

Semiconductors

Solid 2Q results for Broadcom; eyes on the development of AI inference

Broadcom (AVGO, NR) delivered another record-setting quarter in 2QFY25, with revenue reaching US\$15bn, up 20.2% YoY / flat QoQ and 0.3%/0.7% above Bloomberg consensus and mgmt.'s guidance. Gross margin was 79.4% for the quarter (vs. 79.1%/76.2% in 1QFY25/2QFY24), 0.51ppt higher than Bloomberg consensus. The company's revenue continued to be powered by strength in AI semiconductor and infrastructure software segments during the quarter. Mgmt. guides Q3 revenue at US\$15.8bn, implying a 21% YoY growth, with semiconductor segment forecasted to grow by 25% to US\$9.1bn, and software segment to grow by 16% YoY to US\$6.7bn. Mgmt. guided AI revenue this year to see 60% YoY growth and expected such trajectory to sustain into FY26, driven by accelerating demand for XPUs and networking. **Broadcom's solid earnings confirm that inference workloads are growing significantly, benefitting the infrastructure supply chain.**

- **The company's AI business remains the central growth engine for the semiconductor segment.** The segment revenue grew by 17% YoY / 11% QoQ to US\$8.4bn in Q2, of which mgmt. saw US\$4.4bn was AI-related (29.3% of total revenue), up 46% YoY, and forecasted US\$5.1bn in Q3, implying another 60% YoY / 16% QoQ growth. The company saw strong demand across both custom XPUs and AI networking, with networking expanding 170%+ YoY and accounting for 40% of AI revenue during the quarter, sustained by a growing shift towards inference workloads supplementing the already robust training demand. In addition, Broadcom announced the Tomahawk 6 switch recently, offering 102.4Tbps capacity and empowering hyperscalers to deploy 100k+ accelerator clusters in just two tiers. Specifically, mgmt. forecasts the three major hyperscalers to each deploy 1mn accelerator clusters by 2027, aligning with its Q1 projection of a US\$60-90bn SAM (serviceable addressable market) for AI accelerators. Mgmt. mentioned four additional hyperscalers are in active co-development of its custom silicon, though not yet contributing to revenue. Non-AI semiconductor sales is guided to be stable at US\$4bn in 3Q, close to a bottom but slow to recover.
- **VMware business enabled enterprise-scale AI adoption through secure, high-margin, and on-premise solutions.** Broadcom's software arm, VMware, saw US\$6.6bn in revenue in Q2, up 25% YoY / flattish QoQ, with GPM rising to 93%, up from 88% a year earlier, reflecting successful post-acquisition integration. From an AI perspective, VMware is instrumental through its Private AI Foundation, co-developed with Nvidia, allowing enterprises to securely run AI workloads on-premises by virtualizing both GPU and CPU infrastructure, complementing the company's AI networking and compute by offering a software layer that integrates AI infra. into enterprise ecosystem. Mgmt. also noted strong VCF (VMware Cloud Foundation) sales over the past 18 months since the acquisition, which has driven double-digit growth in annual recurring revenue.
- **Networking demand is surging as inference workloads are growing fast,** with huge opportunities from scaling up. We believe AI supply chain will continue to benefit, such as ASIC, optical transceivers, PCB, etc. Maintain BUY on Innolight (300308 CH, BUY, TP: RMB151), Shengyi Tech (600183 CH, BUY, TP: RMB34.5), SCC (002916 CH, BUY, TP: RMB146.81).

OUTPERFORM
(Maintain)

China Semiconductors Sector

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

Related reports:

1. Semi - Nvidia's 1Q beat and solid 2Q guidance confirm AI demand remains resilient ([link](#))
2. Semiconductors - Thematic investing and megatrends: China's hyperscalers accelerate AI infra. buildout amid strengthening cloud demand ([link](#))
3. Semiconductors - Thematic investing and megatrends: Resilient 1Q25 capex among hyperscalers ([link](#))
4. Semiconductors - Thematic investing and megatrends: Alibaba's bold capex hike a boost to domestic AI infrastructure suppliers ([link](#))
5. Semiconductors - Thematic investing and megatrends: Views on DeepSeek ([link](#))
6. Semiconductors - Thematic investing and megatrends: Stargate poised to accelerate global AI arms race ([link](#))
7. Semiconductors - TSMC: Surging AI demands propelled strong results and guidance ([link](#))
8. Semiconductors - Nvidia's 3Q earnings takeaway: Strong demand for Blackwell well into next year ([link](#))
9. Semiconductors - AMD "Advancing AI" event ([link](#))
10. Semiconductors - Sector valuation revisit after recent rally; Potential rerating opportunities ahead ([link](#))
11. Semiconductors - Nvidia 2Q review: A strong beat-and-raise quarter; eyes on Blackwell shipment and margin ([link](#))
12. Semiconductors - PCB sector: 1H24 earnings preview ([link](#))
13. Semi - Solid earnings; HBM to drive future growth ([link](#))

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.