CMB INTERNATIONAL

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Hua Hong Semi (1347 HK)

Solid beat on margins but valuation fair; Maintain HOLD

Hua Hong Semi reported record 3Q25 revenue of US$635mn (+21%/+12% YoY/QoQ), in line with Bloomberg consensus and guidance. Gross margin recovered to 13.5% (+1.4ppts/+2.6ppts YoY/QoQ), beating expectations by 2.3ppts/2.5ppts. During the period, net profit was US$26mn, 5.3% below consensus, although net profit margin improved to 4.1% from 0.7%/1.4% in 1Q/2Q. 4Q25 revenue is guided at US$650–660mn (midpoint +21% YoY, +5% QoQ), with GPM of 12–14%. **We maintain our FY25 revenue forecast and raise our GPM estimate from 10.9% to 12.0%, reflecting stronger margin recovery**. We lift our FY26 revenue forecast to US$3.2bn, incorporating the planned fab acquisition, which is expected to close in around August 2026 and add US$600-700mn in annual revenue. **Maintain HOLD with TP adjusted to HK$68.**

- **Operational highlights: ASP uplift and high utilization.** Revenue growth was supported by a 7% QoQ increase in wafer shipments and a 5% QoQ rise in blended ASP. The ASP turnaround began in 2Q25, ~80% from price adjustments and ~20% from mix optimization, and was broad-based across all major platforms. Utilization remained elevated at 109.5%, with all 8-inch fabs running above 110% and the main 12-inch fab at ~105%. Fab 9 is ramping up steadily, currently loading >35k wpm against >40k capacity, with peak output of 60–65k wpm expected by mid-2026.
- **Segments and drivers: NOR Flash and AI in focus.** Standalone NVM revenue surged 164% YoY in 3Q25, led by NOR Flash demand as 55nm volume ramped up and 40nm prepared for introduction. Analog and power management ICs grew 33% YoY, with an estimated 10-12% of group revenue linked to AI server power chips. Auto & industrial contributed ~22% of revenue (industrial 16%, auto 6%), with further growth expected. International revenue accounted for ~18%, supported by the ongoing 40nm MCU collaboration with STMicroelectronics, which remains ahead of schedule.
- **Maintain HOLD; TP adjusted to HK$68**, based on 2.4x 2026E P/B (previously 1.7x), approximately 10% above 1SD of the 5-year historical forward average. The revision reflects improved ASP and margin momentum as the business emerges from the cyclical downturn. While we remain positive on Hua Hong's strategic positioning in China's semiconductor localization and its ongoing fab expansion, we see current valuations as fairly pricing in near-term prospects. Upside catalysts include stronger demand or further ASP increases. Downside risks include weak end-markets, pricing pressure, and geopolitical tensions.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US$ mn)	2,286	2,004	2,425	3,243	3,713
YoY growth (%)	(7.7)	(12.3)	21.0	33.8	14.5
Gross margin (%)	21.3	10.2	12.0	15.1	18.2
Net profit (US$ mn)	280.0	58.1	70.0	223.5	376.5
YoY growth (%)	(37.8)	(79.2)	20.5	219.3	68.4
EPS (Reported) (US$ cents)	16.31	3.38	4.04	12.91	21.74
P/E (x)	62.6	302.1	252.7	79.1	47.0

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	**HK$68.00**
(Previous TP	HK$48.00)
Up/Downside	**(14.4%)**
Current Price	**HK$79.45**

China Semiconductors

Lily YANG, Ph.D
(852) 3916 3716
lilyyang@cmbi.com.hk

Kevin ZHANG
(852) 3761 8727
kevinzhang@cmbi.com.hk

Jiahao Jiang
(852) 39163739
JiangJiahao@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	104,000.1
Avg 3 mths t/o (HK$ mn)	4,021.9
52w High/Low (HK$)	91.50/19.42
Total Issued Shares (mn)	1309.0

Source: FactSet

Shareholding Structure

Shanghai Hua Hong International	26.2%
XINXIN HK Capital	5.9%

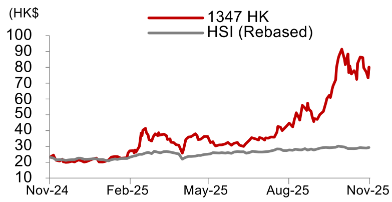
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.2%	-10.8%
3-mth	77.4%	69.6%
6-mth	125.7%	95.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

US$mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,425	3,243	3,713	2,423	3,006	3,499	0%	8%	6%
Gross profit	292	489	677	264	442	588	10%	11%	15%
Net profit	70	224	376	62	258	395	13%	-13%	-5%
EPS (US$)	0.04	0.13	0.22	0.04	0.15	0.23	12%	-13%	-5%
Gross margin	12.0%	15.1%	18.2%	10.9%	14.7%	16.8%	1.1 ppt	0.4 ppt	1.4 ppt
Net margin	2.9%	6.9%	10.1%	2.6%	8.6%	11.3%	0.3 ppt	-1.7 ppt	-1.2 ppt

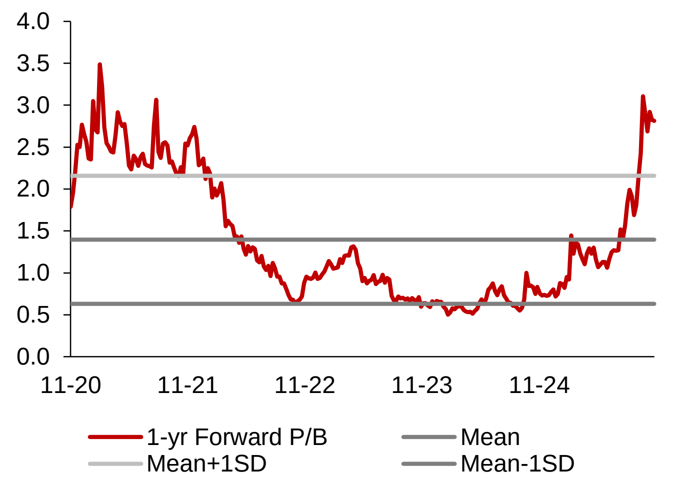
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. Bloomberg consensus

US$mn	CMBIGM			BBG Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,425	3,243	3,713	2,344	2,849	3,215	3%	14%	16%
Gross profit	292	489	677	244	398	544	19%	23%	24%
Net profit	70	224	376	21	134	193	227%	67%	95%
EPS (US$)	0.04	0.13	0.22	0.04	0.10	0.15	-6%	28%	50%
Gross margin	12.0%	15.1%	18.2%	10.4%	14.0%	16.9%	1.6 ppt	1.1 ppt	1.3 ppt
Net margin	2.9%	6.9%	10.1%	0.9%	4.7%	6.0%	2 ppt	2.2 ppt	4.1 ppt

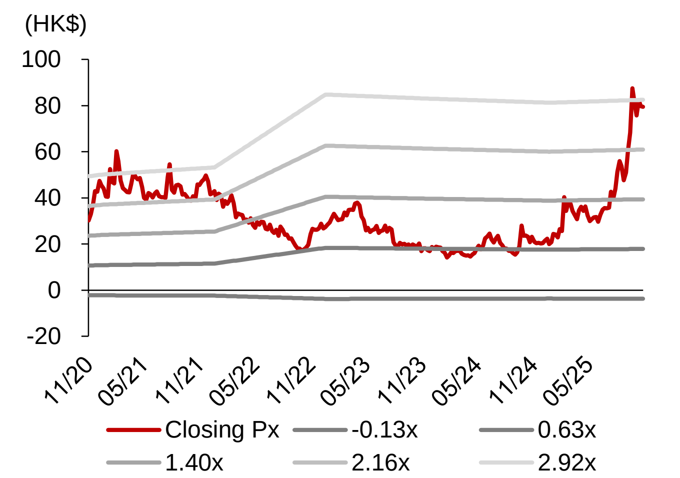
Source: Bloomberg, CMBIGM estimates

Figure 3: P/B chart



Source: Company data, CMBIGM estimates

Figure 4: P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Revenue	**2,475**	**2,286**	**2,004**	**2,425**	**3,243**	**3,713**
Cost of goods sold	(1,632)	(1,799)	(1,799)	(2,133)	(2,755)	(3,036)
Gross profit	**844**	**487**	**205**	**292**	**489**	**677**
Selling expense	(12)	(10)	(10)	(10)	(12)	(14)
Admin expense	(267)	(323)	(351)	(397)	(428)	(448)
Others	(28)	(91)	(94)	(71)	(79)	(89)
Operating profit	**536**	**63**	**(249)**	**(187)**	**(30)**	**127**
Other income	100	188	178	131	162	186
Other expense	(141)	(77)	(63)	(18)	(1)	(1)
Pre-tax profit	**496**	**174**	**(134)**	**(73)**	**131**	**311**
Income tax	(89)	(47)	(7)	(14)	(20)	(47)
After tax profit	**407**	**126**	**(140)**	**(88)**	**112**	**264**
Minority interest	(43)	(154)	(198)	(158)	(112)	(112)
Net profit	**450**	**280**	**58**	**70**	**224**	**376**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Current assets	**3,076**	**6,570**	**5,833**	**5,328**	**6,109**	**6,699**
Cash & equivalents	2,009	5,585	4,459	3,703	4,364	4,870
Restricted cash	1	32	32	33	37	40
Account receivables	292	279	270	274	259	290
Inventories	578	450	467	550	582	582
Prepayment	48	34	364	513	579	613
Other current assets	148	190	240	255	288	304
Non-current assets	**3,980**	**4,374**	**6,583**	**7,657**	**8,547**	**8,815**
PP&E	3,368	3,519	5,859	6,727	7,505	7,709
Right-of-use assets	78	79	78	78	82	86
Intangibles	33	50	31	31	35	40
Other non-current assets	501	726	614	820	925	980
Total assets	**7,055**	**10,943**	**12,415**	**12,984**	**14,656**	**15,513**
Current liabilities	**1,382**	**972**	**1,562**	**1,462**	**1,797**	**1,855**
Short-term borrowings	427	193	281	349	605	635
Account payables	237	235	298	286	288	295
Other current liabilities	714	541	978	823	900	922
Lease liabilities	5	3	5	4	4	4
Non-current liabilities	**1,537**	**1,956**	**1,946**	**2,316**	**3,154**	**3,301**
Long-term borrowings	1,482	1,907	1,917	2,283	3,121	3,268
Other non-current liabilities	56	50	29	33	33	33
Total liabilities	**2,920**	**2,929**	**3,508**	**3,779**	**4,951**	**5,156**
Share capital	1,994	4,934	4,938	4,983	4,983	4,983
Other reserves	1,036	1,367	1,309	1,221	1,333	1,597
Total shareholders equity	**3,030**	**6,301**	**6,247**	**6,204**	**6,315**	**6,580**
Minority interest	1,105	1,714	2,660	3,002	3,390	3,778
Total equity and liabilities	**7,055**	**10,943**	**12,415**	**12,984**	**14,656**	**15,513**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**496**	**174**	**(134)**	**(73)**	**131**	**311**
Depreciation & amortization	457	500	556	733	824	899
Tax paid	(51)	(72)	(57)	(14)	(20)	(47)
Change in working capital	(116)	(69)	142	(420)	(24)	(47)
Others	(35)	108	(47)	(11)	19	64
Net cash from operations	**751**	**642**	**459**	**215**	**930**	**1,181**
Investing						
Capital expenditure	(996)	(907)	(2,780)	(2,020)	(1,527)	(1,031)
Others	66	73	108	(106)	(51)	(26)
Net cash from investing	**(930)**	**(833)**	**(2,672)**	**(2,127)**	**(1,578)**	**(1,057)**
Financing						
Net borrowings	315	193	106	431	1,094	177
Proceeds from share issues	6	2,942	4	44	0	0
Others	351	647	1,041	264	298	289
Net cash from financing	**672**	**3,782**	**1,150**	**739**	**1,392**	**466**
Net change in cash						
Cash at the beginning of the year	1,610	2,009	5,585	4,459	3,703	4,364
Exchange difference	(94)	(14)	(64)	416	(84)	(84)
Others	493	3,590	(1,062)	(1,173)	744	590
Cash at the end of the year	**2,009**	**5,585**	**4,459**	**3,703**	**4,364**	**4,870**
GROWTH	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
Revenue	51.8%	(7.7%)	(12.3%)	21.0%	33.8%	14.5%
Gross profit	94.1%	(42.3%)	(57.9%)	42.2%	67.5%	38.6%
Operating profit	211.4%	(88.3%)	na	na	na	na
Net profit	112.1%	(37.8%)	(79.2%)	20.5%	219.3%	68.4%
PROFITABILITY	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
Gross profit margin	34.1%	21.3%	10.2%	12.0%	15.1%	18.2%
Operating margin	21.7%	2.8%	(12.4%)	(7.7%)	(0.9%)	3.4%
Return on equity (ROE)	15.2%	6.0%	0.9%	1.1%	3.6%	5.8%
GEARING/LIQUIDITY/ACTIVITIES	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
Current ratio (x)	2.2	6.8	3.7	3.6	3.4	3.6
VALUATION	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
P/E	29.7	62.6	302.1	252.7	79.1	47.0

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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