Company Update
Semiconductor Manufacturing

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TruePulse Equity Research
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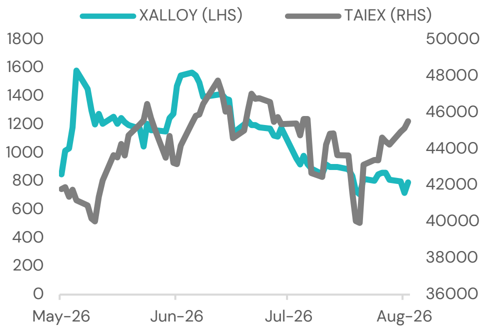
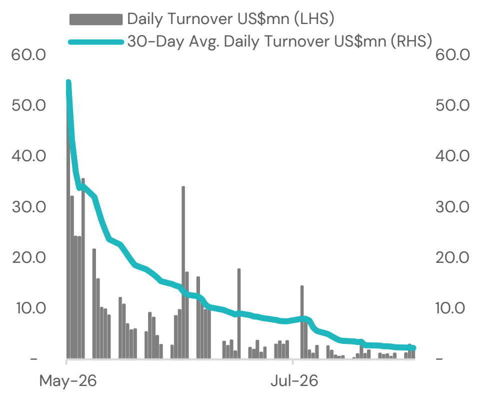
Key Statistics

Ticker:	7918.TW / 7918 TT
Current Price:	TWD 792.00
52-Week Range:	TWD 235 – 1,670
Avg. Vol. (30-Day, k share)	84.9
Outstanding Shares (MN)	43.1
FINI Holding (%)	0.08
Market Cap (US$MN)	1,058.4

Price Performance





XALLOY Advanced Materials

Advanced Materials Ramp Accelerates; VAS Growth Supports Earnings Quality

Company Overview

XALLOY Advanced Materials Corporation (7918 TT) is a semiconductor advanced materials platform spun off from Solar Applied Materials in 2025. The company focuses on front-end advanced processes, advanced packaging, specialty process materials, and circular economy services, with products including CuP anode, NiPt target, Cu alloy sputtering targets, Ta coil, Ru target, and spent target recycling solutions. Supported by major foundry customer qualifications, XALLOY is positioning itself as a higher-value semiconductor materials and services platform.

Key Points

Revenue Scale-Up, Timing-Driven Margin Pressure: XALLOY reported 2Q26 revenue of NT$1.76bn, up 29% QoQ, driven mainly by advanced packaging-related precious metal materials. Precious metal materials revenue rose 41% QoQ, while non-precious metals and others revenue grew 12% QoQ, showing continued scale-up across both materials sales and processing-related activities. Reported gross margin declined to 18% from 29% in 1Q26, mainly due to IFRS 15 revenue recognition timing and an inventory valuation loss of approximately NT$141mn. Excluding this impact, adjusted gross margin would have been 26.4%. We view 2Q26 as a timing-driven transition quarter rather than structural margin deterioration.

H2 Shipments to Drive Recognition Normalization: For the new advanced packaging business, XALLOY adopted a customer prepayment model for precious-metal procurement, with gold prices locked in at purchase. Part of April–June invoiced revenue had not yet been physically delivered and was deferred under IFRS 15, but these orders remain valid and are expected to ship progressively in H2. The inventory valuation loss was also mainly related to priced or prepaid precious metal positions not yet shipped. We believe H2 shipment execution, workforce ramp-up and fading valuation impacts will be key to reported margin normalization.

VAS Provides a Cleaner Earnings Lens: XALLOY's revenue structure should be analyzed beyond headline precious metal materials revenue, which is more sensitive to metal prices, shipment timing and transaction structures. The non-precious metals and others revenue bucket, including non-precious metal materials, materials processing VAS and other related revenue, provides a clearer read-through on processing capability, materials service value and advanced process penetration. We believe growth in non-precious metals and VAS revenue, VAS penetration and circular economy adoption will increasingly define XALLOY's economics as a high-value semiconductor materials and services platform.

Qualifications and Capacity Support Medium-Term Growth: XALLOY has obtained qualifications from major foundry customers which collectively represent nearly 80% of the global foundry market. These qualifications are lengthy and closely tied to yield, reliability, contamination control and supply stability, creating meaningful customer stickiness. XALLOY plans to invest NT$0.7–1.5bn over the next three to five years to expand capabilities in ultra-clean melting, high-purity refining, recycled raw materials, forming, precision machining and high-purity cleaning. We believe medium-term growth will depend on qualified product ramp-up, VAS growth and capacity execution.

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2Q26 Investor Meeting Takeaways

Advanced Materials Ramp Accelerates; VAS Growth Supports Earnings Quality

XALLOY Advanced Materials held its 2Q26 investor meeting today, providing an update on its post-spin-off positioning, 2Q26 financial performance, semiconductor materials roadmap, and medium-term capacity expansion plan. The company was spun off from Solar Applied Materials in 2025 as a dedicated semiconductor materials platform. Over the past several years, its CuP anode, NiPt target, sputtering targets, Cu alloy sputtering targets, Ta coil and Ru target have been qualified by major foundry customers, with the portfolio gradually expanding from mature materials into advanced process and higher-end semiconductor materials applications.

We believe the key message from the meeting was not simply the rapid revenue scale-up in 2Q26, but the clearer read-through on XALLOY's earnings structure after the spin-off. Precious metal materials drove headline revenue growth, while non-precious metals and others revenue, including materials processing and value-added services, better reflects the company's processing capability and technology-service value. Near-term reported margins were affected by IFRS 15 timing treatment and inventory valuation losses, but H2 shipment execution, customer prepayment mechanisms and workforce ramp-up should determine whether earnings quality normalizes from here.

2Q26 revenue reached a new high; reported gross margin was affected by timing and inventory valuation

XALLOY reported 2Q26 revenue of NT$1.76bn, up approximately 29% QoQ from NT$1.36bn in 1Q26. Precious metal materials revenue increased approximately 41% QoQ to NT$1.15bn, raising its contribution to around 66% of total revenue. Non-precious metals and others revenue also increased approximately 12% QoQ to NT$604mn, accounting for around 34% of total revenue. The quarter's growth was mainly driven by the ramp-up of advanced packaging-related precious metal materials, while non-precious metals, materials processing and VAS-related revenue also continued to expand.

The main moving parts in 2Q26 were revenue recognition timing, shipment schedule and inventory valuation, rather than demand weakness. For the new advanced packaging business, XALLOY adopted a customer prepayment model for precious-metal procurement, with gold prices locked in at the time of purchase. To align more conservatively with IFRS 15, the company recognizes revenue upon shipment. As a result, part of the revenue that had been invoiced but not yet physically delivered was deferred from a recognition standpoint. These orders remain valid and are expected to be delivered progressively in H2, allowing revenue and gross profit to be recognized as shipments are completed.

On profitability, 2Q26 gross profit declined to NT$322mn from NT$396mn in 1Q26, while reported gross margin fell to 18% from 29%. The decline was mainly driven by an inventory valuation loss of approximately NT$141mn. Excluding this valuation impact, 2Q26 adjusted gross profit would have been NT$463mn, implying an adjusted gross margin of 26.4%, around 8ppt above the reported level.

We believe 2Q26 should be read less as a structural margin deterioration quarter and more as a timing-driven transition quarter. Once shipments are delivered, these materials should follow the agreed pricing mechanism, allowing the valuation impact to reverse in H2. At the same time, the customer prepayment model has materially reduced XALLOY's self-owned precious metal exposure, lowering the sensitivity of underlying earnings to metal price volatility.

Operating cost discipline remained solid. 2Q26 operating expenses declined to NT$83mn from NT$87mn in 1Q26, reducing the opex-to-sales ratio to approximately 4.7% from 6.4%, despite revenue growing 29% QoQ. Even after the inventory valuation and recognition timing impacts, net income came in at NT$206mn, only slightly below NT$212mn in 1Q26, with net margin remaining at approximately 12%.

Non-precious metals and VAS revenue are the better indicators of earnings quality

XALLOY's revenue mix should be analyzed beyond headline precious metal materials revenue. Precious metal materials revenue is more sensitive to metal prices, customer shipment schedules and transaction structures. By contrast, the non-precious metals and others revenue bucket, which includes non-precious metal materials, materials processing VAS and other related revenue, is a better indicator of processing capability, materials service value and penetration into advanced process applications. Advanced process-related products already account for more than half of this revenue bucket, making it a key metric for assessing XALLOY's earnings quality and technology-service value.

The circular economy model further strengthens the long-term value of VAS and materials services. Using precious metal sputtering targets as an example, only around 30% of the target is consumed during production, leaving approximately 70% of the spent target unable to be directly reused. Through spent target recycling, refining and remanufacturing, materials can be returned to the customer's production line, creating a closed-loop materials solution. For XALLOY, this extends the revenue opportunity from one-time materials supply to recurring recycling, refining, processing and remanufacturing services, deepening its integration into customer processes.

We believe investors should focus less on the absolute size of precious metal materials revenue and more on the growth trajectory of non-precious metals and VAS revenue, VAS penetration, and the mix of advanced process-related products. If this revenue bucket continues to expand, XALLOY's financial profile should increasingly reflect the economics of a high-value semiconductor materials and services platform, rather than being overly influenced by metal price movements or transaction structure.

AI/HPC demand supports advanced materials growth as process complexity increases

Semiconductor devices are built through the stacking of multiple thin-film layers, with sputtering being one of the key deposition methods. Sputtering targets serve as the source material in this process, as target atoms are deposited onto wafers through plasma ion bombardment to form thin films. As process nodes advance and advanced packaging demand increases, requirements for purity, uniformity, consistency and reliability are also rising, increasing the strategic importance of high-end targets and specialty materials.

XALLOY identifies three structural drivers for future growth: increasing chip and process complexity, which raises both the variety and volume of materials required; the growing importance of localized supply; and rising demand for circular economy solutions. Market data cited in the company's presentation also supports the materials upgrade trend, with the global semiconductor materials market expected to expand from US$67.5bn in 2024 to US$87.0bn in 2029, and the global semiconductor target market expected to grow from US$1.35bn to US$1.91bn over the same period. We believe XALLOY's medium-term growth will depend on its ability to increase penetration in high-end sputtering targets, advanced packaging precious metal materials, ruthenium-based materials and circular economy services.

Tier 1 foundry qualifications deepen customer stickiness and long-term visibility

Semiconductor materials qualifications are lengthy and directly tied to yield, reliability, contamination control and supply stability. XALLOY has obtained qualifications from major foundry customers across multiple semiconductor materials over the past several years, demonstrating the quality system, process support capability and long-term service foundation required to participate in advanced semiconductor materials supply chains. The company's presentation indicates that its customers collectively represent nearly 80% of the global foundry market, while also highlighting close customer partnerships.

We believe the qualification cycle itself forms part of XALLOY's competitive moat. New products or new customer processes typically require two to three years of qualification, while fab-transfer or process-copy qualifications for existing products still require around one year. As semiconductor customers place greater emphasis on localized supply and second-source strategies, materials suppliers with established qualification records and local service capability should become increasingly relevant in the supply chain.

Capacity expansion is moving into execution; near-term bottleneck is talent, not equipment

XALLOY plans to invest NT$0.7–1.5bn over the next three to five years to expand production and R&D capacity, accelerating its deployment in higher-value semiconductor materials. The company's presentation lists several core technology capabilities and capacity expansion areas, including ultra-clean melting, high-purity refining, recycled raw materials, forming, precision machining and high-purity cleaning, all of which point toward advanced high-end process materials supply.

The capacity expansion should not be viewed simply as additional equipment. For semiconductor materials suppliers, competitiveness comes from the integration of high purity, cleanliness control, alloying, recycling, texture control and precision machining capabilities. If capacity build-out, customer qualifications and circular economy services scale in parallel, XALLOY's revenue mix should continue to shift toward higher-value materials and services.

H2 order visibility appears relatively clear, and customer demand is not the current constraint. The near-term bottleneck lies mainly in the pace of R&D and production talent ramp-up rather than equipment capacity. As staffing gradually catches up, shipment capability and capacity release should improve. Over the medium term, these factors should determine whether XALLOY can move from its initial post-spin-off ramp-up phase into a higher-quality earnings phase driven by VAS growth, product mix upgrade and deeper customer process integration.

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