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IDEA

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Tracking China's Semi Localization | Asia Pacific

Raising China AI GPU TAM on recent geopolitical dynamics

The recent tightening of US export controls for China's overseas entities may create a new TAM for China's AI GPU.

Recent news regarding halting of AI chip shipments to Chinese firms outside of China poses a 'bull case' scenario for China AI GPU: in early June, news reported that the US Department of Commerce had moved to close a potential loophole that may have led companies to export the world's most advanced chips – such as NVIDIA's most sophisticated Blackwell processors – to subsidiaries of Chinese companies located outside China. We think that, in the short term, China CSPs may turn to more GPU rental to fulfill the strong computing demand, while in the mid-to-longer term, it is likely that China AI GPU may potentially see overseas adoption, which is the bull base we argue in our China AI GPU Insight report.

We raise our forecast of China's AI chip TAM to US$91bn by 2030, up 36%, from US$67bn previously, implying a 23% CAGR over 2025-30. The upward revision is mainly because of: 1) Adding "CSP's overseas capex" as the new TAM; 2) Bytedance's plan to sharply increase its capital spending in 2026 and 2027 (link); 3) the addition of Kingsoft Cloud to the database; and 4) revised up sovereign and SOE-related TAM on back of government advocacy to increase spending on AI infrastructure.

Domestic AI infrastructure enters a critical deployment window: Our recent field trip in China in suggests that despite ongoing capacity expansion, major CSPs continue to face compute shortages, while vendor qualification activity is accelerating. We believe 2026 will be a critical year for domestic suppliers to enter CSP procurement systems, with competition increasingly driven by ecosystem maturity, software optimization and cluster deployment capabilities. On the supply side, access to leading-edge foundry capacity remains a key differentiator. Vendors approved for CCATS (Commodity Classification Automated Tracking System) with BIS (Bureau of Industry and Security) are allowed access to TSMC manufacturing and generally benefit from better cost and power efficiency, for example 7nm/6nm node for Iluvatar. Meanwhile, domestic advanced-node capacity continues to ramp. Industry participants expect a more stable local supply chain to emerge in 2027-28 other than SMIC South, supporting broader adoption of domestic AI infrastructure.

Stock implications – OW China GPU companies, fab and semicap plays: We like **Cambricon (OW) – we raise our PT to Rmb1,528**, and **Iluvatar CoreX (OW)– we raise our PT to HK$688** on back of stronger China CSP demand; we also like **SMIC (0981.HK, OW)** and **Hua Hong (1347.HK, EW)** as key enablers of China's AI localization. We are constructive on Chinese semi equipment – **Naura (002371.SZ), AMEC (688012.SS)** and **ACMR (ACMR.O)** – on their positioning in China's accelerating semiconductor localization cycle; and **ASMPT (0522.HK)** as an enabler of China advanced packaging.

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GREATER CHINA TECHNOLOGY SEMICONDUCTORS
Asia Pacific
Industry View **Attractive**

WHAT'S CHANGED

Cambricon Technology Corporation (688256.SS)	**From**	**To**
Price Target	Rmb1,342.28	**Rmb1,528.00**
Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)	**From**	**To**
Price Target	HK$600.00	**HK$688.00**

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China AI GPU market TAM

China's AI GPU demand is concentrated across a small number of large buyer groups, whose capex decisions ultimately define the size of the addressable market.

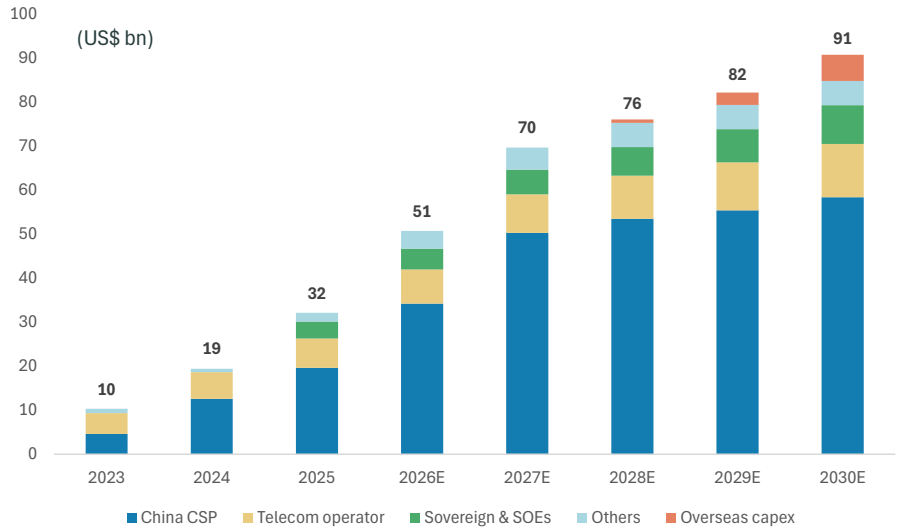
- The first group comprises China's CSPs – including ByteDance, Alibaba and Tencent – which procure AI chips both to train and run inference on proprietary models and to deploy AI infrastructure for external cloud customers.
- The second group includes China's telecom operators, SOEs and municipal governments – the so-called sovereign-AI buyers – where demand is driven by national AI infrastructure build-out, data sovereignty, and public-sector applications.
- AI start-ups (e.g., DeepSeek, MiniMax) and auto OEMs (e.g., Xpeng, Xiaomi) also purchase AI chips, although their volumes currently remain smaller than those of the first two groups.

We forecast China's AI chip TAM to reach US$91bn by 2030 up 36% from US$67bn previously, implying a 23% CAGR over 2025-30. The upward revision is mainly because:

- We added new category (China CSP's overseas AI data center using local GPU). In the short term, China CSPs may turn to more GPU rental to fulfill the strong computing demand, while in the mid-to-longer term, it is likely that China AI GPU may potentially see overseas adoption. Therefore we assume that part to be zero until 2027, but from 2028 onwards, we expect 3%/10%/20% of overseas capex to be addressed by local CPU in 2028/29/30.
- Bytedance is planning to sharply increase its capital spending in 2026 and 2027 in a bid to lead the Chinese artificial intelligence market and challenge the top US players abroad – the news reported that 2027 capex could be US$100 bn if economic and business conditions are favourable, we put US$80bn (~Rmb542bn) to build in some conservatism.
- We added Kingsoft Cloud to the database, its capex surged to Rmb3bn, with full-year 2026 capital investments projected to exceed Rmb15-20bn to meet explosive AI and cloud demand.
- We revised up sovereign and SOE-related TAM to US$9bn up from US$7bn previously. Recent news (*Bloomberg*, Jun 9) reported that China is preparing Rmb2tn over the next five years for building data centres across the country, so far we did not see specific government guidance, but directionally SOE and local government will spend more on AI infrastructure.

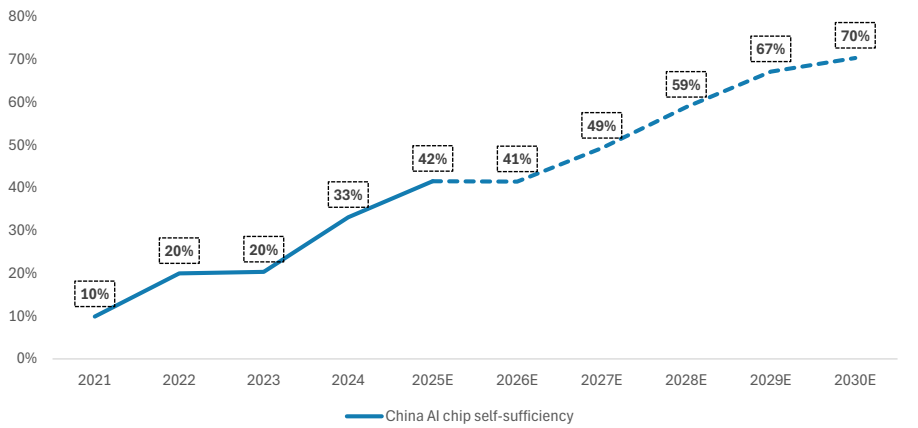
We expect China's AI-chip self-sufficiency to rise from 42% in 2025 to 70% in 2030e. We expect leading-node-capacity expansion and continued chip-performance improvement to drive local AI-chip revenue growth.

Exhibit 1: We expect China AI chip TAM to grow to US$91bn by 2030E



Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 2: We expect China AI chip self-sufficiency to reach 70% in 2030E



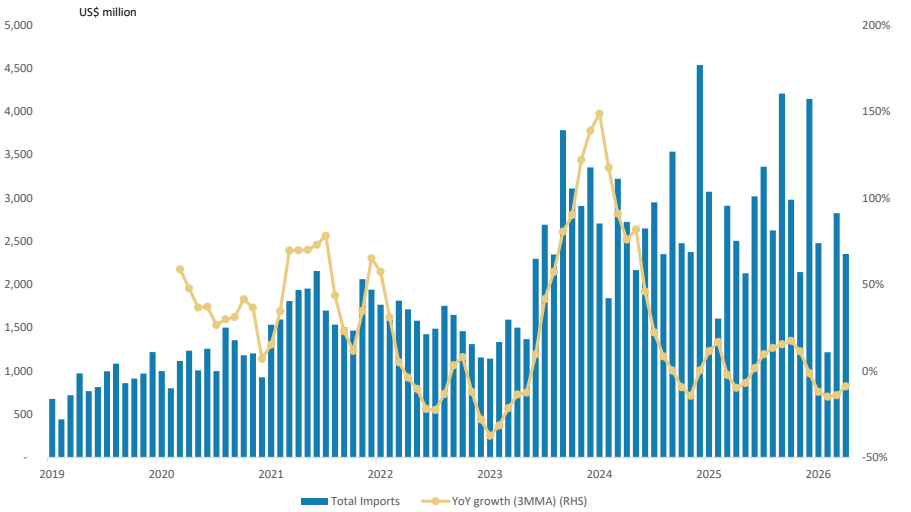
Source: Company data, Morgan Stanley Research (e) estimates

China Semi Equipment Import Trends

China's semi equipment import value was US$2.4bn in Apr 2026, down 6% Y/Y. On a three-month moving average basis, the Y/Y growth was -9%, up from the -14% YoY in Mar 2026 (Exhibit 3). Our US team expects China WFE to grow at 16% yoy in 2026, to US $48bn, mainly driven by memory and leading-node capacity expansion (link). We expect local equipment vendors to further gain market share on the back of an increasing China WFE TAM.

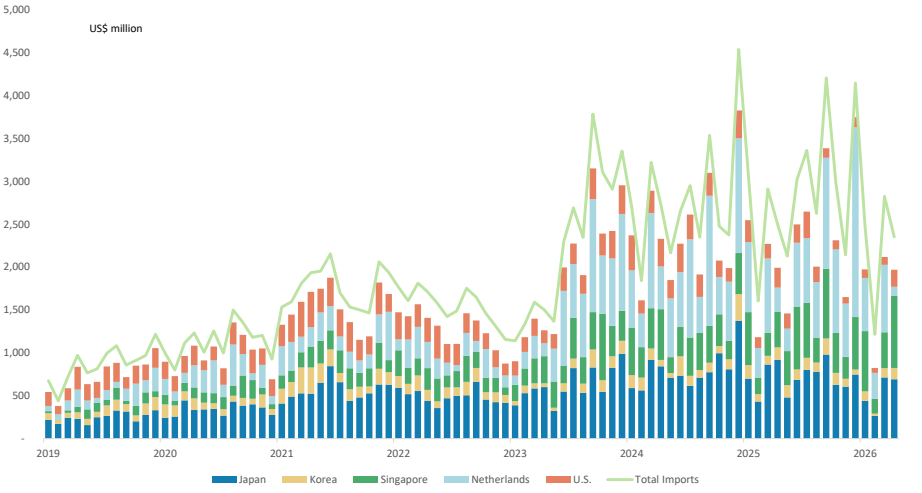
YTD, import values from the US, Netherlands, Korea and Japan have all decreased: -43%, -22%, -23% and -28% Y/Y, respectively. Only import from Singapore was up 43% YoY.

Exhibit 3: Growth in China's semi equipment imports declined to -9% Y/Y (3MMA) in Apr 2026



Source: China's General Administration of Customs, Morgan Stanley Research.

Exhibit 4: Semi equipment imports from most major countries was down yoy (YTD)



Source: China's General Administration of Customs, Morgan Stanley Research.

Monthly Performance and Catalysts

Outperformers: ACMR +49.2%, Gigadevice +36.2%, JCET +24.8%

Underperformers: Shanghai Fudan -38.4%, USI -20.7%, Maxscend -18.3%

Over the past month, ACMR has outperformed, because of strong demand from memory clients and, in our view, because Huawei's LogicFolding process will drive increased adoption of ECP for TSV metallization, catalyzing rapid growth in ACMR's non-wet cleaning tool business (link). For Gigadevice, we see recent developments for servers (for high performance NAND) suggest potential adoption of SLC in datacenters, as SLC is ideal for fast reading and writing speed, Gigadevce is one of the beneficiary of this trend. Also NOR is seeing more tightness on mature foundry shortages (link).

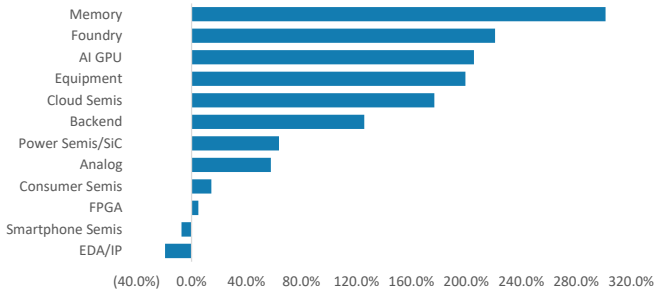
Among the underperformers, Shanghai Fudan's share price saw a decline of 38.4% in the past month on corrected sentiment toward low earth orbit satellites, as carrier rockets are not yet recyclable. Also, USI share price declined by 20.7%, reflect market concern regarding delays in CPO introduction (link).

Exhibit 5: Share price performance of key Chinese semi localization stocks

		Price (loc)	Mkt Cap (US$ mn)	Stock Rating	Performance 1M	3M	12M	YTD
Foundry								
0981.HK	SMIC	71.65	91,921	O	(6.5%)	13.5%	75.6%	0.3%
1347.HK	Hua Hong Semiconductor Ltd	139.20	36,794	E	7.5%	46.5%	366.3%	87.3%
Backend								
601231.SS	Universal Scientific Ind. (Shanghai)	33.90	11,978	O	(20.7%)	(13.3%)	136.9%	13.0%
600584.SS	JCET	68.92	18,240	E	24.8%	50.7%	114.6%	87.4%
AI GPU								
688256.SS	Cambricon Technology Corporation	1,240.00	115,226	O	(3.0%)	68.1%	205.5%	36.3%
9903.HK	Iluvatar CoreX Semiconductor Co., Ltd.	528.00	17,136	O	1.5%	67.6%	--	--
688802.SS	MetaX Integrated Circuits	694.89	41,120	E	(10.6%)	33.6%	--	19.8%
Equipment								
ACMR.O	ACM Research Inc	93.95	6,493	O	49.2%	107.5%	265.2%	138.1%
0522.HK	ASMPT Ltd	182.90	9,789	O	3.8%	67.3%	236.5%	136.2%
688012.SS	Advanced Micro-Fabrication Equipment Inc	303.92	42,059	O	16.6%	43.6%	172.8%	66.0%
002371.SZ	NAURA Technology Group Co Ltd	667.19	71,582	O	14.7%	45.7%	122.8%	45.3%
Analog								
300661.SZ	SG Micro Corp.	111.44	10,290	E	7.8%	49.0%	57.7%	62.4%
Smartphone Semis								
300782.SZ	Maxscend Microelectronics Co Ltd	89.76	7,633	U	(18.3%)	9.6%	27.3%	10.2%
603501.SS	OmniVision Integrated Circuits Group Inc	86.01	15,871	E	(16.7%)	(23.8%)	(31.5%)	(31.7%)
603160.SS	Shenzhen Goodix Technology Co Ltd	55.99	3,858	U	(15.6%)	(22.4%)	(17.6%)	(29.1%)
Consumer Semis								
688018.SS	Espressif Systems	112.00	3,883	O	(9.8%)	1.7%	14.5%	(7.8%)
Memory								
603986.SS	GigaDevice Semiconductor Beijing Inc	481.47	50,330	O	36.2%	75.2%	301.4%	124.7%
Cloud Semis								
688008.SS	Montage Technology Co Ltd -A	224.88	41,563	O	(6.6%)	52.1%	176.7%	90.9%
6809.HK	Montage Technology Co Ltd -H	355.00	41,563	O	(14.0%)	91.4%	--	--
Power Semis/SiC								
688396.SS	China Resources Microelectronics Limited	60.80	11,944	U	(0.2%)	19.0%	33.0%	15.0%
603290.SS	StarPower Semiconductor Ltd	109.00	3,861	E	(3.7%)	(0.1%)	36.3%	13.4%
300373.SZ	Yangjie Technology	96.68	7,787	O	23.3%	22.6%	97.8%	42.2%
600460.SS	Hangzhou Silan Microelectronics Co. Ltd.	32.15	7,913	U	6.4%	10.9%	35.0%	13.2%
688234.SS	SICC Co Ltd	123.70	8,454	O	(4.9%)	48.9%	120.4%	39.2%
2577.HK	InnoScience	57.70	6,738	E	(17.7%)	(9.3%)	59.4%	(26.4%)
EDA/IP								
301269.SZ	Empyrean Technology Co Ltd	94.57	7,629	E	(1.3%)	(0.3%)	(19.3%)	(11.1%)
FPGA								
002049.SZ	Unigroup Guoxin Microelectronics Co Ltd	71.51	8,986	U	(10.2%)	(4.9%)	13.7%	(9.3%)
1385.HK	Shanghai Fudan Microelectronics	26.80	5,206	O	(38.4%)	(37.0%)	(3.8%)	(40.9%)
	CSI 300	**4,777.32**			**(3.5%)**	**1.9%**	**22.7%**	**3.2%**
	SSE Composite	**4,031.51**			**(4.3%)**	**(2.4%)**	**18.5%**	**1.6%**

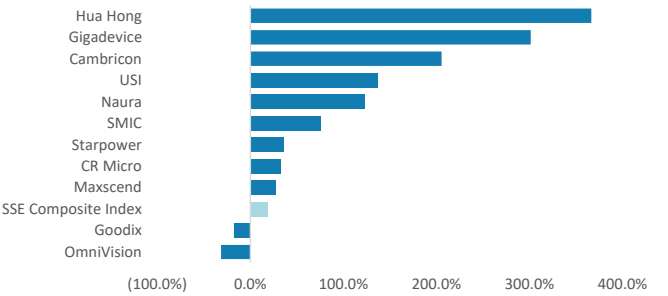
Source: FactSet, Morgan Stanley Research. Note: Market data as of the close on Jun 12, 2026. Past performance is no guarantee of future results. Results shown do not include transaction costs.

Exhibit 6: 12-month share price performance, by segment



Source: FactSet, Morgan Stanley Research. Note: Market data as of the close on Jun 12, 2026. Past performance is no guarantee of future results. Results shown do not include transaction costs.

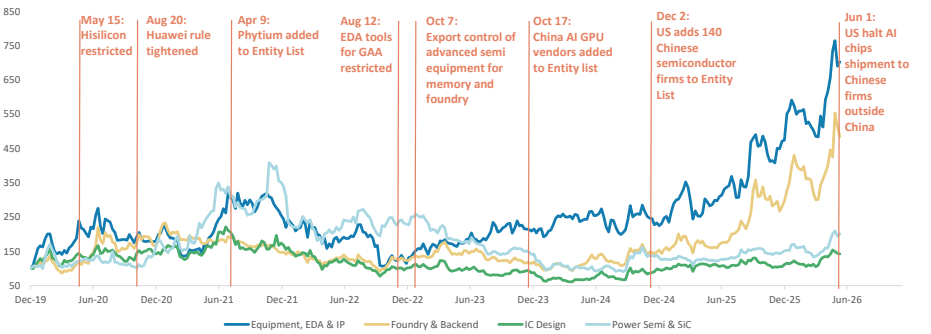
Exhibit 7: Key stocks' 12-month share price performance



Source: FactSet, Morgan Stanley Research. Note: Market data as of the close on Jun 12, 2026. Past performance is no guarantee of future results. Results shown do not include transaction costs.

Exhibit 8:

Greater China semi localization stocks' performance trends



Source: FactSet, Morgan Stanley Research. Note: Market data as of the close on Jun 9, 2026. Past performance is no guarantee of future results. Results shown do not include transaction costs.

Catalysts and key events

Date	Event	Location
July 17-20, 2026	World Artificial Intelligence Conference	Shanghai, China
August 26-28, 2026	AGIC Shenzhen Int'l AGI Conference & Expo	Shenzhen, China
Aug 31 - Sep 2, 2026	Semiconductor Equipment, Materials and Core Parts Exhibition (CSEAC)	Wuxi China
Sept 9-11, 2026	China International Optoelectronics Exposition & Int'l Integrated Circuit Innovation Expo	Shenzhen, China
Oct 14-16, 2026	SemiBay	Shenzhen, China
Oct 27-29, 2026	China Int'l Semiconductor Technology & Application Expo	Shenzhen, China
Nov 26-28, 2026	China AI & Robot Industry Chain Expo	Shenzhen, China

Cambricon: Earnings estimate revisions and quarterly financials

We raise our revenue forecasts 6% for 2026, 10% for 2027 and 9% for 2028: This primarily reflects our upgraded China AI accelerator market TAM. Cambricon, as one of the top players in this market, is likely to further benefited by the robust AI semi demand. We also see stable supply chain at SMIC for Cambricon, which could help the company to volume ship MLU580 and MLU690 in 2H26.

Given better product mix (higher contribution from more advanced AI chips like MLU690), we also lift our gross margin assumptions to 49.7%, and 49.2% (from 49.3%, and 48.7%) in 2027 and 2028. Therefore, we increase our EPS estimates 5%, 12%, and 12% for 2026, 2027, and 2028.

Exhibit 9: Cambricon: Earnings estimate revisions

US$ mn	New '26	Old'26E	Diff.	New '27	Old'27E	Diff.	New '28	Old'28E	Diff.
Net sales	22,869	21,669	6%	42,274	38,409	10%	55,971	51,176	9%
Gross profit	11,637	11,037	5%	21,011	18,944	11%	27,558	24,940	10%
Operating profit	7,868	7,470	5%	14,374	12,875	12%	19,682	17,639	12%
Pretax Income	7,776	7,377	5%	14,451	12,952	12%	19,750	17,707	12%
Net income	7,332	6,973	5%	12,283	11,009	12%	16,788	15,051	12%
EPS for consensus	**12.39**	**11.82**	**5%**	**19.45**	**17.44**	**12%**	**26.59**	**23.84**	**12%**
Margins									
Gross margin	50.9%	50.9%		49.7%	49.3%		49.2%	48.7%	
Operating margin	34.4%	34.5%		34.0%	33.5%		35.2%	34.5%	
Pretax margin	34.0%	34.0%		34.2%	33.7%		35.3%	34.6%	
Net margin	32.1%	32.2%		29.1%	28.7%		30.0%	29.4%	
Opex %	16.5%	16.5%		15.7%	15.8%		14.1%	14.3%	

Source: Morgan Stanley Research (e) estimates

Exhibit 10: Cambricon: Quarterly financials

(Rmb mn)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E	2025	2026E	2027E	2028E
Total revenues	**1,111.4**	**1,769.2**	**1,726.8**	**1,889.8**	**2,884.7**	**3,871.7**	**5,913.8**	**10,198.8**	**6,497.2**	**22,869.0**	**42,274.2**	**55,971.1**
Q/Q Change	*12.4%*	*59.2%*	*-2.4%*	*9.4%*	*52.6%*	*34.2%*	*52.7%*	*72.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Y/Y Change	*4229.6%*	*4424.9%*	*1332.5%*	*91.0%*	*159.6%*	*118.8%*	*242.5%*	*439.7%*	*453.2%*	*252.0%*	*84.9%*	*32.4%*
Cost of Sales	**489.1**	**780.5**	**790.2**	**854.0**	**1,317.4**	**1,858.4**	**2,956.8**	**5,099.3**	**2,913.9**	**11,232.0**	**21,262.7**	**28,413.0**
Percent of Revenues	*44%*	*44%*	*46%*	*45%*	*46%*	*48%*	*50%*	*50%*	*45%*	*49%*	*50%*	*51%*
Gross Profit	**622.3**	**988.7**	**936.6**	**1,035.7**	**1,567.3**	**2,013.3**	**2,957.0**	**5,099.5**	**3,583.3**	**11,637.1**	**21,011.5**	**27,558.0**
Gross Margin	***1.0%***	***55.9%***	***54.2%***	***54.8%***	***54.3%***	***52.0%***	***50.0%***	***50.0%***	***55.2%***	***50.9%***	***49.7%***	***49.2%***
Incremental Margin	*47.9%*	*55.7%*	*NM*	*60.8%*	*53.4%*	*45.2%*	*46.2%*	*50.0%*	*54.8%*	*49.2%*	*48.3%*	*47.8%*
Total Opex	**330.0**	**338.0**	**355.2**	**593.7**	**372.6**	**689.2**	**993.5**	**1,713.4**	**1,616.9**	**3,768.7**	**6,637.1**	**7,875.9**
Percent of Revenues	*29.7%*	*19.1%*	*20.6%*	*31.4%*	*12.9%*	*17.8%*	*16.8%*	*16.8%*	*24.9%*	*16.5%*	*15.7%*	*14.1%*
R&D	272.6	269.3	300.9	508.0	324.0	619.5	887.1	1,529.8	1,350.8	3,360.4	5,918.4	6,980.3
Percent of Revenues	*24.5%*	*15.2%*	*17.4%*	*26.9%*	*11.2%*	*16.0%*	*15.0%*	*15.0%*	*20.8%*	*14.7%*	*14.0%*	*12.5%*
General & Adm Exp.	43.1	54.9	39.8	60.4	35.9	50.3	76.9	132.6	198.1	295.7	507.3	615.7
Percent of Revenues	*3.9%*	*3.1%*	*2.3%*	*3.2%*	*1.2%*	*1.3%*	*1.3%*	*1.3%*	*3.0%*	*1.3%*	*1.2%*	*1.1%*
Selling Expenses	14.4	13.7	14.6	25.4	12.6	19.4	29.6	51.0	68.0	112.6	211.4	279.9
Percent of Revenues	*1.3%*	*0.8%*	*0.8%*	*1.3%*	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*1.0%*	*0.5%*	*0.5%*	*0.5%*
Operating Income	**292.2**	**650.8**	**581.3**	**442.1**	**1,194.6**	**1,324.2**	**1,963.5**	**3,386.1**	**1,966.4**	**7,868.3**	**14,374.4**	**19,682.2**
Operating Margin	*26.3%*	*36.8%*	*33.7%*	*23.4%*	*41.4%*	*34.2%*	*33.2%*	*33.2%*	*30.3%*	*34.4%*	*34.0%*	*35.2%*
Total Non-operating Income (loss)	**63.1**	**31.6**	**(15.2)**	**13.5**	**(180.4)**	**30.5**	**20.7**	**36.4**	**93.0**	**(92.7)**	**76.2**	**67.4**
Profit Before Taxes	**355.4**	**682.4**	**566.1**	**455.5**	**1,014.2**	**1,354.7**	**1,984.2**	**3,422.5**	**2,059.4**	**7,775.6**	**14,450.6**	**19,749.6**
Percent of Revenues	*32.0%*	*38.6%*	*32.8%*	*24.1%*	*35.2%*	*35.0%*	*33.6%*	*33.6%*	*31.7%*	*34.0%*	*34.2%*	*35.3%*
Taxes	**0.1**	**(0.0)**	**(0.3)**	**1.1**	**1.1**	**1.4**	**99.2**	**342.2**	**0.9**	**443.9**	**2,167.6**	**2,962.4**
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.2%*	*0.1%*	*0.1%*	*5.0%*	*10.0%*	*0.0%*	*5.7%*	*15.0%*	*15.0%*
Total Net Income to Parent	**355.5**	**682.6**	**566.6**	**454.6**	**1,013.2**	**1,353.4**	**1,885.1**	**3,080.3**	**2,059.2**	**7,332.0**	**12,283.4**	**16,787.5**
Percent of Revenues	*32.0%*	*38.6%*	*32.8%*	*24.1%*	*35.1%*	*35.0%*	*31.9%*	*30.2%*	*31.7%*	*32.1%*	*29.1%*	*30.0%*
EPS for consensus (Rmb)	**0.8**	**1.6**	**1.3**	**1.1**	**2.4**	**2.1**	**3.0**	**4.9**	**4.9**	**12.4**	**19.5**	**26.6**

Source: Company data, Morgan Stanley Research (e) estimates

Cambricon: Valuation, raising price target to Rmb1,528

We continue to derive our price target (our base case scenario value) from a residual income model. The price target change reflects our EPS estimate revisions for 2026-28, driven by improved market TAM forecast and stabilized supply chain from local suppliers.

Key valuation assumptions remain the same: cost of equity of 8.4% (beta of 1.06, risk-free rate of 2%, and risk premium of 6%), intermediate growth rate of 16%, and terminal growth rate of 6.0%.

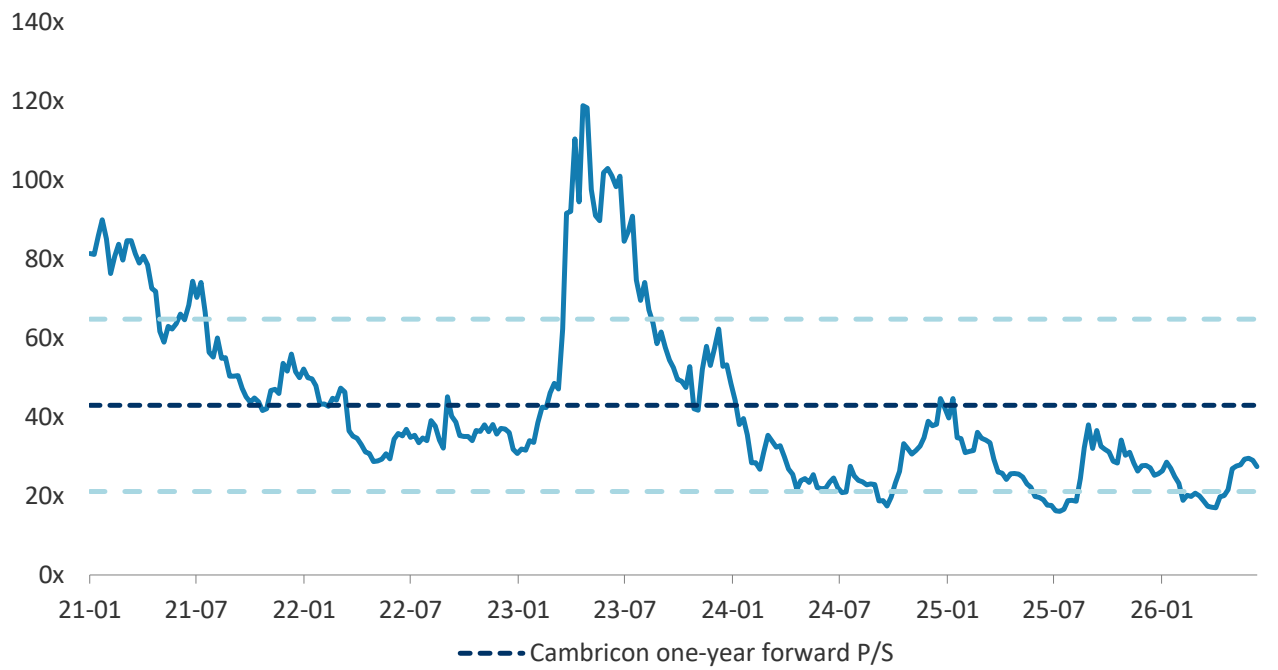
Our bull and bear case scenario values also rise from Rmb2,536.79 and Rmb676.21 to Rmb2,887 and Rmb770, respectively, implying 2026e P/S of 73x and 20x.

Exhibit 11: Cambricon: Residual income model

Rmb million	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E	2038E
Total Equity	**18,675**	**29,459**	**43,746**	**55,469**	**69,068**	**84,843**	**103,141**	**124,367**	**148,990**	**177,552**	**210,684**	**249,117**	**293,699**
Net Profit	**7,332**	**12,283**	**16,788**	**19,474**	**22,589**	**26,204**	**30,396**	**35,260**	**40,901**	**47,445**	**55,036**	**63,842**	**74,057**
ROAE	**48.0%**	**51.0%**	**45.9%**	**39.3%**	**36.3%**	**34.1%**	**32.3%**	**31.0%**	**29.9%**	**29.1%**	**28.4%**	**27.8%**	**27.3%**
Residual Income	4,701	7,970	11,048	13,515	15,485	17,744	20,345	23,347	26,820	30,840	35,496	40,893	47,148
Spread	**39.7%**	**42.7%**	**37.5%**	**30.9%**	**27.9%**	**25.7%**	**24.0%**	**22.6%**	**21.6%**	**20.7%**	**20.0%**	**19.4%**	**18.9%**
Ending Equity Capital	18,675												
PV of Forecast Period	138,265												
PV of Continuing Value	808,041												
Equity Value	**964,981**												
No. of Shares	631												
Price Target	**1,528**												

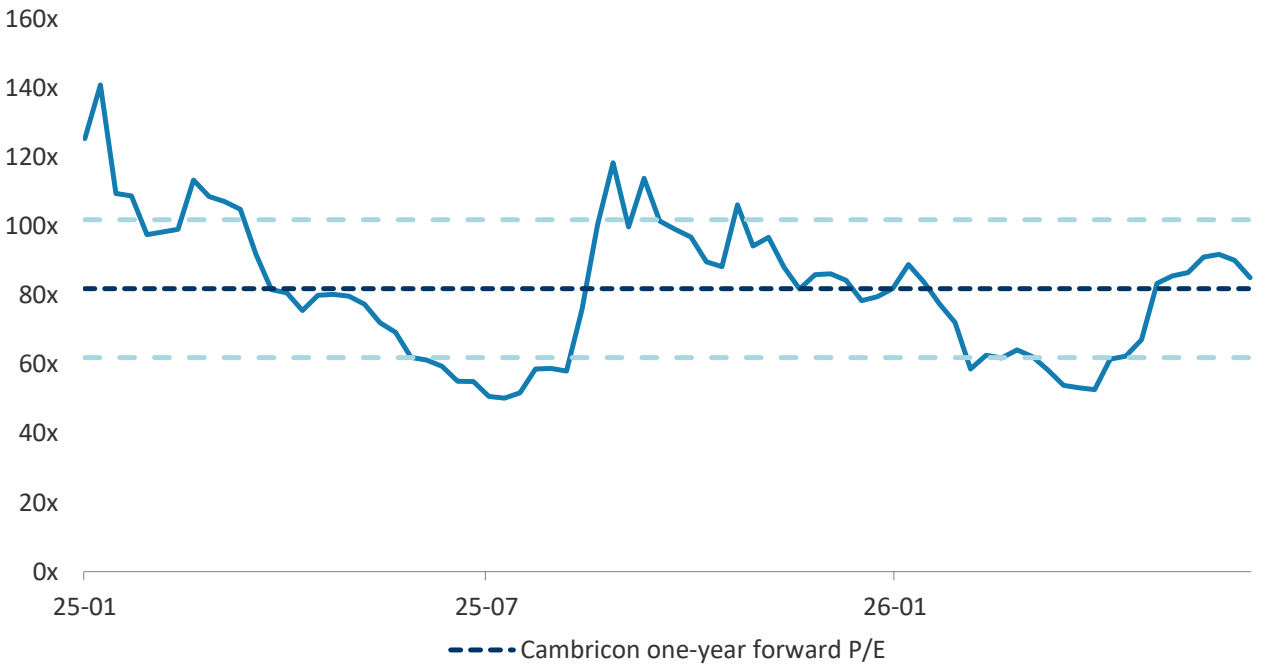
Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 12: Cambricon: One-year forward P/S trend



Source: Company data, FactSet, Morgan Stanley Research

Exhibit 13: Cambricon: One-year forward P/E trend



Source: Company data, FactSet, Morgan Stanley Research

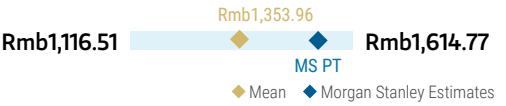
Risk Reward – Cambricon Technology Corporation (688256.SS)

Raising China AI GPU TAM

PRICE TARGET Rmb1,528.00

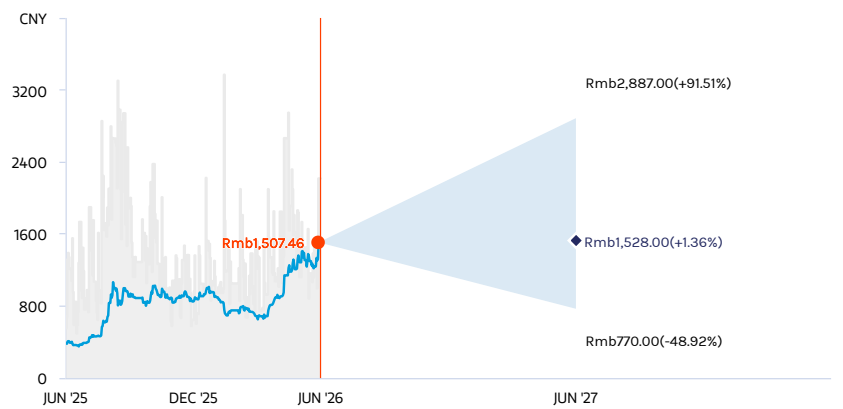
Key valuation assumptions underpinning our model include: an 8.4% cost of equity (derived from a beta of 1.06, risk-free rate of 2.0%, and equity risk premium of 6.0%), a long-term payout ratio of 40% (was 57%), a medium-term growth rate of 16%, and a terminal growth rate of 6.0%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



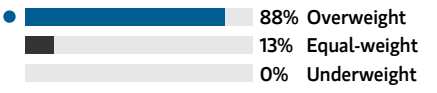
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Cambricon has deep engagement with major CSPs with proven product-market fit. MLU590 is widely deployed in SAD workloads, supporting strong order visibility as AI infrastructure scales.
- Domestic supply chain transition is underway, with production shifting to SMIC. Yields remain a challenge, but we expect gradual improvement through 2026.
- Aggressive product roadmap, with next-generation MLU690 expected in 4Q26, potentially boosting performance ~2.2x and sustaining technology leadership.
- P/E and P/S multiples are elevated in absolute terms, but we find them justified by superior growth profile, improving supply visibility, and strong positioning as a key domestic AI chip supplier.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Secular Growth:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE Rmb2,887.00

73x 2026e P/S

We assume (1) >130% revenue CAGR in 2025-28 driven by stronger-than-expected domestic generative AI infrastructure build-out and large-scale procurement of cloud training and inference chips; (2) sustained share gains in China's domestic high-performance AI chip market; (3) gross margin improves to over 55% in 2026 and 2027 thanks to production scale effects, mature technology iteration and optimized high-value product structure.

BASE CASE Rmb1,528.00

39x 2026e P/S

We assume (1) 105% revenue CAGR in 2025-28 driven by domestic generative AI infrastructure spending from CSP clients; (2) gross margin reaches 51% and 50% in 2026 and 2027 given lower selling prices due to products with smaller die size.

BEAR CASE Rmb770.00

20x 2026e P/S

We assume (1) <60% revenue CAGR in 2025-28 given slower-than-expected domestic AI capital expenditure and LLM commercialization progress; (2) market share loss in China's AI chip market, and failure to secure continuous mass orders from top-tier customers; and (3) gross margin falls below 40% in 2026 and 2027 due to fierce price competition, rising wafer fabrication costs and underutilized production capacity.

Risk Reward – Cambricon Technology Corporation (688256.SS)

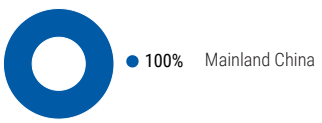
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Gross Profit (YoY) (%)	438.0	224.8	80.6	31.2

INVESTMENT DRIVERS

- CSP capex expansion
- Large model deployment growth
- Domestic substitution tailwind
- Product iteration (MLU roadmap)
- Software ecosystem improvement
- Policy support for AI chips
- New customer penetration
- Scaling of AI clusters

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 MOST — 3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected AI demand
- CSP order ramp-up
- Accelerating localization

RISKS TO DOWNSIDE

- Capacity and yield constraints
- Customer concentration risk
- Slower technology iteration

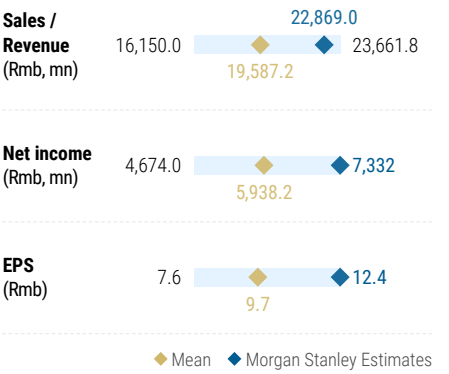
OWNERSHIP POSITIONING

Inst. Owners, % Active 69.5%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



Source: Refinitiv, Morgan Stanley Research

Cambricon: Financial Summary

Income Statement

Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Net sales	6,497.2	22,869.0	42,274.2	55,971.1
COGS	2,913.9	11,232.0	21,262.7	28,413.0
Gross profit	3,583.3	11,637.1	21,011.5	27,558.0
Operating expenses	1,616.9	3,768.7	6,637.1	7,875.9
Operating income	**1,966.4**	**7,868.3**	**14,374.4**	**19,682.2**
Non-operating income	93.0	(92.7)	76.2	67.4
Pre-tax income	2,059.4	7,775.6	14,450.6	19,749.6
Income tax	0.9	443.9	2,167.6	2,962.4
Minority Interest	(0.7)	(0.4)	(0.4)	(0.4)
Reported net Income	**2,059.2**	**7,332.0**	**12,283.4**	**16,787.5**
Adj.wtd.avg.shrs(m)	419.6	576.6	628.3	628.3
Reported EPS (Rmb)	**4.9**	**12.5**	**19.6**	**26.7**
EPS for consensus (Rmb)	**4.9**	**12.4**	**19.5**	**26.6**

Balance Sheet

Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cash	1,317.4	3,291.5	13,395.4	24,338.8
Mkt Securities	4,261.2	4,261.2	4,261.2	4,261.2
AR/NR	670.6	2,506.2	4,632.8	6,133.8
Inventory	4,943.5	9,231.8	8,738.1	11,676.6
Other	887.8	887.8	887.8	887.8
Current Assets	**12,080.4**	**20,178.4**	**31,915.2**	**47,298.1**
Long-term investments	299.7	299.7	299.7	299.7
Fixed assets	372.7	372.7	372.7	372.7
Intangible Assets	189.1	169.1	149.1	129.1
Other assets	495.8	595.8	695.8	795.8
Total Assets	**13,437.7**	**21,615.6**	**33,432.5**	**48,895.4**
S/T borrowings	0.0	0.0	0.0	0.0
AP/NP	1,115.9	2,461.8	3,495.2	4,670.6
Other ST liabilities	217.0	217.0	217.0	217.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	261.5	261.5	261.5	261.5
Total Liabilities	**1,594.5**	**2,940.3**	**3,973.8**	**5,149.2**
Common shares	421.7	421.7	421.7	421.7
Additional capital	11,270.3	11,270.3	11,270.3	11,270.3
Retained earning	(11.8)	6,820.3	17,603.7	31,891.2
Other shareholders' equity	163.0	163.0	163.0	163.0
Total Equity	**11,843.3**	**18,675.3**	**29,458.7**	**43,746.2**
Total Liab. & Shrhldr's Equity	**13,437.7**	**21,615.6**	**33,432.5**	**48,895.4**

E = Morgan Stanley Research Estimates
Source: Morgan Stanley Research, Company Data

Cash Flow Statement

Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cashflow from Operations	**(498.5)**	**2,554.1**	**11,683.9**	**13,523.4**
Net profits	2,059.2	7,332.0	12,283.4	16,787.5
Depreciation	116.7	0.0	0.0	0.0
Working Capital Change	(3,126.6)	(4,777.9)	(599.5)	(3,264.1)
Other adjustments	452.2	0.0	0.0	0.0
Cashflow from Investing	**(4,142.0)**	**(80.0)**	**(80.0)**	**(80.0)**
Capex	(142.8)	0.0	0.0	0.0
Change of LT Investment	(53.1)	0.0	0.0	0.0
Change of ST Investment	(3,501.0)	0.0	0.0	0.0
Other adjustments	(445.1)	(80.0)	(80.0)	(80.0)
Cashflow from financing	3,986.0	(500.0)	(1,500.0)	(2,500.0)
Increase in L/T debt	0.0	0.0	0.0	0.0
Increase in S/T debt	(100.1)	0.0	0.0	0.0
Cash Dividend Paid	0.0	(500.0)	(1,500.0)	(2,500.0)
Issuance of stock	1,465.7	0.0	0.0	0.0
Other adjustments	2,620.4	0.0	0.0	0.0
Exchange rate adjustment	(0.0)	0.0	0.0	0.0
Net change in cash	**(654.6)**	**1,974.1**	**10,103.9**	**10,943.4**

Financial Ratios

	2025	2026E	2027E	2028E
Growth(%)				
Revenue	453.2	252.0	84.9	32.4
Operating profits	NA	300.1	82.7	36.9
Pretax profits	NA	277.6	85.8	36.7
Net profits	NA	256.1	67.5	36.7
EPS	NA	153.9	56.9	36.7
Margins (%)				
Gross Margin	55.2	50.9	49.7	49.2
Operating Margin	30.3	34.4	34.0	35.2
Pretax Margin	31.7	34.0	34.2	35.3
Net Profit	31.7	32.1	29.1	30.0
Return (%)				
ROAE	23.8	48.0	51.0	45.9
ROAA	20.4	41.8	44.6	40.8
Gearing (%)				
Net Debt/Equity	(11.1)	(17.6)	(45.5)	(55.6)
Liabilities/Equity	13.5	15.7	13.5	11.8
Ratios (X)				
Current ratio	9.1	7.5	8.6	9.7
Quick ratio	1.5	2.2	4.9	6.2
Others				
AR/NR Turnover (days)	40.0	40.0	40.0	40.0
Inventory Turnover (days)	500.0	300.0	150.0	150.0
AP Turnover (days)	90.0	80.0	60.0	60.0
Cash Conversion (days)	450.0	260.0	130.0	130.0

Iluvatar CoreX: Earnings estimate revisions

We raise our revenue forecasts 6% for 2026, 10% for 2027 and 8% for 2028: We believe Iluvatar CoreX will be another company that is benefited by stronger demand for China AI accelerator. Given Iluvatar's order received from major CSP client in China, we expect to see robust revenue and earnings growth for the company. Besides, Iluvatar adopts TSMC as their foundry supplier and will produce fully-compliant chip according to BIS restrictions.

As Tiangai 300 (new products)'s ASP will be much higher than Tiangai 150, we also lift our gross margin assumptions to 52.4%, and 51.7% (from 51.3%, and 50.7%) in 2027 and 2028. Therefore, we increase our EPS estimates 13%, and 14% for 2027, and 2028.

Exhibit 14: Iluvatar: Earnings estimate revisions

US$ mn	New '26	Old'26E	Diff.	New '27	Old'27E	Diff.	New '28	Old'28E	Diff.
Net sales	3,251	3,060	6%	8,244	7,501	10%	12,271	11,379	8%
Gross profit	1,651	1,572	5%	4,318	3,850	12%	6,348	5,771	10%
Operating profit	(279)	(308)	-10%	1,588	1,400	13%	3,048	2,681	14%
Pretax Income	(232)	(262)	-11%	1,637	1,449	13%	3,096	2,729	13%
Net income	(232)	(262)	-11%	1,637	1,449	13%	2,920	2,570	14%
EPS for consensus	**(0.91)**	**(1.03)**	**-11%**	**6.44**	**5.70**	**13%**	**11.48**	**10.10**	**14%**
Margins									
Gross margin	50.8%	51.4%		52.4%	51.3%		51.7%	50.7%	
Operating margin	-8.6%	-10.1%		19.3%	18.7%		24.8%	23.6%	
Pretax margin	-7.1%	-8.6%		19.9%	19.3%		25.2%	24.0%	
Net margin	-7.1%	-8.6%		19.9%	19.3%		23.8%	22.6%	
Opex %	59.4%	61.4%		33.1%	32.7%		26.9%	27.2%	

Source: Morgan Stanley Research (e) estimates

Exhibit 15: Iluvatar: Half-year financials

(Rmb mn)	1H25	2H25	1H26E	2H26E	1H27E	2H27E	1H28E	2H28E	2025	2026E	2027E	2028E
Total revenues	**324.3**	**709.3**	**976.0**	**2,274.9**	**3,294.7**	**4,948.8**	**5,613.1**	**6,657.4**	**1,033.6**	**3,250.9**	**8,243.5**	**12,270.5**
H/H Change	*-5.2%*	*118.8%*	*37.6%*	*133.1%*	*44.8%*	*50.2%*	*13.4%*	*18.6%*				
Y/Y Change	*64.2%*	*107.4%*	*201.0%*	*220.7%*	*237.6%*	*117.5%*	*70.4%*	*34.5%*	*91.6%*	*214.5%*	*153.6%*	*48.9%*
Cost of Sales	**(161.8)**	**(313.8)**	**(496.4)**	**(1,103.3)**	**(1,576.6)**	**(2,348.8)**	**(2,711.3)**	**(3,211.5)**	**(475.6)**	**(1,599.7)**	**(3,925.4)**	**(5,922.7)**
Percent of Revenues	*50%*	*44%*	*51%*	*48%*	*48%*	*47%*	*48%*	*48%*	*46%*	*49%*	*48%*	*48%*
Gross Profit	**162.4**	**395.6**	**479.5**	**1,171.6**	**1,718.1**	**2,600.0**	**2,901.8**	**3,445.9**	**558.0**	**1,651.2**	**4,318.2**	**6,347.8**
Gross Margin	***50.1%***	***55.8%***	***49.1%***	***51.5%***	***52.1%***	***52.5%***	***51.7%***	***51.8%***	***54.0%***	***50.8%***	***52.4%***	***51.7%***
Incremental Margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Opex	**(793.7)**	**(813.8)**	**(950.0)**	**(980.0)**	**(1,300.0)**	**(1,430.0)**	**(1,590.0)**	**(1,710.0)**	**(1,607.5)**	**(1,930.0)**	**(2,730.0)**	**(3,300.0)**
Percent of Revenues	*244.8%*	*114.7%*	*97.3%*	*43.1%*	*39.5%*	*28.9%*	*28.3%*	*25.7%*	*155.5%*	*59.4%*	*33.1%*	*26.9%*
R&D	(451.5)	(522.7)	(580.0)	(600.0)	(750.0)	(780.0)	(820.0)	(840.0)	(974.2)	(1,180.0)	(1,530.0)	(1,660.0)
Percent of Revenues	*139.2%*	*73.7%*	*59.4%*	*26.4%*	*22.8%*	*15.8%*	*14.6%*	*12.6%*	*94.2%*	*36.3%*	*18.6%*	*13.5%*
General & Adm Exp.	(274.6)	(207.2)	(220.0)	(230.0)	(300.0)	(350.0)	(420.0)	(470.0)	(481.8)	(450.0)	(650.0)	(890.0)
Percent of Revenues	*84.7%*	*29.2%*	*22.5%*	*10.1%*	*9.1%*	*7.1%*	*7.5%*	*7.1%*	*46.6%*	*13.8%*	*7.9%*	*7.3%*
Selling Expenses	(67.6)	(83.9)	(150.0)	(150.0)	(250.0)	(300.0)	(350.0)	(400.0)	(151.6)	(300.0)	(550.0)	(750.0)
Percent of Revenues	*20.9%*	*11.8%*	*15.4%*	*6.6%*	*7.6%*	*6.1%*	*6.2%*	*6.0%*	*14.7%*	*9.2%*	*6.7%*	*6.1%*
Operating Income	**(631.3)**	**(418.3)**	**(470.5)**	**191.6**	**418.1**	**1,170.0**	**1,311.8**	**1,735.9**	**(1,049.5)**	**(278.8)**	**1,588.2**	**3,047.8**
Operating Margin	*-194.7%*	*-59.0%*	*-48.2%*	*8.4%*	*12.7%*	*23.6%*	*23.4%*	*26.1%*	*-101.5%*	*-8.6%*	*19.3%*	*24.8%*
Total Non-operating Income (loss)	**21.9**	**23.9**	**23.5**	**23.0**	**25.6**	**23.7**	**23.9**	**24.0**	**45.9**	**46.5**	**49.3**	**48.0**
Profit Before Taxes	**(609.3)**	**(394.3)**	**(446.9)**	**214.6**	**443.7**	**1,193.7**	**1,335.8**	**1,760.0**	**(1,003.7)**	**(232.4)**	**1,637.4**	**3,095.8**
Percent of Revenues	*-187.9%*	*-55.6%*	*-45.8%*	*9.4%*	*13.5%*	*24.1%*	*23.8%*	*26.4%*	*-97.1%*	*-7.1%*	*19.9%*	*25.2%*
Taxes	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**176.0**	**0.0**	**0.0**	**0.0**	**176.0**
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*10.0%*	*0.0%*	*0.0%*	*0.0%*	*5.7%*
Total Net Income to Parent	**(609.3)**	**(394.3)**	**(446.9)**	**214.6**	**443.7**	**1,193.7**	**1,335.8**	**1,584.0**	**(1,003.7)**	**(232.4)**	**1,637.4**	**2,919.8**
Percent of Revenues	*-187.9%*	*-55.6%*	*-45.8%*	*9.4%*	*13.5%*	*24.1%*	*23.8%*	*23.8%*	*-97.1%*	*-7.1%*	*19.9%*	*23.8%*
EPS for consensus (Rmb)	**(3.5)**	**(1.8)**	**(1.8)**	**0.8**	**1.7**	**4.7**	**5.3**	**6.2**	**(5.3)**	**(0.9)**	**6.4**	**11.5**

Source: Company data, Morgan Stanley Research (e) estimates

Iluvatar: Valuation methodology, raising PT to HK$688

We continue to derive our price target (our base case scenario value) from a residual income model. The price target change reflects our EPS estimate revisions for 2026-28.

We remain our key valuation assumptions unchanged: cost of equity of 8.3% (beta of 1.05, risk-free rate of 2%, and risk premium of 6%), intermediate growth rate of 16%, and terminal growth rate of 6.0%.

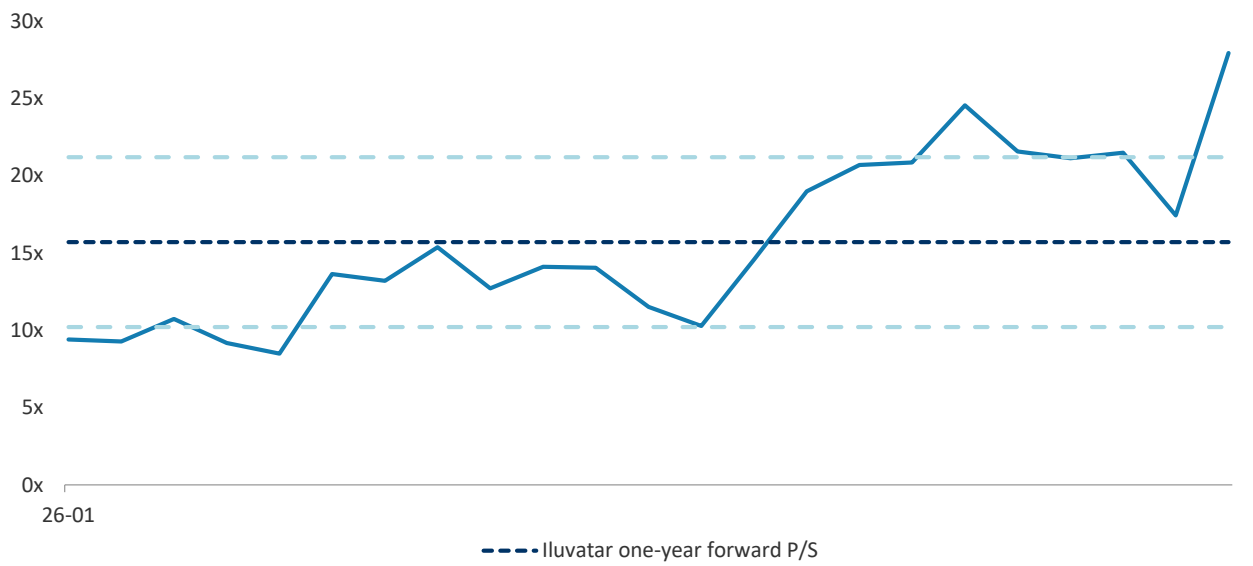
Our bull and bear case scenario values also rise from Rmb1,100 and Rmb300 to Rmb1,261 and Rmb344, respectively, implying 2026e P/S of 87x and 24x.

Exhibit 16: Iluvatar: Residual income model

Rmb million	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Total Equity	**5,461**	**7,099**	**10,018**	**12,264**	**14,869**	**17,890**	**21,395**	**25,461**	**30,178**	**35,649**	**41,995**	**49,357**
Net Profit	**(232)**	**1,637**	**2,920**	**3,387**	**3,929**	**4,557**	**5,287**	**6,132**	**7,114**	**8,252**	**9,572**	**11,104**
ROAE	**NM**	**26.1%**	**34.1%**	**30.4%**	**29.0%**	**27.8%**	**26.9%**	**26.2%**	**25.6%**	**25.1%**	**24.7%**	**24.3%**
Residual Income		971	1,833	2,214	2,534	2,903	3,330	3,825	4,397	5,061	5,831	6,723
Spread		**17.8%**	**25.8%**	**22.1%**	**20.7%**	**19.5%**	**18.6%**	**17.9%**	**17.3%**	**16.8%**	**16.4%**	**16.0%**
Ending Equity Capital	5,461											
PV of Forecast Period	19,665											
PV of Continuing Value	128,899											
Equity Value	**154,025**											
No. of Shares	254											
HKD/RMB	0.88											
Price Target (HK$)	**688**											

Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 17: Iluvatar: One-year forward P/S trend



Source: Company data, FactSet, Morgan Stanley Research

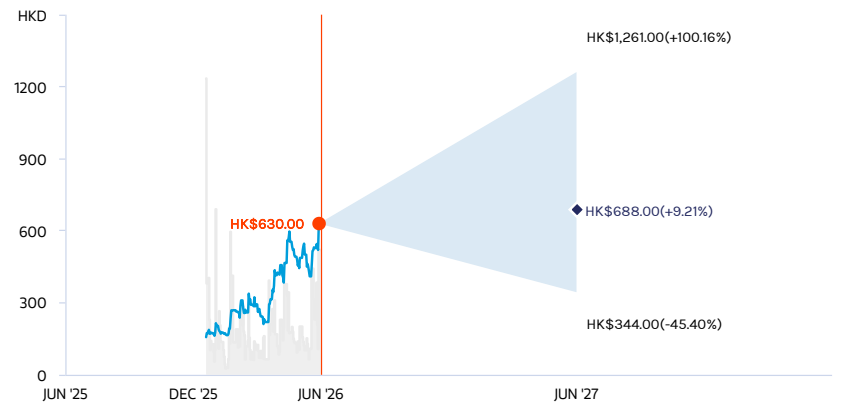
Risk Reward – Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)

Leveraging supply chain resilience with strong order visibility

PRICE TARGET HK$688.00

Key valuation assumptions include:
- An 8.3% cost of equity (derived from a beta of 1.05, risk-free rate of 2.0%, and equity risk premium of 6.0%)
- A long-term payout ratio of 34% (was 33%)
- A medium-term growth rate of 16%
- A perpetual terminal growth rate of 6%

RISK REWARD CHART



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Strong order visibility from domestic CSPs, with TianGai-150 shipments ramping in 2H26 and contributing >Rmb4bn revenue over 2026–27.
- Diversified foundry strategy ensures supply security, with access to TSMC capacity mitigating risks from export controls and domestic yield constraints.
- High CUDA compatibility enables low-friction migration, with successful LLM deployment validating product-market fit.
- Clear path to profitability, with breakeven expected in 2026 and full-year profitability in 2027 driven by operating leverage and scaling.
- Our price target implies 47x 2026e P/S, which is lower than the peer average of 75x 2026e P/S.

Risk Reward Themes

New Data Era: *Positive*
Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE HK$1,261.00

87x 2026e P/S

We assume: 1) >150% revenue CAGR in 2025-28e driven by a more aggressive domestic AI infrastructure build-out and large-scale procurement of both training and inference chips from Chinese cloud service providers and state-owned enterprises. 2) Gross margin improves to over 60% in 2026e and 2027e thanks to production scale effects, mature technology iteration and optimized high-value product structure. 3) The company achieves full-year profitability in 2026, ahead of our base case.

BASE CASE HK$688.00

47x 2026e P/S

We assume: 128% revenue CAGR in 2025-28e given strong orders from CSP clients and solid supply chain capacity. 2) Gross margin at 50.8% in 2026e and 52.4% 2027e due to better product mix. 3) The company achieve full-year profitability in 2027.

BEAR CASE HK$344.00

24x 2026e P/S

We assume: <80% revenue CAGR in 2025-28e given slower-than-expected domestic AI capital expenditure and large model commercialization progress. 2) Nvidia relaxes export restrictions on mid-range AI chips to China, leading to intensified price competition. 3) Gross margin falls below 45% in 2026e and 2027e due to fierce price competition. 4) The company does not achieve full-year profitability until 2028.

Risk Reward – Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)

KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Operating profit (YoY) (%)	18.3	(73.4)	(669.6)	91.9

INVESTMENT DRIVERS

- CSP AI capex growth
- TianGai shipment ramp
- CUDA migration trend
- Supply chain advantage (TSMC)
- AI inference expansion
- Policy support
- Customer base expansion
- Margin improvement trajectory

GLOBAL REVENUE EXPOSURE



100% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected CSP orders
- Faster CUDA replacement with Iluvatar's software
- Expansion of overseas and domestic capacity

RISKS TO DOWNSIDE

- Order ramp below expectations
- Escalation of sanctions
- Intensifying competition

OWNERSHIP POSITIONING

Inst. Owners, % Active 99.9%

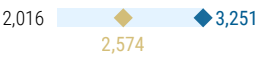


Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e

Sales / Revenue (Rmb, mn)



Net income (Rmb, mn)



Note: There are not sufficient brokers supplying consensus data for this metric

EPS (Rmb)



Mean Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Iluvatar: Financial Summary

Income Statement

Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Net sales	1,033.6	3,250.9	8,243.5	12,270.5
COGS	(475.6)	(1,599.7)	(3,925.4)	(5,922.7)
Gross profit	558.0	1,651.2	4,318.2	6,347.8
Operating expenses	(1,607.5)	(1,930.0)	(2,730.0)	(3,300.0)
Operating income	**(1,049.5)**	**(278.8)**	**1,588.2**	**3,047.8**
Non-operating income	45.9	46.5	49.3	48.0
Pre-tax income	(1,003.7)	(232.4)	1,637.4	3,095.8
Income tax	0.0	0.0	0.0	176.0
Minority Interest	0.0	0.0	0.0	0.0
Reported net Income	**(1,003.7)**	**(232.4)**	**1,637.4**	**2,919.8**
Adj.wtd.avg.shrs(m)	189.0	254.3	254.3	254.3
Reported EPS (Rmb)	**(5.3)**	**(0.9)**	**6.4**	**11.5**
EPS for consensus (Rmb)	**(5.3)**	**(0.9)**	**6.4**	**11.5**

Balance Sheet

Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cash	1,504.7	2,512.8	810.9	2,011.1
Mkt Securities	0.0	0.0	0.0	0.0
AR/NR	630.1	830.1	1,030.1	1,230.1
Inventory	709.8	1,753.1	3,441.4	4,056.7
Other	587.5	1,435.9	3,172.8	4,045.0
Current Assets	**3,432.0**	**6,532.0**	**8,455.2**	**11,342.9**
Long-term investments	76.9	76.2	76.2	76.2
Fixed assets	187.7	287.7	387.7	487.7
Intangible Assets	189.8	289.8	389.8	489.8
Other assets	25.5	25.5	25.5	25.5
Total Assets	**3,912.0**	**7,211.2**	**9,334.4**	**12,422.2**
S/T borrowings	643.6	643.6	643.6	643.6
AP/NP	291.0	482.1	967.9	1,135.9
Other ST liabilities	177.8	177.8	177.8	177.8
LT debt	365.4	365.4	365.4	365.4
Other LT liabilities	81.1	81.1	81.1	81.1
Total Liabilities	**1,558.9**	**1,750.0**	**2,235.8**	**2,403.8**
Common shares	228.9	254.3	254.3	254.3
Additional capital	0.0	3,315.0	3,315.0	3,315.0
Retained earning	2,162.1	1,929.8	3,567.2	6,487.0
Other shareholders' equity	(37.9)	(37.9)	(37.9)	(37.9)
Total Equity	**2,353.1**	**5,461.2**	**7,098.6**	**10,018.4**
Total Liab. & Shrhldr's Equity	**3,912.0**	**7,211.2**	**9,334.4**	**12,422.2**

E = Morgan Stanley Research Estimates
Source: Morgan Stanley Research, Company Data

Cash Flow Statement

Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cashflow from Operations	**(1,161.6)**	**(1,933.0)**	**(1,301.9)**	**1,600.2**
Net profits	(1,003.7)	(232.4)	1,637.4	2,919.8
Depreciation	97.0	100.0	100.0	100.0
Working Capital Change	(823.6)	(1,900.7)	(3,139.4)	(1,519.5)
Other adjustments	568.8	100.0	100.0	100.0
Cashflow from Investing	**(132.3)**	**(399.3)**	**(400.0)**	**(400.0)**
Capex	(59.7)	(200.0)	(200.0)	(200.0)
Change of LT Investment	(49.1)	0.7	0.0	0.0
Change of ST Investment	0.1	0.0	0.0	0.0
Other adjustments	(23.6)	(200.0)	(200.0)	(200.0)
Cashflow from financing	**2,490.9**	**3,340.4**	**0.0**	**0.0**
Increase in L/T debt	323.4	0.0	0.0	0.0
Increase in S/T debt	77.6	0.0	0.0	0.0
Cash Dividend Paid	0.0	0.0	0.0	0.0
Issuance of stock	38.0	3,340.4	0.0	0.0
Other adjustments	2,051.9	0.0	0.0	0.0
Exchange rate adjustment	(5.9)	0.0	0.0	0.0
Net change in cash	**1,197.1**	**1,008.1**	**(1,701.9)**	**1,200.2**

Financial Ratios

	2025	2026E	2027E	2028E
Growth(%)				
Revenue	91.6	214.5	153.6	48.9
Operating profits	18.3	(73.4)	NA	91.9
Pretax profits	12.5	(76.8)	NA	89.1
Net profits	12.5	(76.8)	NA	78.3
EPS	(2.6)	(82.8)	NA	78.3
Margins (%)				
Gross Margin	54.0	50.8	52.4	51.7
Operating Margin	(101.5)	(8.6)	19.3	24.8
Pretax Margin	(97.1)	(7.1)	19.9	25.2
Net Profit	(97.1)	(7.1)	19.9	23.8
Return (%)				
ROAE	(66.0)	(5.9)	26.1	34.1
ROAA	(35.9)	(4.2)	19.8	26.8
Gearing (%)				
Net Debt/Equity	(21.1)	(27.5)	2.8	(10.0)
Liabilities/Equity	66.2	32.0	31.5	24.0
Ratios (X)				
Current ratio	3.1	5.0	4.7	5.8
Quick ratio	1.9	2.6	1.0	1.7
Others				
AR/NR Turnover (days)	168.4	160.0	140.0	120.0
Inventory Turnover (days)	403.8	400.0	320.0	250.0
AP Turnover (days)	29.5	10.0	10.0	10.0
Cash Conversion (days)	542.8	550.0	450.0	360.0

Related Research Reports

Industry:

- China's Industrial Evolution: Global Semis – How China Will Chip In (Mar 2019)
- Disruption Decoded: How China Is Rewiring Global Semis (Jun 2020)

Segment:

AI GPU Semis:

- China's AI Accelerators – Who's Poised to Win? (Apr 2026)
- China's Emerging Frontiers: China AI GPUs – Closing the Gap with the US (Mar 2026)
- China's Localization: Exploring the niche in ASICs (Apr 2023)
- China's Localization: How will China chip in? Developing CPU and AI semi designs for the local market (Nov 2019)

Analog:

- China's Localization: Analog IC: Identifying the long-term beneficiaries (Sept 2022)

Cloud Semis:

- Global Semiconductors: How will China chip in? Seizing cloud semi strength in China (Mar 2020)

EDA & IP

- Empyrean Technology: EDA: Local semis' core enabler (Jun 2023)
- M31 Technology: Building the IP foundations of China's semi localization (Jun 2023)

Foundry:

- SMIC: Key foundry for China's semi localization, but advanced nodes ROI the main challenge (Aug 2020)
- Hua Hong Semiconductor Ltd: Powering China's Specialty Semi Localization (Aug 2020)

Backend:

- Jiangsu Changjiang Electronics TechSlow recovery with share loss (Sept 2024)

FPGA:

- China's Localization: How China Will Chip In; Exploring FPGA Localization Opportunities (Jul, 2022)

MCU:

- China's Localization: How Will China Chip In? Exploring MCU Localization Opportunities (Jul, 2021)

Power Semis , Silicon Carbide & Gallium Nitride:

- China's Localization: The driving force behind power semis (April 2021)
- China's Localization: How China will chip in; rising power in discrete world (Oct 2021)
- China's Localization: The Driving Force Behind Silicon Carbide (Jun 2023)
- Semiconductors: Three investment themes in China auto semi localization (Jun 2025)
- Innoscience: Riding the GaN secular growth wave; initiate at EW (Oct 2025)

RF Semis:

- China's Localization: RF semis: A major untapped market in the China smartphone supply chain (Jun 2020)

Semi equipment:

- Greater China Semiconductors: How will China chip in? Chinese memory fabs to yield soon (Jan 2020)
- NAURA Technology Group Co Ltd: China semi localization enabler facing near-term turbulence (Nov 2022)

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Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of May 31, 2026)
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For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1542	42%	465	51%	30%	707	43%
Equal-weight/Hold	1571	43%	369	40%	23%	723	44%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	551	15%	86	9%	16%	201	12%
Total	3,667		920			1632	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Greater China Technology Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/22/2026)
Charlie Chan		
ACM Research Inc (ACMR.O)	O (03/07/2023)	US$109.87
Advanced Micro-Fabrication Equipment Inc (688012.SS)	O (11/06/2023)	Rmb372.74
Advanced Wireless Semiconductor Co (8086.TWO)	U (07/14/2025)	NT$165.50
Alchip Technologies Ltd (3661.TW)	O (05/14/2021)	NT$4,325.00

ASE Technology Holding Co. Ltd. (3711.TW)	O (09/15/2024)	NT$674.00
Cambricon Technology Corporation (688256.SS)	O (04/27/2026)	Rmb1,456.99
Global Unichip Corp (3443.TW)	E (05/28/2026)	NT$4,755.00
GlobalWafers Co Ltd (6488.TWO)	E (05/19/2026)	NT$1,115.00
Gudeng Precision (3680.TWO)	O (11/25/2025)	NT$547.00
Hua Hong Semiconductor Ltd (1347.HK)	E (03/12/2026)	HK$168.10
Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)	O (04/27/2026)	HK$630.00
King Yuan Electronics Co Ltd (2449.TW)	O (03/03/2023)	NT$339.00
Maxscend Microelectronics Co Ltd (300782.SZ)	U (01/11/2021)	Rmb112.38
MediaTek (2454.TW)	O (11/28/2025)	NT$4,465.00
MetaX Integrated Circuits (688802.SS)	E (04/27/2026)	Rmb758.00
Nanya Technology Corp. (2408.TW)	O (05/28/2026)	NT$505.00
NAURA Technology Group Co Ltd (002371.SZ)	O (11/06/2023)	Rmb745.00
OmniVision Integrated Circuits Group Inc (603501.SS)	E (11/17/2025)	Rmb90.56
Phison Electronics Corp (8299.TWO)	E (02/25/2026)	NT$2,580.00
SG Micro Corp. (300661.SZ)	E (11/03/2025)	Rmb136.81
Silergy Corp. (6415.TW)	U (05/19/2026)	NT$673.00
SMIC (0981.HK)	O (10/21/2025)	HK$76.50
TSMC (2330.TW)	O (02/07/2022)	NT$2,510.00
UMC (2303.TW)	O (05/19/2026)	NT$160.00
Vanguard International Semiconductor (5347.TWO)	E (01/14/2026)	NT$191.50
WIN Semiconductors Corp (3105.TWO)	U (07/14/2025)	NT$541.00
Daisy Dai, CFA		
ASMPT Ltd (0522.HK)	O (07/24/2025)	HK$208.80
China Resources Microelectronics Limited (688396.SS)	U (03/02/2026)	Rmb78.20
Elan Microelectronics Corp (2458.TW)	O (10/03/2025)	NT$178.50
Empyrean Technology Co Ltd (301269.SZ)	E (01/17/2025)	Rmb101.71
Hangzhou Silan Microelectronics Co. Ltd. (600460.SS)	U (08/25/2025)	Rmb44.80
Innoscience (2577.HK)	E (10/13/2025)	HK$66.90
JCET Group Co Ltd (600584.SS)	E (01/16/2026)	Rmb91.33
Shanghai Fudan Microelectronics (1385.HK)	O (03/07/2025)	HK$29.62
SICC Co Ltd (688234.SS)	O (03/20/2026)	Rmb158.00
StarPower Semiconductor Ltd (603290.SS)	E (05/14/2026)	Rmb135.59
Unigroup Guoxin Microelectronics Co Ltd (002049.SZ)	U (01/10/2023)	Rmb81.96
Universal Scientific Ind. (Shanghai) (601231.SS)	O (11/05/2025)	Rmb37.49
Yangjie Technology (300373.SZ)	O (06/10/2022)	Rmb128.11
Daniel Yen, CFA		
AP Memory Technology Corp (6531.TW)	O (07/11/2025)	NT$1,115.00
ASMedia Technology Inc (5269.TW)	U (10/03/2025)	NT$1,450.00
Aspeed Technology (5274.TWO)	O (06/09/2025)	NT$19,275.00
Egis Technology Inc (6462.TWO)	E (01/28/2026)	NT$122.00
Espressif Systems (688018.SS)	O (05/15/2023)	Rmb123.11
GigaDevice Semiconductor Beijing Inc (603986.SS)	O (05/15/2025)	Rmb689.70
Macronix International Co Ltd (2337.TW)	O (09/18/2025)	NT$185.50
Montage Technology Co Ltd (6809.HK)	O (03/18/2026)	HK$446.40
Montage Technology Co Ltd (688008.SS)	O (03/18/2026)	Rmb280.05
Novatek (3034.TW)	U (02/04/2026)	NT$567.00
Nuvoton Technology Corporation (4919.TW)	U (11/10/2025)	NT$216.00
Parade Technologies Ltd (4966.TWO)	O (05/27/2026)	NT$695.00
Powerchip Semiconductor Manufacturing Co (6770.TW)	O (10/27/2025)	NT$81.60
Realtek Semiconductor (2379.TW)	E (01/30/2026)	NT$900.00
Shenzhen Goodix Technology Co Ltd (603160.SS)	U (07/14/2025)	Rmb59.19
Winbond Electronics Corp (2344.TW)	O (05/28/2026)	NT$222.00
WPG Holdings (3702.TW)	O (03/16/2026)	NT$112.50
WT Microelectronics Co. Ltd. (3036.TW)	O (01/27/2026)	NT$225.00

Duan Liu		
Dosilicon Co Ltd (688110.SS)	U (09/06/2024)	Rmb159.28
Shenzhen Longsys Electronics Co Ltd (301308.SZ)	E (02/25/2026)	Rmb616.16
Tiffany Yeh		
AllRing Tech Co. (6187.TWO)	O (09/23/2025)	NT$1,260.00
FOCI Fiber Optic Communications Inc (3363.TWO)	O (01/15/2025)	NT$712.00
Himax Technologies Inc (HIMX.O)	E (02/04/2026)	US$18.11
Hon Precision (7769.TW)	O (04/17/2026)	NT$6,915.00
MPI Corporation (6223.TWO)	O (04/17/2026)	NT$6,425.00
Silicon Motion (SIMO.O)	O (05/06/2024)	US$321.66
WinWay Technology Co Ltd (6515.TW)	O (04/17/2026)	NT$9,460.00

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