

ZTE (763 HK)

3Q26 earnings: Sequential margin improvement on strong compute growth

ZTE reported 3Q26 revenue of RMB38.8bn, up 34.0% YoY but down 9.8% QoQ, while net profit increased 394.5% YoY but declined 9.4% QoQ to RMB1.31bn. Net profit excluding non-recurring items rose 363.7% YoY but fell 53.8% QoQ to RMB0.59bn. Despite the sequential decline in revenue, 3Q26 GPM improved 1.3ppts QoQ to 24.6%. We raise our FY26E/FY27E revenue forecasts by 1.1%/1.0%, respectively, while cutting our FY26E net profit forecast by 8.7% and raising FY27E by 2.5%, reflecting stronger top-line momentum but continued margin dilution (4Q25/1Q26 GPM: 29.4%/28.3%) from the business mix shift in the near term. **Maintain BUY, with TP lowered to HK\$31, based on 18x 2027E P/E (prev. 22x 2027E P/E), broadly in line with its two-year historical forward average.**

- **Computing remained the key growth engine.** Computing-related revenue increased 70%+ YoY in 9M26 with contribution rising to 38% of total revenue, compared with 35% in 1H26. Server and storage revenue grew over 70%, while datacenter revenue increased nearly 130%. ZTE also reported scale and market-share gains for its computing products across the internet, financial, power and government sectors. However, the higher contribution from computing products continued to weigh on the Company's overall margin.
- **Consumer business remained an important growth pillar.** Family and personal terminals together accounted for 23% of 9M26 revenue. Growth was supported by upgrades in Wi-Fi 7, FTTR and AI-enabled home devices, alongside the commercialization of AI-agent smartphones. Overseas expansion also continued, with gaming smartphones gaining traction in SEA and LATAM, while ZTE maintained its leading position in the global 5G FWA and MBB markets.
- **Maintain BUY on sustained compute-led growth and emerging signs of margin stabilization, with TP adjusted to HK\$31.** We expect the rapid expansion of ZTE's computing business to sustain revenue growth. However, given its lower-margin profile, computing will likely continue to dilute group GPM through 2027E. Our TP is based on 18x 2027E P/E, broadly in line with its two-year historical forward average. **Risks:** Continued weak telecom capex, AI capex slowdown, rising component costs, etc.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	121,299	133,895	150,920	172,320	192,743
YoY growth (%)	(2.4)	10.4	12.7	14.2	11.9
Gross margin (%)	37.9	30.3	25.4	24.9	24.7
Net profit (RMB mn)	8,424.8	5,617.7	5,940.0	6,962.1	7,615.8
YoY growth (%)	(9.7)	(33.3)	5.7	17.2	9.4
P/E (x)	9.2	13.9	13.1	11.2	10.2
ROE (%)	12.0	7.6	7.7	8.5	8.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$31.00**
(Previous TP) HK\$35.50
Up/Downside **62.3%**
Current Price **HK\$19.10**

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Stock Data

Mkt Cap (HK\$ mn)	14,430.1
Avg 3 mths t/o (HK\$ mn)	204.9
52w High/Low (HK\$)	41.58/18.85
Total Issued Shares (mn)	755.5

Source: FactSet

Shareholding Structure

Vanguard	7.3%
Blackrock	7.2%

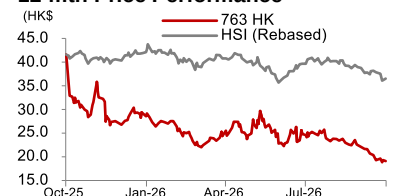
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-14.9%	-10.1%
3-mth	-22.2%	-16.4%
6-mth	-21.2%	-11.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMBmn	New			Old			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	150,920	172,320	192,743	149,219	170,586	190,994	1.1%	1.0%	0.9%
Gross profit	38,398	42,843	47,566	38,092	42,514	47,225	0.8%	0.8%	0.7%
Net profit	5,940	6,962	7,616	6,508	6,793	7,199	-8.7%	2.5%	5.8%
EPS (RMB)	1.24	1.46	1.59	1.36	1.42	1.50	-8.7%	2.5%	6.1%
Gross margin	25.4%	24.9%	24.7%	25.5%	24.9%	24.7%	-0.1 ppt	0 ppt	0 ppt
Net margin	3.9%	4.0%	4.0%	4.4%	4.0%	3.8%	-0.5 ppt	0 ppt	0.2 ppt

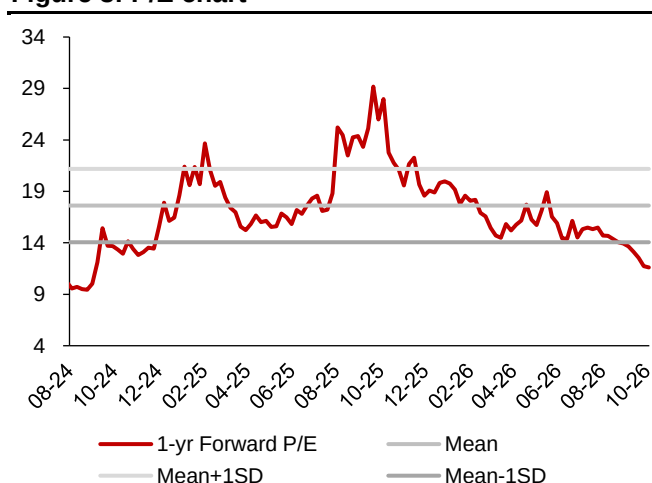
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

RMBmn	CMBI estimates			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	150,920	172,320	192,743	148,469	165,071	189,302	1.7%	4.4%	1.8%
Gross profit	38,398	42,843	47,566	39,793	41,824	47,560	-3.5%	2.4%	0.0%
Net profit	5,940	6,962	7,616	5,835	6,745	7,455	1.8%	3.2%	2.2%
EPS (RMB)	1.24	1.46	1.59	1.17	1.39	1.54	6.3%	4.6%	3.4%
Gross margin	25.4%	24.9%	24.7%	26.8%	25.3%	25.1%	-1.4 ppt	-0.5 ppt	-0.4 ppt
Net margin	3.9%	4.0%	4.0%	3.9%	4.1%	3.9%	0 ppt	0 ppt	0 ppt

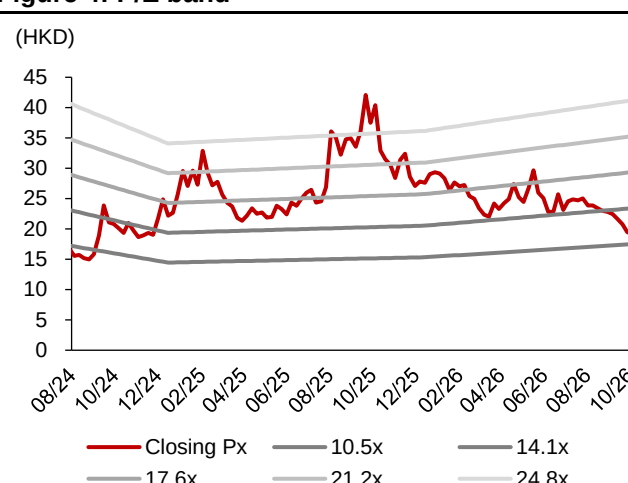
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: P/E chart



Source: Company data, CMBIGM estimates

Figure 4: P/E band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	124,251	121,299	133,895	150,920	172,320	192,743
Cost of goods sold	(72,650)	(75,311)	(93,391)	(112,522)	(129,476)	(145,177)
Gross profit	51,601	45,988	40,504	38,398	42,843	47,566
Operating expenses	(40,623)	(35,652)	(34,402)	(30,809)	(33,972)	(37,613)
Selling expense	(10,172)	(8,901)	(9,223)	(7,848)	(7,754)	(8,288)
Admin expense	(5,632)	(4,477)	(4,220)	(3,622)	(4,136)	(4,626)
SG&A expense	(1,336)	(1,176)	(1,090)	(1,229)	(1,403)	(1,570)
R&D expense	(25,289)	(24,031)	(22,755)	(21,129)	(24,125)	(26,984)
Others	1,806	2,933	2,887	3,018	3,446	3,855
Operating profit	10,978	10,335	6,102	7,589	8,872	9,953
Other income	173	76	201	226	258	289
Other expense	(228)	(189)	(260)	(293)	(334)	(374)
Gain/loss on financial assets at FVTPL	(702)	(625)	102	102	102	102
Investment gain/loss	(205)	112	453	219	219	219
Other gains/(losses)	(914)	(745)	(521)	(587)	(591)	(609)
EBIT	9,102	8,965	6,076	7,255	8,525	9,579
Net Interest income/(expense)	1,101	265	227	(545)	(610)	(948)
Other income/expense	158	(687)	(375)	(375)	(375)	(375)
Pre-tax profit	10,203	9,230	6,303	6,710	7,915	8,631
Income tax	(962)	(874)	(738)	(710)	(882)	(938)
After tax profit	9,241	8,356	5,565	6,000	7,032	7,693
Minority interest	(85)	(69)	(53)	60	70	77
Others	0	0	0	0	0	0
Net profit	9,326	8,425	5,618	5,940	6,962	7,616

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	158,505	141,787	143,934	170,774	176,266	183,874
Cash & equivalents	51,013	28,027	25,482	38,759	43,158	38,504
Restricted cash	27,530	15,859	8,269	8,269	8,269	8,269
Account receivables	21,968	23,886	24,063	28,863	25,902	35,353
Inventories	41,131	41,258	47,017	51,632	54,787	56,582
Prepayment	242	692	1,443	892	1,197	1,239
Financial assets at FVTPL	153	13,769	17,396	20,010	20,574	21,351
Other current assets	16,466	18,297	20,263	22,349	22,379	22,575
Non-current assets	42,454	65,536	73,806	79,673	81,249	83,364
PP&E	14,360	14,178	13,422	12,850	12,273	11,706
Right-of-use assets	1,557	1,552	1,534	1,494	1,432	1,333
Deferred income tax	4,146	4,396	5,166	5,009	4,635	4,276
Intangibles	8,999	7,159	6,017	4,948	4,431	4,336
Goodwill	0	14	0	0	0	0
Financial assets at FVTPL	832	716	1,793	1,793	1,793	1,793
Other non-current assets	12,559	37,520	45,874	53,579	56,685	59,922
Total assets	200,958	207,323	217,739	250,447	257,515	267,238
Current liabilities	83,030	82,635	81,981	112,295	105,970	109,590
Short-term borrowings	7,560	7,027	3,629	6,117	4,179	4,637
Account payables	32,219	36,568	36,866	54,547	52,070	56,732
Tax payable	1,413	1,205	1,128	1,298	1,334	1,385
Other current liabilities	10,771	7,984	9,673	15,039	12,097	9,176
Contract liabilities	31,067	29,851	30,685	35,294	36,290	37,661
Non-current liabilities	49,596	51,577	60,117	58,477	66,916	67,763
Long-term borrowings	42,576	44,059	45,713	43,082	51,307	51,859
Bond payables	0	1,005	7,810	7,810	7,810	7,810
Obligations under finance leases	960	973	940	1,082	1,112	1,154
Deferred income	78	91	108	124	128	132
Other non-current liabilities	5,982	5,450	5,547	6,380	6,560	6,807
Total liabilities	132,627	134,213	142,098	170,772	172,886	177,353
Share capital	4,783	4,784	4,784	4,784	4,784	4,784
Capital surplus	0	0	0	0	0	0
Retained earnings	34,715	39,873	42,539	46,513	51,396	56,575
Other reserves	28,510	28,152	28,103	28,103	28,103	28,103
Total shareholders equity	68,008	72,808	75,426	79,400	84,283	89,462
Minority interest	323	302	216	276	346	423
Total equity and liabilities	200,958	207,323	217,739	250,447	257,515	267,238

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,241	8,356	5,565	6,000	7,032	7,693
Depreciation & amortization	4,926	4,969	4,758	5,121	5,417	5,781
Change in working capital	(324)	(2,505)	(7,017)	8,283	(2,863)	(6,595)
Others	3,563	661	612	7,766	5,666	6,220
Net cash from operations	17,406	11,480	3,919	27,170	15,252	13,099
Investing						
Capital expenditure	(4,005)	(4,015)	(3,893)	(6,210)	(6,870)	(7,522)
Acquisition of subsidiaries/ investments	(17,001)	(25,299)	(3,060)	(2,307)	(248)	(461)
Net proceeds from disposal of short-term investments	104	535	77	422	437	455
Others	(635)	(415)	(575)	(4,669)	(1,009)	(1,388)
Net cash from investing	(21,536)	(29,193)	(7,451)	(12,764)	(7,689)	(8,916)
Financing						
Dividend paid	(4,836)	(5,419)	(4,368)	(6,086)	(6,450)	(6,848)
Net borrowings	11,164	(253)	5,473	4,957	3,287	(1,989)
Proceeds from share issues	1,676	374	0	0	0	0
Others	(633)	(521)	(575)	0	0	0
Net cash from financing	7,372	(5,818)	530	(1,129)	(3,163)	(8,837)
Net change in cash						
Cash at the beginning of the year	47,072	51,013	28,027	25,482	38,759	43,158
Exchange difference	66	24	(117)	0	0	0
Cash at the end of the year	51,013	28,027	25,482	38,759	43,158	38,504
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	1.1%	(2.4%)	10.4%	12.7%	14.2%	11.9%
Gross profit	12.8%	(10.9%)	(11.9%)	(5.2%)	11.6%	11.0%
Operating profit	4.0%	(5.9%)	(41.0%)	24.4%	16.9%	12.2%
EBIT	2.1%	(1.5%)	(32.2%)	19.4%	17.5%	12.4%
Net profit	15.4%	(9.7%)	(33.3%)	5.7%	17.2%	9.4%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	41.5%	37.9%	30.3%	25.4%	24.9%	24.7%
Operating margin	8.8%	8.5%	4.6%	5.0%	5.1%	5.2%
Return on equity (ROE)	14.7%	12.0%	7.6%	7.7%	8.5%	8.8%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.9	1.7	1.8	1.5	1.7	1.7
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	8.3	9.2	13.9	13.1	11.2	10.2
P/E (diluted)	8.3	9.2	14.0	13.1	11.2	10.2

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

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