Coherent (COHR US)

1QFY27 earnings: Stronger visibility and broader optical opportunity

BUY (Maintain)

Target Price	**US$380.00**
(Previous TP	US$435.00)
Up/Downside	**123.8%**
Current Price	**US$169.76**

Coherent delivered 1QFY27 revenue of US$2.37bn (50% YoY/16% QoQ) and non-GAAP EPS of US$2.09 (80% YoY/20% QoQ). Non-GAAP GPM expanded 37bps QoQ to 40.6% on pricing optimization and cost improvements, while operating leverage lifted OPM by 142bps to 23.2%. Mgmt. expects FY27 pro forma revenue growth at 60%+, supported by InP capacity expansion and broader optical demand. We raise FY27/28E revenue forecasts by 3.6%/6.2%, reflecting higher transceiver shipments, stronger scale-across/DCI demand and PhotonLink's ramp-up through CY27. **Maintain BUY with TP revised to US$380 (previous: US$435), based on 23x FY28E P/E (previously 28x), in-line with its one-year historical avg, due to caution on the pace of AI infra. deployment, despite stronger growth visibility.**

- **DC optics remains the engine while DCI broadens growth.** Datacenter & Communications revenue reached US$1.95bn (79% YoY/21% QoQ) in 1QFY27, representing 82% of total sales. Scale-across/DCI revenue exceeded US$200mn, roughly quadrupling YoY, with quarterly revenue expected to roughly double from this level by end-CY27. Coherent is capturing demand both within and between datacenters, expanding its exposure across AI optical networks.
- **PhotonLink adds a tangible CPO/NPO revenue runway.** Mgmt. expects PhotonLink's revenue to exceed US$100mn in 1QCY27 and US$250m per quarter before end-CY27. Separately, a US$20bn five-year PhotonLink agreement begins ramping in early CY28. We believe these milestones will strengthen visibility beyond traditional optical transceivers and support a broader optical subsystem opportunity as connectivity moves closer to switching and compute chips.
- **Capacity expansion supports growth and further margin gains.** Internal InP output capacity doubled YoY one quarter ahead of plan, with mgmt. targeting more than another doubling by end-CY27. For 2QFY27, revenue guidance of US$2.55–2.75bn and non-GAAP EPS of US$2.28–2.48 imply 12% and 14% sequential growth at their midpoints. Mgmt. expects its first US$3bn revenue quarter by end-FY27 and US$4bn quarter in FY28, alongside its first quarter with non-GAAP GPM above 45% before end-CY28. Capacity growth enables the revenue ramp-up, while pricing discipline, yields and cost execution will enhance its earnings contribution.
- **Maintain BUY, with TP adjusted to US$380.** We apply a lower multiple to reflect greater caution around AI infra. deployment timing. Broadening customer engagements demonstrate Coherent's ability to capture more optical content, while the InP capacity ramp-up should support margin expansion through increased internal sourcing. **Key risks** include slower AI capex, intensified competition, shift in tech roadmaps, etc.

Earnings Summary

(YE 30 Jun)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US$ mn)	5,810	7,118	11,335	15,982	18,206
YoY growth (%)	23.4	22.5	59.2	41.0	13.9
Gross margin (%)	37.9	39.4	41.8	43.7	44.7
Operating profit (US$ mn)	1,037.0	1,456.9	2,789.6	4,252.3	5,061.4
YoY growth (%)	46.2	40.5	91.5	52.4	19.0
Adjusted net profit (US$ mn)	692.6	1,096.6	2,135.6	3,321.3	3,986.3
YoY growth (%)	81.7	58.3	94.8	55.5	20.0
EPS (Adjusted) (US$)	3.53	5.61	10.57	16.44	19.73
P/E (Adjusted) (x)	48.1	30.2	16.1	10.3	8.6

Source: Company data, Bloomberg, CMBIGM estimates

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Stock Data

Mkt Cap (US$ mn)	33,442.7
Avg 3 mths t/o (US$ mn)	776.8
52w High/Low (US$)	426.89/135.61
Total Issued Shares (mn)	197.0

Source: FactSet

Shareholding Structure

Vanguard	12.9%
Blackrock	8.4%

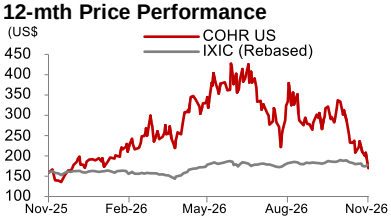
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-49.8%	-46.2%
3-mth	-49.2%	-48.0%
6-mth	-50.7%	-50.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$mn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	11,335	15,982	18,206	10,944	15,052	18,042	3.6%	6.2%	0.9%
Gross profit (non-GAAP)	4,739	6,990	8,136	4,591	6,566	8,039	3.2%	6.5%	1.2%
Net profit (non-GAAP)	2,136	3,321	3,986	2,056	3,143	4,036	3.9%	5.7%	-1.2%
EPS (non-GAAP)	10.57	16.44	19.73	10.17	15.55	19.96	4.0%	5.7%	-1.1%
GPM (non-GAAP)	41.8%	43.7%	44.7%	41.9%	43.6%	44.6%	-0.1 ppt	0.1 ppt	0.1 ppt
Net margin (non-GAAP)	18.8%	20.8%	21.9%	18.8%	20.9%	22.4%	0 ppt	-0.1 ppt	-0.5 ppt

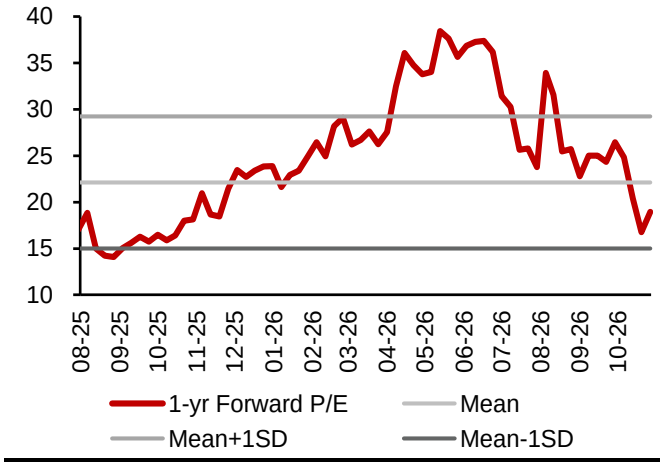
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBI estimates			Consensus			Diff (%)		
US$mn	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Revenue	11,335	15,982	18,206	11,228	15,707	19,394	1.0%	1.7%	-6.1%
Gross profit (non-GAAP)	4,739	6,990	8,136	4,645	6,840	8,783	2.0%	2.2%	-7.4%
Net profit (non-GAAP)	2,136	3,321	3,986	2,100	3,339	4,342	1.7%	-0.5%	-8.2%
EPS (non-GAAP)	10.57	16.44	19.73	10.39	16.23	22.25	1.8%	1.3%	-11.3%
GPM (non-GAAP)	41.8%	43.7%	44.7%	41.4%	43.6%	45.3%	0.4 ppt	0.2 ppt	-0.6 ppt
Net margin (non-GAAP)	18.8%	20.8%	21.9%	18.7%	21.3%	22.4%	0.1 ppt	-0.5 ppt	-0.5 ppt

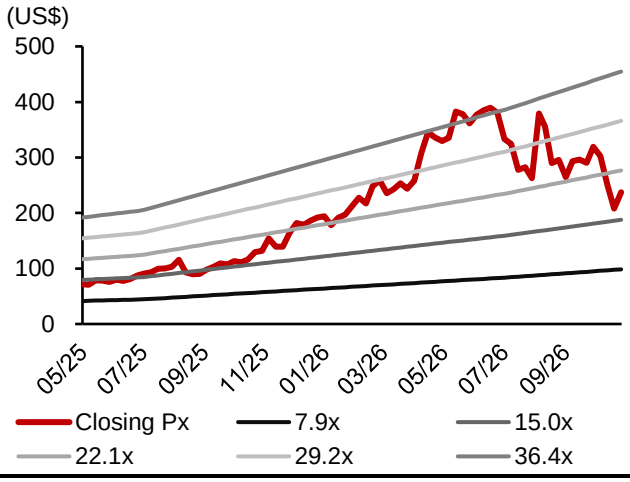
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: P/E chart



Source: Company data, CMBIGM estimates

Figure 4: 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**	**11,335**	**15,982**	**18,206**
Cost of goods sold	3,012	3,608	4,312	6,596	8,992	10,070
Gross profit	**1,696**	**2,202**	**2,807**	**4,739**	**6,990**	**8,136**
Operating expenses	**987**	**1,165**	**1,350**	**1,949**	**2,738**	**3,074**
SG&A expense	545	611	656	842	1,178	1,292
R&D expense	441	554	693	1,107	1,559	1,782
Operating profit	**710**	**1,037**	**1,457**	**2,790**	**4,252**	**5,061**
Others	232	167	118	153	152	140
Pre-tax profit	**477**	**870**	**1,339**	**2,637**	**4,100**	**4,921**
Income tax	99	184	254	501	779	935
Minority interest	(3)	(7)	(12)	0	0	0
Adjusted net profit	**381**	**693**	**1,097**	**2,136**	**3,321**	**3,986**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Current assets	**3,660**	**3,927**	**6,926**	**7,808**	**10,211**	**13,629**
Cash & equivalents	926	909	1,162	566	1,639	4,000
Restricted cash	174	9	35	45	45	45
Account receivables	849	964	1,343	2,232	2,797	3,256
Inventories	1,286	1,438	2,581	3,585	4,349	4,947
Prepayment	425	607	979	1,181	1,181	1,181
Other current assets	0	0	825	200	200	200
Non-current assets	**10,829**	**10,984**	**11,374**	**14,117**	**15,714**	**16,846**
PP&E	1,817	1,878	2,999	5,874	7,751	9,163
Right-of-use assets	0	0	0	0	0	0
Deferred income tax	41	53	69	90	90	90
Intangibles	3,503	3,205	2,885	2,606	2,325	2,045
Goodwill	4,464	4,471	4,376	4,448	4,448	4,448
Other non-current assets	1,003	1,377	1,046	1,099	1,099	1,099
Total assets	**14,489**	**14,911**	**18,300**	**21,925**	**25,925**	**30,475**
Current liabilities	**1,344**	**1,795**	**2,854**	**3,546**	**4,348**	**5,013**
Short-term borrowings	74	188	8	20	20	20
Account payables	631	847	1,905	2,241	2,735	3,148
Other current liabilities	507	594	0	0	0	0
Lease liabilities	41	42	61	68	68	68
Accrued expenses	91	124	879	1,217	1,526	1,776
Non-current liabilities	**5,199**	**4,635**	**4,208**	**5,009**	**4,849**	**4,689**
Long-term borrowings	4,026	3,499	3,214	3,831	3,631	3,431
Obligations under finance leases	162	165	255	278	278	278
Other non-current liabilities	1,010	971	739	901	941	981
Total liabilities	**6,542**	**6,430**	**7,062**	**8,556**	**9,198**	**9,702**
Share capital	4,858	5,056	10,904	11,580	11,912	12,245
Capital surplus	0	0	0	0	0	0
Retained earnings	665	584	0	1,458	4,484	8,197
Other reserves	2,052	2,487	0	0	0	0
Total shareholders equity	**7,575**	**8,128**	**10,904**	**13,038**	**16,396**	**20,442**
Minority interest	371	354	335	332	332	332
Total equity and liabilities	**14,489**	**14,911**	**18,300**	**21,925**	**25,925**	**30,475**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun (US$ mn)						
Operating						
Profit before taxation	**477**	**870**	**1,339**	**2,637**	**4,100**	**4,921**
Depreciation & amortization	560	554	560	550	510	500
Tax paid	(99)	(184)	(254)	(501)	(779)	(935)
Change in working capital	292	(115)	(675)	(781)	(527)	(393)
Others	(684)	(491)	(890)	(658)	37	60
Net cash from operations	**546**	**634**	**80**	**1,246**	**3,341**	**4,153**
Investing						
Capital expenditure	(347)	(441)	(1,103)	(2,982)	(2,108)	(1,632)
Acquisition of subsidiaries/ investments	0	0	425	0	0	0
Others	(4)	27	(736)	625	0	0
Net cash from investing	**(351)**	**(414)**	**(1,414)**	**(2,407)**	**(2,108)**	**(1,632)**
Financing						
Net borrowings	(229)	(435)	(478)	625	(200)	(200)
Proceeds from share issues	42	50	2,052	109	120	120
Share repurchases	0	0	0	0	0	0
Others	945	(66)	(97)	(189)	(80)	(80)
Net cash from financing	**758**	**(452)**	**1,477**	**545**	**(160)**	**(160)**
Net change in cash						
Cash at the beginning of the year	833	1,790	1,633	1,768	610	1,684
Exchange difference	(1)	76	(7)	(3)	0	0
Cash at the end of the year	**1,100**	**1,633**	**1,768**	**610**	**1,684**	**4,045**

GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Revenue	(8.8%)	23.4%	22.5%	59.2%	41.0%	13.9%
Gross profit	(14.5%)	29.8%	27.4%	68.8%	47.5%	16.4%
Operating profit	115.9%	46.2%	40.5%	91.5%	52.4%	19.0%
Adj. net profit	na	81.7%	58.3%	94.8%	55.5%	20.0%

PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Gross profit margin	36.0%	37.9%	39.4%	41.8%	43.7%	44.7%
Operating margin	15.1%	17.8%	20.5%	24.6%	26.6%	27.8%
Adj. net profit margin	8.1%	11.9%	15.4%	18.8%	20.8%	21.9%

GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						
Current ratio (x)	2.7	2.2	2.4	2.2	2.3	2.7

VALUATION	2024A	2025A	2026A	2027E	2028E	2029E
YE 30 Jun						

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

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