

Taiwan Semiconductors

Earnings Season Half-way Recap

CITI'S TAKE

Taiwan tech companies' earnings season is in the half way. Despite recent market turbulence, companies reaffirmed that AI investment cycle is broadening across the entire hardware ecosystem. **TSMC** remains the clear manufacturing leader, benefiting from sustained advanced-node demand and persistent CoWoS tightness, while **UMC** is beginning to participate through specialty technologies such as silicon photonics and AI power ICs. **ASEH** continues to benefit from rising packaging and testing complexity. **MediaTek** is also steadily expanding its AI silicon exposure beyond smartphones into edge and enterprise computing. And **GUC** benefits from accelerating hyperscaler custom CPU adoption. We see companies in the semiconductor supply chain raised guidance, increased capital expenditure or expressed improving visibility into 2027 AI demand, reinforcing our view that AI infrastructure investment remains in the early stages of a multi-year expansion and that the beneficiaries will increasingly extend well beyond computing but also in networking and power.

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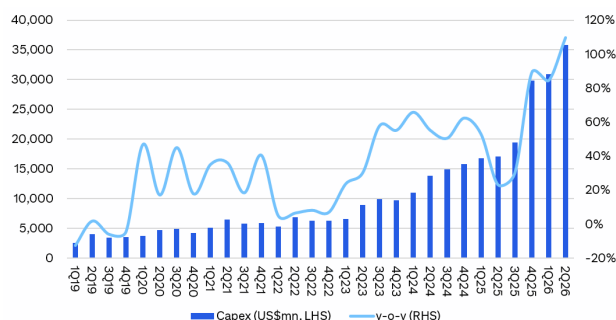
- US Hyperscalers – AI CapEx Continues to Move Higher Despite Temporary FCF Pressure.** Recent results from major US CSPs reiterated that AI infrastructure investment continues to accelerate. Microsoft and Meta both raised or reaffirmed record capital expenditure plans, while Google also increased investment to support rapidly growing AI demand across Search, Cloud and Gemini. AWS similarly commented that AI infrastructure remains its highest investment priority as demand continues to outpace available capacity. **Importantly, management teams consistently views near-term FCF pressure as a natural consequence of accelerating infrastructure deployment rather than a deterioration in underlying business fundamentals.** The investment focus is also broadening from large-scale training clusters toward enterprise AI and inference infrastructure, driving demand not only for GPUs but also custom ASICs, networking, advanced packaging, memory and increasingly sophisticated power infrastructure.
- Foundry – TSMC and UMC Reinforce a Stronger AI Manufacturing Outlook.** TSMC reiterated exceptionally strong AI demand across leading-edge nodes and advanced packaging, with CoWoS capacity continuing to sell out despite aggressive expansion. **It also lift full year guidance to be 40% YoY growth with significant capex upgrade to US\$60-64bn.** In the trailing edge, UMC also turned noticeably more constructive, raising 2026 capex by 33% from US\$1.5bn to US\$2.0bn, mainly for silicon photonics and advanced packaging, the investment is expected to reach US\$5bn in

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the next few years. Although UMC's AI revenue contribution remains modest today, management highlighted increasing exposure to PMIC, connectivity chips, and silicon photonics, with its 12-inch silicon photonics platform entering early production and broader commercial contribution expected from 2027. **UMC expects its AI related revenue to reach US\$1bn in 3 years, from US\$300m currently.**

- Packaging, Testing and AI Infrastructure – AI Revenue Mix Continues to Improve with GM upside.** ASEH highlighted sustained strength in advanced packaging and testing driven by increasingly complex AI chips, while continuing to expand capabilities in CoWoS-related packaging, advanced test and next-generation panel-based technologies. **LEAP revenue to be more than US\$3.5bn this year and doubling in 2027. Delta Electronics also see AI related revenue to be 25% for this year, higher than their previous expectation of 20%.** AI data center products will be supported by strong demand for high-efficiency power supplies, power distribution, liquid cooling and higher rack power density. As AI servers migrate toward increasingly power-intensive rack architectures, Delta remains one of the key beneficiaries of higher system-level power content.
- ASIC Momentum Accelerates – MediaTek and GUC Expand AI Opportunities.** MediaTek reiterated a constructive AI outlook while highlighting continued expansion across edge AI, automotive and enterprise AI opportunities. **The company has updated its AI ASIC revenue to US\$12-16bn (based on 15-20% market share of its US\$80bn market estimate; lift from 10-15% market share; vs our estimate of US\$18bn).** Mediatek also confirmed that they are working with second ASIC customer. GUC also continues to benefit from expanding hyperscaler ASIC CPU programs, with industry discussions pointing to an increasingly robust multi-year design pipeline as cloud providers diversify compute architectures beyond merchant GPUs, we expect CPU business to doubling next year with revenue contribution to reach +30%/50% in 2026/27.

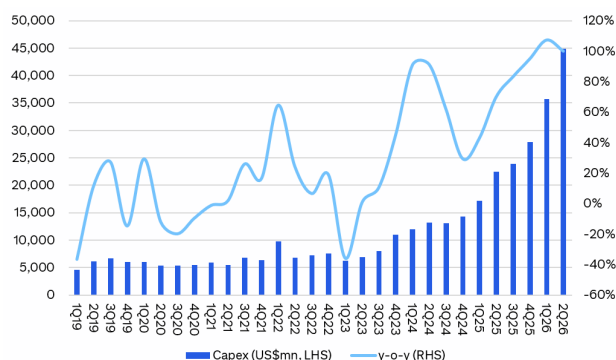
Figure 1. Microsoft's capex trend



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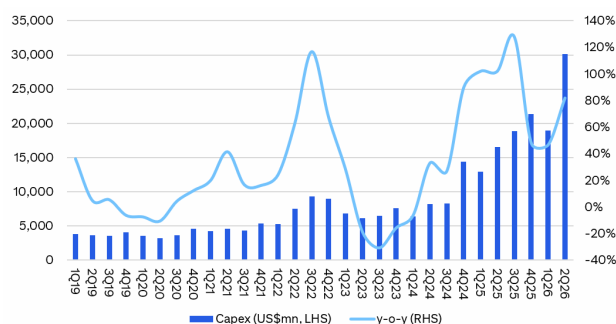
Figure 2. Google's capex trend



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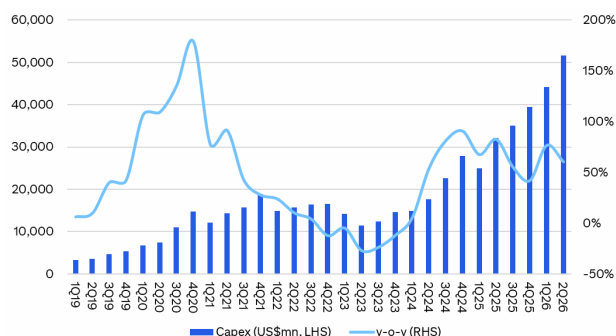
Figure 3. Meta's capex trend



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Figure 4. Amazon's capex trend



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Companies Mentioned:

Alphabet Inc (GOOGL.O; US\$356.13; 1; 31 Jul 26; 16:00)
Amazon.com, Inc. (AMZN.O; US\$271.58; 1; 31 Jul 26; 16:00)
ASE Technology Holding (3711.TW; NT\$555.0; 1; 31 Jul 26; 13:30)
Delta Electronics (2308.TW; NT\$1640.0; 1; 31 Jul 26; 13:30)
GUC (3443.TW; NT\$3805.0; 1H; 31 Jul 26; 13:30)
Mediatek (2454.TW; NT\$3555.0; 1; 31 Jul 26; 13:30)
Meta Platforms Inc (META.O; US\$556.71; 1; 31 Jul 26; 16:00)
Microsoft Corp. (MSFT.O; US\$464.72; 1; 31 Jul 26; 16:00)
TSMC (2330.TW; NT\$2425.0; 1; 31 Jul 26; 13:30)
UMC (2303.TW; NT\$121.0; 1; 31 Jul 26; 13:30)

