

Semiconductors

Thematic investing and megatrends: AI exposure update

Nvidia became the world's most valuable company on 18 June, with market cap topping US\$3.34trn, though it has retreated by approx. 16% from the peak. AI demand remains strong, and Nvidia still dominates the AI chip market with over 90% market share, per GlobalData. However, Nvidia's QoQ revenue growth has slowed (2QFY24-1QFY25: 88%/34%/22%/18%) in the past few quarters given a high base (quarterly sales almost quadrupled to US\$26bn in 1QFY25 from US\$7bn in 1QFY24). The sustainability of revenue growth remains a key debate among investors. Per Bloomberg, the stock is now trading at 44x and 33x FY2025/26E P/E, or 24x and 18x FY2025/26E P/S. Investors' enthusiasm might have pushed the company's valuation to a short-term peak. Another ~10% rally from the current level means adding a market cap larger than AMD (US\$259bn) or two Intels (US\$130bn). In our view, investors may take profit and the stock may need some time to consolidate at the current level until the next earnings release.

For other companies also benefiting from the continued growth of AI demand, we have listed their AI exposure, which is taking each company's AI-related sales divided by its total revenue, based on our calculation.

- **Broadcom (AI exposure: 25%):** The company's AI revenue reached US\$3.1bn in 2QFY24, up 280% YoY and 35% QoQ. AI sales exposure expanded to 25% of total sales. Mgmt. has given a very conservative guidance for full-year AI revenue (US\$11bn). Broadcom's 1H aggregated sales from AI already accounted for ~60% of this US\$11bn guidance, and the market is betting on further beat-and-raise in the following quarter. Per Bloomberg, Broadcom and ByteDance have discussed a potential collaboration on an AI processor.
- **Marvell (AI exposure: 27%):** Marvell is expected to beat its previous AI revenue guidance of US\$1.5bn in FY2025 (vs. US\$550+mn in FY2024), implying 170%+ YoY growth. Two-thirds of its AI revenue is projected by mgmt. to be from electro-optics revenue and mgmt. said optics business continued to be "very strong".
- **Innolight (AI exposure: 85%):** Innolight is poised to benefit from strong demand for 800G transceivers as global companies rush to build AI infrastructure. As a leading optical transceiver supplier, we expect Innolight's sales from high-speed transceivers will continue to grow. We also expect Innolight will be among the first to supply 1.6T products in 2H24.
- **TSMC (AI exposure: low-teens %):** as a major AI enabler, the stock is currently trading at 27x and 21x FY2024/25E P/E. TrendForce reported Apple, Qualcomm, Nvidia, and AMD have fully booked TSMC's 3nm capacity until 2026. The company is planning to raise its 3nm prices by over 5%, and advanced packaging prices are anticipated to increase by approximately 10% to 20% next year per reports from Trendforce.
- **Qualcomm (Potential AI PC revenue in 2024E from its NPU sales):** Qualcomm is taking the lead in the NPU (neural processing unit) race, compared to its peers Intel and AMD. To run Co-pilot, Microsoft requires a NPU with performance rated at least 40 TOPS. Currently, only Qualcomm's snapdragon qualifies. Intel and AMD's next-gen products will meet the requirement, and they are expected to be launched in 3Q and 4Q this year, according to their mgmt. at the latest earning calls.
- **Arista (AI exposure: 47%):** Per Bloomberg, 21% and 18% of Arista's FY2023 revenue were from Meta (META US) and Microsoft (MSFT US).

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Bloomberg consensus estimates that these two hyperscalers' capex will grow by 35% and 43% YoY, respectively this year, supporting 14.6% of total revenue growth for Arista in FY2024.

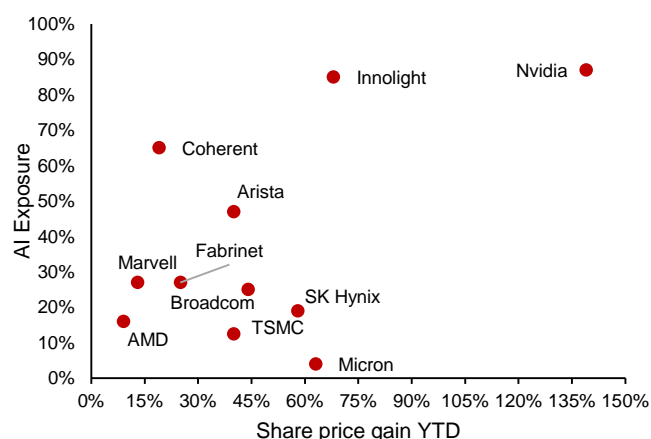
- **Micron (AI exposure: 4%):** as HBM (high bandwidth memory) is installed alongside GPUs and ASICs (application-specific integrated circuits) inside AI datacenters, its demand is surging. Micron said it plans to more than triple its market share for HBM to "mid-20s" by 2025. Next catalyst will be its 3QFY24 earnings call on 26 Jun. During its previous earnings call, Micron said the next two years' capacity is almost fully booked.

Figure 1: Tech companies' AI revenue exposure

Company	Ticker	Market Cap. (US\$mn)	Price (LC)	YTD Perf.	NTM revenue growth	NTM P/E	AI revenue exposure	Period
Nvidia	NVDA US	2,905,500	118	139%	63%	41.9x	87%	F1Q25A
Innolight	300308 CH	152,187	140	68%	91%	30.2x	85%	FY2023A
Fabrinet	FN US	8,592	237	25%	10%	25.9x	27%	F3Q24A
Marvell	MRVL US	58,661	67	13%	10%	40.8x	27%	FY2025E
Broadcom	AVGO US	741,155	1592	44%	35%	28.9x	25%	F2Q24A
Coherent	COHR US	10,939	71	65%	15%	26.0x	19%	F1Q24A
SK Hynix	000660 KS	116,593	222,000	58%	84%	7.1x	19%	CY2024E
AMD	AMD US	259,014	160	9%	19%	40.0x	16%	FY2024E
TSMC	2330 TT	749,003	925	40%	28%	22.3x	low-teens%	FY2024E
Micron	MU US	153,935	139	63%	69%	26.0x	4%	CY2024E
Qualcomm	QCOM US	224,137	200	40%	10%	19.3x	Potential AI PC revenue in 2024E from its NPU sales 47% (Revenue contribution from hyperscalers)	FY2024E
Arista	ANET US	103,162	329	40%	14%	41.3x		FY2025E

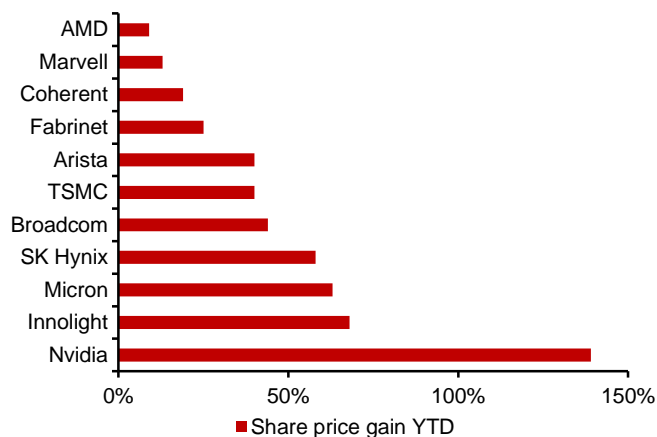
Source: Company data, Bloomberg, CMBIGM

Note: Data as of 24 Jun 2024

Figure 2: AI exposure vs. share price gain YTD

Source: Company data, CMBIGM estimates

Note: Data as of 24 Jun 2024; AI exposure not available for Qualcomm in percentage terms

Figure 3: Share price gain % YTD

Source: Company data, CMBIGM estimates

Note: Data as of 24 Jun 2024

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