

Key takeaways from Asia Tech Tour

Quick Note

UMC attended our Asia Tech Tour on 29 Aug.

Key comments from management include:

Recent business update

UMC's UTR (utilization rate) was full for the first nine months of 2022, and it started to drop from 4Q22 due to sector-wise inventory correction. UTR was 71% in 2Q23, and the guidance for 3Q23 is for it to drop to mid-60s. Management also reiterated its shipments guidance of a 3-4% decline q-q, and ASP to increase 2% q-q in USD terms (mainly due to P6 capacity ramp-up) for 3Q23. That said, management emphasized that in previous downturns, when the UTR dropped to low levels (60-70%), gross margins could drop to 10-15%, vs. the 2Q23 level of 36%, and guides for 3Q23 gross margin to drop by low-single-digits q-q. This would be underpinned by a better product mix (more 28/22nm contributions) and more resilient pricing despite a still competitive foundry market.

UMC holds a positive view on the auto market. Management expects auto to account for 15% of total revenue in 2023E, given that the company is gaining new customers, and their customers are also gaining shares. While IDM inventory looks high, UMC believes auto is a different market compared with consumer electronics, and hence it is not too worried about this segment.

We believe UMC has proven its successful transformation in this downturn (GPM now vs. past at similar UTR). Upcoming share price catalysts would be related to the semi cycle.

Capacity plan updates

- Tainan 12A P6 capacity: to reach 12k/wpm by end-2023. Another 18k/wpm of capacity will be added in 2024.
- Singapore Fab 12i capacity: to ramp in mid-2025.
- Interposer capacity: 3k/wpm in 2023, to double in 2024 in Singapore.
- No plans to expand 14nm capacity.

Rating Remains	Buy
Target price Remains	TWD 55.00
Closing price 29 August 2023	TWD 45.30

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
United Microelectronics Corporation	2303 TT	TWD 45.30	29-Aug-2023	Buy	N/A	A4,A5,A6,A7

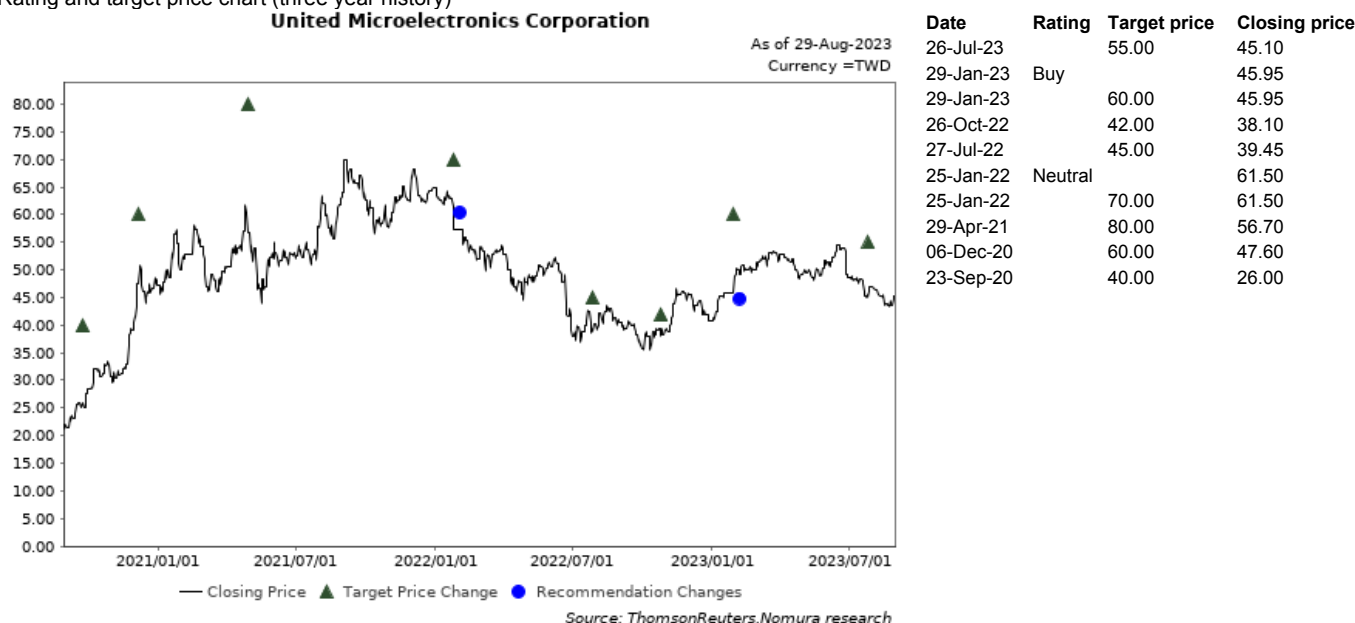
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United Microelectronics Corporation (2303 TT)

Rating and target price chart (three year history)

TWD 45.30 (29-Aug-2023) Buy (Sector rating: N/A)

United Microelectronics Corporation



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of TWD55 is based on 11x 2024F EPS. Our target multiple of 11x is at the low-to-mid end of UMC's historical range. The benchmark index is TAIEX.

Risks that may impede the achievement of the target price Downside risks: 1) a slowdown in the end- demand market; 2) slower 28nm demand; 3) a strategy change to heavy capex and aggressive capacity expansion, and 4) lower-than-expected improvement in the product mix.

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As at 30 June 2023.

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