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CMB International Global Markets | Equity Research | Company Update

招銀国际 CMB INTERNATIONAL
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SMIC (981 HK)

2Q earnings beat on pricing turn and earnings recovery

SMIC posted record 2Q26 revenue of US$3,006mn, up 20.0% QoQ/36.1% YoY, and GPM of 25.3%, up 5.2ppts QoQ/4.9ppts YoY, both above the upper end of guidance and Bloomberg consensus. Company's guidance for 3Q26 remains solid, with revenue expected to grow 2-4% QoQ and GPM reaching 26-28%, supported by elevated utilization and continued pricing momentum. Given the stronger-than-expected 2Q26 results and 3Q guidance, we raise our FY26/27E revenue forecasts by 5.3%/9.2% and GPM estimates by 3.4/2.3ppts, respectively. **Maintain BUY, with TP raised to HK$119, based on 5x FY27E P/B.**

- **Pricing was the key margin unlock, while one-offs amplified the net profit beat.** 2Q26 shipments increased 14.4% QoQ, supported by AI-related demand, customer pull-forward and newly qualified capacity, while blended 8-inch-equivalent ASP rose 5.7% QoQ as price increases negotiated in 1Q flowed through, particularly in tighter AI-related and power-management supply chains. Mgmt. stressed that pricing contributed more to the GPM beat than mix, while 93.7% utilization and scale helped offset higher depreciation. Attributable net profit reached US$479mn (+142.7% QoQ/+261.7% YoY), well above Bloomberg consensus of ~US$257mn, with operating profit of US$534mn (+254.5% YoY) confirming strong core earnings growth. However, other income, net reached US$276mn versus US$9.7mn a year ago, driven by FX gains, fair-value gains and associate/JV contributions, meaning the headline 15.9% attributable net margin materially overstates the normalized run-rate.
- **Demand mix is rotating toward industrial & auto, while smartphone exposure continues to decline.** Industrial & Automotive increased to 16.5% of wafer revenue (+5.9ppts YoY/+2.5ppts QoQ), while Smartphone fell to 16.9% (-8.3ppts YoY/-2.0ppts QoQ). Consumer Electronics remained the largest category at 44.2% (+3.2ppts YoY/-2.0ppts QoQ), PC & Tablet rose to 15.6% (+0.6ppts YoY/+2.0ppts QoQ), and Connectivity & IoT declined to 6.8% (-1.4ppts YoY/-0.5ppts QoQ). We see the mix shift as consistent with stronger demand from industrial/auto and AI-adjacent applications, while handset exposure continues to become less dominant.
- **Localization deepens as 12-inch becomes an increasingly dominant part of the revenue mix.** China accounted for 90.2% of revenue in 2Q26 (+6.1ppts YoY/+1.3ppts QoQ), while America fell to 8.2% (-4.7ppts YoY) and Eurasia to 1.6% (-1.4ppts YoY). By wafer size, 12-inch revenue mix increased to 78.2% from 76.1% a year ago, while 8-inch declined to 21.8%. This reflects SMIC's continued shift toward its expanding 12-inch manufacturing base and a more localized customer mix, while the quarter's margin improvement was primarily driven by ASP uplift and broader product-mix improvement rather than wafer size alone.
- **Maintain BUY, with TP adjusted to HK$119, reflecting 5x FY27E P/B,** vs. peers trading at around 4.0x. We believe SMIC deserves a premium given its unique strategic position, leading scale and technology breadth within China's foundry ecosystem. Improving pricing, utilization and capacity monetization should continue to support earnings recovery, despite near-term depreciation pressure. Key risks include weaker pricing, slower capacity ramp and geopolitical uncertainties.

BUY (Maintain)

Target Price	**HK$119.00**
(Previous TP	HK$110.00)
Up/Downside	**76.2%**
Current Price	**HK$67.55**

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Stock Data

Mkt Cap (HK$ mn)	406,266.0
Avg 3 mths t/o (HK$ mn)	10,695.1
52w High/Low (HK$)	91.05/50.05
Total Issued Shares (mn)	6014.3

Source: FactSet

Shareholding Structure

Datang Holdings	18.0%
National Integrated Circuit Industry Inv	7.9%

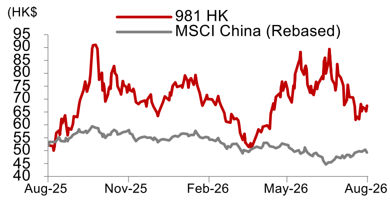
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.8%	-17.6%
3-mth	-8.9%	-3.1%
6-mth	-4.0%	5.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	8,030	9,327	12,018	14,248	15,786
YoY growth (%)	27.0	16.2	28.9	18.6	10.8
Gross margin (%)	18.0	21.0	24.9	25.6	26.4
Net profit (US$ mn)	492.7	685.1	1,927.4	2,574.8	2,953.2
YoY growth (%)	(45.4)	39.0	181.3	33.6	14.7
EPS (Adjusted) (US$ cents)	5.99	8.39	22.55	30.08	31.35
P/B (x)	3.3	3.2	3.1	2.8	2.5
ROE (%)	2.4	3.3	8.6	10.4	10.8

Source: Company data, Bloomberg, CMBIGM estimates

Management Commentary Highlights:

Pricing, Capacity Allocation & Demand Structure

- **Targeted, not blanket, price hikes.** Since Feb–Mar, SMIC negotiated price increases mainly in tighter and more differentiated segments (AI-related chips, power management), while handset and consumer products saw limited pricing actions. Management emphasized pricing discipline, noting SMIC is neither the first nor the most aggressive player to raise prices. The 2Q ASP increase (+5.7% QoQ) mainly reflected 1Q-negotiated price hikes flowing through, with further impact expected in 3Q as shipments carry newly negotiated pricing.
- **Capacity allocation prioritizes strategic relationships.** SMIC continues to prioritize existing commitments with long-term strategic customers, while seeking reasonable pricing in segments where it has reached first-tier competitiveness and pricing power. Capacity allocation remains based on strategic partnerships and long-term commitments rather than simply maximizing near-term pricing.
- **Demand remains highly differentiated across applications.** Management highlighted three demand trends:
  1. **Supply tightness:** AI-related chips (logic, BCD, optical modules, power management), NOR Flash and other specialty low-density memory, as overseas players exit certain segments;
  2. **Inventory correction:** handset-related inventory remains elevated, with soft DDIC demand and pricing already low;
  3. **Early restocking:** some customers are building inventory ahead of potential capacity constraints or price increases next year.
  4. **BCD demand remains resilient.** AI infrastructure demand is supporting BCD applications, particularly 48V high-voltage and high-current solutions for data centers. BCD supply remains tight, especially on 8-inch, with management seeing demand visibility extending through end-2027.

Depreciation & EBITDA Outlook

- **Depreciation remains a near-term margin headwind.** 2Q depreciation reached ~US$1.2bn, with full-year depreciation expected to increase ~30% YoY to nearly US$5bn. Quarterly depreciation growth of ~US$120-140mn could create a ~4-5ppt gross margin drag. Management expects depreciation to peak around 2027 based on current expansion plans, although AI-driven capacity adjustments could shift the timing.
- **EBITDA remains elevated, but one-offs should be stripped out.** 2Q EBITDA margin reached 70.2%, supported by strong utilization and profitability, but was also boosted by FX gains and fair-value changes in financial assets and associates. With utilization around 95% and stable ASP, EBITDA should remain healthy, although investors should separate operating performance from non-recurring gains.
- **Utilization ceiling limits further volume-driven upside.** Management reserves ~5% capacity for R&D and technology development, effectively capping utilization near 95%. Future margin improvement will therefore rely increasingly on pricing, mix and operating efficiency rather than further utilization gains.
- **No price-cut risk expected in 2026.** Management sees no likelihood of price reductions this year, expecting current pricing, utilization and gross margin levels to remain supported. Orders are largely covered through year-end.

Guidance & Outlook

- **3Q26 guidance remains constructive.** Management guides revenue growth of 2-4% QoQ and GPM of 26-28%, with margin expansion despite incremental depreciation and seasonal electricity costs. Utilization is expected to remain around 95%, with new capacity gradually contributing.

- **AI spillover supports broader foundry demand.** Management remains positive on 2H26 industry momentum, expecting AI-related demand to continue supporting broader IC manufacturing demand. SMIC will continue reallocating existing capacity, accelerating new capacity qualification and managing supply-chain cost pass-through.

Investor Concerns

- **Margin expansion remains intact, but the pace may moderate.** 3Q26 GPM guidance confirms continued pricing power amid mature-node tightness. However, 2Q margin expansion was primarily ASP-driven rather than mix-driven, while handset/consumer pricing remains limited. Sustainability above 26% GPM depends on continued demand spillover and pricing discipline.
- **Reported net profit overstates normalized earnings.** 2Q net profit benefited from significant non-operating items, including FX gains, financial-asset fair-value changes and associate/JV investment gains. Management characterized these items as one-off and highlighted uncertainty around future fair-value changes. Investors should focus on core operating profit while accounting for increased minority interest dilution.
- **Depreciation peak and utilization ceiling remain key watchpoints.** Full-year depreciation is expected to rise ~30% YoY to ~US$5bn, creating ongoing margin pressure. While 2027 could mark the depreciation peak under current plans, AI-driven capacity expansion may delay the inflection point. With utilization already near its ceiling, further earnings upside will depend more on pricing and mix.

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	12,018	14,248	15,786	11,413	13,042	14,615	5.3%	9.2%	8.0%
Gross profit	2,987	3,653	4,164	2,454	3,039	3,566	21.7%	20.2%	16.8%
Net profit	1,927	2,575	2,953	1,167	1,622	2,030	65.2%	58.7%	45.4%
BVPS (US$)	2.7	3.0	3.4	2.7	2.8	3.1	0.1%	7.2%	10.1%
Gross margin	24.9%	25.6%	26.4%	21.5%	23.3%	24.4%	3.4 ppt	2.3 ppt	2 ppt
Net margin	16.0%	18.1%	18.7%	10.2%	12.4%	13.9%	5.8 ppt	5.6 ppt	4.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBI estimates			Consensus			Diff (%)		
US$mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	12,018	14,248	15,786	11,642	13,944	16,024	3.2%	2.2%	-1.5%
Gross profit	2,987	3,653	4,164	2,765	3,624	4,368	8.0%	0.8%	-4.7%
Net profit	1,927	2,575	2,953	1,461	1,885	2,416	31.9%	36.6%	22.2%
BVPS (US$)	2.7	3.0	3.4	3.0	3.2	3.4	-8.6%	-4.4%	-1.8%
Gross margin	24.9%	25.6%	26.4%	23.8%	26.0%	27.3%	1.1 ppt	-0.4 ppt	-0.9 ppt
Net margin	16.0%	18.1%	18.7%	12.5%	13.5%	15.1%	3.5 ppt	4.6 ppt	3.6 ppt

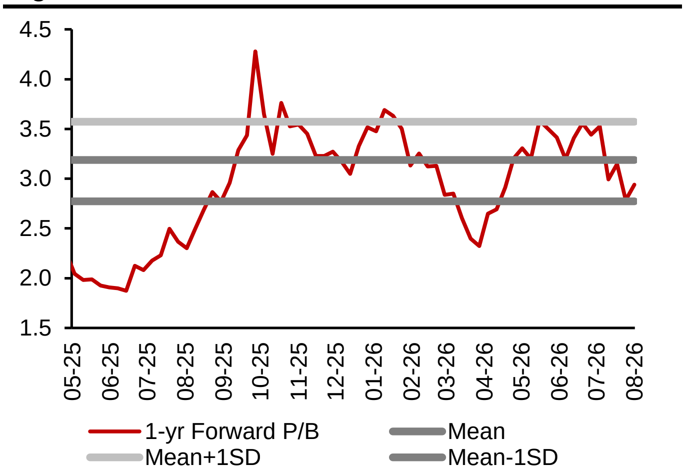
Source: Bloomberg, CMBIGM estimates

Figure 3: Peer's table

		Mkt Cap	P/B		EPS (US$)		GPM%	
Company	Ticker	US$(mn)	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
CR Micro	688396 CH	11,837	3.3	3.0	0.15	0.20	28.1	29.6
Silan Micro	600460 CH	8,015	4.2	3.8	0.09	0.13	20.7	22.5
TSMC	2330 TT	1,969,424	8.2	6.1	3.34	4.36	66.5	66.1
UMC	2303 TT	48,347	3.5	3.2	0.22	0.23	33.4	37.7
ASE	3711 TT	86,067	6.7	5.8	0.58	0.87	21.2	23.7
VIS	5347 TT	9,663	3.7	3.2	0.19	0.24	32.3	31.6
GFS	GFS US	28,911	2.4	2.2	1.89	2.56	30.2	33.3
Intel	INTC US	552,607	4.8	4.4	1.46	1.96	41.7	43.9
Hua Hong	1347 HK	38,459	4.3	4.0	0.11	0.17	15.9	18.3
		Average	***4.6***	***4.0***	***0.89***	***1.19***	***32.2***	***34.1***

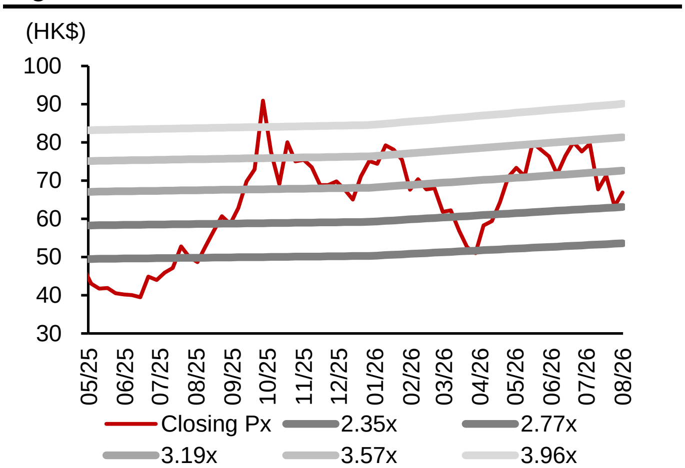
Source: Bloomberg, CMBIGM
Note: Data as of 14 Aug 2026

Figure 4: P/B chart



Source: Company data, CMBIGM estimates

Figure 5: P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**6,322**	**8,030**	**9,327**	**12,018**	**14,248**	**15,786**
Cost of goods sold	(5,104)	(6,582)	(7,370)	(9,031)	(10,595)	(11,622)
Gross profit	**1,218**	**1,448**	**1,957**	**2,987**	**3,653**	**4,164**
Operating expenses	**(860)**	**(974)**	**(847)**	**(1,075)**	**(1,369)**	**(1,516)**
Selling expense	(36)	(40)	(43)	(54)	(67)	(74)
Admin expense	(482)	(580)	(526)	(564)	(712)	(789)
R&D expense	(707)	(765)	(774)	(884)	(1,140)	(1,263)
Others	366	411	496	427	550	610
Operating profit	**358**	**474**	**1,110**	**1,912**	**2,284**	**2,648**
Other income	830	386	(37)	609	712	789
EBIT	**1,187**	**860**	**1,073**	**2,521**	**2,997**	**3,437**
Income tax	(63)	(130)	(84)	(239)	(284)	(326)
After tax profit	**1,125**	**730**	**989**	**2,282**	**2,712**	**3,111**
Minority interest	222	237	304	354	138	158
Net profit	**903**	**493**	**685**	**1,927**	**2,575**	**2,953**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**13,635**	**14,784**	**15,625**	**14,352**	**14,913**	**14,901**
Cash & equivalents	6,215	6,364	5,873	3,397	2,464	1,740
Restricted cash	180	0	0	0	0	0
Account receivables	1,170	840	1,433	1,572	1,990	1,956
Inventories	2,736	2,958	3,630	4,580	5,052	5,514
Prepayment	106	56	68	68	68	68
Financial assets at FVTPL	215	272	381	330	377	419
Other current assets	3,014	4,292	4,242	4,406	4,963	5,204
Non-current assets	**34,152**	**34,378**	**36,646**	**42,745**	**45,853**	**50,335**
PP&E	23,945	28,092	32,558	36,651	40,081	43,720
Right-of-use assets	474	432	375	375	375	375
Deferred income tax	13	29	35	35	35	35
Investment in JVs & assos	2,045	1,253	1,310	1,998	2,127	2,283
Intangibles	34	24	20	15	13	12
Financial assets at FVTPL	482	427	811	653	722	844
Other non-current assets	7,160	4,120	1,538	3,018	2,499	3,065
Total assets	**47,787**	**49,161**	**52,271**	**57,097**	**60,766**	**65,236**
Current liabilities	**7,602**	**8,760**	**6,817**	**8,017**	**8,193**	**8,593**
Short-term borrowings	1,216	2,926	2,593	2,600	2,500	2,500
Account payables	3,728	3,280	2,966	3,485	3,822	3,926
Other current liabilities	274	987	241	241	241	241
Lease liabilities	32	19	7	7	7	7
Contract liabilities	2,053	1,186	599	1,274	1,213	1,508
Accrued expenses	298	362	410	410	410	410
Non-current liabilities	**9,340**	**8,532**	**10,434**	**11,439**	**11,439**	**11,439**
Long-term borrowings	8,335	8,038	9,995	11,000	11,000	11,000
Bond payables	599	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Obligations under finance leases	26	8	1	1	1	1
Deferred income	307	375	378	378	378	378
Other non-current liabilities	73	111	60	60	60	60
Total liabilities	**16,942**	**17,292**	**17,251**	**19,456**	**19,632**	**20,032**
Share capital	32	32	32	32	32	32
Capital surplus	14,117	14,266	14,395	14,395	14,395	14,395
Retained earnings	5,680	6,173	6,858	8,786	11,360	14,314
Other reserves	287	142	155	155	155	155
Total shareholders equity	**20,116**	**20,614**	**21,440**	**23,367**	**25,942**	**28,895**
Minority interest	10,730	11,256	13,581	14,274	15,191	16,309
Total equity and liabilities	**47,787**	**49,161**	**52,271**	**57,097**	**60,766**	**65,236**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**1,125**	**730**	**989**	**1,927**	**2,575**	**2,953**
Depreciation & amortization	2,667	3,223	3,810	4,823	5,715	5,699
Change in working capital	(143)	(652)	(1,695)	217	(482)	120
Others	(291)	(125)	90	(689)	(128)	(156)
Net cash from operations	**3,358**	**3,176**	**3,194**	**6,278**	**7,679**	**8,616**
Investing						
Capital expenditure	(7,630)	(7,664)	(8,400)	(9,013)	(9,261)	(9,472)
Acquisition of subsidiaries/ investments	(1,213)	(807)	(964)	209	(116)	(164)
Net proceeds from disposal of short-term investments	1,125	795	496	0	0	0
Others	1,511	3,158	2,373	(1,655)	(53)	(822)
Net cash from investing	**(6,208)**	**(4,518)**	**(6,495)**	**(10,459)**	**(9,430)**	**(10,458)**
Financing						
Net borrowings	1,738	1,539	1,354	1,012	(100)	0
Others	728	70	1,322	693	917	1,118
Net cash from financing	**2,466**	**1,608**	**2,676**	**1,706**	**817**	**1,118**
Net change in cash						
Cash at the beginning of the year	6,933	6,215	6,364	5,873	3,397	2,464
Others	(718)	149	(492)	(2,475)	(934)	(724)
Cash at the end of the year	**6,215**	**6,364**	**5,873**	**3,397**	**2,464**	**1,740**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	(13.1%)	27.0%	16.2%	28.9%	18.6%	10.8%
Gross profit	(55.9%)	18.9%	35.1%	52.7%	22.3%	14.0%
Operating profit	(80.5%)	32.5%	134.2%	72.3%	19.5%	15.9%
EBIT	(46.4%)	(27.6%)	24.9%	134.9%	18.9%	14.7%
Net profit	(50.4%)	(45.4%)	39.0%	181.3%	33.6%	14.7%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	19.3%	18.0%	21.0%	24.9%	25.6%	26.4%
Operating margin	5.7%	5.9%	11.9%	15.9%	16.0%	16.8%
Return on equity (ROE)	4.6%	2.4%	3.3%	8.6%	10.4%	10.8%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.8	1.7	2.3	1.8	1.8	1.7

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/B	3.4	3.3	3.2	3.1	2.8	2.5

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

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NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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