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CMB International Global Markets | Equity Research | Company Update

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Hua Hong Grace (1347 HK)

Q2 earnings beat, but rich valuation keeps us at HOLD

Hua Hong delivered a solid 2Q26, with revenue up 26.8% YoY/8.6% QoQ to a record US$718mn, ahead of Bloomberg consensus of US$703mn and above mgmt.'s US$690-700mn guidance. GPM rose to 16.5% from 13.0% in 1Q26, also beating consensus and the 14-16% guidance range, driven by higher ASP and utilization (increased to 102.8% from 99.7%). For 3Q26, mgmt. guided revenue of US$770-780mn and GPM of 16-18%. While tight supply and improving pricing support near-term fundamentals, we believe the stock's valuation increasingly reflects the cyclical recovery, while rising depreciation and continued capacity additions limit visibility on sustained margin expansion. We adjust up GPM forecast by 1.2/1.4ppt in FY26/27 on robust demand and more resilient pricing power. **Maintain HOLD, with TP adjusted to HK$97, based on 3.5x FY27E P/B.**

- **Pricing is becoming the key near-term earnings driver, but upside remains measured.** Mgmt. expects 60% of 3Q sequential revenue growth to come from higher ASP and 40% from volume, reflecting limited room for further utilization-led upside. Price increases are concentrated in MCU and memory-related products, where orders for some products have reached 1.5-2.0x available capacity. Mgmt. expects pricing actions to continue flowing through in 2H26 and potentially into 2027E, but stressed that increases should remain at percentage levels rather than the magnitude seen in DRAM. Embedded and standalone NVM were the strongest 2Q platforms, with revenue growing 42% and 149% YoY, respectively.
- **Demand remains firm into 2027E, though recovery is selective.** Mgmt. expects MCU, standalone NVM, low-/mid-voltage MOSFET, RF and PMIC to drive 3Q growth, while IGBT and super junction remain broadly flat. North America revenue rose 77% YoY, supported by AI-server BCD/PMIC, while Europe grew 90% on MCU, smart-card and power-device demand linked to a major customer's China-for-China strategy. Fab 9A should reach full loading in Q3, with additional output from Q4 and through 2027, although this should also gradually ease current supply tightness.
- **Capacity expansion supports growth but constrains margin normalization.** Fab 9B is expected to begin equipment installation in 3Q26, with initial output in 1Q27 and capacity ramping through 2027 toward 55k wafers/month. Mgmt. indicated roughly US$6bn of spending over the next three years. Meanwhile, depreciation is set to remain elevated as Fab 9A continues to ramp and Fab 9B adding further depreciation as production scales from 2027. We therefore expect ASP improvement to support profitability, but see rising depreciation and future capacity additions limiting further margin expansion.
- **Maintain HOLD with TP adjusted to HK$97, based on 3.5x FY27E PB, corresponding to 1-yr avg. historical forward P/B.** We acknowledge stronger execution, improving ASP and better demand visibility through 2027E. However, with utilization at over 100%, incremental earnings upside increasingly relies on sustained pricing, while higher depreciation, new capacity and less certain 2028 S/D dynamics keep the medium-term risk/reward capped. **Upside risks** include better-than-expected macro recovery, major tech breakthroughs, etc.; **downside risks** include geopolitical uncertainties, weaker-than-expected macro recovery, etc.

HOLD (Maintain)

Target Price	**HK$97.00**
(Previous TP	HK$80.00)
Up/Downside	**(34.1%)**
Current Price	**HK$147.20**

China Semiconductors

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

Aaron GUO
(852) 3916 3715
aaronguo@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	283,639.7
Avg 3 mths t/o (HK$ mn)	6,636.3
52w High/Low (HK$)	215.20/45.68
Total Issued Shares (mn)	1926.9

Source: FactSet

Shareholding Structure

Shanghai Hua Hong International	26.1%
XINXIN HK Capital	12.1%

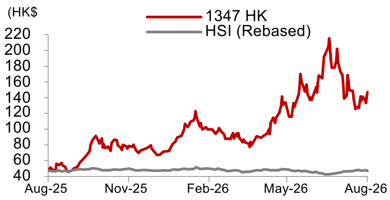
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.6%	-18.5%
3-mth	13.4%	17.8%
6-mth	49.1%	56.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	2,004	2,402	3,129	3,828	4,430
YoY growth (%)	(12.3)	19.9	30.3	22.3	15.7
Gross margin (%)	10.2	11.8	17.1	19.7	22.0
Operating profit (US$ mn)	(249.5)	(209.4)	(30.7)	122.1	265.4
YoY growth (%)	na	na	na	na	117.4
Net profit (US$ mn)	58.1	54.9	196.7	328.4	457.6
YoY growth (%)	(79.2)	(5.6)	258.4	67.0	39.3
P/B (x)	5.1	4.8	5.4	5.3	5.0

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$mn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Revenue	3,129	3,828	4,430	3,116	3,743	3,801	0.4%	2.3%	16.5%
Gross profit	534	756	975	495	685	684	7.9%	10.3%	42.5%
Net profit	197	328	458	157	338	326	25.0%	-2.9%	40.4%
BVPS (US$)	3.5	3.6	3.7	3.5	3.6	3.8	-1.1%	-1.0%	-1.6%
Gross margin	17.1%	19.7%	22.0%	15.9%	18.3%	18.0%	1.2 ppt	1.4 ppt	4 ppt
Net margin	6.3%	8.6%	10.3%	5.1%	9.0%	8.6%	1.2 ppt	-0.5 ppt	1.8 ppt

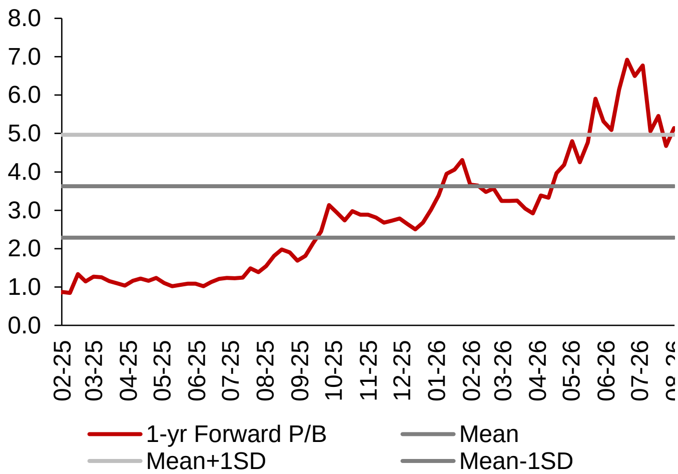
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBI estimates			Consensus			Diff (%)		
US$mn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Revenue	3,129	3,828	4,430	3,081	3,787	4,385	1.6%	1.1%	1.0%
Gross profit	534	756	975	483	692	847	10.6%	9.1%	15.1%
Net profit	197	328	458	215	326	442	-8.4%	0.6%	3.5%
BVPS (US$)	3.5	3.6	3.7	3.9	4.3	4.5	-12.0%	-16.8%	-16.6%
Gross margin	17.1%	19.7%	22.0%	15.7%	18.3%	19.3%	1.4 ppt	1.5 ppt	2.7 ppt
Net margin	6.3%	8.6%	10.3%	7.0%	8.6%	10.1%	-0.7 ppt	0 ppt	0.2 ppt

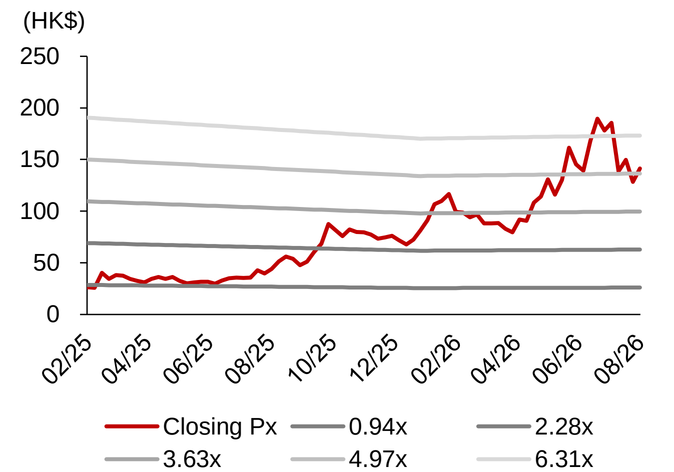
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: P/B chart



Source: Company data, CMBIGM estimates

Figure 4: P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**2,286**	**2,004**	**2,402**	**3,129**	**3,828**	**4,430**
Cost of goods sold	(1,799)	(1,799)	(2,119)	(2,595)	(3,073)	(3,455)
Gross profit	**487**	**205**	**283**	**534**	**756**	**975**
Selling expense	(10)	(10)	(11)	(13)	(14)	(12)
Admin expense	(323)	(351)	(415)	(453)	(498)	(554)
Others	(91)	(94)	(67)	(100)	(122)	(143)
Operating profit	**63**	**(249)**	**(209)**	**(31)**	**122**	**265**
Other income	188	178	138	100	115	133
Other expense	(77)	(63)	(18)	(0)	0	0
Pre-tax profit	**174**	**(134)**	**(89)**	**69**	**237**	**398**
Income tax	(47)	(7)	(22)	(15)	(36)	(60)
After tax profit	**126**	**(140)**	**(111)**	**54**	**201**	**339**
Minority interest	(154)	(198)	(166)	(142)	(127)	(119)
Net profit	**280**	**58**	**55**	**197**	**328**	**458**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**6,570**	**5,833**	**6,607**	**6,620**	**6,598**	**7,031**
Cash & equivalents	5,585	4,459	4,961	4,950	4,693	4,978
Restricted cash	32	32	32	35	38	41
Account receivables	279	270	282	301	328	400
Inventories	450	467	544	479	615	615
Prepayment	34	364	561	610	659	711
Other current assets	190	240	226	245	265	286
Non-current assets	**4,374**	**6,583**	**7,847**	**9,077**	**10,367**	**11,274**
PP&E	3,519	5,859	6,676	7,808	8,993	9,785
Right-of-use assets	79	78	64	60	56	52
Intangibles	50	31	36	47	62	81
Other non-current assets	726	614	1,071	1,163	1,257	1,356
Total assets	**10,943**	**12,415**	**14,454**	**15,697**	**16,965**	**18,305**
Current liabilities	**972**	**1,562**	**1,856**	**3,577**	**4,808**	**5,449**
Short-term borrowings	193	281	404	2,151	3,175	3,823
Account payables	235	298	330	238	385	316
Other current liabilities	541	978	1,119	1,184	1,245	1,307
Lease liabilities	3	5	3	3	3	3
Non-current liabilities	**1,956**	**1,946**	**3,433**	**3,045**	**3,007**	**3,486**
Long-term borrowings	1,907	1,917	2,787	2,399	2,360	2,840
Other non-current liabilities	50	29	646	646	646	646
Total liabilities	**2,929**	**3,508**	**5,290**	**6,621**	**7,815**	**8,935**
Share capital	4,934	4,938	4,987	4,987	4,987	4,987
Other reserves	1,367	1,309	1,625	1,679	1,881	2,219
Total shareholders equity	**6,301**	**6,247**	**6,613**	**6,667**	**6,868**	**7,207**
Minority interest	1,714	2,660	2,552	2,409	2,282	2,163
Total equity and liabilities	**10,943**	**12,415**	**14,454**	**15,697**	**16,965**	**18,305**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**174**	**(134)**	**(89)**	**69**	**237**	**398**
Depreciation & amortization	500	556	735	942	990	1,083
Tax paid	(72)	(57)	0	(15)	(36)	(60)
Change in working capital	(69)	142	0	(66)	(43)	(172)
Others	108	(47)	4	98	129	155
Net cash from operations	**642**	**459**	**650**	**1,028**	**1,277**	**1,404**
Investing						
Capital expenditure	(907)	(2,780)	(1,814)	(2,124)	(2,230)	(1,934)
Others	73	108	95	(41)	(42)	(44)
Net cash from investing	**(833)**	**(2,672)**	**(1,719)**	**(2,165)**	**(2,271)**	**(1,978)**
Financing						
Net borrowings	193	106	942	1,359	985	1,128
Proceeds from share issues	2,942	4	34	0	0	0
Others	647	1,041	523	(276)	(292)	(312)
Net cash from financing	**3,782**	**1,150**	**1,499**	**1,083**	**693**	**816**
Net change in cash						
Cash at the beginning of the year	2,009	5,585	4,459	4,961	4,950	4,693
Exchange difference	(14)	(64)	71	44	44	44
Others	3,590	(1,062)	430	(54)	(301)	242
Cash at the end of the year	**5,585**	**4,459**	**4,961**	**4,950**	**4,693**	**4,978**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Revenue	(7.7%)	(12.3%)	19.9%	30.3%	22.3%	15.7%
Gross profit	(42.3%)	(57.9%)	37.9%	88.9%	41.4%	29.0%
Operating profit	(88.3%)	na	na	na	na	117.4%
Net profit	(37.8%)	(79.2%)	(5.6%)	258.4%	67.0%	39.3%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Gross profit margin	21.3%	10.2%	11.8%	17.1%	19.7%	22.0%
Operating margin	2.8%	(12.4%)	(8.7%)	(1.0%)	3.2%	6.0%
Return on equity (ROE)	6.0%	0.9%	0.9%	3.0%	4.9%	6.5%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Current ratio (x)	6.8	3.7	3.6	1.9	1.4	1.3
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
P/E	115.0	554.7	593.4	183.8	110.1	79.0
P/B	5.0	5.1	4.8	5.4	5.3	5.0

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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