

ZTE (763 HK/000063 CH)

AI server momentum drives growth; A key beneficiary of AI infrastructure and localization

ZTE delivered robust sales growth in 1H25, with revenue rising 15% YoY to RMB71.6bn. NP declined 12% YoY to RMB5.1bn. A shift in product mix toward higher-volume servers weighed on profitability, dragging GPM and NPM down by 8.0ppt and 2.1ppt to 32.5% and 7.1%, respectively. By segment: 1) Carrier revenue (49% of 1H25 sales) declined 6% YoY, reflecting subdued telecom capex in China (-9% YoY in 2025 from CM/CT/CU combined, per their guidance); 2) Consumer revenue (24%) grew 8% YoY to RMB17.2bn, supported by strong overseas smartphone shipments; 3) Government & Enterprise (27%) emerged as the key growth engine, with revenue surging 110% YoY, which was largely fuelled by over 200% growth in server and storage sales, with AI servers accounting for ~55% of total server sales. We believe ZTE is well-positioned to sustain robust growth in the coming years, backed by the AI infrastructure investment cycle and domestic semiconductor localization trends. **Maintain BUY rating while raising H-share TP to HK\$42 and A-share TP to RMB57.**

- **Carrier:** Segment revenue declined 6% YoY to RMB35.0bn in 1H25, mainly due to continued softness in domestic telecom capex, though overseas sales were stable. Despite near-term headwinds, we expect the pace of segment decline to moderate through new product offerings and recent contract wins (e.g., antenna, switch, AI server tenders). Segment GPM came in at 52.9% (-1.4ppt YoY). **We forecast 2025 Carrier revenue to reach RMB70bn, roughly flat YoY, with low-single-digit growth in 2026E/27E.**
- **Government & Enterprise:** Revenue more than doubled (+110% YoY) to RMB19.3bn, driven by strong demand for AI infrastructure (particularly servers, storage, and data communications equipment) from domestic cloud service providers. Segment GPM fell by 13.5ppt YoY to 8.3% in 1H mainly due to an unfavourable product shift towards lower-margin hardware sales. We expect the strong top-line growth momentum to continue, with est. YoY growth of 135% and 76% in 2025E and 2026E, respectively.
- **Consumer:** Revenue increased 8% YoY to RMB17.2bn, lifted by over 30% growth in overseas handset shipments on operator partnerships and stronger traction of the Nubia and Red Magic gaming brands. Segment GPM declined by 1.2ppt YoY to 17.8% due to lower margins in certain home terminal products. **We project high single-digit revenue growth in 2025E and 11% YoY in 2026E.**
- **Maintain BUY, with H-share TP of HK\$42**, based on 25x 2026E P/E (vs. 13.2x 2025E P/E prev.), largely in line with peers' avg of 25.7x 2026E P/E. **A-share TP is RMB57**, based on 34x 2026E P/E (vs. prior 15x 2024E P/E), 9% higher than its domestic peers' average of 31.2x, given ZTE's rapidly growing AI server revenue and strengths in networking capabilities, a key factor in AI server manufacturing. H-share's valuation is ~70% of our A-share's valuation, which we consider justified, as it is close to 34% A/H premium YTD 2025 as the company transforms into an AI infra. player. We raise our sales forecasts by 9%/7% for 2025/26E, to reflect larger-than-expected AI server order wins. We cut 2025/26E NPM by 1.2ppt/1.8ppt, to account for the heavier revenue mix toward integration-heavy AI servers, which would dilute margins. **We view ZTE as a key beneficiary riding the AI infrastructure tailwind. While near-term margin is likely to remain under pressure, ZTE's strategic positioning in AI infrastructure should support a potential rerating. Risks:** 1) market share loss in AI servers, 2) greater-than-expected margin pressure, and 3) supply chain disruption due to geopolitical events.

	763 HK	000063 CH
	BUY	BUY
	Maintain	Maintain

TP	HK\$42.00	RMB57.00
Prior TP	HK\$26.50	RMB32.86
Up/Downside	16.0%	18.8%
Current Price	HK\$36.2	RMB48.0

China Semiconductors

Lily YANG, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

Kevin ZHANG

(852) 3761 8727

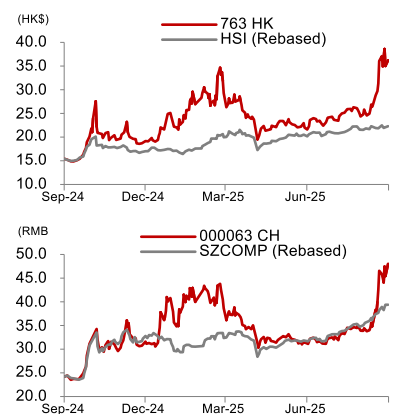
kevinzhang@cmbi.com.hk

Jiahao Jiang

(852) 39163739

JiangJiahao@cmbi.com.hk

12-mth Price Performance



Source: FactSet

Stock Performance

	763 HK		000063 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	48.7%	42.3%	41.6%	31.3%
3-mth	64.6%	49.7%	54.4%	31.7%
6-mth	23.6%	10.7%	24.2%	1.6%

Source: FactSet

Stock Data

(LC)	763 HK	000063 CH
Mkt Cap (mn)	27364.21	193344
Avg 3 mths t/o (mn)	718.78	4510.67
52w High	38.6	48
52w Low	14.8	23.53
Issued Shares (mn)	755.5	4028

Source: FactSet

Earnings Summary - 763 HK

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	124,251	121,299	145,015	162,912	178,374
YoY growth (%)	1.1	(2.4)	19.6	12.3	9.5
Gross margin (%)	41.5	37.9	31.8	30.1	29.2
Net profit (RMB mn)	9,325.8	8,424.8	7,976.0	8,034.7	9,567.8
YoY growth (%)	15.4	(9.7)	(5.3)	0.7	19.1
P/E (x)	16.9	18.8	19.9	19.7	16.6
ROE (%)	14.7	12.0	10.6	10.0	11.1

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: CMBI estimates vs. BBG consensus

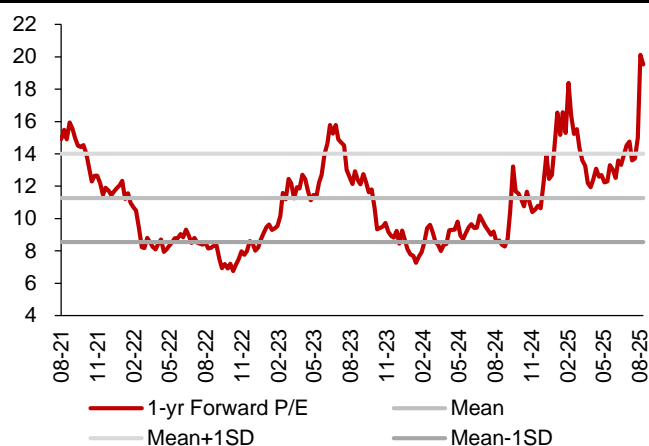
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	145,015	162,912	178,374	135,872	148,863	162,288	7%	9%	10%
Gross profit	46,078	49,068	52,121	46,465	48,313	50,952	-1%	2%	2%
Net profit	7,976	8,035	9,568	8,573	9,163	9,766	-7%	-12%	-2%
EPS (RMB)	1.67	1.68	2.00	1.81	1.93	2.05	-8%	-13%	-3%
Gross margin	31.8%	30.1%	29.2%	34.2%	32.5%	31.4%	-2.4 ppt	-2.3 ppt	-2.2 ppt
Net margin	5.5%	4.9%	5.4%	6.3%	6.2%	6.0%	-0.8 ppt	-1.2 ppt	-0.7 ppt

Source: Bloomberg, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	145,015	162,912	178,374	133,258	152,553	179,495	9%	7%	-1%
Gross profit	46,078	49,068	52,121	48,969	54,286	62,178	-6%	-10%	-16%
Net profit	7,976	8,035	9,568	8,978	10,300	11,873	-11%	-22%	-19%
EPS (RMB)	1.67	1.68	2.00	1.88	2.15	2.48	-11%	-22%	-19%
Gross margin	31.8%	30.1%	29.2%	36.7%	35.6%	34.6%	-5 ppt	-5.5 ppt	-5.4 ppt
Net margin	5.5%	4.9%	5.4%	6.7%	6.8%	6.6%	-1.2 ppt	-1.8 ppt	-1.3 ppt

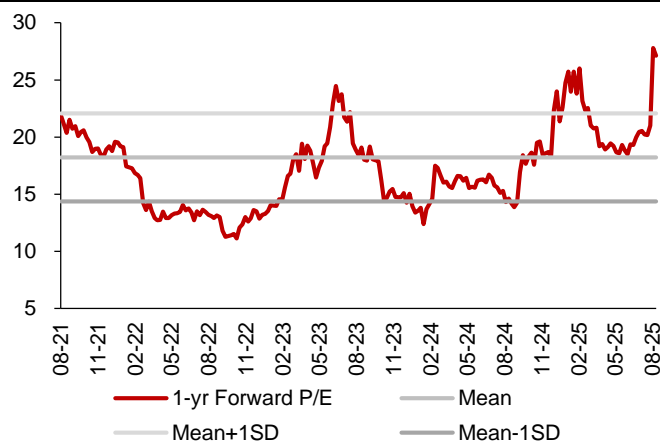
Source: Company data, CMBIGM estimates

Figure 3: ZTE (H) forward P/E chart

Source: Company data, CMBIGM estimates

Figure 4: ZTE (H) P/E band

Source: Company data, CMBIGM estimates

Figure 5: ZTE (A) forward P/E chart

Source: Company data, CMBIGM estimates

Figure 6: ZTE (A) P/E band

Source: Company data, CMBIGM estimates

Figure 7: Peers table

Company	Ticker	Mkt Cap (US\$mn)	Price (LC)	P/E (x)		EPS (US\$)	
				FY25E	FY26E	FY25E	FY26E
Peers for A-share							
IEIT SYSTEMS	000977 CH	14,145	68.52	27.7	22.1	0.26	0.35
RUIJIE NETWORK	301165 CH	11,478	102.90	59.8	53.0	0.18	0.24
FIBERHOME	600498 CH	4,860	27.27	34.2	26.5	0.11	0.14
HUAQIN	603296 CH	13,670	95.97	26.3	21.3	0.51	0.63
FOXCONN	601138 CH	154,839	55.60	34.3	24.2	0.23	0.32
DAWNING INFO	603019 CH	18,654	90.92	51.3	40.3	0.25	0.32
Average				38.9	31.2	0.26	0.33
Peers for H-share							
Domestic peers							
IEIT SYSTEMS	000977 CH	14,145	68.52	27.7	22.1	0.26	0.35
RUIJIE NETWORK	301165 CH	11,478	102.90	59.8	53.0	0.18	0.24
FIBERHOME	600498 CH	4,860	27.27	34.2	26.5	0.11	0.14
HUAQIN	603296 CH	13,670	95.97	26.3	21.3	0.51	0.63
FOXCONN	601138 CH	154,839	55.60	34.3	24.2	0.23	0.32
DAWNING INFO	603019 CH	18,654	90.92	51.3	40.3	0.25	0.32
Average				38.9	31.2	0.26	0.33
Overseas peers							
DELL	DELL US	82,921	122.15	15.6	12.9	7.84	9.51
HEWLETT PACKA	HPE US	29,617	22.57	12.1	9.7	1.87	2.33
SMCI	SMCI US	24,686	41.54	19.9	15.8	2.09	2.62
ARISTA	ANET US	171,625	136.55	48.7	42.1	2.80	3.25
Average				24.1	20.1	3.65	4.43
Average of domestic + overseas				31.5	25.7	1.95	2.38

Source: Bloomberg consensus as of 1 Sep, 2025; CMBIGM

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	122,954	124,251	121,299	145,015	162,912	178,374
Cost of goods sold	(77,228)	(72,650)	(75,311)	(98,937)	(113,844)	(126,253)
Gross profit	45,727	51,601	45,988	46,078	49,068	52,121
Operating expenses	(35,166)	(40,623)	(35,652)	(37,367)	(40,174)	(42,292)
Selling expense	(9,173)	(10,172)	(8,901)	(9,191)	(9,836)	(10,413)
Admin expense	(5,333)	(5,632)	(4,477)	(4,627)	(4,873)	(4,978)
SG&A expense	(951)	(1,336)	(1,176)	(1,261)	(1,335)	(1,373)
R&D expense	(21,602)	(25,289)	(24,031)	(25,830)	(28,203)	(29,988)
Others	1,893	1,806	2,933	3,542	4,073	4,459
Operating profit	10,561	10,978	10,335	8,711	8,894	9,829
Other income	196	173	76	302	340	372
Other expense	(239)	(228)	(189)	(188)	(211)	(231)
Gain/loss on financial assets at FVTPL	(1,142)	(702)	(625)	0	0	0
Investment gain/loss	1,087	(205)	112	151	0	0
Other gains/(losses)	(1,548)	(914)	(745)	(480)	(518)	(540)
EBIT	8,915	9,102	8,965	8,497	8,505	9,430
Net Interest income/(expense)	(163)	1,101	265	810	870	1,734
Other income/expense	(657)	158	(687)	(169)	0	0
Pre-tax profit	8,752	10,203	9,230	9,306	9,375	11,164
Income tax	(960)	(962)	(874)	(1,396)	(1,406)	(1,675)
After tax profit	7,792	9,241	8,356	7,910	7,969	9,489
Minority interest	(289)	(85)	(69)	(65)	(66)	(79)
Others	0	0	0	0	0	0
Net profit	8,080	9,326	8,425	7,976	8,035	9,568

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	137,874	158,505	141,787	152,069	160,235	173,011
Cash & equivalents	47,072	51,013	28,027	25,832	31,133	39,922
Restricted cash	9,274	27,530	15,859	13,729	13,729	13,729
Account receivables	19,098	21,968	23,886	31,736	30,751	31,802
Inventories	45,235	41,131	41,258	45,481	48,089	48,763
Prepayment	279	242	692	807	907	993
Financial assets at FVTPL	514	153	13,769	15,135	15,654	16,640
Other current assets	16,402	16,466	18,297	19,348	19,973	21,162
Non-current assets	43,080	42,454	65,536	74,327	73,921	75,892
PP&E	13,877	14,360	14,178	13,332	12,433	11,526
Right-of-use assets	1,080	1,557	1,552	4,237	3,967	3,674
Deferred income tax	3,719	4,146	4,396	4,744	4,906	5,215
Intangibles	9,926	8,999	7,159	7,138	7,024	6,869
Goodwill	0	0	14	15	16	17
Financial assets at FVTPL	1,028	832	716	701	701	701
Other non-current assets	13,450	12,559	37,520	44,160	44,875	47,890
Total assets	180,954	200,958	207,323	226,396	234,157	248,903
Current liabilities	78,424	83,030	82,635	103,225	108,939	113,753
Short-term borrowings	9,962	7,560	7,027	23,980	29,296	33,140
Account payables	32,595	32,219	36,568	40,716	40,067	39,047
Tax payable	1,447	1,413	1,205	1,226	1,268	1,348
Other current liabilities	3,498	10,771	7,984	9,925	9,992	10,120
Contract liabilities	30,922	31,067	29,851	27,377	28,316	30,099
Non-current liabilities	42,987	49,596	51,577	45,178	42,051	45,308
Long-term borrowings	35,126	42,576	44,059	33,529	30,152	32,936
Bond payables	0	0	1,005	4,377	4,377	4,377
Obligations under finance leases	789	960	973	991	1,025	1,089
Deferred income	87	78	91	111	115	122
Other non-current liabilities	6,985	5,982	5,450	6,170	6,382	6,784
Total liabilities	121,410	132,627	134,213	148,403	150,989	159,061
Share capital	4,736	4,783	4,784	4,784	4,784	4,784
Capital surplus	0	0	0	0	0	0
Retained earnings	27,309	34,715	39,873	44,897	50,138	56,891
Other reserves	26,596	28,510	28,152	28,076	28,076	28,076
Total shareholders equity	58,641	68,008	72,808	77,757	82,997	89,750
Minority interest	902	323	302	236	170	92
Total equity and liabilities	180,954	200,958	207,323	226,396	234,157	248,903

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	7,792	9,241	8,356	7,910	7,969	9,489
Depreciation & amortization	4,386	4,926	4,969	5,474	5,853	12,107
Tax paid	(587)	(437)	(237)	(327)	(159)	(461)
Change in working capital	(8,471)	(324)	(2,505)	(9,237)	(2,482)	(6,560)
Others	4,458	3,999	898	(2,794)	4,669	5,328
Net cash from operations	7,578	17,406	11,480	1,026	15,849	19,904
Investing						
Capital expenditure	(4,952)	(4,005)	(4,015)	(4,482)	(4,882)	(5,289)
Acquisition of subsidiaries/ investments	3,636	(17,001)	(25,299)	(1,212)	(523)	(994)
Net proceeds from disposal of short-term investments	24	104	535	255	274	293
Others	(471)	(635)	(415)	(3,796)	(1,089)	(2,045)
Net cash from investing	(1,762)	(21,536)	(29,193)	(9,235)	(6,221)	(8,034)
Financing						
Dividend paid	(3,688)	(4,836)	(5,419)	(6,078)	(6,266)	(6,497)
Net borrowings	5,442	11,164	(253)	12,169	1,938	6,628
Proceeds from share issues	171	1,676	374	(76)	0	0
Others	(471)	(633)	(521)	(28)	(28)	(28)
Net cash from financing	1,455	7,372	(5,818)	5,987	(4,356)	104
Net change in cash						
Cash at the beginning of the year	39,071	47,072	51,013	28,027	25,832	31,133
Exchange difference	260	66	24	0	0	0
Others	7,741	3,876	(23,011)	(2,194)	5,300	8,790
Cash at the end of the year	47,072	51,013	28,027	25,832	31,133	39,922
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	7.4%	1.1%	(2.4%)	19.6%	12.3%	9.5%
Gross profit	13.3%	12.8%	(10.9%)	0.2%	6.5%	6.2%
Operating profit	23.7%	4.0%	(5.9%)	(15.7%)	2.1%	10.5%
EBIT	(5.8%)	2.1%	(1.5%)	(5.2%)	0.1%	10.9%
Net profit	18.6%	15.4%	(9.7%)	(5.3%)	0.7%	19.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	37.2%	41.5%	37.9%	31.8%	30.1%	29.2%
Operating margin	8.6%	8.8%	8.5%	6.0%	5.5%	5.5%
Return on equity (ROE)	14.7%	14.7%	12.0%	10.6%	10.0%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.8	1.9	1.7	1.5	1.5	1.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	19.4	16.9	18.8	19.9	19.7	16.6
P/E (diluted)	19.4	16.9	18.8	19.9	19.7	16.6

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

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.