SMIC (981 HK)

3Q26 earnings: Margin beat on price hikes with mild Q4 guidance

SMIC posted record 3Q26 revenue of US$3.19bn (+6.1% QoQ/33.9% YoY) and GPM of 29.9% (+4.6ppts QoQ/7.9ppts YoY), exceeding the upper end of guidance by 2.1% and 1.9ppts, respectively. Mgmt. guided for 4Q26 revenue growth of 4-6% QoQ and GPM of 26-28%, implying another revenue record but a c.5% sequential decline in gross profit at the midpoint. With utilization rate already at 97.3%, we see further margin upside increasingly dependent on pricing and product mix as depreciation headwind persists. **Maintain BUY with TP adjusted to HK$104, based on 4.0x FY27E P/B (prev. 5.0x).**

- **Industrial & auto, PC & tablet drove 3Q26 revenue.** Revenue in these two categories grew ~26% QoQ, while connectivity and IoT rose 19% QoQ, smartphone declined 9%, and consumer electronics slipped 1%. Mgmt. mentioned industrial & auto orders have recovered since 2H26, with demand improving sequentially from the trough. It also flagged a widening supply gap for AI infra. companion chips, including BCD PMICs and memory controllers, and resilient demand for higher-end connectivity products. Weakness remained concentrated in smartphones and lower-end consumer products. Wafer shipments increased 5.7% QoQ in Q3, and utilization improved to 97.3% from 93.7% in Q2, while higher utilization and enhanced product mix drove GPM up 4.6ppts QoQ to 29.9%. We adjust up GPM forecasts by 1.3/1.6ppt in FY26/27E on further pricing strength.

- **Earlier price increases to account for roughly half of 4Q26 revenue growth.** Mgmt. expects shipments and pricing to each contribute half of its QoQ revenue growth in Q4 as orders booked at higher prices ship. The 27% GPM midpoint nonetheless implies a 2.9ppt sequential decline despite a sustained utilization level as mgmt. cites rising material costs and limited room to offset them through further utilization gains on top of Q4 seasonality.

- **FY27E pricing increases remain selective.** Tight supply of high-density specialty memory leaves room for further price increases if market prices move higher, while soft smartphone and lower-end consumer demand limits pricing upside. Equipment lead times of 16-24 months are pushing some deliveries into FY27, likely bringing FY26 capex slightly below mgmt.'s prior expectations. Mgmt. still expects FY27 depreciation to rise, making ASP, product mix and shipment growth the main variables for margin expansion.

- **Maintain BUY with TP adjusted to HK$104, based on 4x FY27E P/B (USD/HKD = 7.82), at a premium to its peers' average of 3.1x.** SMIC's position in China's advanced-node foundry market reinforces our favorable view. Near-term earnings upside depends on how much selective price increases and a richer wafer mix can offset rising costs and elevated D&A. **Key risks** include export controls, weaker-than-expected demand, slower capacity ramp-up, etc.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	8,030	9,327	12,057	14,427	15,893
YoY growth (%)	27.0	16.2	29.3	19.7	10.2
Gross margin (%)	18.0	21.0	26.2	27.2	27.8
Net profit (US$ mn)	492.7	685.1	1,702.2	2,339.0	2,645.9
YoY growth (%)	(45.4)	39.0	148.5	37.4	13.1
EPS (Adjusted) (US$ cents)	5.99	8.39	19.90	27.28	27.88
P/B (x)	2.4	2.3	2.0	1.9	1.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$104.00**
(Previous TP	HK$119.00)
Up/Downside	**113.4%**
Current Price	**HK$48.74**

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Stock Data

Mkt Cap (HK$ mn)	417,311.9
Avg 3 mths t/o (HK$ mn)	3,788.7
52w High/Low (HK$)	89.40/42.62
Total Issued Shares (mn)	8562.0

Source: FactSet

Shareholding Structure

Datang Holdings	18.0%
National Integrated Circuit Industry Inv	7.9%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.3%	-11.0%
3-mth	-27.7%	-21.1%
6-mth	-36.4%	-26.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$ mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	12,057	14,427	15,893	12,018	14,248	15,786	0.3%	1.3%	0.7%
Gross profit	3,157	3,931	4,411	2,987	3,653	4,164	5.7%	7.6%	5.9%
Net profit	1,702	2,339	2,646	1,927	2,575	2,953	-11.7%	-9.2%	-10.4%
BVPS (US$)	3.1	3.3	3.6	2.7	3.0	3.4	12.1%	10.0%	7.9%
Gross margin	26.2%	27.2%	27.8%	24.9%	25.6%	26.4%	1.3 ppt	1.6 ppt	1.4 ppt
Net margin	14.1%	16.2%	16.6%	16.0%	18.1%	18.7%	-1.9 ppt	-1.9 ppt	-2.1 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBI estimates			Consensus			Diff (%)		
US$ mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	12,057	14,427	15,893	12,059	14,940	17,094	0.0%	-3.4%	-7.0%
Gross profit	3,157	3,931	4,411	2,987	3,816	4,622	5.7%	3.0%	-4.6%
Net profit	1,702	2,339	2,646	1,588	2,137	2,654	7.2%	9.5%	-0.3%
BVPS (US$)	3.1	3.3	3.6	NA	NA	NA	NA	NA	NA
Gross margin	26.2%	27.2%	27.8%	24.8%	25.5%	27.0%	1.4 ppt	1.7 ppt	0.7 ppt
Net margin	14.1%	16.2%	16.6%	13.2%	14.3%	15.5%	0.9 ppt	1.9 ppt	1.1 ppt

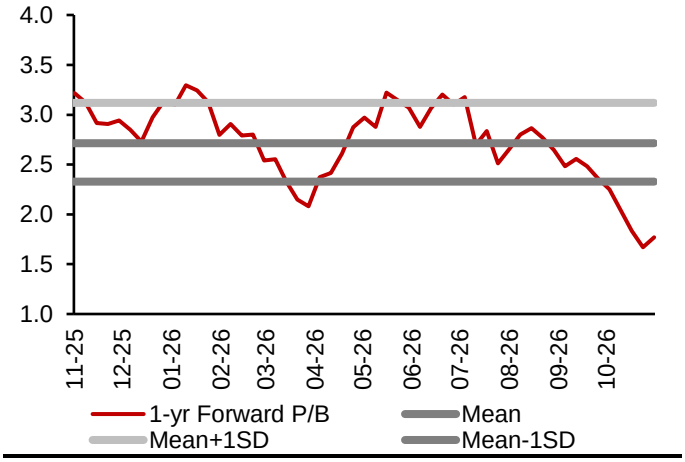
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: Peer's table

		P/B (x)		EPS (US$)		ROE (%)	
Company	Ticker	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
CR Micro	688396 CH	2.5	2.4	0.16	0.20	4.5	8.8
Silan Micro	600460 CH	2.9	2.7	0.08	0.12	4.0	9.2
TSMC	2330 TT	7.9	5.7	3.38	4.53	41.4	33.8
UMC	2303 TT	2.8	2.5	0.22	0.22	10.7	5.8
ASE	3711 TT	6.2	5.2	0.64	1.04	19.8	8.0
VIS	5347 TT	3.1	2.7	0.19	0.23	14.7	16.8
GFS	GFS US	2.0	1.9	1.99	2.54	9.5	11.0
Intel	INTC US	2.6	2.3	1.49	1.78	4.2	7.1
Hua Hong	1347 HK	2.4	2.4	0.15	0.25	7.7	9.8
	Average	***3.6***	***3.1***	***0.9***	***1.2***	***12.9***	***12.2***

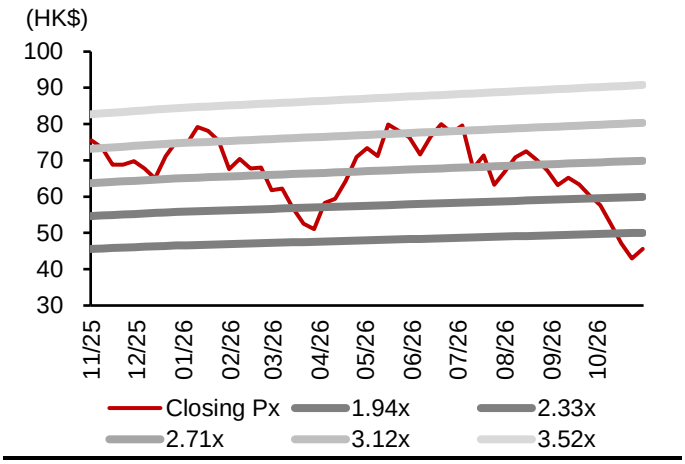
Source: Bloomberg consensus

Figure 4: P/B chart



Source: Company data, CMBIGM estimates

Figure 5: P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**6,322**	**8,030**	**9,327**	**12,057**	**14,427**	**15,893**
Cost of goods sold	(5,104)	(6,582)	(7,370)	(8,900)	(10,496)	(11,481)
Gross profit	**1,218**	**1,448**	**1,957**	**3,157**	**3,931**	**4,411**
Operating expenses	**(860)**	**(974)**	**(847)**	**(1,003)**	**(1,195)**	**(1,317)**
Selling expense	(36)	(40)	(43)	(44)	(44)	(48)
Admin expense	(482)	(580)	(526)	(537)	(721)	(795)
R&D expense	(707)	(765)	(774)	(906)	(1,082)	(1,192)
Others	366	411	496	483	652	718
Operating profit	**358**	**474**	**1,110**	**2,154**	**2,736**	**3,095**
Other income	830	386	(37)	251	0	0
EBIT	**1,187**	**860**	**1,073**	**2,405**	**2,736**	**3,095**
Income tax	(63)	(130)	(84)	(161)	(137)	(155)
After tax profit	**1,125**	**730**	**989**	**2,244**	**2,599**	**2,940**
Minority interest	222	237	304	541	260	294
Net profit	**903**	**493**	**685**	**1,702**	**2,339**	**2,646**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**13,635**	**14,784**	**15,625**	**18,805**	**18,637**	**17,429**
Cash & equivalents	6,215	6,364	5,873	7,828	6,051	4,470
Restricted cash	180	0	0	0	0	0
Account receivables	1,170	840	1,433	1,582	2,025	1,948
Inventories	2,736	2,958	3,630	4,461	5,080	5,357
Prepayment	106	56	68	68	68	68
Financial assets at FVTPL	215	272	381	339	382	416
Other current assets	3,014	4,292	4,242	4,527	5,031	5,171
Non-current assets	**34,152**	**34,378**	**36,646**	**39,905**	**42,978**	**47,376**
PP&E	23,945	28,092	32,558	33,650	37,131	40,802
Right-of-use assets	474	432	375	375	375	375
Deferred income tax	13	29	35	35	35	35
Investment in JVs & assos	2,045	1,253	1,310	2,055	2,157	2,268
Intangibles	34	24	20	15	14	12
Financial assets at FVTPL	482	427	811	671	732	838
Other non-current assets	7,160	4,120	1,538	3,103	2,534	3,045
Total assets	**47,787**	**49,161**	**52,271**	**58,710**	**61,615**	**64,805**
Current liabilities	**7,602**	**8,760**	**6,817**	**7,928**	**8,234**	**8,484**
Short-term borrowings	1,216	2,926	2,593	2,600	2,500	2,500
Account payables	3,728	3,280	2,966	3,391	3,847	3,807
Other current liabilities	274	987	241	241	241	241
Lease liabilities	32	19	7	7	7	7
Contract liabilities	2,053	1,186	599	1,278	1,228	1,519
Accrued expenses	298	362	410	410	410	410
Non-current liabilities	**9,340**	**8,532**	**10,434**	**11,439**	**11,439**	**11,439**
Long-term borrowings	8,335	8,038	9,995	11,000	11,000	11,000
Bond payables	599	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Obligations under finance leases	26	8	1	1	1	1
Deferred income	307	375	378	378	378	378
Other non-current liabilities	73	111	60	60	60	60
Total liabilities	**16,942**	**17,292**	**17,251**	**19,367**	**19,673**	**19,923**
Share capital	32	32	32	34	34	34
Capital surplus	14,117	14,266	14,395	20,435	20,435	20,435
Retained earnings	5,680	6,173	6,858	8,560	10,899	13,545
Other reserves	287	142	155	(2,787)	(2,787)	(2,787)
Total shareholders equity	**20,116**	**20,614**	**21,440**	**26,243**	**28,582**	**31,228**
Minority interest	10,730	11,256	13,581	13,100	13,360	13,654
Total equity and liabilities	**47,787**	**49,161**	**52,271**	**58,710**	**61,615**	**64,805**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**1,125**	**730**	**989**	**1,702**	**2,339**	**2,646**
Depreciation & amortization	2,667	3,223	3,810	4,839	5,786	5,738
Change in working capital	(143)	(652)	(1,695)	237	(531)	194
Others	(291)	(125)	90	(745)	(102)	(112)
Net cash from operations	**3,358**	**3,176**	**3,194**	**6,032**	**7,493**	**8,466**
Investing						
Capital expenditure	(7,630)	(7,664)	(8,400)	(6,029)	(9,377)	(9,536)
Acquisition of subsidiaries/ investments	(1,213)	(807)	(964)	182	(104)	(141)
Net proceeds from disposal of short-term investments	1,125	795	496	0	0	0
Others	1,511	3,158	2,373	(1,862)	51	(665)
Net cash from investing	**(6,208)**	**(4,518)**	**(6,495)**	**(7,709)**	**(9,430)**	**(10,341)**
Financing						
Net borrowings	1,738	1,539	1,354	1,012	(100)	0
Others	728	70	1,322	2,620	260	294
Net cash from financing	**2,466**	**1,608**	**2,676**	**3,632**	**160**	**294**
Net change in cash						
Cash at the beginning of the year	6,933	6,215	6,364	5,873	7,828	6,051
Cash at the end of the year	**6,215**	**6,364**	**5,873**	**7,828**	**6,051**	**4,470**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(13.1%)	27.0%	16.2%	29.3%	19.7%	10.2%
Gross profit	(55.9%)	18.9%	35.1%	61.4%	24.5%	12.2%
Operating profit	(80.5%)	32.5%	134.2%	94.0%	27.0%	13.1%
EBIT	(46.4%)	(27.6%)	24.9%	124.1%	13.7%	13.1%
Net profit	(50.4%)	(45.4%)	39.0%	148.5%	37.4%	13.1%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	19.3%	18.0%	21.0%	26.2%	27.2%	27.8%
Operating margin	5.7%	5.9%	11.9%	17.9%	19.0%	19.5%
Return on equity (ROE)	4.6%	2.4%	3.3%	7.1%	8.5%	8.8%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.8	1.7	2.3	2.4	2.3	2.1

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/B	2.5	2.4	2.3	2.0	1.9	1.7

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

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