

# Semiconductors

## Thematic investing and megatrends: 1H25 AI demand check; Compute demand continues to grow

We remain structurally bullish on AI infrastructure investment supported by sustained momentum in compute-intensive investments. Major hyperscalers' capex continue to grow, at 43% YoY for overseas Big Four (MSFT/AMZN/GOOG/META) and 44% YoY for domestic Big Three (Alibaba/Tencent/Baidu) in 2025, per Bloomberg consensus estimates. Recent earnings results across the supply chain confirms AI-related spend. **TSMC's** (TSMC US, NR) 1H25 revenue was NT\$ 1,773bn, up 40% YoY. **Foxconn Industrial Internet** (601138 CH, NR) also expects 2Q25 NP to shareholders to reach RMB6.7bn-6.9bn, up 37%-39% YoY. Riding the AI tailwinds, domestic supply chain names have seen meaningful share price recovery. Concurrently, multiple domestic computing chip providers plan to go public, showing the semiconductor localization trend is intact. Maintain BUY on **Innolight (300308 CH, TP: RMB151)** and **Shengyi Tech (600183 CH, TP: RMB34.5)**, two core AI hardware beneficiaries (Optical transceivers and PCB) under our coverage.

- **AI infrastructure demand remains robust, driven by sustained hyperscaler capex and surging reasoning workloads.** TSMC reported June results on Friday, with the latest monthly sales topping NT\$263.7bn, up 26.9% YoY. 2Q sales added up to NT\$933.8bn (slightly exceeding Bloomberg consensus of NT\$928.2bn), up 38.6% YoY. TSMC is the bellwether of AI supply chain and its solid results reaffirm the AI investing boom. Foxconn Industrial Internet also expects its 2Q25 NP to shareholders to reach RMB6.7bn-6.9bn, up 37%-39% YoY. Mgmt. highlighted strong growth in the Cloud Computing segment (>50% YoY), fuelled by accelerated production scale-up, an optimized product mix, and hyperscaler demand for AI data centers (AI server sales growth exceeding 60% YoY and **Q2 800G switch sales alone nearly tripled full-year sales in 2024, per mgmt.**). These dynamics are cascading downstream into the PCB and optical module players. Innolight's high-speed optical transceivers (800G/1.6T) are seeing heightened demand amid accelerated AI datacenter cluster buildouts. Meanwhile, Shengyi's high layer-count and frequency PCBs stand to benefit from the growing material complexity from GPU architecture upgrades.
- **China's domestic AI supply chain is accelerating, driving the substitution trend.** China's AI hardware landscape is rapidly scaling, supported by rising local compute demand and growing geopolitical pressures that are catalysing the development of homegrown alternatives (the ban on Nvidia's H20 in China has provided opportunities for domestic XPU names). Domestic hyperscalers such as Alibaba, Tencent, and Baidu doubled their capex in 1Q25, and we believe this strong investment momentum will continue throughout 2025. On the hardware side, leading AI chipmakers, such as Moore Threads and MetaX (cum. GPU shipments 25k+ as of 1Q25), are actively advancing towards IPOs, reflecting clear signs of policy endorsement and increasing capital market confidence in China's AI ecosystem, which have also favored the domestic AI supply chain.
- **In our view, AI infrastructure investment theme remains the most compelling one across global tech.** Recent earnings from upstream foundries to downstream hyperscalers and AI enablers' capex both validate the strong compute demand. Maintain BUY on key domestic AI beneficiaries such as Innolight (300308 CH, BUY) and Shengyi Tech (600183 CH, BUY). We expect these names to benefit directly from AI cluster buildouts, GPU/ASIC cycle upgrades, and accelerated domestic substitution.

**OUTPERFORM**  
(Maintain)

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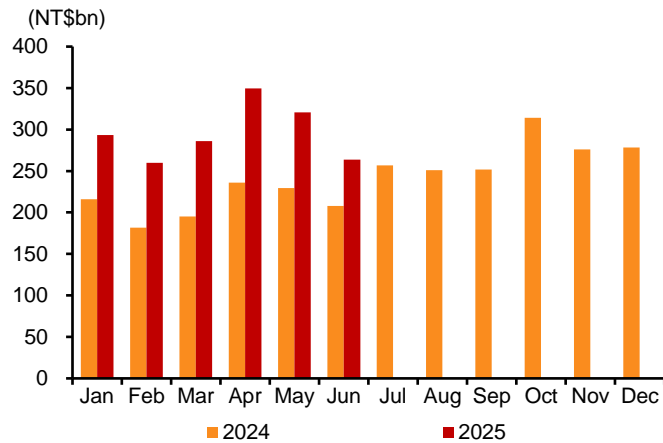
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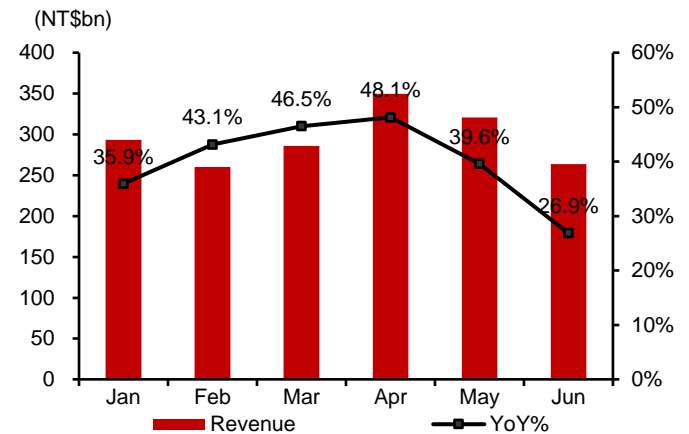
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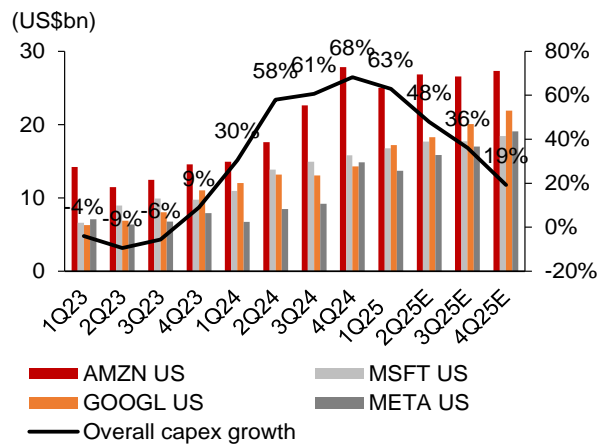
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**Figure 1: TSMC's monthly revenue in 2024/2025**

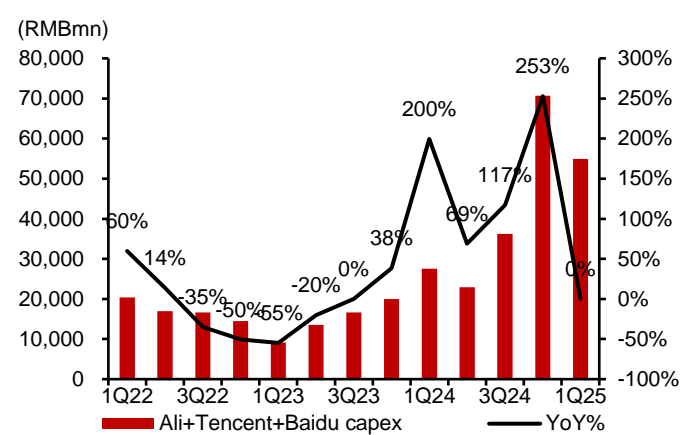
Source: Company data, CMBIGM

**Figure 2: TSMC's revenue YoY growth**

Source: Company data, CMBIGM

**Figure 3: Overseas hyperscalers' capex**

Source: Bloomberg consensus, CMBIGM

**Figure 4: Domestic hyperscalers' capex**

Source: Bloomberg consensus, CMBIGM

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