

Semiconductors

Thematic investing and megatrends: Alibaba's bold capex hike a boost to domestic AI infrastructure suppliers

Alibaba released its 3QFY25 earnings (see our internet team [report](#)) with a significant step-up in capex plan for the next three years, the total of which is expected to surpass the company's cumulative capex of the past decade, per mgmt., reaching as high as ~RMB120bn per year during CY2026-28E, according to our calculation. We believe cloud service providers (CSPs) in China are trying to pick up the pace in capex in compute infrastructure to keep up with the relentless investment strides of overseas CSPs (Amazon, Meta, Microsoft, and Google). We believe the ripple effects of Alibaba's increased capex plan will benefit domestic AI infrastructure supply chain names, **such as Innolight (300308 CH, BUY, TP: RMB186) and Shengyi Tech (600183 CH, BUY, TP: RMB34.5), which supply critical components (e.g., high-speed optical transceivers, ultra-low-loss CCL) for datacenter buildout.**

- **Overseas CSPs collectively spent over US\$228bn (54.2% YoY) on capex in 2024 and the investments are expected to grow another 30% in 2025.** According to Bloomberg, Amazon, Google, Microsoft, and Meta's capex grew by 57.4%/62.9%/57.8%/33.6% in 2024, and their capex is expected by BBG consensus to further increase by 30% YoY in 2025E (revised up from 18% YoY [previously](#)). Notably, their capex-to-rev. ratio increased to 16.6% in 2024 (vs. 11.9% in 2023) and is expected to reach 19.5% in 2025, per Bloomberg consensus. Among those four CSPs, Google has set the most ambitious capex plan at US\$75bn for its AI investment in FY25 (vs. US\$53bn in FY24), beating consensus estimate by 27%. Its cloud segment sales grew by 30.6% in 2024. Amazon and Microsoft each saw their cloud segment sales grow by 18.5% and 22% YoY in 2024.
- **Alibaba and ByteDance to lead domestic capex spending.** We believe the total compute power needed domestically is bound to surge on adoption of AI models which are transforming industry productivity across the board, driving domestic demand for compute power. **Alibaba would spend a total of ~RMB360bn during FY2016-25E. Based on its latest capex plan and assuming 50% of the capex is cloud-related, Alibaba should invest over RMB60bn in cloud and AI infrastructure per year during FY26-28E, far exceeding consensus estimate of RMB47bn in total capex for FY26E.** ByteDance has also recently announced a bold capex plan of over [RMB150bn](#) for 2025E aimed at boosting compute hardware.
- **We believe domestic AI infrastructure suppliers are set to ride a second tide following the overseas AI infrastructure investment cycle, benefitting from the DeepSeek-driven AI investment cycle. We think the key beneficiaries include Innolight (300308 CH, BUY), Shengyi Tech (600183 CH, BUY), ZTE (000063 CH/763 HK, BUY), Eoptolink (300502 CH, NR), Cambricon (688256 CH, NR), TFC (300394 CH, NR), etc.**

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China Semiconductors Sector

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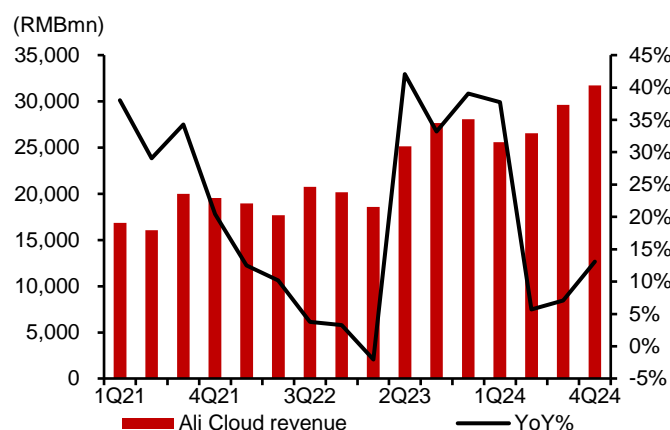
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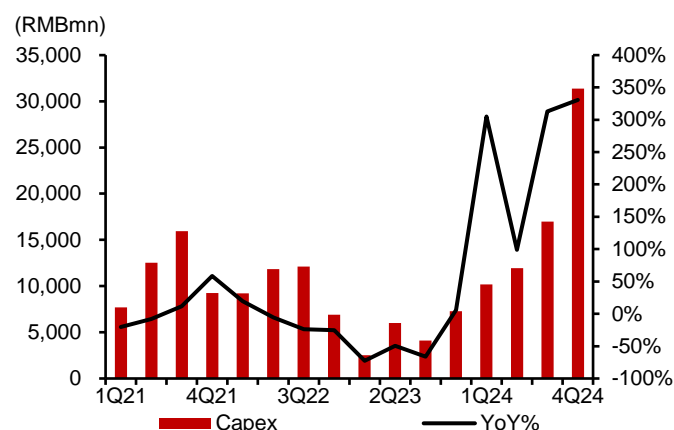
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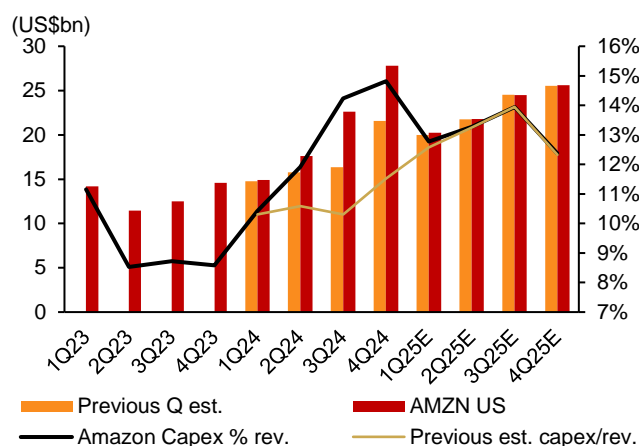
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Figure 1: Alibaba Cloud revenue and growth

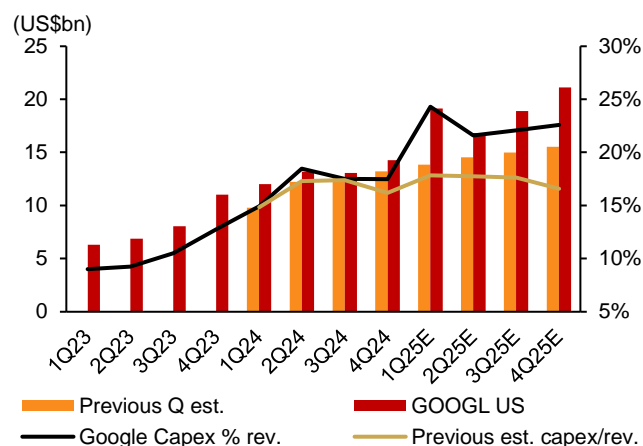
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Figure 2: Alibaba's capex and growth

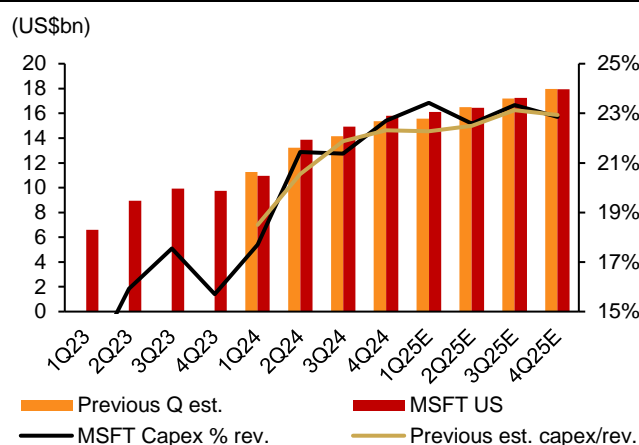
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Figure 3: Amazon's capex and growth

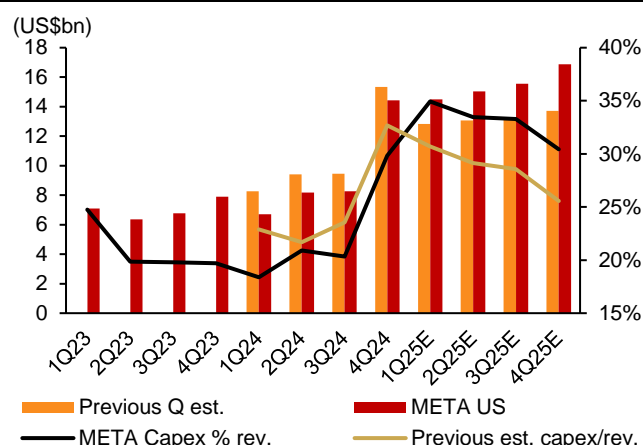
Source: Company data, Bloomberg consensus

Figure 4: Google's capex and growth

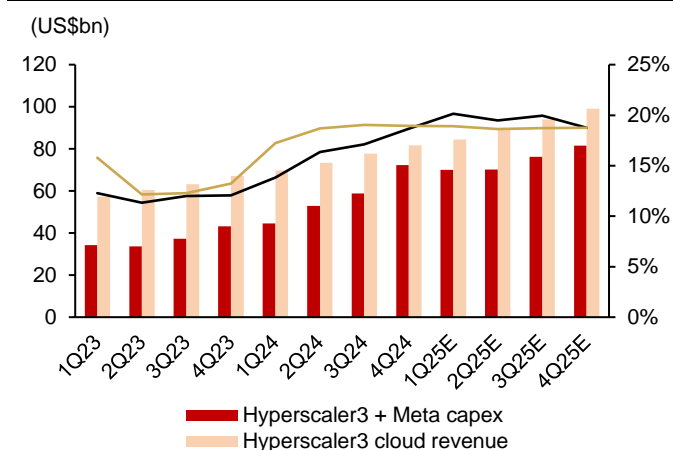
Source: Company data, Bloomberg consensus

Figure 5: Microsoft's capex and growth

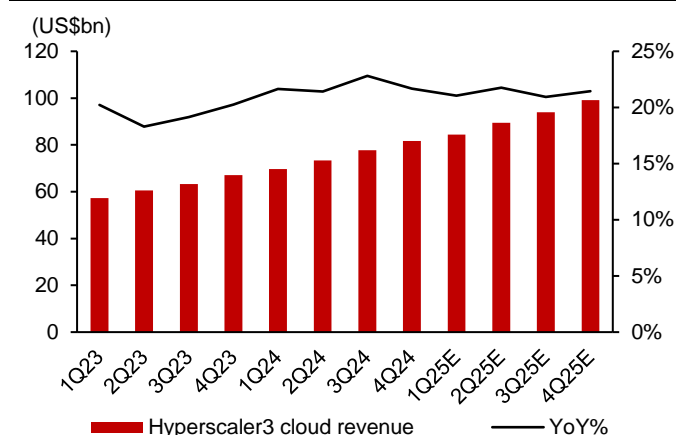
Source: Company data, Bloomberg consensus

Figure 6: Meta's capex and growth

Source: Company data, Bloomberg consensus

Figure 7: Overseas CSPs' capex and growth

Source: Company data, Bloomberg consensus

Figure 8: Amazon, Microsoft, and Google's cloud revenue and growth

Source: Company data, Bloomberg consensus

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