morgan Broking (Hong Kong) Limited

- **Micron's $500mn strategic financing into GlobalWafers.** On Jul 9, 2026, Micron announced (link) plans to invest up to $3 billion to strengthen the U.S. semiconductor supply-chain ecosystem. As part of the investment, Micron will provide GlobalWafers Co. (GWC), Ltd. with $500 million in strategic financing support to advance the development and manufacturing capabilities of its GlobalWafers America (GWA) 300mm raw silicon wafer manufacturing facility in Sherman, Texas. The companies will also enter into a 10-year supply agreement that will provide Micron with access to significant raw silicon wafer capacity to support its long-term manufacturing plans and bolster the critical semiconductor manufacturing ecosystem in the United States. *Micron (MU US) is covered by J.P. Morgan analyst Harlan Sur.*
- **GlobalWafers' commentary on the $500mn strategic financing: 1) Funding as investment and prepayment.** GWC believes this funding will help reduce the financial burden associated with further expanding capacity at GWA (Phase 2) and will ensure enforcement of the long-term agreements. **2) 10-year long-term agreement (LTA):** The new LTA represents the longest tenure in GWC's history, surpassing the previous record of 8 years. **3) US-made wafers:** The agreement requests wafer shipments from GWA, but also allows shipments from GWC's other global production sites. **4) Binding quantity, pricing undisclosed:** GWC confirmed that the LTA includes a binding quantity commitment, but declined to comment on pricing details. **5) Brownfield capacity execution:** To support deliveries under this LTA in the mid to long term, GWC will need to execute Brownfield capacity expansion for GWA Phase 2. GWA Phase 1 equipment capacity is 300kwpm. Both Phase 1 and Phase 2 are located in the same building (Building 1), with similar area sizes. The implied Phase 2 capacity size is 300kwpm, but it could differ due to product (polished vs epi) and customer applications. Of note, we project GWC's non-US 12" capacity at 1.2mn wpm. **6) Capex increase for GWA P2:** GWC will need to increase capex for the GWA Phase 2 Brownfield expansion. The company has not yet specified the timing or scale of this investment, but plans to provide updates at the 4Q26 results meeting. **7) GWA P1 ramp** is slower than expected, given labor training and customer qualification time. Currently, GWC leverages other global production sites to support US customers, while GWC will transition orders to GWA P1 once it is ready. GWA will also de-bottleneck P1 before building up P2. **8) Not only Micron**, more customers are discussing LTAs with GWC.
- **Our thoughts - silicon wafer sector improving in 2026-28, but cautious against bullish expectations.** Two key arguments from the bullish camp in the silicon wafer sector are minimal capacity expansion and significant price increases of 12" silicon wafers in the future (i.e. 50-100% increase to memory customers). Some investors also assume GWA could boost GWC's earnings significantly. While we agree that the silicon wafer sector will continue to improve in 2026, 27 and 28, we hold a conservative attitude towards these bullish expectations, while we think major improvements will be in 2028. We suspect the gap between bullish market expectations and the current situation may become a negative catalyst in this upcoming earnings season. In our view:
- **1) GWA/GWC profitability could fall short of bullish expectations.** GWA's

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depreciation burden (with subsidies factored in) and operating costs lead us to project the break-even product price at the full-utilization rate at $120-130, with the midpoint 30% and 50% above the LTA prices for polished wafers at non-US Greenfield facilities and existing facilities, respectively. For LTAs signed in the previous upcycle, we understand LTA prices for Greenfield facilities are 10-20% higher than existing facilities. We estimate annual depreciation cost for the GWA P1 to be $18mn for infra and $167mn for equipment (together $185mn) in the first six years, after factoring in $400mn US grants. Despite higher product prices for wafers made in GWA than in other sites, the high depreciation to sales ratio could make GWA's profitability inferior to GWC. Also, GWA P2 capacity build will lead to higher depreciation cost (vs GWA P1) if there is no US government subsidy, as we understand that capex for GWA P2 will be another $1.4bn (P1 equipment capex was ~$1.4bn; Building 1 infra capex was $0.7bn).

- **2) 12" silicon wafer pricing.** We do not foresee 12" silicon wafer contract prices improving materially in 2H26, although spot prices stabilize. Based on our checks, customers are still pushing back on 12" silicon wafer price hikes in 2H26. If any price increases occur in 2027, we anticipate they will be only gradual, based on our industry supply-demand analysis. Notably, unlike the MLCC industry which recently saw a significant pricing uptrend, there are barely any distributors for the silicon wafer industry, while the bargaining power of major chip manufacturers remains high. There is no so-called AI silicon wafers which consume 10x industry capacity than non-AI silicon wafers. Last, while GWC is working diligently to gain market share in advanced logic nodes and qualify for SiC carriers/square silicon wafers, whether it has the market power to raise wafer prices significantly to its key Foundry customer is worth reflecting on. **In the current set-up of silicon wafer stocks**, we believe the actual price hike % vs the Street's expectation (bullish camp: price hike by 50-100%) has become a more important factor than whether there could be a price hike.
- **3) 12" supply still rising.** We believe international silicon wafer suppliers could see at least a 3% CAGR in their 12" capacity over 2025-28 (at end 2025: capacity 9.0mn wpm+ vs shipments 8.3mn wpm), from GWC's Italy Greenfield (80k+ wpm), Wafer Works' Greenfield (200k wpm), and de-bottlenecking of other players. Chinese silicon wafer players could increase their 12" capacity significantly (at end 2025: capacity 3.0mn wpm +, vs shipments 2.0mn wpm+) to capture the incremental demand from domestic logic and memory chip manufacturers. The industry's 12" silicon wafer over-capacity scale (0.8mn wpm and 1mn+ wpm at international and Chinese suppliers) is being overlooked by the bullish camp in assessing the pricing trajectory. The new capacity build plan triggered by the new LTA does not seem to align with the Street expectation of supply discipline. See our Apr 2026 note and Jul 2025 note.
- **4) Old LTAs not expiring imminently.** For GWC, we suspect existing LTAs signed in the last industry upcycle (2021-22) will still cover its shipments in 2027, considering its LTA prepayment balance of NT$23.5bn (or $740mn) at end 1Q26. Prepayment is 20% of LTAs, implying a remaining LTA value of ~NT$120bn. We assume 80% of LTAs are for 12", implying ~NT$96bn, which is ~3x JPMe GWC's 12" revenue of NT$33.8bn in 2025. Since silicon wafer vendors have not allowed customers to breach LTA prices in the past three years, it remains equally challenging for them to raise prices on existing LTAs, in our view.
- **Implications - a stronger GlobalWafers company in the mid to long term, but the GlobalWafers stock risk-reward of 6x 2027E P/B is unattractive.** We underscore that GlobalWafers is solving some of the most critical industry challenges, including 12" SiC, 12" SOI and 12" FZ wafers, as well as US onshoring advanced wafer manufacturing capacity. We believe these efforts will better position GWC in the global silicon wafer industry in the medium to long term. GlobalWafers' worldwide wafer manufacturing capacity (Taiwan, Japan, Korea, Singapore, Europe, US, etc.) will make it a critical partner for customers - other silicon wafer makers pursue mega sites and do not have this



geographical diversity. However, we believe the expectations on GWC's pricing power have been too high and are subject to downside risk, making the stock's risk-reward unattractive. GlobalWafers is now trading at ~6x 2027E P/B, vs the historical peak of 8x when the market priced in industry consolidation from GlobalWafers and Siltronic merging (which did not go through at the end). We suggest taking profits in GlobalWafers on the Micron deal.