CMB International Global Markets | Equity Research | Company Update

Coherent (COHR US)

4Q earnings beat; optical demand stays robust w/ capacity playing catch-up

Coherent reported strong 4QFY26 results, with revenue up 34% YoY/13% QoQ to US$2.05bn, above Bloomberg consensus and the high end of guidance. Non-GAAP GPM expanded to 40.2% from 39.6% in Q3, also ahead of expectations. Specifically, Data Center & Communications revenue grew 59% YoY/19% QoQ. For 1QFY27, mgmt. guided revenue of US$2.2-2.4bn and non-GAAP GPM of 39.5-41.5%. We see growth increasingly constrained by supply rather than demand, with InP remaining the principal bottleneck despite broad-based strength across 800G, 1.6T and emerging optical architectures. As 6-inch capacity ramps, we think supply additions should convert quickly into revenue while improving unit economics should support further earnings leverage. **Maintain BUY with TP adjusted to US$435, based on 28x FY28E P/E (prev. 31x).**

- **InP supply remains the primary bottleneck, making incremental capacity highly monetizable.** Q4 InP laser output increased ~80% YoY, with these lasers largely feeding 800G/1.6T transceiver shipments one quarter later. Mgmt. therefore expects Datacenter revenue growth to exceed 80% YoY in Q1. Internal InP output capacity is on track to double YoY by end-1QFY27 (one quarter ahead of plan) and more than double again by end-CY27. With assembly/test capacity available, incremental InP supply should translate relatively directly into additional transceiver revenue.
- **6-inch InP drives structural margin expansion, not just operating leverage.** Yields on the Company's 6-inch platform already exceed 3-inch across EML, CW lasers and photodiodes, while the larger wafer provides roughly 4x the output at half of the cost. With the bulk of the 6-inch ramp still ahead, alongside richer 1.6T, OCS and CPO mix and further pricing optimization, we see a multi-year margin expansion path. Mgmt. reiterated its >42% GPM target and indicated it would be raised once achieved, suggesting 42% is a milestone rather than a ceiling.
- **NPO broadens rather than displace Coherent's CPO opportunity.** Mgmt. sees no CPO push-out, while NPO engagement continues to accelerate. Coherent sees comparable monetization opportunity across both architectures, supported by its broad portfolio spanning lasers, ELS and fiber components. Its upcoming PhotonLink platform integrates the optical chain from light generation through transmission and detection, supporting a shift toward higher-value integrated optics.
- **Maintain BUY with TP adjusted to US$435, based on 28x FY28E P/E, similar to its peers' CY27E average P/E.** We adjust up FY27/28E GPM forecasts by 2.5/1.7ppt on resilient demand and margin expansion potential. We believe the earnings setup remains supported by strong demand visibility, faster inP capacity expansion and structural margin upside, while CPO/NPO, OCS and other integrated-optics products broaden the growth opportunity beyond the current transceiver cycle. Key risks include slower-than-expected capacity expansion, geopolitical uncertainties, etc.

Earnings Summary

(YE 30 Jun)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US$ mn)	5,810	7,118	10,944	15,052	18,042
YoY growth (%)	23.4	22.5	53.7	37.5	19.9
Gross margin (%)	37.9	39.4	41.9	43.6	44.6
Adjusted net profit (US$ mn)	692.6	1,096.6	2,056.0	3,143.2	4,036.2
YoY growth (%)	81.7	58.3	87.5	52.9	28.4
EPS (Adjusted) (US$)	3.53	5.61	10.17	15.55	19.96
P/E (Adjusted) (x)	100.7	63.4	35.0	22.9	17.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$435.00**
(Previous TP	US$465.00)
Up/Downside	**22.3%**
Current Price	**US$355.64**

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Stock Data

Mkt Cap (US$ mn)	69,563.2
Avg 3 mths t/o (US$ mn)	828.5
52w High/Low (US$)	426.89/86.55
Total Issued Shares (mn)	195.6

Source: FactSet

Shareholding Structure

Vanguard	12.0%
FMR	8.5%

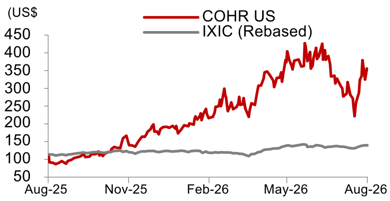
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.7%	12.6%
3-mth	-11.9%	-12.5%
6-mth	63.7%	38.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

US$mn	New FY27E	New FY28E	New FY29E	Old FY27E	Old FY28E	Old FY29E	Diff (%) FY27E	Diff (%) FY28E	Diff (%) FY29E
Revenue	10,944	15,052	18,042	10,858	14,815	NA	0.8%	1.6%	NA
Gross profit (non-GAAP)	4,591	6,566	8,039	4,278	6,207	NA	7.3%	5.8%	NA
Net profit (non-GAAP)	2,056	3,143	4,036	1,946	2,961	NA	5.7%	6.1%	NA
EPS (non-GAAP)	10.17	15.55	19.96	9.88	15.03	NA	2.9%	3.4%	NA
GPM (non-GAAP)	41.9%	43.6%	44.6%	39.4%	41.9%	NA	2.5 ppt	1.7 ppt	NA
Net margin (non-GAAP)	18.8%	20.9%	22.4%	17.9%	20.0%	NA	0.9 ppt	0.9 ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

US$mn	CMBI estimates FY27E	CMBI estimates FY28E	CMBI estimates FY29E	Consensus FY27E	Consensus FY28E	Consensus FY29E	Diff (%) FY27E	Diff (%) FY28E	Diff (%) FY29E
Revenue	10,944	15,052	18,042	9,804	13,322	17,633	11.6%	13.0%	2.3%
Gross profit (non-GAAP)	4,591	6,566	8,039	3,974	5,531	7,617	15.5%	18.7%	5.5%
Net profit (non-GAAP)	2,056	3,143	4,036	1,729	2,579	3,443	18.9%	21.9%	17.2%
EPS (non-GAAP)	10.17	15.55	19.96	8.59	12.97	18.40	18.4%	19.9%	8.5%
GPM (non-GAAP)	41.9%	43.6%	44.6%	40.5%	41.5%	43.2%	1.4 ppt	2.1 ppt	1.4 ppt
Net margin (non-GAAP)	18.8%	20.9%	22.4%	17.6%	19.4%	19.5%	1.1 ppt	1.5 ppt	2.8 ppt

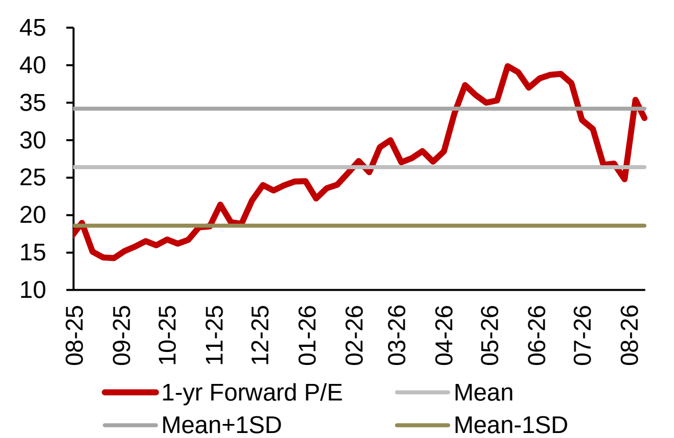
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: Peer's table

Company	Ticker	P/E (x) CY26E	P/E (x) CY27E	EPS (US$) CY26E	EPS (US$) CY27E	GPM% CY26E	GPM% CY27E
Lumentum	LITE US	63.6	34.0	14.66	27.40	48.6	52.0
Marvell	MRVL US	55.8	35.9	3.89	6.05	58.7	57.6
Applied Opto.	AAOI US	203.1	30.0	0.68	4.60	30.4	33.9
Fabrinet	FN US	36.5	30.4	15.68	18.78	12.3	12.4
Ciena	CIEN US	66.2	44.8	6.57	9.70	44.8	45.3
Sumitomo Elec.	5802 JT	17.1	18.6	0.88	0.80	20.2	21.3
Mitsubishi Elec.	6503 JT	25.9	21.8	1.47	1.74	32.6	33.5
Innolight	300308 CH	34.1	18.7	4.00	7.31	45.7	46.5
Eoptolink	300502 CH	28.0	16.8	2.27	3.78	48.1	48.1
	Average	***58.9***	***27.9***	***5.57***	***8.91***	***37.9***	***39.0***

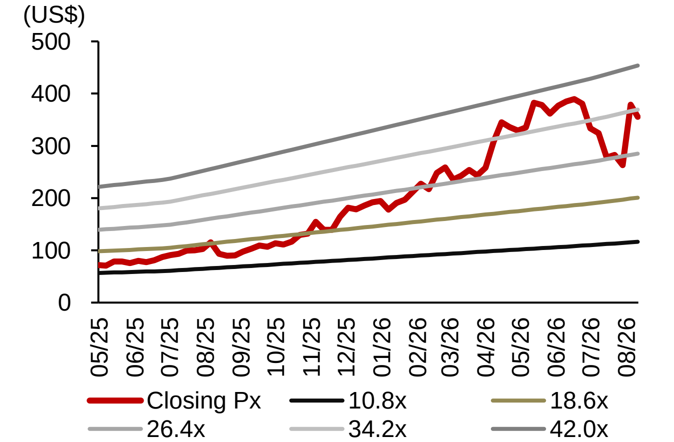
Source: Bloomberg consensus, CMBIGM estimates

Figure 4: P/E chart



Source: Company data, CMBIGM estimates

Figure 5: P/E band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Revenue	**4,708**	**5,810**	**7,118**	**10,944**	**15,052**	**18,042**
Cost of goods sold	3,012	3,608	4,312	6,353	8,486	10,003
Gross profit	**1,696**	**2,202**	**2,807**	**4,591**	**6,566**	**8,039**
Operating expenses	**987**	**1,165**	**1,350**	**1,947**	**2,594**	**2,976**
SG&A expense	545	611	656	863	1,172	1,354
R&D expense	441	554	693	1,084	1,422	1,622
Operating profit	**710**	**1,037**	**1,457**	**2,643**	**3,973**	**5,063**
Others	232	167	118	105	92	80
Pre-tax profit	**477**	**870**	**1,339**	**2,538**	**3,881**	**4,983**
Income tax	99	184	254	482	737	947
Minority interest	(3)	(7)	(12)	0	0	0
Adjusted net profit	**381**	**693**	**1,097**	**2,056**	**3,143**	**4,036**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Current assets	**4,350**	**4,642**	**7,497**	**7,987**	**10,163**	**13,241**
Cash & equivalents	926	909	1,162	219	917	2,742
Restricted cash	864	724	606	606	606	606
Account receivables	849	964	1,343	2,055	2,669	3,206
Inventories	1,286	1,438	2,581	3,303	4,166	4,883
Prepayment	425	607	979	979	979	979
Other current assets	0	0	825	825	825	825
Non-current assets	**10,139**	**10,269**	**10,803**	**12,750**	**14,498**	**16,163**
PP&E	1,817	1,878	2,999	5,227	7,255	9,200
Right-of-use assets	0	0	0	0	0	0
Deferred income tax	41	53	69	69	69	69
Intangibles	3,503	3,205	2,885	2,604	2,324	2,044
Goodwill	4,464	4,471	4,376	4,376	4,376	4,376
Other non-current assets	313	662	474	474	474	474
Total assets	**14,489**	**14,911**	**18,300**	**20,737**	**24,661**	**29,404**
Current liabilities	**1,344**	**1,795**	**2,854**	**3,459**	**4,410**	**5,244**
Short-term borrowings	74	188	8	8	8	8
Account payables	631	847	1,905	2,065	2,619	3,107
Other current liabilities	507	594	0	0	0	0
Lease liabilities	41	42	61	61	61	61
Accrued expenses	91	124	879	1,325	1,721	2,067
Non-current liabilities	**5,199**	**4,635**	**4,208**	**4,048**	**3,888**	**3,728**
Long-term borrowings	4,026	3,499	3,214	3,014	2,814	2,614
Obligations under finance leases	162	165	255	255	255	255
Other non-current liabilities	1,010	971	739	779	819	859
Total liabilities	**6,542**	**6,430**	**7,062**	**7,506**	**8,298**	**8,972**
Share capital	4,858	5,056	10,904	11,159	11,415	11,670
Capital surplus	0	0	0	0	0	0
Retained earnings	665	584	0	1,737	4,614	8,428
Other reserves	2,052	2,487	0	0	0	0
Total shareholders equity	**7,575**	**8,128**	**10,904**	**12,896**	**16,029**	**20,098**
Minority interest	371	354	335	335	335	335
Total equity and liabilities	**14,489**	**14,911**	**18,300**	**20,737**	**24,661**	**29,404**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Operating						
Profit before taxation	**477**	**870**	**1,339**	**2,538**	**3,881**	**4,983**
Depreciation & amortization	560	554	560	550	510	500
Tax paid	(99)	(184)	(254)	(482)	(737)	(947)
Change in working capital	292	(115)	(675)	(829)	(526)	(419)
Others	(684)	(491)	(890)	(64)	(11)	33
Net cash from operations	**546**	**634**	**80**	**1,714**	**3,116**	**4,150**
Investing						
Capital expenditure	(347)	(441)	(1,103)	(2,497)	(2,258)	(2,165)
Acquisition of subsidiaries/ investments	0	0	425	0	0	0
Others	(4)	27	(736)	0	0	0
Net cash from investing	**(351)**	**(414)**	**(1,414)**	**(2,497)**	**(2,258)**	**(2,165)**
Financing						
Net borrowings	(229)	(435)	(478)	(200)	(200)	(200)
Proceeds from share issues	42	50	2,052	120	120	120
Share repurchases	0	0	0	0	0	0
Others	945	(66)	(97)	(80)	(80)	(80)
Net cash from financing	**758**	**(452)**	**1,477**	**(160)**	**(160)**	**(160)**
Net change in cash						
Cash at the beginning of the year	838	1,790	1,633	1,768	825	1,523
Exchange difference	(1)	76	(7)	0	0	0
Cash at the end of the year	**1,790**	**1,633**	**1,768**	**825**	**1,523**	**3,348**
GROWTH	**2024A**	**2025A**	**2026A**	**2027E**	**2028E**	**2029E**
YE 30 Jun						
Revenue	(8.8%)	23.4%	22.5%	53.7%	37.5%	19.9%
Gross profit	(14.5%)	29.8%	27.4%	63.6%	43.0%	22.4%
Operating profit	115.9%	46.2%	40.5%	81.4%	50.3%	27.4%
Adj. net profit	na	81.7%	58.3%	87.5%	52.9%	28.4%
PROFITABILITY	**2024A**	**2025A**	**2026A**	**2027E**	**2028E**	**2029E**
YE 30 Jun						
Gross profit margin	36.0%	37.9%	39.4%	41.9%	43.6%	44.6%
Operating margin	15.1%	17.8%	20.5%	24.2%	26.4%	28.1%
Adj. net profit margin	8.1%	11.9%	15.4%	18.8%	20.9%	22.4%
GEARING/LIQUIDITY/ACTIVITIES	**2024A**	**2025A**	**2026A**	**2027E**	**2028E**	**2029E**
YE 30 Jun						
Current ratio (x)	3.2	2.6	2.6	2.3	2.3	2.5
VALUATION	**2024A**	**2025A**	**2026A**	**2027E**	**2028E**	**2029E**
YE 30 Jun						
P/E (diluted)	ns	ns	86.3	41.4	25.0	18.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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