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Semiconductors

Nvidia 1QFY27 earnings: AI factory economics extends growth runway

OUTPERFORM (Maintain)

China Semiconductors Sector

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Relevant reports:

1. Semiconductors - DeepSeek V4 pricing offer extended, signaling China's LLM inference cost advantage (link)
2. Semiconductors - Google Cloud Next: TPU v8 and rising of AI Hypercomputer (link)
3. Semiconductors - Key takeaways for OFC 2026 (link)
4. Semiconductors - Nvidia's 4Q earnings: Widening the moat with multi-year visibility (link)
5. Innolight (300308 CH) - 1Q26 earnings: Brighter than a shooting star (link)
6. Innolight (300308 CH) - Stronger into 2026 on 1.6T ramp and SiPh mix (link)
7. InnoScience (2577 HK) - GaN-ning momentum one step at a time (link)

Nvidia (NVDA US, NR) delivered another beat-and-raise quarter, but the more important takeaway is that AI infrastructure economics are becoming more sustainable. Revenue rose 85% YoY / 20% QoQ to US$82bn, ahead of BBG consensus, with non-GAAP GPM stable at 75%. Beyond the headline beat, mgmt. framed AI data centers as revenue-generating AI factories, where customers prioritize lifetime token cost-efficiency over initial hardware ASP. We think this is key to Nvidia's moat, as rapid cost-per-token reduction, faster deployment, and broad workload compatibility improve customer ROI and support sustained AI capex. Together with US$1trn Blackwell/Rubin visibility through CY2027, incremental Vera CPU monetization, and a larger capital return program, the quarter reduces concerns that FY27 is merely a one-year demand spike and reinforces Nvidia's transition from a GPU supplier to full-stack AI factory platform. The Company guides 2Q revenue of US$91bn, ahead of BBG consensus of US$88bn, with non-GAAP GPM holding stable at 75%.

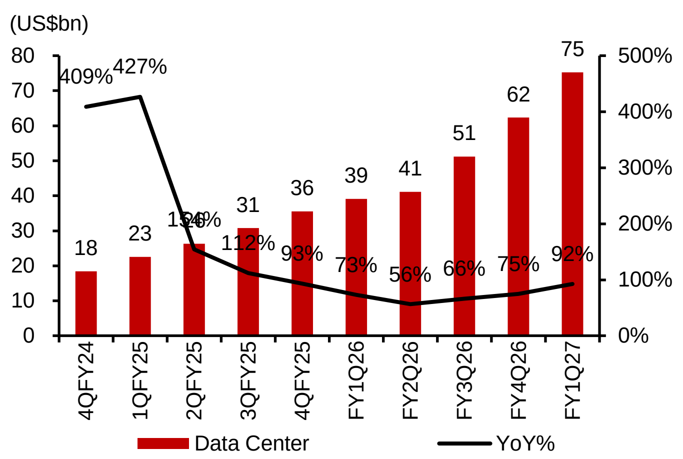
- **New segmentation shows Nvidia is no longer just a hyperscaler capex story.** Mgmt.'s new DC split is strategically important. Hyperscale revenue reached US$38bn, up 12% QoQ, while ACIE revenue (AI Clouds, Industrial and Enterprise) reached US$37bn, up 31% QoQ, reflecting that non-hyperscale AI factories were growing faster sequentially. The market tends to debate about the Company through hyperscaler capex intensity, ASIC substitution risk, and customer concentration, but ACIE changes the framing. AI-native clouds, sovereign AI, enterprise on-prem and industrial customers are less likely to design custom silicon or integrate fragmented systems themselves. This is where Nvidia's integration across GPU, CPU, networking, rack systems, CUDA and ecosystem support becomes more valuable. In our view, hyperscale proves the architecture, but ACIE may become the broader and higher-quality expansion market.
- **Blackwell/Rubin visibility and Vera CPU extend Nvidia's growth story from GPU demand to AI factory platform control.** Mgmt. reiterated confidence in **US$1tn of Blackwell/Rubin revenue from CY25-27**, supported by the current Blackwell ramp and Vera Rubin production starting in 2HCY26, which helps reduce concerns that this year could be a one-year AI capex spike. Separately, Vera opens a **US$200bn TAM**, with visibility to nearly **US$20bn of standalone CPU revenue this year**, excluding Vera CPUs bundled inside Vera Rubin systems, per mgmt.. We view Vera as Nvidia's move into the CPU-side control layer of agentic AI, where CPUs manage orchestration, tool use, memory, etc., while GPUs handle reasoning and inference. Together, Blackwell/Rubin provide multi-year platform visibility, while Vera expands Nvidia's monetization beyond GPUs into broader AI factory infrastructure.
- **Shareholder return upgrade adds another layer to the bull case.** Beyond stronger revenue visibility, the Company's capital allocation was also meaningfully upgraded, with an additional US$80bn buyback authorization, US$39bn still remaining under the existing plan, and a quarterly dividend increase to US$0.25/share. Mgmt. also reiterated its plan to return ~50% of FCF to shareholders this year. In our view, this shows the Company can fund aggressive R&D, supply chain commitments, and ecosystem investments while converting AI factory leadership into durable FCF and more disciplined shareholder returns. We also remain bullish on domestic AI beneficiaries of global AI infra capex expansion, including optical module leader **Innolight (300308 CH, BUY), PCB player Shengyi Tech (600183 CH, BUY), and DC power player Innoscience (2577 HK, BUY).**

Figure 1: Nvidia's quarterly segment revenue (New DC split)

Nvidia	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
(US$mn)									
Data Center	**22,563**	**26,272**	**30,771**	**35,580**	**39,112**	**41,096**	**51,215**	**62,314**	**75,246**
YoY	*426.7%*	*154.5%*	*112.0%*	*93.3%*	*73.3%*	*56.4%*	*66.4%*	*75.1%*	*92.4%*
QoQ	*22.6%*	*16.4%*	*17.1%*	*15.6%*	*9.9%*	*5.1%*	*24.6%*	*21.7%*	*20.8%*
%	*86.6%*	*87.5%*	*87.7%*	*90.5%*	*88.8%*	*87.9%*	*89.8%*	*91.5%*	*92.2%*
Hyperscale	**10,690**	**10,622**	**13,390**	**19,904**	**17,599**	**23,883**	**30,340**	**33,814**	**37,896**
YoY					*64.6%*	*124.8%*	*126.6%*	*69.9%*	*115.3%*
QoQ		*-0.6%*	*26.1%*	*48.6%*	*-11.6%*	*35.7%*	*27.0%*	*11.5%*	*12.1%*
% of DC	*47.4%*	*40.4%*	*43.5%*	*55.9%*	*45.0%*	*58.1%*	*59.2%*	*54.3%*	*50.4%*
ACIE	**11,873**	**15,650**	**17,381**	**15,676**	**21,513**	**17,213**	**20,875**	**28,500**	**37,350**
YoY					*81.2%*	*10.0%*	*20.1%*	*81.8%*	*73.6%*
QoQ		*31.8%*	*11.1%*	*-9.8%*	*37.2%*	*-20.0%*	*21.3%*	*36.5%*	*31.1%*
%	*52.6%*	*59.6%*	*56.5%*	*44.1%*	*55.0%*	*41.9%*	*40.8%*	*45.7%*	*49.6%*
Edge computing	3,481	3,768	4,311	3,751	4,950	5,647	5,791	5,813	6,369
YoY					*42.2%*	*49.9%*	*34.3%*	*55.0%*	*28.7%*
QoQ		*8.2%*	*14.4%*	*-13.0%*	*32.0%*	*14.1%*	*2.6%*	*0.4%*	*9.6%*
%	*13.4%*	*12.5%*	*12.3%*	*9.5%*	*11.2%*	*12.1%*	*10.2%*	*8.5%*	*7.8%*
Revenue	**26,044**	**30,040**	**35,082**	**39,331**	**44,062**	**46,743**	**57,006**	**68,127**	**81,615**
YoY%	*262.1%*	*122.4%*	*93.6%*	*77.9%*	*69.2%*	*55.6%*	*62.5%*	*73.2%*	*85.2%*
QoQ%	*17.8%*	*15.3%*	*16.8%*	*12.1%*	*12.0%*	*6.1%*	*22.0%*	*19.5%*	*19.8%*

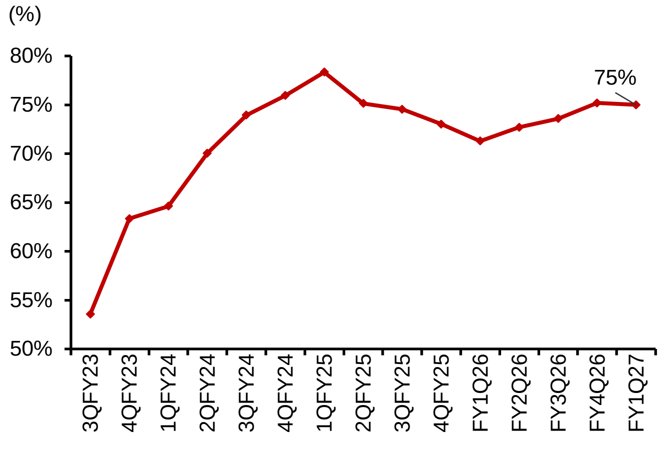
Source: Company data, CMBIGM

Figure 2: Nvidia's datacenter quarterly revenue and growth



Source: Company data, CMBIGM

Figure 3: Nvidia's non-GAAP GPM trend



Source: Company data, CMBIGM

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