

# Semiconductors

## Thematic investing and megatrends: China's hyperscalers accelerate AI infra. buildout amid strengthening cloud demand

China's major hyperscalers (Alibaba, Tencent, and Baidu, all covered by our internet team) are intensifying their investments in AI infrastructure, with capex doubling YoY in 1Q25. While their combined spending still trails overseas hyperscalers, the sharp increase indicates a clear strategic focus on scaling compute capacity to support LLM training and inference. Despite near-term headwinds from export restrictions from the US on AI GPUs, these domestic players remain committed to long-term AI growth. In particular, early signs of returns are emerging, with all three reporting solid cloud revenue growth driven by rising enterprise adoption of AI services. Looking forward, we expect this investing momentum to continue throughout the rest of 2025E, benefitting local players on AI supply chain, **such as Innolight (300308 CH, BUY, TP: RMB151), Shengyi Tech (600183 CH, BUY, TP: RMB34.5), and SCC (002916 CH, BUY, TP: RMB146.8).**

- **Robust capex across the board from China's hyperscalers.** Alibaba, Tencent, and Baidu collectively invested ~RMB55bn (US\$7.5bn) in capex during the quarter, 2x YoY, despite a fraction of the US\$73bn was deployed by overseas hyperscalers (Amazon, Meta, Microsoft, Google) over the same period. Alibaba's capex rose 120% YoY to RMB24.6bn but declined 22.5% QoQ, likely due to the US restriction on Nvidia's H20 GPU exports. This fell short of its earlier [RMB380bn](#) capex roadmap for 2024-26E expectations (translating to ~130bn in FY25E). Tencent's capex jumped 91.4% YoY to RMB27.5bn, with a similar sequential slowdown, also likely tied to component constraints. Baidu saw steadier growth, with capex rising 42.3% YoY and 24.1% QoQ to RMB2.9bn, as it continues to scale up its AI cloud and model R&D capabilities.
- **Accelerating cloud revenue growth underscores early returns on AI-focused capex.** In 1Q25, Ali Cloud, Tencent Cloud, and Baidu AI Cloud posted robust YoY revenue growth of 17.7%, low-teens, and 42%, respectively, reflecting strong enterprise demand for AI model training and inference. These gains suggest that recent heavy capex outlays targeting GPU clusters, inference hardware, and scalable AI infrastructure are beginning to translate into commercial traction.
- **Constructive outlook for domestic AI capex going forward.** A key catalyst will be Nvidia's upcoming rollout of its Blackwell-architecture AI GPUs, specifically tailored to comply with the US export restrictions for the Chinese market following the H20 ban. The chip (cost US\$6.5-8k vs. 10-12k for H20) uses a conventional memory (GDDR7) and omits advanced TSMC packaging, [per Reuters](#). Despite weaker specs, it helps Nvidia retain a foothold in the Chinese market. Aside from overseas suppliers, we are also positive on domestic AI supply chain players. We notice that Cambricon (688256 CH, NR) has increased its inventories from RMB1.8bn in 4Q24 to RMB2.8bn in 1Q25 likely for preparing a broader rollout of its domestic AI GPU solutions amid growing geopolitical risks. We believe that the robust AI capex from Alibaba, Tencent, Baidu, and ByteDance will drive a structural growth cycle for domestic AI infra. supply chain with increased need of supply chain domestication and more cost-effective solutions.

**OUTPERFORM  
(Maintain)**

### China Semiconductors Sector

**Lily YANG, Ph.D**

(852) 3916 3716

[lilyyang@cmbi.com.hk](mailto:lilyyang@cmbi.com.hk)

**Kevin ZHANG**

(852) 3761 8727

[kevinzhang@cmbi.com.hk](mailto:kevinzhang@cmbi.com.hk)

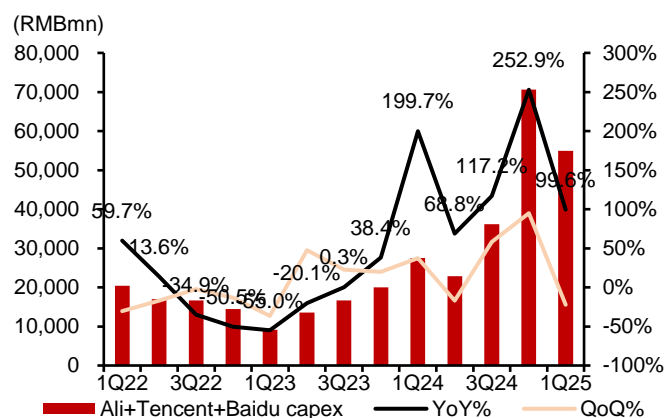
**Jiahao Jiang**

(852) 39163739

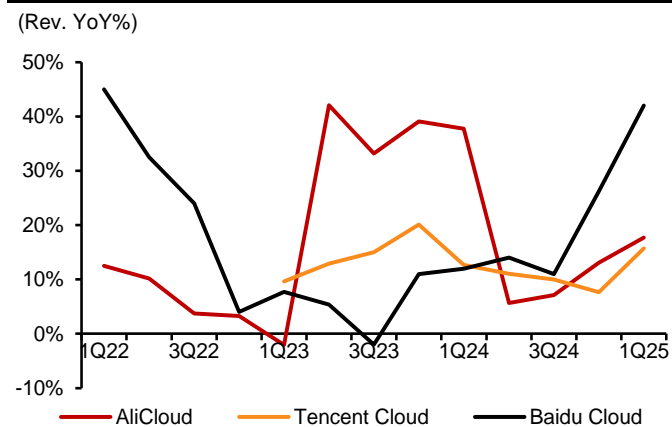
[JiangJiahao@cmbi.com.hk](mailto:JiangJiahao@cmbi.com.hk)

#### Related reports:

1. Semiconductors - Thematic investing and megatrends: Resilient 1Q25 capex among hyperscalers ([link](#))
2. Semiconductors - Thematic investing and megatrends: Alibaba's bold capex hike a boost to domestic AI infrastructure suppliers ([link](#))
3. Semiconductors - Thematic investing and megatrends: Views on DeepSeek ([link](#))
4. Semiconductors - Thematic investing and megatrends: Stargate poised to accelerate global AI arms race ([link](#))
5. Semiconductors - TSMC: Surging AI demands propelled strong results and guidance ([link](#))
6. Semiconductors - Nvidia's 3Q earnings takeaway: Strong demand for Blackwell well into next year ([link](#))
7. Semiconductors - AMD "Advancing AI" event ([link](#))
8. Semiconductors - Sector valuation revisit after recent rally; Potential rerating opportunities ahead ([link](#))
9. Semiconductors - Nvidia 2Q review: A strong beat-and-raise quarter; eyes on Blackwell shipment and margin ([link](#))
10. Semiconductors - PCB sector: 1H24 earnings preview ([link](#))
11. Semi - Solid earnings; HBM to drive future growth ([link](#))
12. Semi - Thematic investing and megatrends: AI exposure update ([link](#))
13. Semi - Marvell FY1Q25 earnings: Harnessing the AI revenue ([link](#))
14. Nvidia: To keep growing for longer ([link](#))
15. Semi - Global SME investment set to accelerate on tech advancements, China localization; Initiate Naura w/ BUY ([link](#))

**Figure 1: Domestic hyperscalers' capex and growth**

Source: Company data, Bloomberg

**Figure 2: Domestic cloud revenue growth**

Source: Company data, Bloomberg, CMBIGM estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

### For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.