TAIWAN CCL

Solid expansion on GM/OPM will continue into the next 12+ months, with widening CCL S/D gap; Buy on EMC & TUC

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3Q26 overview - solid beat by both EMC/TUC thanks to faster than expected product mix improvement

EMC's 3Q26 core business (OPI) was 6% higher than our estimate (the highest on the Street), and was 15% higher than the BBG consensus, a clean beat thanks to (1) the much more favorable than expected product mix (M9 CCL shipment started from 3Q26, whose ASP is 3-4x higher than the company's average level + increasing M8 adoption rate in the 2H25 new AI server - see here), and (2) some delayed pricing hike happened in 3Q26 but was announced in 2Q26.

For the 3Q GM, it was 0.9ppt higher than GSe and 1.9ppt higher than BBG consensus, which was up 3.8ppt QoQ (vs. 2Q GM grew 4.5ppt QoQ, with 20-25% pricing hike in average, while we didn't see major pricing hike happen in 3Q26). EMC's 3Q26 OPM was 30.7%, which was 0.1ppt higher than GSe and 1.8ppt higher than BBG consensus, also thanks to the better than expected product mix, despite the higher than expected R&D investment (up 44% QoQ in 3Q) for the substrate CCL and new generation M10/11 CCL.

TUC's 3Q26 core business (OPI) was also a solid beat on our estimate (the most bullish on the Street) at 16% higher than GSe, which was 25% higher than BBG consensus, while this beat was mainly supported by (1) the key ASIC customers' M8.5 CCL demand ramp up (ASP was 2-3x higher than TUC average level), (2) the faster than expected Thailand plant ramp up progress, and (3) the solid pricing uptrend for the non-Low Loss products and power products (30-40% pricing hiked in 3Q per GSe) even these only accounted for 34% of the company's total revenue in 3Q26. **TUC's 3Q26 GM was 3.8ppt higher than our bullish estimate and was 5.1ppt higher than the BBG consensus**, given the solid product mix improvement and better pricing condition for its mid to low end business. **For 3Q26 OPM, it was 31.0% and is higher than EMC (30.7%), which is the first time TUC's OPM surpass EMC**, driven mainly by the better operation efficiency. OPM in 3Q26 was 3.7ppt/5.2ppt higher than GSe/BBG consensus, which was in-line with the GM trend.

4Q26 outlook - Further expansion in GM/OPM supported by the 5-20% high-end CCL pricing hike and solid demand on M8/9 CCL

For EMC, considering (1) the 5-20% pricing hike that just announced in early October (our supply chain check suggests M8 pricing will go up by 10% in coming

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months of the year), (2) new Kunshan capacity (total 1.2mn sheets/month or 21% of the company's current capacity) ramp up from December, and (3) the mass volume shipment for several new AI projects (Vera Rubin + TPU v8 etc.) with a better demand volume on the most high end M8.5/M9 CCL, **we now expect EMC's revenue to go up by 20% QoQ, and expect the GM will further expand to 40.9% (first time surpassing 40%)**.

For TUC, with an even faster product mix improvement speed (due to the lower base vs. EMC) and the solid pricing hike uptrend for both high end and mid end CCL (15-20% QoQ average pricing hike in 4Q), **we expect the company to deliver a revenue growth rate at 18% QoQ, and believe the GM will reach 40.8% (+3.9ppt QoQ) in 4Q26**, despite the slowing demand from key AI ASIC customer due to the transition period of the ASIC projects whose capacity will be replaced by other high-end Ethernet switch projects (also M8.5/M9 grade CCL).

Key update - EMC now plan to expand capacity to 15.25mn sheets/month from 5.85mn sheets/month capacity today, with solid demand
EMC's BOD has approved additional capacity expansion plans extending into 2029/30E. EMC now targets year-end capacity of 8.70/10.45/11.95/15.25mn sheets/month in 2027/28/29/30E (implying 27% 2026-30E CAGR), which is the first time EMC announced its new capacity expansion plan after 1H28. EMC mentioned that capacity expansion is supported by LTAs with customers who secure volumes (EMC does not proactively initiate LTA negotiations). EMC indicated that despite its proactive capacity expansion planned for 2027-30E, it would still be insufficient to meet with customer demand secured under signed LTAs (demand under LTA extends at least 3Y ahead).

EMC's near-term capacity expansion remains intact, as the capacity expansion in Kunshan (with additional 1.2mn sheets/month, 21% of current capacity) could come online as early as Dec 2026 and continue through May 2027 (with new capacity coming online every month), the expansion was originally scheduled in 2 phases, with 600k sheets/month each coming online in 1Q27 and 3Q27. The accelerated ramp-up will offset the rescheduling of Guanyin capacity expansion, where the 300k sheet/month expansions originally scheduled for 4Q26 have been deferred to 2H27, mainly due to shortages of construction capacity in Taiwan as well as long equipment lead time + Taiwan government's strict policy on labor safety related requirement (however, we only see delay in Taiwan, while all other plans are basically in-line or earlier than the company's original expectation).

Investment view - Solid margin beat + expanding margin, suggesting a stock performance outlook; buy in the dip for both EMC & TUC
We notice that the BBG consensus for 2027 EMC/TUC GM is only at 38%/34%, and we see upside risk to consensus EPS estimates for both EMC/TUC as the GM in 4Q could both surpass 40-42%, without any possibility to see the GM to decrease in coming quarters as the high-end CCL supply demand gap to further expand in coming years (see here). As a result, we believe consensus 2027 GM could lift from 34-38% to 40-42%+ for both companies in coming days, suggesting 10-25% EPS upward revision opportunity, and recommend taking advantage to buy in this valuation dip (EMC/TUC only trades at 15x/12x of our bullish 2027 EPS estimate, which was far below the past 3 year range of

20-30x).

Moreover, EMC has mentioned all of its new capacity in coming years (capacity will expand by 2.6x in 2030 vs. 2026; see more details above) is still not large enough to support customers' LTAs volume demand, suggesting an even more favorable high-end CCL pricing outlook in coming years (all the way to 2030), which is in-line with what we discussed in our TPCA takeaway report. We expect EMC/TUC will rise the like for like base pricing for M7+ CCL by 10-40%, and we now expect the similar pricing hike ratio in 2027/28, with more room to adjust if the supply shortage issue continues.

For the new CCL generation, we exect EMC to start shipment on M10 grade CCL from 2H27, which is only for single customers' AI GPU projects, but still implies a CCL migration trend in-line with our bullish view. For M9, we only see HGX R200 UBB and VR200 LPU adopt this solution in 2026, but see multiple new projects in 2027 will adopt this high ASP project (including several 1.6T ethernet switch projects, and Trainium 4/ TPU v9 could also see at least 50% adoption rate of the M9 CCL; moreover, the VR300 rack should have 50%+ of its CCL content related to M9 grade CCL). We believe this new technology migration trend going into 2027 will further drive both companies' ASP and profit in coming quarters, suggesting an even more favorable outlook for EMC/TUC's EPS growth in coming years.

Overall, we maintain our bullish view on high-end CCL players' business outlook and margin expansion trend, and expect investors to start focusing on this solid margin expansion trend after this clean beat on GM/OPM in 3Q26; maintain Buy on EMC/TUC, with a new TP of NT$11,700/NT$3,460 (from NT$10,200/NT$3,010).

Exhibit 1: EMC earnings comparison table

EMC (2383.TW)	3Q26			QoQ		YoY		Bloomberg consensus	
P&L (NT$mn)	Actual	GS est.	Diff (%)	2Q26	QoQ	3Q25	YoY	Consensus	%
Revenue	60,885	57,349	6%	47,275	29%	25,146	142%	56,148	8%
Gross profits	22,951	21,117	9%	16,003	43%	7,576	203%	20,073	14%
Operating profits	18,687	17,561	6%	12,734	47%	4,990	274%	16,232	15%
Pre-tax income	18,703	17,561	7%	12,785	46%	5,122	265%	16,163	16%
Net earnings	14,500	13,522	7%	9,873	47%	3,965	266%	12,566	15%
EPS, NT$	40.47	37.75	7%	27.56	47%	11.19	262%	35.24	15%
Gross margin (%)	37.7%	36.8%	0.9ppt	33.9%	3.8ppt	30.1%	7.6ppt	35.7%	1.9ppt
EBIT margin (%)	30.7%	30.6%	0.1ppt	26.9%	3.8ppt	19.8%	10.8ppt	28.9%	1.8ppt
Net margin (%)	23.8%	23.6%	0.2ppt	20.9%	2.9ppt	15.8%	8.0ppt	22.4%	1.4ppt

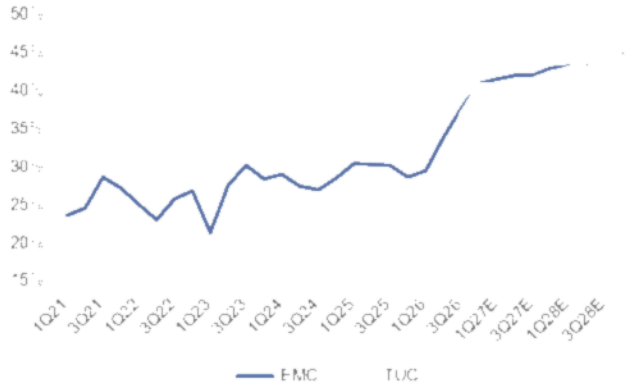
Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

Exhibit 2: TUC earnings comparison table

TUC (6274.TW)	3Q26			QoQ		YoY		Bloomberg consensus	
P&L (NT$mn)	Actual	GS est.	Diff (%)	2Q26	QoQ	3Q25	YoY	Consensus	%
Revenue	17,949	17,621	2%	14,301	26%	8,063	123%	17,173	5%
Gross profits	6,628	5,835	14%	4,250	56%	1,915	246%	5,460	21%
Operating profits	5,568	4,813	16%	3,358	66%	1,266	340%	4,441	25%
Pre-tax income	5,594	4,813	16%	3,427	63%	1,318	325%	4,483	25%
Net earnings	3,857	3,658	5%	2,342	65%	1,003	285%	3,342	15%
EPS, NT$	12.88	12.53	3%	8.02	61%	3.58	259%	11.67	10%
Gross margin (%)	36.9%	33.1%	3.8ppt	29.7%	7.2ppt	23.7%	13.2ppt	31.8%	5.1ppt
EBIT margin (%)	31.0%	27.3%	3.7ppt	23.5%	7.5ppt	15.7%	15.3ppt	25.9%	5.2ppt
Net margin (%)	21.5%	20.8%	0.7ppt	16.4%	5.1ppt	12.4%	9.1ppt	19.5%	2.0ppt

Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

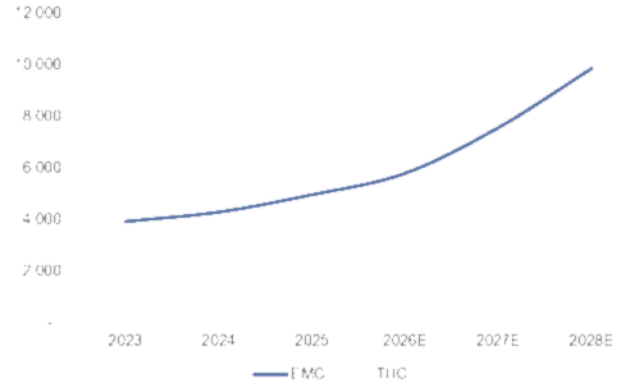
Exhibit 3: We expect both EMC and TUC GM to start the next round of expansion driven by solid AI demand and tightening S/D outlook



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Both EMC and TUC will expand more than 100%+ capacity in coming 2 years, while both companies' future capacity has all been booked by high-end customers

Average monthly CCL capacity (k sheets/month)



Source: Company data, Goldman Sachs Global Investment Research

Earnings revisions

EMC

We revise up our 2026/27/28E net income estimates by 13/22/22% to factor in 3Q26 actual results, a more favorable pricing outlook for high end CCL and the faster than expected high-end CCL demand growth, suggesting a better GM outlook (revising up 2026/27/28E revenue by 8/22/24%, and revise up 2026/27/28E GM by 1.5/1.6/0.7ppt).

Also, we introduce our 2029E earnings estimates with this report.

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Exhibit 5: EMC earnings revision table

EMC P&L (NT$ mn)	2026 New	2026 Old	Diff.	2027 New	2027 Old	Diff.	2028 New	2028 Old	Diff.	2029 New
Sales	214,156	197,643	8%	431,984	353,024	22%	719,108	580,049	24%	1,060,742
Gross Profit	78,485	69,498	13%	182,407	143,548	27%	317,013	251,894	26%	487,741
EBIT	63,464	56,176	13%	156,061	124,467	25%	282,306	227,509	24%	439,641
Net Income	49,147	43,362	13%	116,825	95,840	22%	214,183	175,182	22%	338,523
EPS (NT$)	**137.16**	**121.03**	**13%**	**326.05**	**267.52**	**22%**	**597.78**	**488.99**	**22%**	**944.81**
Ratio analysis										
Gross margin	36.6%	35.2%	1.5pp	42.2%	40.7%	1.6pp	44.1%	43.4%	0.7pp	46.0%
EBIT margin	29.6%	28.4%	1.2pp	36.1%	35.3%	0.9pp	39.3%	39.2%	0.0pp	41.4%
Net margin	22.9%	21.9%	1.0pp	27.0%	27.1%	-0.1pp	29.8%	30.2%	-0.4pp	31.9%

Source: Goldman Sachs Global Investment Research

TUC

We revise up our 2026/27/28E net income estimates by 12/20/27% to factor 3Q26 actual results, faster than expected high-end CCL demand growth and better high end CCL pricing outlook, which suggest a better than expect GM expansion tend going forward (revising up 2026/27/28E revenue by 3/12/17%, and revise up 2026/27/28E GM by 3.1/4.5/6.1ppt).

Also, we introduce our 2029E earnings estimates with this report.

Exhibit 6: TUC earnings revision table

TUC P&L (NT$ mn)	2026E New	2026E Old	Diff.	2027E New	2027E Old	Diff.	2028E New	2028E Old	Diff.	2029E New
Sales	63,434	61,760	3%	135,175	120,421	12%	236,666	202,913	17%	388,051
Gross Profit	22,030	19,510	13%	56,039	44,457	26%	104,640	77,288	35%	180,803
EBIT	18,173	15,787	15%	49,388	38,770	27%	95,152	69,556	37%	165,219
Net Income	12,652	11,264	12%	34,151	28,388	20%	66,186	52,114	27%	115,603
EPS (NT$)	**42.61**	**38.63**	**10%**	**114.06**	**97.22**	**17%**	**221.05**	**178.48**	**24%**	**386.09**
Ratio analysis										
Gross margin	34.7%	31.6%	3.1pp	41.5%	36.9%	4.5pp	44.2%	38.1%	6.1pp	46.6%
EBIT margin	28.6%	25.6%	3.1pp	36.5%	32.2%	4.3pp	40.2%	34.3%	5.9pp	42.6%
Net margin	19.9%	18.2%	1.7pp	25.3%	23.6%	1.7pp	28.0%	25.7%	2.3pp	29.8%

Source: Goldman Sachs Global Investment Research

Valuation

EMC

Maintain Buy on EMC, with a new TP of NT$11,700 (from NT$10,200), based on the same 27x 2H27-1H28E EPS (in line with the peak P/E multiple for AI component suppliers in past 3 years), and factoring in our latest earnings revisions.

Exhibit 7: EMC P&L table

NT$mn	1Q26	2Q26	3Q26	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	1Q28E	2Q28E	3Q28E	4Q28E	2025	2026E	2027E	2028E	2029E
Revenue	33,067	47,275	60,885	72,929	80,320	99,935	118,134	133,595	149,320	170,877	191,629	207,282	94,261	214,156	431,984	719,108	1,060,742
Gross profit	9,729	16,003	22,951	29,801	33,373	41,989	49,628	57,416	64,437	74,442	84,954	93,181	28,120	78,485	182,407	317,013	487,741
Operating expense	(2,601)	(3,269)	(4,264)	(4,886)	(5,261)	(6,146)	(7,324)	(7,615)	(8,213)	(8,544)	(8,623)	(9,328)	(9,012)	(15,020)	(26,346)	(34,707)	(48,100)
Operating income	7,128	12,734	18,687	24,915	28,112	35,843	42,304	49,801	56,224	65,898	76,331	83,853	19,108	63,464	156,061	282,306	439,641
Pretax income	7,194	12,785	18,704	24,915	28,112	35,843	41,304	48,801	55,224	65,898	76,331	83,853	18,876	63,598	154,061	281,306	439,641
Taxes expense	(1,855)	(2,914)	(4,204)	(5,481)	(6,466)	(8,244)	(10,326)	(12,200)	(13,806)	(16,474)	(17,556)	(19,286)	(4,231)	(14,455)	(37,236)	(67,123)	(101,117)
Net income	5,340	9,873	14,500	19,434	21,647	27,599	30,978	36,601	41,418	49,423	58,775	64,567	14,649	49,147	116,825	214,183	338,523
EPS, NT$	**14.90**	**27.55**	**40.47**	**54.24**	**60.41**	**77.03**	**86.46**	**102.15**	**115.60**	**137.94**	**164.04**	**180.20**	**41.67**	**137.16**	**326.05**	**597.78**	**944.81**
Ratio analysis and assumption																	
As % of sales																	
Gross margin	29.4%	33.9%	37.7%	40.9%	41.6%	42.0%	42.0%	43.0%	43.2%	43.6%	44.3%	45.0%	29.8%	36.6%	42.2%	44.1%	46.0%
Operating expense ratio	7.9%	6.9%	7.0%	6.7%	6.6%	6.2%	6.2%	5.7%	5.5%	5.0%	4.5%	4.5%	9.6%	7.0%	6.1%	4.8%	4.5%
Operating margin	**21.6%**	**26.9%**	**30.7%**	**34.2%**	**35.0%**	**35.9%**	**35.8%**	**37.3%**	**37.7%**	**38.6%**	**39.8%**	**40.5%**	**20.3%**	**29.6%**	**36.1%**	**39.3%**	**41.4%**
Net margin	**16.1%**	**20.9%**	**23.8%**	**26.6%**	**27.0%**	**27.6%**	**26.2%**	**27.4%**	**27.7%**	**28.9%**	**30.7%**	**31.1%**	**15.5%**	**22.9%**	**27.0%**	**29.8%**	**31.9%**
QoQ growth (%)																	
Revenue	32.7%	43.0%	28.8%	19.8%	10.1%	24.4%	18.2%	13.1%	11.8%	14.4%	12.1%	8.2%	-	-	-	-	-
Gross profit	36.6%	64.5%	43.4%	29.8%	12.0%	25.8%	18.2%	15.7%	12.2%	15.5%	14.1%	9.7%	-	-	-	-	-
Operating income	44.5%	78.6%	46.8%	33.3%	12.8%	27.5%	18.0%	17.7%	12.9%	17.2%	15.8%	9.9%	-	-	-	-	-
Net income	42.9%	84.9%	46.9%	34.0%	11.4%	27.5%	12.2%	18.2%	13.2%	19.3%	18.9%	9.9%	-	-	-	-	-
YoY growth (%)																	
Revenue	52.5%	110.0%	142.1%	192.6%	142.9%	111.4%	94.0%	83.2%	85.9%	71.0%	62.2%	55.2%	46%	127%	102%	66%	48%
Gross profit	47.6%	134.3%	202.9%	318.3%	243.0%	162.4%	116.2%	92.7%	93.1%	77.3%	71.2%	62.3%	56%	179%	132%	74%	54%
Operating income	57.0%	174.2%	274.5%	404.9%	294.4%	181.5%	126.4%	99.9%	100.0%	83.8%	80.4%	68.4%	57%	232%	146%	81%	56%
Net income	53.9%	183.9%	265.7%	420.1%	305.4%	179.5%	113.6%	88.3%	91.3%	79.1%	89.7%	76.4%	53%	236%	138%	83%	58%

Source: Company data, Goldman Sachs Global Investment Research

TUC

We maintain Buy on TUC, with new TP of NT$3,460 (from NT$3,010) which is based on an unchanged 22x on 2H27-1H28E P/E, which is +2x STDV higher than the past 3-year industry average P/E multiple, and factoring in our earnings revisions.

Exhibit 8: TUC P&L table

NT$mn	1Q26	2Q26	3Q26	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	1Q28E	2Q28E	3Q28E	4Q28E	2025	2026E	2027E	2028E	2029E
Revenue	10,054	14,301	17,948	21,130	24,679	28,547	37,101	44,848	47,042	53,083	63,794	72,747	30,340	63,434	135,175	236,666	388,051
Gross profit	2,529	4,250	6,628	8,624	10,043	11,609	15,406	18,980	20,211	23,230	28,266	32,934	6,898	22,030	56,039	104,640	180,803
Operating expense	(701)	(892)	(1,060)	(1,204)	(1,394)	(1,584)	(1,744)	(1,928)	(2,046)	(2,176)	(2,392)	(2,873)	(2,554)	(3,857)	(6,651)	(9,489)	(15,584)
Operating income	1,828	3,358	5,568	7,420	8,649	10,025	13,662	17,052	18,164	21,053	25,874	30,060	4,344	18,173	49,388	95,152	165,219
Pretax income	1,874	3,427	5,594	7,420	8,649	10,025	13,362	16,752	17,864	20,753	25,874	30,060	4,519	18,314	48,788	94,552	165,148
Taxes expense	(614)	(1,085)	(1,737)	(2,226)	(2,595)	(3,007)	(4,009)	(5,026)	(5,359)	(6,226)	(7,762)	(9,018)	(1,109)	(5,662)	(14,636)	(28,366)	(49,544)
Net income	1,260	2,342	3,857	5,194	6,054	7,017	9,354	11,726	12,505	14,527	18,112	21,042	3,409	12,652	34,151	66,186	115,603
EPS, NT$	**4.36**	**8.02**	**12.88**	**17.35**	**20.22**	**23.44**	**31.24**	**39.16**	**41.76**	**48.52**	**60.49**	**70.28**	**12.13**	**42.61**	**114.06**	**221.05**	**386.09**
Ratio analysis and assumption																	
As % of sales																	
Gross margin	25.1%	29.7%	36.9%	40.8%	40.7%	40.7%	41.5%	42.3%	43.0%	43.8%	44.3%	45.3%	22.7%	34.7%	41.5%	44.2%	46.6%
Operating expense ratio	7.0%	6.2%	5.9%	5.7%	5.7%	5.6%	4.7%	4.3%	4.4%	4.1%	3.8%	4.0%	8.4%	6.1%	4.9%	4.0%	4.0%
Operating margin	18.2%	23.5%	31.0%	35.1%	35.0%	35.1%	36.8%	38.0%	38.6%	39.7%	40.6%	41.3%	14.3%	28.6%	36.5%	40.2%	42.6%
Net margin	12.5%	16.4%	21.5%	24.6%	24.5%	24.6%	25.2%	26.1%	26.6%	27.4%	28.4%	28.9%	11.2%	19.9%	25.3%	28.0%	29.8%
QoQ growth (%)																	
Revenue	10.2%	42.2%	25.5%	17.7%	16.8%	15.7%	30.0%	20.9%	4.9%	12.8%	20.2%	14.0%	-	-	-	-	-
Gross profit	25.5%	68.1%	56.0%	30.1%	16.5%	15.6%	32.7%	23.2%	6.5%	14.9%	21.7%	16.5%	-	-	-	-	-
Operating income	41.7%	83.7%	65.8%	33.3%	16.6%	15.9%	36.3%	24.8%	6.5%	15.9%	22.9%	16.2%	-	-	-	-	-
Net income	16.4%	85.8%	64.7%	34.7%	16.6%	15.9%	33.3%	25.4%	6.6%	16.2%	24.7%	16.2%	-	-	-	-	-
YoY growth (%)																	
Revenue	57.8%	110.9%	122.6%	131.6%	145.5%	99.6%	106.7%	112.2%	90.6%	85.9%	71.9%	62.2%	32%	109%	113%	75%	64%
Gross profit	64.9%	196.1%	246.1%	328.0%	297.2%	173.2%	132.4%	120.1%	101.2%	100.1%	83.5%	73.5%	29%	219%	154%	87%	73%
Operating income	95.3%	293.9%	340.0%	475.3%	373.3%	198.5%	145.4%	129.8%	110.0%	110.0%	89.4%	76.3%	30%	318%	172%	93%	74%
Net income	87.4%	259.3%	284.7%	379.8%	380.5%	199.7%	142.5%	125.8%	106.5%	107.0%	93.6%	79.4%	31%	271%	170%	94%	75%

Source: Company data, Goldman Sachs Global Investment Research

Investment Thesis & PT methodology and risks

Investment Thesis - Elite Material

EMC, a key supplier of high-end HDI material (70%+ market share) and SLP material (90%+ market share), has been focusing on the high-speed switch/server CCL market for

3-5+ years. We are positive on its market share trajectory in the server industry and expect EMC to increase its share from <10% in the Purley generation to 15-20%/20+% in the Whitley/Eagle Stream platforms. EMC is also proactively expanding its share in the switch market (40%/30%+ in 2024/23 vs. <5% before 2019), with an expanding AI customer base (only one 400G customer in 3Q20, to being one of the largest suppliers in 2023), which should continue to benefit the company's top/bottom line growth over time. We believe EMC's leading position in the AI server CCL market should drive strong revenue growth and GM/OPM expansion in the long term, given that it is the major supplier for all Nvidia/Google/AWS AI server projects, and we expect it to maintain its leadership position. Considering its leading position in the high-end CCL industry, solid production skills and earnings growth outlook, we are Buy rated on the stock. With the shares trading at a 2026E P/E below AI server component suppliers and supported by a solid growth outlook, we view valuation as attractive.

Key downside risks include: (1) RCC to replace all high-end smartphone HDI design; (2) rising trade tensions, which could lead to weaker smartphone and server shipments; and (3) rising competition from mainland China peers.

Price Target Risks and Methodology - Elite Material

Valuation methodology: Our 12m TP of NT$11,700 is based on 27x 2H27-1H28E P/E (in line with the peak P/E multiple for AI component suppliers in the past 3 years).

Key downside risks: (1) RCC to replace all high-end smartphone HDI design; (2) rising trade tensions, which could lead to weaker smartphone and server shipments; and (3) rising competition from mainland China peers.

Investment Thesis - Taiwan Union Technology Corp.

TUC is a key high-end global CCL supplier that focuses on M7+ grade high-speed CCL (key applications include high-end switches (100G+) and AI server materials), with 20%+ market share in the past two years. The company continues to expect its unit market share in the server industry to increase from 15% in Whitley and Purley processors to higher in the Eagle Stream generation, and plans to launch two types of products for low -end and high-end customers (T2A and T2C) to gain market share. Also, strong growth in 400G/800G switch shipments and new 800G switch shipments, scheduled for launch in 2025-27, should continue to be a key demand driver for TUC, in our view. Additionally , the company is working on high-end AI projects with CSP and enterprise players, which we believe should drive revenue momentum in the long term. We view the stock as undervalued vs. Taiwan CCL peers on a P/E basis and rate it Buy.

Key downside risks include: (1) slower-than-expected share gains in the low-loss CCL segment; (2) rising trade tensions, which could lead to weaker server and switch shipments globally; and (3) rising competition from mainland China peers.

Price Target Risks and Methodology - Taiwan Union Technology Corp.

Valuation methodology: Our 12m TP of NT$3,460 is based on a 22x 2H27-1H28E P/E (+2x STDV higher than the past 3-year industry average P/E multiple).

Key downside risks: (1) slower-than-expected share gains in the low-loss CCL segment; (2) rising trade tensions, which could lead to weaker server and switch shipments globally; and (3) rising competition from mainland China peers.