9 Mar 2026

CMB International Global Markets | Equity Research | Company Update

ZTE (763 HK)

Accelerating compute power but decelerating margins

ZTE reported FY25 results with revenue up 10.4% YoY to RMB134bn, 7.7% below our estimate and 3.9% below Bloomberg consensus, while net profit fell 33.3% YoY to RMB5.6bn, 30% below our estimate and 24% below Bloomberg consensus. GPM declined sharply to 30.3%, down 7.7ppts from 37.9% in FY24, mainly due to a higher mix of Enterprise & Government (E&G) sales. In 4Q25, revenue rose 6.8% YoY and 15.2% QoQ to RMB33.3bn, while net profit fell 42.9% YoY but increased 11.9% QoQ to RMB296mn. Looking ahead, we remain positive on top-line growth as server sales to E&G clients continue to expand, while Carrier revenue should stay broadly flat amid weaker domestic telco spending. That said, the changing revenue mix is likely to keep margins under pressure. **Maintain BUY on ZTE with a revised TP of HK$38.6 (from HK$42), based on the same 25.0x 2026E P/E.**

- **Revenue mix transition continues to weigh on margins.** Carrier revenue declined 10.6% YoY in FY25 (vs. -15% in FY24) as domestic telcos further reduced capex following the 5G investment cycle. Overseas carrier revenue remained resilient, posting double-digit growth supported by strong demand in Southeast Asia and Africa. Segment margin declined to 48.1% from 50.9% in FY24 amid a more competitive pricing environment. We expect carrier revenue to grow by low single-digit in FY26E on a low base.

- **E&G has emerged as the second growth engine, although margin pressure persists.** E&G revenue more than doubled to RMB37bn in FY25 (vs. RMB19bn in FY24). AI compute revenue grew 150% YoY, supported by server partnerships with several major domestic hyperscalers, with E&G contributing over 90% of total AI server sales. Segment margin declined to 11.0% from 15.3% in FY24. Looking ahead, we expect ZTE to continue gaining share in the domestic AI server market, although margins may remain under pressure as costs across the AI supply chain (e.g., memory) continue to rise. We forecast E&G revenue growth of ~30% in FY26E.

- **Consumer remained broadly stable in FY25 and should stay so in FY26.** Consumer revenue grew 4.4% YoY to RMB34bn in FY25, supported by handset sales, which accounted for roughly half of segment revenue. Family Network faced intensifying competition, sending segment margin down to 18.3% from 22.7% in FY24. We expect the consumer segment to grow modestly by mid-single-digit in FY26E, driven by handsets while family network remains largely flat.

- **Maintain BUY with TP adjusted to HK$38.6 (from HK$42), based on 25.0x 2026E P/E.** Peers are trading at ~24.0x 2026E P/E. We forecast revenue to grow by 11.3% in 2026E, while margin may decline further to ~29% as E&G segment sales continue to expand. The Company remains in a transitional phase as its revenue mix evolves.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	124,251	121,299	133,895	148,992	168,360
YoY growth (%)	1.1	(2.4)	10.4	11.3	13.0
Gross margin (%)	41.5	37.9	30.3	29.1	28.5
Net profit (RMB mn)	9,325.8	8,424.8	5,617.7	6,495.5	9,041.4
YoY growth (%)	15.4	(9.7)	(33.3)	15.6	39.2
P/E (x)	11.4	12.7	19.2	16.5	11.9
ROE (%)	14.7	12.0	7.6	8.4	10.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$38.60**
(Previous TP	HK$42.00)
Up/Downside	**51.8%**
Current Price	**HK$25.42**

China Semiconductors

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

Stock Data

Mkt Cap (HK$ mn)	19,204.8
Avg 3 mths t/o (HK$ mn)	481.2
52w High/Low (HK$)	43.30/19.44
Total Issued Shares (mn)	755.5

Source: FactSet

Shareholding Structure

BlackRock	6.3%
Capital Group	5.1%

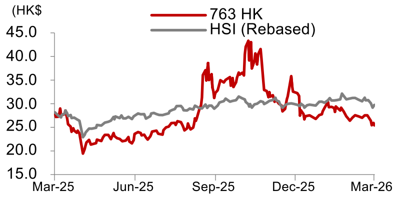
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-3.7%	-0.7%
3-mth	-21.5%	-20.5%
6-mth	-21.1%	-22.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMBmn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	148,992	168,360	185,308	162,912	178,374	N/A	-9%	-6%	N/A
Gross profit	43,329	47,980	53,137	49,037	52,085	N/A	-12%	-8%	N/A
Net profit	6,496	9,041	11,214	8,035	9,568	N/A	-19%	-6%	N/A
EPS (RMB)	1.36	1.89	2.34	2.15	2.48	N/A	-37%	-24%	N/A
Gross margin	29.1%	28.5%	28.7%	30.1%	29.2%	N/A	-1 ppt	-0.7 ppt	N/A
Net margin	4.4%	5.4%	6.1%	6.7%	6.8%	N/A	-2.4 ppt	-1.4 ppt	N/A

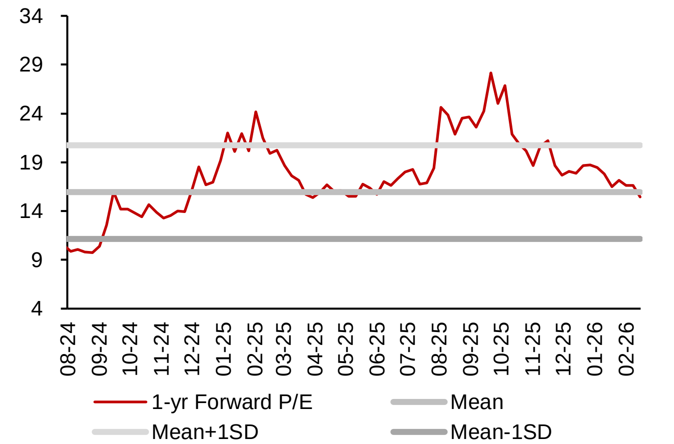
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBIGM			BBG Consensus			Diff (%)		
RMBmn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	148,992	168,360	185,308	155,445	173,356	186,926	-4%	-3%	-1%
Gross profit	43,329	47,980	53,137	47,483	51,588	45,236	-9%	-7%	17%
Net profit	6,496	9,041	11,214	8,410	9,834	6,007	-23%	-8%	87%
EPS (RMB)	1.36	1.89	2.34	1.76	2.06	1.26	-23%	-8%	86%
Gross margin	29.1%	28.5%	28.7%	30.5%	29.8%	24.2%	-1.5 ppt	-1.3 ppt	4.5 ppt
Net margin	4.4%	5.4%	6.1%	5.4%	5.7%	3.2%	-1.1 ppt	-0.3 ppt	2.8 ppt

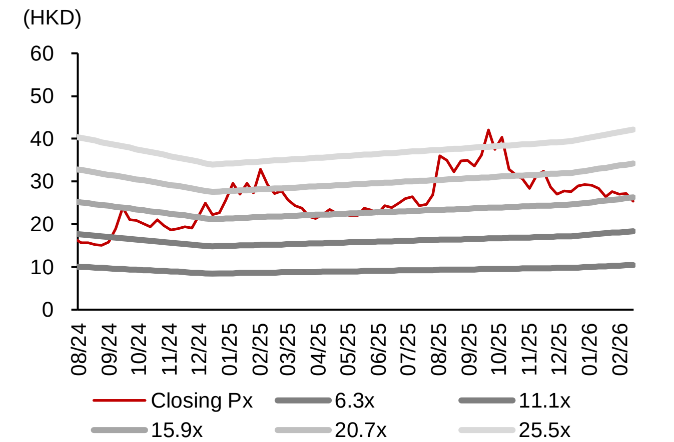
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: Forward P/E chart



Source: Company data, CMBIGM estimates

Figure 4: P/E band



Source: Company data, CMBIGM estimates

Figure 5: Peers table

		Mkt Cap	P/E		EPS (US$)		GPM%	
Company	**Ticker**	**US$(mn)**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**
IEIT Systems	000977 CH	12,658	23.3	18.5	0.37	0.46	6.5	6.6
Huaqin Tech	603296 CH	12,698	17.3	14.0	0.72	0.89	9.4	9.5
Foxconn	601138 CH	156,486	17.2	13.6	0.46	0.58	6.8	6.7
Ruijie Network	301165 CH	9,807	45.2	33.7	0.27	0.37	33.5	32.9
Star-Net	002396 CH	2,529	16.0	12.8	0.27	0.34	32.6	32.4
		Average	***23.8***	***18.5***	***0.42***	***0.53***	***17.8***	***17.6***

Source: Bloomberg consensus

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	**122,954**	**124,251**	**121,299**	**133,895**	**148,992**	**168,360**
Cost of goods sold	(77,228)	(72,650)	(75,311)	(93,391)	(105,663)	(120,380)
Gross profit	**45,727**	**51,601**	**45,988**	**40,504**	**43,329**	**47,980**
Operating expenses	**(35,166)**	**(40,623)**	**(35,652)**	**(34,402)**	**(35,533)**	**(37,795)**
Selling expense	(9,173)	(10,172)	(8,901)	(9,223)	(9,816)	(10,756)
Admin expense	(5,333)	(5,632)	(4,477)	(4,220)	(4,398)	(4,632)
SG&A expense	(951)	(1,336)	(1,176)	(1,090)	(1,213)	(1,371)
R&D expense	(21,602)	(25,289)	(24,031)	(22,755)	(23,831)	(25,245)
Others	1,893	1,806	2,933	2,887	3,725	4,209
Operating profit	**10,561**	**10,978**	**10,335**	**6,102**	**7,796**	**10,184**
Other income	196	173	76	201	223	252
Other expense	(239)	(228)	(189)	(260)	(289)	(327)
Gain/loss on financial assets at FVTPL	(1,142)	(702)	(625)	102	102	102
Investment gain/loss	1,087	(205)	112	453	0	0
Other gains/(losses)	(1,548)	(914)	(745)	(521)	(537)	(517)
EBIT	**8,915**	**9,102**	**8,965**	**6,076**	**7,295**	**9,695**
Net Interest income/(expense)	**(163)**	**1,101**	**265**	**227**	**(102)**	**380**
Other income/expense	(657)	158	(687)	(375)	(375)	(375)
Pre-tax profit	**8,752**	**10,203**	**9,230**	**6,303**	**7,193**	**10,075**
Income tax	(960)	(962)	(874)	(738)	(762)	(1,123)
After tax profit	**7,792**	**9,241**	**8,356**	**5,565**	**6,431**	**8,952**
Minority interest	(289)	(85)	(69)	(53)	(64)	(90)
Others	0	0	0	0	0	0
Net profit	**8,080**	**9,326**	**8,425**	**5,618**	**6,496**	**9,041**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	**137,874**	**158,505**	**141,787**	**143,934**	**146,226**	**143,547**
Cash & equivalents	47,072	51,013	28,027	25,482	18,675	24,343
Restricted cash	9,274	27,530	15,859	8,269	8,269	8,269
Account receivables	19,098	21,968	23,886	24,063	28,187	25,319
Inventories	45,235	41,131	41,258	47,017	52,567	47,695
Prepayment	279	242	692	1,443	881	1,169
Financial assets at FVTPL	514	153	13,769	17,396	17,612	17,378
Other current assets	16,402	16,466	18,297	20,263	20,036	19,374
Non-current assets	**43,080**	**42,454**	**65,536**	**73,806**	**74,215**	**73,956**
PP&E	13,877	14,360	14,178	13,422	12,646	11,815
Right-of-use assets	1,080	1,557	1,552	1,534	1,487	1,413
Deferred income tax	3,719	4,146	4,396	5,166	5,230	5,160
Intangibles	9,926	8,999	7,159	6,017	4,932	4,377
Goodwill	0	0	14	0	0	0
Financial assets at FVTPL	1,028	832	716	1,793	1,793	1,793
Other non-current assets	13,450	12,559	37,520	45,874	48,126	49,397
Total assets	**180,954**	**200,958**	**207,323**	**217,739**	**220,441**	**217,503**
Current liabilities	**78,424**	**83,030**	**82,635**	**81,981**	**103,744**	**89,404**
Short-term borrowings	9,962	7,560	7,027	3,629	5,443	2,811
Account payables	32,595	32,219	36,568	36,866	57,552	45,720
Tax payable	1,447	1,413	1,205	1,128	1,142	1,127
Other current liabilities	3,498	10,771	7,984	9,673	8,541	9,094
Contract liabilities	30,922	31,067	29,851	30,685	31,066	30,652
Non-current liabilities	**42,987**	**49,596**	**51,577**	**60,117**	**36,591**	**41,314**
Long-term borrowings	35,126	42,576	44,059	45,713	22,104	26,916
Bond payables	0	0	1,005	7,810	7,810	7,810
Obligations under finance leases	789	960	973	940	952	939
Deferred income	87	78	91	108	109	108
Other non-current liabilities	6,985	5,982	5,450	5,547	5,615	5,541
Total liabilities	**121,410**	**132,627**	**134,213**	**142,098**	**140,334**	**130,718**
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	42,539	47,068	53,837
Other reserves	26,596	28,510	28,152	28,103	28,103	28,103
Total shareholders equity	**58,641**	**68,008**	**72,808**	**75,426**	**79,955**	**86,723**

Minority interest	902	323	302	216	151	62
Total equity and liabilities	**180,954**	**200,958**	**207,323**	**217,739**	**220,441**	**217,503**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**7,792**	**9,241**	**8,356**	**5,565**	**6,431**	**8,952**
Depreciation & amortization	4,386	4,926	4,969	4,758	5,112	10,498
Tax paid	(587)	(437)	(237)	(752)	(63)	5
Change in working capital	(8,471)	(324)	(2,505)	(7,017)	11,110	6,900
Others	4,458	3,999	898	1,365	4,787	2,898
Net cash from operations	**7,578**	**17,406**	**11,480**	**3,919**	**27,378**	**29,254**
Investing						
Capital expenditure	(4,952)	(4,005)	(4,015)	(3,893)	(5,922)	(6,447)
Acquisition of subsidiaries/ investments	3,636	(17,001)	(25,299)	(3,060)	(115)	338
Net proceeds from disposal of short-term investments	24	104	535	77	421	433
Others	(471)	(635)	(415)	(575)	(386)	419
Net cash from investing	**(1,762)**	**(21,536)**	**(29,193)**	**(7,451)**	**(6,003)**	**(5,257)**
Financing						
Dividend paid	(3,688)	(4,836)	(5,419)	(4,368)	(5,235)	(4,926)
Net borrowings	5,442	11,164	(253)	5,473	(22,948)	2,757
Proceeds from share issues	171	1,676	374	0	0	0
Others	(471)	(633)	(521)	(575)	0	0
Net cash from financing	**1,455**	**7,372**	**(5,818)**	**530**	**(28,183)**	**(2,169)**
Net change in cash						
Cash at the beginning of the year	39,071	47,072	51,013	28,027	25,482	18,675
Exchange difference	260	66	24	(117)	0	0
Others	7,741	3,876	(23,011)	(2,427)	(6,808)	5,668
Cash at the end of the year	**47,072**	**51,013**	**28,027**	**25,482**	**18,675**	**24,343**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	7.4%	1.1%	(2.4%)	10.4%	11.3%	13.0%
Gross profit	13.3%	12.8%	(10.9%)	(11.9%)	7.0%	10.7%
Operating profit	23.7%	4.0%	(5.9%)	(41.0%)	27.8%	30.6%
EBIT	(5.8%)	2.1%	(1.5%)	(32.2%)	20.1%	32.9%
Net profit	18.6%	15.4%	(9.7%)	(33.3%)	15.6%	39.2%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	37.2%	41.5%	37.9%	30.3%	29.1%	28.5%
Operating margin	8.6%	8.8%	8.5%	4.6%	5.2%	6.0%
Return on equity (ROE)	14.7%	14.7%	12.0%	7.6%	8.4%	10.8%

GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.8	1.9	1.7	1.8	1.4	1.6

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	13.1	11.4	12.7	19.2	16.5	11.9
P/E (diluted)	13.1	11.4	12.7	19.3	16.5	11.9

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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