

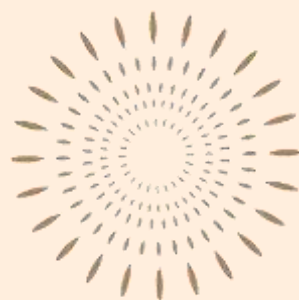


招銀國際
CMB INTERNATIONAL



2026 Strategy Outlook

**Ebbing Tides,
Surging Waves**



Foreword

Dear investors,

Greetings! We are pleased to invite you to kick off the new year with us through the lens of our 2026 outlook report.

In 2025, tariff frictions continued to unsettle the market, the AI industry chain remained a focal topic, new consumer and healthcare sectors offered structural opportunities, while high-dividend and yield-related plays intermittently captured market attention. Over the past year, we have helped investors seize opportunities in growth sectors and provided optimal recommendations when the market sought certainty.

The year 2026 may present even greater challenges. The overall market valuation has been steadily recovering amidst volatility, with the key focus shifting towards uncovering alpha. Despite divergences in views, AI likely remains the most certain opportunity. Both new and traditional consumer sectors are breaking new grounds amid challenges, the healthcare sector requires more selective stock-picking, while industrial and capital goods may offer more thematic investment opportunities. Although high-dividend and yield strategies have become a relatively consensus trade, incremental value can still be unearthed by selecting sub-sectors with marginally improving fundamentals.

Despite the challenges, it is encouraging that companies with high-quality business models possess the resilience to navigate economic cycles; outstanding entrepreneurs have the determination to overcome difficulties; the brand influence of Chinese consumer enterprises is accelerating its ascent; the depth of the cultural industry is becoming increasingly prominent; breakthroughs achieved by technology enterprises are inspiring; and overseas business expansion holds promise for long-term incremental growth.

Opportunities always coexist with challenges, and foresight is complemented by execution. Staying true to our principles and remaining steadfast leads to lasting achievement. With a panoramic perspective spanning entire industry chains, supported by our in-depth research framework and forward-looking analytical capabilities, and integrating fundamental insights with market trading logic, our Research Department and Institutional Equities Department always look forward to walking alongside you. We are committed to helping you capture the most valuable investment themes and the most promising, high-quality assets, and guiding you towards your long-term investment objectives.

Thank you for your consistent trust and support. Wishing you a joyful new year and prosperous returns!

Sincerely,

Saiyi HE, CFA

Head of the Research Department and Institutional Equities Department, CMB International

2026 Outlook in a Nutshell

Macroeconomics, Ye Bingnan Ph.D/ Frank Liu

In 1H26, political pressures from US midterm elections, European and Japanese defense revitalization agenda, and China's growth-stabilization efforts are likely to keep policies accommodative. However, with interest rates near neutral levels, inflation still above target, government debt ratios rising high and demand front-loaded by prior easing, effective policy space and marginal efficacy are diminishing; while the AI boom has boosted productivity and stock valuations, it has also intensified job market weakness and K-shaped economic divergence. In 2H26, the combination of ample global liquidity, a weaker US dollar, and China's anti-involution push may lift inflation, while an inflection point of liquidity expectations could unsettle overvalued assets.

China Internet & Software, He Saiyi, CFA/ Frank Tao, CFA/ Lu Wentao, CFA/ Joanna Ma

We expect 2026 to be a pivotal year for competing for user mindshare in the AI era, with key focuses on lowering AI adoption thresholds, helping improve decision-making efficiency, and creating value. Among internet businesses, companies that: 1) have stable cash flow to support AI-related investment and exploration; 2) have rich application scenarios to accumulate data and reach users; 3) demonstrate outstanding supply chain capabilities and operational excellence to drive overseas expansion for incremental growth are likely to have higher long-term investment value.

We still recommend adopting a barbell investment strategy, focusing on both the certainty of profit growth and new increments brought by AI. In terms of the AI theme, We favour Tencent (700 HK), as we expect the company to see sustained, rapid growth in advertising and cloud businesses driven by AI and benefit from the trend of foreign capital inflows; Alibaba (BABA US), which will benefit from the AI trend with abundant application scenarios but has a lower valuation compared to peers; and Kuaishou (1024 HK), whose positive progress in AI application monetization could drive revenue growth and valuation upside. In terms of certainty of profit growth, we recommend NetEase (NTES US) and Trip.com (TCOM US), which have reasonable valuations, stable fundamental performance, and high earning visibility.

US Internet & Software, He Saiyi, CFA/ Frank Tao, CFA/ Lu Wentao, CFA/ Joanna Ma

Looking ahead to 2026, we expect competition in the LLM industry will further intensify, while monetization of AI applications in different verticals should maintain growth momentum. We are optimistic about the AI monetization potential underpinned by improved AI agent capabilities, as well as increased paid user penetration of advanced text-to-image/video models. We currently do not anticipate over-investment risks among cloud service providers, and expect 2026 earnings growth of leading companies to support their valuations. However, we suggest investors adopt a more selective stock-picking approach, focus on investment return cycles, and prioritize companies seeing substantial AI monetization progress and those where AI-related investments efficiently drive revenue and profit growth. We recommend Microsoft (MSFT US), Alphabet (GOOG US), Amazon (AMZN US), and Palo Alto Networks (PANW US).

China Semiconductors, Lily Yang, Ph.D/ Kevin Zhang/ Jiang Jiahao

We maintain four core investment theses for 2026: 1) AI-driven structural growth, 2) China semiconductor localization, 3) high-yield defensive plays, and 4) sector consolidation via M&A. AI and localization, our top themes since 2024, have delivered substantial returns, with top picks Innolight (300308 CH, +338% YTD), Shengyi Tech (600183 CH, +148% YTD), and Naura (002371 CH, +56% YTD) outperforming as of 5 December 2025. The global semiconductor market is projected to expand 26% YoY to US\$975bn in 2026 (WSTS autumn 2025 forecast), with AI-centric segments leading growth (logic +32% and memory +39%), and China's domestic semiconductor sector is likely to continue to outperform other sectors/indices.

China Technology, Alex Ng/ Li Hanqing

For 2026, we expect distinct divergences in global technology end-markets. While AI computing supply chain is set to continue the strong momentum driven by rapid LLM upgrades and sustained CSP capex, the edge AI cycle (AI smartphones/PCs/glasses) is just beginning to accelerate. However, we expect near-term pressure on low-end consumer electronics demand due to macro uncertainty, fading China subsidies and rising memory costs. We believe expansion of AI computing demand and edge AI innovation will become major growth drivers in 2026, and recommend two key structural themes: 1) AI infrastructure supercycle: Rubin/ASIC platform upgrades will unlock significant content value growth for ODMs/components (interconnects, thermal, power). 2) Edge AI: Product launches from foldable iPhones and AI phones/glasses/PCs are set to drive a mix shift towards higher spec hardware. For stock picks, we favor quality leaders such as Luxshare (002475 CH), FIT Hon Teng (6088 HK), BYDE (285 HK), Sunny Optical (2382 HK), AAC Tech (2018 HK) and Xiaomi (1810 HK).

China Consumer Staples, Zhang Miao

We think the core constraints on 2026 household consumption lie in "asset value erosion (driven by pressured secondary housing prices) + sluggish income expectation recovery", making "downgrade" a key narrative, with spending shifting to non-discretionary demand and low-cost emotional comfort. Thus, we recommend three investment themes: 1) Deepening consumer stratification, with HNWI's pursuing rational consumption (shifting to affordable/niche luxuries) and the mass market prioritizing cost-effectiveness (budget alternatives, hard discounts, domestic tech consumer goods). 2) Make the life get by + low-cost emotional comfort: focusing on basic livelihood sustainability (staple foods, condiments, bottled water etc.) and affordable emotional comfort (low-AOV experiential/companionship consumption for the youth, health supplements/wellness travel for the middle-aged and elderly, affordable domestic beauty products/fragrances, etc.). 3) Overseas expansion as a hedge against domestic demand uncertainty, backed by supply chain advantages in emerging markets or brand penetration in European/American niche segments.

In F&B sector, we recommend Nongfu Spring (9633 HK), a consistent beneficiary of RTD juice and functional drinks, and CR Beverage (2460 HK) whose market share decline is narrowing and has attractive valuation; in cosmetics sector, we suggest investors watch attractively valued Giant Biogene (2367 HK) and Eternal Beauty (6883 HK).

China Consumer Discretionary, Walter Woo

We maintain a “Market Perform” rating on China’s consumer discretionary sector for 2026, expecting overall retail sales growth of about 3.5%, slightly slower than 4% in 2025. Our stance remains cautious as headwinds outweigh supports: 1) government and delivery subsidies are fading, 2) export momentum is weakening, and 3) AI-driven automation may pressure employment. Positives include the late Chinese New Year timing, a long holiday period, potential property recovery, and a firm stock market. We see 1H26 industry performance under pressure with a likely rebound in 2H26. Sector valuations have bottomed in 2025, with current P/E at around 15x, still below the 8-year average of 20x. Yet, earnings growth deceleration and geopolitical risks may cap re-rating upside. Absent substantial policy stimulus or a clear property rebound, valuations may stay range-bound.

We recommend patience and positioning on the dip. Our investment strategy centers on three themes: 1) Essential/Survival Consumption, characterized by thrift, low unit price, and high value-for-money spending; 2) Emotional Compensation Consumption, covering “small happiness” spending, affordable entertainment, emotional value, and experiential products; and 3) Hedging & Defensive Consumption, driven by demand for gold, silver, and high-dividend yields. At the same time, we are cautious about big-ticket consumption, such as durable goods, property-related, luxury and premium travel spending. We may turn more positive if equity strength and property stabilization sustain and trigger certain wealth effects. Subsector views: Outperform on tea drinks & coffee, pop toys, apparel, and textiles; Market Perform on catering, sportswear, tourism-hotel, and home appliances. Top picks include Luckin Coffee (LKNCY US), Bosideng (3998 HK), Guoquan (2517 HK), Yum China (9987 HK/YUMC US), Li Ning (2331 HK), Topsports (6110 HK), and JS Global (1691 HK).

China Automobiles, Shi Ji, CFA/ Dou Wenjing, CFA/ Austin Liang

We expect the NEV market to enter the second half in 2026. Despite subsidy cuts, we project 2026E China passenger-vehicle retail sales volume to be largely flat YoY and wholesale volume to rise 2.9% YoY with possible new stimulus measures, which could be more bullish than market consensus. We expect competition to be stiffer in 2026 with a possible record-high number of new models. We also believe PHEV sales volume is poised to outpace BEV amid subsidy phase-out, more new models and potential battery price hikes. We see China’s NEV competition entering the second half in 2026: 1) possible narrowing valuation premiums between start-ups and incumbent carmakers; 2) competition expanding beyond car-making to AI (e.g. robotaxi, robotics); 3) foreign brands accelerating launches of more competitive NEVs. Range trading and contrarian bets are viable as long-term winners remain uncertain. Our top picks: 1) Geely (175 HK) is our top pick: strong model pipeline + better product mix to lift margins + accelerating NEV exports + attractive valuation; 2) Zenergy (3677 HK): industry-leading gross margin as a latecomer + client mix improvement + potential battery price hikes.

China Healthcare, Jill Wu, CFA/ Huang Benchan, CFA/ Andy Wang/ Cathy Wang

In 2025, the biotech subsector has rallied sharply, mainly driven by out-licensing deals. However, given the industry’s long-cycle nature, we expect future catalysts to shift from upfront payments to milestone achievements, reflecting substantial clinical progress and commercialization efforts by global partners. Meanwhile, supported by capital market recovery

and active BD deals, domestic R&D demand is picking up. Alongside U.S. rate cut expectations, we expect the CXO subsector to see continued recovery into 2026. Healthcare services subsector has underperformed due to macro headwinds and cost-control pressures. However, valuations for certain companies have become highly attractive. We recommend focusing on companies with solid earnings growth and appealing dividend yields. In medical devices, domestic growth remains constrained by policies, making overseas markets the key growth driver going forward.

China Capital Goods, Wayne Fung, CFA/ Jake Zhang

Key themes in 2026: Focus on mining equipment + power for data centres + replacement cycle. We believe mining machinery (in particular large-size excavators & trucks) will become a key growth area for Chinese machinery players in 2026E, given (1) the elevated miners' capex supported by the strong metal prices, declining ore grades and aging machinery fleets; (2) rising Chinese investment in overseas mines to drive more Chinese machinery demand. We believe Zoomlion (1157 HK / 000157 CH, BUY), SANY Heavy (6031 HK / 600031 CH, BUY) and SANYI (631 HK, BUY) are the key beneficiaries. In China, we expect the overall machinery replacement cycle will continue and expect tenders for the Yarlung Zangbo hydropower project will speed up in 2026E, which will serve as a driver for new demand. On the power side, we forecast the global demand for backup power engines for data centres to surge 70% between 2025E and 2030E, offering excellent opportunities for Weichai Power (2338 HK / 000338 CH, BUY) to penetrate.

Uranium, Wayne Fung, CFA/ Jake Zhang

Tight uranium supply continues to support a multi-year upcycle. Our bottom-up industry analysis suggests that uranium demand in 2026-30 will likely see upside surprise on the back of power plant resumption in the US, with structural AI-driven demand growth in the long run (post-2030). On the supply side, however, we forecast existing uranium mines' output to peak in 2027, while new mines' contribution will increase from 4% in 2027 to 17% in 2030, making the overall supply vulnerable to potential delays in commencement. The analysis implies that uranium pricing will be well-supported by the tight supply that could last longer than expected, which reaffirms our positive stance on the uranium sector. We maintain BUY on CGN Mining (1164 HK).

China Insurance, Nika Ma

China's insurance sector is embarking on a comprehensive transition towards a path of high-quality development, focusing on more balanced value growth and improved asset-liability matching. For life insurers, the PIR cuts in recent years with a market-oriented benchmark issued by the China Insurance Association (IAC) have steadily lowered the liability cost and fueled upticks in participating insurance, which is likely to take the place of the increasing whole-life insurance (IWLP) in 2026E in our view. The participating insurance product could return to the spotlight during the 2026 jumpstart sales, and we expect to see a comeback of the era of floating yield products starting from 2026. For P&C insurers, the non-auto commission restructuring taking effect on Nov 1 could strengthen the sector's underwriting performance, while in the near term it could weigh on premium income growth in our view. Overseas expansion of auto insurance business opens up the space for sector premium growth.

Given the changing dynamics in life and P&C insurance sectors, we see two key themes in 2026E: 1) for life insurers, eye on investment-driven earnings flexibility, and progress on the transition to floating yield products; 2) for P&C insurers, focus on non-auto CoR improvement and overseas expansion of the auto insurance business. We maintain an “OUTPERFORM” rating on the sector, given 1) an accelerated transition to participating insurance products among top players; 2) increasing allocation of insurance portfolio funds to equity investments; and 3) the policy-induced COR improvement on non-auto corporate lines.

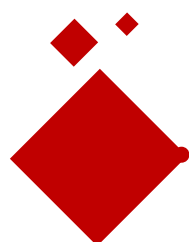
As of 3Q25, total net profit of the five major listed insurers increased 68% YoY to RMB 247.8bn, and net investment results contributed 76% of pre-tax income. The sector is currently trading at 0.2-0.6x FY26E P/EV and 0.6-1.2x FY26E P/B with a yield of 2.2%-6.3%. We expect the sector's earnings in 4Q25 to benefit from a low base of insurance service results given the interest rate shock in the last fourth quarters. Key catalysts may include 1) the jumpstart sales performance on PAR products in 4Q25-1Q26E; 2) A-share market performance and a rising 10-year China government bond yield. Recommend BUY on key insurers including: 1) China Life (2628 HK, BUY, TP: HK\$31.0), 2) Ping An (2318 HK, BUY, TP: HK\$71.0), 3) PICC P&C (2328 HK, BUY, TP: HK\$23.6), and 4) AIA (1299 HK, BUY, TP: HK\$89.0).

China Property and Property Management, Zhang Miao

Against 2025's lower-than-expected incremental policy easing, housing demand weakened further, with total primary and secondary home sales forecast to drop 6% YoY to RMB14.78tn (new homes: -11% YoY to RMB7.53tn, GFA -9%, ASP -3%; secondary homes: flat at RMB7.25tn, GFA +15%, ASP -13%) based on our estimates. For 2026, we project overall sales to fall 8% to RMB13.55tn: new home sales decline may narrow to -6% to RMB7.09tn (GFA -5%, ASP -1%) based on increased developer land acquisition, Q1 policy easing and continued unsold housing purchases by the government; secondary home sales may drop 11% to RMB6.46tn (GFA +5%, ASP -15%) due to supply-side pressures (nearly-new home supply in tier-1 cities, banks' bulk property asset disposal). Against this backdrop, we see two main investment themes: 1) Re-rating of secondary market ecosystem builders/service providers, with property management firms such as CR MixC (1209 HK) offering defensive value and KE Holdings (BEKE US) benefiting from turnover growth and lifecycle opportunities in the existing home market; 2) asset-heavy players with balanced development and operations (counter-cyclical resilience, financing advantages) and developers with reasonable/excellent land acquisition.

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Macroeconomics

2026 Global Macro Outlook

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Rising Volatility, Fading Tide

In 2025, restocking demand, AI boom, policy rate cuts and fiscal stimulus helped the global economy recover from the tariff shock. In 1H26, political pressures from US midterm elections, European and Japanese defense revitalization agenda, and China's growth-stabilization efforts are likely to keep policies accommodative. However, with interest rates near neutral levels, inflation still above target, government debt ratios rising high and demand front-loaded by prior easing, effective policy space and marginal efficacy are diminishing; while the AI boom has boosted productivity and stock valuations, it has also intensified job market weakness and K-shaped economic divergence. In 2H26, the combination of ample global liquidity, a weaker US dollar, and China's anti-involution push may lift inflation, while inflection point of liquidity expectations could unsettle overvalued assets.

- US GDP growth may slow from 1.9% in 2025 to 1.8% in 2026. Growth might rebound in 1H26 as tariff headwinds fade and fiscal tax cuts and monetary easing provide support, before decelerating in 2H26 amid diminishing policy impulse and a rebound in inflation. Unemployment ratio will moderately rise to 4.5%. Consumption growth is expected to slow with deepening K-shaped divide. AI investment should remain robust. Home sales might pick up while prices will be flat. Inflation may first dip and then rebound. Fed may remain dovish in 1H26 before a cautious shift in 2H26, with possible two rate cuts in next 12 months. Treasury yields may mildly fall with a steepening curve. The dollar index may fall in 1H26 before rebounding in 2H26. US equities may rise first before falling later in the year.
- Eurozone GDP growth may slow from 1.4% in 2025 to 1.2% in 2026. Global trade slowdown and tighter financial conditions would weigh on growth, but low interest rates, resilient labor markets, healthy private-sector balance sheets, and fiscal support should offset risks. Housing market will continue to recover. Inflation would trend toward 2%. ECB may cut rates once while industrial policy would focus on green transition, digitalization and supply chain security. Government bond yields are likely to rise and EUR might first appreciate before weakening. Equity markets might gain mildly.
- Japan's GDP growth may slow from 1.3% in 2025 to 0.6% in 2026 as low-base effect fades, global trade slows and rates rise. Wage growth should support consumption and housing market would remain hot with lower gains. Higher export prices will lift nominal export growth, while volumes soften. Inflation might fall to 2.1%. BOJ may hike rates twice to 1% by year-end. Fiscal deficit ratio might rise to 3.4%, focusing on social, tech and defense. 10Y bond yields may hit 2%. Yen might first strengthen and then depreciate to 152 at end-2026. Equity gains will narrow.
- China's GDP growth may slow from 5% in 2025 to 4.8% in 2026. New policy stimulus might be launched in 1Q26 after GDP growth remains below 5% in 2H25. 2026 may see slowing exports growth, narrowing property declines, flat consumption growth and moderating infrastructure investment. Broad fiscal deficit ratio might reach 8.5% in 2026. Monetary policy will remain accommodative with RRR cuts by 50bps and LPR cuts by 20bps. Treasury bond yields might mildly rise. USD/CNY may rise to 7.02 at end-2026. The bull market are in the latter stage of a bull cycle and may rise initially before correcting, with A-share market possibly outperforming HK.

The US

The US economic growth is projected to slow modestly in 2026. In 2025, tariff impacts, government spending cuts, and a decline in residential investment led to a significant slowdown in US economic growth. In 1H26, QoQ economic growth is expected to rebound temporarily, driven by a low base effect, tax cuts, monetary easing, and a moderation in the drag from net imports. In the second half, growth may fall back again with diminishing policy effects, the emergence of demand exhaustion, and inflation bottoming out and starting to rise. The labor market may continue to cool down, with the unemployment rate edging up to 4.5%. AI-driven substitution for entry-level positions may noticeably push up youth unemployment rate. Consumption growth may decline, with K-shaped divergence becoming more pronounced. The housing market is expected to see higher transaction volume but broadly flat prices, and corporate AI investment may remain strong, though its growth rate may moderate. Inflation may moderately decline, exhibiting a “down-then-up” pattern over the year. Fiscal expansion may intensify, while monetary policy may ease initially and then stabilize, pushing money-market rates roughly 50 bps lower. Treasury yields may drift down, also showing a “down-then-up” trajectory, and the yield curve may steepen. The US Dollar Index may first depreciate and then appreciate. US equities may first rise and then fall, with cooling inflation and expectations of monetary easing boosting the stock market in the first half, while a rebound in inflation and expectations of liquidity tightening triggering a correction in the second half.

Economic Outlook

US economic growth is projected to slow modestly. We expect US GDP growth to decrease from 1.9% in 2025 to 1.8% in 2026. In 2025, US economic growth showed a noticeable slowdown, with GDP growth falling from 2.4% in 4Q24 to an estimated 1.7% in 4Q25. This was primarily due to tariff impacts, federal government spending cuts, and weakening residential investment. Tariff impacts hit exports but stimulated pre-emptive imports, expanding the drag of net imports on GDP growth from 0.5ppt in 2024 to an estimated 0.8ppt in 2025. Federal government layoffs and temporary shutdowns curbed government spending, reducing its contribution to GDP growth from 0.6ppt in 2024 to an estimated 0.3ppt in 2025. Due to rising housing inventory, declining immigrant labor, and increasing material costs, residential investment weakened, with its contribution to GDP growth falling from 0.1ppt in 2024 to an estimated -0.1ppt in 2025. Personal consumption growth remained largely flat; while goods consumption growth rebounded due to tariff expectations and the expiration of EV subsidies overdrawn future demand, services consumption growth declined due to slower income growth and weaker consumer confidence. Business investment growth is expected to rise, with AI capital expenditure continuing its explosive growth. The contribution of non-residential investment to GDP growth is expected to rise from 0.4ppt in 2024 to an estimated 0.6ppt in 2025.

Economic growth is expected to rebound in 1H26. Firstly, the temporary federal government shutdown in 4Q25 created a low base effect and delayed spending. Secondly, tax cuts under the White House's "Big and Beautiful Act" may boost consumption, adding 0.3ppt to GDP growth. Thirdly, the drag from net imports on economic growth may narrow. Finally, declining rental inflation and oil prices may offset the impact of tariffs on consumer goods inflation, and further Fed interest rate cuts may boost the stock market and real estate, leading to continued growth in personal consumption and AI capital expenditure. In the second half, economic growth may gradually slow down as the low base effect and tax cut policy effects begin to wane. The overdraft of future demand by 2025 tariff expectations and the expiration of EV subsidy policies may bring downward pressure on personal consumption growth, while the inflationary pressures from earlier tariff increases and monetary easing may materialize. Expectations of marginal monetary policy tightening may

rise, short-term Treasury yields may rebound, stock prices may see a significant correction, and corporate capital expenditure may slow.

The US labor market is expected to cool modestly, with both labor demand and supply slowing down. The unemployment rate is projected to rise from 4.4% at end-2025 to 4.5% at end-2026. Since 2H25, the labor market has softened significantly. Average monthly non-farm payroll additions decreased from 168,000 in 2024 and 123,000 in January-April 2025 to 39,000 in May-September. The unemployment rate rose from 4.1% in December 2024 to 4.4% in September 2025. The ratio of job-openings-to-unemployment fell from 1.1 in December 2024 to 1.0 in August 2025, already below the pre-pandemic 2018-2019 level of 1.2.

On the demand side, new hiring demand has decreased, with the hiring ratio and job openings falling from 3.4% and 7.5 million respectively in December 2024 to 3.2% and 7.2 million in August 2025. On the supply side, new labor inflows declined sharply, with net immigration expected to plummet from 2.8 million in 2024 to 400,000 in 2025. Currently, the decline in new labor demand is reflected in companies being more cautious about new hires, but it has not yet evolved into large-scale layoffs. Therefore, the job search period for the unemployed has lengthened, and the number of continuous unemployment claims has increased, while the layoff rate and initial unemployment claims remain low. At the same time, the reduction in new labor supply partially offset the decline in new labor demand, keeping the unemployment rate at a historically low level. Wage growth only moderately declined, from 3.8% in 4Q24 to 3.6% in 3Q25, which is close to the 3.5% wage growth consistent with the 2% inflation target (assuming 1.5% labor productivity). AI applications have a certain negative impact on labor demand. A recent MIT study shows that AI can already replace 11.7% of jobs in the US labor market. However, the overall AI adoption rate nationwide in the US is still only 10%. A New York Fed survey indicates that companies currently limit AI applications to information gathering and marketing, with limited use in workflow restructuring or automation. Our analysis of AI adoption rates across industries and non-farm employment growth for 2024-2025 found no statistically significant correlation. Currently, AI's impact on labor demand is concentrated in entry-level positions that absorb recent graduates. The unemployment rate for workers aged 20-24 in the US has risen from 7.5% in December 2024 to 9.2% in September 2025, significantly exceeding the overall unemployment rate increase. In 2026, due to economic uncertainty and broader AI adoption, new labor demand may continue to decline, while the impact of immigration policies on new labor supply may gradually diminish. The unemployment rate may further rise, and wage growth may further decline.

US personal consumption growth may decline. Real personal consumption growth is projected to decrease from 2.6% in 2025 to 2.1% in 2026. In 2025, personal consumption growth exceeded our expectations but declined quarter-over-quarter. Goods consumption growth at constant prices increased from 2.8% in 2024 to an estimated 3.9% in 2025, while services consumption growth at constant prices decreased from 3% in 2024 to an estimated 2.1% in 2025. Due to expectations about tariff hikes and the expiration of EV purchase subsidies at the end of September, real-term consumption growth for motor vehicles and parts rose from -0.3% in 2024 to an estimated 4% in 2025. Tariffs and price hike expectations also boosted consumption of goods like food and apparel. However, consumption growth exhibits a K-shaped pattern. High-income households maintain relatively fast consumption growth, benefiting from wealth effects from rising home and stock prices. In contrast, consumption growth for low-income households is declining, as high living costs and slowing wage growth increase financial pressure, pushing consumer loan delinquency rates to historically high levels. Major retailers serving middle-to-low-income consumers, such as Home Depot (HD US) and Chipotle (CMG US), reported in

their latest earnings that personal consumption growth is slowing, particularly among the 25-35 age group.

In 2026, we expect personal consumption growth to fall to around 2.1%. Firstly, the cooling labor market and slowing wage growth may exert downward pressure on personal consumption growth. Due to factors such as declining new labor demand and AI's substitution for entry-level positions, the unemployment rate for young people, who have the highest marginal propensity to consume, may significantly rise. Furthermore, the full resumption of federal student loan repayments in October 2025 will increase financial pressure on young people. Secondly, the demand overdraft effect from 2025 tariff expectations and the expiration of EV purchase subsidies, which boosted 2025 personal consumption growth, could reduce 2026 personal consumption growth. Finally, while the "Big and Beautiful Act" tax cuts and further Fed interest rate cuts will provide some boost to personal consumption in 2026, they will not fully offset the negative impacts of the first two factors on personal consumption.

The US housing market will see increased volume but flat prices. Existing home and new home sales are projected to grow by 10% and 5% respectively in 2026, leading to a more balanced housing supply and demand and largely stable home prices. In 2025, new mortgage rates fell to 6.2%-7% but remained relatively high. Home prices, after four years of increases, were at elevated levels, and household housing affordability was low, resulting in near-zero growth in home sales. However, inventory of existing and new homes continued to rise, leading to a more balanced housing supply and demand and a slowdown in home price appreciation. The median existing home sale price increased by 2.1% year-over-year in the first 10 months of 2025, a significant deceleration from the 4.5% increase in 2024. In 2026, new mortgage rates may fall to 5.5%-6%, which will, on one hand, boost home sales by improving household housing affordability, and on the other hand, unfreeze the lock-up of second-hand housing market by narrowing the interest rate differential between new and old mortgages, thereby increasing both supply and demand. As housing inventory growth outpaces sales growth, housing supply and demand may become more balanced, and home price appreciation may approach zero. Weakening home prices and reduced immigrant labor will curb housing starts, and residential investment may slightly decline.

US corporate investment growth will slow modestly. We project non-residential investment growth at constant prices to decrease from 4% in 2025 to 3% in 2026. AI-related capital expenditure has become the core driver of corporate investment growth. Benefiting from the industrialization and expanded application of AI, private sector investment in information processing equipment is expected to grow by over 20% in 2025, significantly higher than the 7.3% in 2024. Private sector investment in industrial equipment is projected to rise from 3.7% in 2024 to an estimated 5.5% in 2025. However, corporate commercial and industrial construction investment remains weak. Due to the high base effect and demand overdraft from the CHIPS Act and Inflation Reduction Act, manufacturing construction investment growth is expected to fall from 64.1% in 2023 and 16.9% in 2024 to an estimated -3% in 2025. The commercial real estate market continues to face pressure, with commercial and healthcare construction investment declining by 6.4% in 2024 and projected to fall further by 6.7% in 2025. In 2026, AI-related investment demand will remain strong; CreditSights forecasts that AI-related capital expenditure by the five major tech giants will grow by 36% in 2026, a slowdown compared to 2025 but still rapid. The "Big and Beautiful Act" includes provisions for 100% accelerated depreciation, expensing of R&D costs, and incentives for eligible production facilities, which will provide some stimulus to corporate investment. However, due to the high base effect, corporate investment growth may slow down in 2026.

US inflation may moderately decline. We project PCE inflation and core PCE inflation to decrease from 2.5% and 2.8% respectively in 2025 to 2.3% and 2.5% in 2026. Monthly PCE price growth may decline in 4Q25 and 1H26, then rise again in 2H26. Since 2H24, disinflation has shown signs of stalls, with monthly PCE price growth flattening after a decline. YoY growth rates of PCE and core PCE prices rose from 2.4% and 2.8% respectively in 3Q24 to 2.7% and 2.9% in 3Q25. In 4Q25 and 1H26, growth of home prices and rent may continue to moderate, oil prices may further decline, and weakening wage growth may lead to a modest decrease in services inflation excluding rent and energy. After earlier pre-emptive imports and stockpiling, a short-term destocking cycle could follow, and monthly PCE price growth may fall. The impact of rising tariffs on inflation is lower than market expectations because tariff exemptions resulted in a lower actual increase in tariff rates than anticipated, imported consumer goods only account for 21.6% of US retail goods, and retailers are hesitant to raise prices easily amidst weakening consumer demand and the White House's threat of price scrutiny. Assuming a 60% pass-through rate of tariffs to downstream retail prices, a 10ppt increase in tariff rates would push inflation up by about 0.3ppt, but a 10% drop in oil prices would completely offset the impact of a 10ppt increase in tariff rates. In 1H26, oil prices may fall further, and rents in the CPI still have significant room for further decline compared to market rents. These factors could fully offset the pass-through of tariffs to inflation, driving down monthly PCE price increases. In 2H26, the lagged effects of tax cuts and loose dollar liquidity on prices will become apparent, monthly PCE price growth may rise, and with a lower YoY base for oil prices, PCE inflation may bottom out and rebound. The impact of reduced immigration on inflation is complex: on one hand, it can lower inflation by reducing demand for food, housing, education, etc.; on the other hand, it can create cost-push pressure in labor-intensive industries like construction, wholesale, and retail by reducing labor supply. The long-term impact on inflation may be close to neutral.

Macro Policies

US fiscal expansion may intensify. The US fiscal deficit rate is projected to rise from 6% in 2025 to 6.4% in 2026. In 2025, the pace of fiscal expansion slowed, with the federal government experiencing layoffs, spending cuts, and a temporary shutdown. Federal government revenue growth increased from 8.2% in 2024 to 10.1% in the first ten months of 2025, while federal government spending growth simultaneously decreased from 9.6% to 3.6%. The federal government deficit for the first ten months was US\$1.35 trillion, down 13.8% YoY. Fiscal deficit ratio is expected to fall from 6.4% in 2024 to 6% in 2025. In 2026, fiscal expansion may intensify as the White House implements tax cut policies to consolidate the Republican advantage in Congress during the November midterm elections. We estimate that the "Big and Beautiful Act" could lead to tax cuts of approximately US\$160 billion in 2026 (equivalent to 0.5% of GDP). These cuts include raising the cap on state and local tax deductions for individuals, tax exemptions for consumption and overtime pay, child tax credits, special deductions for seniors, and auto loan interest deductions. For businesses, the Act proposes permanent full expensing of equipment, immediate full deduction of R&D expenses, and making permanent the corporate tax rate reduction from 35% to 21% from the 2017 Tax Cuts and Jobs Act. Concurrently, the White House may strengthen immigration enforcement, which is expected to increase related expenditures and reduce tax revenues from immigrant economic activities, potentially expanding the 2026 fiscal deficit by US\$100 billion. The White House may also temporarily ease the trade war to boost the economy and employment, and improve the situation for groups affected by the trade war, such as farmers. There is a 75% probability that the Supreme Court will rule reciprocal tariffs unconstitutional under the International Emergency Economic Powers Act, meaning the White House might be forced to refund tariffs. However, the White House could still invoke other statutory authorities to re-impose tariffs, including Section 122

(serious balance of payments deficits), Section 232 (national security), and Section 301 (unfair trade practices), though these tools are temporary or industry-specific.

US monetary policy may first ease and then stabilize. We expect the Federal Reserve to cut rates twice by a total of 50bps in December 2025 and June 2026, and to cease Quantitative Tightening (QT) from December 2025. In 2025-2026, the Fed is expected to cut rates four times by a total of 100bps, bringing the federal funds rate target down from 4.25%-4.5% at end-2024 to 3.25%-3.5% at end-2026. Currently, there is significant disagreement within the Fed regarding a December 2025 rate cut, primarily due to differing assessments of inflation trends, employment risks, and the neutral rate. Dovish officials believe inflation will continue to decline and gradually approach the target with the slowing labor market and restrictive monetary policy and it is necessary to launch risk-management rate cuts to prevent a sharp rise in unemployment. Hawkish officials, however, note the slight rebound in inflation over the past few months, fearing a stall or reversal of disinflation, and argue that rates are already very close to the neutral level, implying further cuts risk reigniting inflation. They advocate for maintaining current rates for some time. Due to the federal government shutdown, October non-farm payroll and CPI data are permanently unavailable, and the release of November non-farm payroll and CPI data has been delayed until after the Fed's December FOMC meeting. This lack of hard data will complicate the Fed's decision-making at the December meeting, making it more cautious on additional rate cuts. Given the expected significant rebound in economic growth in 1Q26, the Fed may keep rates unchanged in March and April 2026. The Fed Chair replacement in May 2026 could see candidates competing on dovish stances to show their loyalty to Trump, making expectations for monetary easing strongest in December 2025 and 1Q26. After the transition, the new Chair, with a secured tenure, may become more political neutral as he has to build his credibility. With inflation potentially rebounding in 2H26, expectations for an end of Fed easing will significantly increase.

The Fed decided at its October 2025 meeting to stop its QT policy starting in December, ending the 29-month balance sheet reduction cycle that began in June 2022. The Fed's total assets decreased from a peak of nearly US\$9 trillion to US\$6.6 trillion, still above the pre-pandemic level of US\$4.1 trillion, but now at a reasonably ample level. Money market liquidity has marginally tightened, with the overnight reverse repurchase agreement balance falling from a high of US\$460 billion to less than US\$6 billion, and bank reserve ratio dropping to 12.2%, close to the critical level during the mini liquidity crunch in 2019. Given the White House's view that current Treasury yields are too high and its continuous pressure on the Fed to resume its responsibility of maintaining appropriate long-term interest rates, the market is highly attentive to whether the Fed will restart QE in 2026 to artificially suppress long-term Treasury yields. However, as inflation is still above target in 2026, we believe the conditions for restarting QE may not yet be met.

Financial Markets

US money market rates may decline while treasury yields may first fall before rebounding with a steepening yield curve. The Fed is likely to cut rates twice in December 2025 and June 2026, leading to a 50 basis point decline in money market rates. Money market fund yields are expected to fall to around 3.5% by end-2026. Short-term Treasury yields will reflect market expectations for policy rates, gradually decreasing with the rate-cutting cycle. Long-term Treasury yields reflect market expectations for future inflation, economic growth and fiscal policy. Under an adaptive expectations model, they are influenced by short-term inflation, growth and fiscal policy trends. In 1H26, inflation may decline, but fiscal expansion may intensify, potentially leading to a modest decline in long-term Treasury yields. In the second half, inflation may bottom out and rebound, and long-

term Treasury yields may rebound. We project 2-year and 10-year Treasury yields to fall from 3.5% and 4.1% respectively at end-2025 to 3% and 3.9% at end-2026.

The US Dollar Index will see fluctuations with a moderate decline. We project the US dollar index to fall from 98 at end-2025 to 92 by end-1H26, then rise to 95 by year-end. The Dollar Index primarily reflects changes in the relative strength of US nominal economic growth compared to Europe and Japan. When the US economy strengthens relative to non-US economies, the Dollar Index tends to rise; when it weakens, the Dollar Index tends to fall. Since interest rates reflect changes in nominal economic growth, interest rate differentials and exchange rate movements are generally consistent. The Euro/USD exchange rate accounts for nearly 60% of the Dollar Index, and the USD/JPY exchange rate is the second largest component with significant volatility. Therefore, changes in the relative strength of the US economy compared to Europe and Japan determine the Dollar Index's trend. Since 2025, US nominal GDP growth has slowed significantly, and the labor market has weakened, while nominal GDP growth in the Eurozone and Japan has exceeded market expectations, and their labor markets have been relatively stable. Both the US-Euro and US-Japan interest rate differentials have narrowed, leading to a depreciation of the Dollar Index. In 1H26, despite a rebound in US economic growth, inflation may continue to decline. Trump's threat to the Fed's independence and the highly dovish stance of the next Fed Chair candidates will weigh on the Dollar Index. In the second half, inflation might rebound after bottoming out, and the new Fed Chair's policy stance may be more based on economic fundamentals, potentially leading to a rebound in the Dollar Index.

US stock market might rise and then fall with increased volatility. In the first half of 2026, with declining inflation, strong expectations for rate cuts, and ample dollar liquidity, the US stock market may rise. In the second half, as inflation rebounds and expectations for tighter dollar liquidity emerge, the US stock market may decline. Leading US companies demonstrate strong profitability and earnings growth, with the MSCI USA Index's latest ROE at 18.9%, exceeding the 10-year average of 15.4%. The median forecast for the MSCI USA Index's annual EPS growth for 2025-2026 is 13.4%, also significantly higher than the 10-year average of 7%. However, US stock valuations are high, with the MSCI USA Index's 2025 forward PE at 24.4x, significantly exceeding the 10-year average of 21.1x. The S&P 500 Shiller PE ratio is close to 40x, approaching the peak levels of the dot-com bubble in 2000. The US stock market has seen astonishing gains over the past five years, with the S&P 500's annualized compound return reaching 15.4%, far surpassing its 30-year historical average, suggesting a risk of mean reversion. Based on monthly Shiller PE and future 10-year annualized returns for the S&P 500 since 1990, when the Shiller PE reaches 40x, the index's future 10-year returns are zero or even negative. As the Shiller PE uses a 10-year average of earnings to reduce the impact of economic cycles, the explosive earnings growth of leading US tech companies over the past few years due to increased monopolization might lead to an underestimation of current earnings and thus inflate the Shiller PE. However, the historical pattern of higher current valuations leading to lower future returns will not change. We advise investors to reduce their allocation to high-valuation tech stocks and increase allocation to defensive and undervalued sectors to achieve a more balanced portfolio. We are relatively optimistic about Information Technology (2025 forward PE 32.5x, latest ROE 29.3%), Financials (2025 forward PE 16.8x, latest ROE 13.5%), Industrials (2025 forward PE 26.8x, latest ROE 24.3%), Healthcare (2025 forward PE 23.5x, latest ROE 24.1%), and Consumer Staples (2025 forward PE 22.2x, latest ROE 23.6%).

Figure 1: US Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US\$tn)	18.3	18.8	19.6	20.7	21.5	21.4	23.7	26.1	27.8	29.3	30.7	32.1	33.4	30.6	31.9	33.3
GDP per Capita(US\$th)	56.8	57.9	60.0	62.8	65.2	64.4	71.4	77.9	82.5	86.1	-	-	-	89.6	92.8	96.0
Nominal GDP (YoY %)	3.9	2.8	4.3	5.3	4.3	(0.8)	11.0	9.8	6.7	5.3	4.7	4.6	4.1	4.6	4.2	4.1
Real GDP (YoY %)	2.9	1.8	2.5	3.0	2.6	(2.1)	6.2	2.5	2.9	2.8	1.9	1.9	2.0	1.9	1.8	1.9
PCE(YoY %)	0.2	1.0	1.7	2.0	1.4	1.1	4.1	6.5	3.8	2.6	2.6	2.6	2.2	2.5	2.3	2.1
Core PCE(YoY %)	1.2	1.6	1.6	1.9	1.6	1.4	3.5	5.3	4.2	2.9	2.9	2.8	2.2	2.8	2.5	2.3
Unemployment(%)	5.0	4.7	4.1	3.9	3.6	6.7	3.9	3.5	3.8	4.1	4.3	4.4	4.3	4.4	4.5	4.6
Federal Deficit(%)	2.4	3.1	3.4	3.8	4.6	14.7	12.1	5.4	6.2	6.4	6.1	6.4	6.5	6.0	6.4	6.3
Government Debt/GDP(%)	72.2	76.0	75.7	77.1	78.9	98.6	96.9	95.0	96.0	97.8	101.3	102.4	104.5	99.9	102.0	104.0
Fed Funds Rate(%)	0.20	0.55	1.33	2.40	1.55	0.09	0.07	4.33	5.33	4.33	3.83	3.26	3.17	3.58	3.33	3.33
10-Year Bond(%)	2.3	2.5	2.4	2.7	1.9	0.9	1.5	3.9	3.9	4.6	4.09	4.06	3.99	4.10	3.90	3.80
US\$ Index(year-end)	98.7	102.4	92.3	96.1	96.4	90.0	96.0	103.5	101.4	108.5	98.3	95.5	94.7	99.0	102.0	98.0
Bank Asset(YoY %)	3.8	3.2	4.8	1.6	4.3	15.6	10.2	1.2	1.8	1.3	-	-	-	3.6	4.2	3.3
Housing Price(YoY %)	7.2	4.5	5.7	3.3	7.8	12.6	16.0	2.1	4.1	5.8	-	-	-	1.5	0.0	(0.7)

Source: Bloomberg, Wind, CMBIGM estimates

Eurozone

The GDP growth in Eurozone exceeded market expectations in 2025, driven by a successful disinflation, rapid interest rate cuts by the ECB, accelerated corporate investment, and low base effects. In 2026, we project Eurozone economic growth to slightly moderate due to slowing global trade, a modest tightening of financial conditions, and diminishing low base effects. Nevertheless, supported by a low-interest-rate environment, a robust labor market, healthy private sector balance sheets, a more active fiscal policy, and a potentially improving situation in the Ukraine crisis, the Eurozone economy is expected to remain resilient, with its growth rate staying close to its potential. Household consumption should continue to be the core driver of economic growth; the real estate market could see a continued mild recovery; while the growth rates of international trade and corporate investment are expected to slow. Inflation may gradually return to the ECB's target level, creating favorable conditions for stable economic operation. The ECB is expected to cautiously conclude its easing cycle after one more rate cut. Fiscal policy will become more proactive, increasing investment in defense, infrastructure, and strategic industries. Industrial policy will focus on green transition, digital applications, and supply chain security, aiming to enhance the Eurozone's strategic autonomy and global competitiveness. Money market rates are expected to decline slightly, government bond yields to rise moderately, the EUR/USD exchange rate to first appreciate then depreciate, and the stock market to experience moderate gains.

Economic Outlook

Eurozone economic growth may moderate slightly. We project GDP growth to decrease from 1.4% in 2025 to 1.2% in 2026. In 2025, Eurozone economic growth beat market expectations, with a YoY GDP growth of 1.5% in the first three quarters, higher than its potential rate. Eurozone was the first large developed economy to see its inflation fall to the target, prompting the ECB to implement more substantial interest rate cuts than peers. Low interest rates boosted real estate, durable goods consumption, and corporate investment. Due to low base effects, anticipated tariff increases, and the AI revolution, goods exports and corporate investment grew rapidly. Household consumption growth was resilient as the labor market remained robust, with declining unemployment and stable wage growth. In 2026, we expect Eurozone economic growth to moderate slightly due to base effects, weakening foreign trade, and moderately tightening financial condition. As GDP growth increased from 0.4% in 2023 and 0.9% in 2024 to 1.4% in 2025, the year-on-year base for 2026 will be higher. Rising global tariffs and strengthened export controls will lead to cooling demand and supply chain disruptions, causing Eurozone foreign trade to weaken and negatively impacting economic growth. With the ECB's rate-cutting cycle nearing its end and countries like Germany expanding fiscal stimulus, Eurozone government bond yields may rise moderately, leading to a slight tightening of financing conditions. However, Eurozone interest rates remain low, the labor market and private sector balance sheets are healthy, fiscal expansion is increasing, and the Ukraine crisis may improve, all of which could support Eurozone economic growth to come close to its potential rate.

Household consumption should remain the main driver of economic growth. we project household consumption at constant price to grow by 1.3% in 2026, contributing over 60% to GDP growth. The labor market is expected to remain robust, with the unemployment rate projected to fall from 6.3% at end-2025 to 6.2% at end-2026, and wages continuing to grow steadily. Recent PMI data indicate a continuous contraction in manufacturing, but the services sector, which absorbs the most employment, continues to expand, with the services employment index remaining stable. Oil prices are expected to decline further, and inflation may moderate slightly, leading to continued increases in real-term income.

Low interest rates are conducive to the expansion of consumer credit, thereby supporting sustained consumption growth. A downside risk for consumption is the gradual rise in the household savings rate, which may reflect consumer concerns about future economic uncertainty and the instability caused by social security reforms in some member countries.

The housing market is expected to continue its recovery, though at a slower pace.

We forecast Eurozone housing sales and price growth to decrease from 7% and 4.5% in 2025 to 5% and 3.5% in 2026, respectively. As the ECB's rate-cutting cycle nears its end and the Eurozone collectively increases fiscal expansion, government bond yields will rise moderately, leading to a slight rebound in mortgage rates. Coupled with continuously rising home prices, household housing affordability may slightly decline, slowing the growth of housing sales. Concurrently, high inflation over the past three years, reduced immigrant labor, and green environmental regulations have suppressed new housing starts and construction, resulting in slow housing supply growth. This will also hinder the pace of housing sales but will provide support for house prices.

Merchandise trade growth is likely to decline. Eurozone goods trade volume growth is projected to decrease from 3% in 2025 to 2% in 2026. Slower global growth and inflation, together with rising trade barriers and tighter export controls, will slow global goods trade. The Eurozone's export competitiveness continues to weaken, and its share in global exports may further decline. If a peace agreement is reached between Russia and Ukraine, trade between the Eurozone and Russia could potentially resume in phases, becoming a future growth highlight, but this would not alter the overall trend of Eurozone trade growth.

Corporate investment growth is expected to slow significantly. The growth rate of fixed capital formation at constant price in the Eurozone is projected to decrease from 3.3% in 2025 to 1.3% in 2026. The low base effect that supported corporate investment growth is diminishing. Following the Russia-Ukraine war, capital formation at constant price in the Eurozone declined by over 2% for two consecutive years in 2023-2024, creating a low base effect. In the first half of 2025, year-on-year growth turned positive, reaching 5.2%, with a full-year growth possibly at 3.3%. This low base effect will recede in 2026. While slowing trade growth will have a negative impact on corporate investment, sustained economic expansion, profit growth, a low-interest-rate environment, and more expansionary fiscal policies will positively influence corporate investment. The increasing importance of supply chain security should also provide a boost to corporate investment.

Inflation may decline slightly. We forecast Eurozone CPI and core CPI growth rates to decrease from 2.1% and 2.4% in 2025 to 1.9% and 2.1% in 2026, respectively. Energy prices may continue to fall, first at an accelerating pace, then at a slower pace, due to increased crude oil production from OPEC+ and the US, and global electrification replacing oil demand. The year-on-year growth of Eurozone CPI for electricity, gas, and other fuels decreased from 2.5% in 1Q25 to 0.4% in 2Q, -0.6% in 3Q, and -1.2% in October. It is projected to fall to -1.5% in 1H26 and then rise to -0.5% in 2H26. Food inflation may moderate slightly, with Eurozone food and beverage CPI growth rising from 1.85% in 2H24 to 2.5% in 1H25 and 2.8% in October, before potentially falling to 2.4% in 2026. The widespread application of AI may partially substitute elementary labor, potentially reducing employment demand and lowering wage growth, which could contribute to a decline in services inflation.

Macro Policies

Eurozone fiscal expansion is likely to intensify. The Eurozone's fiscal deficit rate is likely to increase from 3.2% in 2025 to 3.4% in 2026, and the government debt ratio may rise from 89.4% in 2025 to 91.3% in 2026. The increase in the fiscal deficit rate is primarily

due to increased defense spending, rising interest expenditures, and widening fiscal revenue gaps in some member states. With Trump's "America First" policy potentially reducing US defense commitments to Europe, Europe is compelled to strengthen its autonomous defense capabilities, leading to a significant increase in defense spending. The EU plans to raise defense spending as a percentage of GDP from 1.9% in 2024 to 3.5% by 2035, with Germany's 2026 defense budget seeing a substantial 32% increase to €83.7 billion. Due to rising government bond yields, fiscal interest expenditures are growing rapidly, further pushing up the fiscal deficit. From 2022 to 2024, the growth rate of fiscal interest expenditures consistently exceeded 10%, with the fiscal interest expenditure-to-GDP ratio rising from 1.45% in 2021 to 1.9% in 2024. In 2025, some member states, such as France, underwent fiscal tightening, leading to a significant reduction in their fiscal deficit rates. The EU's Recovery and Resilience Facility (RRF) provides funding to member states for green transition, digitalization, and infrastructure, partially offsetting the negative impact of fiscal tightening on economic growth. Payment requests for the RRF are due by the end of August 2026, requiring member states to accelerate their spending to avoid the risk of funds being reclaimed. Furthermore, the EU's 2026 budget proposal includes the Next Generation EU plan, which will provide an additional €105.33 billion to foster strategic emerging industries, transform traditional manufacturing, and promote digital development. These funds, as a supplement to fiscal policy, should boost Eurozone economic growth.

ECB rate-cutting cycle is nearing its end. The ECB is likely to implement one more rate cut in 2026, bringing the main refinancing rate down from 2.15% at the end of 2025 to 1.9% at the end of 2026. Since 4Q23, Eurozone inflation has significantly decreased, reaching 2% in 2Q25 ahead of other major developed economies. The ECB was thus able to initiate substantial rate cuts, with the main refinancing rate falling to 2.15% by June 2025, approaching the neutral rate level. In 1H25, Eurozone economic growth outperformed market expectations, and inflation saw a slight rebound, leading the ECB to pause rate cuts at three consecutive meetings. In 2026, with Eurozone GDP growth slightly moderating but remaining near its potential, and inflation slightly receding but still around the target level, the ECB may implement one further rate cut, bringing the main refinancing rate to 1.9%. The ECB is managing its Pandemic Emergency Purchase Programme (PEPP) and Asset Purchase Programme (APP) through a phased and gradual natural maturity approach, though the pace of Quantitative Tightening (QT) has significantly slowed. The reduction in the ECB's asset holdings decreased from €1 trillion in 2023 to €578.2 billion in 2024 and €200 billion in the first 11 months of 2025. Currently, the ECB's asset size stands at €6.16 trillion, which is €1.47 trillion higher than at the end of 2019.

Eurozone industrial policy to focus on green transition, digitalization, and supply chain security. The Net-Zero Industry Act requires EU member states to penalize companies that fail to meet CO2 capture obligations starting from June 2026. The EU will prioritize the application of AI in 14 strategic sectors, including advanced manufacturing, aerospace, agriculture, finance, and public services, and accelerate the construction of AI factories and computing infrastructure. The EU will abolish the tariff exemption for small imported parcels under €150, meaning all goods entering the EU, regardless of value, will be subject to tariffs by law. The EU aims to attract net-zero technology projects to Europe and incentivize local manufacturing through simplified approvals, fiscal support, and limiting the proportion of single-source supply. For example, if a single third country accounts for over 50% of the supply of a specific technology or critical component, the participation ratio of products from that country will be restricted. These industrial policies should accelerate the development of green industries in the Eurozone, such as renewable energy, electric vehicles, heat pumps, and hydrogen, promote the widespread application of AI technology in sectors like automotive, healthcare, and energy, attract companies from countries like

China to establish production bases in Europe, and help countries such as Germany, Poland, and Hungary become new clusters for green technology industries.

Financial Markets

Money market rates may decline slightly while government bond yields might continue to rise moderately with a steepening yield curve. We project the 1-week Euribor to decrease from 1.92% at end-2025 to 1.7% at end-2026. Money market rates move in tandem with policy rates, and the ECB may implement a further 25bps cut in 2026, leading to a corresponding decline in the 1-week Euribor. German and French 10-year government bond yields are expected to rise from 2.7% and 3.5% respectively at end-2025 to 2.85% and 3.6% at end-2026. Long-term government bond yields reflect market expectations for future fiscal policy, economic growth, and inflation prospects. In 2026, Germany will intensify its fiscal expansion, with the fiscal deficit rate projected to increase from 3.3% in 2025 to 3.7% in 2026. This will both increase the supply of government bonds and elevate future growth and inflation prospects, thereby pushing up government bond yields. The German economy has emerged from recession and is entering a recovery phase, with GDP growth projected to rise from 0.3% in 1Q26 to 1.4% in 4Q26. German inflation may gradually stabilize, with CPI growth projected to fall from 2.2% in 4Q25 to 2% in 1Q26, then stabilizing around 2% in Q2 and Q3. France has maintained a high fiscal deficit ratio for many years and is required by the EU to reduce it to 3% by 2029, facing pressure for fiscal consolidation. The fiscal deficit rate is projected to decrease from 5.4% in 2025 to 4.8% in 2026. However, French fiscal tightening could trigger public opposition and government changes, increasing political instability and bond yield volatility. French economic growth may flatten, and inflation could see a slight rebound, which would exert some upward pressure on government bond yields.

EUR/USD exchange rate is likely to appreciate first, then depreciate. The EUR/USD exchange rate may rise from 1.16 at end-2025 to 1.21 by the end of June 2026, then fall back to 1.18 by the end of the year. In the first half of the year, US economic growth and inflation are expected to decline faster than in the Eurozone, and the Federal Reserve's rate cuts will likely exceed those of the ECB, leading to a narrowing of the US-Eurozone interest rate differential. Concurrently, continued interference from Trump with the Fed's independence and the potential nomination of a very dovish individual as the next Fed Chair could fuel market expectations for the Fed to restart balance sheet expansion, putting downward pressure on the US dollar. In the second half of the year, US inflation may rebound, US bond yields could recover, and the US-Eurozone forward interest rate differential might widen, leading to a slight rebound in the Dollar Index. Uncertainty surrounding the US midterm elections could also heighten market risk aversion, which tends to be favorable for the dollar.

Eurozone stock market may continue to rise, but with significantly reduced gains.

The MSCI Eurozone Index is projected to increase by approximately 8% in 2026. Currently, Eurozone equity valuations are reasonable; the MSCI Eurozone Index's 2025 forward PE is about 16.2x, slightly above its 10-year average of 15.7x. However, corporate profitability is also better than the historical average, with the latest ROE for the MSCI Eurozone Index at approximately 11.5%, significantly exceeding the 10-year average of 9.7%. According to Bloomberg consensus, the average annual EPS growth for the MSCI Eurozone Index is expected to be 7.9% for 2025-2026, surpassing the 10-year compound annual growth rate of 4.2%. In 1H25, the appreciation of the Euro against the US dollar led Eurozone equities to significantly outperform US stocks. However, in 2H25, as the Euro depreciated against the US dollar, Eurozone equities began to lag behind US stocks, primarily due to rising political uncertainty in France, an escalation of the Russia-Ukraine conflict, and intensified

US-China trade frictions. Eurozone equities, with a higher proportion of industrial, raw materials, and financial sectors, were more vulnerable to trade and geopolitical tensions. In 2026, the Eurozone economy is expected to continue its stable growth, with increased fiscal expansion and a robust labor market, suggesting moderate gains for Eurozone equities. We are relatively optimistic about Financials (2025 forward PE 10.8x, latest ROE 12.9%, benefiting from a steepening yield curve), Industrials (2025 forward PE 21.7x, latest ROE 17.4%, benefiting from more expansionary fiscal policies and the re-industrialization of Europe), Consumer Staples (2025 forward PE 17.9x, latest ROE 11.4%, benefiting from falling energy prices and a stable labor market), and Utilities (2025 forward PE 15.2x, latest ROE 12.5%, benefiting from the energy transition).

Figure 2: Eurozone Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US\$trn)	11.8	12.1	12.8	13.9	13.6	13.3	14.9	14.5	15.9	16.5	19.2	20.5	21.0	17.6	19.3	20.2
GDP per Capita(US\$th)	34.5	35.2	37.2	40.1	39.2	38.2	43.0	41.4	45.1	46.9	-	-	-	49.7	54.4	56.7
Nominal GDP (YoY %)	3.5	2.7	3.8	3.3	3.3	(4.3)	8.6	9.0	6.6	3.9	3.5	2.9	3.4	3.8	3.3	3.2
Real GDP (YoY %)	2.1	1.8	2.6	1.8	1.6	(6.0)	6.4	3.6	0.4	0.9	1.4	1.1	1.4	1.4	1.2	1.2
CPI(YoY %)	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.5	2.4	2.1	1.8	2.0	2.1	1.9	2.0
Core CPI(YoY %)	1.1	0.8	1.0	1.0	1.1	0.7	1.5	4.0	5.0	2.9	2.4	2.1	2.0	2.4	2.1	2.0
Unemployment(%)	10.6	9.8	8.7	7.9	7.5	8.2	7.1	6.7	6.5	6.3	6.3	6.3	6.1	6.3	6.2	6.1
Government Deficit(%)	2.0	1.5	1.0	0.4	0.5	7.0	5.1	3.4	3.5	3.1	3.3	3.4	3.3	3.2	3.4	3.5
Government Debt/GDP(%)	91.0	89.9	87.5	85.5	83.6	96.5	93.8	89.3	87.0	88.1	-	-	-	89.4	91.3	93.4
Policy Rate(%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.50	4.50	3.15	1.99	1.97	2.05	2.15	1.90	1.90
Germany 10-Year Bond(%)	0.64	0.19	0.42	0.23	(0.21)	(0.56)	(0.21)	2.51	2.02	2.39	-	-	-	2.70	2.85	2.90
France 10-Year Bond(%)	1.00	0.68	0.79	0.71	0.12	(0.34)	0.19	3.11	2.56	3.19	-	-	-	3.50	3.60	3.65
EUR/USD (year-end)	1.09	1.05	1.20	1.15	1.12	1.23	1.13	1.07	1.11	1.04	1.17	1.21	1.20	1.16	1.18	1.19
Bank credit(YoY %)	2.3	4.6	2.7	2.0	2.3	9.3	5.5	2.0	0.2	1.1	-	-	-	2.2	2.0	2.0
Housing Price(YoY %)	2.6	4.6	4.6	4.7	4.5	5.6	9.5	3.1	(1.3)	4.1	-	-	-	5.0	3.5	2.5

Source: Bloomberg, Wind, CMBIGM estimates

Japan

We project Japan's economic growth to slow significantly in 2026, with GDP growth expected to decrease from 1.3% in 2025 to 0.6%. This slowdown is attributed to the fading of boosting effects such as low base effects, front-loaded exports, and corporate inventory accumulation. Benefiting from labor shortages and rising wages, household consumption may continue to grow, but its growth rate may decline to 0.7% due to high base effects and inflation eroding purchasing power. Real estate prices may continue to rise but with narrower gains, as demand in core cities remains strong, while new housing starts are still constrained by land and labor shortages and rising construction material costs. Goods export growth could see a slight rebound, primarily supported by a recovery in export prices, with volume growth remaining weak. Corporate equipment investment may moderate slightly. Inflation is expected to fall significantly, with CPI growth projected to decrease from 3.2% in 2025 to 2.1% in 2026, though services inflation could remain sticky. We expect the Bank of Japan (BOJ) to raise interest rates twice in the next 12 months, bringing the policy rate to 1%, and Quantitative Tightening (QT) may proceed slowly. Fiscal expansion may intensify, with the fiscal deficit rate rising to 3.4%. The Japanese government's fiscal stimulus, focusing on public welfare, technology, and defense, may exacerbate concerns about debt sustainability. Money market rates may continue to rise, and the 10-year government bond yield may reach 2%. The Japanese Yen (JPY) against the US Dollar (USD) is expected to first appreciate then depreciate, reaching 152 by year-end. The stock market may continue to rise but with reduced gains, narrowing to 8%. Given elevated valuations, attention is advised for undervalued sectors with high ROE such as industrials, financials, and utilities.

Economic Outlook

Japan's economic growth is expected to slow significantly. We project GDP growth to decrease from 1.3% in 2025 to 0.6% in 2026. Japan's better-than-expected economic growth in 2025 was primarily due to low base effects, sustained wage increases supporting consumption growth, front-loaded exports and corporate inventory accumulation driven by tariff expectations, strong corporate equipment investment, and a recovering real estate market. Japan's GDP decline of 0.2% in 2024 created a low base effect, and private real consumption year-on-year growth rose from -0.3% in 2024 to 1.3% in the first three quarters of 2025, contributing 44% to GDP growth. Benefiting from low base effects and front-loaded exports due to tariff expectations, real net exports year-on-year growth increased from -10.1% in 2024 to 12% in the first three quarters of 2025, with real export growth rising from 0.7% to 4.4%. Companies increased inventory accumulation, with private real inventory changes growing by 233.4% year-on-year in the first three quarters of 2025, contributing 20% to GDP growth. Supported by improved profitability, the repatriation of Japanese companies, and increased AI capital expenditures, corporate real equipment investment grew by 2.8% year-on-year in the first three quarters of 2025, contributing 28.7% to GDP growth. Private residential investment saw a narrowing decline due to the recovery of real estate in core cities like Tokyo. In 2026, the low base effect on economic growth will diminish. Front-loaded exports and corporate inventory accumulation will create high base effects and demand overdraft, leading to a significant slowdown in export and corporate inventory investment growth. Rising inflation, housing prices, and interest rates may also somewhat curb consumption. Consequently, Japan's GDP growth may decline significantly.

We believe four factors will support Japan's economic growth in 2026: First, household consumption may continue to grow. Structural labor shortages due to an aging population, and growth in services like tourism, education, and healthcare, may sustain expanding labor demand, keeping unemployment low and wages growing steadily. Second, corporate equipment investment will maintain growth. Supporting factors include: rising US-China

conflict risks and demand for supply chain autonomy and security driving Japanese companies to invest back home; the AI technology revolution stimulating increased capital expenditure by tech companies; and government mechanisms like industrial funds and fiscal policies encouraging corporate investment. Third, rising housing sales and prices will boost real estate project returns, potentially stimulating residential investment. Fourth, the Sanae Takaichi government plans to implement a JPY21.3 trillion fiscal stimulus, which may lead to a rebound in government spending growth, providing some support to economic growth. Quarterly trends suggest that GDP growth may be lower in the first half and higher in the second half, with a significant decline in the first half followed by stabilization and recovery in the second half.

Private consumption could remain the main driver of economic growth in 2026. We project real private consumption growth to decrease from 1.2% in 2025 to 0.7% in 2026. Wage growth is the core factor supporting private consumption. Japan's labor market faces a structural imbalance of supply and demand, with the job-offer-to-applicant ratio consistently above 1.2 and the new job-offer-to-applicant ratio consistently above 1.8 in recent years, and the unemployment rate stable at a low 2.5%. On one hand, extreme population aging leads to shrinking labor supply, with the working-age population decreasing from 75.09 million in 2020 to 73.73 million in 2024, and to fall to 59.50 million by 2030, based on our estimates. On the other hand, the industrialization of information technology, real estate market recovery, population aging, and booming inbound tourism and international education support expanding labor demand in sectors such as information and communication, real estate, healthcare services, living and personal services, and education services. Since 2020, employment in these sectors has cumulatively grown by 26.6%, 11.4%, 11.3%, 5.1%, and 4.7% respectively. In 2025, Japan's "Shunto" (spring wage negotiations) achieved an average wage increase of 5.25%, exceeding 5% for the third consecutive year and marking the highest record since 1991, definitively breaking the long-term wage stagnation of the "lost three decades." As Japanese corporate confidence remains high and structural labor shortages persist, Japanese wages are likely to maintain rapid growth in 2026, supporting continued expansion of private consumption. A recent Reuters survey showed that 72% of Japanese companies surveyed believe wage increases in 2026 will be roughly similar to 2025; a November survey by the Japan Center for Economic Research indicated that economists' median forecast for average corporate wage increases in Japan in 2026 is 4.88%. However, due to base effects and inflation eroding real wages, private consumption growth could significantly decline in 2026. In terms of consumption structure, service consumption will grow faster than goods consumption, with tourism, dining, accommodation, personal living services, and education consumption maintaining relatively rapid growth.

Japan's real estate market may continue its upturn cycle yet gains may moderate. In 2025, Japan's real estate gains accelerated. In the first three quarters, year-on-year transaction volumes for second-hand condominiums in the Tokyo metropolitan area and the Kinki region grew by 31.3% and 22.3% respectively, significantly exceeding the full-year growth rates of 3.5% and 4.5% in 2024. The average transaction prices for second-hand condominiums in the Tokyo metropolitan area and the Kinki region grew by 7.9% and 4.5% year-on-year in the first three quarters, while the full-year year-on-year growth in 2024 was 6.8% for both. However, new housing starts accelerated their decline, with the number of new housing starts falling by 8% year-on-year in the first three quarters, exceeding the declines in 2024 (-3.3%) and 2023 (-4.6%). In 2026, Japan's housing sales may continue to grow but at a significantly slower pace, new housing starts may continue to shrink, and housing prices may continue to rise but with a slight moderation in gains. Reasons for continued growth in housing sales: Population continues to concentrate in core urban areas, supporting growth in housing demand in core cities; per capita wages are growing rapidly

and gradually exceeding inflation, and female labor force participation has significantly increased, leading to continued positive growth in household real income; the central bank's interest rate hike process lags behind the inflation cycle, and real interest rates remain deeply negative, supporting housing and credit demand; with easing USD liquidity, the JPY depreciating to historical lows, and Japan's economic re-inflation, overseas investors' demand for real estate in core areas of core cities like Tokyo is heating up, with foreign buyers maintaining around 30% of transactions. Reasons for a significant slowdown in housing sales growth: High base effects; as housing prices and government bond yields rise, Japanese household housing affordability may decline; rising housing prices and rents are causing social pressure, and the Japanese government may tighten policies on foreign real estate purchases. Reasons for continued contraction in new housing starts: Land supply shortages, as Japan's urbanization rate exceeds 90%, and core areas of core cities lack undeveloped land, while rising land prices exacerbate difficulties for developers to acquire land; labor supply shortages, as the average age of Japanese construction workers exceeds 50, and young people are reluctant to enter the industry, leading to labor shortages; rising construction costs, with the estimated cost of new residential construction reaching JPY263,000/sqm in August 2025, a cumulative increase of 28% compared to five years ago, and expected to continue rising in 2026.

Merchandise export growth may see a slight rebound. We expect Japan's goods export value growth in JPY terms to increase from 2.7% in 2025 to 3% in 2026, primarily because the average price of goods exports may shift from a 0.7% decline in 2025 to a 0.5% increase in 2026, while the growth rate of goods export volume (excluding price effects) may moderate. In 2025, Japan's goods export value growth significantly declined, largely dragged down by export prices shifting from growth to decline. After the US implemented "reciprocal tariffs" in April, Japanese exporters bore part of the tariff burden, and Japan's export price index year-on-year growth plummeted from 1.9% in Q1 to -6% in Q2. After the US-Japan trade agreement reduced tariffs, Japan's export price index year-on-year growth gradually recovered, with the full-year growth expected to fall sharply from 7.1% in 2024 to -0.7% in 2025. In 2026, global economic and trade growth may slow, and Japan's goods export volume growth may also decline. However, benefiting from diminishing tariff impacts, rising commodity prices, and improving deflationary pressures in China, Japan's goods export price growth may increase, supporting a slight rebound in Japan's goods export value growth. In terms of export product structure, the proportion of automobiles, chemicals, and traditional machinery may decrease, while high-end automation equipment, robots, intelligent transportation equipment, and semiconductor materials and equipment may increase. In terms of export destination structure, the proportion of emerging markets such as ASEAN, India, and the Middle East may rise, while the proportion of the US, Europe, and China may decrease.

Corporate equipment investment growth may decline. We expect the growth rate of corporate equipment investment at constant prices to decrease from 2.8% in 2025 to 2% in 2026. Factors supporting continued growth in corporate equipment investment include: continued rising demand for supply chain autonomy and security, leading Japanese companies to increase domestic production capacity and supply chain investment; continued reflation in Japan, with stable expansion of corporate revenue and profits supporting increased corporate investment; persistent labor supply-demand imbalance and labor shortages, forcing companies to increase equipment investment to replace manual labor and improve labor productivity; expanding AI applications and growth in related product exports, promoting equipment investment in AI infrastructure, semiconductors, and other fields; strong demand for corporate digital transformation, boosting investment in software and IT equipment; and accelerated green transition under carbon neutrality targets, increasing corporate environmental equipment investment. Reasons for the

Inflation is expected to decline. Japan's CPI and core CPI growth rates are projected to decrease from 3.2% and 3.1% in 2025 to 2.1% and 2.2% in 2026, respectively. Since 2024, Japan's inflation has continuously risen, accelerating in the first half of 2025. Firstly, a severe drought in the summer of 2024 led to reduced rice production, a Nankai Trough-earthquake warning triggered panic buying by consumers, high tariffs and import quotas locked down rice imports, and agricultural cooperatives controlled over 90% of distribution channels, monopolizing pricing, causing a surge in rice prices and pushing up food inflation. Secondly, labor shortages led to continuous wage increases, causing a significant rise in inflation for labor-cost-sensitive services like dining and household services. Finally, the Japanese government suspended electricity and natural gas subsidies in Q2 2024, leading to utility price hikes, which were later reinstated, but the utility price increases had already begun to transmit through the economy. In 2026, Japan's inflation will significantly decline but will still exceed the 2% target. Due to base effects, food and utility inflation will decrease significantly. However, the decline in services inflation may be relatively smaller. On one hand, tight supply and demand in the rental market and rising prices may continue. On the other hand, labor shortages will support continuous wage increases, and the "Shunto" (spring wage negotiations) wage increase in 2026 may exceed 4%, with wage increases and service price increases mutually reinforcing each other.

Japan's fiscal expansion may intensify. The fiscal deficit rate is projected to increase from 3.2% in 2025 to 3.4% in 2026. In November 2025, Japan's new Prime Minister approved a JPY 21.3 trillion (equivalent to 3.4% of 2025 GDP) fiscal stimulus package, of which JPY 17.7 trillion (equivalent to 2.8% of 2025 GDP) is allocated for the supplementary budget for fiscal year 2025 (April 2025 to March 2026). However, higher-than-expected fiscal revenue and unused funds from previous fiscal budgets may partially offset the impact of the stimulus package on the 2025 and 2026 fiscal deficits. Japan's fiscal stimulus package has three main priorities: First, approximately JPY 11.7 trillion (55% of the total) to support households and regional livelihoods, including JPY 500 billion for household energy subsidies, JPY 400 billion for child cash benefits, an increase of JPY 1.2 trillion in income tax exemptions, temporary abolition or reduction of gasoline tax by JPY 1 trillion and JPY 2 trillion in grants to local governments to support regional livelihoods. Second, approximately JPY 7.2 trillion (33.8% of the total) to support strategic industries, supply chain security, and economic growth, focusing on investment in emerging technologies such as artificial intelligence, semiconductors, and chips to promote industrial upgrading, establishing a 10-year special fund for the shipbuilding industry, and enhancing energy security and supply chain resilience. Third, approximately JPY 1.7 trillion (8% of the total) for defense capability building, increasing the defense expenditure-to-GDP ratio, and strengthening defense capabilities in the southwestern islands. Japan's fiscal stimulus plan exacerbates market concerns about the high level of Japanese government debt. Currently, Japan's government debt ratio is as high as around 230%, posing significant challenges to debt sustainability and putting further upward pressure on government bond yields.

BOJ may continue to slowly push forward policy rate hikes and QT. BOJ employs a multi-objective approach, striving for a balance between inflation control, fiscal prudence, exchange rate stability and economic growth. With continued economic growth, rising housing prices and inflation consistently exceeding the target, the BOJ will continue to raise interest rates. However, after experiencing "two lost decades" and prolonged deflation, the BOJ is very cautious about monetary policy tightening, with rate hikes proceeding very

slowly. We expect BOJ to raise rates once in December 2025 or January 2026, and again in June or July 2026, bringing the policy rate from the current 0.5% to 1% by the end of 2026. Japan's monetary policy remains very loose; based on the Taylor Rule, the appropriate policy rate for the next year is 1.5%-2%. Currently, real interest rates are still deeply negative, stimulating credit expansion, housing price increases, and high inflation. The QT cycle may continue but at a slower pace. The BOJ's Monetary Policy Meeting in June 2025 decided to slow down the pace of QT starting in 2Q26, reducing bond purchases by JPY 200 billion per quarter, compared to JPY 400 billion per quarter from August 2024 to March 2026. The June 2026 Monetary Policy Meeting will conduct a mid-term review of the QT plan and decide whether to make further adjustments based on market conditions. The BOJ's government bond holdings are likely to decrease to JPY 550 trillion by the end of 2025 and JPY 510 trillion by the end of 2026. The BOJ plans to sell JPY 330 billion worth of stock ETFs annually but will seek to minimize the market impact. Japanese financial institutions are important investors in international bond markets, and the JPY has long been a key funding currency for international carry trades. Changes in the BOJ's monetary policy have significant implications for global markets. BOJ rate hikes and rising Japanese government bond yields are negative for global bonds and stocks.

Financial Markets

Money market rates will likely gradually rise in the policy rate hike cycle. We expect the 7-day TIBOR to increase from the current 0.5% to 1% by the end of 2026. Japan's money market rates are determined by the central bank's policy rates. Currently, Japan's real interest rates are deeply negative, credit growth is picking up again, stock market valuations are high, housing price increases in core cities are expanding, and wage growth and inflation are elevated, indicating risks of asset bubbles and economic overheating. The BOJ will continue to raise interest rates. However, having experienced long-term deflation, the BOJ is very slow in raising rates. It may raise rates twice before the end of 2026, and the 7-day Tibor will follow the policy rate from the current 0.5% to 1% by the end of 2026.

Treasury bond yields may continue to rise. The 10-year Japanese government bond (JGB) yield may increase from 1.85% at end-2025 to 2% at end-2026. Japan's monetary policy remains very loose, supporting continued increases in credit, the stock market, and the housing market. Economic growth continues to exceed its potential, and inflation remains high. In this macroeconomic environment, Japanese government bond yields may continue to rise. The government bond yield curve may steepen because the BOJ's slow pace of rate hikes, on one hand, limits the rise in short-term government bond yields, and on the other hand, allows economic overheating to push up long-term government bond yields. The slower the BOJ raises rates, the larger the increase in long-term government bond yields. The continuous rise in Japan's long-term government bond yields will increase government financing costs, posing a challenge to government debt sustainability and triggering financial-market volatility risks. As Japanese financial institutions are important investors in US and European bond markets, a continuous rise in Japan's long-term government bond yields and term premiums will have spillover effects on US and European bond markets.

JPY may first appreciate and then depreciate against US dollar. The USD/JPY exchange rate is likely to decrease from 155 at the end of 2025 to 145 by the end of June 2026, then rise to 152 by the end of 2026. In the first half of 2026, USD liquidity will be looser, the Federal Reserve may further cut interest rates and restart balance sheet expansion, and the next Fed Chair candidate may exaggerate dovish stances to demonstrate loyalty, leading to a significant weakening of the US dollar. Meanwhile, Japan's economic growth continues to exceed its potential, and inflation remains above

target. The BOJ may further raise interest rates and continue to reduce asset purchases, potentially narrowing the US-Japan interest rate differential, and the JPY may rebound against the USD. In the second half of 2026, due to loose USD liquidity and further economic stimulus from the White House before the midterm elections, US economic growth and inflation may rebound. After the new Fed Chair takes office, to establish credibility and influence, they may adopt a more politically neutral stance compared to the candidate phase, and monetary policy may reach an inflection point, leading to a rebound in the US dollar index and a weakening of the JPY against the USD.

Japan's stock market may continue to rise yet with significantly reduced gains. We expect the Nikkei 225 index growth to decrease from 21% in 2025 to approximately 8% in 2026. Currently, the Nikkei 225 index's 2025 forward PE is about 17.9x, higher than its 10-year average PE (17.1x). The average annual compound EPS growth for the Nikkei 225 index is projected to be 6.4% for 2025-2026. Positive factors supporting the rise in the Japanese stock market include: the global AI bubble cycle; the repatriation of Japanese capital from the US during a period of USD depreciation; and the new Japanese cabinet's fiscal stimulus boosting earnings expectations and optimism. Negative factors that may significantly narrow the gains in the Japanese stock market include: three consecutive years of significant gains from 2023-2025, leading to excessive market optimism; and risks of economic overheating and high inflation. We are relatively optimistic about Industrials (2025 forward PE 18.5x, latest ROE 11%), Real Estate (2025 forward PE 15.8x, latest ROE 9.9%), Financials (2025 forward PE 12.1x, latest ROE 9.7%), Communication Services (2025 forward PE 14.4x, latest ROE 16.7%), and Utilities (2025 forward PE 9.1x, latest ROE 10.7%).

Figure 3: Japan Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US\$trn)	4.4	5.0	4.9	5.0	5.1	5.1	5.0	4.3	4.2	4.0	4.4	4.8	5.2	4.0	4.2	4.3
GDP per Capita(US\$h)	35.1	39.4	39.1	39.8	40.4	40.0	40.2	34.5	34.0	32.7	-	-	-	32.7	34.1	34.7
Nominal GDP (YoY %)	3.7	1.2	1.6	0.6	0.2	(3.3)	2.5	1.4	5.4	2.9	4.4	2.5	2.8	4.5	2.7	2.6
Real GDP (YoY %)	1.6	0.8	1.7	0.6	(0.4)	(4.2)	2.7	1.0	1.2	(0.2)	1.3	0.7	0.8	1.3	0.6	0.7
CPI(YoY %)	0.8	(0.1)	0.5	1.0	0.5	(0.0)	(0.3)	2.5	3.3	2.7	3.1	1.8	2.0	3.2	2.1	1.9
Core CPI(YoY %)	0.6	(0.3)	0.5	0.9	0.6	(0.2)	(0.2)	2.3	3.1	2.6	3.0	1.7	1.8	3.1	2.2	2.0
Unemployment(%)	3.3	3.0	2.7	2.5	2.2	3.1	2.7	2.5	2.5	2.5	2.5	2.5	2.4	2.6	2.6	2.5
Government Deficit(%)	3.0	3.0	2.4	1.7	2.4	9.1	5.3	3.3	2.3	2.0	3.1	3.1	2.8	3.2	3.4	3.1
Government Debt/GDP(%)	194.2	195.9	196.3	197.7	199.1	224.7	220.3	224.2	217.8	216.8	-	-	-	230.0	228.0	227.0
Policy Rate(%)	0.00	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	0.25	0.75	0.94	1.75	0.75	1.00	1.25
10-Year Bond(%)	0.27	0.04	0.05	0.04	(0.02)	0.04	0.09	0.45	0.65	1.11	1.69	1.87	1.98	1.85	2.00	2.05
USD/JPY (year-end)	120.4	117.1	112.7	110.4	109.2	103.3	115.1	132.1	141.4	157.9	149.0	142.0	135.0	155.0	152.0	150.0
Bank Asset(YoY %)	3.0	6.8	2.3	1.2	1.1	11.8	5.1	1.9	3.6	3.3	-	-	-	3.1	2.5	2.2
Housing Price(YoY %)	1.3	9.6	4.3	0.9	4.7	4.8	11.5	9.0	7.0	4.4	-	-	-	12.0	7.5	5.0

Source: Bloomberg, Wind, CMBIGM estimates

China's economic growth may experience a decline before a subsequent rise in 2026. The economic growth rate significantly slowed in the second half of 2025, remaining below 5%, due to high base effects and demand overdraft resulting from the "Sep 24th" policy stimulus and front-loaded exports driven by tariff expectations. The GDP growth target for 2026 is likely to remain around 5%. Pressure to stabilize growth is expected to trigger a new round of stimulus policies in the first quarter, supporting a modest rebound in economic growth starting from the second quarter. As global economic slowdown and high tariffs curb global trade, China's goods export growth may decrease. The decline in the real estate market may narrow, with prices in first-tier cities gradually stabilizing. Household consumption growth may flatten; goods consumption growth may decline after the initial stimulus from subsidy policies, while service consumption growth may see a modest rebound. Due to anti-involution policies, manufacturing investment growth may slow; infrastructure investment growth may also decelerate as policy guidance shifts from investing in physical assets to investing in people. The broad fiscal deficit ratio in 2026, at 8.5%, may be largely consistent with 2025, with a focus on supporting new quality productive forces, social welfare, and security. Monetary policy may remain accommodative, with a projected 50 bps cut in RRR and a 20 bps cut in interest rates. Money market rates may slightly decrease, bond yields may marginally rise, and the RMB may gently appreciate against the USD to 7.02. The stock market has entered the latter half of a bull market and may peak in 2026, potentially rising initially before peaking. A-shares are expected to outperform Hong Kong stocks.

Economic Outlook

China's economic growth is likely to decelerate before rebounding. We project GDP growth to decrease from 4.8% in 3Q25 to 4.5% in 4Q25 and 4.6% in 1Q26, before gradually rising to 4.9% in 4Q26. The full-year GDP growth rate is expected to decline from 5% in 2025 to 4.8% in 2026. As the 5.3% GDP growth in the first half of 2025 significantly exceeded the target, and despite a slowdown starting in Q3, achieving the full-year target of around 5% is not difficult, in our view. Policymakers are currently more focused on the China-US rivalry and the development of new quality productive forces, leading to insufficient motivation from policy departments and local governments to stabilize growth, as they aim to reserve more policy space for 2026. Due to the high base effects and overdraft of demand from the "Sep 24th" stimulus in 2024 and front-loaded exports in the first half of 2025, there may be significant downward pressure on year-on-year GDP growth in 4Q25 and the first half of 2026. Based on the long-term goal of achieving the per capita GDP level of moderately developed countries by 2035 (doubling real per capita GDP compared to 2020), an average annual GDP growth rate of around 4.2% is required for 2026-2035 (during the "15th Five-Year Plan" and "16th Five-Year Plan" periods). As 2026 marks the beginning of the 15th Five-Year Plan period the GDP growth target is very likely to remain near 5%. Similar to the context of the September 24th policy stimulus in 2024, with GDP growth falling below 5% for two consecutive quarters in the second half of 2025, the probability of a new round of policy stimulus being introduced in 1Q26 significantly increases, which should drive a modest recovery in GDP growth.

China's goods export growth may decline. Goods export may decrease from 5.2% in 2025 to 3.5% in 2026 while imports may rebound from -0.5% to 2%. Global demand growth and inflation levels are declining; the IMF forecasts global GDP growth to decrease from 3.2% in 2025 to 3.1% in 2026, and CPI growth from 4.2% in 2025 to 3.7% in 2026. Global tariff impacts led to front-loaded imports and inventory accumulation, creating high base effects and demand overdraft. Global goods exports grew by over 5% in the first half of 2025 but have significantly slowed since the second half. By product, in 2026, China's

exports of medical supplies, electrical equipment, automobiles, ships, aviation equipment, and AI-related products (semiconductors, servers, communication equipment, etc.) may maintain rapid growth, while traditional products such as clothing, toys, home appliances, and furniture may continue to be weak. By destination, in 2026, China's goods exports to Southeast Asia, South Asia, the Middle East, Africa, Latin America, and Eastern Europe may maintain rapid growth, with modest growth to Western Europe, Australia, and East Asia, and a continued decline to the US.

China's property sales decline may gradually narrow. The year-on-year declines in commodity housing sales area and property development investment are likely to narrow from 9% and 16% in 2025 to 5% and 9% in 2026, respectively. The impact of "reciprocal tariffs" in April increased economic uncertainty and geopolitical risks, weakening household confidence and interrupting property sector recovery. The year-on-year decline in commodity housing sales area expanded from 2.8% in the first four months to 6.8% in the first ten months of 2025, and the recovery rate compared to the 2018-2019 average decreased from 70.6% to 54%. Due to the high base effects and demand overdraft from the "Sep 24th" stimulus in 2024, the year-on-year decline in commodity housing sales area may expand in 4Q25 and 1Q26, dragging down GDP growth. Policymakers may introduce a new round of real estate boosting policies in 1Q26. Potential measures include interest rate cuts, tax reductions, interest subsidies, and inventory acquisition. Due to changes in base effects and a new round of policy stimulus, the year-on-year decline in property indicators may begin to narrow in 2Q26. In the medium to long term, housing demand faces the dual effects of cyclical recovery and structural decline. Due to decreasing birth rates and slowing urbanization, the peak of new urban population and new housing demand occurred in 2016 and has since declined. However, due to policy stimuli such as monetary resettlement for shantytown renovation, drove residential sales well above incremental demand during 2017-2021, overdrawing future demand and accumulating second-hand housing supply. The impact of the pandemic in 2021-2022 led to a sharp drop in new urban population and a significant decline in new housing demand, coupled with aggressive deleveraging, resulting in a sharp contraction in new home sales. In 2023-2024, with economic reopening, the new urban population cyclically rebounded, new housing demand recovered, and policies turned accommodative. However, due to previous demand overdraft and the release of second-hand housing supply, new home sales and housing prices continued to fall. In the medium term, new housing demand may continue its cyclical recovery, while new housing supply contracts more sharply than demand, leading to ongoing supply-demand rebalancing. Declines of housing prices in core locations of first-tier and strong second-tier cities may slow and gradually stabilize. In the long term, due to population decline and slowing urbanization, urban population growth and new housing demand may continue to decline.

China's household consumption growth may remain largely flat. Retail sales of consumer goods are likely to slow from 4% in 2025 to 3.7% in 2026. Within this, retail sales growth of home appliances, mobile phones, furniture, and cultural and office supplies may significantly decline, while food and beverages, clothing, educational, sports, and entertainment goods, and cosmetics may maintain steady and relatively fast growth. Services retail sales growth is projected to increase from 5.2% in 2025 to 5.4% in 2026, with a slight increase in catering revenue growth, and relatively faster growth in transportation services, tourism consulting and leasing services, cultural and sports leisure services, and elderly care services. Positive factors include a rising stock market, narrowing decline in the housing market, improving deflation, and increased fiscal transfers to households. Negative factors include high base effects and demand overdraft from previous "trade-in" policies, and the impact of economic and employment uncertainty on consumer confidence. A rising stock market boosts consumption through wealth effects

and confidence channels. The A-share market entered a bull market in late September 2024, but Chinese household assets are primarily real estate and savings, with equity assets accounting for 5%-10%, so the boosting effect of the stock market on consumption is relatively weak. A narrowing decline in the housing market boosts consumption through wealth effects, confidence channels, and associated consumption. Real estate accounts for over 60% of Chinese household assets, so the housing market has a relatively stronger impact on consumption. Improving deflation boosts consumption through price effects, reducing debt burdens, and changing delayed consumption. Deflation means falling prices may directly drag down consumption growth, and deflation pushing up real interest rates means an increase in the real debt burden for borrowers. Deflation also makes consumers anticipate further price declines, leading to delayed purchases. Increased fiscal transfers to households may boost household disposable income, thereby stimulating consumption. In 2026, fiscal policy may involve increasing transfers to newly married couples, families with children, unemployed individuals, and low-income households. These groups and households have a relatively higher marginal propensity to consume, and a higher proportion of transfer income for consumption. The "trade-in" subsidy policies created high base effects and demand overdraft. In the first 10 months of 2025, retail sales growth for above-quota enterprises in home appliances, cultural and office supplies, furniture, and communication equipment reached 20.1%, 19.1%, 19.9%, and 20.9% respectively, but growth may significantly decline in 2026. Due to declining export growth, continued weakness in the housing market, and the substitution of labor by AI and other technologies, economic and employment uncertainty remains high, and consumer confidence may continue to be suppressed.

China's non-real estate investment growth may slow down. Fixed asset investment growth excluding real estate development investment is likely to decrease from 1.5% in 2025 to 1% in 2026. Negative factors include high base effects and demand overdraft from previous equipment upgrade policies, tariff impacts, deflation and anti-involution, and the resolution of local government implicit debt. Positive factors include the "15th Five-Year Plan" kick-off effect, further interest rate reductions, and intensified fiscal expansion. Previous equipment upgrade policies created high base effects and demand overdraft. Investment in equipment and tools grew by 15.7% in 2024 and 13% in the first 10 months of 2025, but may slow to 5% in 2026. Tariff impacts, deflationary pressure, and anti-involution have a dampening effect on manufacturing investment. Manufacturing investment growth decreased from 7.5% in the first half of 2025 to 2.7% in the first 10 months, with investments in chemical raw materials and products, pharmaceutical manufacturing, non-ferrous metals, specialized equipment, electrical machinery and apparatus, and computers, communications, and electronic equipment all turning negative. Manufacturing investment growth is likely to fall to 2% in 2025 and 1.5% in 2026. Due to the overdraw effect of equipment upgrade policies and the resolution of local government implicit debt, infrastructure investment growth significantly declined, plummeting from 8.9% in the first half of 2025 to 1.5% in the first 10 months. In 1Q26, macroeconomic policies may be reinforced, interest rates may further decrease, fiscal expansion may intensify, and "15th Five-Year Plan" project investments may accelerate. Infrastructure investment growth may bottom out and stabilize, with full-year growth increasing from 1% in 2025 to 1.5% in 2026.

China's deflation may improve, but reflation momentum may remain weak. We project CPI and PPI growth rates to increase from -0.1% and -2.6% in 2025 to 0.7% and -0.5% in 2026, respectively. Food prices may see a significant rebound. The average month-on-month growth of food CPI increased from -0.2% in January-July 2025 to 0.5% in August-October. The year-on-year decline in food CPI narrowed from 4.3% in August to 2.9% in October. Food CPI growth is projected to increase from -2% in 2025 to 1% in 2026. The

decline in energy prices may gradually narrow. The year-on-year decline in fuel prices for transportation narrowed from 11.3% in 2Q25 to 5.4% in October. The full-year decline is likely to narrow from 6.6% in 2025 to 2% in 2026. Services inflation may moderately rise. Core CPI growth is projected to increase from 0.8% in 2025 to 1.2% in 2026, as services consumption continues its slow improvement. Month-on-month PPI may shift from decline to increase and may see a modest rise in the future. This is because the Federal Reserve may further cut interest rates and restart QE, Trump may initiate new stimulus policies, Europe and Japan may increase fiscal expansion, and China may intensify policies to stabilize the property sector, promote consumption, and combat involution.

Macro Policies

China's fiscal expansion may remain stable with probable changes in spending structure. The broad fiscal deficit (including general deficit, special treasury bonds, and local government special purpose bonds) as a percentage of GDP could reach 8.5% in 2026, largely consistent with 2025. Within this, the general fiscal deficit ratio may remain stable at 4%, the special treasury bond quota as a percentage of GDP may decrease from 1.3% in 2025 to 1% in 2026, and the local government special purpose bond quota as a percentage of GDP may increase from 3.1% in 2025 to 3.5% in 2026. The general fiscal deficit is mainly used to cover the government's recurring revenue-expenditure gaps. In 2026, fiscal spending may be tilted towards three main directions: First, modern industrial systems and new quality productive forces, including accelerating the high-end, digital, and green transformation and upgrading of traditional industries, cultivating and expanding emerging pillar industries such as new energy, new materials, aerospace, and low-altitude economy, accelerating the development of future industries such as quantum technology, bio-manufacturing, hydrogen and nuclear fusion energy, brain-computer interfaces, embodied AI, and 6G, and building and improving new quality productive force infrastructure such as computing power. Second, public services and social welfare, shifting investment from physical assets to people, increasing investment in childbirth and parenting, education, healthcare, social security, vocational training, inclusive elderly care, culture, and sports, and increasing transfer payments to newly married couples, families with children, unemployed individuals, and low-income households. Third, infrastructure, urban renewal, rural revitalization, ecological and environmental protection, food and energy security, and supply chain security. In 2025, special treasury bond funds were mainly used to support the implementation of major strategies and the construction of security capabilities in key areas (RMB800 billion), equipment upgrades and consumer goods trade-in (RMB500 billion), and supplementing the capital of state-owned banks (RMB500 billion). In 2026, special treasury bond funds are expected to continue to be used to support the implementation of major strategies and the construction of security capabilities in key areas (RMB1 trillion) and equipment upgrades and consumer goods trade-in (RMB500 billion).

China's monetary policy may remain moderately accommodative. The central bank may to cut the RRR by 50bps and the LPRs by 10bps in 1Q26 and further cut the LPRs by 10bps in 3Q26. To mitigate the negative impact of LPR cuts on banks' net interest margins, money market rates and deposit rates may be lowered first. Due to price deflation, real interest rates remain high, and credit demand is still weak. The average interbank bill rediscount rate for state-owned major banks and joint-stock banks fell to 0.62% in October-November, lower than 0.8% in 4Q24, indicating a trend of credit supply exceeding demand. Monetary policy may focus on stabilizing expectations, preventing risks, and coordinating with other policies. Amid potentially intensifying China-US rivalry, monetary policymakers may take discretionary actions to stabilize market confidence and send signals of economic stability to society. Given the continued weakness in real estate and employment, monetary

policy may aim to maintain ample liquidity, promote reasonable credit growth, reduce real estate financial risks, and support a stable job market. Monetary policy may also involve strengthening coordination with fiscal policy, maintaining ample liquidity to support government bond issuance, as well as innovating more structural tools to increase targeted support for technological innovation, green transition, service industry development, and investment in people.

China's real estate policies may remain accommodative. Potential policy tools for 2026 include interest rate cuts, tax reductions and interest subsidies, and government acquisition of properties. Interest rate cuts, by lowering new mortgage rates through LPR reductions, can boost housing demand but may squeeze banks' net interest margins. LPR is likely to be cut twice in 2026, with efforts to offset the pressure on banks' net interest margins by lowering money market rates and deposit rates. However, due to the longer duration of deposits and slower repricing compared to mortgages, lowering money market rates and deposit rates may not fully offset the negative impact of LPR cuts on banks' net interest margins. Tax reductions, including reducing transaction taxes and fees on home purchases and increasing the special additional deduction for mortgage interest on individual income tax (currently RMB1,000/month), can reduce the burden on homebuyers and boost housing demand. Interest subsidies involve fiscal subsidies for interest on new mortgages, reducing the actual borrowing cost for homebuyers without directly affecting banks' net interest margins. Government acquisition of properties involves government or policy-backed institutions purchasing idle land or properties from the market, converting them into long-term affordable housing. In the short term, this can alleviate oversupply and downward price pressure in the housing market. We believe the probability ranking of these four policies is: interest rate cuts > tax reductions > interest subsidies > government acquisition.

Financial Markets

China's money market liquidity may be more accommodative with slight decreases in money market product yields. The 1-week Shibor is projected to decrease from 1.4% at the end of 2025 to 1.2% at the end of 2026. On one hand, due to economic downturn and deflationary pressure, the central bank may increase money market liquidity supply, further lowering the reserve requirement ratio, reverse repo rates, and LPR. On the other hand, due to weak credit demand, money market liquidity demand may remain subdued. Hong Kong offshore RMB money market rates may first decline and then flatten. In the first half of 2026, with lower onshore RMB interest rates and a weaker USD, the 1-week RMB Hibor is projected to decrease from 1.7% at the end of 2025 to 1.5% at the end of June 2026. In the second half of 2026, onshore RMB interest rates may continue to fall, but the USD may rebound, so the 1-week RMB Hibor is expected to fluctuate but remain around 1.5% by year-end.

China's treasury bond yields may marginally rise. We project the 10-year government bond yield to increase from 1.85% at the end of 2025 to around 1.9% at the end of 2026. Factors contributing to higher government bond yields include: first, improving deflation, as government bond yields are closely related to the trend of future core CPI growth; second, proactive fiscal policy maintaining its expansionary strength, leading to high government bond issuance volumes; third, the stock market bull run entering its latter half, with market risk appetite potentially further recovering. Factors lowering government bond yields include: first, continued weakness in real estate and consumption, weak credit demand, increased credit supply, and continuous declines in credit and deposit rates; second, further global inflation and interest rate declines.

RMB may moderately strengthen against the US dollar. The USD/RMB exchange rate may decrease from 7.07 at the end of 2025 to 7.02 at the end of 2026. In 2026, the USD index may first weaken and then strengthen, as monetary policy easing precedes fiscal policy expansion. In the first half of the year, US economic growth and inflation may decline, the Federal Reserve may continue to cut interest rates and restart balance sheet expansion, increasing USD supply. At the same time, White House intervention and preference for a weaker USD are negative for the USD, potentially leading to a decline in the USD index. In the second half of the year, under the influence of accommodative monetary policy and expansionary fiscal policy, US economic growth may rebound, and inflation may stabilize, potentially leading to a rebound in the USD index. In the first half of 2026, China may intensify fiscal expansion, implement a new round of policies to stabilize real estate and promote consumption, and accelerate the implementation of anti-involution policies, potentially leading to a stronger RMB against the USD. In the second half of the year, as the USD index strengthens and the scope for further domestic fiscal easing diminishes, the RMB may weaken against the USD.

China's stock market has entered the latter half of a bull market. This bull market may peak in 2026, with the stock market experiencing a "first rise, then fall" pattern. A-shares are expected to outperform Hong Kong stocks, with full-year growth forecasts of 15% for the Hang Seng Index and 20% for the CSI 300 Index, compared to 25% and 13% respectively in 2025. The bull market may spread from pan-technology sectors to raw materials and industrials, and then to consumer sectors. Factors supporting the continuation of the bull market for a period include: continued accommodative liquidity, with the Federal Reserve potentially further cutting interest rates and increasing USD liquidity supply, while the People's Bank of China may further cut RRR and interest rates, leading to more accommodative RMB liquidity; China may intensify policies to stabilize real estate, promote consumption, and combat involution, which may alleviate deflation and improve corporate earnings prospects; Chinese stock valuations are still not expensive, with the 2025 forward P/E ratios for the Hang Seng Index and CSI 300 Index being 12.1x and 15.7x respectively, slightly higher than their 10-year averages of 11.4x and 14.5x. We are relatively optimistic about Hong Kong listed Information Technology (2025 forward P/E 22.8x, latest ROE 14.2%), Financials (2025 forward P/E 8x, latest ROE 11.1%), Consumer Staples (2025 forward P/E 14x, latest ROE 11.5%), Utilities (2025 forward P/E 11.6x, latest ROE 8.8%), Telecommunications (2025 forward P/E 12.8x, latest ROE 9.1%), and Energy (2025 forward P/E 8.9x, latest ROE 11.3%). For A-shares, we favor Consumer Staples (2025 forward P/E 18.9x, latest ROE 23.3%), Healthcare (2025 forward P/E 25.3x, latest ROE 11.9%), and Utilities (2025 forward P/E 16.4x, latest ROE 11.5%).

Figure 4: China Economic Indicators

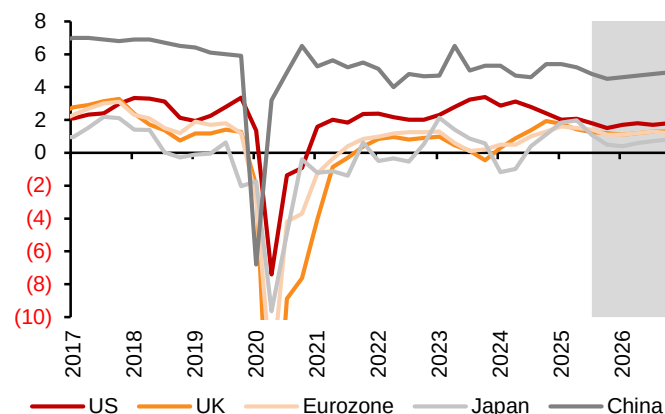
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US\$trn)	11.1	11.4	12.6	14.1	14.5	15.0	18.2	18.3	18.3	18.7	19.5	20.9	22.3	19.6	21.0	22.2
GDP per Capita(US\$th)	8.1	8.2	9.0	10.1	10.3	10.6	12.9	13.0	12.9	13.3	-	-	-	13.9	15.0	15.8
Nominal GDP (YoY %)	7.1	8.4	11.3	10.5	7.5	2.9	13.4	5.1	4.9	4.2	4.1	4.7	5.2	4.1	5.2	5.3
Real GDP (YoY %)	7.0	6.8	6.9	6.8	6.1	2.3	8.6	3.1	5.4	5.0	4.9	4.4	4.2	5.0	4.8	4.5
CPI(YoY %)	1.4	2.0	1.6	2.1	2.9	2.5	0.9	2.0	0.2	0.2	0.0	0.8	1.1	(0.1)	0.7	0.9
Core CPI(YoY %)	(5.2)	0.3	6.3	3.5	(0.3)	(1.8)	8.1	4.1	(3.0)	(2.2)	(2.6)	(1.0)	0.5	(2.6)	(0.5)	0.5
Unemployment(%)	0.0	0.0	0.0	4.9	5.2	5.2	5.1	5.5	5.1	5.1	5.2	5.1	5.1	5.2	5.1	5.1
General Deficit/GDP	2.3	3.0	3.0	2.6	2.8	3.6	3.2	2.8	3.0	3.0	-	-	-	4.0	4.0	3.5
(General Deficit+Special-purpose Bond+Special Treasury)/GDP	2.3	3.5	3.9	4.0	4.9	8.2	6.3	5.8	6.8	6.6	-	-	-	8.4	8.5	8.0
Government Debt/GDP	36.2	35.8	35.3	35.6	37.9	45.0	45.8	49.4	54.7	60.8	-	-	-	67.8	73.0	77.3
DR007	2.32	2.59	3.09	3.04	2.65	2.46	2.29	2.36	1.91	1.98	1.73	1.67	2.67	1.55	1.45	1.40
1-Year LPR	4.30	4.30	4.30	4.31	4.15	3.85	3.80	3.65	3.45	3.10	2.95	2.77	2.64	3.00	2.80	2.70
10-Year Bond(%)	2.83	3.02	3.88	3.24	3.14	3.14	2.77	2.84	2.56	1.67	1.76	1.66	1.71	1.85	1.90	1.80
USD/RMB (year-end)	6.57	6.97	6.51	6.87	6.96	6.50	6.36	6.92	7.12	7.34	7.10	7.00	6.92	7.07	7.02	7.05
Bank Asset(YoY %)	15.7	15.7	8.4	6.8	8.4	10.3	7.5	9.8	9.7	6.3	-	-	-	7.5	7.2	7.0
Tier-1 Cities Housing Price(YoY %)	26.4	32.3	10.6	(2.4)	1.3	10.5	10.4	(4.2)	(12.2)	(12.7)	-	-	-	(10.0)	(5.0)	0.0

Source: Bloomberg, Wind, CMBIGM estimates

Appendices

Figure 5: Growth of GDP

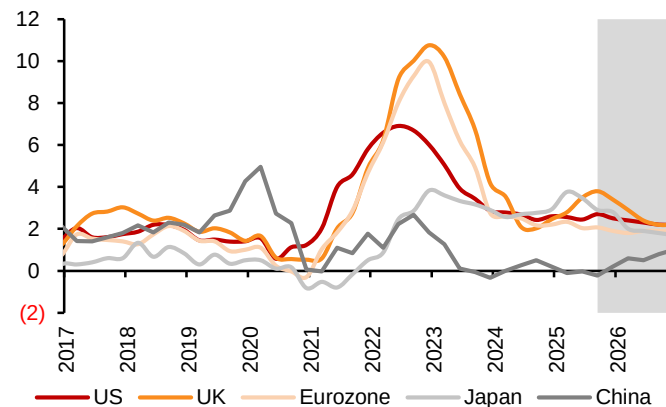
YoY(%), 2/3 CAGR for 2021/2022



Source: Bloomberg, Wind, CMBIGM estimates

Figure 6: Inflation

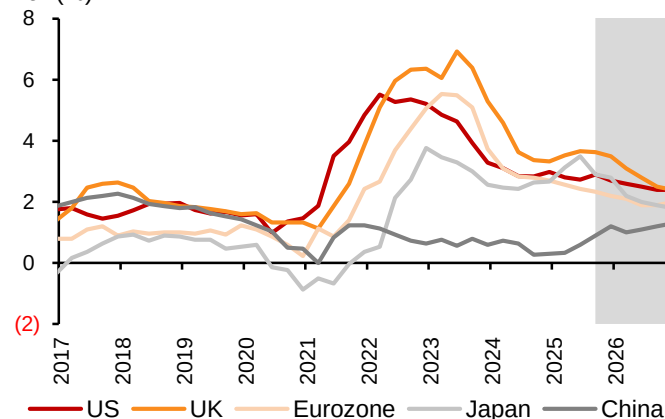
YoY(%)



Source: Bloomberg, Wind, CMBIGM estimates

Figure 7: Core inflation

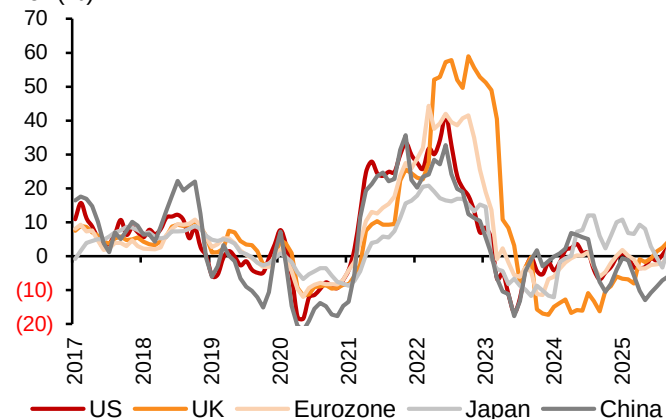
YoY(%)



Source: Bloomberg, Wind, CMBIGM estimates

Figure 8: Growth of energy CPI

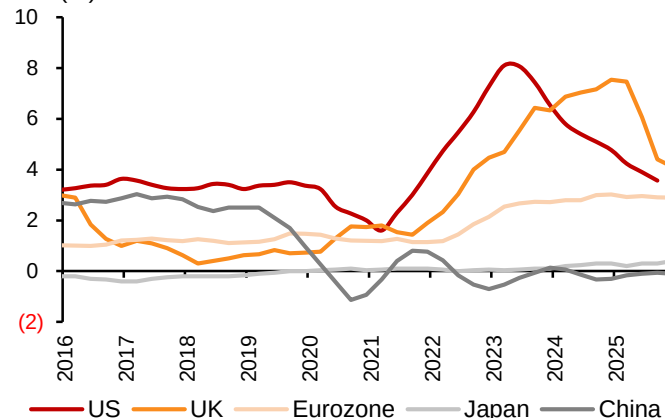
YoY(%)



Source: Bloomberg, Wind, CMBIGM estimates

Figure 9: Growth of rent CPI

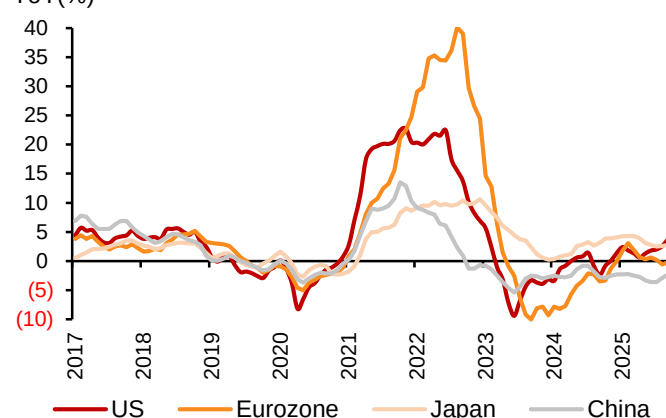
YoY(%)



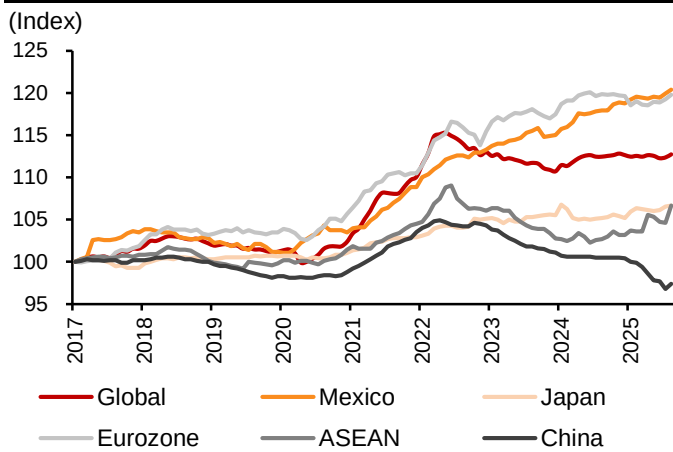
Source: Bloomberg, Wind, CMBIGM

Figure 10: Growth of PPI

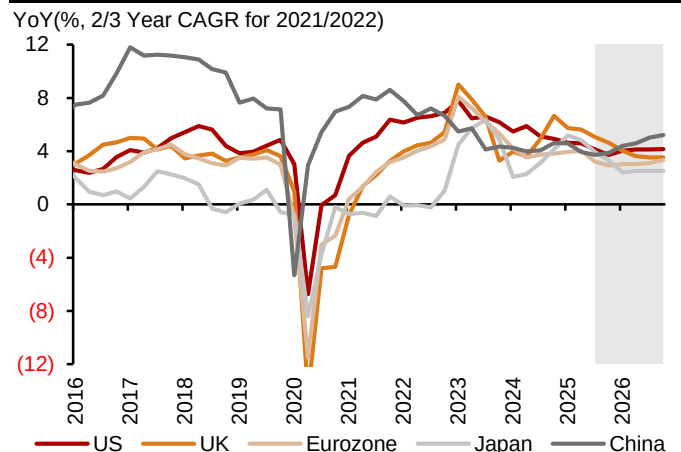
YoY(%)



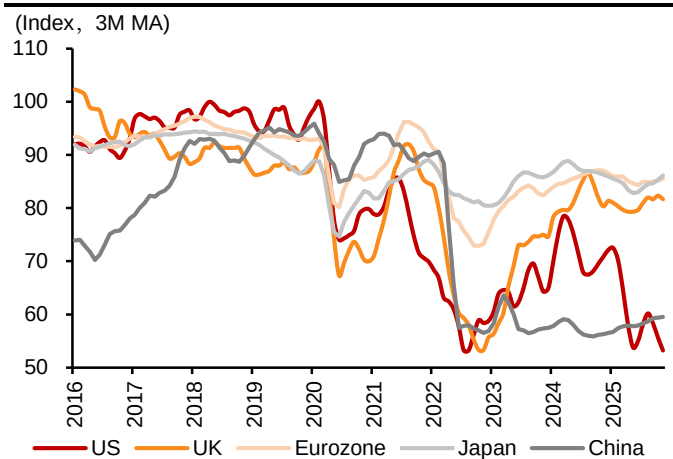
Source: Bloomberg, Wind, CMBIGM

Figure 11: US import price index by country of origin

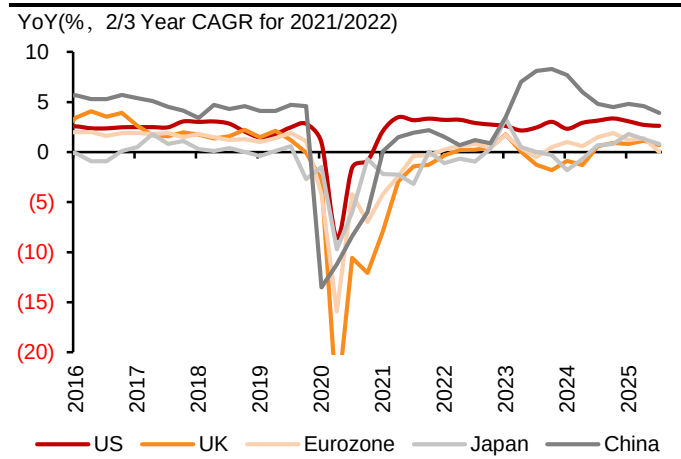
Source: Bloomberg, Wind, CMBIGM

Figure 12: Growth of nominal GDP

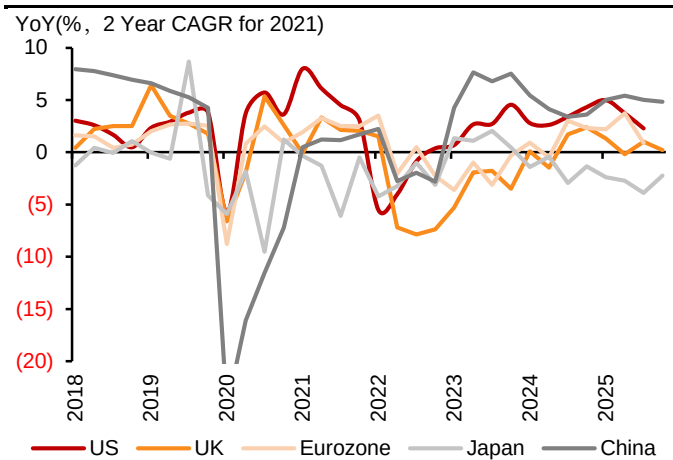
Source: Bloomberg, Wind, CMBIGM estimates

Figure 13: Consumer confidence index

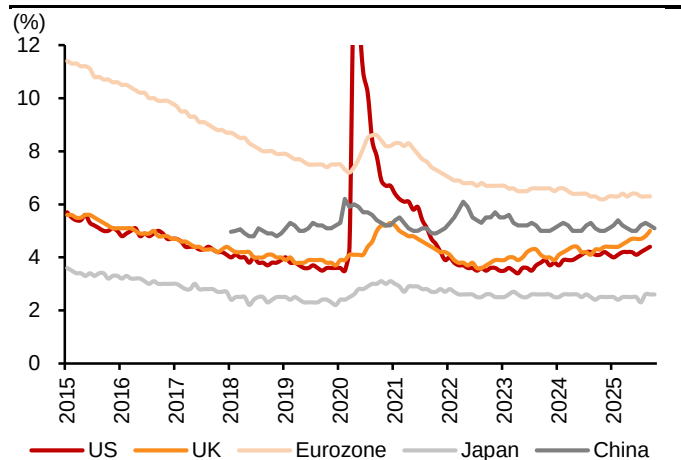
Source: Bloomberg, Wind, CMBIGM estimates

Figure 14: Growth of real consumption

Source: Bloomberg, Wind, CMBIGM estimates

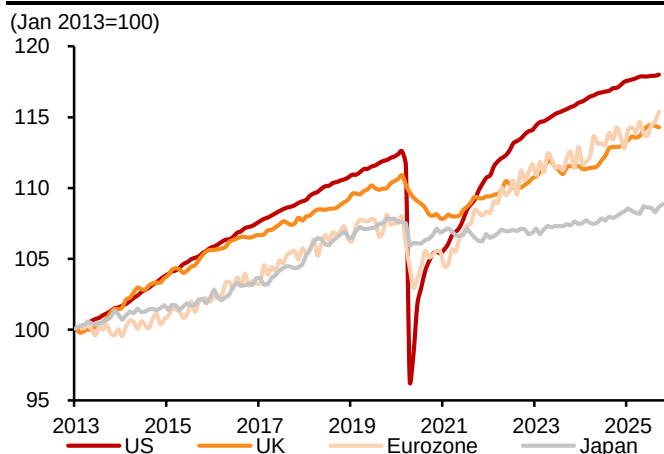
Figure 15: Growth of real retail sales

Source: Bloomberg, Wind, CMBIGM

Figure 16: Unemployment rates

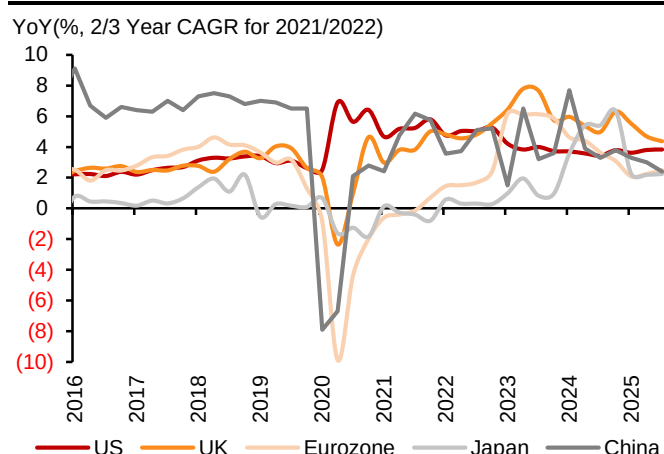
Source: Bloomberg, Wind, CMBIGM

Figure 17: Total number of employed persons



Source: Bloomberg, Wind, CMBIGM

Figure 18: Growth of wages

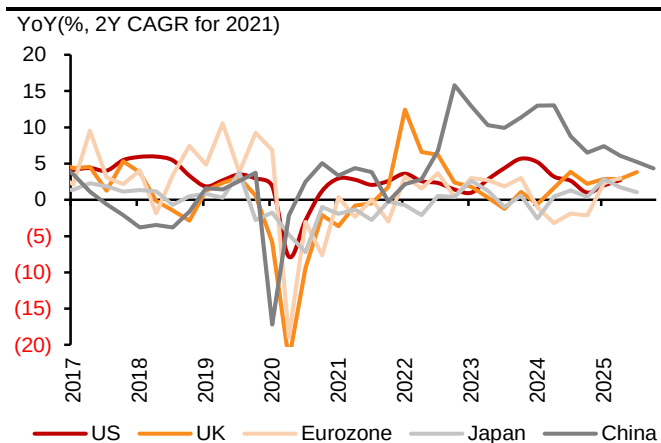


Source: Bloomberg, Wind, CMBIGM

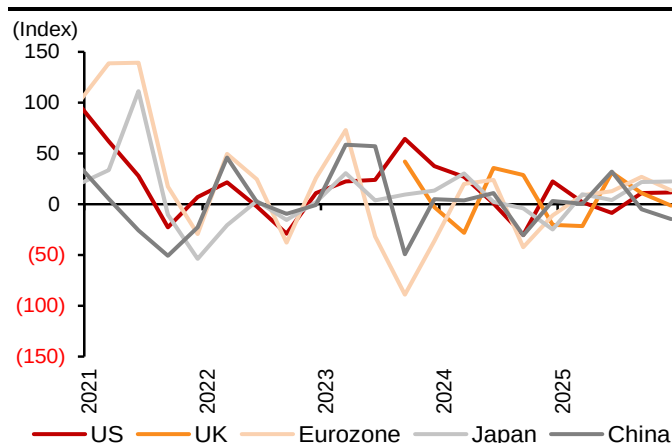
Figure 19: Bloomberg consensus of EPS expectations among major stock markets

CAGR(%)	2012-2016	2017-2019	2020-2024	2025E	2026E	2025-2026E
US S&P 500	3.9	10.9	7.7	14.3	13.2	13.7
US Nasdaq Composite	7.3	11.5	11.4	22.3	25.7	24.0
UK FTSE 100	(6.3)	14.9	4.0	1.6	8.6	5.0
DE Dax Index	7.0	0.4	9.6	2.2	15.8	8.8
FR CAC Index	(3.7)	7.3	7.0	(11.5)	15.7	1.1
JP Nikkei 225	9.7	16.1	9.6	15.7	(2.6)	6.2
HK Hang Seng Index	0.0	10.3	(3.0)	(0.5)	10.4	4.8
HK Hang Seng Tech	0.0	0.0	3.5	(7.4)	37.8	13.0
CN CSI 300	3.3	9.9	(3.4)	14.3	14.7	14.5
CN ChiNext Index	15.3	(8.6)	14.7	39.0	31.8	35.3
CA TSX Index	(2.6)	13.1	6.1	13.0	14.9	14.0
AU S&P/ASX 200	(1.5)	7.3	3.7	0.1	9.8	4.8
IN NIFTY Index	10.5	1.5	13.6	15.6	5.8	10.6
BR IBOV Index	(8.2)	27.8	16.4	5.5	8.9	7.2
ID JCI Index	(1.5)	12.9	7.5	26.5	21.5	24.0
KR KOSPI Index	(3.2)	(2.9)	9.3	37.6	37.2	37.4
TW TWSE Index	4.7	2.8	11.8	24.9	23.2	24.0
ZA TOP40 Index	0.4	12.8	13.3	34.2	27.5	30.8

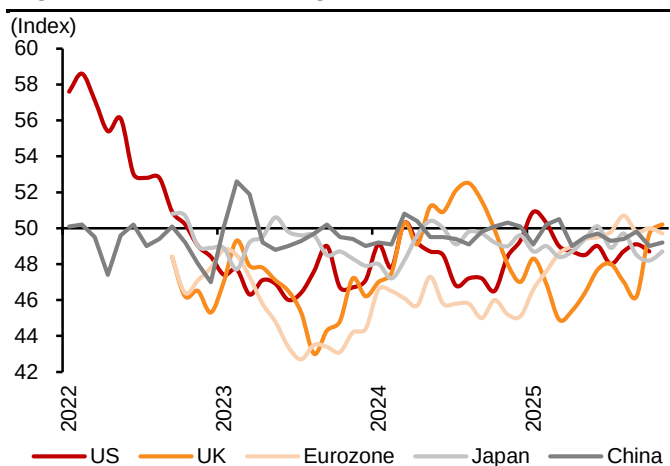
Source: Bloomberg, Wind, CMBIGM

Figure 20: Growth of real fixed investment

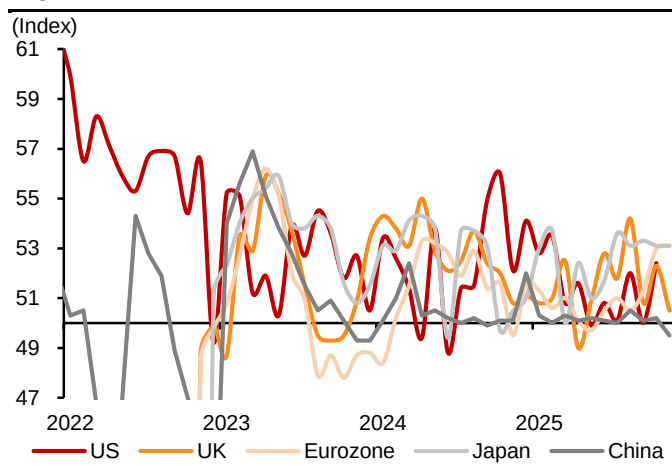
Source: Bloomberg, Wind, CMBIGM

Figure 21: Economic surprise index

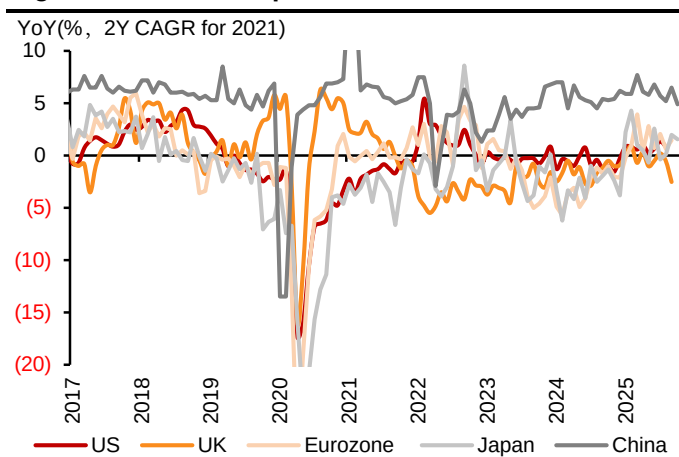
Source: Bloomberg, Wind, CMBIGM

Figure 22: Manufacturing PMI

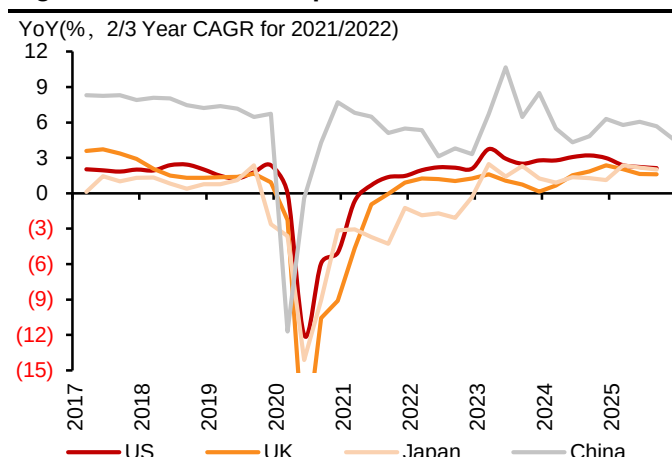
Source: Bloomberg, Wind, CMBIGM

Figure 23: Services PMI

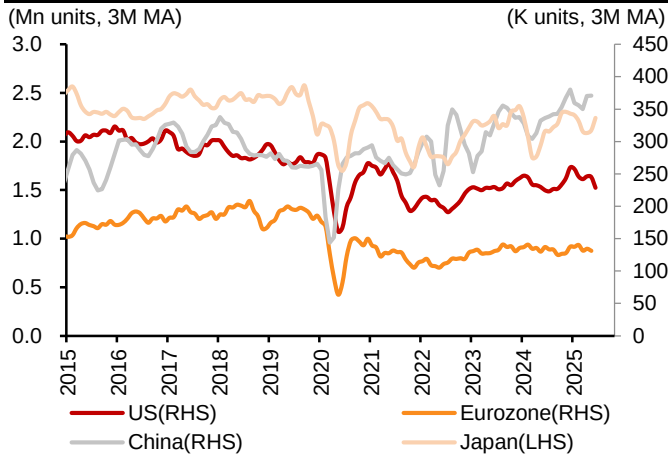
Source: Bloomberg, Wind, CMBIGM

Figure 24: Industrial production index

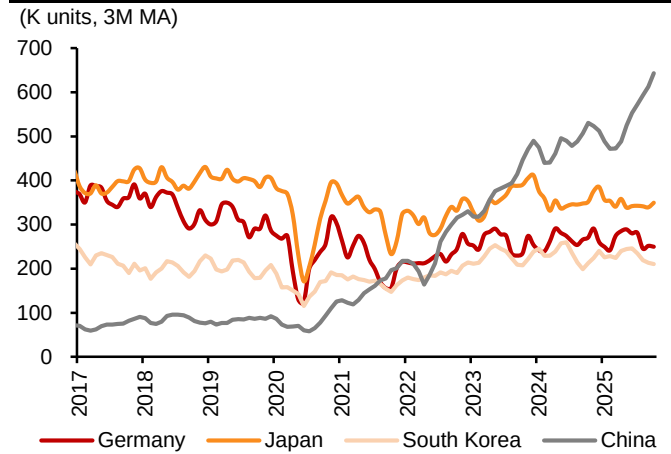
Source: Bloomberg, Wind, CMBIGM

Figure 25: Services output index

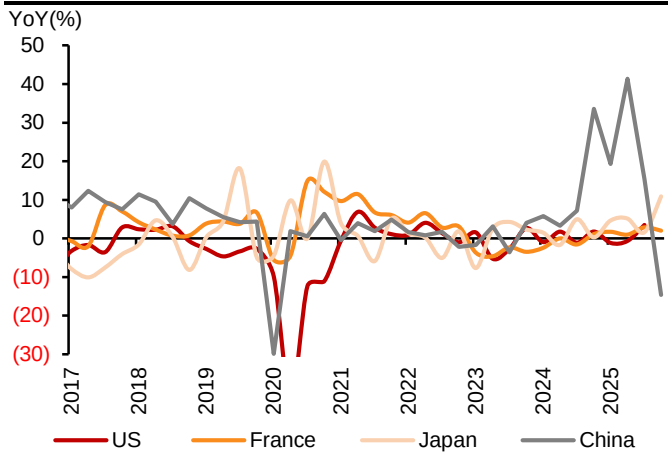
Source: Bloomberg, Wind, CMBIGM estimates

Figure 26: Automobile sales volume

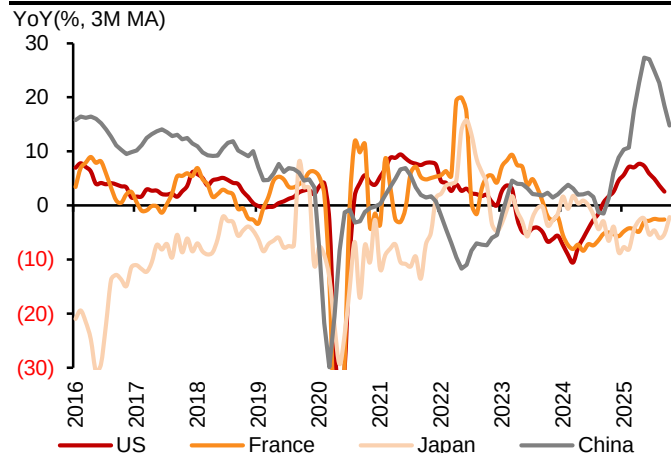
Source: Bloomberg, Wind, CMBIGM

Figure 27: Automobile exports volume

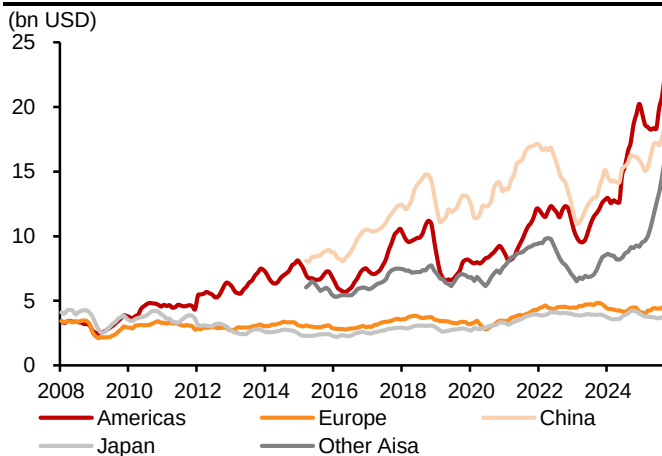
Source: Bloomberg, Wind, CMBIGM

Figure 28: Growth of home appliance retail sales

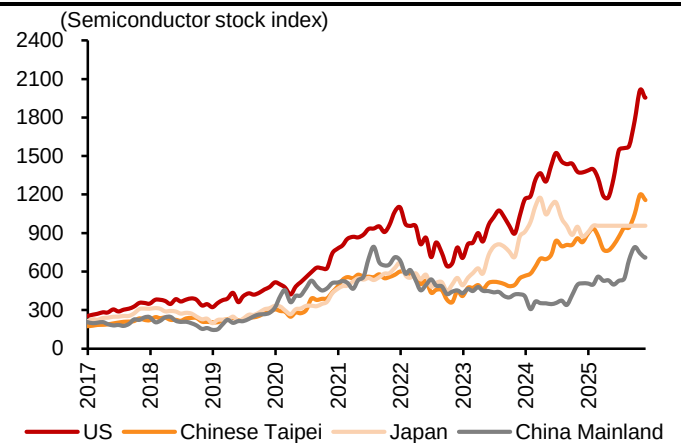
Source: Bloomberg, Wind, CMBIGM

Figure 29: Growth of furniture retail sales

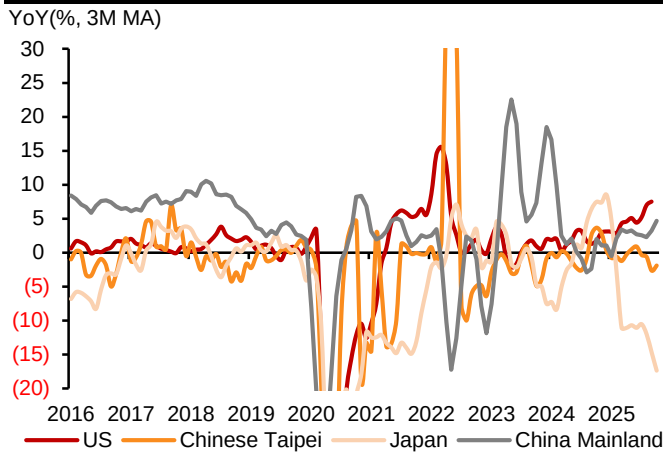
Source: Bloomberg, Wind, CMBIGM

Figure 30: Semiconductor retail sales

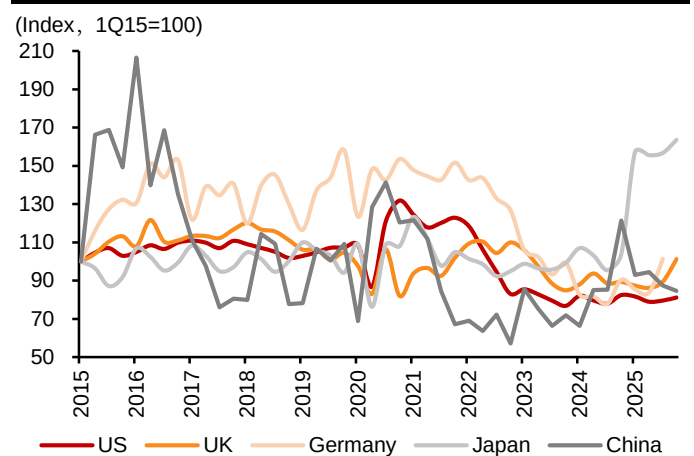
Source: Bloomberg, Wind, CMBIGM

Figure 31: Semiconductor sector stock prices

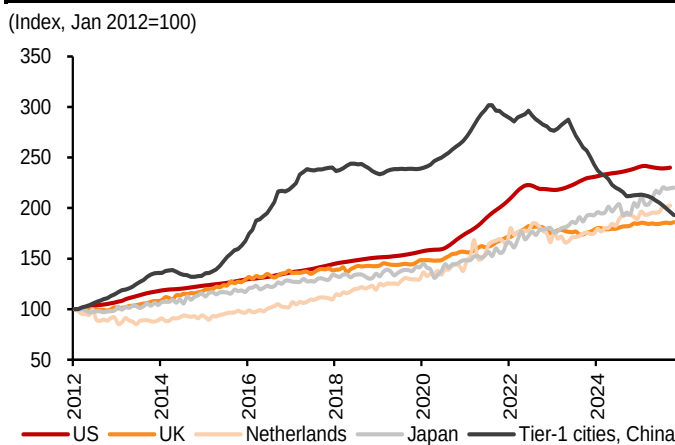
Source: Bloomberg, Wind, CMBIGM

Figure 32: Growth of clothing retail sales

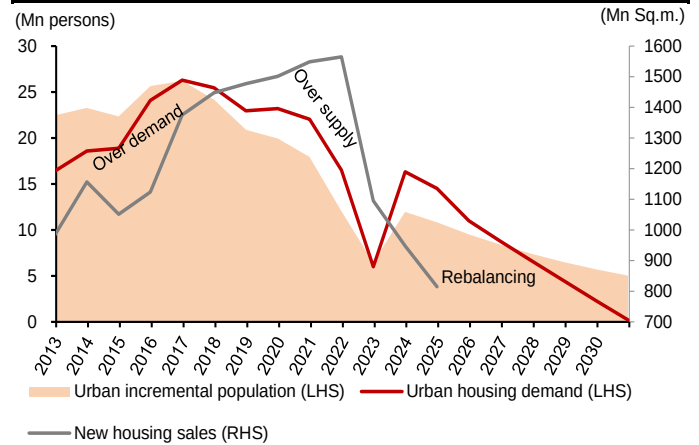
Source: Bloomberg, Wind, CMBIGM

Figure 33: Housing sales

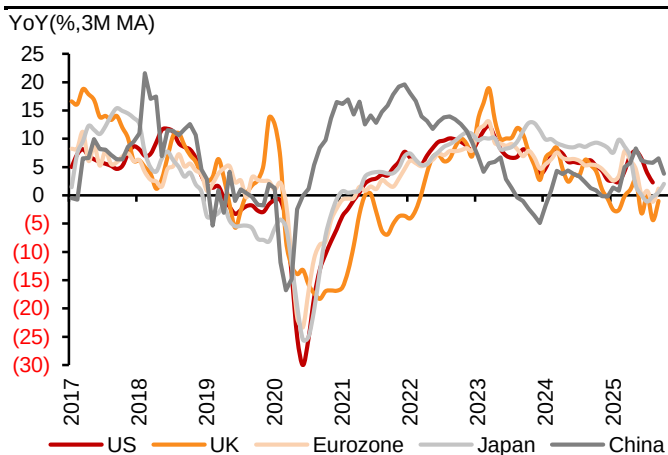
Source: Bloomberg, Wind, CMBIGM

Figure 34: Housing prices index

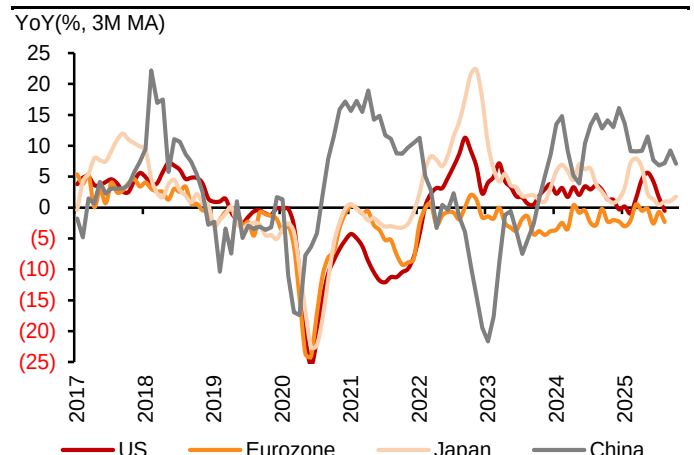
Source: Bloomberg, Wind, CMBIGM

Figure 35: Rebalancing China housing market

Source: Bloomberg, Wind, CMBIGM

Figure 36: Growth of merchandise export value

Source: Bloomberg, Wind, CMBIGM

Figure 37: Growth of merchandise export volume

Source: Bloomberg, Wind, CMBIGM

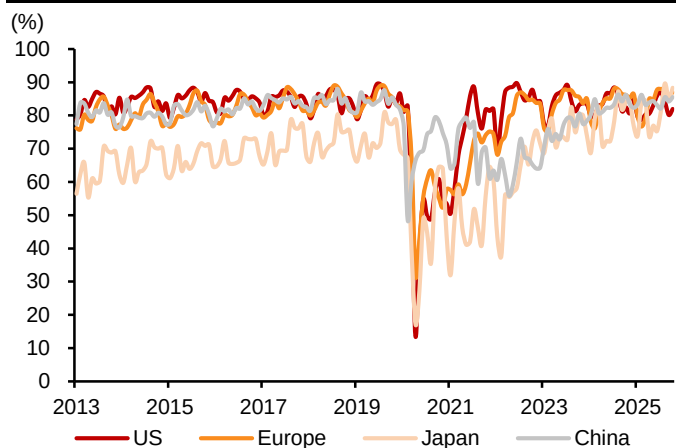
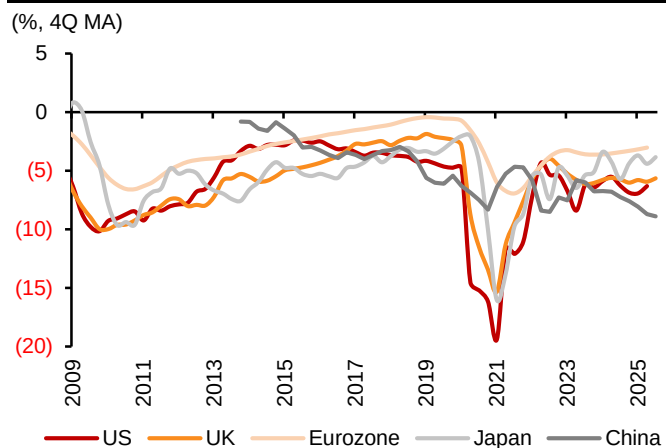
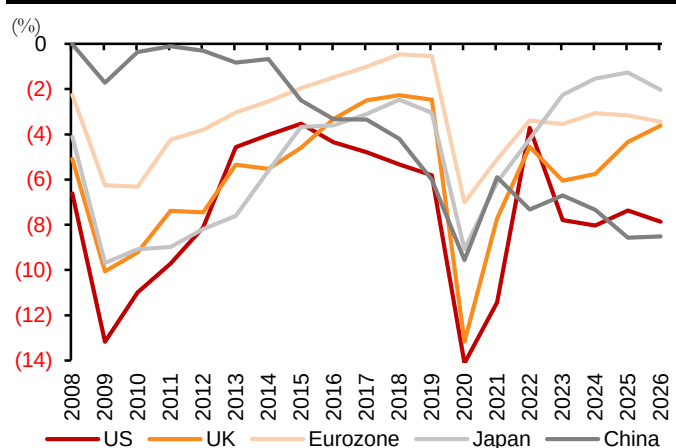
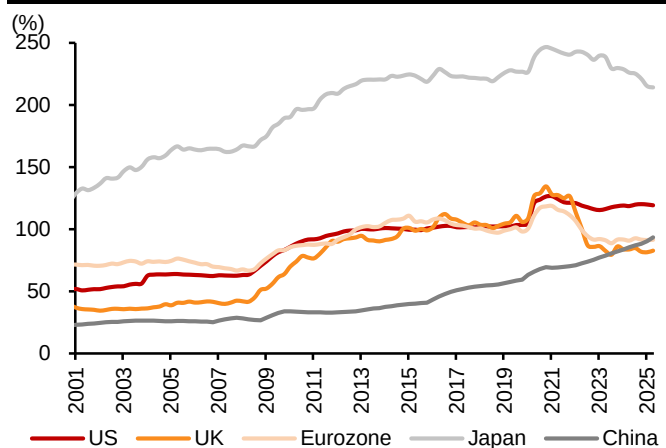
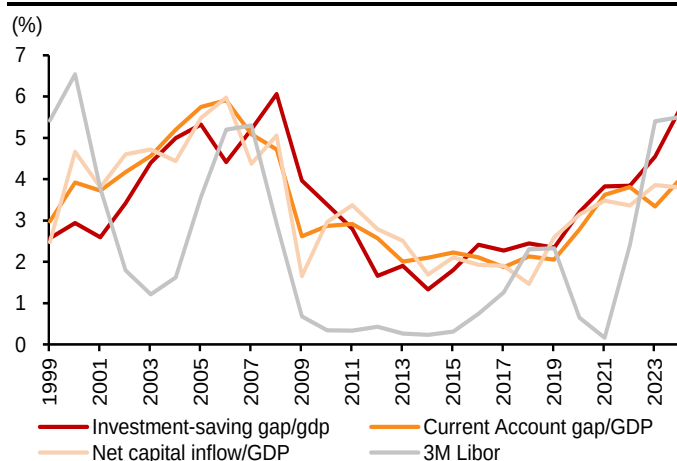
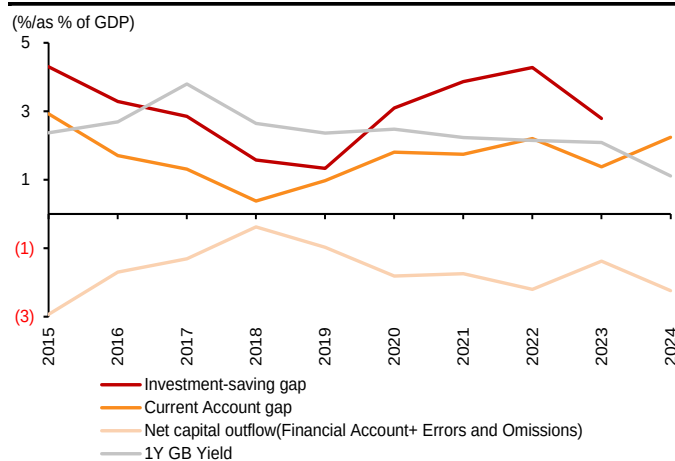
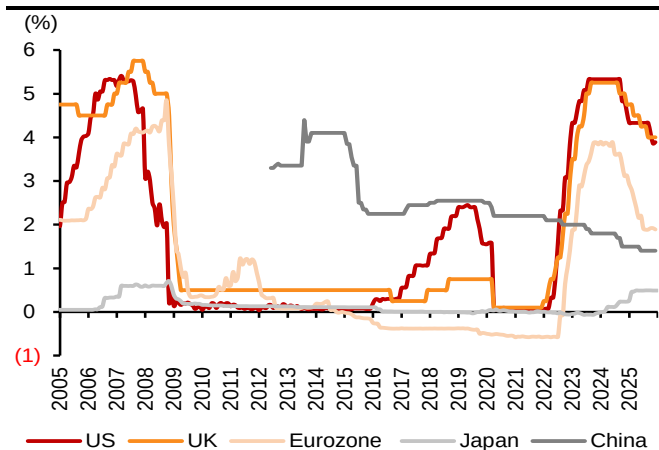
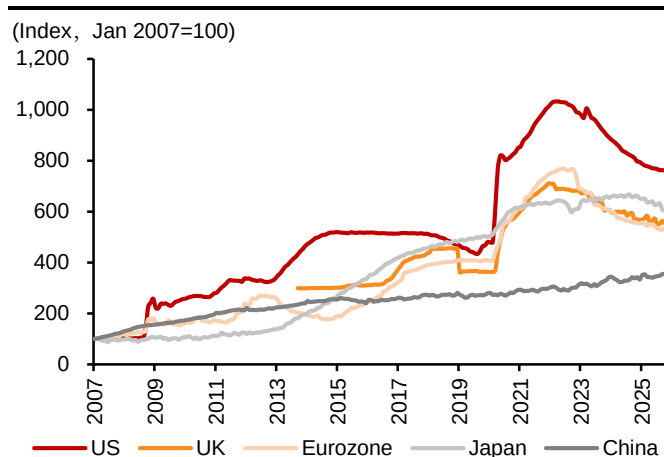
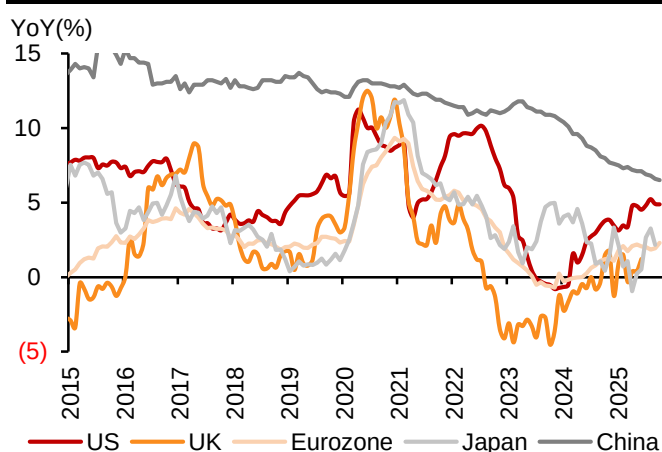
Figure 38: Airline passenger load factors**Figure 39: Quarterly fiscal deficit ratios****Figure 40: Annual fiscal deficit ratios****Figure 41: Government debt ratios****Figure 42: US economic imbalance****Figure 43: China economic imbalance**

Figure 44: Policy rates (money market rates)

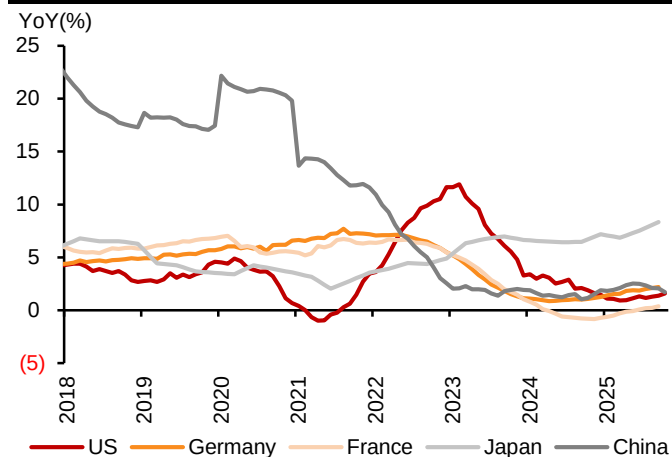
Source: Bloomberg, Wind, CMBIGM

Figure 45: Central bank balance sheets

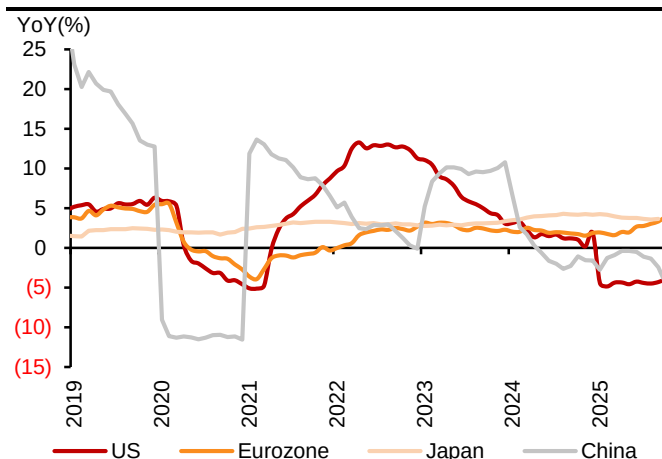
Source: Bloomberg, Wind, CMBIGM

Figure 46: Growth of outstanding loans

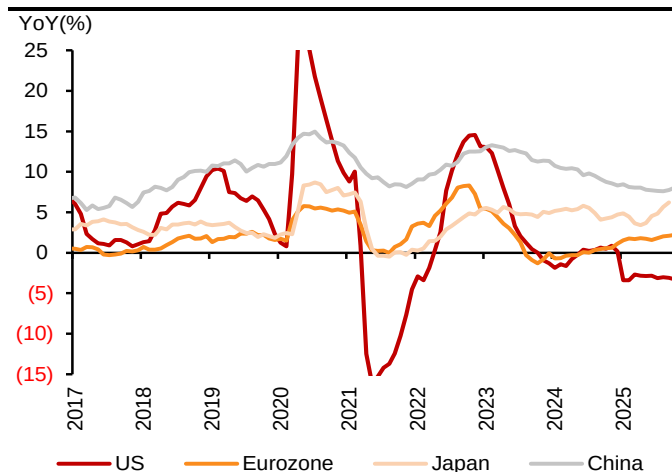
Source: Bloomberg, Wind, CMBIGM

Figure 47: Growth of outstanding mortgage loans

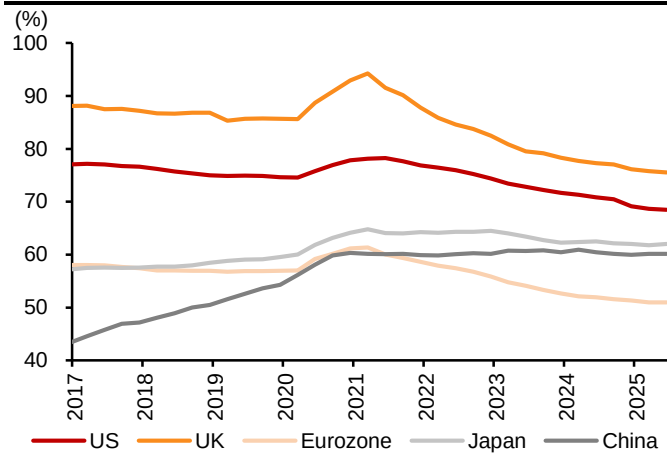
Source: Bloomberg, Wind, CMBIGM

Figure 48: Growth of outstanding consumer credit

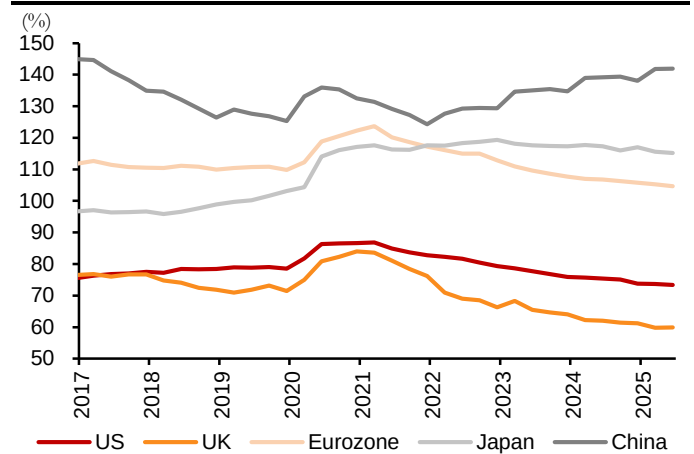
Source: Bloomberg, Wind, CMBIGM

Figure 49: Growth of outstanding corporate loans

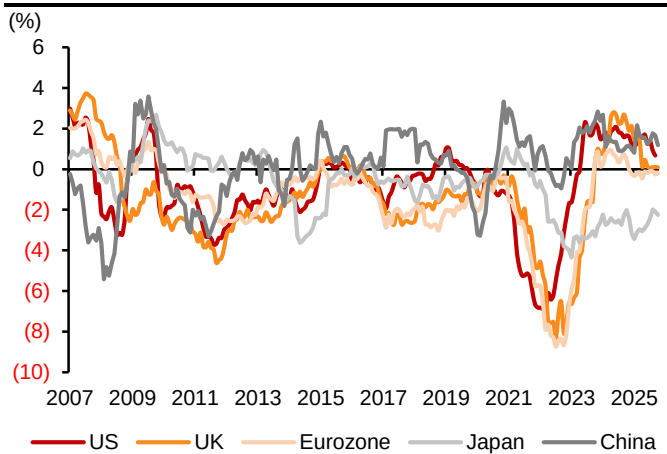
Source: Bloomberg, Wind, CMBIGM

Figure 50: Household debt to GDP ratios

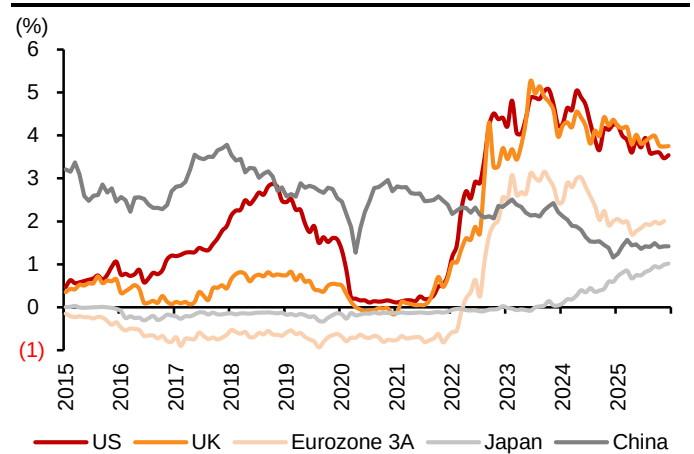
Source: Bloomberg, Wind, CMBIGM

Figure 51: Corporate debt to GDP ratios

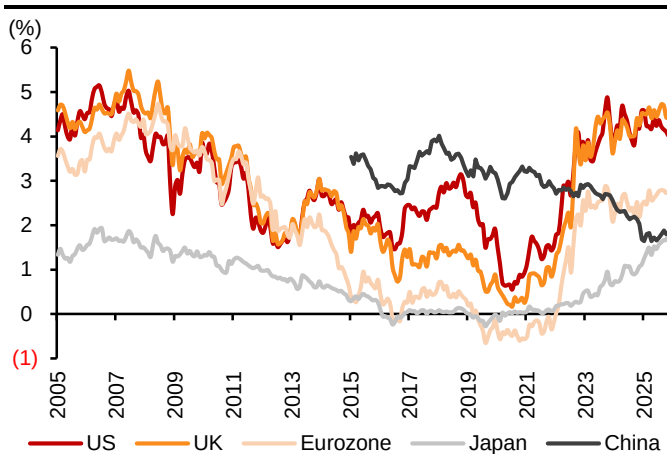
Source: Bloomberg, Wind, CMBIGM

Figure 52: Real-term interest rates

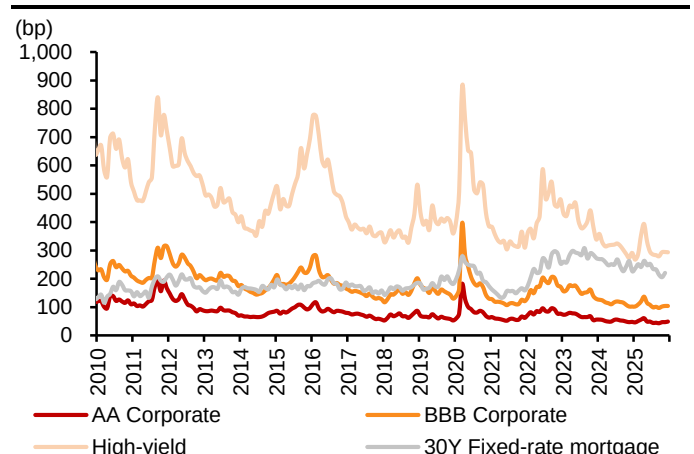
Source: Bloomberg, Wind, CMBIGM

Figure 53: 2-Year government bond yields

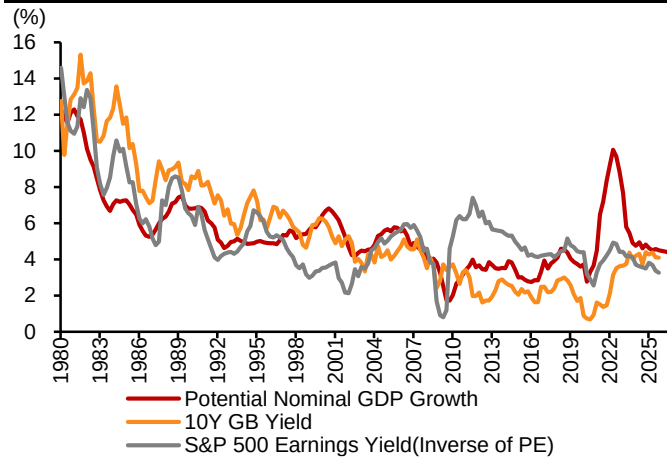
Source: Bloomberg, Wind, CMBIGM

Figure 54: 10-Year government bond yields

Source: Bloomberg, Wind, CMBIGM

Figure 55: Credit spreads of bonds and loans

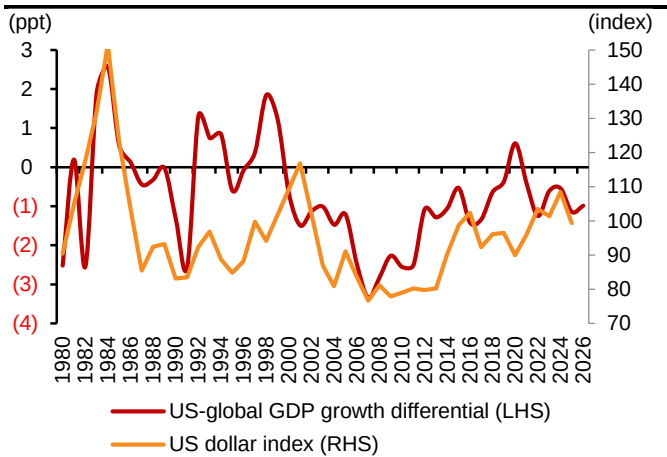
Source: Bloomberg, Wind, CMBIGM

Figure 56: US nominal GDP growth & 10Y GB yields

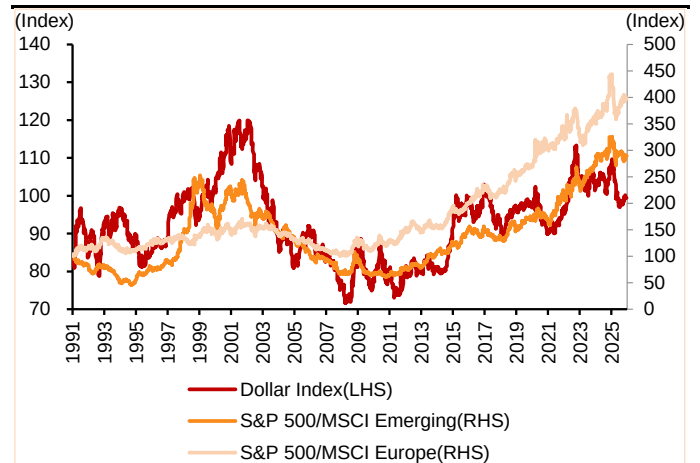
Source: Bloomberg, Wind, CMBIGM

Figure 57: China core inflation & 10Y GB yields

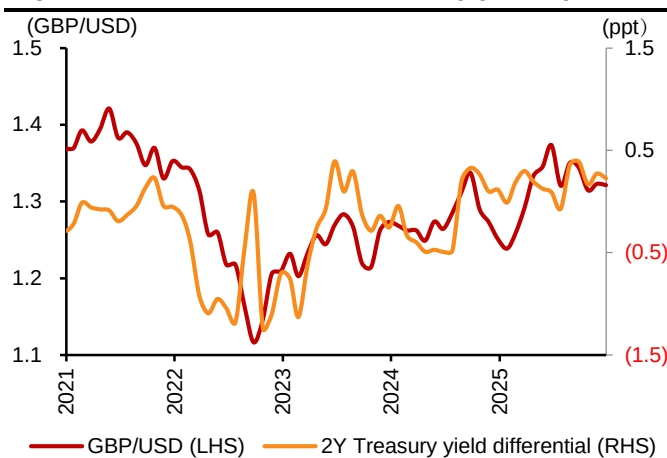
Source: Bloomberg, Wind, CMBIGM

Figure 58: Relative strength of US economy and dollar index

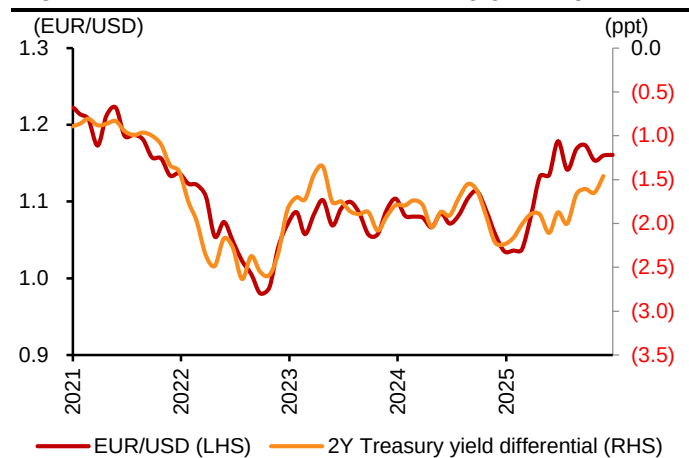
Source: Bloomberg, Wind, CMBIGM

Figure 59: Relative strength of US stock market and dollar index

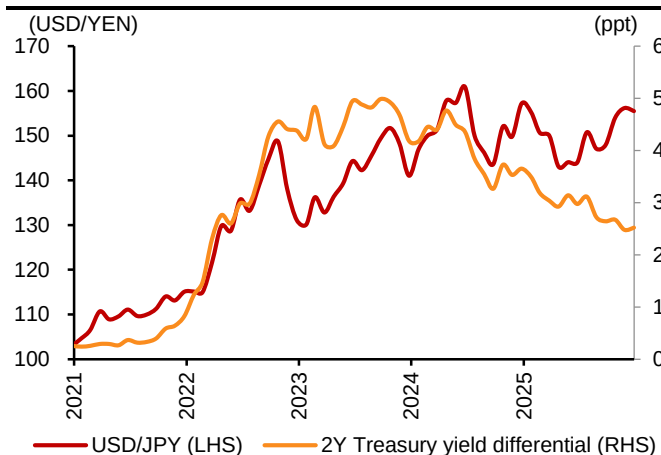
Source: Bloomberg, Wind, CMBIGM

Figure 60: GBP/USD and 2Y treasury yield spreads

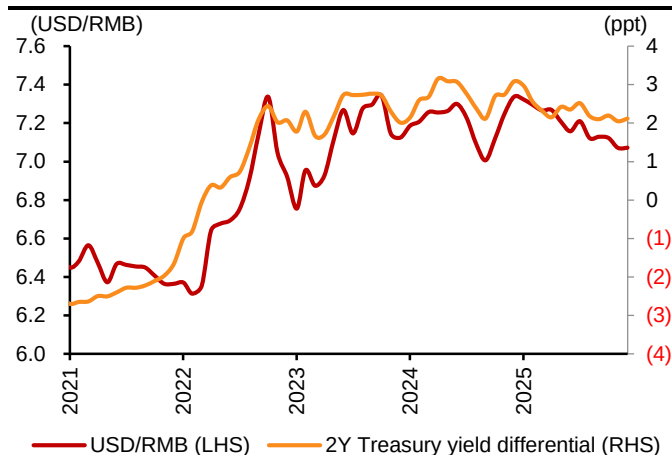
Source: Bloomberg, Wind, CMBIGM

Figure 61: EUR/USD and 2Y treasury yield spreads

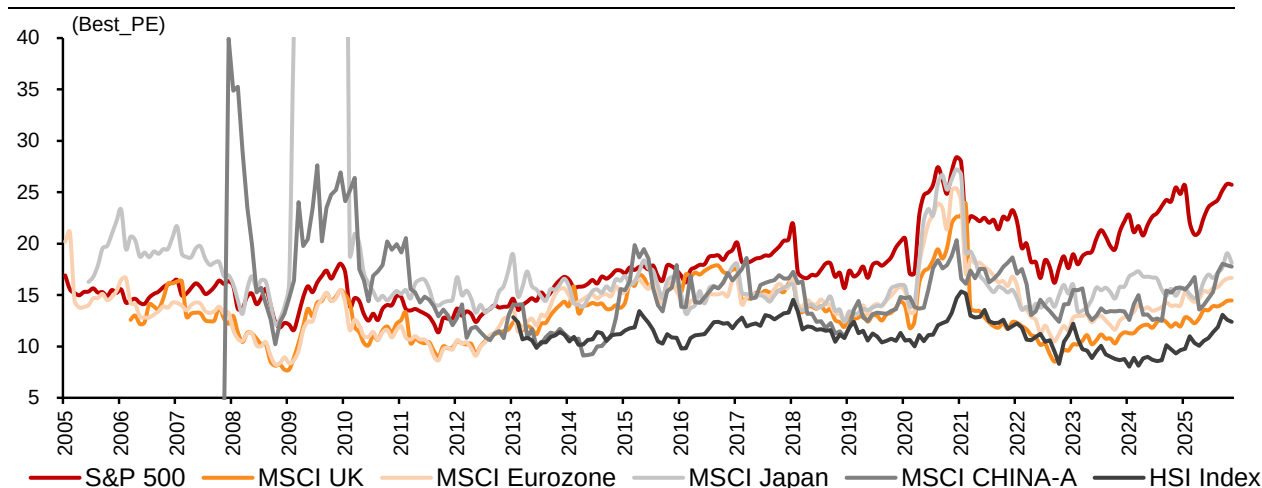
Source: Bloomberg, Wind, CMBIGM

Figure 62: USD/JPY and 2Y treasury yield spreads

Source: Bloomberg, Wind, CMBIGM

Figure 63: USD/RMB and 2Y treasury yield spreads

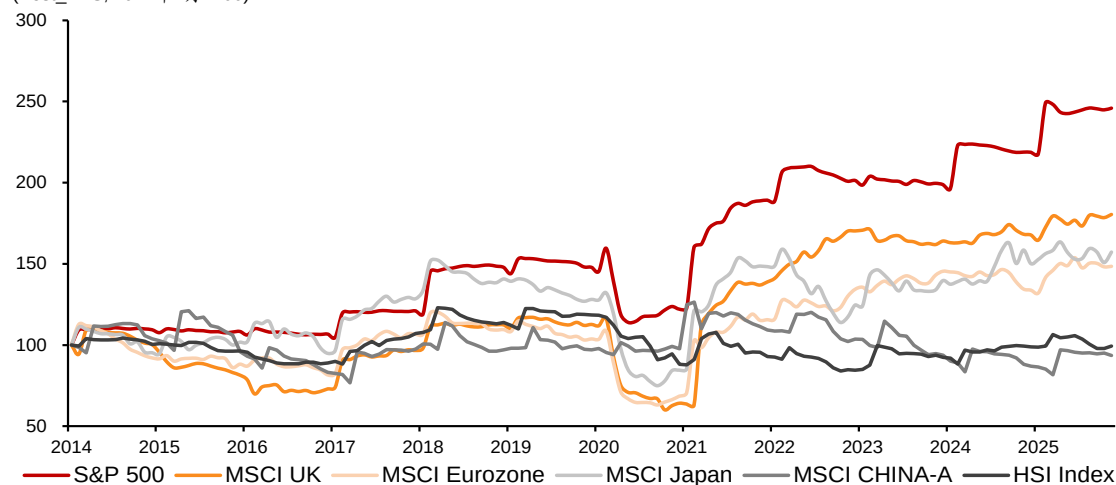
Source: Bloomberg, Wind, CMBIGM

Figure 64: Bloomberg consensus P/E forecasts for major equity indices

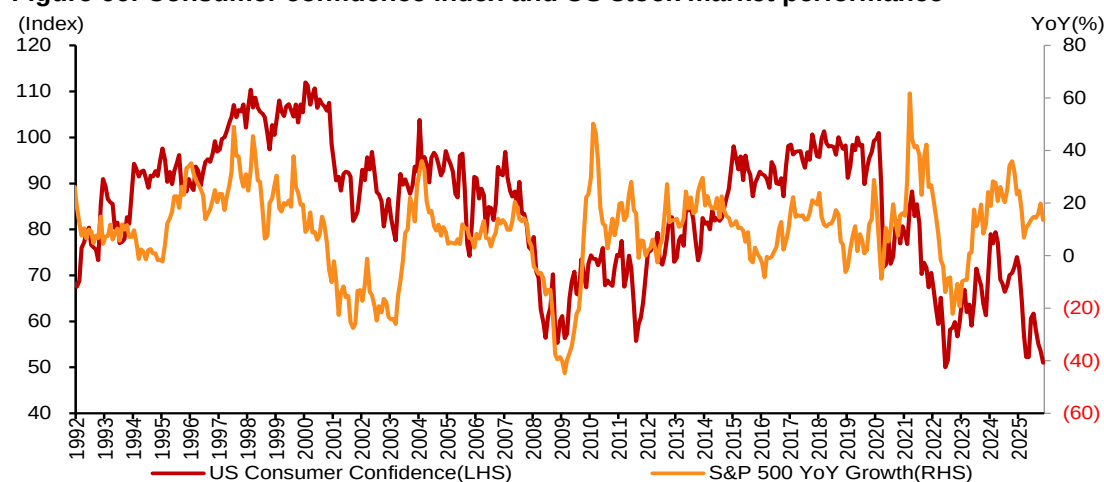
Source: Bloomberg, Wind, CMBIGM estimates

Figure 65: Bloomberg consensus EPS forecasts for major equity indices

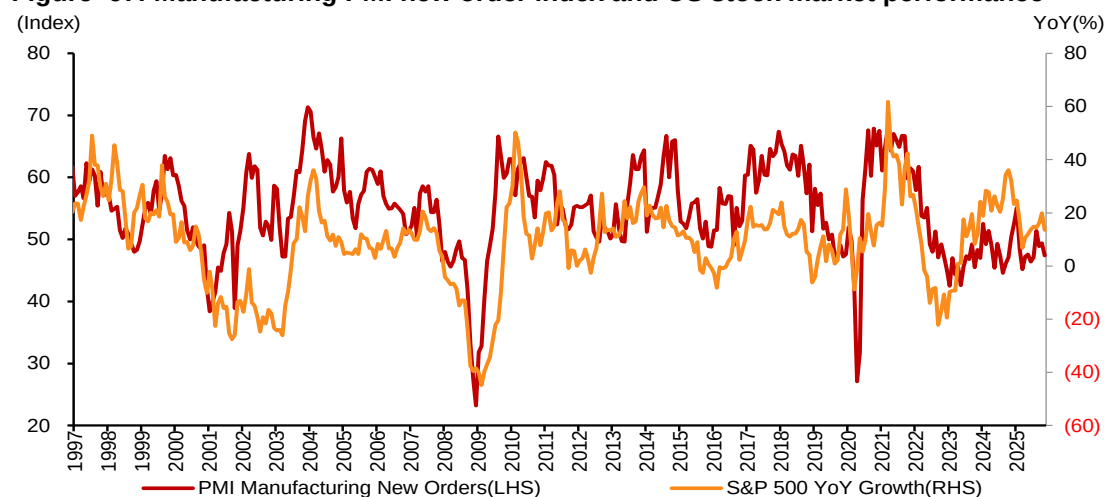
(Best_EPS, 2014年1月=100)



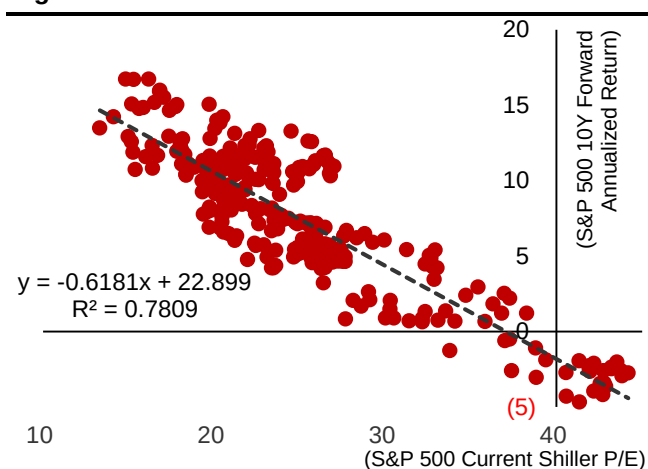
Source: Bloomberg, Wind, CMBIGM

Figure 66: Consumer confidence index and US stock market performance

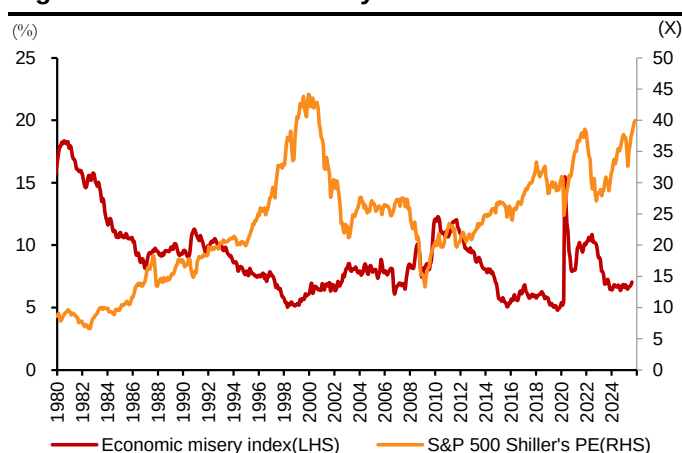
Source: Bloomberg, Wind, CMBIGM

Figure 67: Manufacturing PMI new order index and US stock market performance

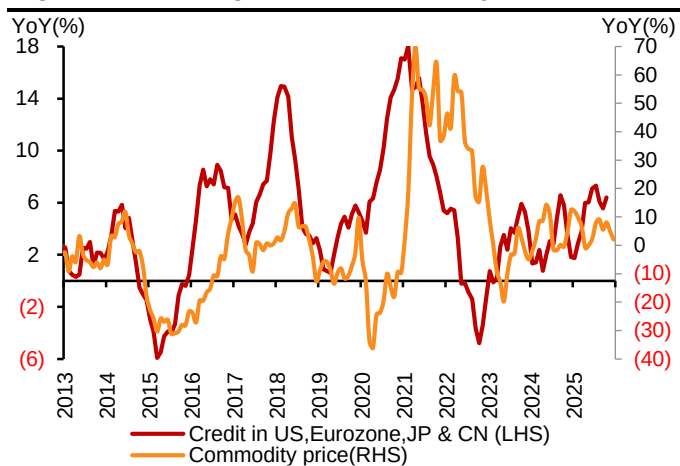
Source: Bloomberg, Wind, CMBIGM

Figure 68: S&P 500 Shiller P/E & 10Y forward return

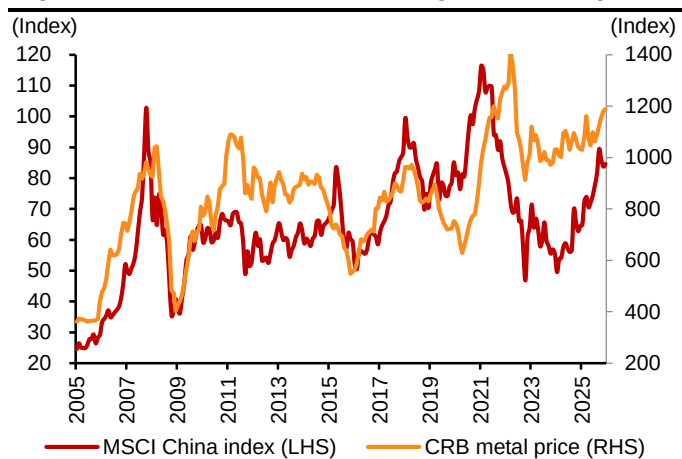
Source: Bloomberg, Wind, CMBIGM

Figure 69: Economic misery index and Shiller P/E

Source: Bloomberg, Wind, CMBIGM

Figure 70: Credit growth & commodity inflation

Source: Bloomberg, Wind, CMBIGM

Figure 71: China stock market & global metal price

Source: Bloomberg, Wind, CMBIGM

Figure 72: Sector comparison for major equity indices

	10Y Annualized Return(%)	Current Foward P/E	10Y Average P/E	Current ROE(%)	10Y Average ROE(%)	2025-2026 EPS CAGR(%)	10Y EPS CAGR(%)		10Y Annualized Return(%)	Current Foward P/E	10Y Average P/E	Current ROE(%)	10Y Average ROE(%)	2025-2026 EPS CAGR(%)	10Y EPS CAGR(%)
S&P 500	11.1	25.7	20.5	18.8	15.3	13.7	6.8	MSCI Japan(USD)	4.2	18.1	17.2	10.0	8.5	6.3	7.7
Consumer Discretionary	12.3	28.7	27.8	26.3	26.3	8.9	7.9	Consumer Discretionary	3.5	21.6	16.5	9.2	9.5	(0.4)	7.7
Consumer Staples	5.5	22.8	21.4	22.0	24.4	2.8	4.6	Consumer Staples	1.1	26.0	26.6	6.4	8.9	14.8	3.4
Health Care	7.3	20.6	17.9	17.9	17.1	11.3	7.3	Health Care	4.6	22.1	24.6	8.4	8.6	15.5	10.4
Industrials	8.7	27.1	22.4	24.2	20.0	11.2	5.2	Industrials	5.0	19.3	20.3	11.0	9.1	8.4	7.6
Information Technology	20.9	36.6	25.3	30.8	27.7	29.7	12.6	Information Technology	7.9	29.0	23.7	11.7	9.6	13.8	8.3
Materials	5.7	23.3	19.6	8.4	11.8	8.5	4.3	Materials	1.0	16.5	14.3	5.4	7.8	3.2	6.1
Real Estate	3.1	39.5	21.0	6.3	9.3	3.3	3.3	Real Estate	(2.8)	17.5	16.1	9.9	8.1	11.7	6.4
Communication Services	8.4	23.7	18.6	24.2	15.9	17.3	3.4	Communication Services	6.3	13.6	34.2	16.7	12.4	(15.1)	9.6
Utilities	4.8	20.6	18.8	11.1	8.6	8.8	4.3	Utilities	(1.1)	9.6	10.7	10.7	7.0	(1.9)	15.2
Financials	9.2	17.4	15.0	13.3	10.7	11.4	6.2	Financials	5.4	12.1	11.1	9.7	6.5	10.7	9.0
Energy	1.1	17.1	35.9	10.9	6.0	(5.9)	0.5	Energy	2.8	14.8	10.2	7.5	4.3	3.9	12.6
MSCI UK(USD)	(0.3)	14.4	13.9	10.3	9.4	4.4	3.8	CSI 300	1.1	15.9	15.2	10.2	12.1	14.5	0.9
Consumer Discretionary	1.7	19.4	18.0	11.6	14.6	14.5	0.1	Consumer Discretionary	3.8	15.9	19.5	14.2	15.1	10.6	3.6
Consumer Staples	1.1	14.5	16.5	15.5	17.7	4.9	2.9	Consumer Staples	13.8	18.9	31.6	23.3	20.8	7.7	14.3
Health Care	3.4	16.7	16.2	20.5	23.4	9.9	4.9	Health Care	2.7	25.6	36.9	11.9	14.5	13.6	3.4
Industrials	6.8	24.6	22.4	32.9	15.8	12.6	2.0	Industrials	(2.1)	20.1	19.9	8.1	10.2	22.5	(1.2)
Information Technology	7.7	30.3	30.4	26.5	15.8	14.8	8.1	Information Technology	4.2	44.3	44.3	9.4	10.5	45.6	1.7
Materials	4.0	18.0	11.8	2.1	12.2	(1.8)	4.0	Materials	0.9	18.8	37.7	11.4	10.6	36.3	8.9
Real Estate	(4.5)	16.9	21.6	5.1	1.7	5.8	(1.9)	Real Estate	(7.6)	NA	10.5	(12.4)	13.6	NA	NA
Communication Services	(7.2)	20.7	14.7	(3.0)	2.6	(2.5)	0.6	Communication Services	2.2	30.9	39.0	11.8	7.1	30.5	5.4
Utilities	(0.8)	16.0	15.0	8.4	18.8	9.2	(0.8)	Utilities	2.1	16.3	17.7	11.5	10.6	3.0	1.5
Financials	1.7	10.6	10.0	11.3	7.3	15.2	3.6	Financials	(0.5)	8.3	8.7	9.3	12.3	8.2	2.4
Energy	1.3	11.3	21.1	6.9	5.0	(14.8)	1.3	Energy	0.9	13.2	17.7	10.3	9.4	(3.8)	4.6
MSCI Eurozone(USD)	2.9	16.7	15.4	11.4	9.5	7.8	4.2	HSI Index	(1.6)	12.4	11.2	10.5	10.5	4.8	(0.1)
Consumer Discretionary	3.9	22.8	20.0	3.7	12.3	(0.8)	5.0	Consumer Discretionary	(1.3)	22.4	38.5	12.0	6.8	11.4	0.8
Consumer Staples	0.5	18.0	21.8	11.5	12.7	11.3	2.3	Consumer Staples	(3.6)	14.0	19.8	11.5	13.2	13.9	(0.3)
Health Care	(1.4)	17.0	15.8	8.2	8.7	14.3	(0.3)	Health Care	(4.2)	31.2	52.1	9.8	6.0	52.6	(18.4)
Industrials	7.0	22.6	21.1	17.2	13.2	19.9	5.0	Industrials	(2.4)	12.6	14.4	8.3	10.7	16.1	3.4
Information Technology	10.6	33.3	27.5	16.3	14.1	20.2	6.0	Information Technology	9.4	23.0	31.4	14.2	13.4	21.0	14.3
Materials	1.5	19.3	35.5	5.1	10.3	20.6	(0.1)	Materials	1.7	15.2	19.4	14.2	8.0	53.2	14.5
Real Estate	(8.3)	NA	16.7	11.6	5.2	12.0	(2.1)	Real Estate	(7.0)	16.0	14.2	0.3	7.5	86.3	(20.1)
Communication Services	(1.5)	17.0	15.7	12.2	10.8	11.5	0.8	Communication Services	(1.9)	12.9	11.8	9.1	9.1	7.3	(0.1)
Utilities	2.1	15.2	14.3	12.6	8.0	9.0	4.5	Utilities	(3.2)	11.8	13.6	8.7	10.1	4.7	(4.3)
Financials	1.5	11.1	10.0	12.9	7.6	14.6	6.5	Financials	(0.3)	8.1	8.2	11.1	10.5	6.1	3.7
Energy	0.1	8.7	11.7	9.8	7.1	(5.8)	1.9	Energy	1.3	8.8	13.4	11.3	9.2	(5.1)	13.5

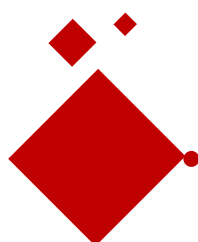
Source: Bloomberg, Wind, CMBIGM

Note: *CAGR based on available years if full 10-year data is unavailable



Sector Outlook

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China Internet & Software

China Internet & Software

OUTPERFORM

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Bridging legacy and future: A pivotal year

We believe 2026 will be a pivotal year for competing for user mindshare in the AI era, with key focuses on lowering AI adoption thresholds, improving decision-making efficiency, and creating real value. Among traditional internet businesses, companies that possess these three characteristics are expected to have higher long-term investment value: 1) stable cash flow to support AI-related investment and exploration; 2) rich application scenarios to accumulate data and reach users; and 3) outstanding supply chain capabilities and operational excellence to drive overseas expansion for incremental growth. We still recommend adopting a barbell investment strategy, while focusing on both the certainty of profit growth and new increments brought by AI. 1) For AI themes: We favour Tencent, which is expected to see sustained rapid growth in advertising and cloud businesses driven by AI and benefits from the trend of foreign capital inflow; Alibaba, which will benefit from the AI trend with abundant application scenarios but a lower valuation compared to peers; and Kuaishou, whose positive progress in AI application monetization is expected to drive revenue growth and valuation upside. 2) For certainty of profit growth: We recommend NetEase and Trip.com, which have reasonable valuations, stable performance, and high earning visibility.

Consumption as the foundation: visibility and certainty remain key

Looking back in 2025, e-commerce benefited from "national subsidies" as expected despite minor twists, local services competition intensified more than expected, and OTA showed stronger growth resilience than anticipated. Looking ahead to 2026, experiential consumption (travel, games, etc.) is set to outpace physical goods in growth, while online travel and gaming may see resilient profit growth. For physical goods retail, with the phasing out of national subsidies, competition may normalize. E-commerce platforms may adjust their investment priorities within the instant retail sector, balancing resources and efficiency to ease competition, although we caution against overly optimistic expectations for the pace of improvement. Instant retail is expected to maintain strong GMV growth, while on-site businesses may await macro recovery and stabilized competition. For e-commerce, we recommend to focus on companies with steady profit growth, reasonable valuations, and sustained AI benefits.

Technology as the breakthrough: booming AI drives application and monetization growth

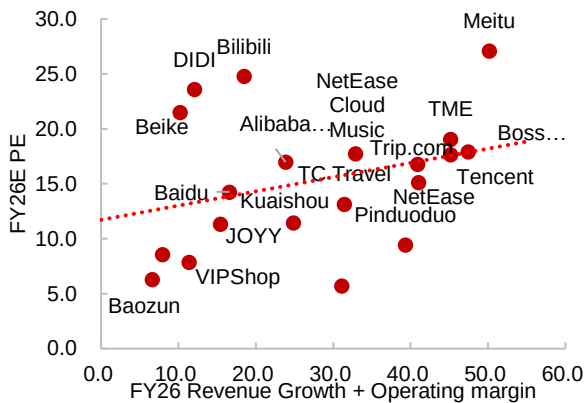
In 2025, LLM competition intensified, with improved capabilities and faster iteration of open-source models. Meanwhile, as API costs for existing models fell, industry applications flourished. Looking into 2026, competition to enhance model capabilities may persist, and AI monetization in niche segments is set to grow. We are optimistic about monetization potential from improved AI agent capabilities, as well as paid user penetration from advances in image/video generation models. Cloud and ad will remain key AI-driven growth engines for core businesses. Currently, we do not spot any over-investment risks but emphasize the need to track investment return cycles.

Expanding overseas: delivering long-term increments

In 2025, the overseas expansion of OTA exceeded expectations, food delivery overseas achieved efficiency gains ahead of anticipation, game overseas growth was steady, and e-commerce overseas slowed marginally due to geopolitics. Looking ahead to 2026, the overseas expansion of cloud is set to be a new growth driver, OTA overseas may maintain high revenue growth, local services overseas may enter a high-growth phase, and e-commerce overseas will continue to prioritize efficiency over scale. Companies with strong cash flow, high profit margins, and ample cash reserves are better positioned to withstand macro and market cycles, supporting higher valuation and more stable stock performance.

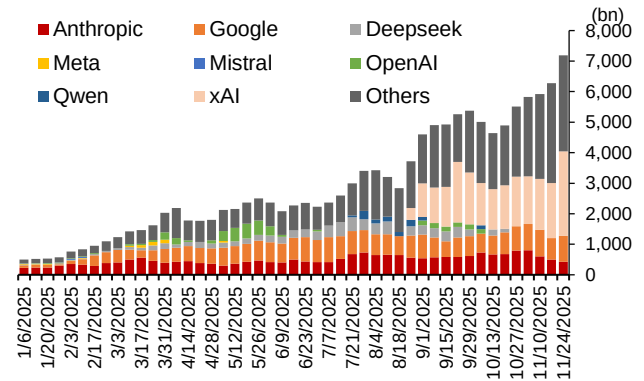
Focus Charts

Figure 1: China Internet: Valuation vs fundamental outlook



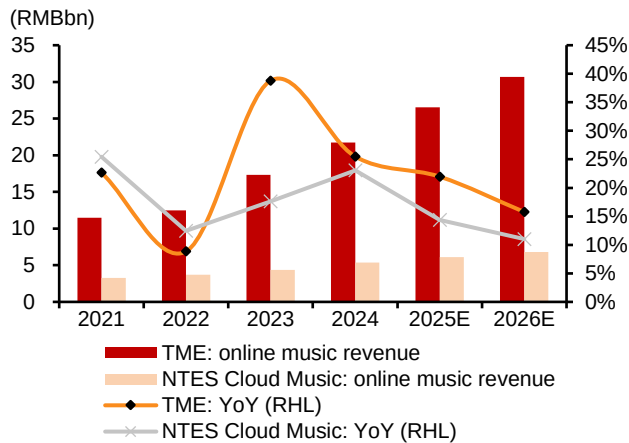
Source: Bloomberg, CMBIGM

Figure 2: 2025 Full view of token usage volume for leading large language models



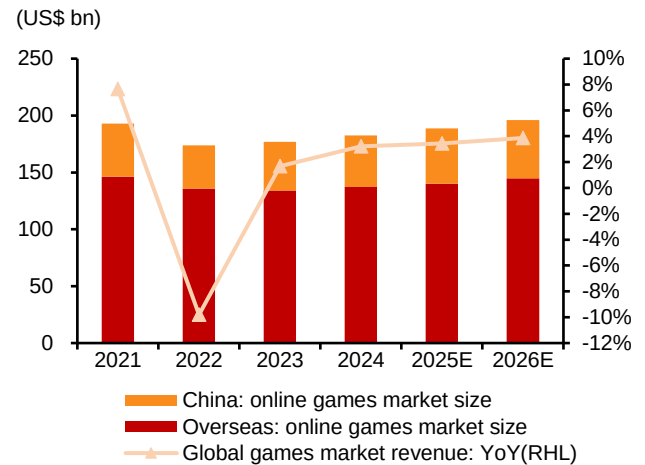
Source: OpenRouter, CMBIGM

Figure 3: Online music: online music revenue outlook



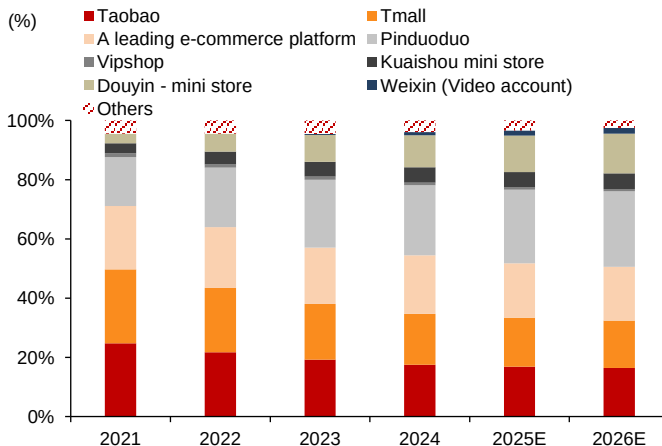
Source: Company data, CMBIGM estimates

Figure 4: Global gaming market size



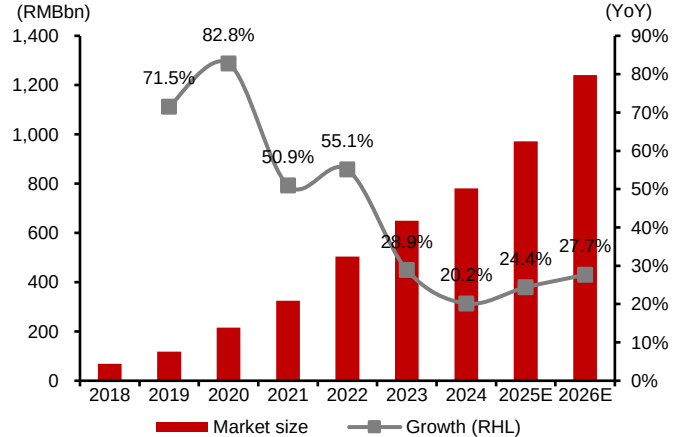
Source: Newzoo, CNG, CMBIGM estimates

Figure 5: China: E-commerce market share



Source: NBS, Latepost, Company data, CMBIGM estimates

Figure 6: China: instant retail market size & growth



Source: MOFCOM, CMBIGM estimates

China Internet: Sector Review and Investment Recommendations

2026 Outlook:

- 1) **Online Music** (10%-15% revenue and profit growth expected): We have slightly revised down our expectations for the industry's profit growth rate and our assessment of the competitive landscape. We expect the profit growth to closely align with the revenue growth, primarily due to a slower pace of overall gross profit margin expansion, as the rapid growth in the fan economy and offline concert businesses of leading platforms is exerting moderate pressure on gross profit margins. Regarding the competitive landscape, the fast-growing MAU of Soda Music has brought certain traffic competition pressure, but the overall industry competitive structure remains stable. Leading platforms continue to maintain their leading position by virtue of content advantages and economies of scale.
- 2) **Online Gaming** (~10% revenue growth, 10%-15% profit growth expected): We have slightly adjusted our judgment on the certainty of the industry's profit growth. Looking ahead to 2026, the steady performance of leading evergreen games will support earnings, but whether the industry's growth can exceed expectations will largely depend on the performance of several key new releases.
- 3) **Online Advertising** (~10% revenue and profit growth expected): We maintain our overall view on the industry basically unchanged, but anticipate significant divergence in performance across industry players. Companies that can continuously leverage AI to empower their advertising businesses are expected to maintain growth faster than the industry average.
- 4) **Online Travel Agency (OTA)** (10%-15% revenue and profit growth expected): We believe the OTA industry will exhibit overall resilience, with profit growth becoming a key driver of share price increases. The rapid development of pure international businesses is expected to unlock long-term growth potential.
- 5) **E-commerce**: Due to firm investments in food delivery and instant retail businesses (which have impacted profit margin levels and are expected to continue in 2026), we have revised down our expectations for the industry's shareholder return levels. Against the backdrop of the phasing out of national subsidies, the industry's overall revenue and profit growth rates may face challenges. Core user retention capability remains the critical determinant of competitive success, the market focuses on the incremental GMV and synergies brought by instant retail investments, and AI-related valuation upside will drive share prices.
- 6) **Local Life Services**: Affected by the macroeconomic environment and intensifying industry competition, we have revised down our expectations for fundamental resilience. Optimization of the competitive landscape remains the key factor driving valuation recovery.

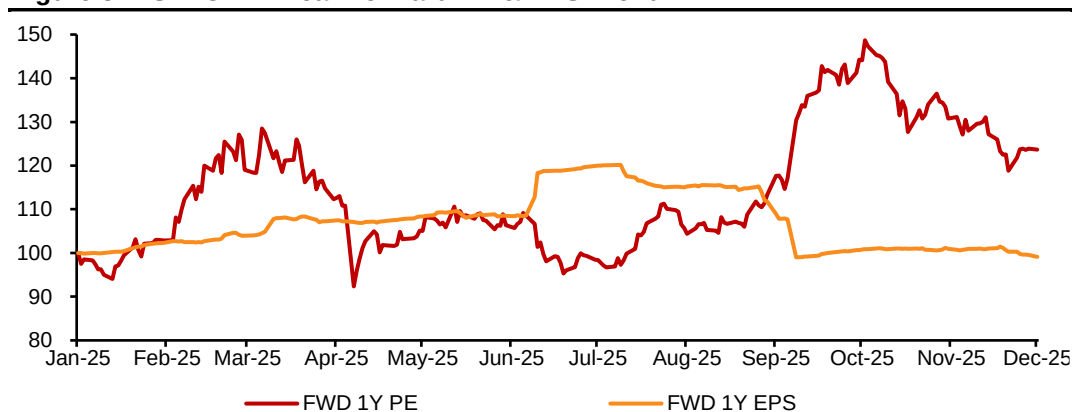
Figure 7: Internet sector: sub-sector prosperity scoring table

Sub-sector	Online penetration	Revenue growth	Profit growth	Profit growth certainty	Industry competitive landscape	Fundamental resilience	Shareholder return	Low regulatory
Online Music	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆
Online Gaming	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆
OTA	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆
E-Commerce	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆
Local Life Services	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆
Online Advertising	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆	★★★★☆

Source: NBS, iResearch, CNNIC, CMBIGM

Note: Local Services/Online Travel/E-Commerce are assessed on online GTV penetration; Online Advertising on online ad revenue share; Online Music/Gaming on online user penetration; Revenue and profit growth rates are based on CMBI's 2026E outlook; Industry competitive landscape is assessed on data such as CR5 market share; Resilience is assessed on factors including the correlation between revenue growth and GDP or total retail sales growth; Grey background indicates a score downward revision vs 2H25 outlook, while orange background indicates an upward revision.

2025 Sector Performance Review: 1) At the start of 2025, event-driven catalysts like DeepSeek's launch and AI application advancements lifted HSTECH's valuation. By early March, its PE ratio reached 19x (up 28% YoY), while expected EPS remained stable with a ~5% upward revision; 2) In April, the US's reciprocal tariff policy triggered a sharp valuation pullback. By early April, Hang Seng Tech's PE hit a low of 14x (down 8% YoY) and stayed at relatively low levels through August, with expected EPS stable and slightly higher; 3) In August, progress in China-US trade talks plus rapid AI business growth of leading Chinese internet firms drove a notable valuation rebound, peaking at 23x PE in October (up 49% YoY). However, intensified local services competition and increased AI investment led to a downward revision of expected EPS from August onward, eventually in line with the start of the year.

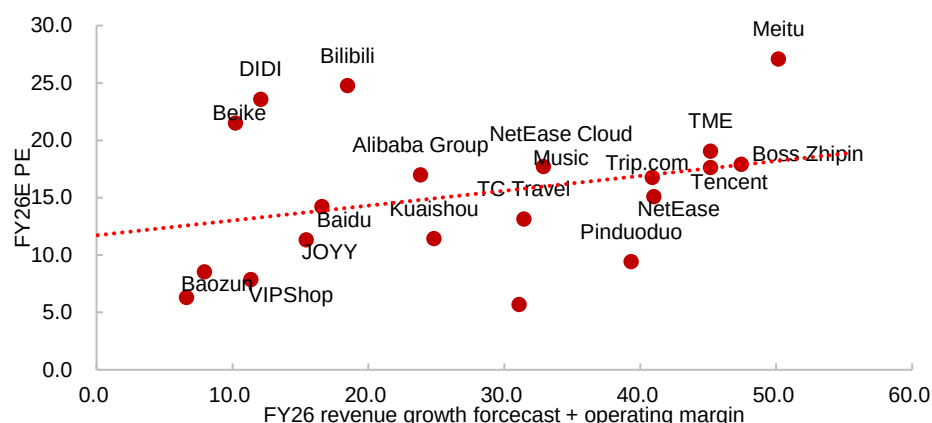
Figure 8: HSTECH: 1-Year Forward PE & EPS Trend

Source: Bloomberg, CMBIGM

Note: PE and EPS as of 2025/1/1 are used as the benchmark (indexed to 100).

Based on companies' FY26 fundamental expectations (FY26 revenue growth forecast + operating margin) and PE levels, from a GARP perspective: PDD/ Kuaishou/NetEase are relatively undervalued; Tencent/Baidu/Trip.com/Boss Zhipin are reasonably valued; Meitu/Beike are relatively overvalued. Overall, we believe profit growth prospects remain the key support for companies' valuations, while AI-related valuation upside may act as a key catalyst.

Figure 9: China Internet: valuation vs fundamental outlook



Source: Bloomberg, CMBIGM

Figure 10: China Internet: Valuation level

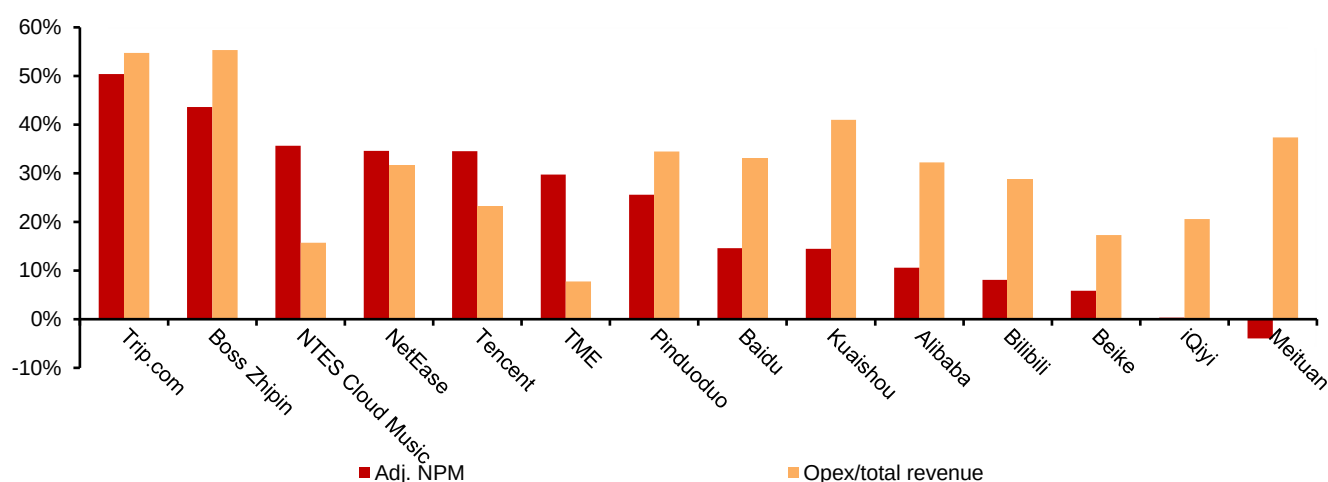
Company	Ticker	Price (Local)	Mkt cap (USDmn)	PE (x)		PS(x)		PEG	EPS CAGR
				2025E	2026E	2025E	2026E	2026E	24-26E
AI theme									
Tencent	700 HK	612.0	713,178	19.4	17.2	6.7	6.1	1.2	16%
Alibaba	BABA US	157.4	375,664	24.5	17.4	2.6	2.3	NA	-1%
Kuaishou	1024 HK	67.5	37,591	12.9	11.5	1.9	1.7	0.8	15%
Baidu	BIDU US	118.7	41,623	15.8	15.0	2.3	2.2	NA	-14%
Average				18.2	15.3	3.4	3.1		
Online Entertainment									
Tencent	700 HK	612.0	713,178	19.4	17.2	6.7	6.1	1.2	16%
NetEase	NTES US	139.7	88,483	15.9	15.0	5.5	5.1	1.3	13%
Kuaishou	1024 HK	67.5	37,591	12.9	11.5	1.9	1.7	0.8	15%
Bilibili	BILI US	25.7	10,826	NA	NA	2.5	2.3	NA	NA
China Literature	772 HK	35.8	4,753	24.9	22.2	4.5	4.2	1.5	16%
JOYY	JOYY US	62.3	3,174	11.4	10.8	1.5	1.4	NA	-1%
iQiyi	IQ US	2.0	1,964	NA	17.3	0.5	0.5	NA	-26%
Average				15.0	14.2	3.1	2.8		
E-commerce									
Alibaba	BABA US	157.4	375,664	24.5	17.4	2.6	2.3	NA	-1%
Pinduoduo	PDD US	116.8	165,843	10.6	9.0	2.7	2.4	2.6	4%
Meituan	3690 HK	98.1	76,361	NA	NA	1.5	1.3	NA	-52%
VIPShop	VIPS US	19.9	10,256	8.3	8.0	0.7	0.7	7.3	1%
Baozun	BZUN US	2.9	170	17.3	6.4	0.1	0.1	NA	NA
Average				14.3	9.8	1.3	1.2		
Online Music									
TME	TME US	18.7	28,995	21.2	18.9	6.3	5.6	1.1	20%
NTES Cloud Music	9899 HK	190.1	5,246	13.2	16.2	4.7	4.3	0.8	17%
Average				17.2	17.6	5.5	4.9		
OTA									
Trip.com	TCOM US	71.1	46,484	10.5	15.9	5.3	4.7	1.3	8%
TC Travel	780 HK	22.7	6,706	14.2	12.5	2.5	2.2	0.8	18%
Average				12.4	14.2	3.9	3.4		
Online medical									
JD Health	6618 HK	60.2	24,533	29.4	26.3	2.4	2.1	1.6	18%
Ali Health	241 HK	5.5	11,222	32.8	28.0	2.3	2.0	1.5	22%
Pingan Healthcare	1833 HK	14.1	3,907	NA	NA	5.1	4.5	NA	59%
Average				31.1	27.2	3.3	2.9		
Cyclical									
Beike	BEKE US	16.8	19,668	25.0	19.8	1.5	1.4	NA	0%
Full-truck Alliance	YMM US	11.3	11,787	17.6	15.5	6.7	6.1	1.0	17%
Boss Zhipin	BZ US	21.1	10,116	19.9	17.5	8.7	7.6	0.8	23%
Average				20.8	17.6	5.6	5.0		

Source: Bloomberg, CMBIGM. Data as of 4 Dec 2025

Cash flow & profit margin: strong cash flow generation capacity underpins fundamental resilience

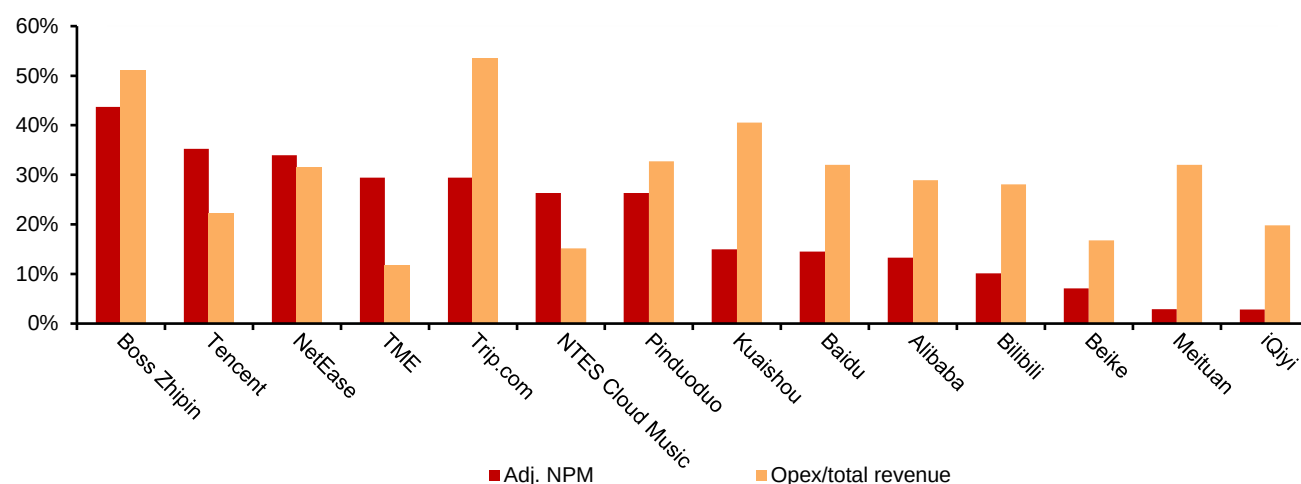
Looking forward to 2026, we believe companies with strong cash flow generation capacity and healthy profit margins are better positioned to withstand macro and market cycles, such as Tencent, NetEase, TME, and NetEase Cloud Music. Conversely, companies with higher other operating expense ratios (share of fixed-cost-like expenses) possess more significant operating leverage, meaning that their profit performance may fluctuate sharply with macro conditions and revenue growth. Examples include Boss Zhipin, Kuaishou, Baidu, and Bilibili.

Figure 11: Internet sector: profit margin & expense ratio comparison (2025E)



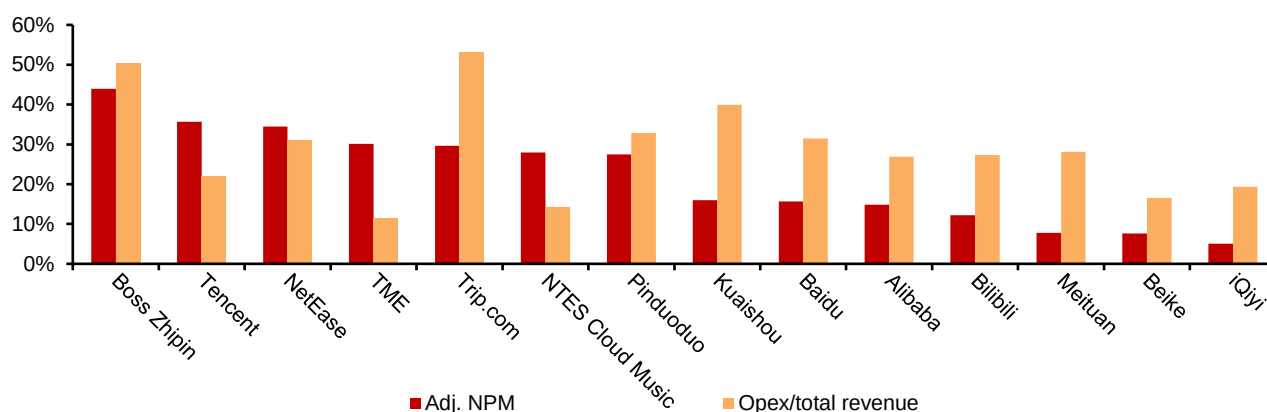
Source: Bloomberg, Company data, CMBIGM

Figure 12: Internet sector: profit margin & expense ratio comparison (2026E)



Source: Bloomberg, Company data, CMBIGM

Figure 13: Internet sector: profit margin & expense ratio comparison (2027E)



Source: Bloomberg, Company data, CMBIGM

From a cash flow perspective, companies including PDD, NetEase, Trip.com and Vipshop boast robust cash flow generation capacity (free cash flow/market cap) and high book cash levels (net cash/market cap), enabling them to better resist competition, invest in new business areas, or enhance shareholder returns.

Figure 14: Internet sector: shareholder return

Company	Ticker	Price (local)	Mkt Cap (US\$m)	Cash generation				Shareholder return				Dividend	Buyback
				FCF/mkt cap		Net cash/mkt cap		Div+Buyback	Dividend	Buyback/m	SBC/mkt	DPS (local)	Share
				FY26E	FY27E	FY26E	FY27E	k-SBC	Yield	kt cap	cap	FY26E	buyback
VIPShop	VIPS US	19.9	10,256	12.5%	13.5%	45.4%	49.3%	6.8%	2.3%	7.2%	-2.7%	0.47	741
Beike	BEKE US	16.8	19,668	4.4%	6.5%	-10.6%	-8.8%	4.9%	1.4%	4.6%	-1.1%	0.24	900
TME	TME US	18.7	28,995	5.7%	6.0%	14.6%	19.6%	2.2%	0.9%	1.7%	-0.4%	0.17	500
Tencent	700 HK	606.0	711,930	4.7%	5.6%	-1.5%	-2.0%	1.7%	1.1%	1.4%	-0.8%	6.41	10,000
NetEase	NTES US	139.7	88,483	6.8%	7.4%	15.7%	19.7%	1.5%	2.1%	0.2%	-0.8%	2.94	150
Alibaba	BABA US	157.4	375,664	1.9%	3.2%	4.7%	7.4%	1.2%	1.3%	0.6%	-0.6%	2.00	2,195
Baidu	BIDU US	118.7	41,623	6.1%	-1.6%	48.6%	52.0%	1.1%	0.0%	2.5%	-1.4%	-	1,033
Boss Zhipin	BZ US	21.1	10,116	6.0%	6.8%	20.0%	25.3%	0.9%	0.6%	2.0%	-1.6%	0.12	200
Trip.com	TCOM US	71.1	46,484	6.3%	7.2%	24.5%	31.2%	0.4%	0.4%	0.7%	-0.7%	0.29	344
TCEL	780 HK	22.2	6,712	8.5%	9.7%	22.8%	29.3%	0.2%	1.1%	0.0%	-0.9%	0.25	-
Cloud Music	9899 HK	187.4	5,237	5.8%	6.4%	34.4%	43.2%	0.2%	0.6%	0.0%	-0.4%	1.18	-
Meituan	3690 HK	97.3	76,353	2.0%	5.9%	9.4%	12.6%	0.0%	0.0%	1.4%	-1.4%	-	1,042
Kuaishou	1024 HK	67.9	37,699	9.6%	9.6%	6.8%	10.4%	0.0%	0.0%	1.1%	-1.1%	-	400
Pinduoduo	PDD US	116.8	165,843	11.0%	12.9%	41.2%	55.0%	-0.9%	0.0%	0.0%	-0.9%	-	-
Bilibili	BILI US	25.7	10,826	2.4%	3.5%	20.5%	26.0%	-1.2%	0.0%	0.5%	-1.7%	-	50

Source: Bloomberg, Company data, CMBIGM estimates

Note: Data as of December 4, 2025; 1) FY26E share repurchase amount is based on our estimates; 2) FY26/27E net cash/cash flow/dividends per share are based on Bloomberg consensus or our estimates

Investment Recommendations

1) Tencent (700 HK): The company has established solid competitive strengths in consumer internet segments including social, gaming, and advertising, with AI empowering its advertising, gaming, and cloud businesses across multiple dimensions. Looking ahead to FY26, we expect several drivers to support fundamental growth: 1) Evergreen games may maintain stability, while key new releases such as Honor of Kings: World are expected to contribute incremental gaming revenue; 2) AI empowerment coupled with higher ad load on Channels drives advertising revenue growth above the industry average; 3) AI-driven cloud services propel Tencent Cloud's revenue growth. Backed by solid competitive moats and operating leverage, we project FY26 adjusted operating profit to grow 11% YoY. The stock currently trades at ~17x FY26 non-IFRS PE (15x excluding strategic investments). Our SOTP-based target price is HK\$760.0, corresponding to 22x FY26E non-GAAP PE.

- PLEASE READ THE ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ON LAST PAGE

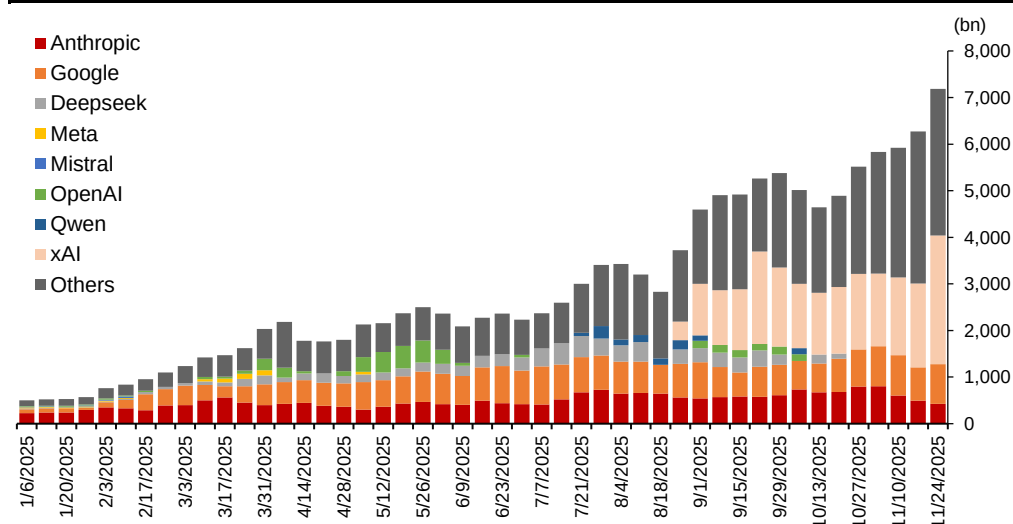
LLMs & AI Applications: Intensified industry competition, exploration of diversified applications, and cost reduction & efficiency improvement

Review of 2025: Competition has intensified across all segments within the large language model (LLM) industry, with continuous iterative upgrades in model capabilities. Meanwhile, call costs for the same models have continued to decline, and industry applications have been gradually promoted. Key industrial trends include: AI agent capabilities have emerged as a core focus; accelerated release and iteration of open-source LLMs; native end-to-end voice interaction models have become feasible for large-scale deployment; and further advancements in image editing and video generation LLMs. Looking ahead, we believe competition has not yet entered a convergence phase in 2026. The industry will continue to explore cutting-edge model capabilities while advancing industrial applications of LLMs, and monetization of AI applications in niche segments is expected to maintain growth momentum. We are optimistic about the further monetization potential driven by improved AI agent capabilities, as well as increased paid user penetration and monetization from advanced image editing and video generation LLMs.

LLM industry development trends: intensified competition, enhanced capabilities, and lower costs

Overall, global LLM Token usage volume has seen rapid growth since 2025, with the AI industry accelerating from technology validation to large-scale application. Data from the OpenRouter platform shows that the peak weekly Token usage volume of LLMs on its platform exceeded 7T in 4Q25, nearly doubling the peak in 3Q25. Among them, leading vendors such as xAI Grok and Google Gemini have witnessed prominent growth in LLM Token usage: xAI Grok's weekly Token usage reached 3.15 trillion in November 2025, surging over 692% from 397bn in end August. The adaptability of model capabilities to scenarios and pricing strategies are the core drivers of LLM Token consumption growth. xAI Grok and Google Gemini, while capable of rapid technological iteration, are bound to high-value vertical scenarios such as programming, achieving absolute leading market share in AI+programming scenarios; Anthropic Claude has maintained its market share through continuously optimized pricing strategies.

Figure 15: 2025 Full view of token usage volume for leading large language models

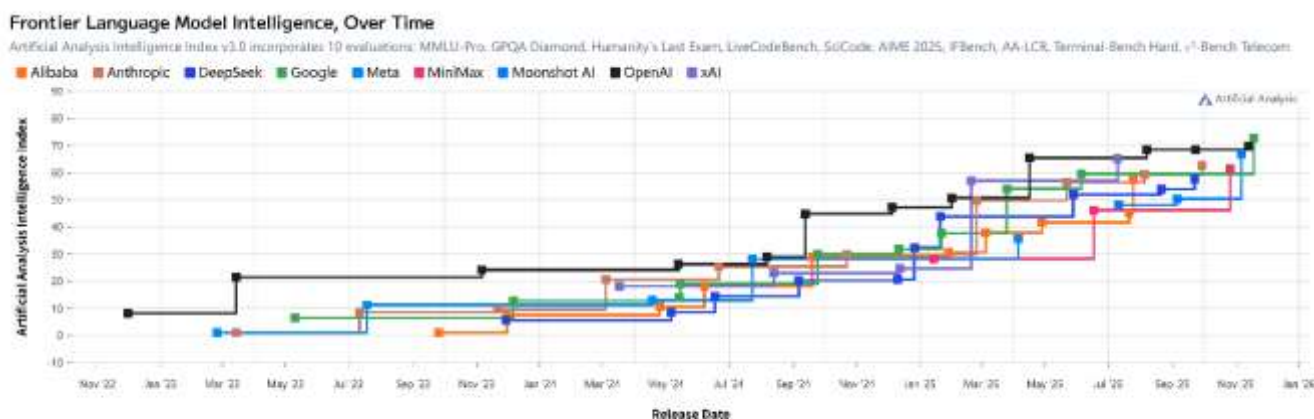


Source: OpenRouter, CMBIGM

Note: Unit price refers to the USD price per mn Tokens (input and output Token price weight ratio is 3:1, calculated on a blended basis)

Based on the iteration speed and intelligent capabilities of leading industry LLMs, the entire industry is demonstrating a trend of continuously accelerating iteration cycles and persistent breakthroughs in intelligent capabilities. According to the Artificial Analysis Intelligence Index, as of 24 November, the most capable LLM in the industry to date is Google's Gemini 3 Pro preview.

Figure 16: Comparison of model capabilities among mainstream LLMs

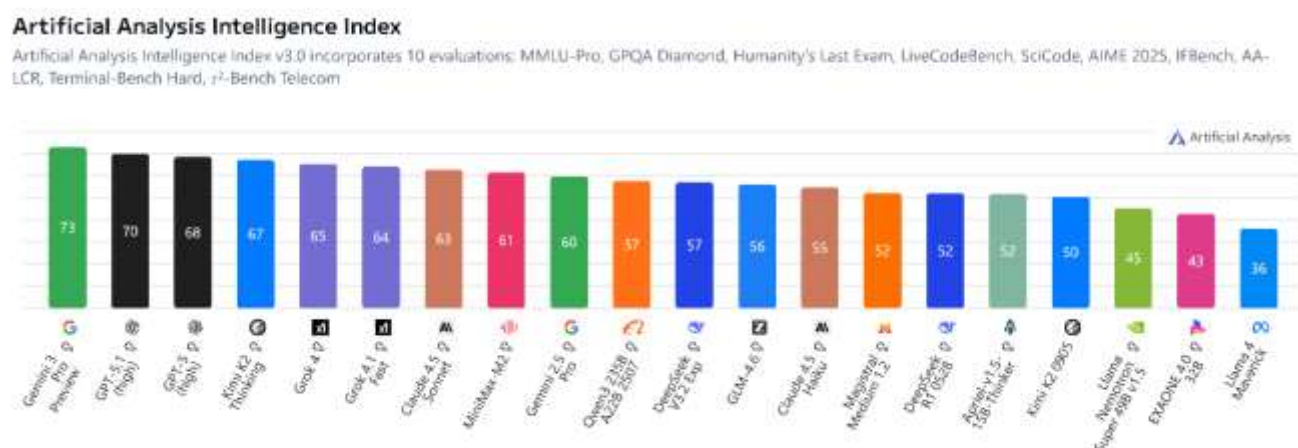


Source: Artificial Analysis, CMBIGM

Note: 1) The Artificial Analysis Intelligence Index covers 10 evaluation dimensions (the same below), mainly including: MMLU-Pro, GPQA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AIME 2025, IFBench, AA-LCR, Terminal-Bench Hard, τ^2 -Bench Telecom; 2) the ranking is non-exhaustive; 3) the ranking is as of 24 Nov 2025.

Based on the overall capability scores of LLMs from Artificial Analysis data, U.S. vendors including Google, OpenAI, xAI, and Anthropic maintain leading positions in the industry. Among Chinese vendors, the top-performing LLMs include Kimi developed by Moonshot, DeepSeek by High-Flyer Quant, Minimax by Xiyu Technology, and Qwen by Alibaba Group, all of which demonstrate industry-leading capabilities.

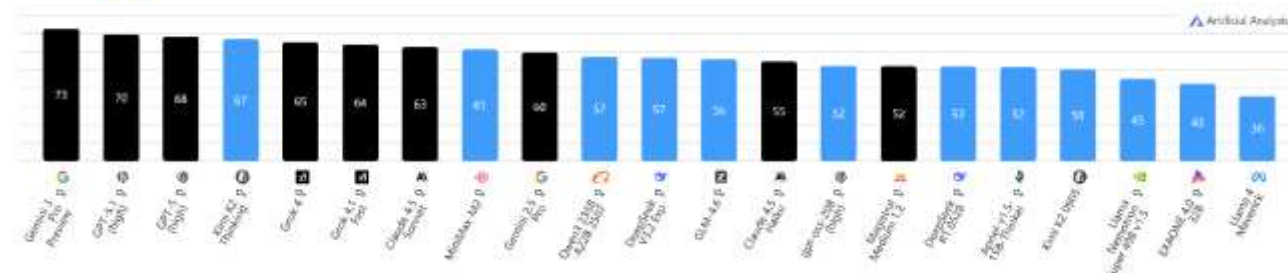
Figure 17: Ranking of capabilities of mainstream LLMs



Source: Artificial Analysis, CMBIGM

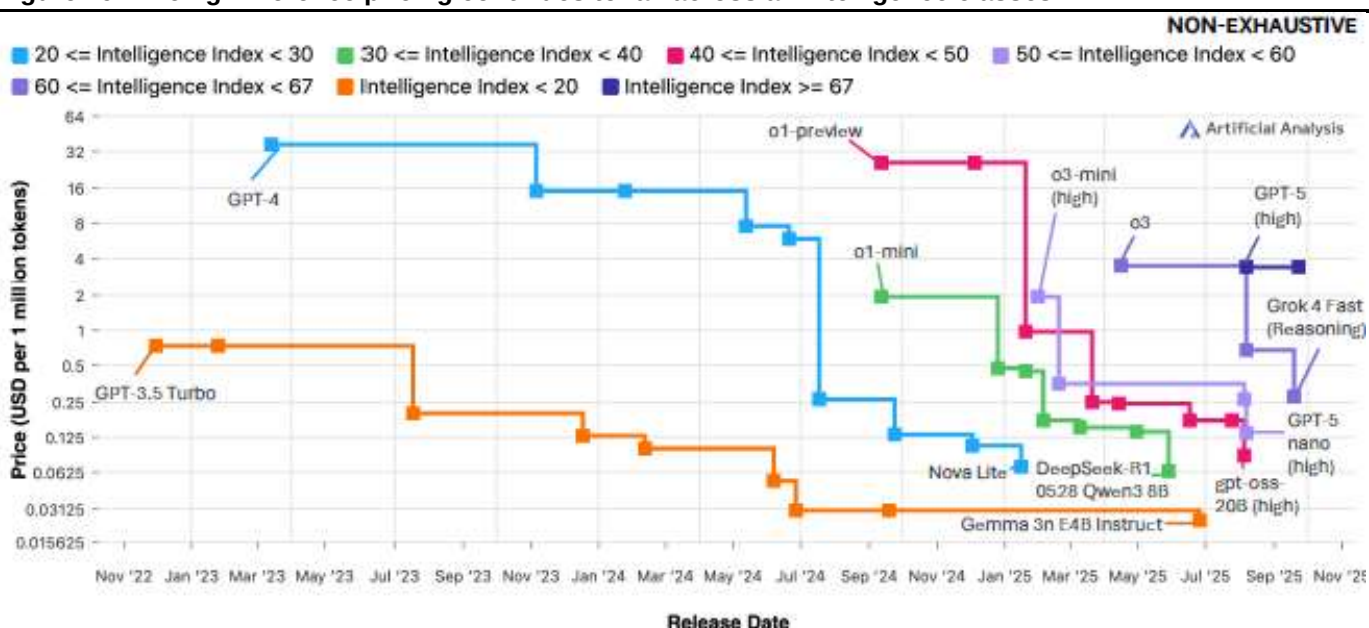
Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) the ranking is as of 24 Nov 2025.

Figure 18: LLM capability comparison: Open-weights vs. proprietary model



On the model inference cost front, based on data from Artificial Analysis, we have observed two key trends overall: 1) the inference costs of representative models within each group classified by different intelligent capability levels have continued to decline over time; 2) At the same point in time, accessing more powerful large language models (LLMs) does require a higher price; however, over an extended time horizon, the inference costs of representative models across all groups have fallen, and the narrowing cost gap between different groups is expected to further drive the prosperity of the application ecosystem.

Figure 19: Pricing: Inference pricing continues to fall across all intelligence classes



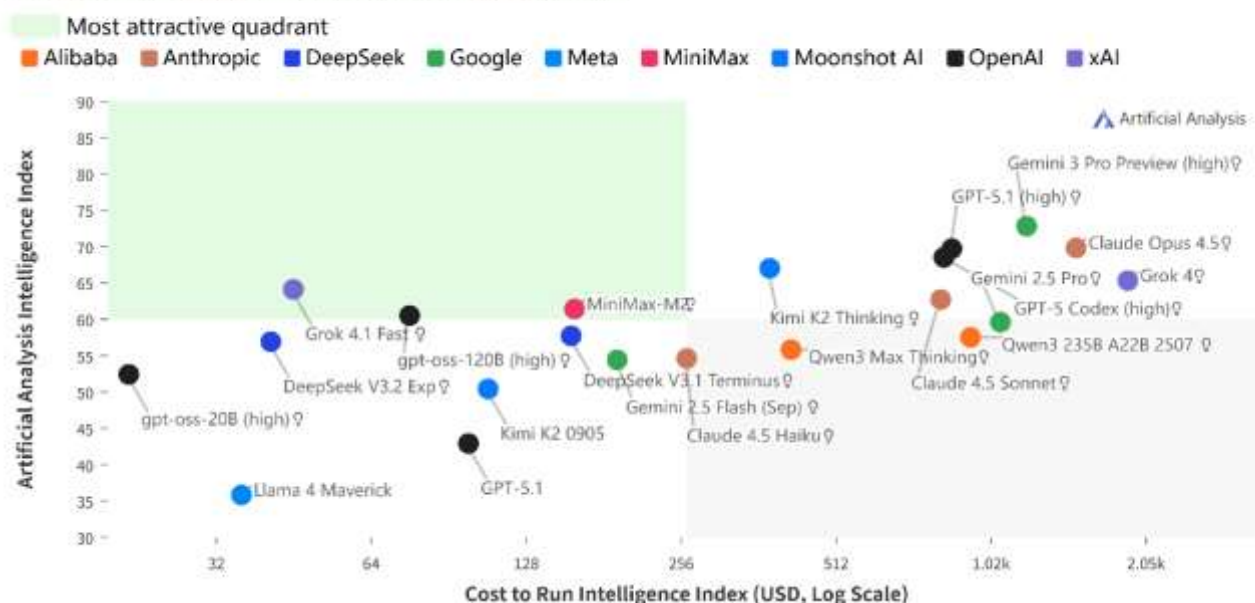
Note: price in USD per 1mn tokens (blended input to output token price 3:1).

By comparing within the industry, based on the comprehensive measurement of cost efficiency in terms of integrating the intelligent capability index of different models and the costs required to complete the corresponding index tests, certain versions of Minimax, Grok, and GPT series rank in the most attractive quadrant among current models. Models such as Kimi and Deepseek are also close to this high-value quadrant.

Figure 20: Intelligence vs cost to run artificial analysis intelligence index

Intelligence vs. Cost to Run Artificial Analysis Intelligence Index

Artificial Analysis Intelligence Index; Cost to Run Intelligence Index



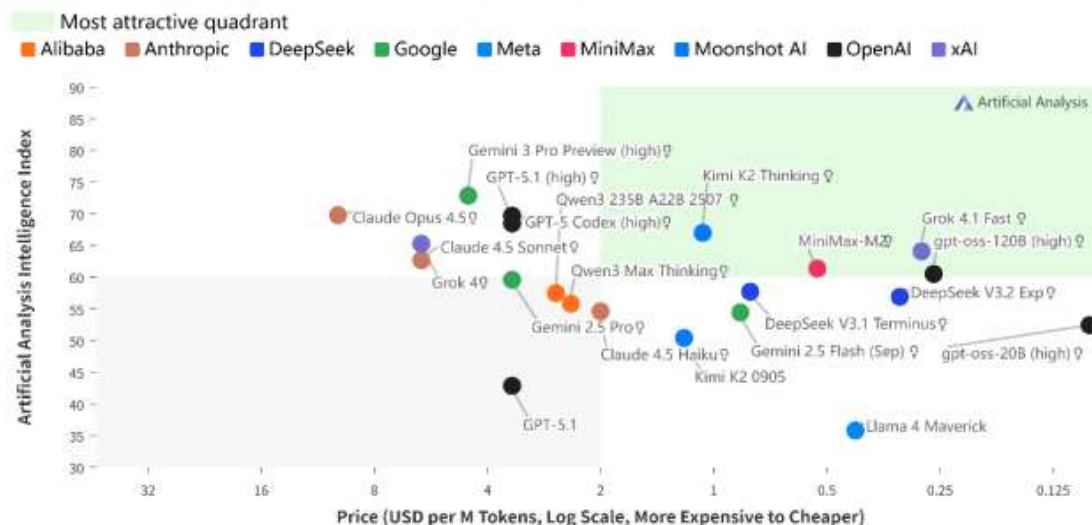
Source: Artificial Analysis, CMBIGM

In terms of cost-performance ratio for enterprise users (i.e., the balance between model intelligence capabilities and inference pricing), certain versions of Kimi, Minimax, and Grok rank in the optimal quadrant. Meanwhile, models such as DeepSeek and Qwen are also close to this high-value range.

Figure 21: Intelligence vs price

Intelligence vs. Price (Log Scale)

Artificial Analysis Intelligence Index; Price: USD per 1M Tokens; Inspired by prior analysis by Swyx



Source: Artificial Analysis, CMBIGM

Note: 1) Price: USD per 1M Tokens; 2) Price is a blend of Input & Output token prices (3:1 ratio)

AI Applications: Empowering core business growth and facilitating internal cost reduction & efficiency improvement

AI drives core business growth across multiple dimensions: 1) AI has significantly boosted domestic cloud business demand, and we expect Alibaba Cloud/Baidu Cloud/Tencent Cloud to maintain rapid growth in FY26; 2) AI fuels advertising revenue growth by optimizing content recommendations, enhancing user stickiness, increasing ad inventory, and improving ROI of ad solutions to drive ad demand. With AI empowerment, we are optimistic that Tencent, Bilibili, and Kuaishou are managed to record faster-than-industry growth in advertising revenue; 3) AI empowers various sectors including e-commerce, local services, travel, real estate, and recruitment to enhance user experience.

Figure 22: Chinese Internet and cloud computing companies: AI empowerment of core businesses

Company	AI Progress
Tencent	AI accelerates advertising revenue growth: AI optimizes video recommendation algorithms and search capabilities, driving growth in ad impressions on WeChat Channels and Search; launched Tencent Advertising AIM+ (an intelligent delivery product matrix) in 3Q25, supporting advertisers to automatically configure targeting, bidding, and placements, and optimize ad creatives to improve marketing ROI; AI drives cloud business revenue growth: Tencent's enterprise services revenue maintained teens% YoY growth in 3Q25, mainly supported by growth in AI cloud and e-commerce businesses; AI cloud revenue accounts for over 10% of Tencent Cloud's IaaS revenue.
Alibaba	Alibaba Cloud: As of 3Q25, AI-related cloud product revenue has achieved triple-digit growth for 9 consecutive quarters, accounting for over 20% of external customer revenue; full-stack AI capability upgrades (Qwen LLM, intelligent computing cluster); E-commerce: AI-driven B2B procurement engine Accio improves efficiency; AI optimizes user recommendations and merchant operations.
Baidu	Search/Mobile Ecosystem: As of 3Q25, AI-generated content accounted for nearly 70% of search results; Wenxin Assistant DAU exceeded 10mn; AI application revenue reached RMB2.6bn; AI Cloud: AI high-performance computing subscription revenue grows 128% YoY; Qianfan Platform has over 460,000 enterprise users; Advertising: Native AI marketing services (AI agents + digital humans) revenue grows 262% YoY, accounting for 18% of Baidu Core's online marketing revenue; Autonomous Driving: Apollo Go provided over 3.1mn fully driverless mobility services in 3Q25, covering 22 cities worldwide.

Kuaishou	1)	LLMs optimize ad recommendation and bidding: Leveraging AI LLM technologies such as OneRec and G4RL to drive 4-5% growth in domestic online marketing revenue in 3Q25;
	2)	AIGC marketing materials reduce ad delivery costs: Total consumption of online marketing services driven by AIGC marketing materials exceeded RMB3bn in 3Q25;
	3)	LLMs enhance user stickiness: Applying OneRec to short-video content recommendations to increase user time spent and retention rate, and expand ad inventory;
	4)	Driving e-commerce GMV growth: Launched generative search architecture OneSearch to achieve more accurate product matching, driving ~5% growth in mall search orders.
Meituan	1)	Local Commerce (Food Delivery / Instant Retail): AI dispatching optimizes delivery efficiency; AI operation tools (Kangaroo Consultant, Smart Shopkeeper) empower merchants; intelligent life assistant "Xiaomei" enters large-scale testing;
	2)	Drone Delivery: Regular operations in Hong Kong/Shenzhen, with cumulative commercial orders exceeding 670,000 in 3Q25.
Pinduoduo	1)	E-commerce: Large models optimize search, advertising, and recommendation / intelligent shopping guidance; AI tools empower small and medium merchants with automated operations;
	2)	Cross-border Business: AI translation / intelligent customer service reduce costs; intelligent pricing / logistics tracking improve efficiency.
Bilibili	1)	AI optimizes precision marketing: Using AI to enhance precision marketing capabilities and upgrade intelligent delivery system, driving 16% YoY growth in the number of advertisers in 3Q25;
	2)	Reducing ad delivery costs: Over 50% of performance ads were generated with AIGC tools in 3Q25;
	3)	AIGC creation tools help creators improve content production efficiency: Launched AIGC tool "Huosheng" in December to help users generate video materials with AI.
Tencent Music	1)	AI enhances user experience and stickiness: AI optimizes song recommendations, which account for ~40% of the company's playback volume, boosting user stickiness; launched AI-generated lyric cards and various modes of AI seamless song-switching function Automix to improve user experience.
Boss Zhipin	1)	Improving job seeker efficiency: Launched AI job-seeking assistant for all job seekers in 3Q25, driving significant QoQ growth in AI interaction volume;
	2)	Enhancing recruitment efficiency and providing AI value-added tools: AI communication assistant has been gradually embedded into the company's commercial product tools, driving a 7% increase in the average achievement rate of products. The company also launched other AI products such as AI Quick Recruitment, AI Interview, and AI Hosting for recruiters, which are expected to further improve recruitment efficiency and create incremental revenue in the long term.
Trip.com	1)	Travel Services: AI itinerary assistant visits grew 180% YoY in 3Q25, saving users 50% of decision-making time; Trip.com Flights continues to strengthen data processing and AI application capabilities, with over 80 AI application scenarios currently implemented;
	2)	Merchant Empowerment: AI translation helps hotels respond across languages; image-to-video tools empower merchant marketing.
Beike	1)	Real Estate Transactions: As of the end of 3Q25, broker AI assistant "Laike" covers 414,000 brokers; AI assistant "Haoke" identifies high-value business opportunities (contributing 50% of transactions);
	2)	Rental Business: Full-process intelligent operations (AI matching / pricing on property acquisition / rental sides);
	3)	Residential Development: Behaojia AI+C2M model guides real estate project design (17 projects implemented as of 3Q25).

Source: Company data, CMBIGM

AI is functional in improving internal operating efficiency. Currently, AI is mainly used in a number of internal processes such as programming development, customer services, and content moderation: 1) In programming, AI code generation rates of many internet companies including Tencent and Kuaishou have exceeded 30%, significantly improving product R&D efficiency; 2) In content moderation, content communities such as Bilibili use AI to enhance platform content moderation efficiency and reduce related personnel costs; 3) In customer service, companies such as Boss Zhipin use AI to improve customer service efficiency and user satisfaction.

Figure 23: Chinese Internet and cloud computing companies: AI Improving internal operating efficiency

Company	Internal AI efficiency improvement
Tencent	The company's self-developed AI programming tool CodeBuddy supports the generation of 50% of new internal code at Tencent, helping improve R&D efficiency by over 16%.
NetEase	NetEase promotes AI-assisted intelligent code generation and builds an automated game testing system, helping improve R&D efficiency by more than 50%. The "NetEase Keling" platform, built with partners such as Alibaba Cloud to create a swarm intelligence collaboration network, launches the new AOP paradigm—starting from virtual games, it migrates applications to real human-machine collaboration scenarios such as visual review and embodied intelligence.
Alibaba	The 1688 platform launches digital employees such as AI Store Manager and AI Material Operator, undertaking multiple tasks to reduce labor costs. During Tmall Double 11, Alibaba Cloud provides over 10mn core CPU computing power, helping improve the performance of core business scenarios by over 30%.

Baidu	As of April 2025, Wenxin Kuaima-generated code accounted for over 40% of Baidu's daily new code. AI agents replace 30%-40% of repetitive work. AI automatically troubleshoots server faults, reducing the average repair time from 4 hours to 15 minutes and cutting O&M labor input.
Meituan	Meituan's LongCat large model achieved a 35% automation acceptance rate in internal code review and generation scenarios in 3Q25. In November 2025, Meituan disclosed that its WOWService AI system improved customer service resolution rate by 9% and user satisfaction by 12% in complex business scenarios, with training annotation volume only 10% of traditional solutions.
Bilibili	The company launches an AI content moderation tool to enhance platform content moderation efficiency and reduce content moderation personnel costs.
Kuaishou	Kuaishou launched the AI-native programming tool CodeFlicker. As of September 2025, over 80% of Kuaishou engineers used CodeFlicker frequently, with an AI code generation rate close to 30%.
Boss Zhipin	The company promotes AI applications in R&D. In a newly established R&D department in one city, AI-generated code accounts for 70%, accelerating product R&D iteration speed. Additionally, the company applies AI in customer service, achieving results in customer service training, service quality inspection, customer emotion recognition and response, etc.
Trip.com	The travel vertical large model "Trip.com Wendao" has been applied to multiple scenarios such as itinerary planning, product information entry, and customer services, aiming to improve operational efficiency, reduce costs, and optimize user experience (e.g., AI technology shortens average product information entry time by about 10%). In 1H24, Trip.com's intelligent customer service system could handle mns of inquiries during peak periods, with an AI self-service resolution rate exceeding 75%.
Tongcheng Travel	As of end 2024, customer service robots handled over 90% of structured requests, and employee efficiency increased 43% YoY.
Ke Holdings	AI review functions were implemented in 11 cities in 3Q25, improving efficiency by 60x, saving over 33,000 working hours, and intercepting more than 16,000 risky properties.

Source: Company data, CMBIGM

C-end AI applications/agents: intensified industry competition, optimistic about long-term commercial opportunities

According to QuestMobile, the total MAU of mobile AI applications in China reached 729mn in September 2025, among which MAU of AI-native applications, AI application plug-ins, and mobile AI assistants reached 290mn, 710mn, and 540mn respectively. We observe that leading internet companies continue to increase investment in AI applications, each forming a relatively complete AI application matrix, and industry competition continues to intensify. We are optimistic about the long-term commercial opportunities of AI comprehensive assistants (ByteDance Doubao, Tencent Yuanbao, etc.), and gradual commercialization of C-end AI applications is expected in 2026.

From the perspective of AI application matrices of representative Chinese internet vendors:

- 1) ByteDance has achieved a significant leading position in the AI-native application track, with Doubao's MAU reaching 170mn in September. Meanwhile, the company continues to empower Douyin based on AI search functions, with Douyin's main site AI search MAU reaching 220mn, second only to Baidu AI search in the search track;
- 2) Tencent is rapidly catching up in the AI-native application track, with Yuanbao's MAU exceeding 30mn in September, ranking third in the industry. This was mainly supported by continuous improvement in model capabilities, increased group investment, and traffic support from WeChat. In addition, WeChat AI search traffic has also achieved rapid growth, with MAU reaching 170mn in September;
- 3) Baidu still holds a leading position in the AI search field, with Baidu AI search MAU reaching 350mn in September;
- 4) Alibaba was relatively cautious in investing in C-end AI applications in the early stage, but the company launched the Qwen App in November to increase investment in C-end AI applications, with downloads exceeding 10mn one week after public beta and monthly active users growing rapidly.

Figure 24: Internet AI agent and tools

Company	Product Type	Product name	Core functions
ByteDance	AI agent	Doubao	General-purpose AI assistant, positioned as "everyone's intelligent partner", supporting chat, writing, learning, etc.
	AI tool	Jimeng AI	Professional AI creation platform supporting text-to-image, text-to-video, and image-to-video.
	AI tool	Jiaying / CapCut	Video editing tool integrating AI one-click editing, AI subtitles, AI dubbing, etc.
	AI tool	Xingtu	Image editing tool providing AI retouching, AI filters, etc.
	AI tool	Haimian Music	AI music generation tool.
	AI tool	Hemao Aixue	AI assistant for K12 and adult learning.
	AI tool	Jichuang	AI content creation tool designed for Douyin merchants.
Kuaishou	AI agent	Kwali (Super Employee)	Conversational AI assistant with multi-agent collaboration, generating short videos with one sentence.
	AI tool	Kuaiyi (Language Large Model)	Language generation model supporting copywriting, dialogue, etc.
	AI tool	Ketu (Image Large Model)	Image generation model supporting image creation, editing, etc.
	AI tool	Keling (Video Large Model)	Video generation model supporting video creation, editing, etc.
	AI tool	Nuwa Digital Human	Digital human live streaming tool.
	AI tool	Intelligent Customer Service π	Intelligent customer service tool for synchronous response to comment section inquiries.
	AI tool	CodeFlicker	AI-native intelligent code editor helping developers through natural language understanding, intelligent agents, context awareness, etc.
Tencent	AI agent	Hunyuan Assistant	General-purpose AI assistant supporting chat, writing, code generation, multi-turn dialogue, etc.
	AI tool	Tencent Yuanbao	Focusing on AI efficiency tools, providing core capabilities such as AI search, AI summarization, AI writing, etc.
	AI tool	Hunyuan 3D World Model	The industry's first 3D world generation model.
	AI tool	Tairos	Embodied intelligence open platform.
	AI tool	Tencent Docs Enterprise Edition AI Assistant	Providing core capabilities such as AI writing, AI reading, AI formula writing, AI PPT, etc.
	AI tool	Tencent Meeting AI Assistant Pro	Helping improve efficiency throughout the meeting process.
Alibaba	AI agent	Tongyi Qianwen (Qwen)	General-purpose AI assistant, positioned as "a personal AI assistant that can chat and get things done", supporting writing, code, etc.
	AI tool	Tongyi Lingma	Intelligent coding assistant supporting over 200 programming languages such as Python, Java, SQL, etc.
	AI tool	Tongyi Wanxiang	Visual generation model including text-to-image, image-to-text, text-to-video, etc.
	AI tool	Tongyi Zhiwen	AI reading assistant supporting web page reading, paper reading, book reading, and free reading.
	AI tool	Tongyi Tingwu	Supporting free Q&A for ultra-long audio and video across single records, cross records, and multiple languages.
	AI tool	Qwen-TTS/CosyVoice	Speech synthesis model supporting input of Chinese, English, and mixed Chinese-English text, with streaming audio output.
	AI tool	Tongyi Bailing	Real-time version of the new generation end-to-end speech recognition large model.
Baidu	AI agent	Xinxiang App	Mobile general super agent App dedicated to helping users solve complex problems one-stop through natural language interaction.
	AI tool	Wenxin Agent Platform	One-stop AI application building platform launched based on the Wenxin large model, aiming to help users create and deploy agents.
	AI tool	ERNIE Bot Agent	Large model agent development framework based on the orchestration capabilities of the Wenxin large model.
	AI tool	Wenxin Yiyan	Knowledge-enhanced multimodal large language model, positioned as a productivity tool in the AI era.
	AI tool	Wenxin Kuaima	AI programming assistant based on the code understanding and generation capabilities of the Wenxin large model.
	AI tool	Wenxin Yige	AI painting creation tool.
	AI tool	Baidu Brain	Open platform integrating over 270 core AI technologies such as computer vision, speech, natural language processing, and knowledge graphs.

Source: Company data, CMBIGM

PUGC/B-end AI applications: Focus on AI video application opportunities

With the development of multimodal large models, AI creative generation applications (video/image/speech) for professional/enterprise users, especially AI video applications, have achieved rapid scenario implementation and commercial development. We remain optimistic about the long-term global market space for AI creative applications. We estimate that the global creative application market size will reach US\$54.6bn in 2027, with AI creative application penetration expected to reach 11%, corresponding to a global AI creative tool market size of US\$5.8bn.

The global video large model industry is developing rapidly. Chinese vendors have achieved leading performance and cost advantages in the video model field based on continuous technological exploration and rich video data. According to Artificial Intelligence evaluations, Kuaishou Keling, Google Veo 3, and Lightricks LTX-2 Pro rank top three in performance, and Kuaishou Keling is superior to the other two large models in terms of API call price. Other domestic video model vendors such as SenseTime, Alibaba, and ByteDance also hold relatively leading positions in the industry and have advantages in model call costs.

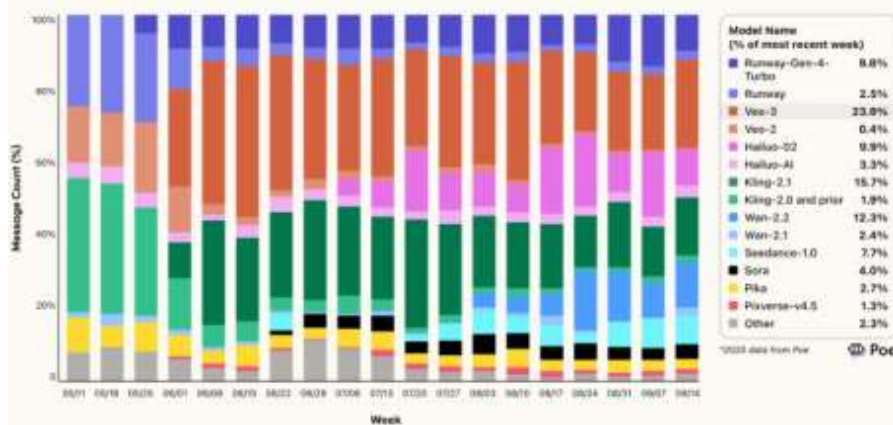
Figure 25: Leading video large models: comparison of scores and API prices

Company	Model	Launch date	Text-to-video ELO	Resolution	API call price (USD/second)
Kuaishou	Kling 2.5 Turbo Standard	Sep-25	1,232	720p	0.04
Google	Google Veo 3 / 3.1	Jul-25	1,227	720p	0.20
Lightricks	LTX-2 Pro	Oct-25	1,198	1080p	0.06
MiniMax	MiniMax Hailuo 2.3	Oct-25	1,194	768p	0.05
Vidu	Vidu Q2 Turbo	Oct-25	1,185	720p	0.02
Alibaba	Wan 2.5	Sep-25	1,181	720p	0.09
OpenAI	Sora 2	Sep-25	1,179	720p	0.10
PixVerse	PixVerse v5	Aug-25	1,179	1080p	0.06
ByteDance	Seedance 1.0 Lite	Jun-25	1,169	720p	0.03

Source: Artificial Intelligence, CMBIGM

According to POE, the usage of Google's Veo 3 video model has grown rapidly since its launch, with its market share approaching 24% by early September. However, domestic video model vendors have also maintained strong competitiveness. The combined market share of video models from domestic vendors (including Kuaishou, Minimax, Alibaba, and ByteDance) has reached approximately 53%. Among them, Kuaishou's Kling remains the leader with a 16% market share.

Figure 26: Video models: messages sent to models



Source: POE, CMBIGM

We remain optimistic about the long-term global market space for AI creative applications. We estimate that the global creative application market size will reach US\$54.6bn in 2027, with AI creative application penetration reaching 11%, corresponding to a global AI creative tool market size of US\$5.8bn.

Figure 27: Creative AI application TAM

Creativity tools TAM (US\$bn)	2024	2025E	2026E	2027E
Creativity tools TAM	39.16	43.79	48.93	54.61
YoY		11.8%	11.7%	11.6%
AI creativity tools TAM		1.86	4.01	5.80
AI Penetration rate		4.3%	8.2%	10.6%
Professional Creativity	2024	2025E	2026E	2027E
Global number of creative pros (mn)	68.0	71.4	75.0	78.7
Free-to-paid conversion rate %	85%	85%	85%	85%
Number of subscribers (mn)	57.8	60.7	63.7	66.9
Monthly ARPPU (US\$)	44.0	45.0	46.0	47.0
Creativity Cloud TAM - Professional Creativity	305.2	327.7	351.8	377.4
AI Creativity Cloud TAM - Pro Creativity		13.1	26.4	37.7
AI Penetration rate		4%	8%	10%
Hobbyist Creativity	2024	2025E	2026E	2027E
Global number of creative hobbyists (mn)	900.0	927.0	954.8	983.5
Free-to-paid conversion rate %	10%	11%	12%	13%
Number of subscribers (mn)	90.0	102.0	114.6	127.8
Monthly ARPPU (US\$)	8.0	9.0	10.0	11.0
Creativity Cloud TAM - Hobbyist Creativity	86.4	110.1	137.5	168.8
AI Creativity Cloud TAM - Hobbyist		5.5	13.7	20.3
AI Penetration rate		5%	10%	12%

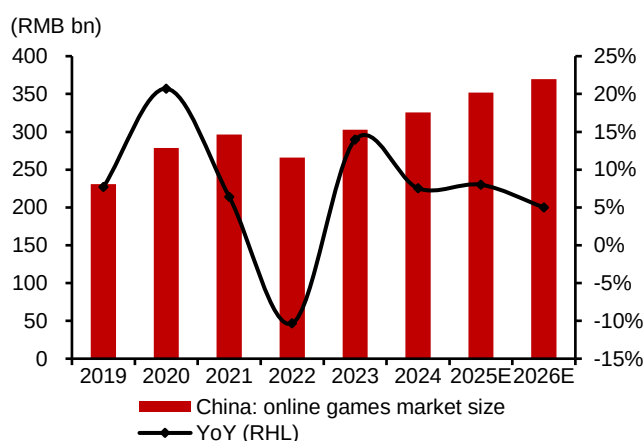
Source: Company data, International Labor Organization, CMBIGM estimates

Online games: solid revenue growth; accelerate overseas expansion

We expect China's online game market size to grow by 5% YoY to RMB369.4bn in 2026, where the revenue from evergreen games will remain relatively stable, and the growth momentum will mainly come from highly-anticipated new games, including key titles such as Tencent's Honor of Kings: World, NetEase's Sea of Remnants and ANANTA. We are upbeat on the overseas expansion opportunities for Chinese game companies in 2026, primarily due to the increasing investment from Chinese game developers in overseas businesses, which gradually forms a relatively mature global product publishing and operation pipeline. According to Newzoo, the global game market size will reach US\$196.1bn in 2026, with the overseas game market (excluding China) standing at US\$144.1bn, indicating a vast market potential. Chinese game developers currently hold a relatively low market share in overseas markets, with significant room for growth.

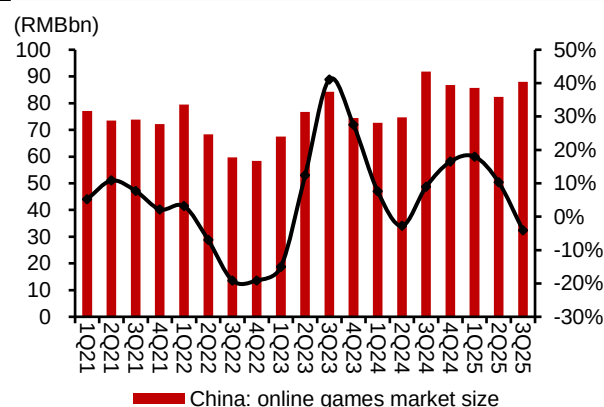
Based on data from CNG and our estimates, China's game market size will grow by 8% YoY to RMB351.8bn in 2025E, mainly driven by: 1) the healthy growth of key evergreen games, including Tencent's Honor of Kings and NetEase's Fantasy Westward Journey; 2) the incremental contribution from recently launched games such as Delta Force and Where Winds Meet. Tencent's Delta Force entered the top 3 of China's mobile game revenue rankings in 3Q25 within one year of its launch, significantly boosting the growth of the Extraction Shooter genre and the overall size of China's game market.

Figure 28: China: online games market size



Source: CNG, CMBIGM estimates

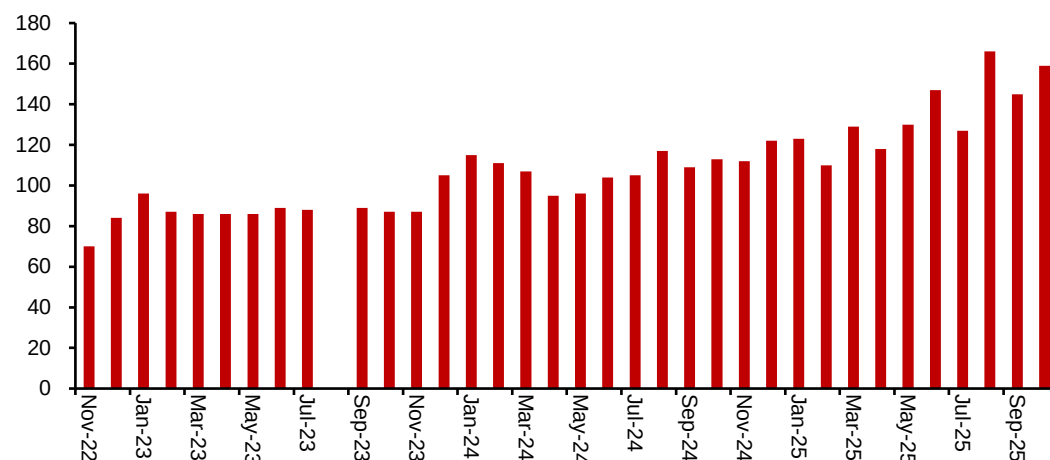
Figure 29: China: online games market size (quarterly)



Source: CNG, CMBIGM estimates

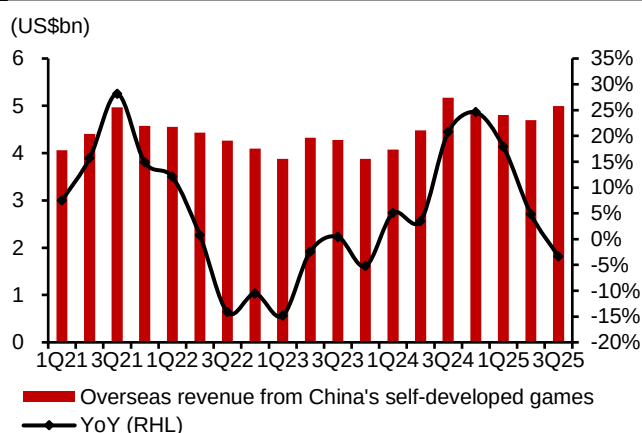
The regulatory environment for China's online game industry became milder in 2025:

1) Central and local authorities issued policies to support the healthy development of the game industry: In March, the General Office of the CCCPC and the General Office of the State Council issued the Special Action Plan for Boosting Consumption, which explicitly proposed promoting the consumption of animation, games, and esports. In April, the Ministry of Commerce issued the Work Plan for Accelerating the Expansion of Opening-up in the Service Sector, which clearly stated support for the development of overseas game business; 2) The approval speed of game Banhao accelerated: 1,441 games were approved in 10M25, exceeding the total number of approvals in 2024 (1,417 games).

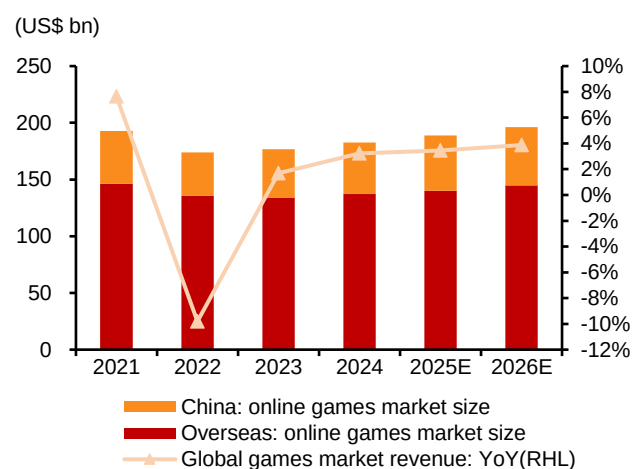
Figure 30: No. of domestic game Banhao approved

Source: NPPA, CMBIGM

Chinese game companies accelerated their overseas expansion: In 9M25, the overseas market revenue of China's self-developed games increased by 6% YoY to US\$14.5bn. Compared with the size of the overall overseas game market (c.US\$140bn in 2025), there is significant room for growth.

Figure 31: Overseas revenue from China's self-developed games

Source: CNG, CMBIGM estimates

Figure 32: Global & overseas games revenue

Source: Newzoo, CMBIGM estimates

We are upbeat on the overseas expansion opportunities for Chinese game companies, mainly because these companies have: 1) Clearer overseas strategic planning: Tencent Games' overseas business relies primarily on the evergreen products of its overseas subsidiaries Supercell and Riot Games, coupled with continuous investment in and acquisition of mature overseas studios such as Techland and Funcom, all of which delivered solid performance in 2025. Since 2021, NetEase has invested in and built a large number of overseas game studios, but in 2025, it has shut down most of them and shifted its focus to the overseas strategy of "domestic R&D and global publishing". Its global-oriented product Where Winds Meet achieved strong results after launch, entering the top 3 of Steam's global game bestseller list with peak concurrent players exceeding 250,000.

2) Industry-leading game product R&D and publishing capabilities: Based on 1H25 revenue, 3 Chinese game companies have entered the top 10 global game publishers. After years of experience in game R&D, operation and publishing, Chinese game companies have formed a relatively complete industrialized game production pipeline. Chinese game developers have taken the lead over European and American counterparts in terms of revenue generation and efficiency per game developer. In 2024, the revenue per game developer of NetEase/Electronic Arts (EA)/Take-Two (T2)/Ubisoft reached US\$720k/US\$640k/US\$400k/US\$140k respectively. The industry-leading game development capability and talent reserves will support the overseas development of Chinese game companies.

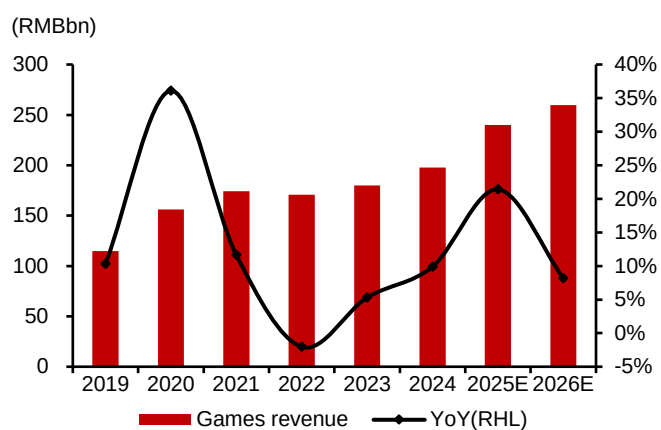
■ **Game company outlook: expect Tencent/NetEase FY26 games revenue to grow by 8%/8% YoY**

- 1) **We expect Tencent's game revenue to grow by 8% YoY in FY26, with overseas/domestic game revenue increasing by 15%/5% YoY respectively.** The growth of domestic game revenue will be mainly driven by the solid performance of evergreen titles and the incremental contribution from highly anticipated new products such as Honor of Kings: World and Ni Zhan: Future. The growth of overseas game revenue will primarily benefit from the strong performance of Supercell's products and the continuous recognition of deferred revenue. Supercell's flagship games delivered robust revenue performance in 2025. Revenue of Clash Royale surged by over 400% YoY in 3Q25, and its DAU hit a new high in September 2025.
- 2) **We anticipate NetEase's game and other VAS revenue to rise by 8% YoY in FY26, mainly driven by new products:** 1) Where Winds Meet has outperformed expectations since its overseas launch, with peak concurrent players exceeding 250,000 and ranking among the top 3 on Steam's global game bestseller list. Its overseas revenue contribution is expected to approach the domestic level in 2026; 2) The ocean-themed RPG Sea of Remnants is scheduled to launch in 2026, likely to bring considerable incremental revenue; 3) The open-world RPG ANANTA is expected to be released in 2026, and depending on the launch timing, it is poised to make meaningful revenue contribution to the company.

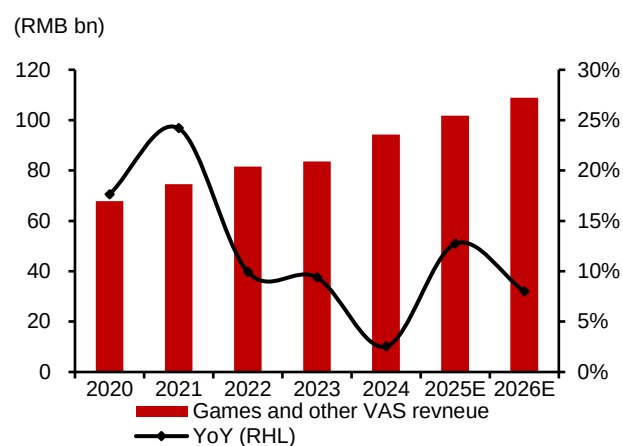
Figure 33:Tencent/NetEase: game pipeline

Title	Self-developed/licensed	Genre	Banhao approval?	Expected launch time
Tencent				
Honor of Kings: World	Self-developed	Open-world RPG	Yes	2026E
Honor of Kings: Chess	Self-developed	Auto Chess	Yes	2026E
Ni Zhan: Future	Self-developed	Shooter	Yes	2026E
The Hidden Ones	Self-developed	Action	Yes	2026E
Roco Kingdom: World	Self-developed	RPG	Yes	2026E
Light of Motiram	Self-developed	RPG	Yes	2026E
Lineage 2	Licensed	RPG	Yes	TBD
DNF: Khazan	Licensed	RPG	No	TBD
NetEase				
Sea of Remnants	Self-developed	RPG	No	2026E
ANANTA	Self-developed	Open-world RPG	Yes	TBD
Blood Message	Self-developed	RPG	No	TBD
Planet Party Time	Self-developed	Casual	Yes	TBD

Source: Company data, CMBIGM

Figure 34: Tencent: games revenue

Source: Company data, CMBIGM estimates

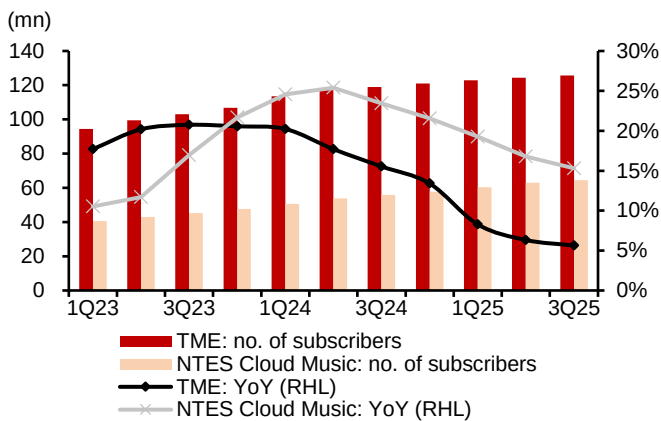
Figure 35: NetEase: games and other VAS revenue

Source: Company data, CMBIGM estimates

Online music: solid subscription business; enhance monetization of fan economy

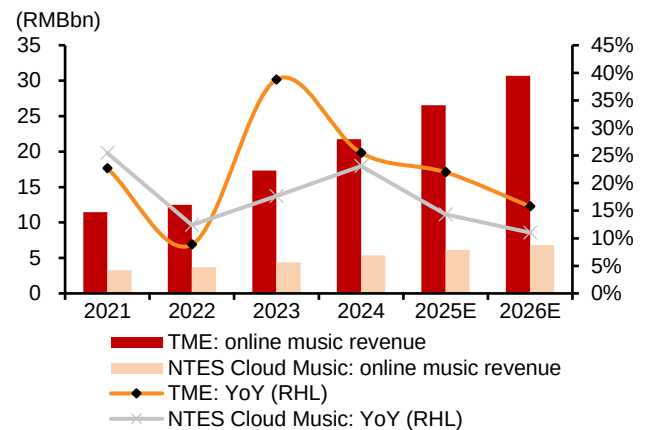
We expect major online music platforms to maintain music revenue growth of over 10% in 2026, primarily driven by the balanced growth of paying users and ARPPU, as well as the expansion of non-subscription businesses such as advertising, concert, and artist merchandise. By company: 1) we forecast TME's online music revenue to grow by 16% YoY in 2026, with subscription/non-subscription revenue increasing by 12%/23% YoY respectively. We anticipate its subscriber and ARPPU to rise by 5% and 7% YoY in 2026, respectively. The company will continue to boost the penetration rate of SVIP memberships to drive ARPPU growth. On the non-subscription front, TME will keep investing in fan economy businesses. The robust growth of segments like concerts and artist merchandise is expected to support the sustained rapid expansion of non-subscription revenue. 2) We project NetEase Cloud Music's online music revenue to grow by 11% YoY in 2026, with its subscriber and ARPPU growing by 9% and 3% YoY, respectively.

Figure 36: Online music platform: subscriber outlook



Source: Company data, CMBIGM

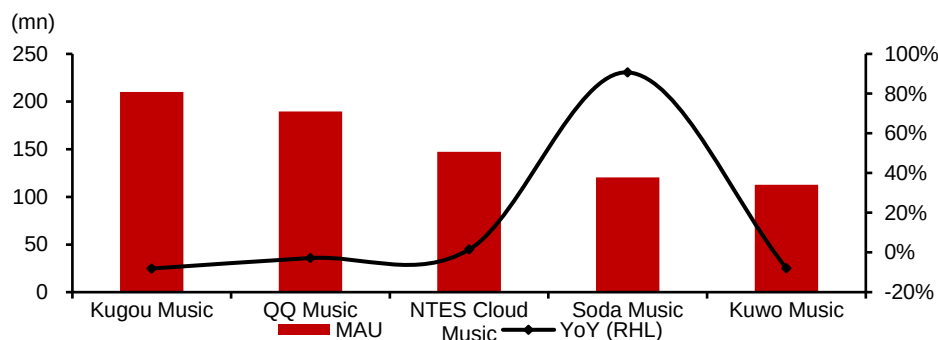
Figure 37: Online music platform: revenue outlook



Source: Company data, CMBIGM estimates

In terms of competitive landscape, despite Soda Music's strong MAU growth over the past two years, we remain upbeat on TME and NetEase Cloud Music's ability to maintain their leadership, supported by their core advantages: 1) rich music content libraries: with years of accumulated music copyrights and established self-produced music ecosystems, Tencent Music and NetEase Cloud Music lead Soda Music in content reserves.; 2) higher user stickiness and commercialization potential: compared to Soda Music users, QQ Music/NetEase Cloud Music users spend more time on the platforms and exhibit higher user engagement. The two platforms improve monetization efficiency through diversified models including memberships, advertising, and fan economy initiatives.

Figure 38: Online music platform: MAU comparison (Sep 2025)



Source: QuestMobile, CMBIGM

Figure 39: Global: music concert revenue



Source: China Association of Performing Arts, CMBIGM

Online advertising: AI to drive ad revenue growth

We expect the revenue of major online advertising platforms in China to grow by 11% YoY in 2026E, showing an accelerated trend from 2025, mainly due to: 1) AI continues to drive an increase in advertising inventory, improvement in ad conversion, and reduction in ad placement costs, supporting leading advertising platforms such as Tencent, Kuaishou, and Bilibili to maintain rapid growth in advertising revenue; 2) advertising budgets of some platforms with strong media attributes, such as iQiyi, are expected to recover. This is primarily because the high-base effect (stemming from marketing campaigns for the 2024 Olympic Games) is set to fade, and ad spending in categories like food and beverage as well as apparel is likely to rebound in 2026, driven by events such as the World Cup.

Figure 41: Online advertising: revenue outlook

Total retail sales	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	FY25E	FY26E
Total retail sales	12.0	11.6	11.8	13.4	12.5	12.1	12.0	51.1	53.4
YoY	4.7%	2.6%	2.7%	3.8%	4.6%	5.4%	2.4%	4.2%	4.2%

Ad revenue (RMBmn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	FY25E	FY26E
Tencent	26,506	29,871	29,993	35,004	31,853	35,762	36,242	145,927	169,873
Kuaishou	16,650	17,515	17,634	20,994	17,977	19,765	20,102	81,118	88,812
Baidu	17,008	19,164	18,771	17,906	15,978	16,213	15,325	62,471	62,471
Bilibili	1,669	2,037	2,094	2,389	1,998	2,449	2,570	9,924	11,749
iQiyi	1,482	1,461	1,337	1,434	1,328	1,272	1,241	5,106	5,291
Total	65,789	72,750	72,680	80,504	71,609	78,217	78,153	315,129	349,123

YoY	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	FY25E	FY26E
Tencent	26.4%	19.5%	16.6%	17.5%	20.2%	19.7%	20.8%	20.2%	16.4%
Kuaishou	27.4%	22.1%	20.0%	15.3%	8.0%	12.8%	14.0%	12.0%	9.5%
Baidu	2.7%	-2.2%	-4.6%	-6.5%	-6.1%	-15.4%	-18.4%	-14.2%	0.0%
Bilibili	31.2%	29.5%	27.8%	23.8%	19.7%	20.2%	22.7%	21.2%	18.4%
iQiyi	5.6%	-2.3%	-20.1%	-13.1%	-10.4%	-12.9%	-7.2%	-10.6%	3.6%
Total	18.1%	12.4%	9.8%	9.3%	8.8%	7.5%	7.5%	8.2%	10.8%

Source: Wind, NBS, Company data, CMBIGM estimates

AI LLMs have emerged as one of the key drivers of advertising revenue growth: 1) AI-generated advertising creatives and automated ad placement have become standard tools for ad campaigns, lowering the threshold and costs of ad placement while improving ad ROI. In 3Q25, the total ad spending by Kuaishou's AIGC marketing materials exceeded RMB3bn. Over 50% of Bilibili's performance-based ads were generated with AIGC tools in 3Q25. 2) AI continues to enhance ad targeting capabilities and improve ad conversion. Tencent has continuously upgraded its advertising LLMs, driving a YoY increase in average eCPM in 3Q25. Kuaishou leveraged AI LLM technologies such as OneRec and G4RL to boost its domestic online marketing revenue by 4-5% in 3Q25. 3) AI optimizes content recommendation algorithms, driving growth in platform user traffic and expanding advertising inventory. Kuaishou applied OneRec to content recommendation, increasing user time spent and retention rates. Tencent used AI to optimize video recommendation algorithms, leading to growth in Weixin user traffic.

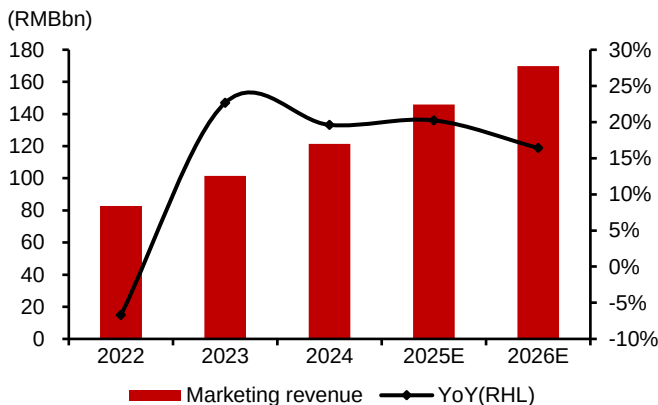
Figure 42: China online advertising platform: AI empowers ad business

Company	AI applications in ad
Tencent	1) Increase ad inventory: AI-optimized recommendation algorithms and delivery capabilities drive growth in personalized and programmatic ad exposure. 2) Improve ad conversion: Upgraded ad models boosted average eCPM YoY in 3Q25. 3) Lower ad delivery costs: Launched smart placement products AIM+ to enable automated ad placement and bidding for advertisers, and optimized ad creatives to improve ad ROI.
Kuaishou	1) Large-model-optimized ad targeting and pricing: Leveraged OneRec and G4RL AI large-model technologies to drive a 4-5% increase in domestic online marketing revenue in 3Q25. 2) AIGC creatives reduce ad operation costs: ad spending powered by Kuaishou's AIGC marketing materials exceeded RMB3bn in 3Q25. 3) LLMs enhance user stickiness: Applied OneRec to short video content recommendation, increasing user time spent and stickiness to expand ad inventory.
Bilibili	1) AI-optimized ad targeting: AI-powered ad targeting capabilities and upgraded smart bidding systems drove 16% YoY growth in advertiser count in 3Q25. 2) Lower ad placement costs: >50% of performance-based ads generated by AIGC tools.

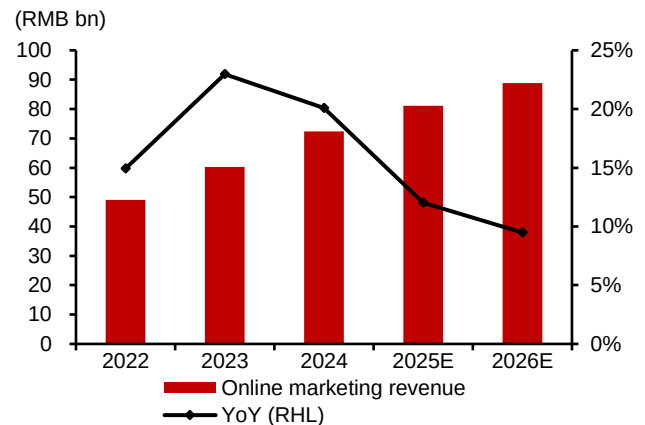
Source: Company data, CMBIGM

■ **Advertising outlook: Expect Tencent/Kuaishou/Bilibili's ad revenue to grow 16%/10%/18% YoY in FY26**

- 1) We forecast Tencent's marketing revenue to increase by 16% YoY in FY26,** mainly driven by: a) the rise in ad load rate of Weixin b) AI expanding advertising inventory, boosting ad conversion rates and eCPM; c) AI continuously enhance search capabilities, and the growth of commercial search volume will drive the revenue of Weixin search ads.
- 2) We project Kuaishou's online marketing revenue to grow by 10% YoY in FY26,** primarily driven by the growth of domestic online marketing revenue, which will be partially offset by the decline in overseas marketing revenue. Key growth drivers include: a) the continuous upgrade of AI LLM such as OneRec and G4RL, which will drive traffic growth and an increase in ad eCPM, thus boosting domestic online marketing revenue; b) incremental advertising budgets from content consumption sectors such as short dramas and mini games.
- 3) We anticipate Bilibili's ad revenue to rise by 18% YoY in FY26.** The main growth drivers are: a) the continuous optimization of ad commercial infrastructure and algorithms to improve ad conversion, attracting incremental advertisers and their budgets; b) the gradual increase in the overall ad load of the platform.

Figure 43: Tencent: marketing revenue

Source: Company data, CMBIGM estimates

Figure 44: Kuaishou: online marketing revenue

Source: Company data, CMBIGM estimates

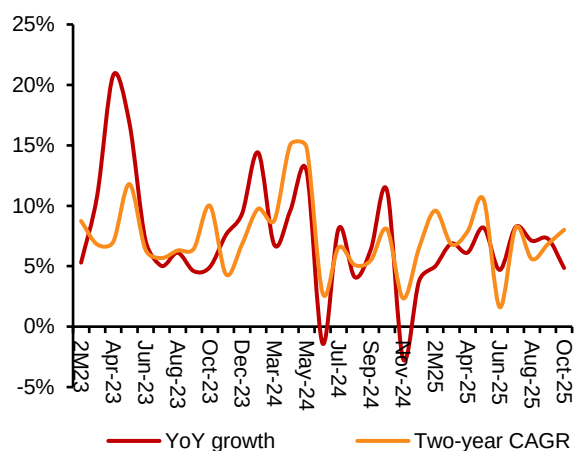
E-commerce: Seeking efficient customer acquisition and retention

Supported by national subsidy policies in 2025, the online retail sales of physical goods maintained steady growth overall, but the growth rate slowed down after the partly phasing out of these subsidies. Industry competition still revolves around creating incremental value for core consumer groups and enhancing user stickiness. Meanwhile, e-commerce platforms are attempting to explore more efficient customer acquisition and retention through higher-frequency food delivery services within instant retail, and further drive the increase of online penetration by combining near-field and far-field models. Looking ahead into 2026, the e-commerce industry may face growth challenges amid a high base. We anticipate that e-commerce platforms will continue to deepen their exploration of instant retail, while irrational subsidies are expected to decrease year-on-year. We estimate that the overall online retail sales will grow by 6.5% YoY in 2026, among which the online retail sales of physical goods will increase by 5.2% YoY. We expect the GMV growth of non-physical goods consumption such as online tourism to continue outperforming that of physical goods' online retail sales.

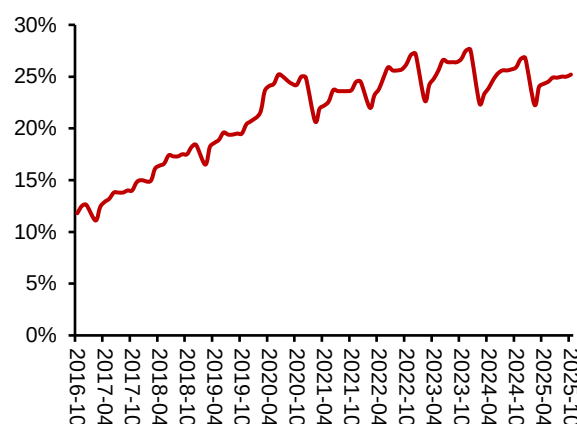
For investment recommendation, we prefer Alibaba, with healthy growth in its core e-commerce business, the ability to proactively adjust investment scale to control profit margins, and excellent prospects in the AI field. We also prefer Pinduoduo, whose non-GAAP net profit has returned to positive growth with undemanding valuations.

China e-commerce: high base effect of national subsidies emerges, focus on core user consumption stickiness

According to data from the NBS (National Bureau of Statistics), the total retail sales of consumer goods / total retail sales of consumer goods excluding automobiles in 10M25 increased by 4.3%/4.9% YoY (1H25: 5.0% / 5.5%). During the same period, online retail sales/online retail sales of physical goods rose by 9.6% / 6.3% YoY respectively (1H25: 8.5% / 6.0%). In October alone, the online retail sales of physical goods grew by 4.9% YoY, a slowdown from the previous month (Feb/ Mar/ Apr/ May/ Jun/ Jul/ Aug/ Sep: 5.0%/6.9% /6.1%/8.2%/4.7%/8.3%/7.1%/7.3%), indicating the gradual emergence of the high base effect from national subsidies, in our view. The online penetration of retail sales of physical goods in the total retail sales of consumer goods reached 25.2% in 10M25 (9M25: 25.0%; 10M24: 25.9%). Among the online retail sales of physical goods, the sales of food / clothing / daily use products in 10M25 increased by 15.1% / 3.6% / 5.1% YoY. Compared with 9M25 (15.1%/2.8%/5.7%), food products maintained stable growth, while clothing products saw accelerated growth.

Figure 45: China: YoY growth of online physical goods GMV and two-year CAGR


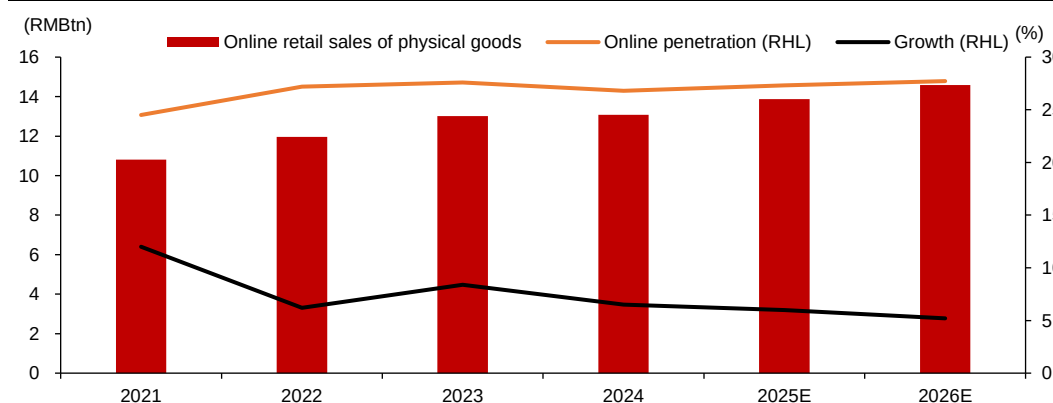
Source: NBS, CMBIGM

Figure 46: China: online penetration of physical goods retail sales


Source: NBS, CMBIGM

The high base effect from national subsidies has been notably evident in the home appliance category, while the mobile phone segment has maintained steady performance driven by new product launches. In Oct 2025: 1) retail sales of household appliances fell by 14.6% YoY (10M25: +13.8%; Sep 2025: +3.3%), with a significant sequential slowdown; 2) retail sales of telecommunication equipment rose by 23.2% YoY (10M25: 20.9%; Sep 2025: 16.2%), boosted by the launch of new mobile phones in our view; 3) retail sales of cultural and office appliances (including computers) increased by 13.5% YoY (10M25: 19.1%; Sep 2025: 6.2%).

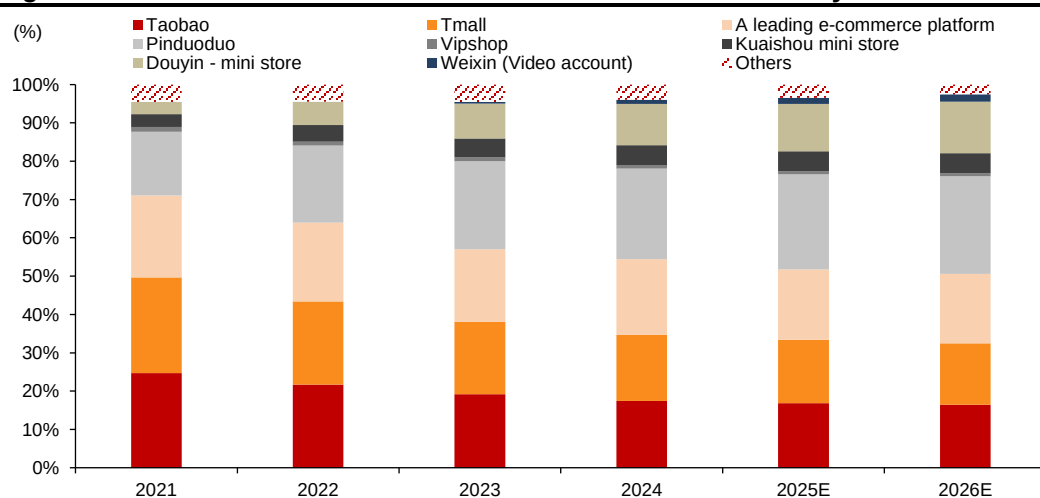
Looking ahead, we forecast that overall online retail sales will grow by 6.5% YoY in 2026, within which online retail sales of physical goods may increase by 5.2% YoY. Also, we expect the growth rate of non-physical goods, such as service consumption including online tourism, will continue to outperform that of physical goods' online retail sales.

Figure 47: China: growth of online retail sales of physical goods and forecast


Source: NBS, CMBIGM estimates

In terms of market share, we anticipate that PDD/Douyin E-commerce/Kuaishou e-commerce will continue to gain market share. Additionally, we expect Weixin video account and Xiaohongshu e-commerce to sustain their market share growth trajectory.

Figure 48: China: estimate of market share in e-commerce industry



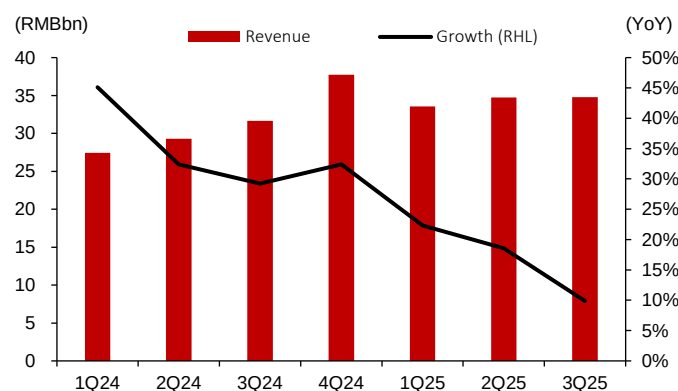
Source: NBS, Latepost, company data, CMBIGM estimates

Note: 1) GMV data includes figures disclosed by companies and our estimates based on third-party data. Due to potential inconsistencies in GMV disclosure standards across e-commerce platforms, direct comparability may not be absolute; 2) when calculating market share, we have incorporated return rates to reflect actual GMV generated; 3) to avoid double-counting, only GMV from the closed-loop e-commerce segment of live streaming e-commerce channel is included in the market share calculation.

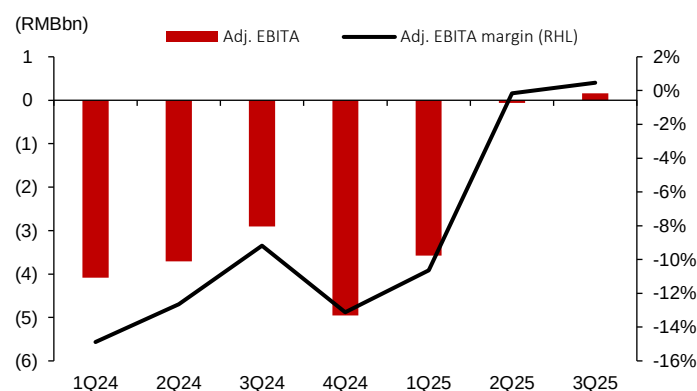
International E-commerce: Focusing on efficiency improvement amid geopolitical uncertainties

In 2025, amid lingering geopolitical uncertainties, we have observed the trend that e-commerce platforms' overseas business expansion strategy has shifted to prioritize operational efficiency and profitability improvement over scale expansion. Looking ahead to 2026, we anticipate that the trend driving operational efficiency enhancement will persist, with e-commerce platforms continuing to balance scale expansion and operational efficiency improvement.

Taking Alibaba as an example, the revenue of its Alibaba International Digital Commerce (AIDC) segment reached RMB34.8bn in 3Q25, with the YoY revenue growth rate slowing to 9.9% (3Q24: 29.2%; 2Q25: 18.6%). Nevertheless, the business segment achieved break-even, with the adjusted EBITA margin increasing by 9.7ppts YoY.

Figure 49: Alibaba: AIDC segment revenue growth

Source: Company data, CMBIGM

Figure 50: Alibaba: adjusted EBITA for AIDC

Source: Company data, CMBIGM

OTA: expecting travel demand to remain resilient in 2026

The tourism industry's growth resilience continued to stand out in 2025, in line with expectations. According to data from the Ministry of Culture and Tourism, domestic tourist trips/tourism spending in 9M25 increased by 18.0%/11.5% YoY. Looking ahead to 2026, we expect the growth rate of domestic tourism revenue to still outpace GDP growth by 2-3 ppts, with an overall growth rate to reach 7%. OTA platforms are likely to achieve faster growth, benefiting from the sustained upward trend of hotel online penetration. For outbound tourism, we project that the industry's overall outbound tourism revenue growth will remain in the range of 10-15%, while we expect leading OTA platforms (e.g., Trip.com Group) to see outbound tourism revenue growth exceed 15%. Despite partial geopolitical disruptions, we anticipate that outbound tourism demand will remain stable overall and may shift to domestic long-distance travel demand amid challenges, thereby supporting the industry's growth resilience. Additionally, leading OTA platforms are continuously advancing overseas expansion, which in our view should underpin medium-to-long-term revenue and profit growth. We remain positive regarding the overseas expansion potential of leading OTA platforms. For investment recommendation, we continue to favor Trip.com Group, which is steadily expanding its GTV market share in both domestic and outbound tourism and making rapid progress in overseas expansion. In addition, we reiterate our BUY rating on Tongcheng Travel, whose overall profit growth is expected to remain resilient in 2026.

Domestic Tourism: sustained resilience amid a high base

According to the Ministry of Culture and Tourism, the number of domestic tourist trips reached 4.998bn in 9M25, up 18.0% YoY, and domestic tourism spending totaled RMB4.85tn, an increase of RMB0.50tn YoY, representing YoY growth of 11.5%. Within the total tourism spending, urban residents' tourism expenditure reached RMB4.05tn, up 9.3% YoY, and rural residents' tourism expenditure reached RMB0.80tn, up 24.0% YoY.

In 2025, "quality-oriented" and "long-haul" were the key keywords for the overall tourism industry. Taking the National Day holiday as an example: Trip.com Group's data showed that the proportion of domestic long-haul travel orders during the holiday increased by 3 ppts, and orders for multiple long-haul outbound tourism destinations in Europe has doubled YoY. Tongcheng Travel data indicates that the number of outbound long-haul group tour departures on its platform nearly doubled YoY, significantly outpacing the growth of outbound short-haul group tours. Meanwhile, spending on domestic and outbound group tour products booked by users in non-first-tier cities increased by over 33% YoY. Fliggy

(Alibaba's online travel business arm) data reveals that the per capita booking volume of transportation-related products (e.g., air tickets, car rentals) on its platform rose by 5% YoY, while the per capita booking volume of hotel, package tour, and attraction ticket products increased by 4.6% YoY. The average transaction value for holiday travel surged by 14.6% YoY.

Looking ahead, we expect the domestic tourism market to maintain growth resilience in 2026, with the industry's market size growth likely to remain 2-3 ppts higher than GDP growth, reaching approximately 7%.

Outbound Tourism: Recovery enters a stable phase

According to the National Immigration Administration, immigration authorities nationwide inspected a total of 510mn entry-exit personnel in 9M25, a YoY increase of 14.3%, approaching historical peaks. Based on data from the Civil Aviation Administration of China (CAAC) and Trip.com Group, the overall number of outbound flights has recovered to a stable level. Trip.com Group's outbound flight recovery has consistently outperformed the industry, leading by 20-30 ppts during off-peak seasons and extending the lead to 40 ppts during peak seasons. We attribute this to three key factors: 1) comprehensive service coverage, enabling one-stop high-quality fulfillment of user needs; 2) supply chain advantages in hotels and air tickets; 3) a higher proportion of long-distance travel during peak seasons compared to weekdays, with platforms with stronger brand recognition poised to benefit more.

Figure 51: Recovery status of overall outbound flights vs Trip.com Group

	Overall recovery rate of outbound flights	Recovery rate of outbound flights on Trip.com's platform
1Q24	~70%	~90%
2Q24	>70%	~100%
3Q24	~80%	~120%
4Q24	~80%	~120%
1Q25	80-90%	~120%
2Q25	80-90%	>120%
3Q25	80-90%	~140%

Source: CAAC, Company data, CMBIGM

Looking ahead to 2026, we believe Trip.com Group should still maintain faster growth than the industry level growth in outbound travel, despite potential short-term disruptions to overall outbound tourism from geopolitical factors. We anticipate that the industry's overall outbound tourism revenue growth will remain at 10-15%, while Trip.com Group's outbound tourism revenue growth may exceed 15%.

Overseas expansion: underpinning long-term revenue and profit growth

Leading OTA platforms have continued to advance their overseas expansion steadily, which we believe will provide strong support for medium-to-long-term revenue and profit growth. According to our estimates, the combined revenue contribution of Trip.com Group's two pure international business platforms—Skyscanner and Trip.com—to Trip.com Group's total revenue has exceeded 20% in 9M25, with Trip.com maintaining a YoY revenue growth rate of over 50-60%. We forecast that Skyscanner and Trip.com's combined revenue contribution to Trip.com Group will reach 26%/30% in 2026/2027. Trip.com Group will continue to efficiently drive revenue growth in its overseas business while balancing revenue growth and profitability, providing robust support for the company's medium-term revenue and profit growth.

Local life services: still has room for further online penetration, while competition normalized

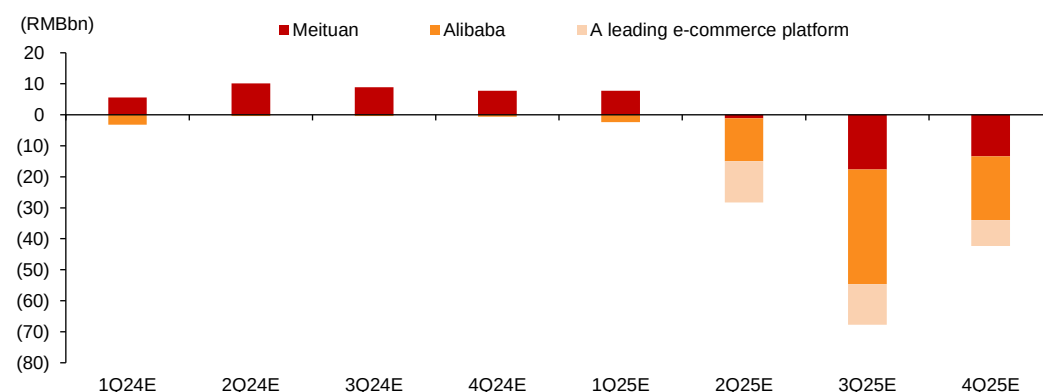
The intensity of competition in the overall local life services sector in 2025 exceeded our expectations at the start of the year. We believe the primary reason is that after their core businesses entered a relatively mature stage, e-commerce platforms are seeking new ways to expand their user base, enhance user stickiness, and explore new scenarios (such as the integration of near-field and far-field commerce) to further boost e-commerce penetration. Looking ahead: 1) for food delivery: we believe the most intense phase of competition may have ended in 3Q25, and the intensity of competition and subsidies is expected to ease starting from 4Q25. However, overall industry competition is likely to become more normalized, and overly optimistic expectations should not be held for the pace of industry's return to profitability in 2026, in our view; 2) for the in-store services segment: amid macroeconomic headwinds, we anticipate that the industry's overall order volume growth rate will still outpace GTV growth; yet, amid fierce competition, revenue growth may lag behind GTV growth. Additionally, due to more intensified industry competition, the overall medium-to-long-term profit margin of the sector may be adjusted downward, in our view.

From the perspective of industry fundamentals and stock recommendations: 1) Meituan: with a greater contribution from high average order value (AOV) food delivery orders than peers and superior operational efficiency, we are optimistic about its ability to maintain the UE gap with competitors. We remain positive that Meituan can fulfil its medium-to-long-term order volume and unit profit targets for its food delivery business. The return of the food delivery business to profitability may become a key driver for the company's valuation re-rating, in our view; 2) Alibaba: we have observed early synergistic effects from the company's investment in food delivery and quick commerce businesses, including increased user acquisition and activity, cross-selling to low-price, high-frequency categories, and additional customer management revenue contributions. However, the market may still be waiting for the company to deliver more solid progress.

In the long run, the overseas expansion of local life services may open up room for long-term revenue and profit growth for companies. Meituan's management noted that its Keeta business in Hong Kong has achieved profitability in Oct 2025, which we believe reflects the company's ability to drive efficient development of overseas operations. Starting from 4Q25, the company has further promoted the expansion of Keeta's business to more Gulf Cooperation Council (GCC) countries and the Brazilian market, which is on track to unlock long-term profit growth potential, in our view.

Instant retail: from high-frequency food delivery to building a "Everything Now" mindset, exploring near-far field integration to drive growth

Competition in the food delivery industry has intensified since 2Q25, with the overall intensity exceeding our expectations at the start of the year. We attribute this mainly to e-commerce platforms seeking new ways to expand their user base, enhance user stickiness, and explore new scenarios (such as the integration of near-field and far-field commerce) after their core businesses matured, aiming to further increase e-commerce penetration. Based on our estimates, the combined losses of Meituan Food Delivery, Taobao Quick Commerce (Ele.me), and other food delivery platform reached RMB67.7bn in 3Q25, compared with a combined profit of RMB8.5bn in 3Q24.

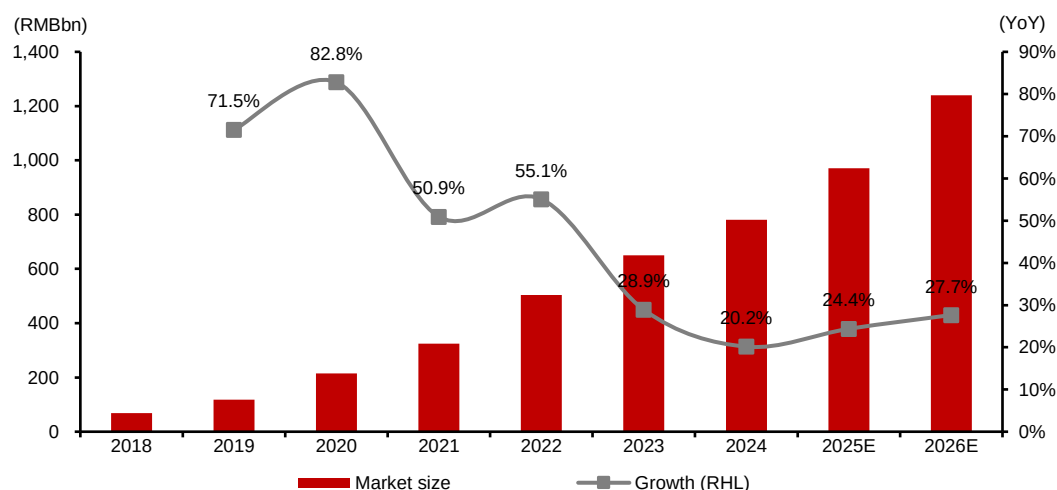
Figure 52: China: OP and operating losses of key market players

Source: Company data, CMBIGM estimates

We noticed divergent goals from major players' food delivery investments: 1) Meituan: focuses on maintaining market share in high AOV Orders, operational efficiency advantages, and core user base experience. During the 3Q25 earnings call, management noted that as of late Nov 2025, Meituan held over two-thirds of the market share in orders with an AOV above RMB15 and over 70% in orders with an AOV above RMB30; 2) Alibaba: focuses on UE improvement and driving synergies with traditional e-Commerce; management stated during the 3Q25 earnings call that the UE loss of the company's food delivery business halved by late Oct 2025, compared to July-August, as expected. And the company has achieved cross-selling in traditional e-commerce categories such as daily necessities, food, and healthcare. Meanwhile, investments in quick commerce have positively impacted customer management revenue (CMR) by driving transaction growth in related categories and enhancing user stickiness.

Looking ahead to 4Q25, we have noticed that industry competition has moderated slightly in Oct-Nov compared to that in July-August, with further easing following the Double 11 Shopping Festival. We expect the drag on profitability from the food delivery businesses of the three aforementioned platforms to narrow sequentially in 4Q25. Looking ahead, we believe that amid the phasing out of government subsidies, which in our view should prompt e-Commerce platforms to place greater marginal focus on ROI, and with all platforms prioritizing the optimization of UE models, the operating losses of the three platforms' food delivery businesses are expected to narrow YoY in 2026. However, overly optimistic expectations regarding the pace of profitability improvement may not be warranted, in our view.

In terms of market size, according to data from the Chinese Academy of International Trade and Economic Cooperation (CAITEC) under the Ministry of Commerce, China's instant retail market size is expected to reach RMB971bn in 2025, representing YoY growth of 24.4%, and will further expand by 27.7% to RMB1.2tn in 2026.

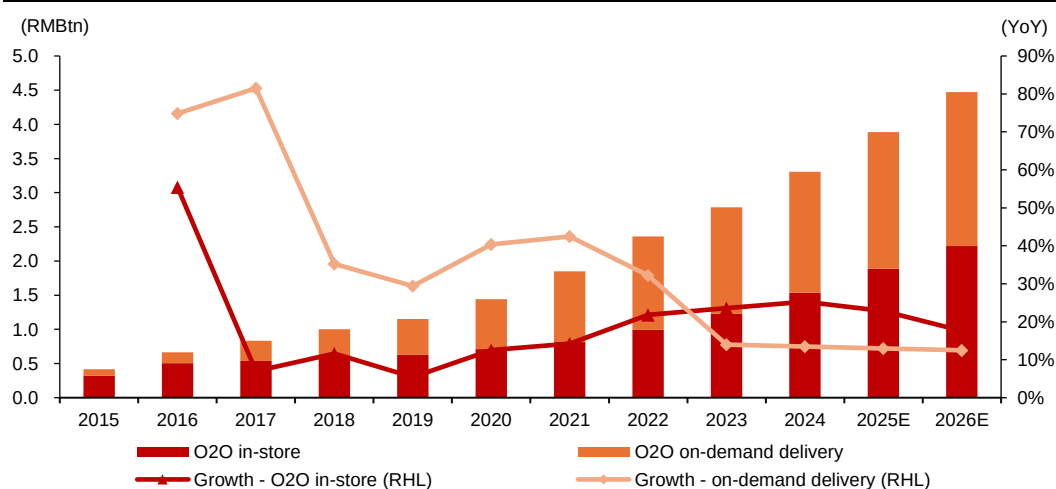
Figure 53: China: market size of instant retail and growth

Source: Company data, CMBIGM estimates

Note: market size in terms of GMV

In-store business: still has room for further online penetration amid intensified competition

Looking back at the development of the in-store services industry in 2025, the sector overall exhibited a trend where order volume growth outpaced GTV growth, while revenue growth lagged behind GTV growth due to declined monetization rates amid intensified competition. Based on the current situation, we anticipate that the overall industry headwinds will persist in 2026 and ease somewhat in 2027. The market will remain focused on key indicators such as stabilized profit margins driven by recovering AOV and a stabilized competitive landscape. According to data from iiMedia, China's O2O in-store market size is expected to reach RMB2.2tn in 2026, representing YoY growth of 17.6%, a slowdown from the 22.8% growth rate recorded in 2025.

Figure 54: China: market size of O2O and forecast

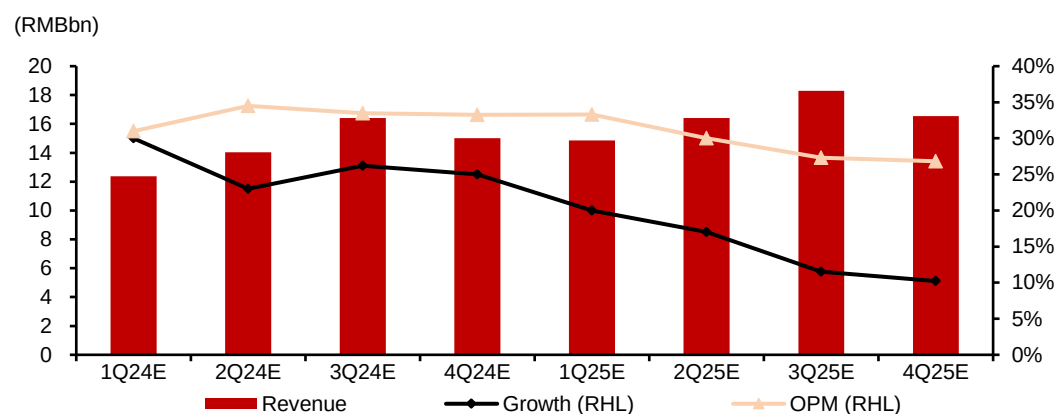
Source: iiMedia, CMBIGM

Note: market size in terms of GMV

We have observed a trend of intensified competition starting from 3Q25. For instance, Alibaba launched the "Amap Saojiebang" in Sep 2025, with users exceeding 400mn by October 3. Meanwhile, according to LatePost reports, Douyin's local services business also achieved rapid growth in 2025, with a YoY GTV growth rate of nearly 60% in 10M25 and an expected full-year GTV exceeding RMB800bn.

For Meituan: Despite the intensifying competition in its in-store business in the short term which weighs on the company's revenue growth rate and profit margin, we believe its strategy of enhancing mindshare among core user base should better support long-term growth. In the medium-to-long term, as industry competition enters a relatively stable phase and the stabilized macro environment drives the convergence of industry order volume growth and GTV growth, we expect the OPM of the in-store segment to recover to 30%.

Figure 55: Meituan: OPM of in-store segment



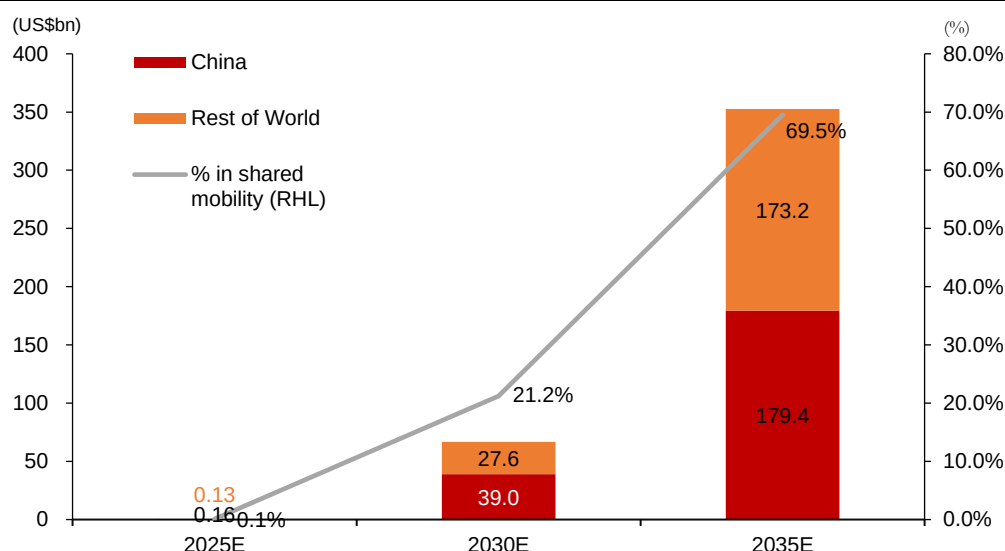
Source: Company data, CMBIGM estimates

Autonomous Driving: The Initial Year of Rapid Large-Scale Deployment Approaches

In 2025, China's Robotaxi industry achieved rapid development driven by intensive policy rollouts, generational cost reduction of core technology, and rising market demand, completing a critical transition from pilot validation to commercial implementation. Leading players saw sustained growth in cumulative orders and rapid fleet expansion. Looking ahead to 2026, with further reductions in per-vehicle costs and broader regulatory approval for operational areas, the industry is poised for accelerated large-scale deployment. Meanwhile, overseas expansion is expected to further unlock growth potential. According to Frost & Sullivan data, driven by technological advancements, supportive policies, and lower hardware costs, China's Robotaxi mobility market is projected to grow from US\$160mn in 2025 to US\$179.4 bn in 2035, representing a CAGR of 101.8% during 2025-2035E.

We remain optimistic about leading players in the Robotaxi industrial chain such as Baidu Apollo Go and leading lidar suppliers like Hesai, which are set to benefit from the large-scale commercialization of Robotaxis. For Hesai specifically, we also anticipate further expansion of non-automotive scenarios and shipment growth, which will support its long-term revenue and profit prospects.

Figure 56: Global Robotaxi industry scale accelerates growth



Source: Frost & Sullivan, Pony.ai, CMBIGM

Note: 1) Robotaxi services market size represents the total amount of ride fare paid by passengers for robotaxi services, as measured by the GTV of such services. 2) % in shared mobility refers to the share of global robotaxi market size in the shared mobility market.

From the perspective of regulatory liberalization for operational areas and industry development trends, the sector exhibits three key characteristics: 1) coverage expanding from core urban areas to entire cities; 2) business model shifting from free trials to market-oriented pricing; 3) liability identification evolving from ambiguity to clarity. At the national level, the "Technology Roadmap for Intelligent Connected Vehicles 2.0" specifies that the penetration rate of L2/L3 levels will reach 50% by 2025 and 70% by 2030, laying a technical foundation for Robotaxi development. In 2024, five ministries including the Ministry of Industry and Information Technology designated 20 pilot cities for "vehicle-road-cloud integration" to accelerate infrastructure development. At the local level, in July 2025, five cities including Shanghai and Guangzhou issued new regulations allowing full-city commercial operation of L4-level Robotaxis, officially abolishing the mandatory

requirement for on-board safety officers and clarifying that automakers and insurers assume accident liability based on the "proportion of technical defects," resolving a core barrier to commercialization. Beijing expanded its high-level autonomous driving demonstration zone to 600 square kilometers, covering eight scenarios including airport transfers and commuter line, while Guangzhou took the lead in issuing fully driverless autonomous driving commercial licenses, enabling leading players like WeRide and Pony.ai to launch driverless paid operations.

From technology and cost perspectives, continuous cost reductions in core hardware and algorithms are critical prerequisites for large-scale deployment. On the algorithm front, end-to-end architecture innovation breaks the limitations of traditional modular division, achieving integrated optimization of perception, decision-making, and control through multimodal fusion technology, significantly reducing reliance on high-redundancy hardware. The maturity of transfer learning and self-supervised training methods improves data utilization efficiency, reduces manual annotation costs and algorithm iteration cycles, while enhanced long-tail scenario processing capabilities for complex road conditions further weaken the demand for extreme-performance hardware. On the hardware front, technological upgrades and large-scale mass production of core components such as lidar, domain controllers, and AI chips drive synergistic cost reduction: Lidar costs have been drastically reduced through solid-state technology and self-developed chips, with high-performance lidar listing prices falling to the US\$200 range. Domain controllers are moving toward cockpit-chassis integration, integrating multi-domain functions to reduce hardware redundancy and wiring complexity. AI chips are optimized with dedicated instruction sets for autonomous driving scenarios, balancing computing power needs with power consumption and cost. The optimization of multi-sensor fusion solutions enables performance complementarity among different hardware, avoiding over-stacking of individual components and forming a synergistic effect of technical cost reduction.

Leading players have delivered impressive operational data, forming a closed-loop "technology + operation" model. Baidu's Apollo Go leads in order volume, with 3Q25 orders reaching 3.1mn (up 212% YoY; 2Q25/1Q25: +148%/+75% YoY), accelerating sequentially. As of October 2025, Apollo Go's weekly average orders exceeded 250,000, with cumulative safe driving of 240mn kilometers. By November, cumulative orders surpassed 17mn, covering 13 cities including Beijing, Wuhan, and Chongqing, with a fleet size exceeding 1,000 vehicles. Pony.ai focuses on first-tier cities, reducing the cost of its 7th-generation model to RMB270,000 (a 73% decrease), covering Beijing, Shanghai, Guangzhou, and Shenzhen. Its 7th-generation Robotaxis have achieved positive per-vehicle profitability in Guangzhou, with an average of 23 daily orders per vehicle. As of 3Q25, its fleet size reached 961 vehicles, and the company is expected to complete its full-year 1,000-Robotaxi target ahead of schedule, with plans to expand its operational fleet to over 3,000 vehicles by the end of 2026. WeRide's total global autonomous driving vehicles reached 1,600 in 3Q25 (up 23.1% QoQ), including 750 Robotaxis covering Guangzhou, Beijing, Nanjing, etc.. Its single-vehicle daily order records in Guangzhou and Beijing reached 25 and 23 respectively, and it is actively partnering with Uber to expand into the Middle East and overseas markets.

Looking ahead to 2026, with continuous iteration of integrated autonomous driving technologies, further advancement of national policy standardization, the arrival of the inflection point in Robotaxi operators' operational efficiency, and initial results of international expansion, we expect China's Robotaxi industry to enter a phase of deeper large-scale deployment. Benefiting from stronger full-stack self-development capabilities, first-mover advantages in vehicle-road-cloud integration, policy resources deeply tied to first-tier cities, and rapid cost reduction driven by scale, leading players such as Baidu Apollo Go, Pony.ai, and WeRide are poised to continue benefiting and leading the industry's development.

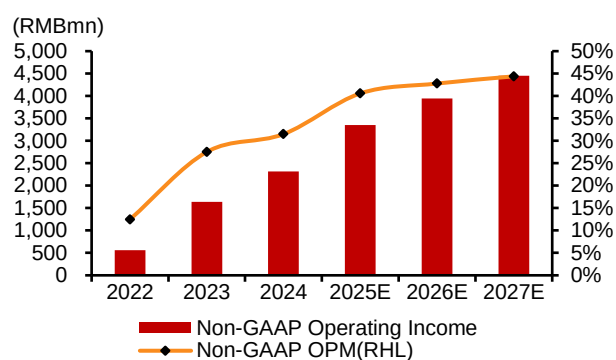
Vertical platforms: earnings growth remains as the key driver of valuation

For vertical platforms with competitive advantages in their respective fields, we believe that profit growth outlook and marginal improvement in earnings outlook are the key factors supporting the valuation premiums relative to the overall sector.

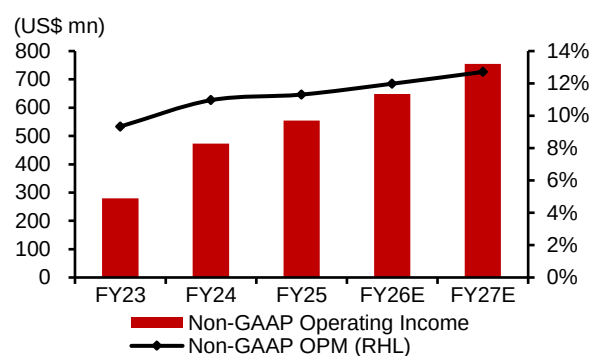
Beike: Although we expect the overall real estate industry to still face challenges in recovery in 2026, we anticipate that Beike's non-GAAP net profit will grow by 28% YoY to RMB7bn in 2026, benefiting from the optimization of operating costs in core businesses and incremental operating profits brought by new businesses such as home renovation & furnishing (HR&F) and home rental services. Meanwhile, the company is enhancing shareholder returns: share repurchase expenditure reached US\$675mn in 9M25, up 15.7% YoY, with the number of repurchased shares accounting for 3% of the total outstanding shares at the end of 2024. Against the backdrop of industry pressure, this initiative is expected to provide support for the company's valuation. We are optimistic about Beike's leading position in core business areas, and its new businesses are developing well, which is expected to bring long-term revenue and profit growth potential for the company. Our SOTP-derived target price is US\$20.7, corresponding to 24.5x 2026E non-GAAP PE.

Boss Zhipin: The company has established strong competitive moat based on its large base of enterprise customers and job seekers. We are upbeat on the company's ability to drive sustained margin improvement through operating leverage and cost control. We forecast its non-GAAP operating profit to grow by 18% YoY to RMB3.9bn in FY26. If the macro environment or the supply-demand dynamics of the job market outperform expectations, the company's profits and valuation will have high elasticity. Recruitment demand showed a recovery trend in 3Q25: the ratio of recruiters to job seekers on the platform improved, and both enterprise renewal rates and net revenue retention rates increased. Our target price is US\$25.5, based on 21x FY26 non-GAAP PE.

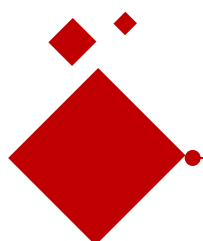
New Oriental: We expect the company to maintain relatively robust profit growth (17% YoY growth in non-GAAP operating profit) and sound shareholder returns (dividends + share repurchases accounting for approximately 5% of market cap) in FY26. Although overseas-related businesses continue to face pressure, the domestic K-12 business is accelerating thanks to higher renewal rates. The company guided FY26 revenue to grow by 5-10% YoY to US\$5.15bn-US\$5.39bn. In addition, the company will promote cost optimization measures, and we expect its full-year non-GAAP operating margin to increase by 1ppt YoY to 12%. To implement its shareholder return plan, the company announced two initiatives in October 2025: 1) a cash dividend of US\$1.2 per ADS (totaling US\$190mn); 2) the launch of a new 12-month share repurchase program with a scale of US\$300mn. The combined amount of the two initiatives accounts for approximately 5% of the company's current market capitalization. Our SOTP-derived target price is US\$76.0, corresponding to 21x FY26 non-GAAP PE.

Figure 57: Boss Zhipin: Adj. OP trend

Source: Company data, CMBIGM estimates

Figure 58: New Oriental: Adj. OP trend

Source: Company data, CMBIGM estimates



US Internet & Software

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AI applications to ramp up; eyes on AI investment return

Looking ahead to 2026, we believe competition in the large language model (LLM) industry will further intensify, while monetization of AI applications in niche segments should see continued momentum. We are optimistic about the further monetization potential driven by improved AI agent capabilities, as well as increased paid user penetration and monetization from advanced image editing and video generation LLMs. We currently do not anticipate over-investment risks among cloud service providers, and expect 2026 earnings growth of US-listed leaders to support their valuations. However, investors may adopt a more selective stock-picking approach, focus on investment return cycles, and prioritize companies with substantial AI monetization progress and those where AI-related investments efficiently drive revenue and profit growth. We recommend Microsoft (MSFT US), Alphabet (GOOG US), Amazon (AMZN US), and Palo Alto Networks (PANW US).

LLMs outlook: Intensified competition, enhanced capabilities, lower costs, and expanding application ecosystem

In 2025, competition intensified across all segments of the LLM industry, with continuous iterative upgrades in model capabilities. Meanwhile, call costs for the same models continued to decline, and industry applications were gradually rolled out. Key industrial trends include: 1) AI agent capabilities have emerged as a core focus; 2) Accelerated release and iteration of open-source LLMs; 3) Native end-to-end voice interaction models have become feasible for large-scale deployment; 4) Further advancements in image editing and video generation LLMs. Looking ahead to 2026, we believe competition has not yet entered a moderation phase, and the industry will continue to explore cutting-edge model capabilities while advancing industrial applications of LLMs.

Cloud service providers' sequential revenue growth acceleration, no near-term over-investment concerns

YoY revenue growth of cloud business among US internet companies further accelerated sequentially in 3Q25. Driven by strong demand, cloud service providers' capex surged to US\$93.1bn (+71% YoY). The impact of AI investments on profit margins has become divergent: while cloud-related capex has affected profit margins, the impact is better than expected and has driven steady profit growth—cloud service providers' cloud business operating profit rose 24.1% YoY in 3Q25 (2Q25: 23.5%). However, for industries with longer investment return cycles (e.g., advertising), investors should pay closer attention to investment pace and its impact on profit margins.

AI monetization: Driving core business growth, exploring new revenue streams, and cost optimization

Reviewing AI monetization and application progress of leading companies, we observe that AI continues to drive growth in core businesses such as cloud and advertising while creating new revenue opportunities. Meanwhile, internal AI applications have continuously

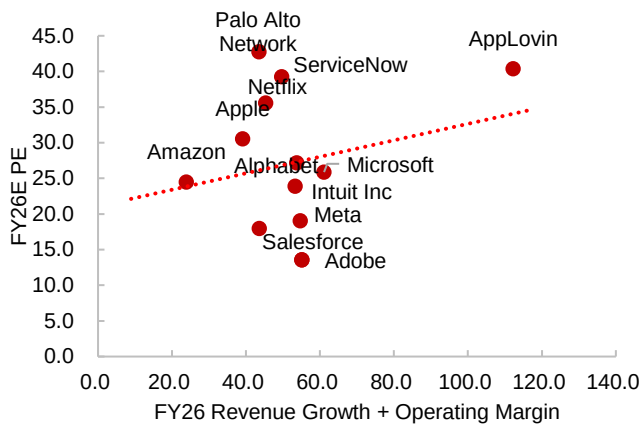
delivered cost reduction and efficiency improvements, which are expected to support long-term margin expansion and profit growth. Commercialization of enterprise AI applications lags behind AI cloud and advertising, but due to the asset-light model of enterprise SaaS vendors (with limited CapEx) and their active use of AI to enhance operational efficiency, SaaS vendors can still maintain margin improvements and robust profit growth, in our view.

Focus on two key scenarios for AI monetization opportunities

Gartner forecasts that global AI total spending will grow 37% YoY to US\$2.0tn in 2026, with AI IaaS, AI infrastructure software, AI LLMs, AI PCs, and AI application software being the top 5 fastest-growing segments. Commercial progress of AI applications remains a key market focus. Looking ahead to 2026, we recommend focusing on two scenarios for AI application deployment and commercialization: 1) Scenarios where AI LLMs excel: e.g., programming, creative content generation, and office productivity. We are optimistic about Kuaishou (1024 HK), a relative leader in AI video applications. 2) High-value AI application scenarios: e.g., enterprise AI agents, and traditional vertical industries such as education, finance, and legal services. We favor ServiceNow (NOW US) and Salesforce (CRM US), which hold leading positions in enterprise AI agents.

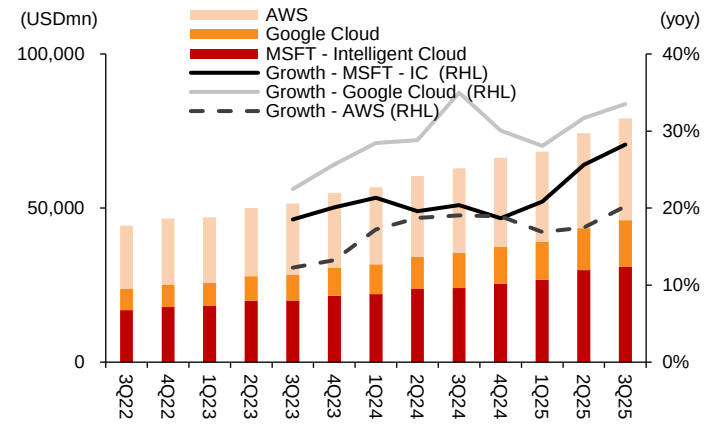
Focus Charts

Figure 1: US tech: valuation vs fundamental outlook



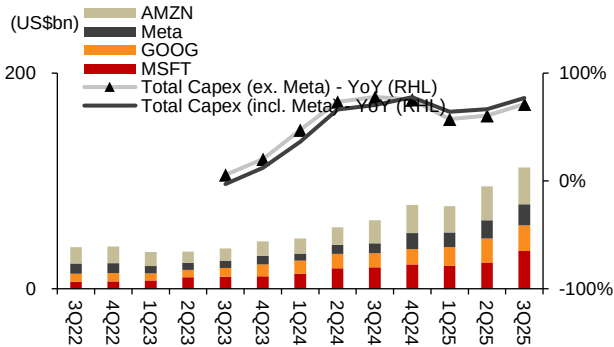
Source: Bloomberg, CMBIGM

Figure 2: US cloud service providers: cloud business unit revenue growth



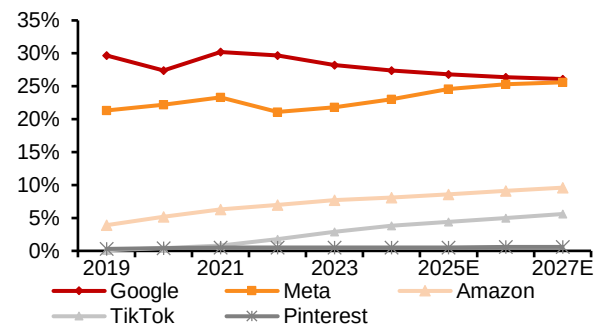
Source: Company data, CMBIGM

Figure 3: Major US tech vendors: capex trend



Source: Company data, CMBIGM

Figure 4: Global digital advertising market: leading vendors' market share



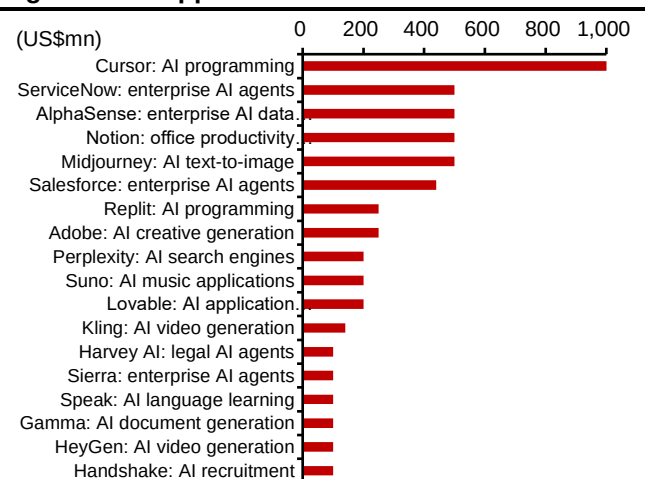
Source: eMarketer, CMBIGM

Figure 5: Global AI total spending breakdown

(US\$bn)	2024	2025E	2026E	2026E YoY growth
AI Services	259	283	325	15%
AI Applications	84	172	270	57%
AI Infra	57	126	230	82%
AI LLMs	6	14	26	81%
AI Server	140	268	330	23%
AI IaaS	7	18	38	105%
AI Semi	139	209	268	28%
AI PC	51	90	144	60%
AI Phone	245	298	393	32%
Total AI spend	988	1,479	2,023	37%

Source: Gartner, CMBIGM

Figure 6: AI application software: latest ARR level



Source: ARR Club, company data, CMBIGM

Core views, sector review & investment recommendations

Sector review

Since 2019, the Nasdaq 100 Index has risen 295%, primarily driven by upward earnings revisions. According to Bloomberg consensus estimates, the index's 1-year forward EPS has grown 151% since 2019, while the 1-year forward PE has increased 57% to 26.2x over the same period. The current valuation of the Nasdaq 100 (26x PE) is 8% higher than, or approximately 0.6 standard deviation above the post-2019 average (24x), indicating valuations remain in a relatively reasonable range.

Figure 7: Nasdaq 100 Index: 1-year forward PE & EPS trend

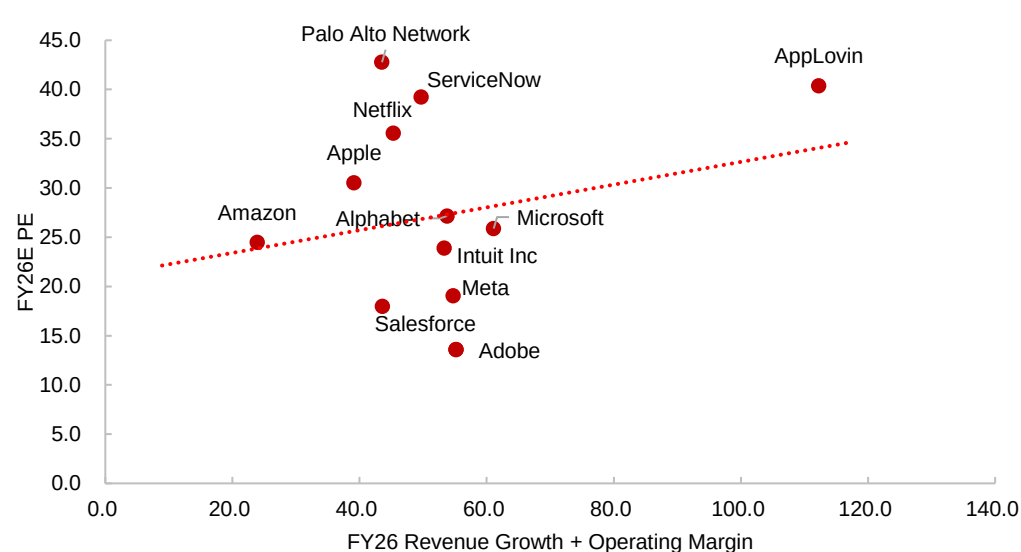


Source: Bloomberg, CMBIGM

Note: PE and EPS starting from January 1, 2019 are used as the benchmark (indexed to 100).

Based on our forecasts of the companies' FY26 fundamentals (FY26 revenue growth + operating margin) and PE levels: Microsoft/ Meta/ Salesforce/ Adobe are relatively undervalued; Amazon/ Alphabet are reasonably valued; Palo Alto Networks/ ServiceNow/ Netflix are relatively overvalued.

Figure 8: US tech: valuation vs fundamental outlook



Source: Bloomberg, CMBIGM

Figure 9: US tech valuations

Company	Ticker	Price (Local)	Mkt cap (USDmb)	PE (x)		PS (x)		PEG 2026E	EPS CAGR 24-26E
				2025E	2026E	2025E	2026E		
NVIDIA Corp	NVDA US	183.4	4,456,134	38.9	24.0	20.9	13.7	0.7	58%
Apple Inc	AAPL US	280.7	4,147,722	34.3	31.7	9.2	8.6	4.2	8%
Alphabet Inc	GOOG US	318.4	3,837,208	29.0	27.4	11.3	9.9	1.6	18%
Microsoft Corp	MSFT US	480.8	3,573,784	29.9	25.4	11.0	9.5	1.7	18%
Amazon.com Inc	AMZN US	229.1	2,449,235	26.1	23.0	3.4	3.1	0.8	34%
Meta Platforms Inc	META US	661.5	1,667,762	23.4	20.3	8.4	7.1	12.2	2%
Tesla Inc	TLA US	454.5	1,511,685	NA	NA	15.9	14.0	NA	-5%
Oracle Corp	ORCL US	214.3	611,010	30.7	26.1	9.1	7.3	1.9	16%
Netflix Inc	NFLX US	103.2	437,377	39.5	33.3	9.7	8.6	1.9	21%
Palantir	PLTR US	177.9	423,879	NA	NA	96.5	67.5	NA	62%
Salesforce Inc	CRM US	247.5	231,870	21.1	18.6	5.6	5.1	1.8	12%
AppLovin Corp	APP US	683.8	231,087	NA	46.6	40.7	29.8	NA	77%
Intuit Inc	INTU US	663.1	184,518	28.3	24.8	8.7	7.7	2.0	14%
ServiceNow Inc	NOW US	838.9	174,050	47.8	40.2	13.1	11.1	2.2	22%
Adobe Inc	ADBE US	328.7	137,606	15.5	14.1	5.8	5.3	1.8	8%
Palo Alto Network	PANW US	195.7	136,389	49.6	43.9	13.0	11.4	3.3	15%
CrowdStrike	CRWD US	513.1	129,357	NA	NA	26.9	22.1	NA	13%
Cadence	CDNS US	337.3	91,813	47.5	42.5	17.4	15.5	3.2	15%
Synopsys Inc	SNPS US	463.7	86,139	40.6	33.4	12.2	8.9	3.4	12%
Snowflake	SNOW US	234.8	79,540	NA	NA	17.1	13.8	NA	43%
Autodesk Inc	ADSK US	305.9	64,840	29.4	26.2	9.1	8.1	0.8	38%
Fortinet Inc	FTNT US	85.2	63,344	30.7	28.5	9.4	8.4	3.1	10%
Workday Inc	WDAY US	216.6	56,971	23.2	19.8	6.0	5.3	1.1	21%
Datadog	DDOG US	153.0	53,690	NA	NA	15.8	13.1	NA	16%
Average				32.5	28.9	16.5	13.1		

Source: Bloomberg, CMBIGM

Note: Data as of 4 Dec 2025

Investment recommendations

- 1) Microsoft (MSFT US, BUY, TP: US\$636.3):** We believe Microsoft's earnings results reflects sustained strong cloud revenue growth and rising ARPU driven by ongoing Copilot monetization. In the short term, we do not anticipate AI-related over-investment risks—disclosed backlog and order data indicate robust near-term demand, and incremental contracts with OpenAI are expected to further support cloud revenue growth. The company's AI investments have driven significant revenue growth while exerting a milder-than-expected impact on profit margins, demonstrating solid business fundamentals and operational efficiency improvement capabilities. We forecast FY26 net profit to grow 13.4% YoY, supported by steady revenue growth and margin expansion in Productivity and Business Processes as well as More Personal Computing segments, which will underpin stock price gains. Our DCF-based target price is US\$636.3, corresponding to 34.8x 2027E PE.
- 2) Alphabet (GOOG US, BUY, TP: US\$328.0):** In the short term, AI empowerment for Alphabet significantly outweighs competitive pressures from AI vendors. AI search products such as AI Overviews and AI Mode have accelerated paid click growth, while AI-driven cloud demand has boosted Google Cloud's revenue growth and operating margin. Driven by the accelerated growth of Google Cloud and core search business, we expect Alphabet to maintain steady profit growth in FY26 (16% YoY growth in operating profit). Additionally, progress in Gemini large model, TPU chips, and AI applications should further support fundamentals and stock price, in our view.
- 3) Amazon (AMZN US, BUY, TP: US\$269.0):** Benefiting from the easing of power supply constraints, Amazon showed a sequential acceleration in cloud revenue YoY growth. Further growth in backlog and management's positive guidance on power infrastructure

development to alleviate supply-side pressures suggest cloud revenue growth may accelerate in the coming quarters. For the e-commerce segment, excluding two one-time charges (US\$2.5bn related to the FTC legal settlement and US\$1.8bn in expected severance costs for planned layoffs), North American e-commerce profits met our expectations, and international e-commerce operating margin grew YoY—demonstrating the company's ability to continuously optimize service costs and operational efficiency. Additionally, the meeting between Chinese and US heads of state has led to marginal easing of geopolitical tensions and reduced market concerns over incremental tariffs. We believe operating profit growth remains the key driver of stock price gains, forecasting 16%/28% YoY growth in 2025/2026 operating profit. Our target price of US\$269 per ADS is based on 17.5x EV/EBITDA (3Q25-2Q26E), in line with the two-year trading average.

- 4) **Palo Alto Networks (PANW US, BUY, TP: US\$236.7):** We view Palo Alto Networks as a key beneficiary of the generative AI era, as security demand is poised to grow steadily with the expansion of AI-related deployments. We forecast FY26 revenue/non-GAAP net profit to grow 14%/18% respectively, with a free cash flow margin of 38.4%. Its financial performance consistently meets the "Rule of 50", which should support valuations. Our target price of US\$236.7 is based on 15.4x EV/sales, equivalent to the two-year average plus two standard deviations.
- 5) **Datadog (DDOG US, BUY, TP: US\$203.7):** Given the long-term trends of digital transformation and cloud migration, we are optimistic about Datadog's long-term growth potential. Accelerated cloud industry revenue growth is expected to benefit cloud infrastructure monitoring platforms, and Datadog has demonstrated the ability to continuously expand its customer base and cross-sell software products across the entire value chain from development to business operations. Despite being in the investment phase, Datadog maintains strong financial performance meeting the Rule of 40. As investments gradually yield returns and AI-native customer demand continues to grow, we expect the company's fundamentals to remain solid. Our target price of US\$203.7 is based on 16.6x EV/sales, in line with the two-year average plus one standard deviation.
- 6) **Meta (META US, BUY, TP: US\$880.0):** Leveraging its leading revenue/user/data advantages in the social advertising industry, we expect Meta to benefit from AI development in the long term. However, management's aggressive FY26 expense guidance (total expense growth to significantly outpace 2025) has raised investor concerns about FY26 profit growth prospects—particularly investments in self-developed large models and long-term projects such as MSL may weigh on near-term profit margins. We forecast FY26 operating profit growth to slow to 2% YoY, primarily due to AI infrastructure and staffing investments. The stock faces short-term valuation pressure amid slower profit growth and increased earnings uncertainty.
- 7) **ServiceNow (NOW US, BUY, TP: US\$1,180.0):** Backed by its enterprise customer base, first-mover advantages, and product innovation capabilities, we expect ServiceNow to continue benefiting from generative AI opportunities—AI products will drive sustained upsell/cross-sell growth. The company targets AI product ACV exceeding US\$500mn/US\$1bn by end-FY25/FY26 (accounting for ~4%/6% of total revenue), a significant increase from US\$250mn in 1Q25. Meanwhile, ServiceNow uses AI to continuously improve internal operational efficiency, and we expect FY26 non-GAAP operating margin to rise by another 1 ppt. We believe the company's current strong revenue growth and margin improvement will support its high valuation.
- 8) **Salesforce (CRM US, BUY, TP: US\$392.0):** We are optimistic about Salesforce's AI commercialization trend, supported by its differentiated Agentforce solutions and Data

Cloud integration offerings. In 3QFY26, Agentforce and Data 360 ARR grew 114% YoY to ~US\$1.4bn, with Agentforce ARR surging 330% YoY to over US\$500mn. Given the rising AI agent growth opportunities, management guided that: 1) Total revenue to exceed US\$60bn by FY30E, with a 5-year CAGR of over 10% for organic revenue (FY26-30); 2) the "Rule of 50" to be met by FY30E (subscription revenue YoY growth + non-GAAP operating margin > 50%). The stock currently trades at only 19x FY27E PE, offering a high margin of safety relative to peers.

Figure 10: Revenue and operating profit growth of the "Magnificent 7"

(US\$bn)	2022	2023	2024	2025E	2026E
Revenue					
Apple	394.3	383.3	391.0	416.2	449.2
Microsoft	198.3	211.9	245.1	281.7	326.3
Amazon	514.0	574.8	638.0	714.5	795.3
Alphabet	233.9	256.5	295.1	344.2	392.9
Meta	116.6	134.9	164.5	199.4	235.5
Nvidia	26.9	27.0	60.9	130.5	213.2
Tesla	81.5	96.8	97.7	95.2	108.3
YoY Growth					
Apple		-2.8%	2.0%	6.4%	7.9%
Microsoft		6.9%	15.7%	14.9%	15.8%
Amazon		11.8%	11.0%	12.0%	11.3%
Alphabet		9.7%	15.1%	16.6%	14.2%
Meta		15.7%	21.9%	21.2%	18.1%
Nvidia		0.2%	125.9%	114.2%	63.4%
Tesla		18.8%	0.9%	-2.6%	13.8%
Total Revenue	1,565.4	1,685.1	1,892.3	2,181.6	2,520.7
YoY Growth		7.6%	12.3%	15.3%	15.5%
Operating Profit					
Apple	119.4	114.3	123.2	133.1	144.1
Microsoft	83.4	89.7	109.4	128.5	150.5
Amazon	12.2	36.9	68.6	79.9	100.4
Alphabet	74.8	84.3	112.4	131.9	155.5
Meta	28.9	46.8	69.4	82.4	86.2
Nvidia	12.7	9.0	37.1	86.8	134.6
Tesla	13.7	8.9	7.1	4.6	7.2
YoY Growth					
Apple		-4.3%	7.8%	8.0%	8.3%
Microsoft		7.6%	22.0%	17.4%	17.1%
Amazon		200.9%	86.1%	16.4%	25.7%
Alphabet		12.6%	33.3%	17.4%	17.9%
Meta		61.5%	48.4%	18.7%	4.7%
Nvidia		-28.8%	310.8%	133.7%	55.1%
Tesla		-34.9%	-20.4%	-35.6%	57.4%
Total Operating Profit	345.2	389.8	527.2	647.0	778.5
YoY Growth		12.9%	35.2%	22.7%	20.3%

Source: Bloomberg, CMBIGM

Note: 1) Bloomberg consensus estimates as of November 28, 2025; 2) Microsoft data comparison covers FY22-FY26E

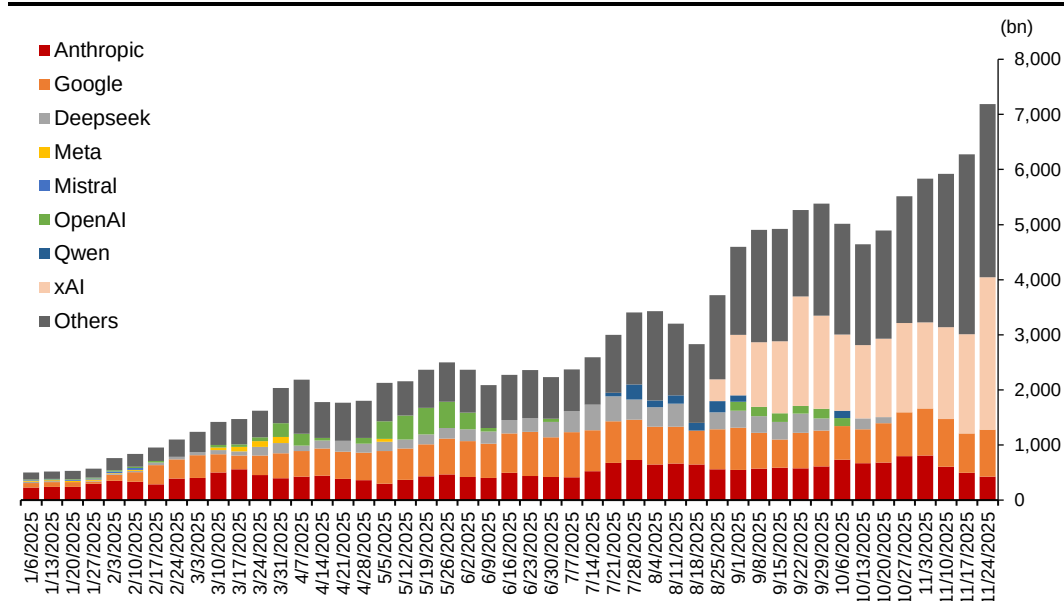
LLMs development: intensified competition, improved capability, cost reduction and enriching applications

Review of 2025: Competition has intensified across all segments of the large language model (LLM) industry, with continuous iterative upgrades in model capabilities. Meanwhile, call costs for the same models have continued to decline, and industry applications have been gradually rolled out. Key industrial trends include: AI agent capabilities have emerged as a core focus; accelerated release and iteration of open-source LLMs; native end-to-end voice interaction models have become feasible for large-scale deployment; and further advancements in image editing and video generation LLMs. Looking ahead to 2026, we believe competition has not yet entered a moderation phase—the industry will continue to explore cutting-edge model capabilities while advancing industrial applications of LLMs, and monetization of AI applications in niche segments is expected to maintain growth momentum. We are optimistic about the further monetization potential driven by improved AI agent capabilities, as well as increased paid user penetration and monetization from advanced image editing and video generation LLMs.

LLM industry development trends: intensified competition, enhanced capabilities, and lower costs

Overall, since 2025, global LLM token usage volume has seen significant rapid growth, with the AI industry accelerating from technology validation to large-scale application. Data from the OpenRouter platform shows that the peak weekly token usage volume of LLMs on its platform exceeded 7T in 4Q25, nearly doubling the peak in 3Q25. Among them, leading vendors such as xAI Grok and Google Gemini have witnessed particularly prominent growth in LLM token usage: xAI Grok's weekly token usage reached 3.15 tn in November 2025, surging over 692% from 397bn at the end of August. The adaptability of model capabilities to scenarios and pricing strategies are the core drivers of LLM token consumption growth. xAI Grok and Google Gemini, while capable of rapid technological iteration, are bound to high-value vertical scenarios such as programming, achieving absolute leading market share in "AI + programming" scenarios; Anthropic Claude has maintained its market share through continuously optimized pricing strategies.

Figure 11: 2025 full view of token usage volume for leading large language models



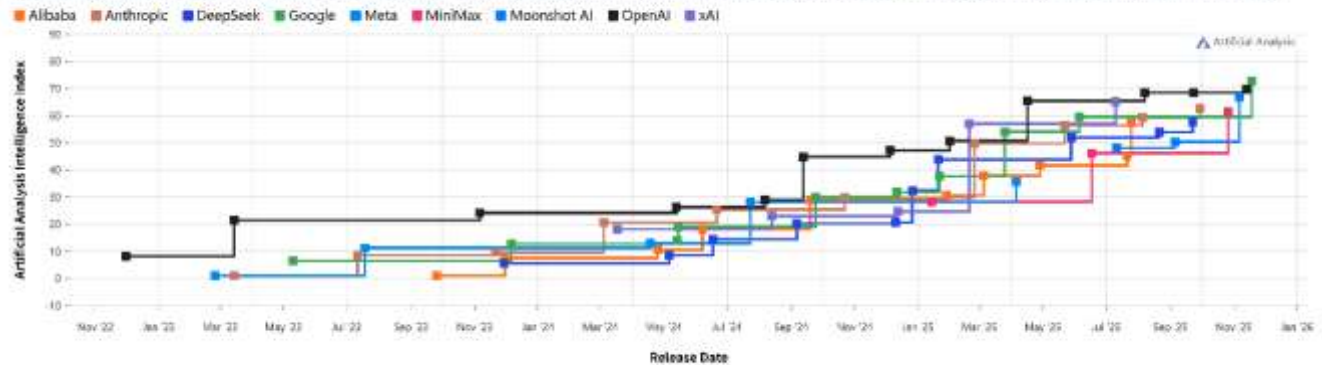
Source: OpenRouter, CMBIGM

Based on the iteration speed and intelligent capabilities of leading LLMs, the entire industry is demonstrating a trend of continuously accelerating iteration cycles and persistent breakthroughs in intelligent capabilities. According to the Artificial Analysis Intelligence Index, as of November 24th, the most capable LLM in the industry to date is Google's Gemini 3 Pro preview.

Figure 12: Comparison of model capabilities among mainstream LLMs

Frontier Language Model Intelligence, Over Time

Artificial Analysis Intelligence Index v3.0 incorporates 10 evaluations: MMLU-Pro, GPQA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AIME 2025, IFBench, AA-LCR, Terminal-Bench Hard, τ^2 -Bench Telecom



Source: Artificial Analysis, CMBIGM

Note: 1) The Artificial Analysis Intelligence Index covers 10 evaluation dimensions (the same below), mainly including: MMLU-Pro, GPQA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AIME 2025, IFBench, AA-LCR, Terminal-Bench Hard, τ^2 -Bench Telecom; 2) ranking is non-exhaustive; 3) ranking as of 24 Nov 2025.

Based on the overall capability scores of LLMs from Artificial Analysis data, US vendors including Google, OpenAI, xAI, and Anthropic maintain leading positions in the industry. Among Chinese vendors, the top-performing LLMs include Kimi developed by Moonshot, Deepseek by High-Flyer Quant, Minimax by Xiyu Technology, and Qwen by Alibaba Group, all of which demonstrate industry-leading capabilities.

Figure 13: Ranking of capabilities of mainstream LLMs

Artificial Analysis Intelligence Index

Artificial Analysis Intelligence Index v3.0 incorporates 10 evaluations: MMLU-Pro, GPQA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AIME 2025, IFBench, AA-LCR, Terminal-Bench Hard, τ^2 -Bench Telecom



Source: Artificial Analysis, CMBIGM

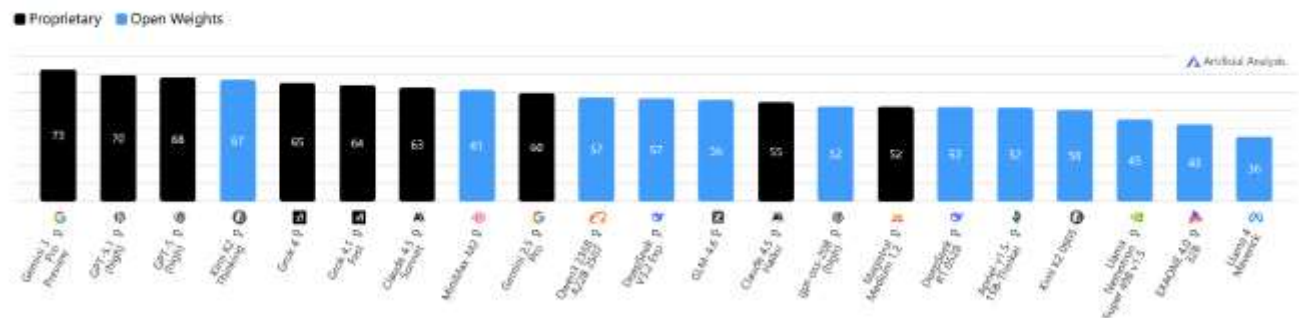
Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) ranking as of 24 Nov 2025.

Based on the capability comparison between open-weights and proprietary models, Chinese model vendors have generally focused on exploring the open-weights route. Currently, the most capable open-source model is Kimi K2 Thinking. However, we have also observed a trend where US vendors are accelerating their exploration of open-source models. For instance, OpenAI released its open-weight language model GPT-oss in August 2025.

Figure 14: LLM capability comparison: Open-weights vs. proprietary model

Artificial Analysis Intelligence Index by Open Weights vs Proprietary

Artificial Analysis Intelligence Index v3.0 incorporates 10 evaluations: MM(LU-Prop, GPOA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AJME 2025, iFBBench, AA-LCR, Terminal-Bench Hard, v1-Bench Telecom)

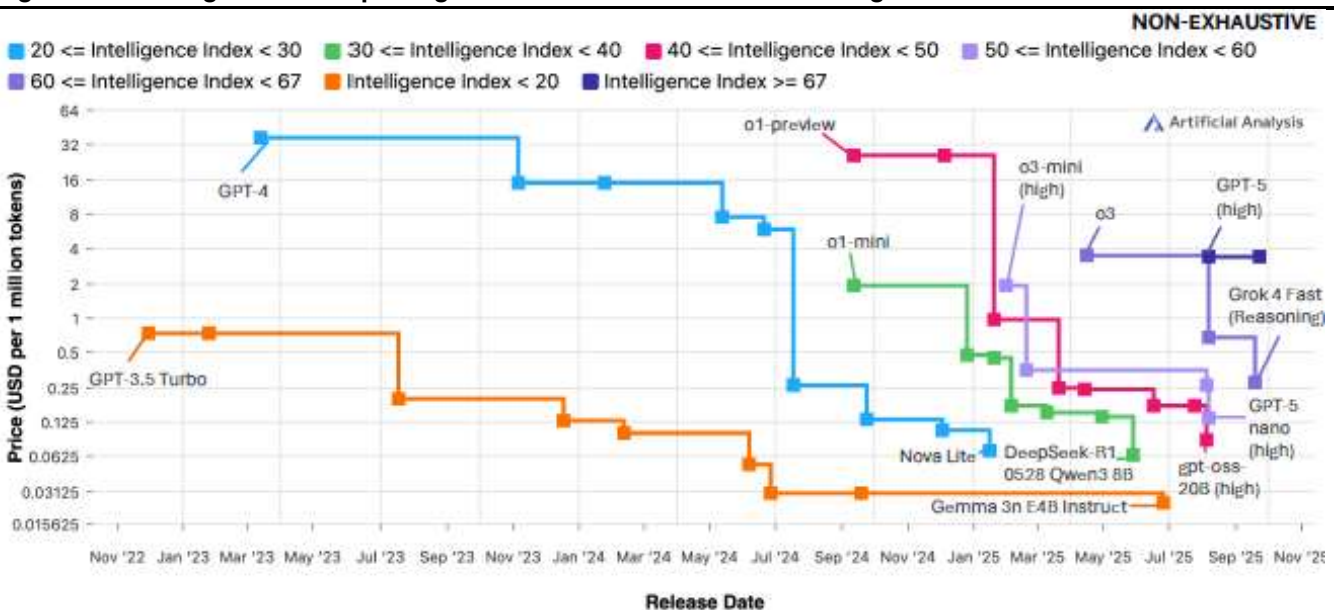


Source: Artificial Analysis, CMBIGM

Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) ranking as of 24 Nov 2025.

On the model inference cost front, based on data from Artificial Analysis, we have observed two key trends overall: 1) the inference costs of representative models within each group classified by different intelligent capability levels have continued to decline over time; 2) At the same point in time, accessing more powerful LLMs does require a higher price; however, over an extended time horizon, the inference costs of representative models across all groups have fallen, and the narrowing cost gap between different groups is expected to further drive the prosperity of the application ecosystem.

Figure 15: Pricing: Inference pricing continues to fall across all intelligence classes



Source: Artificial Analysis, CMBIGM

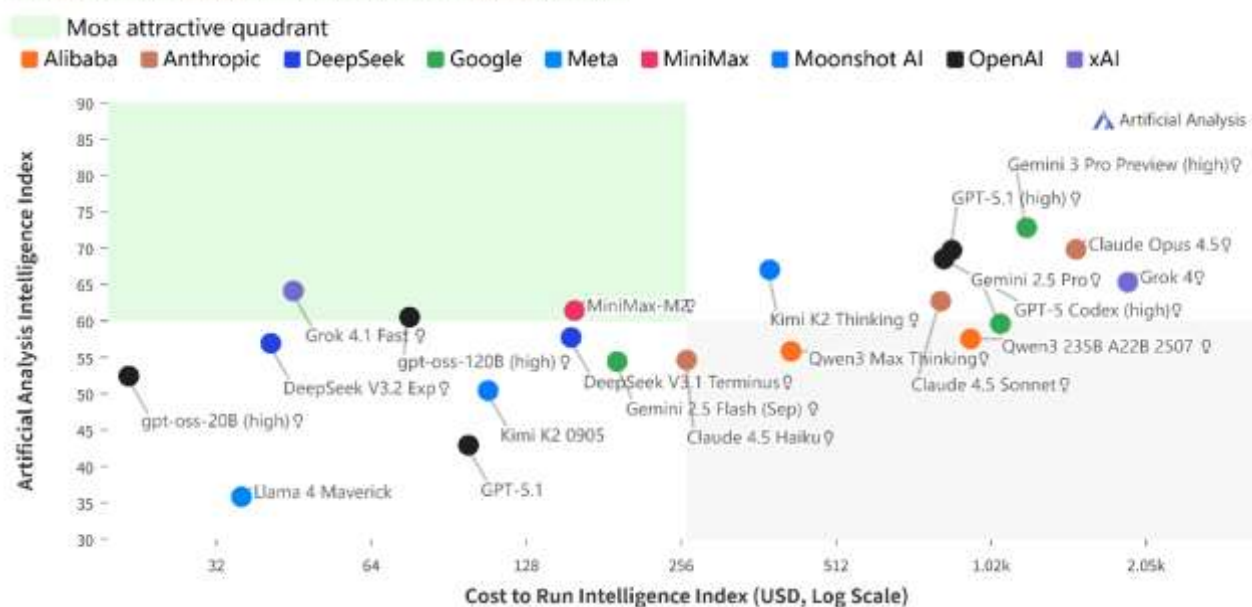
Note: price in USD per 1mn tokens (blended input to output token price 3:1).

From an industry comparison perspective, based on the comprehensive measurement of cost efficiency—integrating the intelligent capability index of different models and the costs required to complete the corresponding index tests—among current models, certain versions of Minimax, Grok, and GPT series rank in the most attractive quadrant. Models such as Kimi and Deepseek are also close to this high-value quadrant.

Figure 16: Intelligence vs Cost to Run Artificial Analysis Intelligence Index

Intelligence vs. Cost to Run Artificial Analysis Intelligence Index

Artificial Analysis Intelligence Index; Cost to Run Intelligence Index



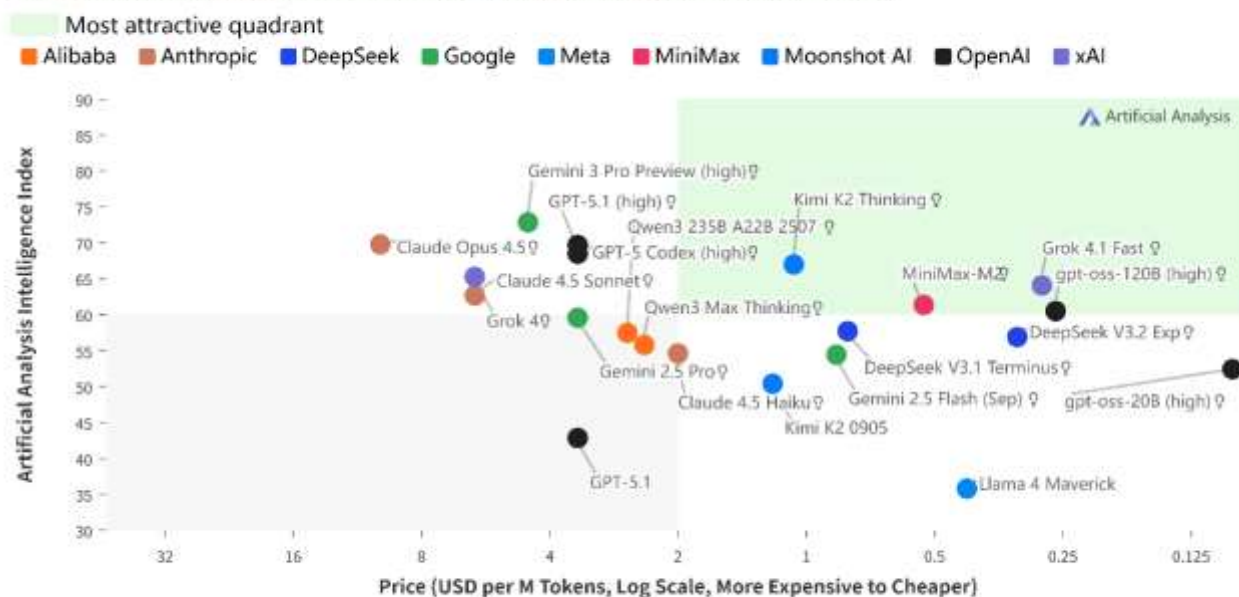
Source: Artificial Analysis, CMBIGM

From the perspective of cost-performance ratio for enterprise users (i.e., the balance between model intelligence capabilities and inference pricing), certain versions of Kimi, Minimax, and Grok rank in the optimal quadrant. Meanwhile, models such as Deepseek and Qwen are also close to this high-value range.

Figure 17: Intelligence vs Price

Intelligence vs. Price (Log Scale)

Artificial Analysis Intelligence Index; Price: USD per 1M Tokens; Inspired by prior analysis by Swyx



Source: Artificial Analysis, CMBIGM

Note: 1) Price: USD per 1M Tokens; 2) Price is a blend of Input & Output token prices (3:1 ratio)

Video model: expanding application scenarios and accelerating monetization

With the development of multimodal large models, AI creative generation applications (video/image/speech) for professional/enterprise users—especially AI video applications—have achieved rapid scenario implementation and commercial development. We remain optimistic about the long-term global market size for AI creative applications. We estimate that the global creative application market size will reach US\$54.6bn in 2027, with AI creative application penetration expected to reach 11%, corresponding to a global AI creative tool market size of US\$5.8bn.

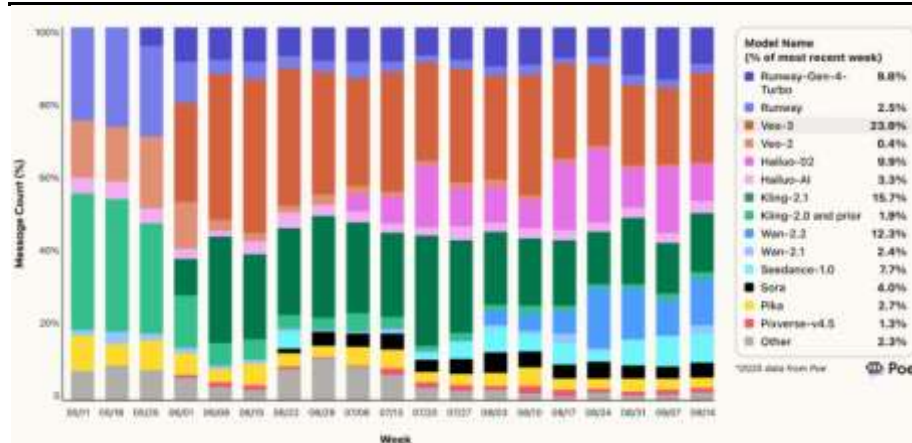
The global video large model industry is developing rapidly. Chinese vendors have achieved leading performance and cost advantages in the video model field based on continuous technological exploration and rich video data. According to Artificial Intelligence evaluations, Kuaishou Keling, Google Veo 3, and Lightricks LTX-2 Pro rank top three in performance, and Kuaishou Keling is superior to the other two large models in terms of API call price. Other domestic video model vendors such as SenseTime, Alibaba, and ByteDance also hold relatively leading positions in the industry and have advantages in model call costs.

Figure 18: Leading video large models: comparison of scores and API prices

Company	Model	Launch Date	Text-to-Video ELO Score	Resolution	API Call Price (USD/second)
Kuaishou	Kling 2.5 Turbo Standard	Sep-25	1,232	720p	0.04
Google	Google Veo 3 / 3.1	Jul-25	1,227	720p	0.20
Lightricks	LTX-2 Pro	Oct-25	1,198	1080p	0.06
MiniMax	MiniMax Hailuo 2.3	Oct-25	1,194	768p	0.05
Vidu	Vidu Q2 Turbo	Oct-25	1,185	720p	0.02
Alibaba	Wan 2.5	Sep-25	1,181	720p	0.09
OpenAI	Sora 2	Sep-25	1,179	720p	0.10
PixVerse	PixVerse v5	Aug-25	1,179	1080p	0.06
ByteDance	Seedance 1.0 Lite	Jun-25	1,169	720p	0.03

Source: Artificial Intelligence, CMBIGM

According to POE, an AI application and model monitoring website, the usage of Google's Veo 3 video model has grown rapidly since its launch, with its market share approaching 24% by early September. However, domestic video model vendors have also maintained strong competitiveness. The combined market share of video models from domestic vendors (including Kuaishou, Minimax, Alibaba, and ByteDance) has reached approximately 53%. Among them, Kuaishou's Kling remains the leader with a 16% market share.

Figure 19: Video models: messages sent to models

Source: POE, CMBIGM

We remain optimistic about the long-term global market space for AI creative applications. We estimate that the global creative application market size will reach US\$54.6bn in 2027, with AI creative application penetration expected to reach 11%, corresponding to a global AI creative tool market size of US\$5.8bn.

Figure 20: Creative AI application TAM

Creativity tools TAM (US\$bn)	2024	2025E	2026E	2027E
Creativity tools TAM	39.16	43.79	48.93	54.61
YoY		11.8%	11.7%	11.6%
AI creativity tools TAM		1.86	4.01	5.80
AI Penetration rate		4.3%	8.2%	10.6%
Professional Creativity	2024	2025E	2026E	2027E
Global number of creative pros (mn)	68.0	71.4	75.0	78.7
Free-to-paid conversion rate %	85%	85%	85%	85%
Number of subscribers (mn)	57.8	60.7	63.7	66.9
Monthly ARPPU (US\$)	44.0	45.0	46.0	47.0
Creativity Cloud TAM - Professional Creativity	305.2	327.7	351.8	377.4
AI Creativity Cloud TAM - Pro Creativity		13.1	26.4	37.7
AI Penetration rate		4%	8%	10%
Hobbyist Creativity	2024	2025E	2026E	2027E
Global number of creative hobbyists (mn)	900.0	927.0	954.8	983.5
Free-to-paid conversion rate %	10%	11%	12%	13%
Number of subscribers (mn)	90.0	102.0	114.6	127.8
Monthly ARPPU (US\$)	8.0	9.0	10.0	11.0
Creativity Cloud TAM - Hobbyist Creativity	86.4	110.1	137.5	168.8
AI Creativity Cloud TAM - Hobbyist		5.5	13.7	20.3
AI Penetration rate		5%	10%	12%

Source: Company data, International Labor Organization, CMBIGM estimates

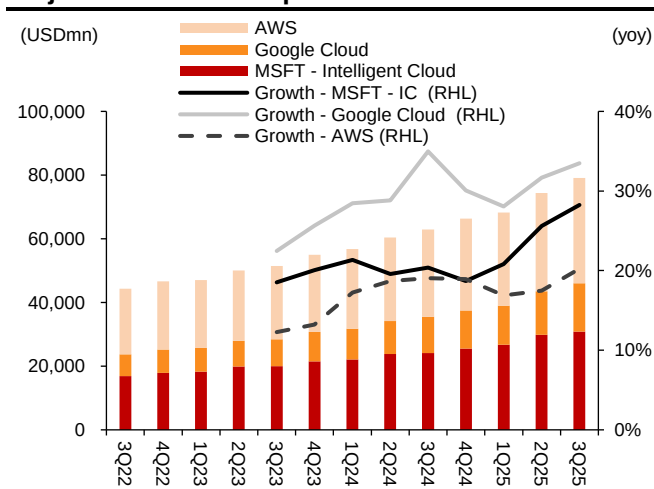
Industry fundamentals: capex guidance raised on strong demand; divergent profit margin impact

From the results of leading US internet companies, we observe the following key trends: 1) driven by robust demand and the gradual easing of supply constraints, infrastructure cloud vendors (Microsoft Intelligent Cloud/Google Cloud/Amazon AWS, hereinafter referred to as "cloud vendors") have achieved sequential acceleration in YoY revenue growth. Their combined YoY revenue growth rate rose to 25.7% in 3Q25 (2Q25: 23.1%; 3Q24: 22.2%). Additionally, fueled by strong demand, cloud vendors' capex surged sequentially to US\$93.1bn (+71% YoY); 2) the impact of AI investments on profit margins has gradually diverged. While cloud-related capex has exerted some pressure on industry profit margins, the impact has been better than feared and has driven steady profit growth. However, for sectors with longer investment payback cycles (e.g., advertising), attention should be paid to investment pace and its impact on profit margins, in our view. We currently do not anticipate over-investment risks among cloud vendors and believe that the earnings growth of leading US stocks in 2026 should support their valuations. Nevertheless, we emphasize the need for more selective stock selection, recommending focus on companies with substantial AI monetization momentum and those where AI-related investments can efficiently drive revenue and profit growth.

Sustained strong demand and gradual easing of supply constraints driving accelerated cloud revenue growth

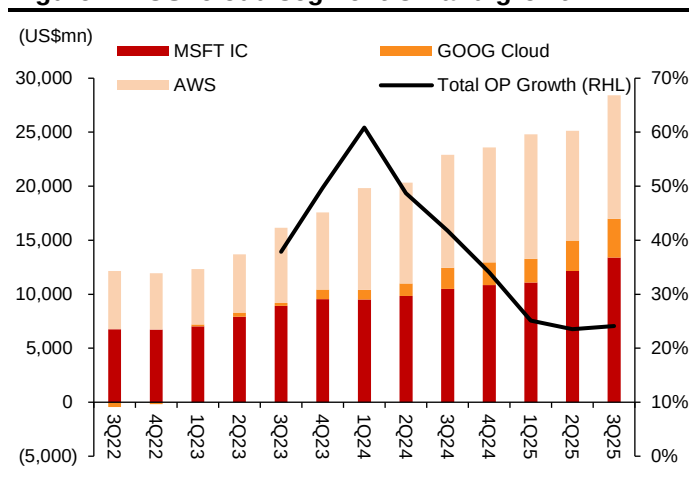
In 3Q25, Microsoft Intelligent Cloud/Google Cloud/Amazon AWS achieved YoY revenue growth of 28.2%/33.5%/20.2% (2Q25: 25.6%/31.7%/17.5%), and we expect this acceleration trend to continue into 4Q25. Demand for cloud services remains robust, while supply constraints remain the primary bottleneck to further revenue growth—easing of these constraints could support continued acceleration, in our view. On demand side: in 3Q25, Microsoft disclosed that its total commercial remaining performance obligations (RPO) increased to US\$392bn (+51% YoY); Google Cloud's backlog grew 46% QoQ and 82% YoY to US\$155bn. On supply side, Amazon noted that power capacity remains the key constraint to meeting incremental customer demand. The commissioning of additional power support will enable fulfillment of more demand, in our view. Amazon has added more than 3.8 gigawatts of power in the past 12 months, and expects to add at least another one gigawatt of power in 4Q25, and to double overall capacity by the end of 2027.

Figure 21: US: cloud segment revenue growth of major cloud services providers



Source: Company data, CMBIGM

Figure 22: US: cloud segment OP and growth

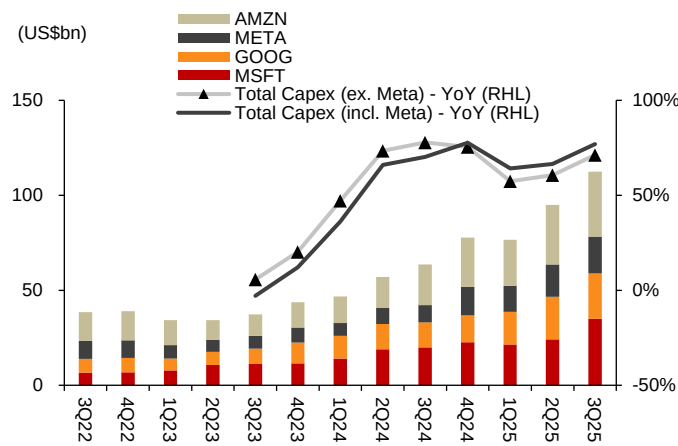


Source: Company data, CMBIGM

Cloud capex: further expansion to meet demand, but likely no near-term over-investment risks

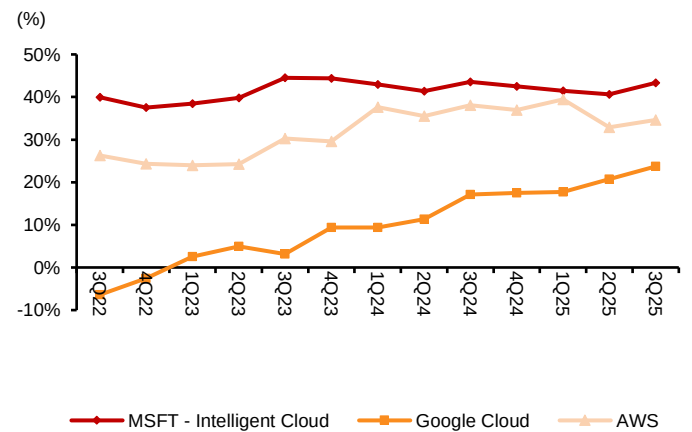
In 3Q25, the combined capex (company-level, including finance leases) of Microsoft, Google, Amazon, and Meta reached US\$112.4bn (2Q25: US\$95.0bn), representing a YoY growth of 77% (2Q25: 67%; 3Q24: 70%). We believe near-term over-investment risks in AI remain limited for cloud vendors, primarily due to the following factors: 1) investments are still focused on fulfilling relatively short-term confirmed demand. For instance, Microsoft disclosed that the weighted average duration of its RPO in 1QFY26 remained stable at approximately 2 years. Additionally, nearly 50% of capex is allocated to short-term asset investments (i.e., CPUs and GPUs) to meet incremental demand; 2) capex allocation remains rational (power infrastructure, chips, data centers). Even if signs of over-investment emerge in the future, vendors possess the flexibility to repurpose existing capex capacity for internal cost optimization initiatives and secondary monetization in other business areas, in our view.

Figure 23: US: Capex trend of major tech players



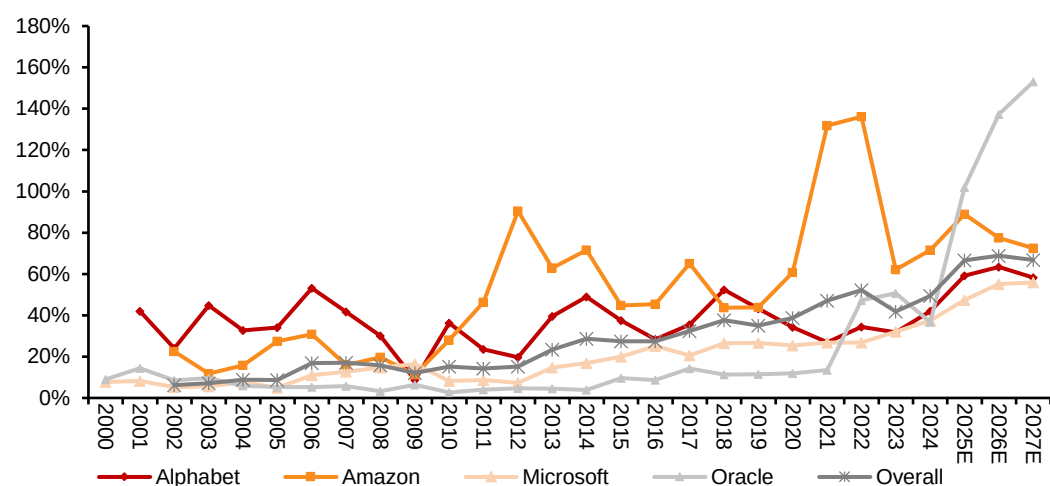
Source: Company data, CMBIGM

Figure 24: US cloud services providers: OPM of cloud business

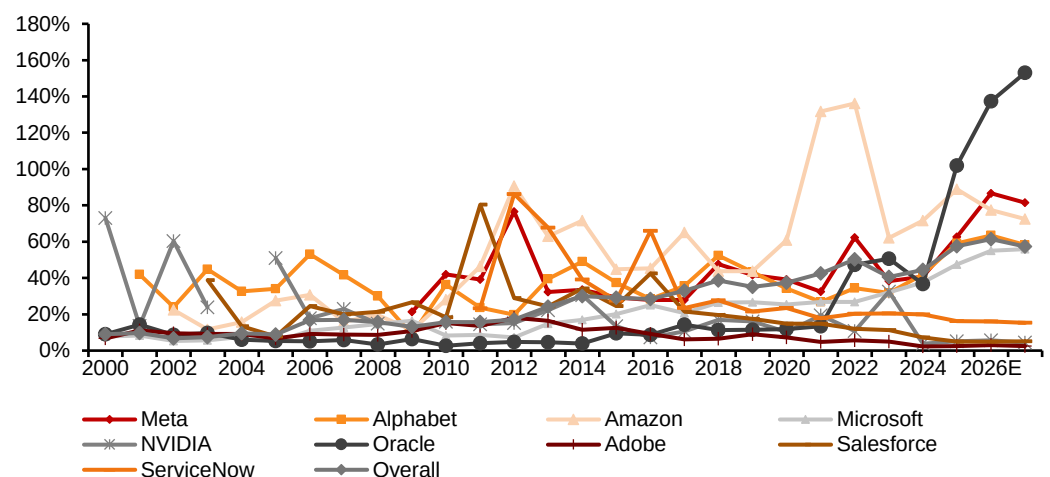


Source: Company data, CMBIGM

Driven by surging AI computing power demand, leading US cloud vendors (GOOG/AMZN/MSFT/ORCL) are expected to record all-time high capex in 2025. Total capex for 2025 is projected to reach approximately US\$298.1bn based on Bloomberg consensus estimates, accounting for 67% of total OCF (compared to US\$1.5bn in 2001, representing 10% of OCF). Between 2001 and 2025, capex is expected to achieve a CAGR of 25%, while OCF is anticipated to grow at a CAGR of 15% over the same period. By company, Microsoft/Google/Amazon maintain robust cash flow generation capabilities, with 2025 capex/OCF ratios of 47%/59%/89% respectively, indicating their cash flow can adequately support capex needs. In contrast, Oracle's capex plans significantly exceed its operating cash flow. According to Bloomberg consensus estimates, Oracle's FY25/FY26/FY27E capex/OCF ratios are projected to reach 102%/137%/153%.

Figure 25: Leading US cloud vendors: Capex/OCF

Source: Bloomberg, CMBIGM

Figure 26: Leading US tech companies: Capex/OCF

Source: Bloomberg, CMBIGM

AI applications: driving core business growth, exploring new monetization avenues, and reducing costs & enhancing efficiency

Reviewing the AI monetization and application progress of leading companies, we observe that AI continues to drive core business growth while creating new revenue opportunities. Meanwhile, internal AI applications have continuously delivered cost reduction and efficiency improvements, which are likely to support long-term margin expansion and profit growth.

On driving core business growth and exploring new monetization methods, we have observed that: 1) In terms of absolute incremental revenue, besides cloud business, AI has significantly empowered advertising business, but the overall investment return cycle of advertising business is slightly longer than that of AI cloud. This has led to short-term margin pressure and slower profit growth for Meta after it significantly increased capex and personnel expenses; 2) The commercialization of enterprise AI applications lags behind AI cloud and advertising, but due to the asset-light model of enterprise SaaS vendors (with limited capex input) and their active use of AI applications to improve operational efficiency, SaaS vendors can still maintain margin improvement and robust profit growth.

In the long term, we believe the AI growth narrative is still deepening. From breakthroughs in chip computing power to the in-depth implementation of enterprise-level AI in vertical industries such as government affairs, finance, and e-commerce, the technological boundaries and commercial scenarios of AI are continuously expanding. Driven by both AI technology iteration and industry penetration, the growth momentum of tech companies is expected to be further strengthened. In the short term, with AI monetization still progressing rapidly but overall industry valuations possibly reflecting market sentiment optimistically, profit growth rate may become a more important driver of stock price growth in 2026, in our view.

Figure 27: AI business progress of major US internet and cloud computing vendors

Company	AI Progress
Microsoft	Sustained growth in AI cloud demand drives robust cloud revenue growth: Azure and other cloud services revenue grew 40% YoY in 1QFY26; Azure AI Foundry has provided over 11,000 models, serving 80,000 customers (covering 80% of Fortune 500 companies); Copilot-related monetization drives revenue growth: In Microsoft's Productivity and Business Processes segment in 1QFY26, M365 commercial/consumer cloud revenue grew 17%/26% YoY (4QFY25: 18%/20%), supported by 6%/7% YoY growth in M365 commercial paid seats/subscribers and rising ARPU.
Amazon	AI drives sequential acceleration in cloud revenue growth: AWS revenue growth accelerated to 20.2% YoY (2Q25: 17.5%; 3Q24: 19.1%); Trainium: Trainium2 is now a multi-billion-dollar revenue business, growing 150% QoQ; Trainium3 is expected to be 40% more cost-effective than Trainium2, with a preview version to be launched by end-2025 and full deployment in early 2026; Rufus: AI shopping assistant with 250mn active users in 2025, monthly users grew 140% YoY in 3Q25; customers using Rufus during shopping are 60% more likely to complete purchases; Empowering sellers: Over 1.3mn sellers use Amazon's generative AI features to publish high-quality product information faster, leading to better customer acquisition and driving the third-party seller sales share up 200 bps YoY to 62% in 3Q25.
Alphabet	AI Overviews/AI Mode: AI Overviews and AI Mode drove paid click growth from 3% YoY in 1H25 to 7% YoY in 3Q25. AI Mode's DAU exceeded 75mn in 3Q25, with usage growing QoQ weekly since launch and query volume doubling QoQ; AI Max and Search: Globally launched in September, AI Max and Search generated over billions of new searches in 3Q25, becoming the fastest-growing AI search advertising product; Gemini App: Consumer-side Gemini App MAU exceeded 650mn, with inquiries tripling QoQ in 3Q25.
Meta	Increasing ad inventory: AI content recommendation system drove 5%/10% YoY growth in user time spent on Facebook/Threads in 3Q25, enriching platform ad inventory; Improving ad conversion efficiency: Meta continuously optimized ad model Andromeda, driving a 14% improvement in Facebook ad quality;

	3)	Reducing ad delivery costs: End-to-end AI automated ad solutions have annualized revenue exceeding US\$60bn, lowering ad delivery thresholds and costs while improving efficiency. Looking ahead, the company will continue to use AI to optimize recommendation systems, content understanding capabilities, and marketing effectiveness; management expects AI to drive sustained strong revenue growth in FY26.
ServiceNow	1)	The company targets AI product ACV exceeding US\$500mn/US\$1bn by end-FY25/FY26, a significant increase from US\$250mn ACV in 1Q25;
	2)	Introduced pay-as-you-go pricing model with positive customer feedback; AI agent usage has grown over 55x since late May 2025;
	3)	Launched AI Control Tower to help enterprises manage AI workflows; product orders grew over 3x QoQ in 3Q25.
Apple	1)	Driving hardware revenue growth: Mac revenue reached US\$8.7bn (+13% YoY) in 4QFY25, a September-quarter record, supported by the proactive development of M5 chip (each GPU core integrates a neural accelerator, AI performance 3.5x that of M4) to enable efficient edge AI task execution;
	2)	Driving services business to a record high: Services revenue hit US\$28.8bn (+15% YoY) in 4QFY25, exceeding US\$100bn for the first time in FY25 (+14% YoY), mainly due to the proactive launch of Apple Intelligence features this quarter to improve user interaction efficiency and service stickiness;
	3)	Consolidating AI infrastructure and ecosystem foundation: Proactively put Houston AI server factory into production to provide computing power support for PCC private cloud and ensure AI function privacy and security; increased AI R&D and CapEx investment, planning to launch personalized Siri in FY26 to strengthen long-term competitiveness of hardware-service synergy.
Tesla	1)	Driving software service revenue growth: Service business revenue reached US\$3.48bn (+24.6% YoY) in 3Q25, supported by a) AI's new complex environment reasoning capability in FSD V14 to improve subscription penetration; b) Robotaxi driving over 250,000 miles without safety officers in Austin, AI optimizing operational efficiency, with plans to expand to 8-10 urban areas by year-end;
	2)	Driving energy business growth: Energy business revenue hit US\$3.42bn (+44% YoY) in 3Q25, with record energy storage deployment of 12.5GWh, supported by AI boom-driven data center energy storage demand and Megapack volume growth; AI also optimizes energy storage scheduling and deployment processes to support Megapack 4 R&D;
	3)	Supporting vehicle delivery and capacity expansion: Delivered 497,000 vehicles (+7.4% YoY) in 3Q25, planning to achieve 3mn annualized capacities within 24 months; AI optimizes vehicle production processes and supply chain management, and empowers Cybercab R&D;
	4)	Consolidating foundation for future core businesses: Self-developed AI5 chip performance is 40x that of AI4, supporting computing power needs for high-level autonomous driving and robotics.
Netflix	1)	Driving ad revenue growth: Ad revenue hit a record quarter in 3Q25, expected to double YoY in 2025, supported by a) AI-enhanced ad tech stack to optimize ad formats and delivery measurement capabilities; b) upcoming AI-powered interactive ads, with plans to launch ML-based optimization and precision targeting in 2027 to improve ad monetization efficiency;
	2)	Improving content production efficiency: AI serves as a creative tool to help creators develop content more efficiently and innovatively;
	3)	Enhancing user viewing and retention: Total viewing time growth accelerated in 3Q25 with a stable subscriber base, supported by AI-driven recommendation engine to accurately push high-quality content and AI-optimized product experience (e.g., personalized content recommendation) to improve user engagement and long-term retention willingness.
Booking	1)	Driving ad and other revenue growth: Grew 14.5% YoY in 3Q25, partly supported by a) AI-optimized precision marketing algorithms to improve ad recommendation efficiency; b) AI-accelerated video content production to expand marketing scenarios and ad inventory;
	2)	Improving user conversion and repurchase efficiency: Higher conversion rate and lower cancellation rate, supported by AI-driven search tools to optimize booking paths and personalized recommendations to enhance user stickiness.
Cloudflare		Drove 31% YoY sales growth to US\$562mn in 3Q25, exceeding market expectations, supported by AI tool and AI security feature upgrades; currently, 80% of AI-related tech companies use its cloud computing tools, with new large AI enterprise contracts added this quarter.
Palantir	1)	AI empowers core business: Proactively integrated AIP into Army Vantage platform and obtained army-wide integration instructions; AI Hivemind supports complex government tasks to deepen government business; edge ontology technology enables customers to develop mobile AI applications at low cost, expanding AIP application scenarios;
	2)	Supporting customer growth: AIP helps enterprise customers with AI transformation to lower adoption thresholds, driving customer count to 911; AI FDE agent enables autonomous task execution and closed-loop error correction, helping customers compress legacy data warehouse migration cycle from 2 years to 5 days.
Uber	1)	AI applications: Uber AI provides multilingual tasks for 9.4mn drivers/couriers to improve their income; generative AI is embedded into the entire platform process to enhance efficiency, optimize operations, provide personalized user experience, and support cross-platform user matching;
	2)	Autonomous driving: Cooperated with NVIDIA to develop Hyperion (L4 autonomous driving reference architecture); partnered with Stellantis to adopt NVIDIA technology for an initial 5,000 vehicles with plans for significant expansion; operates with Waymo in Austin, Atlanta, and Phoenix, with the market growth rate of Waymo autonomous driving deployment twice that of other US regions.
Fortinet	1)	Launched Secure AI Data Center Solution in Q3, designed for AI workloads, achieving high-throughput and low-latency protection based on FortiASIC chips, and has been implemented in AI infrastructure projects of top 150 Fortune e-commerce customers;

	2)	AI products directly drive revenue growth: AI-driven SecOps segment billings grew 33% YoY in this quarter, far exceeding overall growth, and now account for 11% of total billings;
	3)	Consolidating product advantages: AI technology optimizes threat detection accuracy and operational efficiency of core products such as firewalls and SASE, driving performance improvement of FortiGate series products.
Applovin	1)	Ad model optimization drives rapid revenue growth: Total revenue grew 68% YoY to US\$1.405bn in 3Q25, mainly supported by continuous ad model optimization to further improve ad conversion efficiency;
	2)	Launched self-service ad platform: Launched self-service ad platform on October 1, effectively screening low-quality ad accounts to significantly improve platform ad delivery efficiency and quality; ad budget on the self-service platform has maintained >50% QoQ weekly growth since launch.
Unity		Vector AI drives robust ad business growth: Grow business revenue grew 6% YoY/11% QoQ in 3Q25, mainly supported by Vector AI. Driven by Vector AI, ad effectiveness across different customer sizes, geographic locations, and industries has been significantly improved.
Datadog	1)	AI empowers core business: Customers tend to use a unified platform to manage AI and non-AI businesses; Datadog's integration capability (supporting over 1,000 integrations) has become a core competitiveness, with over 5,000 customers sending AI data to Datadog via integrations;
	2)	AI incremental revenue contribution: AI-native customers contributed 12% of Q3 total revenue (higher than 11% in 2Q25 and 6% in 3Q24); number of AI-native customers exceeded 500, including 15 with annual spending over US\$1mn and 100 with annual spending over US\$100,000; AI products (e.g., GPU monitoring) are expected to bring future revenue opportunities.
Nebius	1)	AI drives core business growth and brings large contract contributions: Strong customer demand for next-generation NVIDIA Blackwell chips drives long-term capacity bookings (e.g., Meta's US\$3bn 5-year contract and Microsoft's US\$17.4-19.4bn contract, with first batch capacity delivered in Q3 and full revenue generation in 2026);
	2)	Promoting customer structure diversification: AI-native customers such as Cursor (AI code editor), Black Forest Labs (generative AI model), and Shopify (software vendor) drive revenue growth; enterprise customer expansion: vertical industries such as healthcare, life sciences, media and entertainment contribute new demand.
Coreweave		AI empowers core business and brings significant revenue contribution: Strong AI demand drove 134% YoY revenue growth to US\$1.4bn in 3Q25, with RPO reaching US\$50bn (the fastest in cloud service history); signed large-scale computing contracts with Meta, OpenAI, etc., with 9 out of top 10 existing customers signing multiple contracts. Number of customers with annual spending over US\$100mn grew 3x YoY; single customer's share of revenue backlog dropped to ~35% (85% at the start of the year), with over 60% of backlog from investment-grade customers.
Sea	1)	AI comprehensively drives three core businesses: In e-commerce, Shopee improves conversion and fulfillment efficiency through intelligent search and seller tools; number of sellers using AI ad tools grew over 25% YoY, with average ad spending up over 40%; Garena optimizes game creation and experience with AI; SeaMoney strengthens risk control and product recommendation with AI, maintaining a low default rate despite 70% loan scale growth;
	2)	AI incremental revenue contribution: AI-optimized ad matching improved CPM by 30-50%, driving significant ad monetization growth; Shopee ad revenue grew over 70% YoY, contributing ~20-25% of the company's overall revenue growth and becoming a key engine for revenue growth; buyer purchase frequency grew 12% YoY, MAU buyers up 15%, directly driving GMV growth.
Shopify	1)	AI empowers core business: Sidekick intelligent assistant empowers merchants; 750,000 new stores used Sidekick for the first time in Q3, with cumulative conversations nearly 100mn (8mn in October alone) to support merchants' core operations; Shopify has millions of merchants and billions of transaction data, providing unique advantages for AI model training. Consumer research shows 64% of consumers may use AI to assist shopping during BFCM;
	2)	AI drives channel traffic and order growth: AI-driven traffic grew 7x since January 2025, and orders generated by AI search increased 11x. Cooperated with OpenAI etc. to "create more sales scenarios for merchants", with revenue directly tied to merchant success.

Source: Company data, CMBIGM

At the corporate operational level, we observe that AI has become an effective tool for internal efficiency improvement. Google's sales team achieved over 10% productivity growth using Gemini; AI generates nearly half of the code; and customer service-side Gemini handles over 40mn customer conversations. Palantir's AI FDE agent compressed customer data warehouse migration cycle from 2 years to 5 days, achieving disruptive breakthroughs in operational efficiency. Uber uses AI to achieve precise matching between multilingual drivers and users, and generative AI embedded in the entire platform process drives application efficiency iteration. Internal AI efficiency improvement is more advanced and widespread in large enterprises, showing a trend of continuous expansion and acceleration.

Figure 28: Internal AI efficiency improvement of major US Internet and cloud computing vendors

Company	Internal AI Efficiency Improvement
Amazon	AWS's Transform agent helped customers save 700,000 hours of manual work; AI-optimized inventory layout in logistics shortened US inbound delivery time by nearly 4 days; AI-driven robots improved the safety and productivity of the fulfillment network.
Alphabet	Sales team achieved over 10% productivity growth with Gemini; AI generates nearly half of the code; customer service-side Gemini handles over 40mn customer conversations; YouTube also uses AI to optimize creators' workflows and recommendation systems.
Palantir	AI FDE agent enables autonomous task execution, compresses data warehouse migration cycle, and improves operation and maintenance efficiency.
Uber	AI helps 9.4mn drivers/couriers achieve multilingual precise matching to improve delivery efficiency; generative AI embedded in the entire platform process enhances application operation efficiency.
Fortinet	AI technology optimizes threat detection accuracy and operational efficiency of core products such as firewalls and SASE, drives performance improvement of FortiGate series products, and reduces operation and maintenance costs.
Datadog	AI-driven automation (e.g., BITS AI) reduces manual operation and maintenance costs and improves fault troubleshooting efficiency.
Sea	80% of customer inquiries are handled by AI, reducing customer service costs by 75%; AI ad tools improve ad monetization efficiency with significant effects on marketing cost control.
Shopify	Improved per capita output through "automation, tool improvement, and reflexive use of AI"; internal operating expense ratio dropped from 45% in 2023 to 37% in 3Q25.
ServiceNow	AI agent usage has grown over 55x since May 2025, improving enterprise AI workflow management efficiency and reducing enterprise AI operating costs.
Tesla	AI optimizes energy storage scheduling and deployment processes to support Megapack R&D and reduce energy business operating costs; optimizes vehicle production processes and supply chain management to improve production efficiency and control production costs.
Netflix	AI serves as a creative tool to help creators develop content more efficiently and reduce content production costs; AI-driven recommendation engine improves user retention and reduces customer acquisition costs.
Booking	AI-driven search tools optimize booking paths, improve user conversion and repurchase efficiency, and reduce customer acquisition and maintenance costs.
Cloudflare	AI tool and security feature upgrades attract 80% of AI-related tech companies to use its cloud computing tools, improving revenue efficiency and optimizing customer structure and cost-benefit ratio.
AppLovin	Continuous ad model optimization drives ad conversion efficiency improvement and reduces ad delivery costs; self-service ad platform improves ad delivery efficiency and reduces manual operating costs.
Unity	Vector AI drives ad business growth, improves ad effectiveness and efficiency across different customer sizes, geographic locations, and industries, and optimizes ad cost-benefit ratio.
Coreweave	AI-driven storage services reduce customer costs by 75% and achieve zero cross-regional data migration, significantly lowering data management costs.

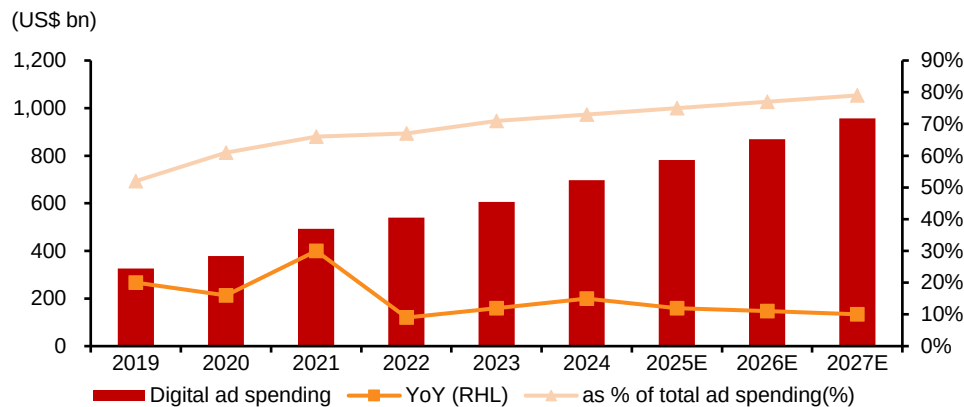
Source: Company data, CMBIGM

Sector outlook

Advertising: AI to drive ad revenue growth

According to eMarketer, global digital advertising market is expected to reach US\$870bn in 2026, growing by 11% YoY and accounting for 77% of the global advertising market. We believe AI is poised to become the main driver of growth in the global digital advertising market, empowering advertising solutions across multiple dimensions: 1) AI optimizes content recommendation on social platforms, boosting user stickiness and time spent, thereby further expanding advertising inventory; 2) AI enhances ad targeting capabilities, improving digital ad conversion rates and eCPM; 3) AI-generated advertising creatives lower the threshold for ad placement, increase ad ROI, and attract incremental advertising budgets.

Figure 29: Global digital ad spending



Source: eMarketer, CMBIGM

Figure 30: US ad platforms: AI empowers advertising business

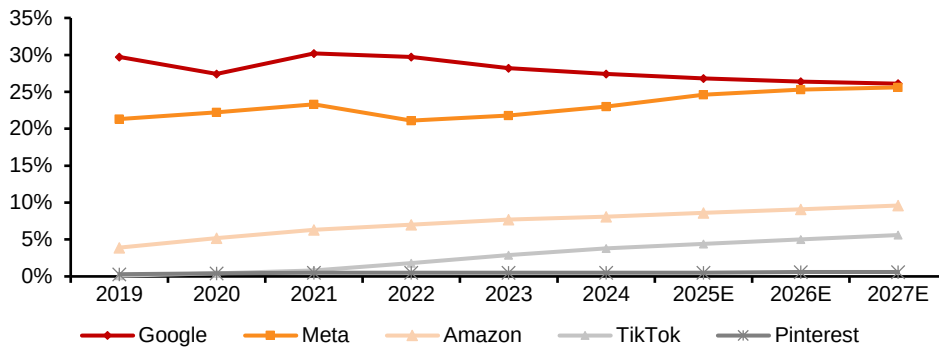
Company	AI applications in ads
Meta	Expanding advertising inventory: In 3Q25, the AI-powered content recommendation system drove a 5% YoY increase in user time spent on Facebook and a 10% YoY rise on Threads, thereby enriching the platforms' advertising inventory. Enhancing ad conversion effectiveness: Meta has continuously optimized its ad model Andromeda, which has boosted the quality of Facebook ads by 14%. Reducing ad delivery costs: The annualized revenue of its end-to-end AI automated advertising solutions has exceeded US\$60bn, lowering the threshold and costs of ad placement while improving ad efficiency. Looking ahead, the company will continue to leverage AI to refine its recommendation systems, content understanding capabilities, and marketing performance.
Google	AI Overviews/AI Mode: AI Overviews and AI Mode have driven the growth rate of paid clicks up from 3% YoY in 1H25 to 7% YoY in 3Q25. In 3Q25, DAUs of AI Mode exceeded 75mn, with its usage maintaining week-on-week growth. AI Max for Search: Launched globally in September, AI Max for Search generated over billions of new search queries in 3Q25 alone, making it the fastest-growing AI-powered search advertising product.
Pinterest	AI-Optimized Search to Enhance User Experience and Conversion Efficiency: From the start of the year to 2Q25, the company's AI-driven search optimizations boosted search success rates by 230bps, helping users better find the content and products they need. AI-Powered Automated Ad Delivery and Bidding: The company launched its Performance+ automated ad delivery tool in 2025, lowering the barrier to ad placement. Advertisers using this tool saw an average 12% increase in their budgets, driving rapid budget growth among small and medium-sized advertisers.
Snap	Leveraging Large Models to Boost DPA Conversion: The company has used large models to enhance DPA's understanding capabilities, driving a more than fourfold increase in the ad's conversion rate and a YoY growth of over 30% in shopping-related ad revenue in 3Q25. Partnering with Perplexity to Become an AI Application Traffic Entry Point: In 2026, Perplexity will embed its AI search experience into Snap's chat interface, for which it will pay Snap a consideration of US\$400mn.

Source: Company data, CMBIGM

In terms of competition, Meta and TikTok are likely to continue increasing their shares in the digital advertising market, mainly thanks to AI-optimized platform content recommendation systems and advertising solutions. In contrast, Google's market share in digital advertising may decline, primarily due to the challenges posed by AI chatbots to

search traffic and the potential impact of Google's exploration in the AI search on short-term monetization. According to eMarketer data, in 2026, Google/Meta/TikTok will account for 26.4%/25.3%/5.0% of the digital advertising market respectively, representing a YoY change of -0.6/+1.6/+0.6ppts.

Figure 31: Global digital ad market: market share breakdown



Source: eMarketer, CMBIGM

Figure 32: Global advertising market

Total revenue (US\$bn)	2019	2020	2021	2022	2023	2024	2025E	2026E
Global ad spend	622.5	618.4	752.1	799.9	858.1	954.8	1,036.8	1,129.6
YoY	8.0%	-0.7%	21.6%	6.4%	7.3%	11.3%	8.6%	9.0%
Total revenue (US\$bn)	2019	2020	2021	2022	2023	2024	2025E	2026E
Global digital ad spend	326.3	379.0	493.5	539.5	605.3	697.1	781.4	870.0
YoY	20.0%	16.2%	30.2%	9.3%	12.2%	15.2%	12.1%	11.3%
As % of global ad market (%)	52.4%	61.3%	65.6%	67.4%	70.5%	73.0%	75.4%	77.0%
Total revenue (US\$bn)	2019	2020	2021	2022	2023	2024	2025E	2026E
Google	96.8	103.9	149.0	160.4	170.7	191.1	209.7	229.4
Meta	69.7	84.2	114.9	113.6	132.0	160.6	191.9	220.1
Amazon	12.6	19.8	31.2	37.7	46.9	56.2	67.1	79.3
TikTok	0.3	1.4	3.9	9.9	17.8	26.4	34.5	43.2
Pinterest	1.1	1.7	2.6	2.8	3.1	3.7	4.3	5.0
Reddit	0.1	0.2	0.4	0.6	0.7	1.1	1.7	2.2
YoY (%)	2019	2020	2021	2022	2023	2024	2025E	2026E
Google		7.3%	43.4%	7.6%	6.4%	12.0%	9.7%	9.4%
Meta		20.8%	36.5%	-1.1%	16.1%	21.7%	19.5%	14.7%
Amazon		56.5%	57.6%	21.1%	24.3%	19.8%	19.4%	18.1%
TikTok		314.7%	175.2%	154.9%	80.3%	48.2%	30.5%	25.4%
Pinterest		48.2%	52.7%	8.5%	9.3%	19.3%	16.4%	17.2%
Reddit		70.0%	147.1%	40.5%	20.3%	50.7%	60.7%	30.2%
Market share	2019	2020	2021	2022	2023	2024	2025E	2026E
Google	29.7%	27.4%	30.2%	29.7%	28.2%	27.4%	26.8%	26.4%
Meta	21.3%	22.2%	23.3%	21.1%	21.8%	23.0%	24.6%	25.3%
Amazon	3.9%	5.2%	6.3%	7.0%	7.7%	8.1%	8.6%	9.1%
TikTok	0.1%	0.4%	0.8%	1.8%	2.9%	3.8%	4.4%	5.0%
Pinterest	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%
Reddit	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%

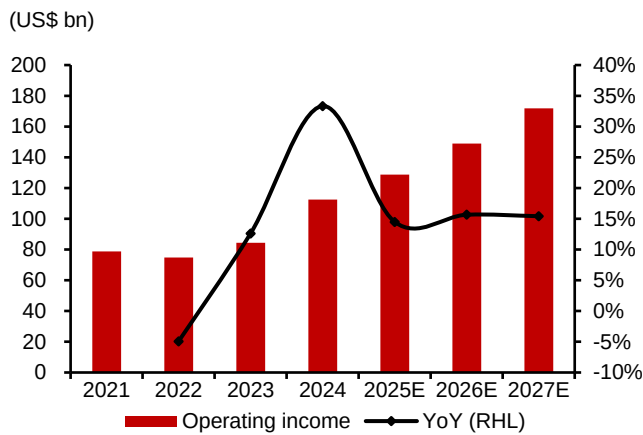
Source: eMarketer, CMBIGM

Alphabet: In the short term, AI empowerment on Google is significantly greater than the competitive pressure posed by AI vendors on Google. AI search products such as AI Overviews and AI Mode have driven accelerated growth in the company's paid clicks, while demand for AI cloud services has boosted revenue growth and improved operating profit for Google Cloud. Driven by the accelerated growth of Google Cloud and core search business, we expect Alphabet to maintain robust profit growth in FY26 (16% YoY increase

in operating profit). In addition, progress in large models, AI cloud infrastructure, and AI applications should further drive the company's valuation.

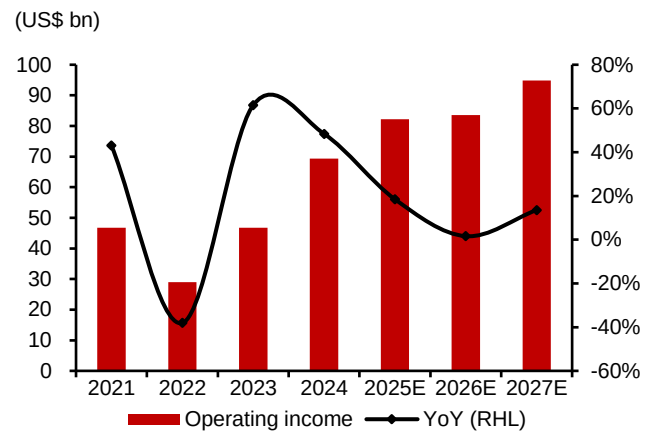
Meta: Benefiting from its leading position in the social ad industry, we are upbeat on the company's long-term gains from AI development, as AI will continue to drive rapid growth in its advertising revenue. However, management's aggressive expense guidance for FY26 (total expense growth will be significantly higher than that in 2025) has raised investor concerns about the 2026 profit growth outlook, especially since investments in long-term projects such as self-developed large models and MSL may affect the company's short-term profit margins. We expect the company's operating profit growth to slow to 2% YoY in FY26, mainly due to investments in AI infrastructure and talent. Affected by the slowdown in profit growth and increased earnings uncertainty, the company's short-term valuation has come under pressure.

Figure 33: Alphabet: operating income trend



Source: Company data, CMBIGM estimates

Figure 34: Meta: operating income trend

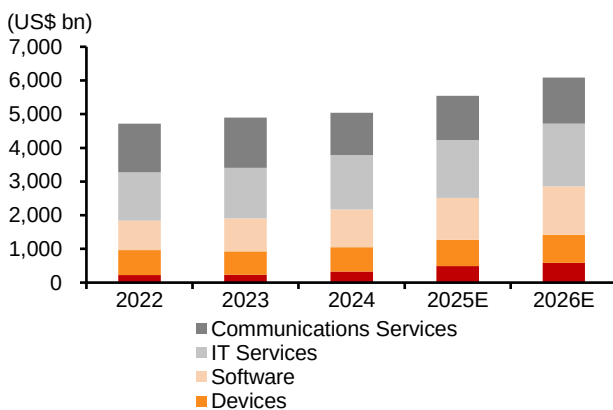


Source: Company data, CMBIGM estimates

Software: monetization of AI applications is in line with expectation

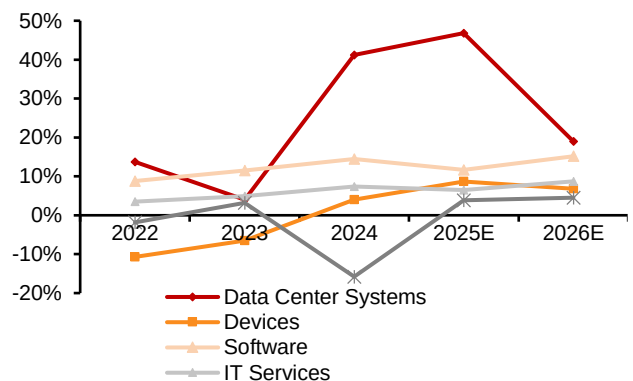
According to Gartner, global IT spending is expected to maintain rapid growth in 2026, up by 10% YoY to US\$6.1tn. Among this, data centre and software spending will be the key growth drivers, forecast to rise by 19% YoY and 15% YoY respectively to US\$582.4bn and US\$1.43tn in 2026E. Since 2024, as leading cloud vendors and internet companies continue to ramp up investment in AI infrastructure, global data centre spending has maintained a CAGR of over 30%; global software spending has also sustained a CAGR of more than 10%, benefiting from the monetization of AI applications.

Figure 35: Global IT spending



Source: Gartner, CMBIGM

Figure 36: Global IT spending YoY



Source: Gartner, CMBIGM

Global AI spending is poised to maintain rapid growth in 2026. Gartner forecast that global total AI spending will surge by 37% YoY to US\$2.02tn in 2026. Among all segments, AI IaaS, AI infrastructure software, AI large models, AI PCs, and AI application software will be the top 5 fastest-growing verticals, with projected YoY growth rates of 105%, 82%, 81%, 60%, and 57% respectively, and their respective market sizes are expected to reach US\$37.5bn, US\$229.8bn, US\$25.8bn, US\$144.4bn, and US\$269.7bn in 2026.

Figure 37: Global AI spending breakdown

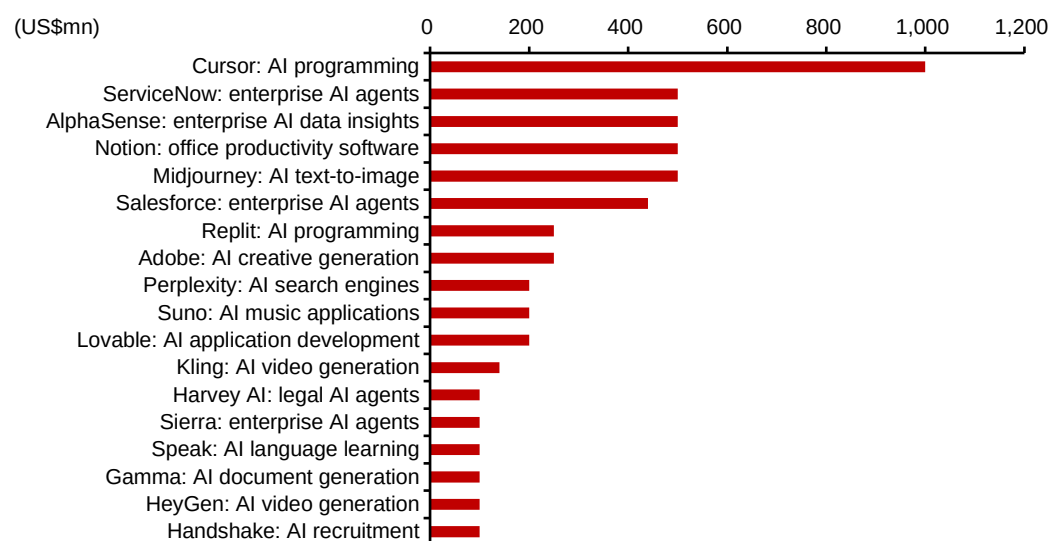
(US\$bn)	2024	2025E	2026E	2026E YoY
AI Services	259	283	325	15%
AI Application Software	84	172	270	57%
AI Infrastructure Software	57	126	230	82%
GenAI Models	6	14	26	81%
AI-optimized Servers	140	268	330	23%
AI-optimized IaaS	7	18	38	105%
AI Processing Semiconductors	139	209	268	28%
AI PCs by ARM and x86	51	90	144	60%
GenAI Smartphones	245	298	393	32%
Total spending	988	1,479	2,023	37%

Source: Gartner, CMBIGM

The monetization of AI applications remains a key focus. In 2026, we recommend to focus on two major directions for AI application implementation and monetization:

1) Application scenarios where AI large models excel, such as programming, creative generation, and office efficiency. For programming, multiple large models have achieved high scores in programming benchmarks, and several leading internet companies and enterprises adopting AI programming have disclosed an AI code adoption rate of over 30%. AI programming applications saw rapid implementation in 2025, with Cursor's ARR exceeding US\$1bn and GitHub Copilot's user count surpassing 20mn. For creative generation, AI applications for content such as images, videos, and music have achieved solid commercial progress. AI image tool Midjourney's ARR exceeded US\$500mn; Kuaishou's AI video tool reached an ARR of over US\$140mn; and AI music platform Suno's ARR surpassed US\$200mn.

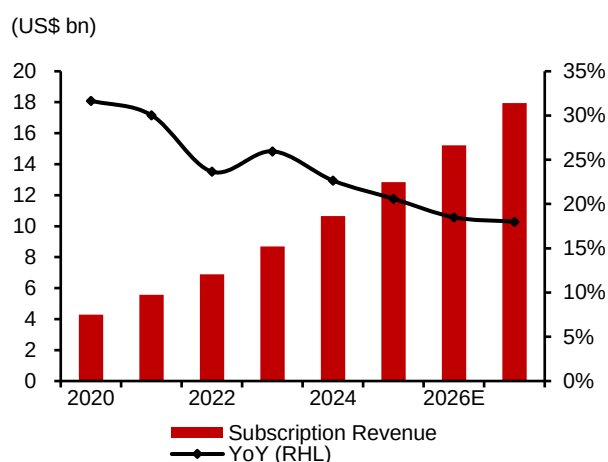
2) High-value application scenarios, such as enterprise AI agents and traditional vertical industries including education, finance, and legal services. The global enterprise IT budget is substantial (projected to reach US\$6.1tn in 2026), and AI-driven efficiency optimization across enterprise workflows can unlock significant upselling and cross-selling potential. ServiceNow's enterprise AI agents and AI products are expected to hit an ARR of over US\$500mn by the end of 2025.

Figure 38: AI Application software: ARR summary

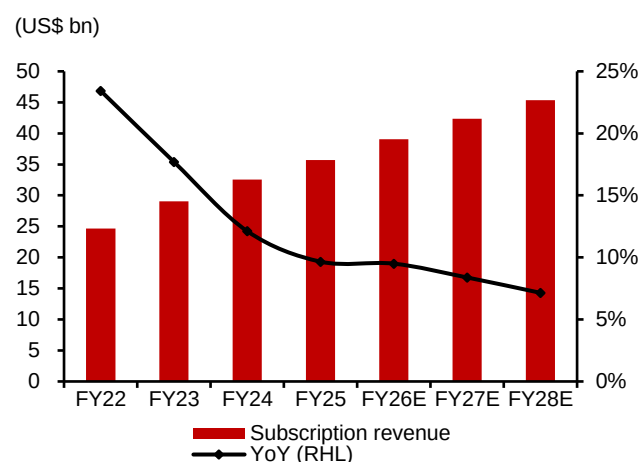
Source: ARR Club, Company data, CMBIGM

ServiceNow: Leveraging its enterprise customer base, first-mover advantage, and product innovation capabilities, we are optimistic that ServiceNow will continue to benefit from the development opportunities of generative AI, and its AI products will keep creating upselling and cross-selling opportunities. The company targets AI product ACV to exceed US\$500mn/US\$1bn by the end of FY25/FY26 (accounting for approximately 4%/6% of total revenue), representing a significant increase from the US\$250mn ACV in 1Q25. Meanwhile, the company continues to use AI to improve internal operational efficiency, and we expect its non-GAAP operating margin to rise by 1ppt in FY26.

Salesforce: We are upbeat on Salesforce's AI monetization trend, which is primarily supported by its differentiated Agentforce solutions and Data Cloud integration solutions. In 3QFY26, Agentforce and Data 360 ARR grew by 114% YoY to c.US\$1.4bn, within which Agentforce ARR increased by 330% YoY to US\$500mn. Benefiting from growth opportunities in the AI agent business, management guided: 1) Total revenue to surpass US\$60bn by FY30E, with a CAGR of over 10% for organic business revenue from FY26 to FY30; 2) the "50 Rule" to be achieved by FY30E (YoY growth rate of subscription revenue + non-GAAP operating margin > 50%).

Figure 39: ServiceNow: subscription revenue

Source: Company data, CMBIGM estimates

Figure 40: Salesforce: subscription revenue

Source: Company data, CMBIGM estimates

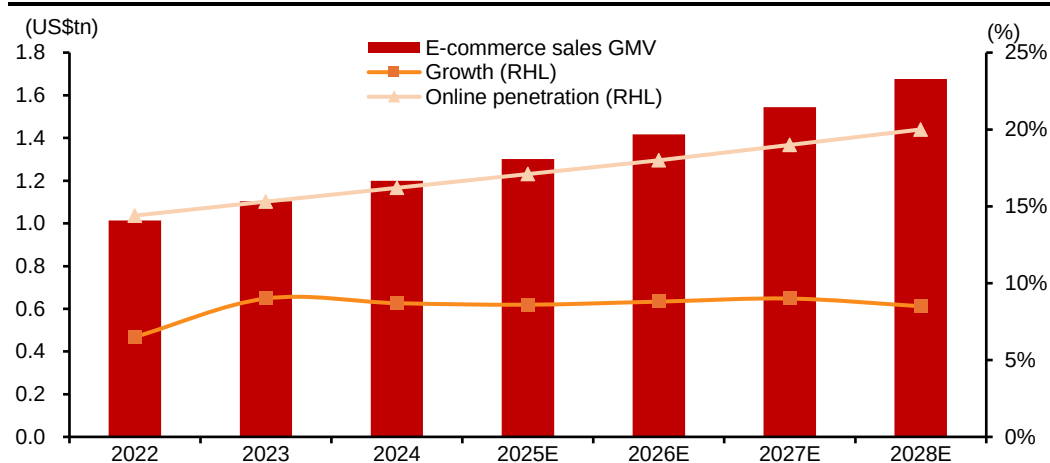
Datadog: Given the long-term trends of digital transformation and cloud migration, we are optimistic about Datadog's long-term business development potential. The accelerated revenue growth of the overall cloud industry is expected to benefit the development of cloud infrastructure monitoring platforms. Moreover, Datadog has proven its ability to continuously expand its customer base and cross-sell software products covering the entire industry chain from the development end to the business end. Even during the investment phase, Datadog can maintain strong financial performance and meet the Rule of 40. As investments gradually yield returns and demand from AI-native customers continues to grow, we expect the company's fundamentals to remain solid.

Palo Alto Network: We are upbeat that Palo Alto Networks will be one of the major beneficiaries of the generative AI era, as security demand is poised to grow steadily with the expansion of AI-related deployment. We forecast the company's FY26 revenue/non-GAAP net profit to grow by 14%/18% YoY respectively, with a free cash flow margin of 38.4%. Its financial performance continues to meet the Rule of 50, which is expected to provide support for its valuation.

E-commerce: still room for further online penetration

According to eMarketer's forecast, US e-commerce sales are expected to reach US\$1.3tn in 2025, representing a YoY growth of 8.6%. Future growth momentum will stem from two key drivers: 1) increased purchase frequency and average order value (AOV) among existing users; 2) higher penetration of underpenetrated categories such as fresh groceries and other daily necessities, which currently have relatively low online penetration rates. Historically, categories like fresh produce and daily essentials have faced constraints in online penetration due to factors such as fulfillment efficiency and consumer habits. However, with the evolution of fulfillment models and improved warehouse layout efficiency, the online adoption rate of daily necessities should gradually rise, in our view, thereby driving steady growth in overall e-commerce penetration across mature markets.

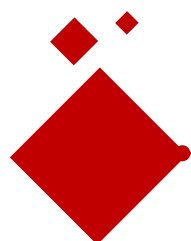
Figure 41: US online retail sales and growth, 2022-2028



Source: eMarketer, CMBIGM

Emerging markets, particularly Southeast Asia and Latin America, still offer significant room for e-commerce penetration and are poised to be core growth engines. We believe regions such as Southeast Asia (e.g., Indonesia) and Latin America (e.g., Mexico) will see sustained increases in e-commerce adoption, supported by rising internet penetration and further improvements in logistics infrastructure. The iterative development of diversified cross-border e-commerce models by Chinese e-commerce operators' overseas platforms

such as Temu and AliExpress, coupled with the deepened supply chain investments by local players—including Shopee in Southeast Asia and MercadoLibre in Latin America (e.g., localized warehouse networks and payment tool adaptation)—could drive further user penetration in these regions.



China Semiconductors

China Semiconductors

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🔥 AI theme continues to lead; Follow the light in 2026

Key investment theses for 2026

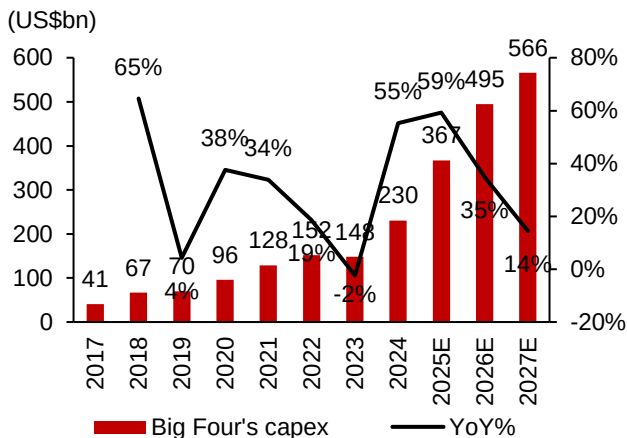
We maintain four core investment theses for 2026: 1) [AI-driven structural growth](#), 2) [China semiconductor localization](#), 3) [high-yield defensive plays](#), and 4) [sector consolidation via M&A](#).

AI and localization, our top themes since 2024 ([2024/25](#) strategy report), have delivered substantial returns, with top picks Innolight (300308 CH: +338% YTD), Shengyi Tech (600183 CH: +148% YTD), and Naura (002371 CH: +56% YTD) outperforming as of 5 December 2025. The global semiconductor market is projected to expand 26% YoY to US\$975bn in 2026 ([WSTS Autumn 2025 Forecast](#)), with AI-centric segments leading growth (logic +32% and memory +39%) and China's domestic semiconductor sector is expected to continue to outperform other [sectors/indices](#).

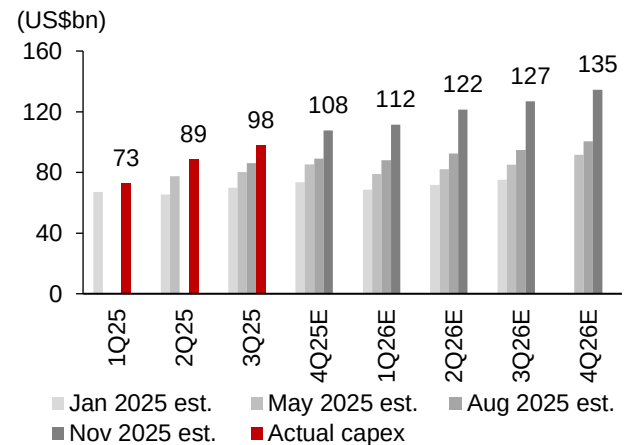
Theme 1: AI – The definitive structural super-cycle

The AI supply chain's outperformance in 2025, driven by robust revenue growth and margin expansion, reflects accelerating infrastructure investment rather than a transient hype. While market sentiment fluctuates, alternating between fears of an AI bubble and periods of FOMO, **fundamental demand drivers should support a sustained, multi-year growth trajectory extending beyond 2026, in our view.**

- **Ongoing capex momentum:** The US Big Four hyperscalers (GOOG/MSFT/AMZN/META) spent US\$230bn capex in 2024 (+55% YoY). Full-year 2025 capex is projected at US\$367bn (+59% YoY), and consensus estimates point to US\$495bn in 2026 (+35% YoY). While 2027 growth is estimated at ~14% YoY, upward revisions are likely, mirroring 2025's forecast upgrades.
- **Broadening demand base:** Demand is expanding beyond hyperscalers to sovereign and enterprise clients, supported by NVIDIA's US\$500bn+ platform opportunity.
- **Technological innovation:** Sustained advancements in compute, memory, and network connectivity underpin a durable hardware ecosystem super cycle.
- **ROI-positive application scaling:** AI is transitioning from pilots to revenue/cost-saving core operations, with latest McKinsey Global Survey reporting current AI adoption (traditional or generative AI) has reached 88% in enterprises (vs. 72%/78% in 2023/24), and Google Cloud reporting that 74% of companies now achieve positive ROI within 12 months of deployment, creating a self-reinforcing capex cycle.

Figure 1: The Big Four's capex rose 55% YoY in 2024; expected to grow 59%/35% YoY in 2025/26


Source: Company data, Bloomberg consensus, CMBIGM

Figure 2: Bloomberg consensus raised capex forecasts meaningfully during the year


Source: Company data, Bloomberg consensus, CMBIGM

Tiered investment opportunities across the supply chain:

Figure 3: Tiered investment opportunities across the supply chain

Segment	Key dynamics	Key participants
Compute	GPUs dominate AI training/inference; ASICs optimize TCO for specific workloads	NVIDIA (NVDA US), AMD (AMD US), Broadcom (AVGO US), etc.
Memory	HBM4 transition (2026-27) and NAND pricing power drive structural tightness	SK Hynix (000660 KR), Micron (MU US), Samsung Electronics (005930 KR), etc.
<u>Optical Transceivers</u>	800G-to-1.6T transition; SiPh penetration to exceed 50% by 2026	Innolight (300308 CH, BUY), Coherent (COHR US), Eoptolink (300502 CH), TFC (300394), etc.
<u>PCB/CCL</u>	High-layer count PCBs and M7/M8 grade CCL command ASP premiums	Shengyi Tech (600183 CH, BUY), a CCL leader, etc.
<u>Foundry/Equipment</u>	Leading-edge nodes (sub-7nm) and mature-node spillover demand	TSMC (TSM US), SMIC (981 HK) and Naura (002371 CH, BUY), etc.
<u>Wide-bandgap semiconductors</u>	SiC/GaN improve data center power efficiency	Infineon (IFX GY), Navitas (NVTG US), InnoScience (2577 HK, BUY), etc.

Source: CMBIGM

■ Compute (direct beneficiaries), the high-impact segment of AI infrastructure investment.

GPUs are the core beneficiary of the AI supercycle, directly impacted by AI infrastructure spending. NVIDIA leads with unmatched execution: its Blackwell platform accounts for ~95% of data center compute sales, with management guiding US\$500bn+ revenue for Blackwell/Rubin through 2026 (excluding new client demand). Despite export controls and supply constraints, its 4Q revenue guidance of US\$65bn (+65% YoY) and 75% gross margin underscore robust demand. AMD gains traction with Instinct MI300/350 series among neo-cloud providers.

Figure 4: Nvidia's AI GPU roadmap through 2028



Source: Company data, CMBIGM

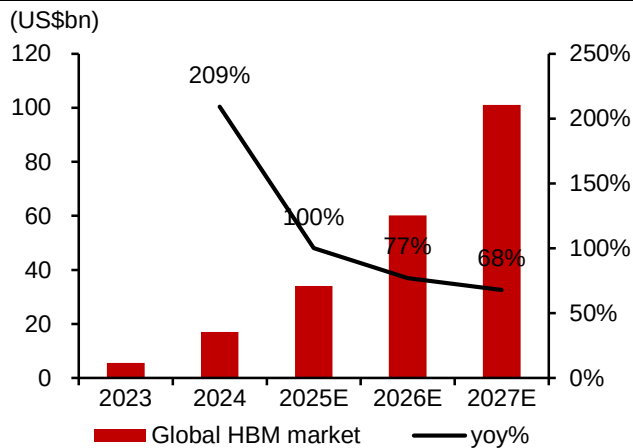
ASICs: Hyperscalers (Google TPU, AWS Trainium/Inferentia, Microsoft Maia) are ramping proprietary AI accelerators to optimize TCO for specific workloads. This trend expands rather than cannibalizes the AI compute TAM via segmentation, with supply chain partners like Broadcom poised for strong multi-year growth.

Figure 5: Major ASIC developments

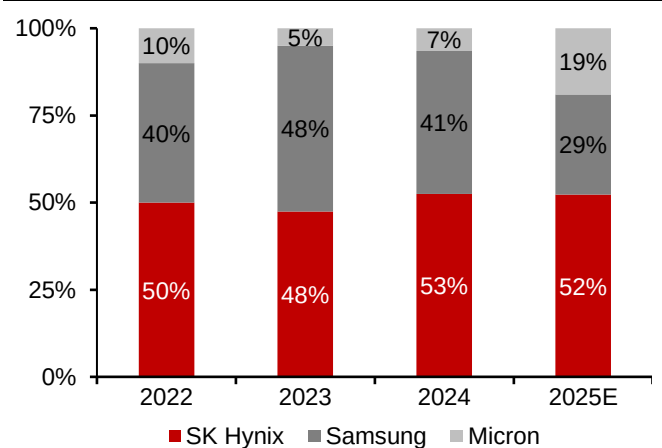
	ASIC Name	Node	Memory Type	Capacity	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Intel	Gaudi 2	N7	HBM2E	96								
	Gaudi 3	N5	HBM2E	128								
Google	TPU v5e	N5	HBM2E	16								
	TPU v5p	N5	HBM2E	16								
	TPU v6	N5	HBM2E	95								
	TPU v6p	N5	HBM2E	32								
	TPU v7	N3	HBM3E	192								
	TPU v7p	N3	HBM3E	192								
Amazon	Inf. 2	N5	HBM2E	32								
	Trainium	N5	HBM2E	32								
	Trainium 2	N5	HBM3	96								
	Trainium 3	N3	HBM3E	144								
<i>Trainium 4 (Announced in Dec 2025)</i>												
Microsoft	Maia 100	N5	HBM2E	64								
	Maia 200	N3	HBM4	N/A								
Meta	MTIA v2	N5	LPDDR5	128								

Source: Company data, Tom's hardware, CMBIGM

- **Memory (core beneficiaries):** AI drives a structural memory super-cycle, shifting it from cyclical demand-supply adjustments to structural supply tightness, with HBM4 transition in 2026-27 (HBM4E could account for 40% of HBM demand in 2027 per TrendForce) as key catalyst. Severe supply shortage (SK Hynix ~52% 2025E share, all SK Hynix/Micron/Samsung fully allocated through 2026) keeps HBM a bottleneck, supporting 77% and 68% demand growth in 2026 and 2027.

Figure 6: Global HBM market size and growth

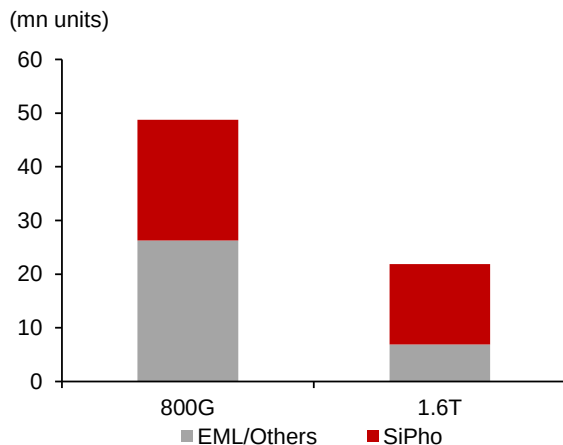
Source: Yole, TrendForce, CMBIGM

Figure 7: HBM market share by dollar value

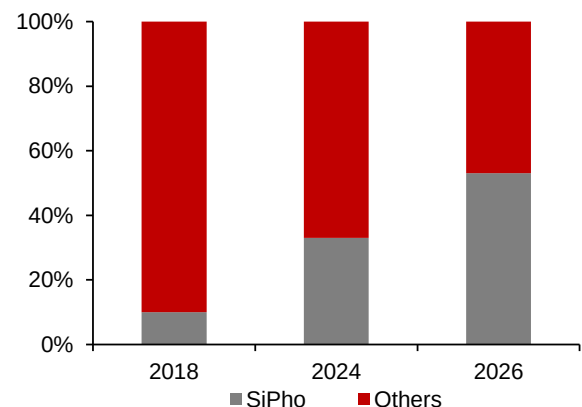
Source: TrendForce, CMBIGM

- **Optical transceivers (core beneficiaries)** are core beneficiaries among the AI supply chain, enabling high-speed data transmission in AI clusters. Driven by hyperscalers' aggressive AI capex (2025E +59% YoY to US\$367bn, 2026E +35% to US\$495bn) and broadening demand from cloud/sovereign/enterprise clients, leaders like Innolight (+122% 2024 revenue, +44% 9M25) delivered stellar growth and achieved significant margin expansion (+9.2/+1.3ppt YoY/QoQ in 3Q25). The rapid 800G-to-1.6T shift tightens supply-demand (multi-million-unit 1.6T gap in 2026 per our estimates), with EML chip constraints mitigated by SiPho's accelerating penetration (50%+ 2026 share), supporting favorable margins.

Innolight (300308 CH, BUY, TP: RMB707): A global leader in optical transceivers (#1 global market share), poised to capitalize on the hyperscaler capex cycle and the rapid transition to 1.6T technology, with stellar revenue growth and margin expansion.

Figure 8: SiPho's contribution in 800G/1.6T solutions (2026)

Source: CMBIGM estimates

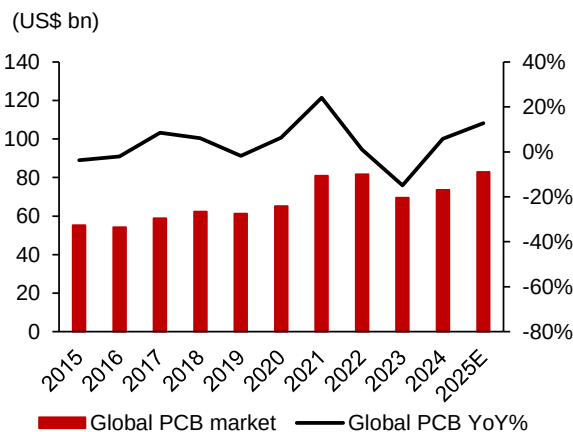
Figure 9: SiPho's share to exceed 50% in 2026 according to our analysis

Source: LightCounting, company data, CMBIGM estimates

- **PCB/CCL (core beneficiaries)** is a core beneficiary of the AI supply chain, driven by a structural upcycle from AI server rollouts. The sector sees clear divergence: high-performance segments (18L+ PCBs, M7/M8 grade CCL for 112Gbps, upcoming M9 for 224G) command steep ASP premiums and strong pricing power (specialty CCL up 52% YoY in 2024), while standard segments face competition. Backed by a consolidated CCL oligopoly (top 10 hold 77% share) and AI-driven mix shifts, leaders capture resilient margins amid cost inflation, outperforming the broader market.

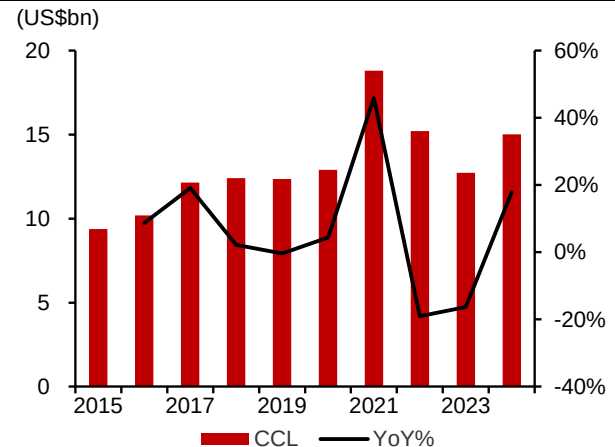
Shengyi Tech (600183 CH, BUY, TP: RMB90): A leading CCL supplier and prime beneficiary of the AI-driven shift toward high-speed, specialty laminates, benefiting from the structural mix uplift.

Figure 10: Global PCB market to rebound with 12.8% YoY growth in 2025



Source: Prismark, CMBIGM estimates

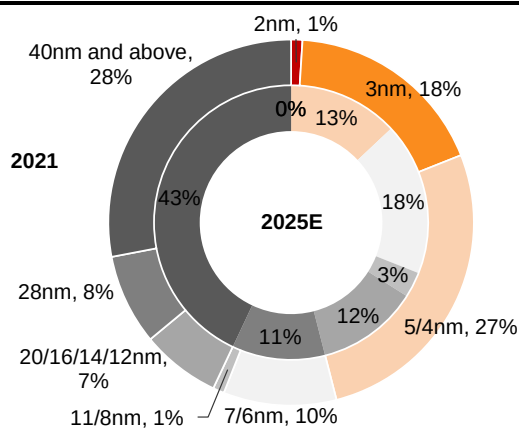
Figure 11: Global CCL market recovered with 18% growth in 2024, outperforming the PCB market (6%)



Source: Prismark, ChinaCCL, CMBIGM estimates

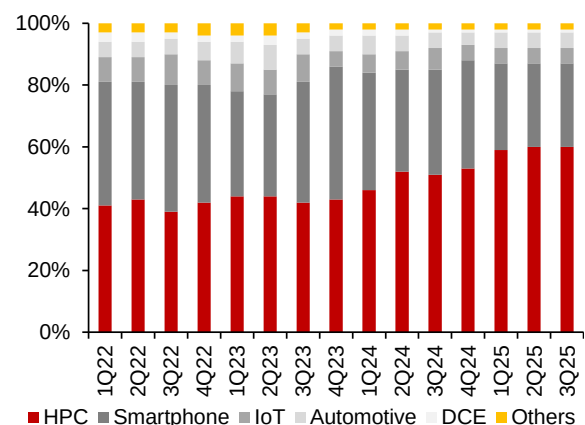
- **Foundry/equipment (secondary but critical beneficiaries)** is a core beneficiary of the AI supercycle, with the foundry industry shifting from cyclical to AI-driven structural growth (pure-play market to hit US\$171bn in 2025, +26% YoY). Insatiable demand for leading-edge nodes (3nm/2nm) for AI processors concentrates shares at TSMC (71% 2Q25 share), while mature nodes see spillover demand, though AI-exposed players outperform amid divergent ASP trends. Semiconductor equipment vendors enable advanced capacity expansion, with geopolitical fragmentation and China's localization reshaping the landscape.

Figure 12: Global foundry (pure-play) advancing toward 2/3nm nodes



Source: Counterpoint, CMBIGM

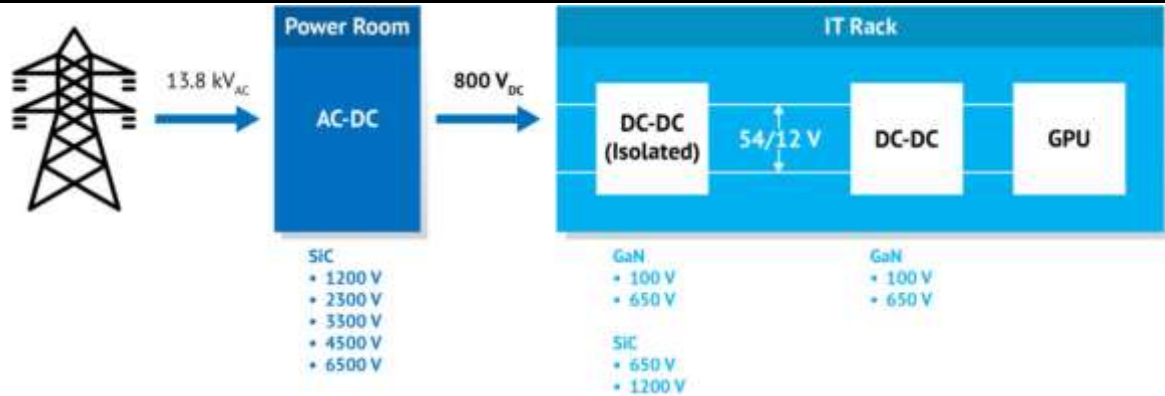
Figure 13: TSMC's revenue breakdown by application: rising contribution from HPC



Source: Counterpoint, CMBIGM

- **Wide-bandgap semiconductors – SiC/GaN (emerging high-potential beneficiaries)** are secondary beneficiaries of the AI supercycle, emerging as critical for AI data centers' power redesign. With AI racks scaling toward 1MW, the shift from 54V DC to 800V HVDC (enabled by SiC/GaN) improves PUE by up to 5% and cuts TCO by 30%, addressing soaring energy costs. Beyond automotive (SiC's 70%+ 2024 demand), AI data centers unlock structural growth (backed by 8-inch wafer scaling and capacity expansion), solidifying their role as key power efficiency enablers.

Figure 14: Application of SiC/GaN in new 800V HVDC architecture



Source: Navitas, Yole, CMBIGM

- **Emerging edge AI ecosystem:** we monitor edge AI as the next growth inflection point, with beneficiaries including CIS sensors, connectivity modules, and AI-enabled PC/smartphone component suppliers.

Theme 2: "China-for-China" semiconductor localization – a structural, multi-year growth driver

We view semiconductor supply-chain localization as a **highest-conviction, multi-year investment theme in China's tech sector**. Geopolitical fragmentation is reshaping global semiconductor ecosystems, with major economies prioritizing domestic fabrication investments for de-risking. In China, **this push is accelerating technological breakthroughs and import substitution**, backed by policy support and robust domestic demand, **creating a structural expansion of the local semiconductor TAM**. Similar trends are gaining momentum in other regions (e.g., the US, EU, Japan), heavily supported by government subsidies, which are set to reshape the global competitive landscape over the medium term, in our view.

Tiered investment opportunities across the supply chain:

- **AI accelerators: The core localization bottleneck in the AI era.** China's AI compute market, historically dominated by NVIDIA/AMD, is undergoing a foundational shift. Since 2Q25, flows of leading-edge foreign GPUs have faced significant constraints amid evolving US export policies, while industry trends and guidance point to hyperscalers (Alibaba, Tencent) increasingly prioritizing domestic alternatives. A multi-vendor ecosystem is coalescing around Huawei's Ascend, Cambricon's ASICs, and GPUs from Biren/Moore Threads, driving a sustained, multi-year substitution cycle in AI compute. This re-routing of AI capex toward local players establishes them as critical beneficiaries of China's AI supercycle.
- **Semiconductor manufacturing equipment (SME): Gradual share gains in a concentrated market.** Global semiconductor equipment billings grew 10% in 2024 to US\$117bn (SEMI), with SEMI forecasting 7% growth to US\$126bn in 2025—though we see upside. Meanwhile, China demand is resilient (3Q25 China share rebounded to 44%, Sept import value +35% YoY/+80% QoQ). The market remains concentrated (top 5 global players hold >80% share), but China's localization push is driving steady share gains for domestic vendors (self-sufficiency rate was 13.6% in 2024, per TrendForce).

Naura (002371 CH, BUY, TP: RMB460) stands out as a leading platform player: its "one-stop shop" strategy (covering etch, deposition, cleaning, etc.) and acquisition of Kingsemi (strengthening capabilities in coating/developing, bonding and cleaning equipment) position it to capture deep wallet share from domestic fabs.
- **Foundry: key beneficiary of localization tailwinds.** The global foundry industry has shifted to an AI-driven structural supercycle (pure-play market to hit US\$171bn in 2025, +25.6% YoY). While TSMC dominates leading-edge nodes (71% 2Q25 market share), China's foundry players are expected to be key beneficiaries amid geopolitical reconfiguration.

Hua Hong Semi (1347 HK, HOLD, TP: HK\$68), a proxy for mature-node localization, posted record 3Q25 revenue with tight utilization and margin recovery. Its strategic role in domestic supply chains is clear, though near-term valuations reflect fundamentals; upside catalysts include stronger-than-expected demand or ASP gains.
- **Analog ICs: Cyclical recovery meets policy-driven localization.** The analog sector sees diverging dynamics: PMIC/signal chain markets are exiting a downturn (TI's 2025 price adjustments signal end of price wars), while automotive RFFE emerges as a high-growth frontier. China's analog market outpaces global growth (13% 2025E/11% 2026E YoY, per Frost & Sullivan) driven by auto/computing demand and localization.

BaTeLab (2149 HK, BUY, TP: HK\$93) is a compelling play on long-tail industrial analog: its scalable SKU expansion (850 total SKUs as of 30 Jun 2025, with 130 new in 1H25) and cost-competitive offerings support profit growth (~20% YoY NP increase in 2025) and margin resilience (>25% net margin forecast for 2025E) and attractive valuations (13.4x 2025E P/E).

Maxscend (300782 CH, HOLD, TP: RMB81.5) holds strong positioning amid China's localization trend; however, we maintain a HOLD rating as its margin recovery may take another year while navigating the fab-lite transition. Upside catalysts include stronger-than-expected demand/margin recovery and accelerated localization, with downside risks from slower capacity ramp-up and intensified competition.

Theme 3: High-yield defensives continue to anchor resilient returns into 2026

Looking ahead to 2026, we continue to see major Chinese telcos as core holdings for investors with a relatively more cautious risk appetite, given their robust balance sheets, resilient cash flow generation, and attractive dividend profiles. As of 5 Dec 2025, dividend yields for major Chinese telcos are: **China Mobile (941 HK, NR) at 6.0%, China Unicom (762 HK, NR) at 5.4%, China Telecom (728 HK, NR) at 5.0%, and China Tower (788 HK, HOLD, TP: HK\$13.1) at 3.9%, per Bloomberg.**

We expect the multi-year trend of structurally lower real yields and flatter LT rate expectations to remain a headwind for traditional fixed income investors. In our view, this environment will continue to drive a gradual rotation toward high-dividend, cash-generative equities as substitutes. Within this context, we see major Chinese telcos as key beneficiaries as their underlying businesses are stable with mgmt. committed to steadily increase their dividend payout ratio (i.e., China Mobile/China Telecom's dividend payout targets are 75%/75% by 2026, per their mgmt.).

China Tower (788 HK, HOLD, TP: HK\$13.1): In 1H25, China Tower delivered steady results with revenue up 2.8% YoY and NP up 8.0% YoY, while EBITDA margin held around 69%. Legacy tower revenue (76% of total) was broadly flat, with growth coming mainly from DAS and Two Wings (energy + smart tower) businesses, both still on a double-digit trajectory but from a smaller base. **The company continues to enhance shareholder returns: FY24 DPS rose 11.5% YoY (76% payout ratio), and 1H25 DPS increased a further 21.6% YoY,** supporting a mid-single-digit dividend yield. However, we maintain HOLD on the company as we expect low-single-digit topline growth, with limited potential for a material re-rating given ongoing telco capex pressure.

Theme 4: Expect M&A activities to accelerate in 2026 with further consolidation in the semi sector

Looking back, our 2024 call on an upturn in China semiconductor M&A activity has largely played out this year. Deal-making not only stayed robust through 2025, but is expected to further accelerate.

The 2025 deal set shows a clear pattern that leading players are using M&A to fill critical technology gaps (Naura – Kingsemi, Verisilicon – Nuclei System), vertically integrating key subsystems (Fortune Precision – Compart, AFR's acquisitions of Jabil's optical segment), and broadening product platforms in power, analog, and memory (Southchip – Zhuhai Sinh Micro, Bright Power – Sichuan Yichong).

For 2026, we expect this logic to deepen. Platform leaders in SME, power/analog, opticals are all likely to remain active acquirers, using M&A to accelerate roadmaps and tighten grips on domestic value chains. At the same time, a strong 2025 IPO cohort and slower primary-market funding point to more secondary transactions like strategic placements or partial stake sales as private companies seek exits and listed names look for inorganic growth.

Figure 15: Select M&A activities YTD in 2025

Date	Acquirer	Target	Detailed transaction	Deal significance
Jan 2025	Naura (002371 CH)	Kingsemi (688037 CH)	Initial stake purchase ~9.5% (~US\$235M equivalent); later increased toward 17–18%	Strengthens Naura's litho-adjacent platform (coat/develop, wet cleaning); enhances domestic patterning ecosystem
Jan 2025	Southchip (688484 CH)	Zhuhai Sinh Micro (Private)	RMB160mn for a 100% acquisition	Adds embedded processors + analog IC capabilities; broadens auto/industrial market reach
April 2025	Fortune Precision (688409 CH)	Compart Systems (Private)	RMB3bn for 80.8% equity stake	Secures advanced gas delivery system capabilities; critical for etch/litho; strengthens China's semiconductor equipment supply chain.
April 2025	JDM (603088 CH)	Wuxi Micro Research (Private)	RMB360mn for a 100% acquisition	Expands precision-component capabilities for semiconductor tools; improves tooling localization
June 2025	Bright Power Semi (688368 CH)	Sichuan Yichong (Private)	100% acquisition via shares and cash; Deal value RMB 3.3bn	Expands into wireless charging, protocol ICs, auto/industrial PMIC; major product-line expansion
June 2025	AFR (300620 CH)	Jabil (Optical components segment)	US\$17mn for 100% acquisition	Stronger upstream source of high-end passive optics, bolstering its 800G/1.6T datacenter module supply chain
Aug 2025	Prisemi (688230 CH)	Jishun Tech (Private)	RMB403mn (cash + convertible bonds) for a 100% acquisition	Enhances IGBT and power-device capabilities; strengthens auto-grade power semiconductor roadmap
Aug 2025	VeriSilicon Micro (688521 CH)	Nuclei System (Private)	Planned full/majority acquisition with share issuance and cash	Consolidates domestic RISC-V CPU IP; strengthens China's IP stack (CPU + GPU + NPU)
Nov 2025	AFR (300620 CH)	Anjiexun (Private)	Acquire 99.97% for RMB1.64bn	Strengthens optical-communication modules; integrates upstream optical components
Nov 2025	3Peak (688536 CH)	Aura Semi (Private)	New share issuance and/or cash	Consolidates analog design capability; strengthens high-end analog IC lineup.
Nov 2025	Puya Semi (688766 CH)	Zhuhai Nuoya (Private)	RMB144mn for 31% stake	Deepens China's presence in NOR/NAND controllers; strategic foothold in memory supply chain

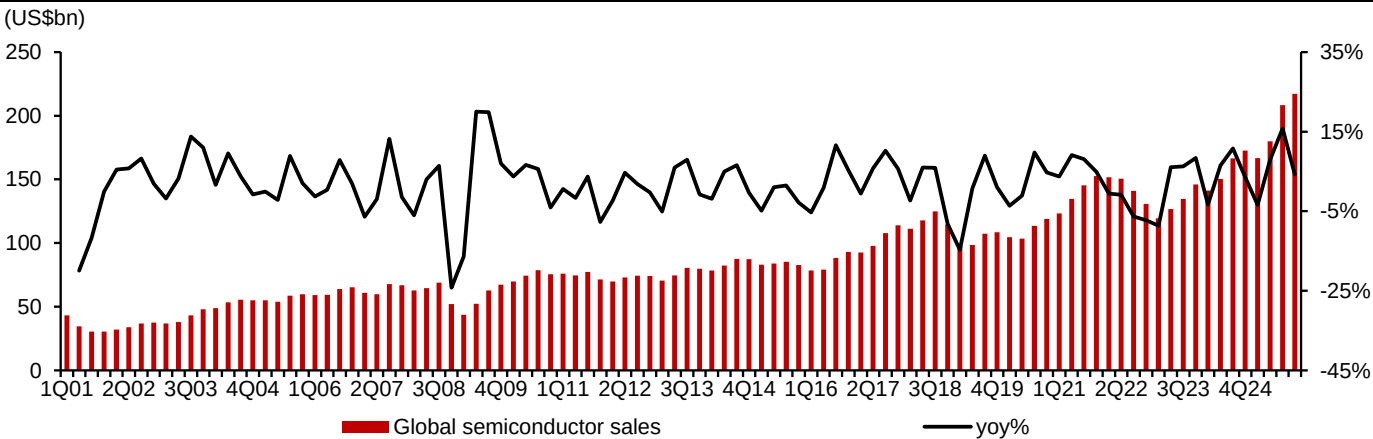
Source: Company filings, EEworld, MarketScreener, CMBIGM

Semiconductor sector outlook

Global semiconductor sector to grow 26% YoY in 2026

WSTS's Autumn 2025 forecast projects global semiconductor sales to rise 22% YoY to US\$772bn in 2025, followed by a further 26% expansion to US\$975bn in 2026. This represents a significant upward revision from its spring forecast (up by 10%/28% for 2025/26E), which had anticipated growth of only 11% and 9% for the respective years.

Figure 16: Global semiconductor sales and growth: 22%/26% YoY growth for 2025/26E



Source: WSTS, CMBIGM

Growth remains heavily concentrated in AI-centric segments. Logic (45% of projected 2026 IC sales) is forecast to increase +32% YoY, while Memory (34%) to surge +39% YoY, reflecting sustained investment in HPC and data center infrastructure. More moderate but steady recoveries are expected for Analog (11% of sales, +8% YoY) and Micro components (11%, +14% YoY), signaling a gradual broadening of demand beyond core AI verticals.

Figure 17: Memory and logic continue to lead the market growth (2026, in US\$bn)



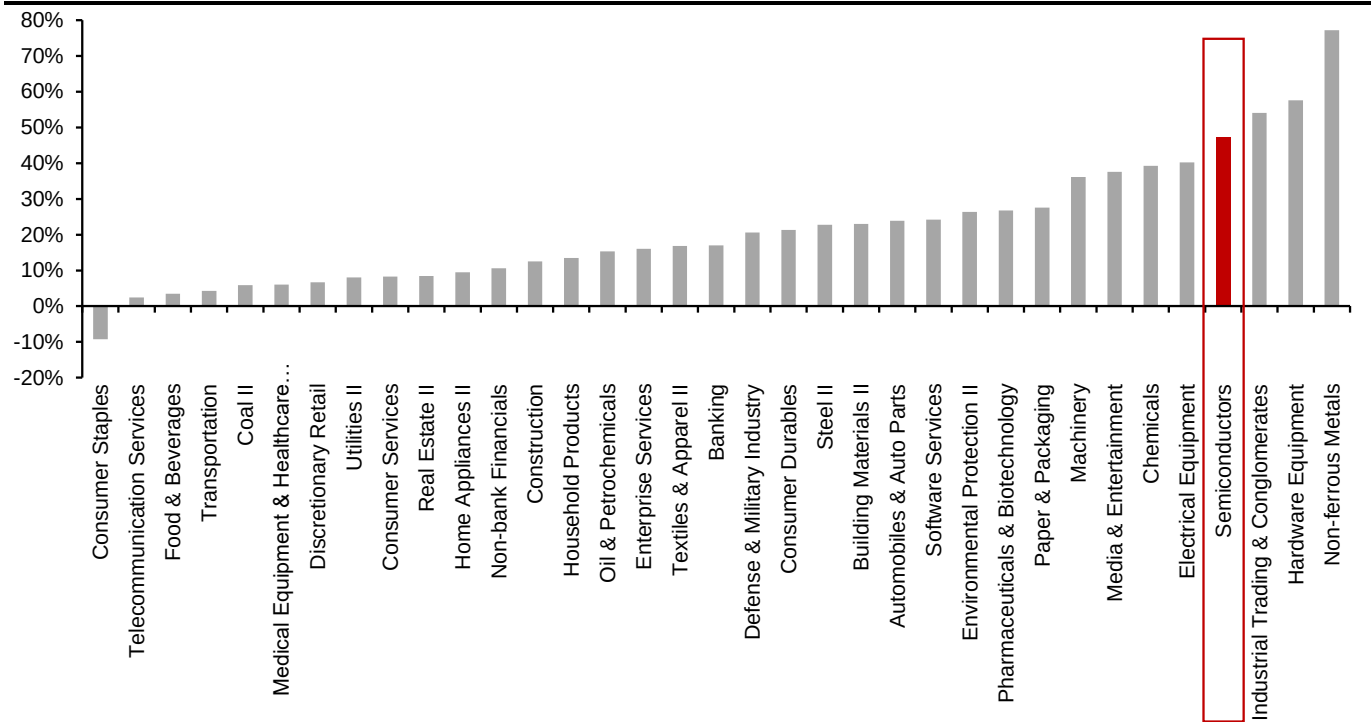
Source: WSTS, CMBIGM

Regionally, growth is expected to remain uneven in 2026. The Americas are projected to lead again with a 34% YoY increase, maintaining a 35% share of global sales. Asia Pacific is forecasted to grow 25% YoY, retaining its dominant 53% market share, while Europe and Japan are both expected to recover with 11% YoY growth, holding single-digit shares of 6% and 5%, respectively.

China semiconductor sector outperformed YTD in 2025

China semiconductors sector has significantly outperformed both domestic and global equity benchmarks YTD. The Wind Semiconductor Index rose 47.1% during 11M25, driven by a combination of AI-driven demand, improving memory and equipment cycles, and continued localization trend across key parts of the value chain, which together have supported both earnings expectations and valuation re-rating.

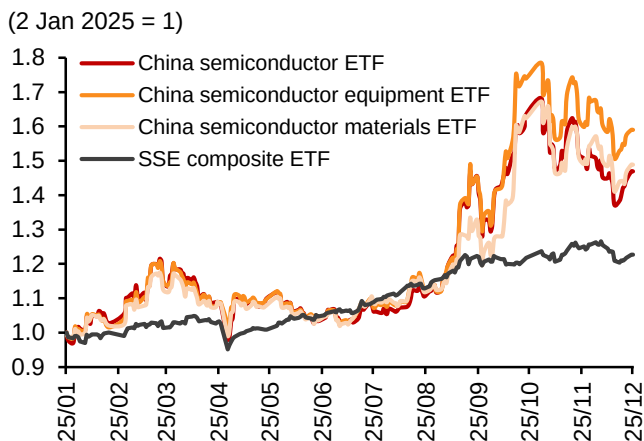
Figure 18: China's semiconductor sector outperformed YTD in 2025



Source: Wind data as of 2 Dec 2025, CMBIGM

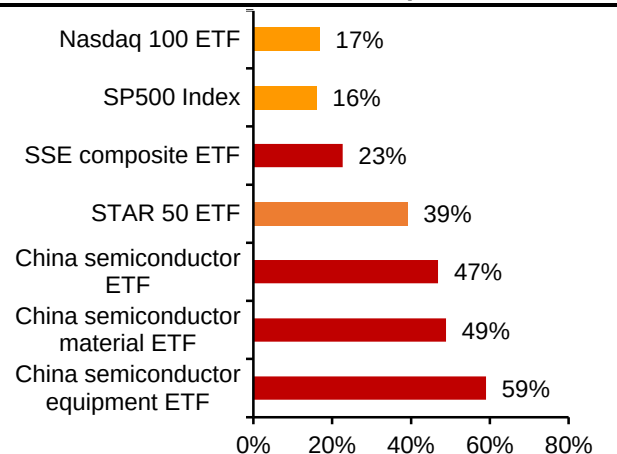
The strength is particularly evident in sector ETFs: the Semiconductor Equipment ETF gained ~59% since Jan., followed by Semiconductor Materials (49%) and the broad Semiconductor ETF (47%). This contrasts with a 23% rise in SSE Composite ETF, while the Nasdaq 100 and S&P 500 returned roughly 17% and 16%, respectively.

Figure 19: Major Chinese semiconductor indices' performance (2025 YTD)



Source: Wind data as of 2 Dec 2025, CMBIGM

Figure 20: Chinese semiconductor indices YTD performance vs. SP500 and Nasdaq-100



Source: Wind data as of 2 Dec 2025, CMBIGM

Performance accelerated from mid-2025 amid strengthening policy support, AI server demand, and localization trends. Equipment and materials subsectors led the rally, reflecting investors' focus on upstream beneficiaries of China's semiconductor self-sufficiency push and the global AI infrastructure investments.

Foundry – AI-driven super-cycle reshapes market dynamics

The global foundry industry has shifted decisively from a cyclical, inventory-driven model to a structural, AI-powered super cycle. AI demand now serves as the dominant growth engine, against a backdrop of supportive inventory normalization. **We forecast the pure play foundry market to reach ~US\$171bn in 2025, a 25.6% increase YoY**, with sustained growth driven by: 1) continued AI infrastructure investment, 2) recovery in broader electronics demand, 3) technology node advancement, and 4) strategic regional capacity expansion.

- **Revenue of the pure-play foundry market is expected to remain elevated in 4Q25, in our view.** The market reached US\$136bn in 2024 (+16.3% YoY), and is accelerating significantly. In 2025, the sector has delivered strong double-digit year-over-year growth in the first three quarters, fueled by surging AI-related demand and seasonal pre-holiday inventory builds. We expect 4Q25 revenue to remain elevated near 3Q levels (approximately US\$46bn), consistent with TSMC's 4Q guidance of roughly -1% QoQ at the midpoint.
- **Geopolitical fragmentation is accelerating supply chain reconfiguration, as major economies invest heavily in domestic fabrication for de-risking.** Local champions are positioned to benefit from strong government support, reshaping the competitive landscape over the medium term.
- **While global wafer shipments have recovered steadily (+14% YoY by leading foundries in 9M25), ASP trends reveal a stark divergence.** TSMC's blended ASP rose 15% YoY in 3Q25, propelled by its AI-driven technology mix—a momentum we expect to continue amid tight supply. In contrast, ASP recovery for foundries less exposed to AI remains subdued, as players prioritize utilization over pricing amid tepid non-AI demand—a dynamic delaying broader market recovery.
- **Competitive concentration around TSMC is pronounced** (71% share in 2Q25, up from 63% in 1Q24), a trend likely to deepen under the "Foundry 2.0" paradigm integrating full stack manufacturing. **Other leading foundries face share pressure, although SMIC (981 HK, NR) and Hua Hong (1347 HK, HOLD) remain key beneficiaries of China's supply chain localization**, supported by demand recovery, technological progress, and policy tailwinds.
- **Hua Hong Semi (1347 HK, HOLD, TP: HK\$68):** We view Hua Hong as a key beneficiary of China's "China-for-China" localization at mature nodes, with strong positioning in embedded non-volatile memory, power devices and AI-server power chips, supported by high utilization and a visible capacity expansion pipeline. **However, we think most of this recovery and localization upside is already reflected in the current share price, limiting near-term risk-reward.** While we maintain a positive long-term view of Hua Hong's strategic position and capacity expansion, current valuations appear to fairly reflect near-term prospects. Maintain HOLD with TP at HK\$68, **based on 2.4x 2026E P/B. Upside catalysts:** stronger-than-expected demand or further ASP increases. **Downside risks:** weaker end-markets, renewed pricing pressure, geopolitical tensions.

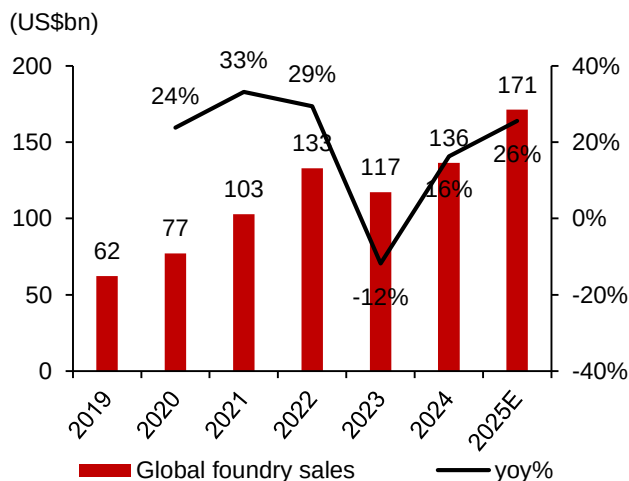
Pure-play foundry sector: AI-driven super-cycle redefines growth trajectory

■ Foundries in the AI age: riding the structural super-cycle amid geopolitical fragmentation

The global foundry industry has shifted from a cyclical inventory-driven model to a structural, AI-powered super cycle. While gradual inventory normalization provides a supportive backdrop, AI demand is now the dominant growth engine. The market reached US\$136bn in 2024 (+16.3% YoY), and is accelerating significantly.

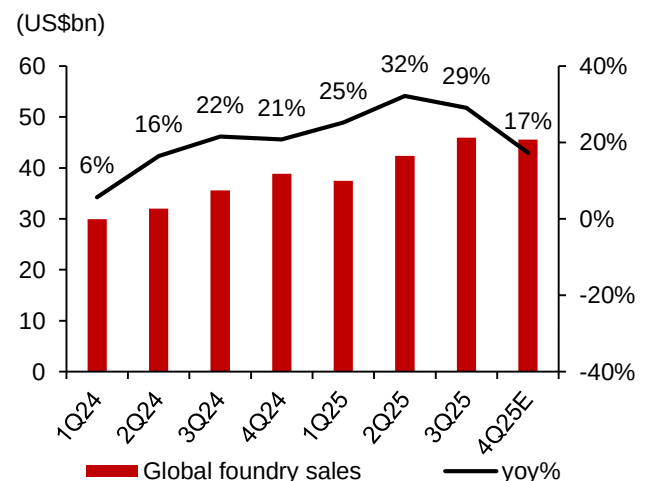
In 2025, the sector has delivered strong double-digit year-over-year growth in the first three quarters, fueled by surging AI-related demand and seasonal pre-holiday inventory builds. We expect 4Q25 revenue to remain elevated near 3Q levels (approximately US\$46bn), consistent with TSMC's 4Q guidance of roughly -1% QoQ at the midpoint. For full year of 2025, we forecast the pure-play foundry market to grow 25.6% YoY to ~US\$171bn. Such growth is expected to remain robust beyond 2025, driven by: 1) sustained AI infrastructure investment, 2) recovering demand for broader electronics, 3) continued technology advancement, and 4) strategic regional capacity builds.

Figure 21: Global foundry market share to grow 25.6% YoY in 2025



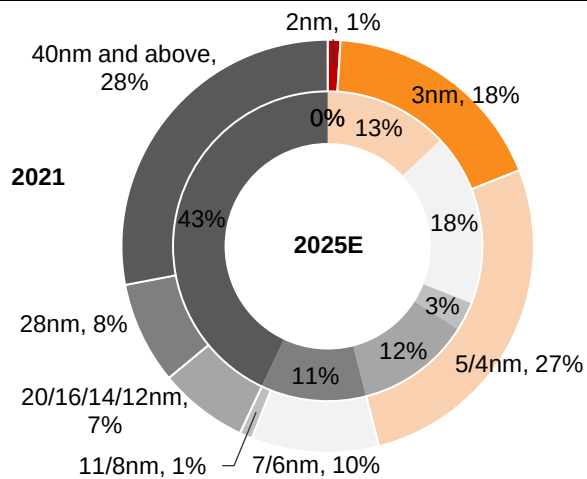
Source: Counterpoint, CMBIGM estimates

Figure 22: 4Q25 foundry market revenue to remain elevated at 3Q's level (US\$46bn)

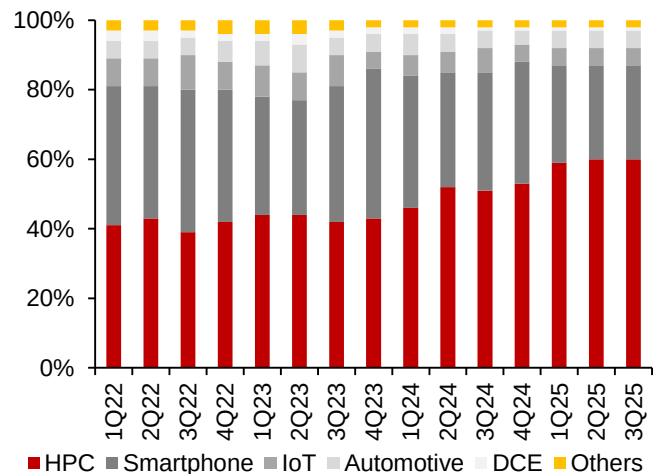


Source: Counterpoint, CMBIGM estimates

This expansion is increasingly concentrated in AI and driven by leading-edge technology. TSMC's revenue mix illustrates this shift: its High-Performance Computing (HPC) segment contribution rose from 42% in 3Q23 to 51% in 3Q24, and further expanded to 60% in 3Q25. Concurrently, the migration to advanced nodes is a primary driver of industry value expansion, alongside the increase in wafer shipment. By 2025, sub-7nm processes are projected to capture ~56% of total foundry revenue per Counterpoint, a significant increase from ~31% in 2021. The technology race continues unabated, with leaders like TSMC on track to begin 2nm (N2) production before year-end, further solidifying the technological moat for next-generation AI hardware.

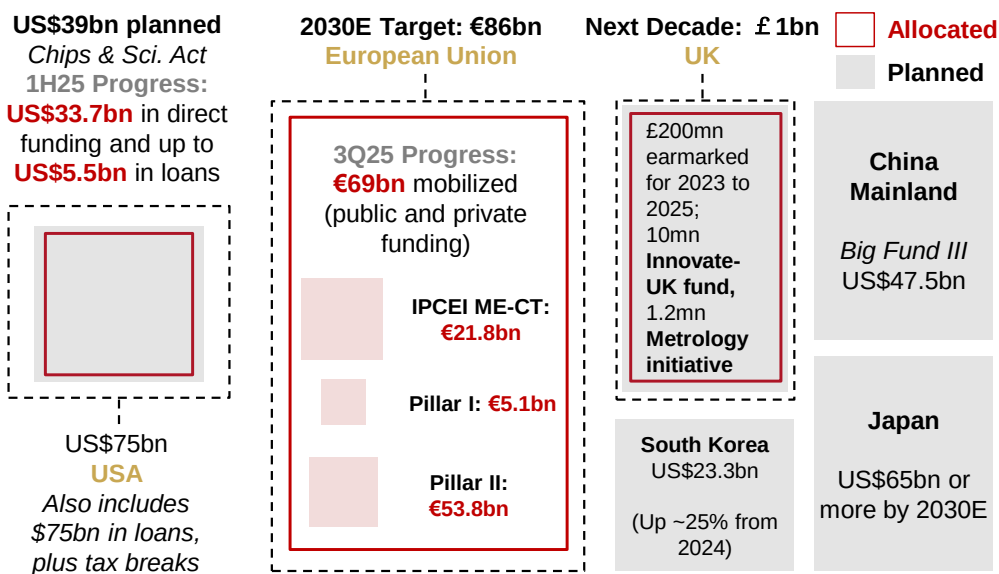
Figure 23: Global foundry (pure-play) advancing toward 2/3nm nodes


Source: Counterpoint, CMBIGM

Figure 24: TSMC's revenue breakdown by applications: rising contribution from HPC


Source: Counterpoint, CMBIGM

Geopolitical fragmentation is concurrently driving a global reconfiguration of semiconductor supply chains, as major economies prioritize de-risking through substantial domestic fabrication investments. In China, the push for supply chain localization is accelerating technological advancement and import substitution, with SMIC and Hua Hong positioned as key beneficiaries. Similar trends are gaining momentum in other regions (e.g., the US, EU, Japan), heavily supported by government subsidies, which are set to reshape the global competitive landscape over the medium term.

Figure 25: Global chips subsidy programs update (2024-3Q25)


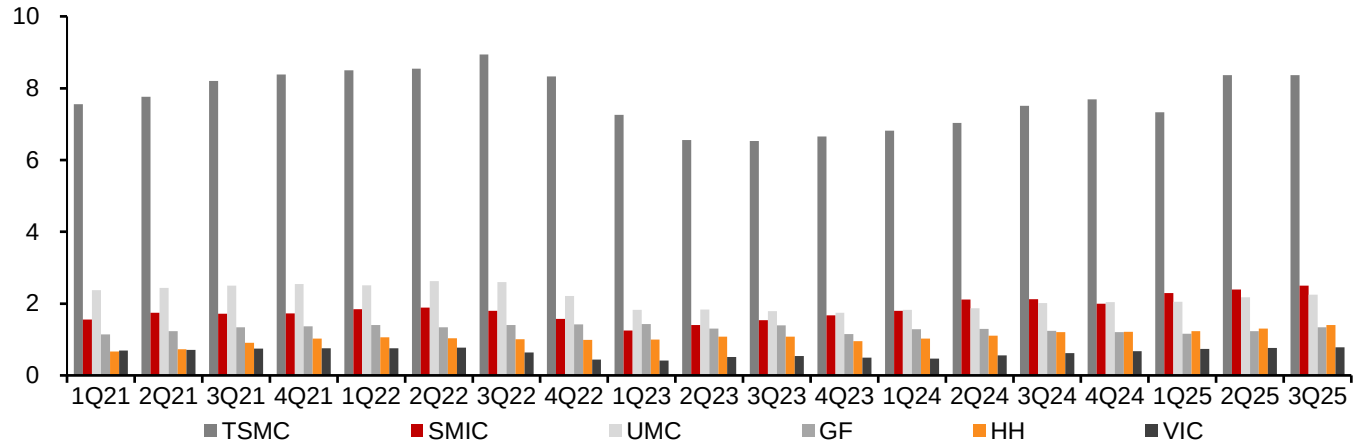
Source: Gov.uk, US DoC, SIA, SEMI, Reuters, Bloomberg, CMBIGM

■ ASP divergence highlights bifurcated market dynamics

A steady recovery in global wafer shipments has been underway since early 2024, with aggregated major foundry shipments growing 10%/14% YoY in 2024/9M25. This improvement has been supported by inventory normalization and structurally higher AI infrastructure demand, which is pulling through peripheral IC demand on mature nodes.

Figure 26: Global wafer shipment (8-inch equivalent) has been recovering steadily since early 2024

(mn wafers, 8-inch eqv.)

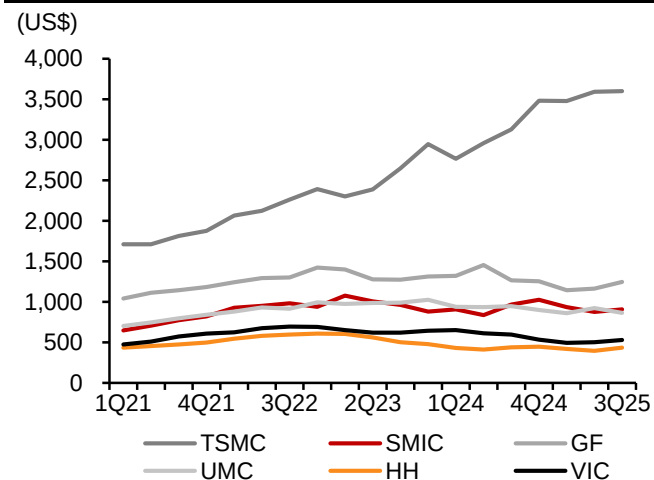


Source: Company data, CMBIGM

However, ASP trends reveal a stark divergence between AI-driven and non-AI foundry businesses. TSMC's blended ASP grew 15% YoY in 3Q25, largely driven by its advancing technology mix which is propelled by AI, as its HPC revenue share rose from ~50% in 3Q24 to 60% in 3Q25. **We expect TSMC's ASP momentum to continue**, supported by sustained AI demand (the company targets a mid-40% or higher AI revenue CAGR through 2029), ongoing node advancement (N2 ramp in 2026, with wafer prices ~50% higher than prior generations per TrendForce), and a tight supply-demand balance.

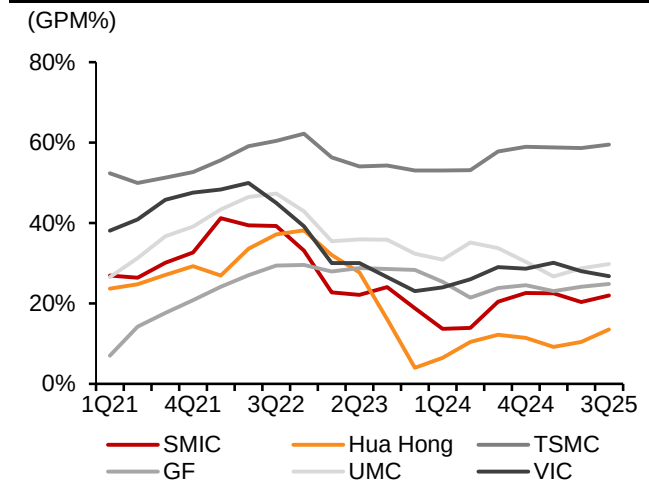
In contrast, ASP recovery for foundries less exposed to AI is still weak in 2025. These players remain cautious in raising prices amid a lukewarm recovery in non-AI end markets, prioritizing high utilization rates instead, a trend we highlighted previously ([report](#)). Blended ASP declined 6%/2%/9%/1% for SMIC/GlobalFoundries/UMC/Hua Hong from 3Q24 to 3Q25, representing a slower demand recovery across non-AI markets.

Figure 27: Global wafer ASP (8-inch equivalent)



Source: Company data, CMBIGM

Figure 28: Major foundries GPM



Source: Company data, CMBIGM

Figure 29: Major foundries' 3Q25 earnings summary

Foundry	3Q performance	Overall demand	AI-related demand	Outlook
TSMC	US\$33.1bn (40.8% YoY, 10.1% QoQ)	Broad-based strength with advanced nodes (7nm and below) contributing ~74% of wafer revenue; HPC ~57% net revenue. Utilization for 3/5nm and CoWoS remains very tight	AI accelerators remained the main growth driver offsetting weakness in legacy consumer products	Q4 revenue guided US\$32.2–33.4bn, w/GPM 59 - 61%; AI expected to keep advanced-node capacity tight into 2026. Capex for 2025 maintained at US\$40–42bn, focused on 3/2nm and CoWoS
Samsung (foundry)	2Q25: US\$3.2bn	Achieved record-high customer orders esp. on advanced nodes, with 1 st Gen 2nm entering mass production. Fab utilization rate also improved sequentially	Per Reuters, Samsung's new chip factory in Texas would be supplying Tesla's next-generation AI6 chip.	Expect 4Q to see continuous earning improvement driven by 2nm ramp and better fab loading
GFS	US\$1.69bn (-3% YoY, flat QoQ)	Utilization in the mid-80% range; smartphones still soft but auto and communications infra/data-center posted strong double-digit YoY growth and now account for ~28% of revenue	AI is a major growth engine, driving strong demand in physical-AI chips, e.g., power, RF-SOI, SiGe, optical connectivity, and accelerating DC and industrial/automotive orders	Q4 revenue guided ~US\$1.8bn with better earnings driven by auto, industrial, and DC. Capex will remain disciplined
Hua Hong	US\$635m (20.7% YoY, 12.2% QoQ)	Overall industry recovery in addition to continuous ASP recovery. Utilization rate maintained at high levels (100%+) on strong demand for memory and PMIC products, driven by sector movement and AI infrastructure buildout	Mgmt. estimated ~12% revenue generated by AI-server power chips in 3Q25	Q4 revenue guided ~US\$650-660mn with GPM 12-14%.
SMIC	US\$2.38bn (9.7% YoY, 7.8% QoQ)	Wafer shipment increased with utilization ~96%. Growth came from consumer (ex-smartphone), auto and industrial. Mgmt. notes uncertainties in smartphone inventory restocking due to fluctuation in memory product pricing	Advanced node capacity is still limited but seeing improving yield and has largely been allocated to advance China's AI accelerator domestication scheme, per AnySilicon	Q4 revenue expected to be 0-2% QoQ with GPM expected to be 18-20%
VIS	US\$413mn (13% YoY, 8.7% QoQ)	Shipment volume grew ~7% QoQ, with some ASP rising ~2%. Gross margin declined by 1.2 pts to 26.8% with rising demand for power management products.	Being a subsidiary of TSMC, VIS indirectly benefits from the AI boom with steady demand for PMIC in AI server and DC markets	Q4 shipments expected to decline 6-8% QoQ in Q4, with GPM to be ~27%
UMC	US\$1.98bn (5.4% YoY, 3.5% QoQ)	Overall demand recovered modestly; 22/28nm accounted for ~35% of revenue with utilization at ~78%. Smartphone and PC demand recovered, prompting customers to restock. New 55nm BCD platform is also ready for mass production	UMC links its AI participation mainly to 22nm ISP/connectivity, RF-SOI, and its ramping AI-driven advanced packaging, expecting meaningful AI-related contribution starting late 2026–2027	Q4 shipments expected to remain flat with ASPs to hold firm and capacity to sequentially improve ~mid-to-high 70s.

Source: Company data, AnySilicon, Reuters, CMBIGM

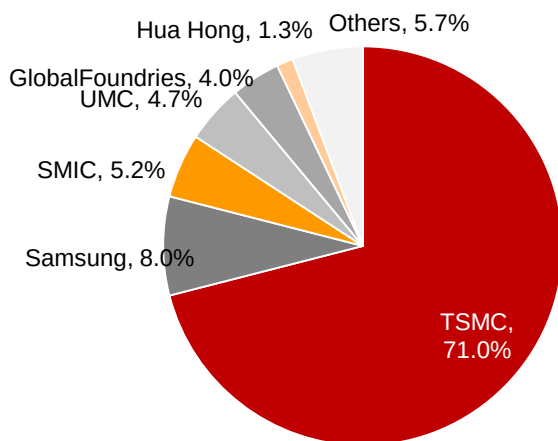
Pure-play foundry competitive landscape

The global foundry market continues to demonstrate pronounced economic concentration around TSMC. According to Counterpoint, TSMC's revenue share increased from 63% in 1Q24 to 71% in 2Q25, propelled by sustained demand for advanced nodes (3nm/5nm/7nm collectively represented 74% of its wafer revenue in 3Q25) and expanding CoWoS advanced packaging capacity.

We expect TSMC's leadership to further solidify under the emerging "Foundry 2.0" paradigm, which extends the traditional foundry model into integrated, full-stack manufacturing platforms. Competitive execution now depends not only on leading-edge transistor performance but also on co-optimization across advanced packaging (CoWoS, 2.5D/3D), testing, mask technology, and system-level design. This broader scope concentrates value around vertically integrated players, with TSMC uniquely positioned through its control across sub-7nm logic and high-volume advanced packaging.

Consequently, pure-play foundries are capturing a growing proportion of total Foundry 2.0 revenue, increasing from ~48% in 2Q24 to ~54% in 2Q25, representing a ~6% gain largely at the expense of non-memory IDMs, which ceded ~4% of share over the same period.

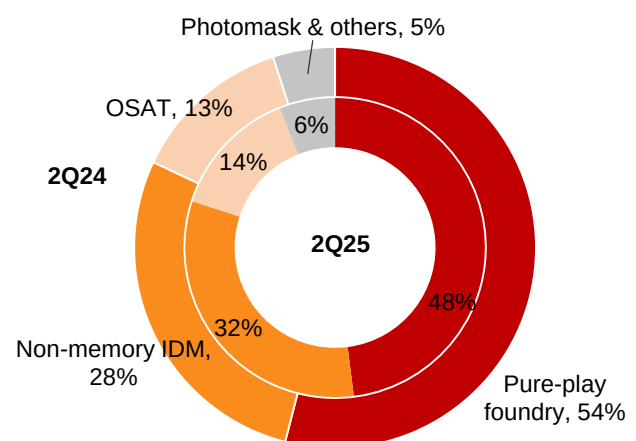
Figure 30: TSMC dominates the global foundry market with 71% share in 2Q25 (up 6% vs. one year ago)



Source: Counterpoint, CMBIGM

Note: Samsung includes foundry service for its internal logic IC business.

Figure 31: Pure-play foundry's rising importance amid the AI super cycle



Source: Counterpoint, CMBIGM

Amid this consolidation, other foundries face share pressure. Samsung Foundry's share (including internal logic) declined approximately 2% YoY in 2Q25. The company is focusing on its 2nm node, leveraging competitive pricing (reportedly [33% below TSMC's](#)) alongside yield improvements toward [55–60%](#). GlobalFoundries' share fell ~1.8% YoY to ~4%, while UMC and SMIC each saw a decline of ~0.7%, reaching roughly 5% share. Hua Hong's share decreased slightly by 0.2% to ~1.3%, per our estimates.

Despite near-term share declines, we view SMIC and Hua Hong as primary beneficiaries of accelerating semiconductor supply-chain localization in China. Improving end-market demand, gradual ASP recovery, technological progress, and supportive policies should allow these players to regain traction over time.

Indeed, an ASP turnaround is already underway. Hua Hong reported record 3Q25 revenue of US\$635mn (+21% YoY, +12% QoQ), driven by a 7% QoQ increase in wafer shipments and a 5% QoQ rise in blended ASP. Management attributed ~80% of the ASP improvement to pricing adjustments and ~20% to product-mix optimization, with utilization remaining elevated at 109.5% and gross margin recovering to 13.5%.

While we maintain a positive long-term view of Hua Hong's strategic position in China's localization drive and its ongoing capacity expansion, we believe current valuation fairly reflects near-term prospects. We therefore maintain our Hold rating with a target price of HK\$68. Upside catalysts include stronger-than-expected demand or further ASP increases. Downside risks include weaker end-markets, renewed pricing pressure, and geopolitical tensions.

Figure 32: Peers table

Company	Ticker	Mkt Cap		P/E (x)			P/S (x)			EPS (US\$)		
		US\$(mn)	Rating	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
TSMC	2330 TT	1,192,072	NR	16.0	14.6	13.0	19.1	8.1	6.8	2.0	2.4	2.9
UMC	2303 TT	19,200	NR	14.4	13.5	12.1	2.5	2.4	2.2	0.1	0.1	0.1
ASE	3711 TT	32,146	NR	26.0	17.2	13.7	1.6	1.4	1.2	0.3	0.4	0.5
VIS	5347 TT	5,454	NR	21.0	19.9	19.5	3.5	3.2	2.8	0.1	0.1	0.2
GlobalFoundries	GFS US	21,137	NR	23.3	20.4	16.4	3.1	2.9	2.7	1.6	1.9	2.3
Intel	INTC US	208,735	NR	127.2	69.0	40.4	4.0	3.9	3.7	0.3	0.6	1.1
Hua Hong Semi	1347 HK	18,709	HOLD	235.0	73.6	43.7	6.8	5.1	4.5	0.0	0.1	0.2
SMIC	981 HK	83,345	NR	100.6	66.0	50.3	9.0	7.5	6.5	0.1	0.1	0.2
				167.8	69.8	47.0	7.9	6.3	5.5	0.1	0.1	0.2

Source: Bloomberg consensus as of 4 Dec, 2025, Hua Hong Semi data is CMBIGM estimates

Semiconductor equipment – Steady growth outlook amid China's dual forces

Global semiconductor equipment billings grew 10% in 2024 to US\$117bn (SEMI), closely tracking the global semi 20% sales expansion, according to WSTS. **While SEMI's July 2025 forecast calls for a 7% increase in semiconductor equipment billings to US\$126bn this year, we view this projection as conservative.** The forecast implies an atypically soft 4Q25, with a 20% YoY decline, which contrasts with strong YTD performance, including a robust September China import of +35%/+80% YoY/QoQ. Historically, Q4 has not been a seasonally weak period (e.g., +1%/+20% YoY in 4Q23/4Q24). Given the discrepancy between recent momentum and the implied Q4 weakness, **we expect SEMI's upcoming update to revise 2025 forecast upward**, reflecting a more reasonable quarterly progression.

The competitive landscape remains concentrated, with the top five global players holding over 80% of the market, a dominance we expect to endure. However, amid ongoing geopolitical realignments and a sustained push for supply chain localization, **Chinese domestic vendors are poised to gradually gain share.** Within this shifting landscape, we are constructive on Naura (002371 CH, BUY), China's leading semiconductor equipment platform, which stands as a primary beneficiary of deepening in-country procurement and platform-based share gains.

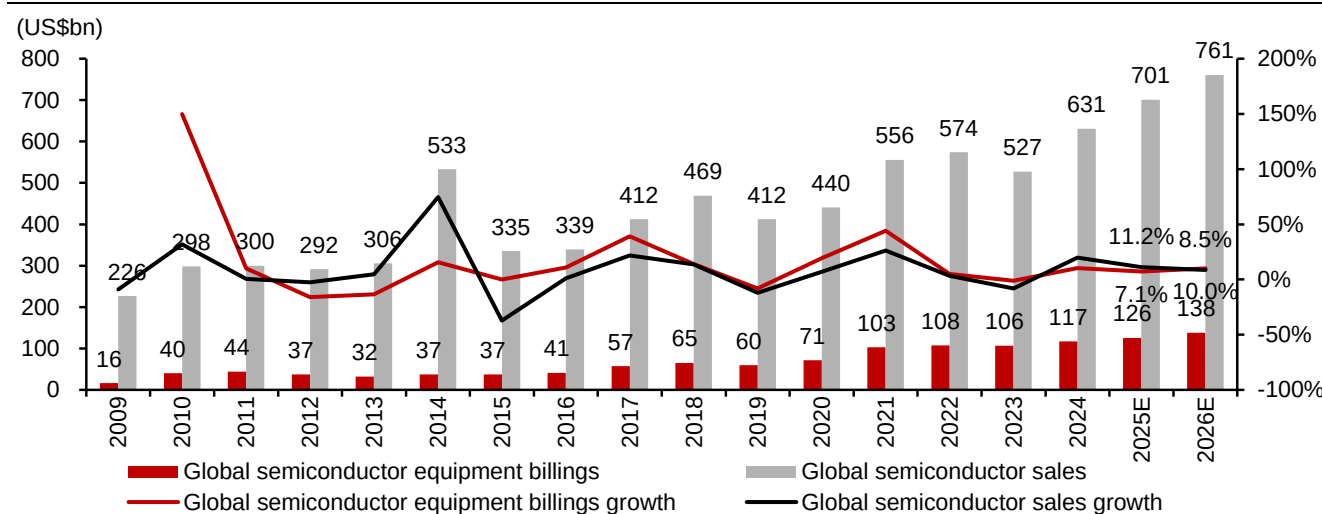
- **China: The dominant and evolving market.** China solidified its position as the top regional market, with its share of global billings rebounding to 44% in 3Q25. Underlying this strength is a clear shift toward higher-value tools: while import volumes have remained range-bound (~3.7k-6.1k units monthly), the average import price shows a structural uptrend. This is underscored by a surge in September import value (+35% YoY, +80% MoM), confirming resilient regional demand.
- **Competitive landscape:** global giants vs. rising local players. The market remains highly concentrated, with the top five global suppliers holding >80% share, a structure we expect to persist. China is a critical revenue stream for these leaders; their China (ex-Taiwan) revenue surged over 200% YoY to US\$31bn in 2023 and grew another 27% to ~US\$39bn in 2024 (Bloomberg consensus). While a normalization is underway, with Bloomberg consensus expecting a 13% decline to ~US\$34bn in 2025, China's revenue contribution is at a structurally higher level (~30% of global sales) than the pre-2023 period.
- **Concurrently, Chinese domestic vendors are gaining share, supported by a powerful localization push.** The self-sufficiency rate reached 13.6% in 2024 (TrendForce), with notable progress in etching and cleaning equipment. However, the long-term rerating potential lies in advanced-node segments, where self-sufficiency remains low; any credible breakthrough here would drive a fundamental earnings and valuation stepchange for domestic players, in our view.
- **We remain constructive on Naura (002371 CH, BUY),** China's leading semiconductor equipment platform. Its portfolio spans critical processes including etching, deposition, and cleaning, enabling deeper wallet share and a scalable addressable market. We view Naura as the best positioned beneficiary of China's supply-chain localization. Our target price of RMB460 is based on 35x 2026E P/E, in line with its historical average. Key risks include weaker-than-expected domestic capex, geopolitical friction, and supply-chain disruptions.

Global semiconductor equipment spending to sustain growth momentum

■ Global semiconductor equipment billings projected to rise 11% to US\$126bn, with potential upside to forecasts

In 2024, global semiconductor equipment billings grew 10% YoY to US\$117bn (SEMI), while semiconductor sales rose 20% YoY to US\$627bn (WSTS). Historically, equipment billings track semiconductor sales closely but with lower volatility. The relatively moderate growth in equipment billings last year—compared to a sharper 2023 decline in overall sales (-1% for equipment billings vs. -8% for global semi sales)—was due primarily to order pullforward into 2023, as geopolitical factors and planned capacity expansion supported earlier investment.

Figure 33: Global semi equipment billings and semi sales trends

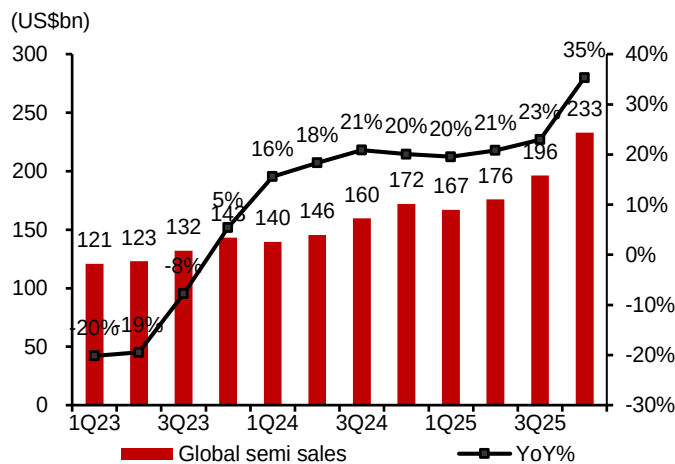


Source: WSTS, SEMI, CMBIGM

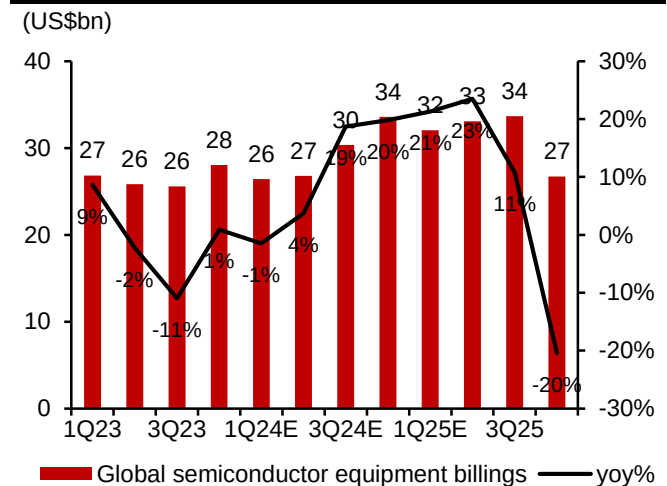
While SEMI's July 2025 forecast called for a 7% increase in semiconductor equipment billings to US\$126bn this year, we view this projection as conservative. The forecast implies an atypically soft 4Q25, with a 20% YoY decline, which contrasts with strong YTD performance, including a robust China import in September (up 35% YoY and 80% QoQ).

Historically, Q4 has not been a seasonally weak period (e.g., +1%/+20% YoY in 4Q23/4Q24). Given the discrepancy between recent momentum and the implied Q4 weakness, **we expect SEMI's upcoming update to revise 2025 forecast upward, reflecting a more reasonable quarterly progression.**

We also observed similar trend in WSTS' 2025 global semi sales forecast in June and December, with the latest projection reflecting a 10.2% upward revision comparing to six months ago.

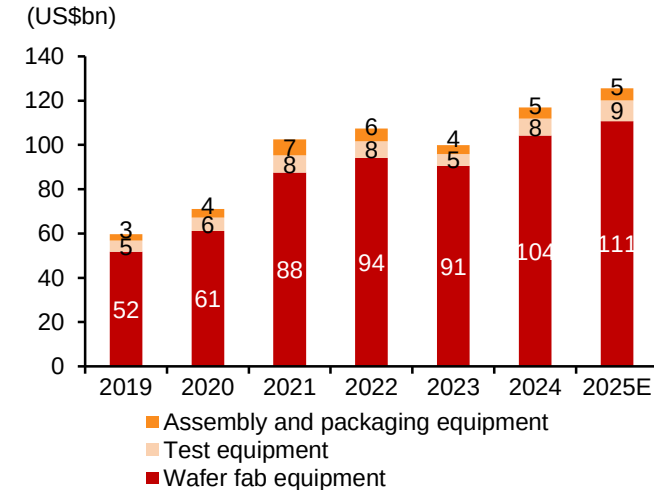
Figure 34: Upside potential to 2025 semiconductor sales forecast (consensus: +22.5% YoY)


Source: WSTS, CMBIGM estimates

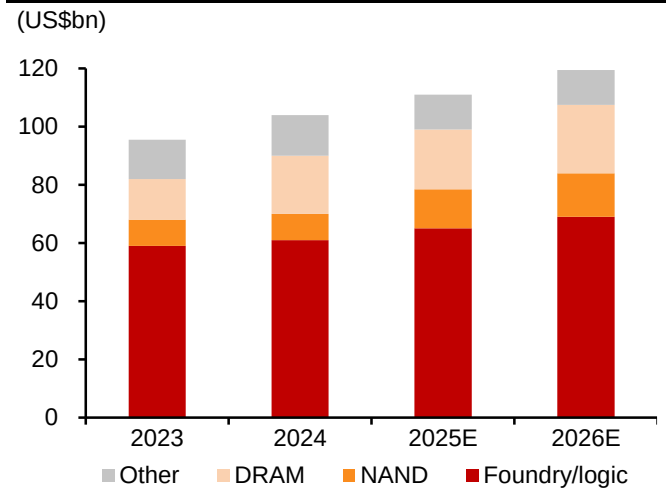
Figure 35: Upside potential to 2025 equipment billing forecast (consensus: +7% YoY)


Source: SEMI, CMBIGM estimates

SEMI expects total equipment spending to continue rising through 2025, still led by wafer-fab equipment (WFE). While test and assembly & packaging equipment represent smaller segments, they are expanding at a faster pace, raising back-end intensity amid the AI cycle.

Figure 36: WFE/test equipment/assembly & packaging equipment to grow 6.2%/23.3%/7.7% in 2025E


Source: SEMI, CMBIGM

Figure 37: Global 2023-2026E WFE revenue breakdown by semiconductor categories


Source: SEMI, CMBIGM

■ China expected to remain the largest regional spender on semiconductor equipment

Geographically, the Chinese mainland remained the largest regional spender, having reached a record 50% share of global equipment billings in 1Q24. Its share then moderated to the mid 30% range by 4Q24, affected by export controls. The share rebounded to 44% in 3Q25, reflecting the demand for semiconductor equipment continues to be strong.

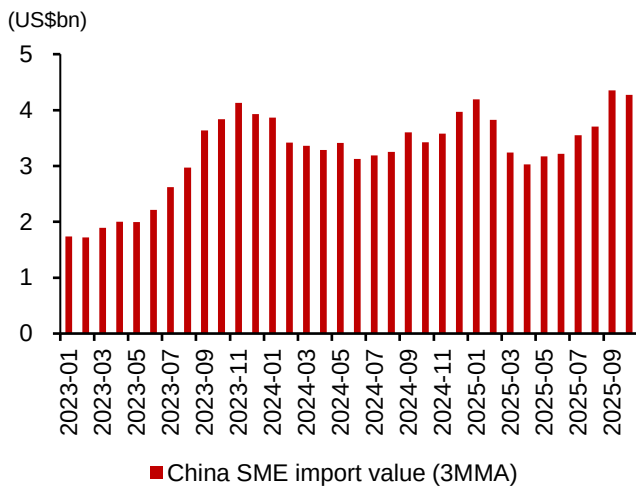
Figure 38: Quarterly global semiconductor equipment billings by region

(US\$bn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
China Mainland & Taiwan	13	13	15	15	15	16	18	18	17	20	23
YoY%	3%	0%	-2%	7%	16%	22%	19%	17%	16%	26%	27%
China Mainland	6	8	11	12	13	12	13	12	10	11	15
YoY%	-23%	15%	42%	91%	114%	62%	17%	-1%	-21%	-5%	12%
% of global	22%	31%	42%	43%	50%	44%	43%	35%	32%	34%	44%
South Korea	6	6	4	5	5	5	5	6	8	6	5
YoY%	9%	-2%	-19%	-17%	-7%	-20%	17%	24%	54%	18%	1%
North America	4	3	3	3	2	2	4	5	3	3	2
YoY%	50%	12%	-4%	3%	-52%	-19%	77%	66%	47%	38%	-47%
Japan	2	2	2	3	2	2	2	3	2	3	2
YoY%	0%	-7%	-29%	19%	-4%	5%	-4%	-11%	9%	34%	-9%
Europe	2	2	2	2	2	1	1	1	1	1	1
YoY%	19%	-13%	2%	12%	24%	-42%	-38%	-52%	-57%	-13%	-48%
Rest of the world	1	1	1	1	1	1	1	1	1	1	1
YoY%	-18%	-34%	-57%	-34%	-28%	45%	13%	22%	3%	-28%	-28%
Total SME billings	27	26	26	28	26	27	30	34	32	33	33
YoY%	9%	-2%	-11%	1%	-1%	4%	19%	20%	23%	22%	10%

Source: SEMI, CMBIGM

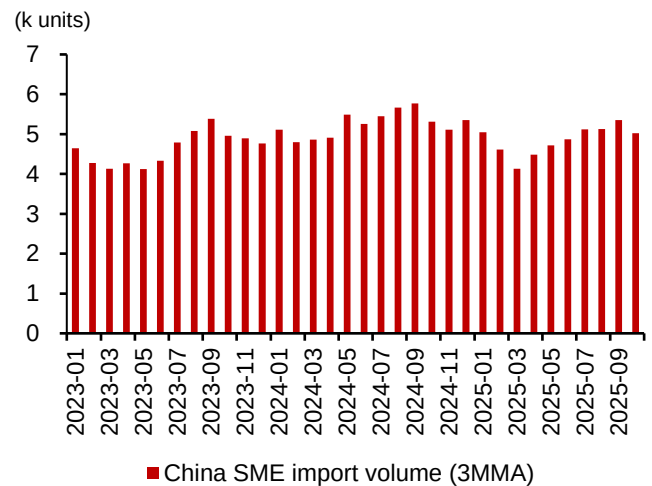
Per SEMI, the Chinese mainland is expected to continue leading equipment spending. China's semiconductor equipment import value surged in September, rising 35% YoY and 80% MoM. To smooth volatility, the three-month moving average (3MMA) continues to indicate resilient import demand from the region.

Figure 39: China semiconductor equipment imports demand remains strong



Source: Wind, CMBIGM

Figure 40: Monthly import volume of semiconductor manufacturing equipment remained range-bound



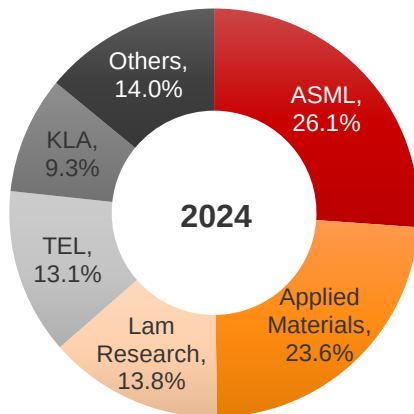
Source: SEMI, CMBIGM

Over the longer period from early 2023 through October 2025, the monthly import volume of semiconductor manufacturing equipment has remained range-bound, fluctuating between approximately 3.7k and 6.1k units. In contrast, the average import price has exhibited a structural uptrend. **This divergence suggests that China's import mix is increasingly skewed toward more advanced, higher-value tools in recent years, reflecting both evolving domestic fab needs and broader supply-chain sourcing patterns.**

Competitive landscape

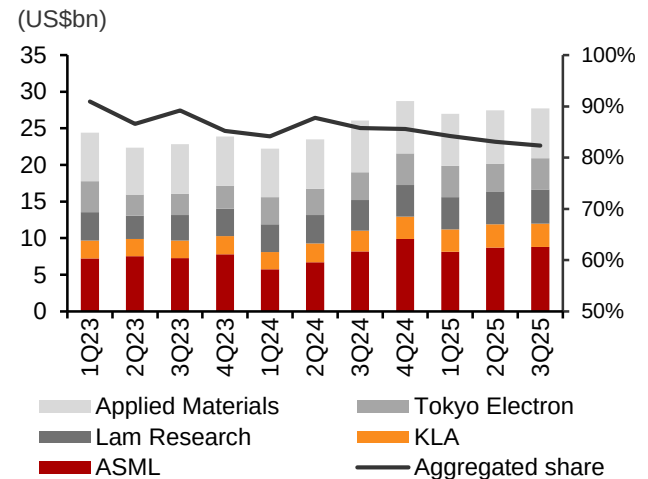
The competitive landscape remains highly concentrated, with the top five equipment suppliers holding over 80% of the market. In 2024, ASML led with a 26% share, followed by Applied Materials (24%) and Lam Research (14%). We expect market concentration to persist, with global leaders maintaining dominant positions. That said, Chinese domestic vendors are likely to gradually gain share, supported by the ongoing push for semiconductor supply-chain localization.

Figure 41: The top five SME players accounted for 86% market share in 2024



Source: Company data, Bloomberg, SEMI, CMBIGM

Figure 42: The competitive landscape of SME was relatively stable with share above 80%



Source: Company data, Bloomberg, SEMI, CMBIGM

Global equipment leaders in China: still a critical market

Overseas equipment suppliers experienced an exceptional surge in China demand during 2023, with the top five players' revenue from China (excluding Taiwan) jumping over 200% YoY to US\$31bn. This was followed by another strong year in 2024, with revenue rising 27% YoY to US\$39bn, albeit off a much higher base. For 2025, Bloomberg consensus currently anticipates a 13% decline, which would bring China (ex-Taiwan) revenue for these players down to roughly US\$34bn.

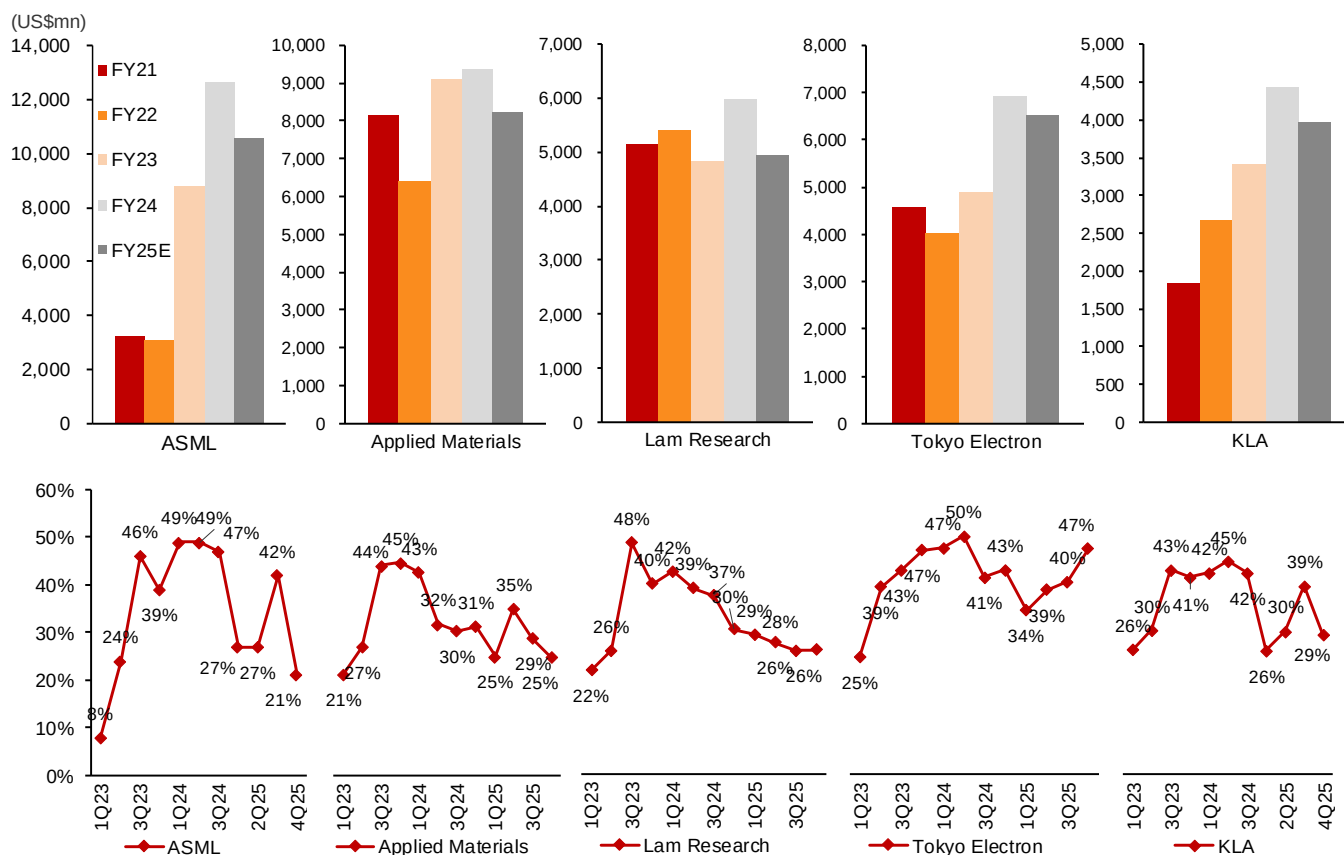
Figure 43: Global SME leaders' Chinese Mainland revenue: Peaked in 2024 in value but share expected to fall in 2025E

(US\$m)	FY21	FY22	FY23	FY24	FY25E
ASML	3,242	3,071	8,761	12,629	10,564
...% total revenue	15%	14%	29%	41%	28.9%
KLA	1,831	2,660	3,400	4,434	3,960
...% total revenue	26%	29%	35%	41%	31%
Lam Research	5,138	5,412	4,849	5,974	4,949
...% total revenue	35%	31%	34%	37%	27%
Tokyo Electron	4,572	3,999	4,893	6,928	6,528
...% total revenue	27%	24%	37%	45%	40%
Applied Materials	8139	6412	9,099	9,363	8,231
...% total revenue	34%	24%	34%	34%	28%
Top 5's revenue from China (ex-Taiwan)	22,922	21,554	31,002	39,328	34,232
...YoY%		-6%	202%	27%	-13%
...% total revenue of the top 5	22.3%	20.0%	29.2%	33.6%	27.3%

Source: Company data, Bloomberg consensus, CMBIGM

As a percentage of their global sales, the Chinese mainland's contribution peaked at 33.6% in 2024 and is expected to normalize to 27.3% in 2025E (Bloomberg consensus), still above the 20%+ range seen in 2021-22. **Despite the decline, China remains a core market for global SME leaders.**

Figure 44: Global SME leaders' Chinese Mainland revenue and Chinese Mainland revenue contribution



Source: Company data, Bloomberg consensus, CMBIGM

■ Domestic Chinese equipment leaders: benefiting from accelerating localization demand

Amid a global push for semiconductor supply chain onshoring, catalyzed by heightened geopolitical tensions, Chinese semiconductor suppliers stand to benefit from sustained, meaningful tailwinds. A positive reinforcement cycle is now taking hold, with domestic equipment leaders already demonstrating strong revenue and earnings momentum.

According to TrendForce, China's semiconductor equipment self-sufficiency rate reached 13.6% in 2024. A detailed breakdown of the Chinese equipment market by tool type and self-sufficiency rate is presented in the table below. China has made significant technological progress in recent years, particularly in etching, cleaning, and thermal - processing equipment, though it continues to lag in key areas such as lithography.

Figure 45: SME market breakdown by type and China's self-sufficiency rate (TrendForce)

Equipment category (Ranking by TAM)	China self-sufficiency rate	Key Chinese players	Key global players
Lithography	10–15% (mature); 0–1% (advanced)	SMEE, CETC, NAURA	ASML, Canon, Nikon
CVD / ALD	5–10%	NAURA, JSG, AMEC, ACM, Piotech, Joysingtech	ASM International, Applied Materials, Lam Research, TEL
Etching	50–60% (mature); <15% (advanced)	AMEC, NAURA, Joysingtech, BEST, Piotech, ACM, Kingsemi	Applied Materials, Lam Research, TEL
PVD	15–20% (mature); <10% (advanced)	NAURA, SC, Joysingtech, CETC, HF-Kejing	ASM International, Applied Materials, Lam Research, TEL
Cleaning	50–60%	ACM, NAURA, PNC, Kingsemi, BEST	SCREEN, TEL, Lam Research
Metrology	10–15% (mature); <5% (advanced)	SMEE, Skyverse, Jingce, Hwatsing, NAURA	KLA, Santec
CMP	15–25% (mature); <10% (advanced)	ACM, Hwatsing, CETC, Hubei Dinglong	DuPont, Thomas West, JSR
Ion implantation	10–20% (mature); <5% (advanced)	Kingstone, CETC, NAURA, AMEC	Applied Materials, Axcelis
Coating & developing	10–15% (mature); <10% (advanced)	ACM, Kingsemi, NAURA, AMEC, Beijing Huafeng Test & Control	Dow Chemical, JSR, TOK America, TEL
Thermal processing	30–40%	NAURA, JSG, AMEC, Piotech, Joysingtech	ASM International, Applied Materials, Lam Research, TEL
Photoresist stripping	75–90% (low-end); <30% (high-end)	BEST, NAURA, ACM, Zhejiang YuQian, Jet Plasma	Hitachi High-Technologies, Lam Research

Source: TrendForce, CMBIGM

We believe the long-term value and rerating potential reside in advanced-node segments where self-sufficiency remains low. These segments are characterized by structurally higher total addressable market (TAM) per wafer and deeper technology moats. For Chinese equipment makers, any credible breakthrough in advanced tools would drive a far more substantial step-change in earnings and valuation, in our view.

Figure 46: Peers table

		Rating	Mkt Cap US\$mn	P/E (x)		EPS (US\$)		Revenue (US\$mn)	Revenue growth	
Company	Ticker			FY25E	FY26E	FY25E	FY26E	FY24	FY25E	FY26E
Overseas peers										
ASML	ASML NA	NR	406,652	36.5	34.4	28.7	30.4	30,574	23%	6%
Applied Materials	AMAT US	NR	200,953	27.0	26.1	9.3	9.7	28,368	0%	2%
Lam Research	LRCX US	NR	195,941	38.9	32.3	4.0	4.8	18,436	-1%	16%
KLA	KLAC US	NR	154,448	36.2	32.7	32.5	35.9	12,156	-1%	8%
TEL	8035 JT	NR	96,026	27.3	29.5	8.1	6.8	15,963	6%	-9%
Advantest	6857 JT	NR	96,772	83.7	51.1	1.6	2.5	5,119	3%	15%
			Avg.	41.6	34.4	14.0	15.0	18,436	7%	5%
Domestic peers										
Naura	002371 CH	BUY	44,207	43	32	1.41	1.88	4,144	33%	27%
Zhejiang Jingsheng	300316 CH	NR	6,687	28	29	0.18	0.18	2,441	-33%	-5%
AMEC	688012 CH	NR	23,132	76	51	0.48	0.72	1,259	37%	32%
ACMR	688082 CH	NR	10,846	45	37	0.50	0.61	780	27%	23%
PNC	603690 CH	NR	1,580	-	-	N/A	N/A	501	-	-
Hwatsing	688120 CH	NR	6,805	36	28	0.53	0.68	473	36%	27%
Piotech	688072 CH	NR	11,660	80	52	0.52	0.80	570	57%	33%
Changchuan	300604 CH	NR	7,092	50	39	0.22	0.29	506	43%	33%
Kingsemi	688037 CH	NR	3,584	105	71	0.17	0.25	244	16%	29%
Xinyichang	688383 CH	NR	934	162	46	0.06	0.20	130	9%	23%
Skyverse	688361 CH	NR	6,016	322	108	0.05	0.16	192	53%	49%

Beijing Huafeng	688200 CH	NR	3,335	45	36	0.54	0.68	126	44%	27%
Crystal Growth & Energy	688478 CH	NR	686	-	-	N/A	N/A	59		
Shanghai Vital	600641 CH	NR	2,197	101	65	0.02	0.04	81	138%	47%
E-Town	688729 CH	NR	10,303	107	64	0.03	0.05	644	15%	33%
Wuhan Jingce	300567 CH	NR	2,692	100	57	0.10	0.17	356	27%	25%
Avg.			93.0	51.3	0.34	0.48	782	35.8%	28.7%	

Source: Bloomberg consensus as of 1 Dec, 2025; forecasts for Naura are CMBIGM estimates

We maintain a constructive view on Naura (002371 CH, BUY), the leading domestic semiconductor-equipment platform company. The company delivered solid 3Q25 results, with 9M25 revenue up 33% YoY to RMB27bn, driven by broader process coverage and continued market-share gains. Net profit grew 15% YoY to RMB5.1bn. Naura is steadily building a multi-product platform through in-house R&D and targeted M&A. Its portfolio currently spans etching, PVD/CVD, ALD, oxidation/anneal, cleaning, and other critical processes, enabling deeper wallet share at existing customers and a more scalable addressable market.

The recent acquisition of a 17.9% stake in Kingsemi (688037 CH, NR), making Naura the largest shareholder, further reinforces this strategy. Kingsemi adds leading capabilities in coating/developing, wet-cleaning, etc. – a move we see as a key accelerator of Naura's platform build-out, filling critical portfolio gaps and enhancing cross-selling opportunities at top domestic fabs. **We maintain our BUY rating with a target price of RMB460.** **Potential risks include:** weaker-than-expected domestic capex, geopolitical headwinds and supply chain disruptions, and intensified competitions. **Potential risks include** weaker-than-expected domestic capex, geopolitical headwinds and supply chain disruptions, and intensified competitions.

CIS sector – Sustained growth fueled by automotive and emerging applications

The global CMOS Image Sensor (CIS) market has emerged from its cyclical downturn, posting a robust 6.4% year-on-year rebound to US\$23bn in 2024 (Yole). This recovery sets the stage for a new phase of sustained, structurally-differentiated growth. While the mobile segment accounts for over 60% of revenue, the future expansion of the industry should be increasingly powered by the accelerating adoption of automotive ADAS and the proliferation of novel applications in smart glasses and machine vision.

The competitive landscape is consolidating with strategic divergence: technology leaders like Sony (6758 JT, NR) are pushing the boundaries of performance with large pixels and advanced stacking, while scale players like Samsung (005930 KS, NR) and agile Chinese contenders are driving the high-resolution revolution and capturing share with compelling value propositions. **Future leadership will be defined by the ability to navigate rising memory costs and supply chain pressure, while excelling in technology innovation, strategic focus on high-growth verticals, and relentless cost optimization.**

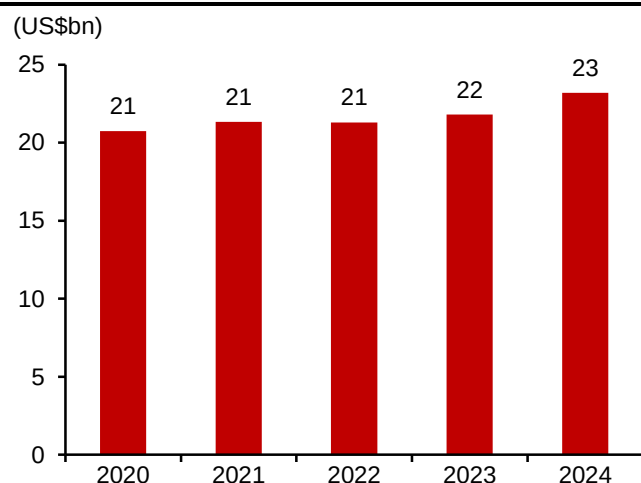
- **Segment dynamics: mobile stabilizes, automotive accelerates, and emerging applications rise.** The mobile CIS segment, which accounts for over 60% of industry revenue, has stabilized. Future growth will be primarily driven by rising ASPs, fueled by a consumer shift towards premium and GenAI smartphones, despite only modest unit growth and a projection of flattish average number of cameras per device. In contrast, the automotive CIS segment is poised for double-digit growth through 2025-27E. This expansion is not reliant on vehicle production volumes but is driven by the increasing penetration of cameras per vehicle, supported by ADAS, in-cabin monitoring, and ongoing resolution upgrades. Beyond these established markets, emerging applications like smart glasses and machine vision are unlocking new frontiers. These segments demand specialized sensors with features like ultra-low power consumption, miniaturization, and global shutter technology, presenting a high-value growth vector for technology leaders.
- **Competitive landscape: consolidation and strategic divergence.** The CIS market is consolidating around a handful of leaders who are pulling ahead through technological differentiation and strategic focus. Sony maintains its dominant share, leveraging its technology edge and significant R&D investments to pioneer high-density, three-layer stacked architectures for the high-end market. Samsung solidifies its number two position via its IDM model and a focus on the high-resolution, small-pixel roadmap, though its strategic prioritization of HBM may cap CIS share growth. Chinese players are the primary disruptors: OmniVision has demonstrated remarkable execution, surpassing Onsemi (ON US, NR) to become the automotive CIS market leader in 2024, while SmartSens (688213 CH, NR) is growing aggressively, rapidly gaining share in the mobile and security markets with compelling price-performance offerings. We expect this intense competition to continue, with winners determined by their ability to balance continuous innovation, strategic market focus, and rigorous cost control.
- **OmniVision (603501 CH, BUY, TP: RMB173), based on 33.6x 2026E P/E:** OmniVision is a core beneficiary of China's CIS upgrade cycle, with leading auto CIS (~30% global share), fast-growing IoT/medical imaging, and recovering mobile CIS. Near-term watch points: mix shift, slower mobile ramp. 2026E earnings to re-accelerate on new 200MP/premium mobile sensors, ~40%+ auto CIS growth, and operating leverage-driven margin expansion. Key risks: softer smartphone CIS recovery, heightened auto/mobile CIS competition, margin pressure from lower-margin distribution mix.

Global CIS market: growth led automotive CIS, while emerging applications gaining traction

The global CIS market rebounded by 6.4% YoY to US\$23bn in 2024, driven primarily by growth in the mobile and security segments. The recovery in mobile CIS was fueled by: 1) a 4% YoY increase in global handset shipments, reaching 1.4bn units, and 2) rising ASP increase as consumer demand continued to shift toward premium devices. The security CIS market showed continued recovery from its 2022 trough, due to a sharp contraction in demand, although it remained below the 2021 peak. Meanwhile, the automotive CIS segment sustained its role as a key growth driver, supported by increasing adoption of ADAS. We expect this growth trajectory to continue, underpinned by the broader industry trends toward vehicle electrification and intelligence.

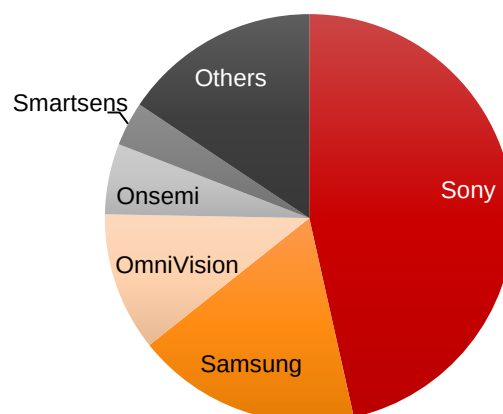
For 2025, we project the mobile CIS segment will maintain mid-single-digit percentage growth, largely driven by value growth as leading suppliers focus on product iterations and performance upgrades. The automotive CIS segment is expected to deliver double-digit percentage growth, supported by accelerating "smart driving equality" initiatives launched earlier this year. We also anticipate a continued recovery in the security CIS market, reflecting a slowly improving end-demand environment for traditional surveillance applications.

Figure 47: CIS TAM (2020-24)



Source: Yole, CMBIGM

Figure 48: CIS market share (2024)



Source: Yole, CMBIGM

We maintain our view that CIS market share will continue to consolidate around current industry leaders. We believe that the competition within the CIS industry will remain intense, with true leaders benefited from continued technological innovation, strategic market expansion (premium segments and fast-growing markets), and effective cost controls.

Leveraging competitive pricing and progressively improving technological capabilities, the Chinese suppliers have solidified their presence in the mid- to low-end segments and are now making tangible inroads into the high-end market. However, Chinese manufacturers also face hurdles, including price wars in the low-end markets, and ongoing breakthroughs in high-end technologies.

- **Sony continues to lead the market with close to 50% market share per Yole.** In 2024, it strengthened its leadership by gaining another 1% share, reflecting its technological edge in mobile CIS and share gains in automotive. Although the company has postponed its earlier target of reaching a 60% market share by FY25

(compared to 51% in FY22 per mgmt.), due to lower-than-expected customers' sales and rising competition from Chinese players, **Sony has maintained its FY24-26 capex plan of 1.7trn Yen (equivalent to US\$11.2bn), with a primary focus on image sensors R&D.** Half of this investment will be allocated to advanced process technologies for higher density solutions (partnership with TSMC at Kumamoto plant). While this should help preserve Sony's technology leadership, **it may weigh on segment profitability:** mgmt. described in 2024 as "halfway to a full recovery of profitability", with -5.7%/+4.5% FCF/sales ratio in 2023/24 (FCF: approx. -US\$600mn/+US\$530mn, respectively).

- **Samsung maintains its position as the second largest CIS supplier globally,** by leveraging its integrated IDM model and a clear focus on the high-resolution, small-pixel technology roadmap. The company released the industry's first 200MP mobile image sensors (0.5µm). This strategy is reinforced by its massive internal smartphone and XR business, which provides a captive market for its sensors and drives fast iterations. Meanwhile, the company's re-entry into the Apply supply chain shows significant strategic breakthrough, challenging Sony in the premium mobile segment.
- **OmniVision ranked the third, with approx. 11% market share.** Its CIS revenue grew 23.5% YoY in 2024, driven by strong performance across mobile (+26% YoY), automotive (+30% YoY), emerging (+42%), and medical applications (+59%). We estimate the company gained 1.5% market share last year. We remain positive on OmniVision's outlook given its solid positioning across mobile, auto, and emerging segments. We expect further share gains in 2025 driven by the introduction of new products.
- **SmartSens ranked fourth, with roughly 4% share.** SmartSens reported 109% YoY revenue growth in 2024, with notable gains across security (+29% YoY), mobile (269%), and automotive CIS (+79%). We estimate Smartsens gained approx. 1.7%market sharein 2024.

Figure 49: CIS market competitive landscape: Japan, South Korea and China lead the market

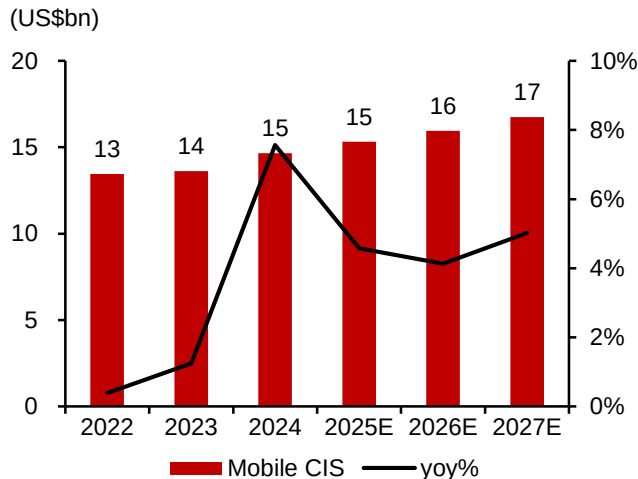


Source: Yole, CMBIGM

Mobile CIS

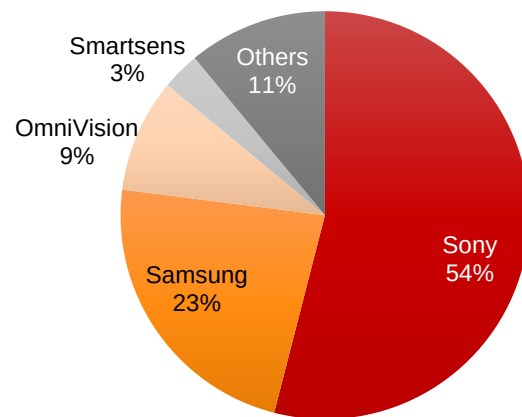
The mobile segment remains the dominant CIS end-market, accounting for over 60% of total industry revenue. Per Yole, **global smartphone CIS rebounded in 2024**, due to a recovery in smartphone shipment (+6% YoY per IDC) and ongoing technology upgrades toward higher-performance solutions. However, per Counterpoint, the average number of cameras per smartphone declined to 3.7 in 2024, down from 3.8 in the previous year.

Figure 50: Mobile CIS TAM (2022-27E)



Source: IDC, Bloomberg, CMBIGM

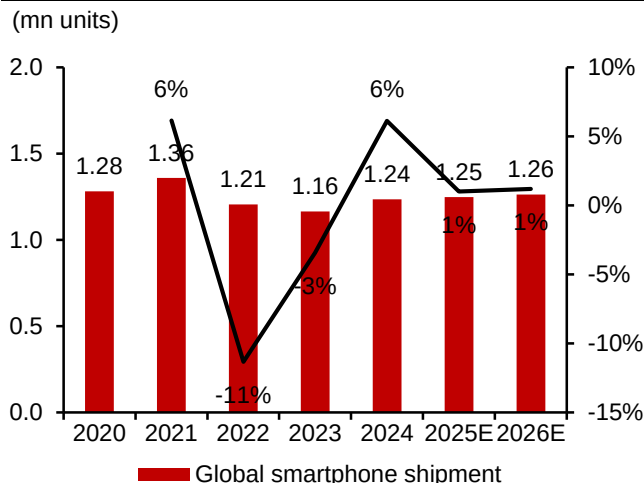
Figure 51: Mobile CIS market share (2024)



Source: Counterpoint, Canals Techinsights, Bloomberg, CMBIGM

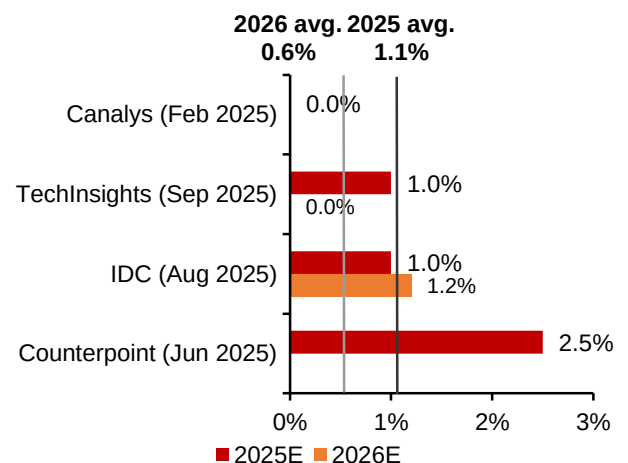
We project the mobile CIS segment will deliver single-digit percentage growth in the coming years, primarily driven by higher ASPs. Overall mobile CIS revenue is expected to remain in the range of 2.5%-3.0% of total smartphone BOM cost.

Figure 52: Global smartphone shipment (2020-26E): volume recovery in 2024 per IDC



Source: IDC, Bloomberg, CMBIGM

Figure 53: Global smartphone shipment forecasts for 2025/26E: stabilization with LSD%



Source: Counterpoint, Canals Techinsights, Bloomberg, CMBIGM

- We maintain a flat projection for the number of CIS units per handset, with overall CIS shipment growth tracking global smartphone volume trends. After a 6% YoY increase in 2024, which ended the decline in two consecutive years (-11%/-3% in 2022/23), the market stabilized further in 9M25, with shipments up 1.5% YoY. **IDC forecasts steady volume growth of ~1% YoY for both 2025 and 2026.**
- Although smartphone volume growth remains modest, **IDC projects a 5%**

increase in smartphones ASP this year, driven by a marked consumer shift towards the premium devices and a refocus of value growth instead of volume share gains by OEMs. **The penetration of GenAI smartphones is expected to reach 30% in 2025 and exceed 70% by 2029. Despite a muted CIS shipment, we expect the CIS ASP will continue rising**, supported by demand for premium-tier phones and ongoing technology advancements.

The mobile CIS market is consolidating: Sony maintains its leading position, with Samsung in second, while Chinese CIS players are catching up in high-end market.

- **Sony (#1)** continues to lead the market with 50%+ market share, though Counterpoint estimates its smartphone CIS shipment growth in 2024 was modest compared to peers. In the mid to long term, Sony has identified mobile CIS as a key growth driver. While large pixel sizes remain part of its roadmap, Sony acknowledges that merely increasing pixel dimensions has limitations in meeting future video performance demands. The company is currently pivoting toward a “high-density” development path, which involves advancing process node technology laterally and transitioning from two-layer to three-layer stacked architecture vertically. This approach enhances sensor performance by enabling higher component integration density, leading to tangible improvements in sensitivity, noise reduction, and dynamic range, which ultimately broadens the scope of application for its sensors. We believe Sony will maintain its competitiveness in the mobile CIS market, given its technology leadership and continuous investments in this field.
- **Samsung (#2)** is set to re-enter the Apply supply chain after a decade, marking a significant strategic breakthrough per Dealsite. This initial order (likely to be 50MP CIS) has been increased to 4k wafers per month. However, the mass production timeline has been pushed back from Mar 2026 to late 2026 or early 2027, reflecting a cautious approach to meet Apple’s stringent specifications.
- **Chinese suppliers such as OmniVision (#3)** saw volume shipments grow 14% YoY in 2024, per Counterpoint. Volume growth coupled with ASP increases drove overall mobile CIS revenue up 26% for OmniVision. **SmartSens (#5)** also gained share, with mobile CIS revenue surging 269% YoY last year.

Looking forward, we expect the growth momentum to continue. In 1H25, and **SmartSens** delivered mobile CIS sales growth of 40% YoY, on track for another year of strong performance. SmartSens has recently released its 0.61µm 200MP smartphone image sensor, the SCC80XS, bridging the gap from its previous 50MP offerings (first product released in Jan 2025) to the new frontier of 200MP resolution. This sensor is designed for flagship models and is estimated to reach mass production in 2026. **OmniVision’s** mobile CIS revenue declined 19.5% YoY, mainly due to product cycle transitions (e.g., from OV50H to OV50X). We expect a temporary decline in its mobile CIS sales in 2025, with a return to growth from 2026 onwards as new products help regain share.

Figure 54: CIS offering comparison of leading CIS suppliers (max resolution product for mobile use)

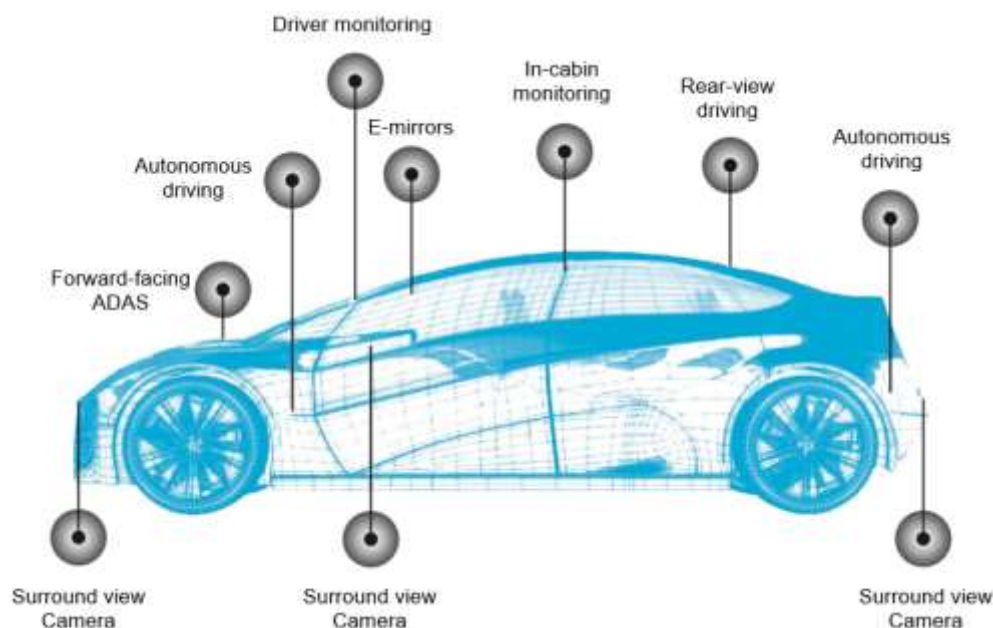
Company	Max resolution	Pixel size	Note
Sony	50MP	0.6µm - 1.6µm	Sony will release its first 200MP solution soon
Samsung	200MP	0.5µm	Launched the industry’s first 200MP mobile CIS
OmniVision	200MP	0.56µm - 0.612µm	
SmartSens	200MP	0.61µm	

Source: Company websites, CMBIGM

Automotive CIS

The automotive CIS market exceeded US\$2bn revenue in 2024 per Yole, largely driven by the increasing adoption per vehicle. We expect **this segment to remain a key growth driver of the overall CIS market, with double-digit percentage growth through 2025-27E.**

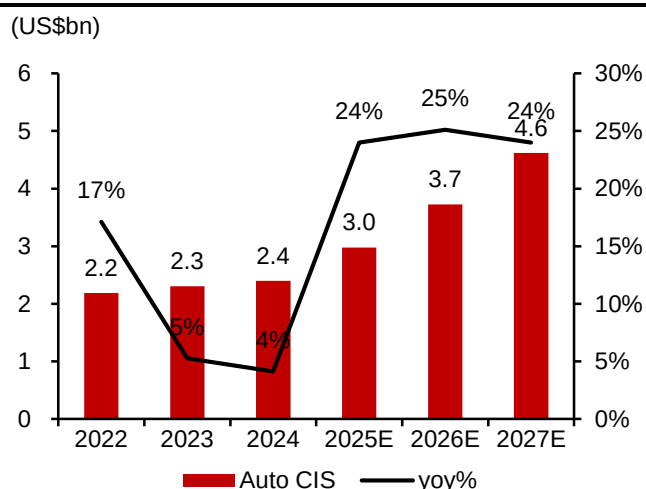
Figure 55: Usage of CIS solutions in smart vehicles



Source: Company filings, CMBIGM

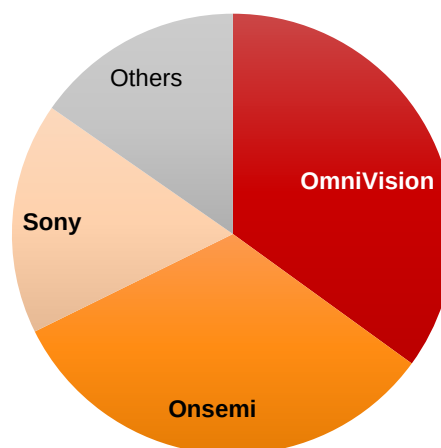
Despite a relatively flat global light vehicle production forecast (-1% to +3% YoY per S&P), we expect the number of CIS per vehicle to grow low- to mid-teens percentage in 2025-27E, due to: 1) electrified intelligent vehicles transition, and 2) rising adoptions of ADAS and in-cabin monitoring for driving assistance and safety requirements. Meanwhile, blended ASP is projected to rise single-digit percentage given resolution upgrade (toward 8MP).

Figure 56: Automotive CIS TAM and growth (2022-27E)



Source: Yole, S&P, CMBIGM

Figure 57: Automotive CIS market are consolidated, as top 3 accounted for 85% share (2022-27E)



Source: Company filings, Yole, S&P, CMBIGM

The competitive landscape of automotive CIS market was relatively stable in the past, largely due to the lengthy certification and testing processes required for automotive suppliers. This has resulted in **the top three players accounting for 85% of the market (2024). However**, in the wake of the chip shortage, both OEMs and tier 1 suppliers are now **shifting toward multi-sourcing strategies for CIS to enhance supply chain resilience**. This shift is now introducing opportunities for changes in the competitive landscape. Notably, **OmniVision surpassed Onsemi in 2024, overtaking the former market leader in terms of share**.

- **OmniVision leads with an estimated 35% market share (approx. US\$820mn) in 2024**. Over the past three years, **the company's automotive CIS sales grew at a 37% 2021-24 CAGR**, supported by a broad portfolio of cost-effective and high-performance sensors (1MP to 12MP). OmniVision **gained a significant 16% share** during the period, particularly in cost-sensitive surround-view and ADAS camera applications. **In 1H25, OmniVision's automotive CIS revenue increased another 30% YoY, demonstrating resilient momentum**.
- **Onsemi followed with 33% market share but lost 5% share last year**, due to intensified competition, a market preference for cost-effective solutions and supply chain localization trend in China. Onsemi's Intelligent Sensing Group (ISG), including automotive and industrial CIS, declined 14% YoY in 2024 and another 17% in 1H25, affected by capacity bottleneck and intensified competition. However, Onsemi remains a strong presence in the mid- to high-end segment.
- **Sony is catching up, particularly in the high-resolution market, ranking third with 17% share**. Leveraging its technology expertise and automotive portfolio (ranging from 1MP to 8MP), Sony aims to gain another 6% market share in automotive CIS market (based on 2MP and above market and excluding in-cabin sensors) by FY26.

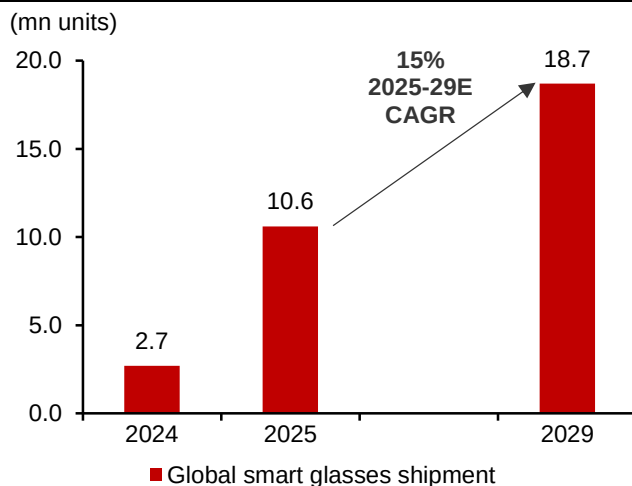
Emerging market CIS

Beyond the established smartphone and automotive sectors, emerging applications such as smart glasses and machine vision are unlocking new growth vectors for the CIS market, underscoring its long-term potential.

The leading CIS suppliers all developed sensors that target this fast-growing market. Samsung is re-entering into the high-end XR market with the Galaxy XR, strengthening its position in emerging CIS by leveraging vertical integration. OmniVision, for example, is among the frontrunners, with RMB1.2bn emerging CIS revenue in 1H25 (~2.5x YoY). The segment also includes sport camera, machine vision and related applications. SmartSens have introduced and 12MP CIS product designed for AI glasses.

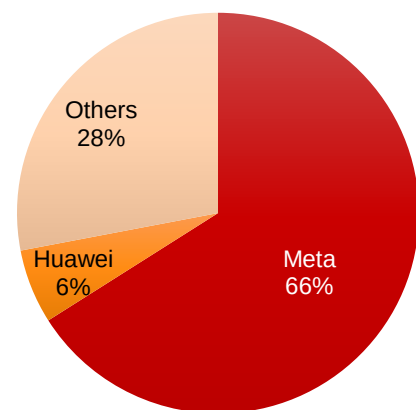
- **Smart glasses:** The segment is experiencing explosive growth. IDC projects global smart glasses shipment will nearly triple to 10.6mn units in 2025 and reach 18.7mn by 2029, representing a 15% 2025-29E CAGR. Despite this rapid expansion, smart glasses volumes remain well below the 1.4bn annual handset shipments, indicating substantial room for growth. Leading products like Meta's Ray-Ban smart glasses are driving specialized CIS demand for miniaturization, ultra-low power consumption, and advanced functionalities such as integrated NPUs for on-sensor AI processing.

Figure 58: Global smart glasses shipment



Source: IDC, CMBIGM

Figure 59: Global smart glasses market share (2024)



Source: IDC, CMBIGM

- **Machine vision:** Machine vision sector is becoming a critical driver for high-performance CIS. As the “eyes of industry”, machine vision systems are essential for automation in manufacturing, logistics, and intelligent inspection. This creates robust demand for CIS used in industrial cameras. These applications require sensors with superior capabilities like global shutter technology to eliminate motion blur, high dynamic range (HDR) for challenging lighting conditions, and enhanced near-infrared (NIR) sensitivity for low-light operation. Companies are strategically organizing to capture this opportunity. The demand for intelligent perception in robotics, smart logistics, and barcode scanning ensures that machine vision will remain a high-growth, high-value market for CIS technologies.

Figure 60: CIS player comparison

Company name	Sony*	Samsung	Onsemi	OmniVision	Smartsens
Ticker	6758 JT	005930 KS	ON US	603501 CH	688213 CH
Mkt Cap (US\$mn)	161,775	433,617	22,171	20,866	5,184
Price (LC)	4182.00	108500.00	55.10	123.70	92.70
YTD performance %	29.22	107.33	(12.61)	19.10	19.62
CIS					
Others					
Mobile					
Security					
Automotive					
Others					
FY24					
Revenue (US\$mn)	85,061	220,655	7,082	3,574	829
YoY%	-0.5%	16.2%	-14.2%	22.4%	108.9%
GPM%	28.3%	38.0%	45.5%	29.4%	21.1%
EBITDA margin (%)	19.8%	25.0%	34.8%	16.7%	10.7%
Net profit (US\$mn)	7,494	25,266	1,573	462	55
NPM%	8.8%	11.5%	22.2%	12.9%	6.6%
EPS (US\$)	1.23	3.63	3.63	0.38	0.14
FCF/sales ratio	0.12	0.07	0.20	0.13	(0.12)
FY25E					
Revenue (US\$mn)	92,374	225,856	5,957	4,305	1,177
YoY%	-5.7%	2.4%	-15.9%	20.5%	42.0%
GPM%	40.4%	36.9%	38.2%	31.0%	23.6%
EBITDA margin (%)	19.8%	25.0%	34.8%	16.7%	10.7%
Net profit (US\$mn)	7,568	23,919	949	628	130
NPM%	8.2%	10.6%	15.9%	14.6%	11.0%
EPS (US\$)	1.24	3.73	2.29	0.52	0.32
FCF/sales ratio (1H25)	0.10	0.06	0.19	0.05	(0.54)
Valuation (FY24)					
P/E (x)	22.5	20.5	17.1	38.1	53.0
EV/EBITDA	10.3	7.5	18.2	-	-
Valuation (FY25E)					
P/E (x)	24.5	19.5	22.2	35.9	47.3
EV/EBITDA	12.0	6.7	13.0	25.9	36.3

Source: Company data, Bloomberg consensus data as of 11 Dec 2025

Note: Sony's revenue breakdown by segment data is provided by mgmt.

Figure 61: Peers table

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	P/E		FY2025			
					FY24	FY25E	Revenue (US\$ mn)	Rev. YoY%	GPM	NPM
Domestic										
OmniVision	603501 CH	BUY	21,206	126.5	45.7	36.7	4,268	17.8	30.6	13.6
Smartsens	688213 CH	NR	5,281	92.7	95.0	38.8	1,203	45.1	24.0	11.2
Average					70.4	37.8		31.5	27.3	12.4
Overseas										
Sony	6758 JT	NR	164,058	4,152	22.1	23.3	92,374	-5.7	40.4	8.2
Samsung	005930 KS	NR	422,259	105,350	18.7	17.8	222,005	0.6	38.1	11.7
Onsemi	ON US	NR	22,115	54.96	15.1	23.6	5,997	-15.3	38.2	16.0
Average					18.6	21.6		(6.4)	38.6	11.6

Source: Company data, Bloomberg consensus data as of 15 Dec 2025, CMBIGM estimates

Analog sector – PMIC recovery underway; RF in transition

We highlight a growing divergence within the analog semiconductor space. The power management IC (PMIC) and signal chain markets are stabilizing after a severe downturn, entering a cyclical recovery phase. In contrast, the mobile radio frequency front-end (RFFE) market remains under pressure, while automotive RFFE emerges as a key strategic growth frontier.

- **PMIC & signal chain: Cyclical inflection.** The global analog market is recovering, as represented by Texas Instruments' (TXN US) three rounds of price adjustments in 2025, which mark the end of the intense price war and set the stage for margin recovery. WSTS projects modest global YoY analog revenue growth of 3% in 2025 and 5% in 2026, yet lagging AI-driven logic/memory. China is a standout, forecast to grow 13% in 2025 and 11% in 2026 per Frost & Sullivan, driven by auto, computing, and localization tailwinds.

The competitive landscape is being reshaped by supply chain regionalization, market bifurcation (broad SKU coverage vs. system-critical expertise), and a capital model divide (fabless agility vs. IDM control).

- **BaTeLab (2149 HK, BUY, TP: HK\$93), based on 26.6x 2026E P/E:** We view BaTeLab as one of the cleanest players on domestic substitution in long-tail industrial analog ICs, driven by a scalable SKU expansion model (~850 SKUs with >200 adds annually), a capital-light patterned-wafer + in-house EDA platform, and structurally resilient profitability (GPM >50%, NPM >26%). As the global analog cycle turns up and tariffs/anti-dumping measures raise the relative cost of imported US analog devices, we expect OEMs and distributors to accelerate dual-sourcing and shift more volume to local suppliers, offering its incremental share opportunities. Key risks include: Slower-than-expected SKU ramp or customer adoption in industrial end-markets, potential disruption in key distributor relationships during its ongoing channel rebalancing.
- **RFFE: Mobile bottoming, auto accelerating.** The mobile RFFE market declined 11% YoY in 2024 by revenue to US\$15.4bn, per Yole. We forecast only 2% YoY growth in 2025/26E, as RFFE content gains in 5G mobile phones are offset by architectural simplification, BOM pressure, and pricing competition. We believe a meaningful rebound awaits 6G later this decade. Conversely, automotive RFFE is a key growth area (17% 2023-29E revenue CAGR per Yole), fuelled by connectivity and ADAS, significantly increasing RF content per vehicle.

Consolidation defines strategy: The market remains highly consolidated (Top 5: >80% share). Strategic shifts are underway: the Skyworks-Qorvo merger aims for scale and reduced Apple exposure; Chinese vendors benefit from localization but face fragmentation.

- **Maxscend (300782 CH, HOLD, TP: RMB81.5), based on 45x 2026E EV/EBITDA:** We view 2025–26E as transition years as the company executes its fab-lite/IDM shift and ramps 6-inch/12-inch capacity, which is weighing on margins via elevated depreciation and suboptimal utilization. While Maxscend remains a key domestic RFFE player with rising module mix and long-term localization optionality, we expect earnings recovery to be gradual given soft smartphone demand, continued pricing pressure, and near-term GPM headwinds. Upside risks: faster-than-expected smartphone/RF demand recovery, sharper domestic share gains in RFFE modules. Downside risks: prolonged price competition, weaker end-demand, slower capacity ramp or product execution.

Global analog market – PMIC and signal chain ICs

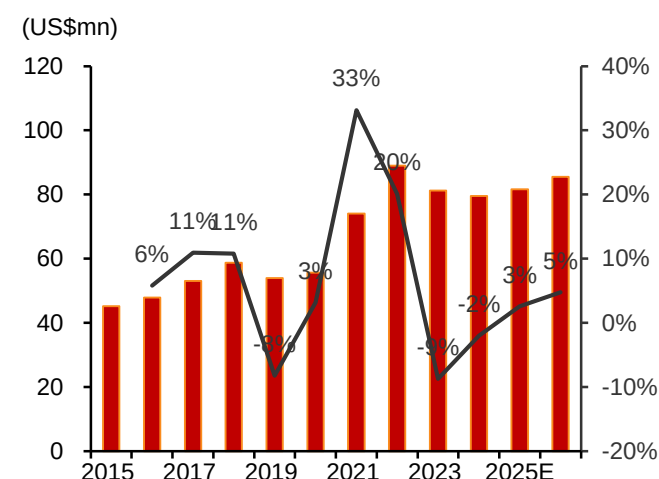
■ Cyclical recovery amid structural reshaping

Following the 2021-2022 supply shortage, a severe inventory overhang led Texas Instruments (TI) to initiate widespread price cuts in 2023, triggering a sector-wide price war. As a result, the market declined 9% YoY in 2023 and contracted a further 2% in 2024, per WSTS, pressured by inventory overhang and weak demand. Key players, including TI, Analog Devices, SG Micro, and 3Peak, faced material revenue declines and gross margin compression.

A cyclical inflection appears underway. A modest 4% recovery in industry-wide revenue during 1H25, alongside normalized inventory levels, suggests the sector is stabilizing. TI's three rounds of price adjustments in 2025 (June, August, September), affecting tens of thousands of SKUs, signal that channel destocking has concluded. We see this as **the end of the intense price war, setting the stage for pricing stabilization and a potential margin recovery ahead.**

That said, the rebound remains muted relative to logic and memory segments, which are surging on AI-driven demand. **WSTS projects the analog market will grow only 3% in 2025 and 5% in 2026.**

Figure 62: Global analog market to grow modestly in 2025/26E (3%/5% YoY)



Source: WSTS, CMBIGM

Figure 63: Texas Instruments price adjustments (three times) in 2025

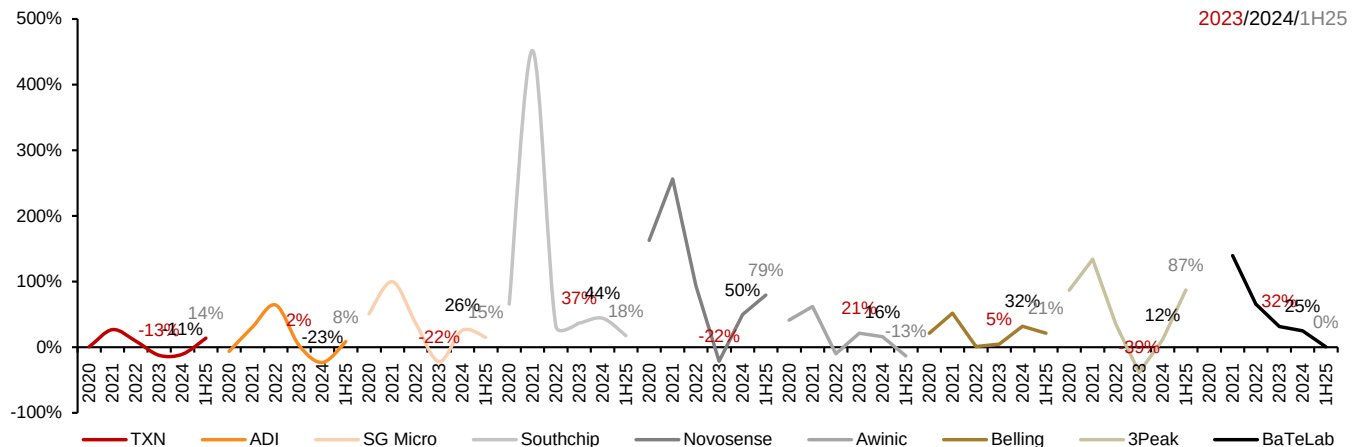
Effective date	# of SKU affected	Pricing adjustments
15 Jun, 2025	3.3k	Tiered adjustments: 1) ~9% SKU: >=100% ASP hike; 2) ~5% SKU: 50%-100%; 3) ~1% SKU: 30%-50%; 4) 55% SKU: 15%-30%; 5) 30% SKU: <15%.
15 Aug, 2025	60k	10%-30% price hike for Chinese customers, affecting: 1) Industrial control chips; 2) PMIC: 18%-25%; 3) BMS: 22%; 4) Fast-charging IC and RFFE chips: 5%-15%
1 Sept, 2025	Thousands	

Source: Company data, Trendforce, ijiwei, EE Times China, SMBom, CMBIGM

In contrast, China's analog market is set to significantly outpace global growth, with Frost & Sullivan forecasting 13% expansion in 2025 and 11% in 2026. This strength is underpinned by demand recovery, new applications in strategic sectors, and a persistent localization tailwind. Policy support, including the anti-dumping probe into US-origin analog chips, is accelerating the shift to domestic suppliers.

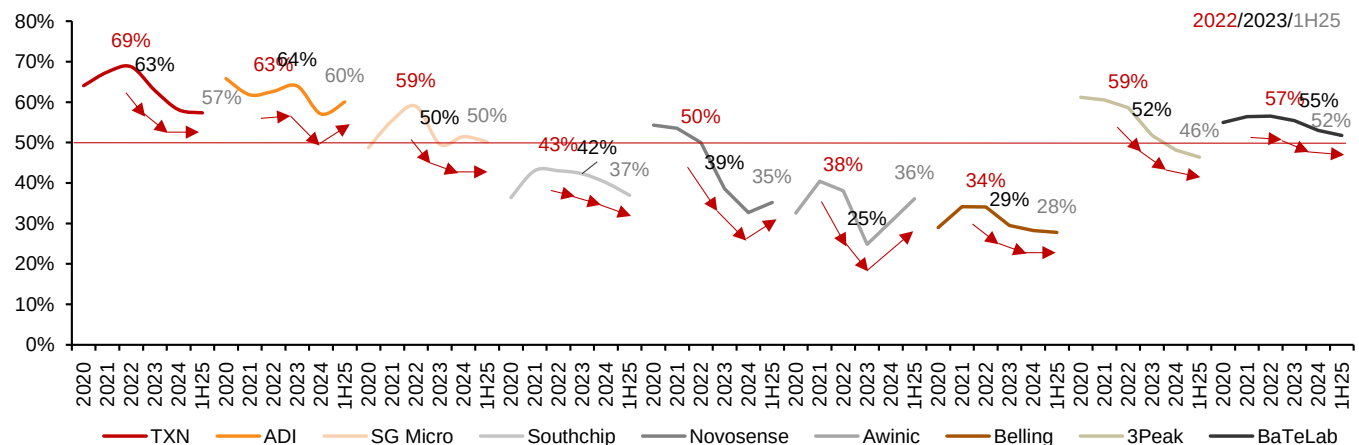
Growth drivers are diverging, with automotive electronics and network/computing emerging as the primary engines, each projected to grow 17% YoY in 2026 (per F&S), fueled by vehicle electrification and data center build-outs. By comparison, mature segments such as industrial/energy and consumer electronics are expected to grow at more moderate rates of 7% and 4%, respectively.

Figure 64: Peers analysis – Significant revenue declines in 2023 due to weak demand and price war; revenue growth largely resumed since 2024/1H25



Source: Company filings, Wind, Bloomberg, CMBIGM

Figure 65: Peers analysis – Significant margin deterioration in 2023 due to weak demand and price war; margins largely remained at low levels after peaking in 2021-2022



Source: Company filings, Wind, Bloomberg, CMBIGM

■ Competitive landscape: reshaped by regionalization, market bifurcation, and capital model divide

Texas Instruments (TXN US) remains the global analog leader, with ~US\$12bn in analog revenue in 2024, accounting for an estimated **15% market share (WSTS)**, down from ~19% five years earlier, reflecting both heightened competition and geopolitical realignment. ADI has expanded its share via strategic M&A (Maxim Integrated), while Chinese players are rapidly broadening their SKU portfolios.

China's analog market remains highly fragmented, with the top five players holding only ~28% share. While international suppliers still lead, domestic vendors are gaining ground, supported by policy tailwinds, localization mandates, and improving price-performance ratios.

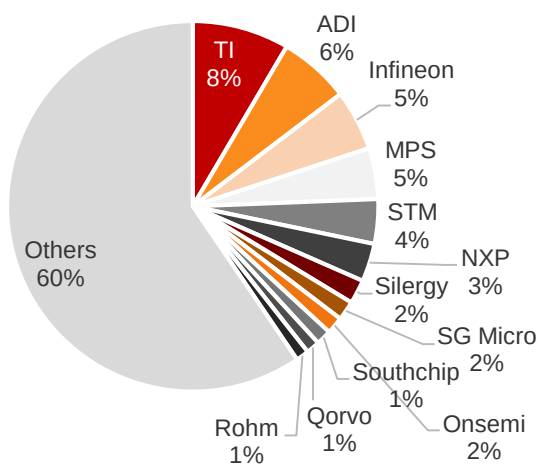
Looking ahead, we expect the competitive paradigm to be reshaped by three structural forces:

- **Supply chain regionalization: building resilience over efficiency.** Structural disruptions, from geopolitical tensions to pandemic-era bottlenecks, are

fragmenting the global analog market, driving a shift from “Just-in-Time” to “Just-in-Case” supply chain models. Tariffs and anti-dumping investigations are accelerating this realignment, pushing customers to prioritize supply chain resilience and political compliance alongside cost.

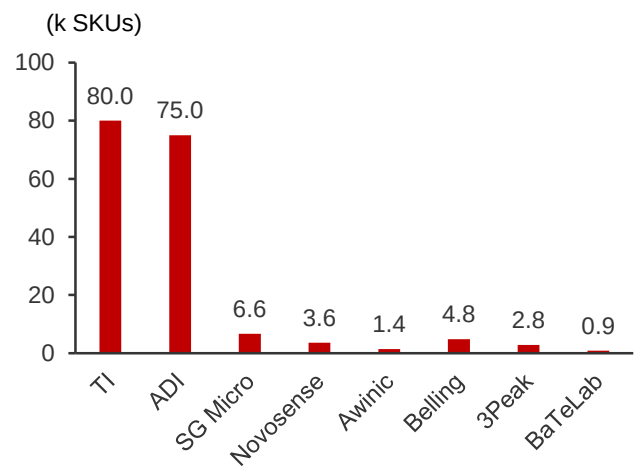
- **Market bifurcation: the “long-tail” meets the “high-end”.** The analog sector’s inherent characteristics reinforce this divergence. It remains a **long-tail business**, with ~80% of revenue derived from products each contributing $\leq 0.1\%$ of total sales. **Product life cycles also far outlast those of logic chips**, ~50% of ADI’s revenue comes from products over ten years old, underscoring the value of reliability over node advancement. However, competing in this long-tail market builds the foundational scale and expertise required to eventually challenge incumbents in higher-margin, system-critical segments.

Figure 66: Ranking of companies in China market, by revenue of analog IC products in 2024



Source: Frost & Sullivan, Prismark, company filings, CMBIGM

Figure 67: Analog is a “long-tail” business: # of SKUs remains one of the key barriers



Source: Frost & Sullivan, company filings, CMBIGM
Note: SKU data as of 2024 year-end

While broad SKU coverage remains a key barrier, competition is increasingly shifting from quantity to quality. **Chinese vendors are expanding their portfolios** and achieving base-level certifications, but **global leaders such as TI and ADI continue to dominate system-critical segments**, including automotive functional safety and high-reliability power management for AI data centers, where performance and trust outweigh cost.

- **The capital model divide: agility vs. control.** The dominant **fabless model** among Chinese analog firms offers flexibility, capital lightness, and speed to market. Tapping multiple foundries allows for agile adoption of advanced processes. This model, **combined with improving product performance and supply chain resilience, positions domestic suppliers to capture meaningful market share amid trade tensions and localization pushes.**

However, reliance on external foundries brings volatility in wafer pricing and allocation risks during upturns, making strategic foundry partnerships essential. We therefore anticipate a continued hybridization of business models, where aspiring leaders will increasingly adopt fab-lite strategies and forge deeper, more strategic cross-regional alliances with upstream foundries.

Within the analog space, we still prefer BaTeLab (2149 HK). The company continues to execute a scalable SKU expansion strategy, launching 130 new products in 1H25 (after 275 in FY24), bringing its total portfolio to 850. We forecast 200+ additional annual SKU launches, supporting sustained revenue growth and deeper market penetration. This

aggressive SKU expansion strategy directly addresses the “long-tail” nature of the analog market, a key competitive barrier we highlighted earlier.

In 1H25, BaTeLab rebalanced its distributor network, reducing reliance on its largest overseas customer while expanding domestic channel partnerships, a transition we believe should be non-dilutive to profitability.

The company has demonstrated resilient profitability through the downcycle. We forecast 21% net profit growth in 2025E, with net margins sustained above 25%. **The stock trades at 12.9x/10.2x 2025/26E P/E (as of 5 Dec 2025), a material discount to both A-share (60.1x/58.6x P/E) and global peers (33.7x/28.4x P/E).** Potential risks include: 1) a slower-than-expected pace of SKU expansions, 2) deterioration in key customer relationships, and 3) constrained access to upstream wafer capacity.

Figure 68: Peers table

Company	Ticker	Rating	Mkt Cap	Price	P/E (x)		EPS (US\$)		GPM%		
			US\$(mn)	(LC)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	
Domestic peers											
SG Micro	300661 CH	NR	5,778	66.1	64.9	45.1	0.14	0.21	50.3	50.8	
Rockchip	603893 CH	NR	10,733	180.25	68.9	51.4	0.37	0.49	41.6	42.3	
3Peak	688536 CH	NR	2,889	148.18	114.3	59.2	0.18	0.35	46.5	46.9	
Southchip	688484 CH	NR	2,475	41.09	56.3	36.6	0.10	0.16	38.1	38.8	
Novos.	688052 CH	NR	3,191	158.28	-	175.9	-0.10	0.13	36.0	37.2	
Awinic	688798 CH	NR	2,445	74.13	43.7	31.9	0.24	0.33	36.2	37.2	
Belling	600171 CH	NR	3,192	31.83	-	-	N/A	N/A	N/A	N/A	
Batelab	2149 HK	BUY	360.9	44.6	12.7	10.0	0.45	0.57	52.4	52.4	
Average					60.1	58.6	0.20	0.32	43.0	43.7	
Overseas peers											
Texas Instru.	TXN US	NR	163,661	180.12	31.7	28.9	5.7	6.2	56.7	56.5	
Analog	ADI US	NR	135,761	277.26	35.7	27.9	7.8	9.9	69.4	70.5	
Average					33.7	28.4	6.7	8.1	63.1	63.5	

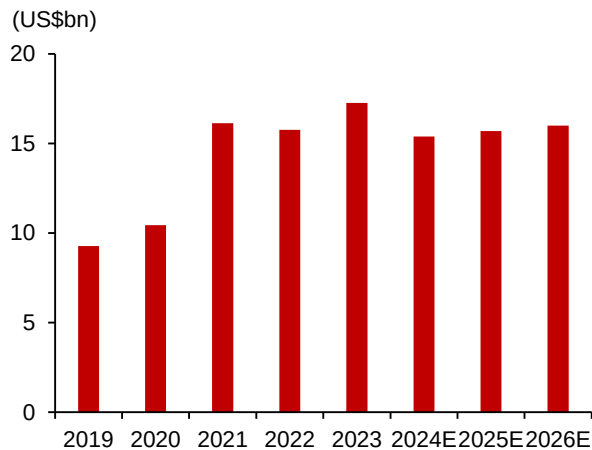
Source: Bloomberg consensus, CMBIGM; data as of 5 Dec 2025

Global analog market – Radio frequency

■ Mobile RFFE: stabilizing at a cyclical trough

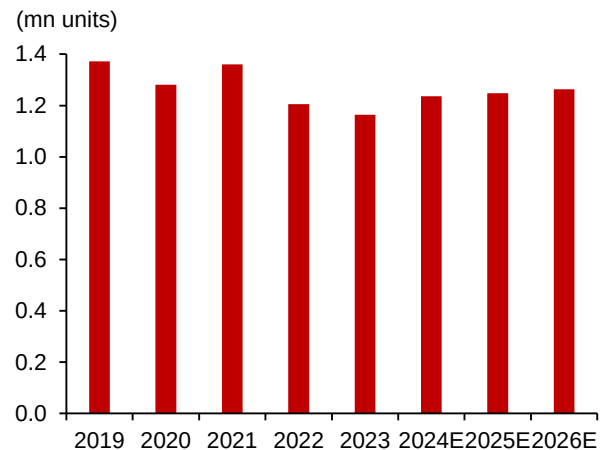
The global mobile RF front-end (RFFE) market declined 11% YoY by revenue to US\$15.4bn in 2024 (Yole), despite a 6% YoY increase in smartphone shipments. This contraction was primarily driven by a 3% YoY drop in blended smartphone ASPs, reflecting persistent pricing pressure and a mix shift toward the entry-level segment (ASP<US\$250), which expanded to 52% of shipment volumes.

Figure 69: Yole anticipates a flattish near-term outlook for the RFFE market



Source: Yole, IDC, Canalys, TechInsights, Counterpoint, CMBIGM

Figure 70: IDC projects flat smartphone shipments in 2025/26E

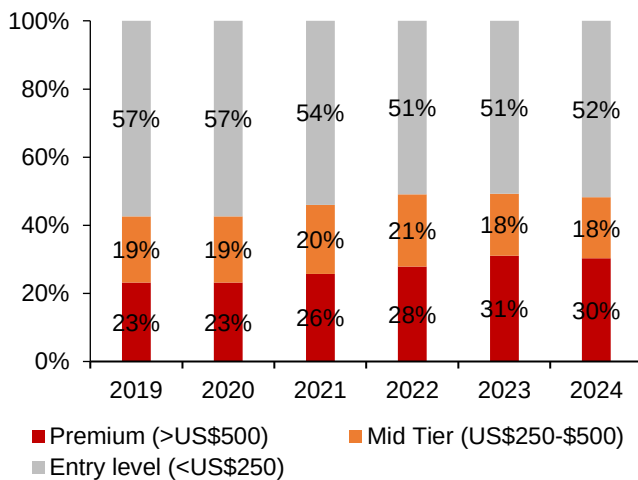


Source: IDC, CMBIGM.

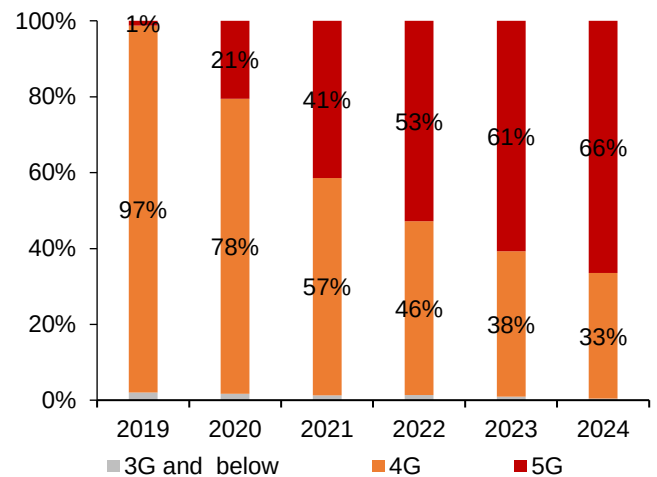
Looking ahead, we maintain our forecast of 2% YoY mobile RFFE market growth for 2025/26E. This modest recovery will be shaped by several crosscurrents:

- **Content gains from 5G penetration:** 5G adoption reached 66% in 2024, supporting RFFE content growth. The technology's demand for higher data speeds, increased band coverage, and lower latency continues to drive component complexity and value per device.
- **The shift toward modularization** (i.e., Phase 8L, L-PAMiD) erodes the market for discrete components (reducing BOM cost and saving PCB space) and favors scaled integrated solution providers. This is further propelled by rising BOM pressure: soaring memory costs, driven by AI-led demand and NAND supply discipline, are pressuring other handset BOM.
- **Persistent pricing competition:** Intense competition among RF suppliers continues, particularly in the mid-to-low tier segment, compressing margins and partially offsetting content gains from the 5G transition.

We do not expect a meaningful RFFE market rebound until the arrival of 6G by the end of this decade, which should catalyze a device replacement cycle and drive the next phase of content expansion.

Figure 71: Smartphone shipment by price tiers

Source: Yole, CMBIGM

Figure 72: 5G penetration continued to rise

Source: Yole, CMBIGM

■ Automotive RFFE: A strategic growth frontier

We believe the automotive RFFE market will significantly outgrow the mobile segment, with Yole projecting a 17% CAGR from 2023-29E. The transformation of cars into "connected platforms on wheels" is fueling demand for a complex mix of cellular (4G/5G), Wi-Fi, Bluetooth, GNSS (global navigation satellite system), V2X, and UWB (ultra wide band) technologies. Beyond connectivity, ADAS and autonomous driving rely heavily on radar and V2X communication, which are major growth pillars for automotive RFFE. This transformation establishes the car as the next major volume and value driver for the RF industry.

Figure 73: RFFE applications in auto industry

Source: Company data, CMBIGM

■ Competitive landscape: Consolidation as a strategic imperative

The global RFFE market remains highly concentrated, with the top five suppliers collectively controlling over 80% of the market (Yole). In contrast, we estimate the top three Chinese vendors, Maxscend, Vanchip, and Lansus, account for just ~7% globally, reflecting both the high barriers to entry and the early stage of China's RF ecosystem development.

Mounting pressures, including slowing industry growth, customer insourcing initiatives, and persistent pricing competition, are driving three key strategic shifts:

- **Incumbent consolidation to enhance resilience:** The proposed merger of Skyworks and Qorvo (expected to close by early 2027) aims to create a US-based leader in RF and analog semiconductors. The rationale is twofold: first, to reduce exposure to Apple's **vertical** integration efforts (~60% of combined revenue); second, to strengthen competitiveness against Chinese suppliers in the mid-low tier segment. By combining product portfolio and complementary IP, especially in power amplifiers (PAs) and filters, the merged entity seeks to improve scale, portfolio breadth, and margin defense.
- **Localization Tailwinds for Chinese suppliers amid fragmentation:** Chinese RFFE players benefit from policy support, domestic semiconductor localization, and access to the world's largest smartphone and automotive markets. This marks a strategic shift, as these vendors are increasingly evolving from passive technology followers to proactive designers, offering customized solutions tailored to domestic OEMs' specific requirements. **However, near-term growth remains constrained by pricing pressure, customer concentration, and a fragmented competitive landscape.** An active IPO market has encouraged independence over consolidation, delaying the scale benefits needed to challenge global leaders.
- **Automotive RFFE as a strategic battleground:** With a 17% 2023-29E CAGR (Yole), automotive RFFE has become a key growth vector. US suppliers lead in integrated connectivity platforms, while European players retain strength in radar and V2X. Chinese vendors, including Vanchip, Lansus, and Maxscend, are gaining design-win traction domestically, though revenue contribution remains immaterial (<5% of total sales) and production volumes are early-stage.

Figure 74: Strategic positioning of key automotive RFFE players

Players	Strategic focus and key developments
Skyworks	Enhanced automotive capacity vis \$2.75bn acquisition of Silicon Labs' infrastructure & automotive unit, adding power and timing ICs
Qorvo	Expanded into UWB positioning (Decawave) and SiC power devices (UnitedSiC), strengthening in-cabin and EV power segments
European players	Maintain leadership in radar and V2X solutions, led by NXP and Infineon
Vanchip	AEC-Q100 5G RFFE qualified, design-wins with BYD and Dongfeng, auto revenue expected to reach tens of millions RMB in 2025
Lansus	Volume shipping automotive PAs in 2022. Automotive communication sales reached RMB16mn in 5M25
Maxscend	Enter volume production of UWB chips and exploring further automotive RF engagements

Source: Company data, Bloomberg, CMBIGM

We maintain our HOLD rating on Maxscend (300782 CH). Despite Maxscend's strong positioning in the RFFE market and China's localization trend, we think its margin recovery may take another year, as it navigates its transition to a fab-lite model. Upside catalysts: stronger-than-expected demand/margin recovery and accelerated localization. Downside risks: slower capacity ramp-up, and intensified competition.

Figure 75: Peers table

			Mkt Cap	Price	P/E (x)				EPS (US\$)		GPM%
Company	Ticker	Rating	US\$(mn)	(LC)	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E
Domestic peers											
Qualcomm	QCOM US	NR	186,729	174.4	14.6	14.3	11.9	12.2	12.5	55.9	55.7
Broadcom	AVGO US	NR	1,799,363	381.0	56.4	40.5	6.8	9.4	12.5	78.6	75.6
Skyworks	SWKS US	NR	10,260	69.0	12.3	15.6	5.6	4.4	5.1	46.8	45.8
Qorvo	QRVO US	NR	8,221	89.0	16.6	13.9	5.3	6.4	6.9	44.6	47.3
Avg.					25.0	21.1	7.4	8.1	9.2	56.5	56.1
Overseas peers											
Maxscend	300782 CH	HOLD	5,298	70.0	312.5	50.6	0.0	0.2	0.3	30.3	34.7
Vanchip	688153 CH	NR	2,338	38.4	216.9	84.0	0.0	0.1	0.1	27.5	28.0
Smarter Micro	688512 CH	NR	740	11.2	-	-	-0.1	0.0	0.0	8.2	13.6
Grand Kangxi	688653 CH	NR	737	12.3	-	-	N/A	N/A	N/A	N/A	N/A
Avg.					264.7	67.3	0.0	0.1	0.1	22.0	25.4

Source: Bloomberg consensus; data as of 5 Dec 2025

Note: Earnings forecasts for Maxscend are CMBIGM estimates; data as of 25 Nov, 2025

Wide-bandgap semiconductors – SiC/GaN: Powering the next wave of AI infrastructure

We believe the wide-bandgap semiconductor sector, led by silicon carbide (SiC) and gallium nitride (GaN), is entering a new, multi-year growth phase. While automotive electrification remains a key secular driver, a structural new demand frontier is emerging: the power redesign of AI data centers. The transition from legacy 54V DC to 800V high-voltage direct current (HVDC) architecture, essential for next-generation, high-power AI racks, is physically and economically enabled by SiC and GaN. The evolution positions these materials from performance enhancers into critical infrastructure components, creating a durable investment theme. **We expect companies with scale, technology leadership in 8-inch wafers, certified automotive pipelines, and system-level solution expertise to be key beneficiaries.**

- **Robust market growth.** According to TrendForce, the SiC power device market reached ~US\$3.4bn (12% YoY) in 2024, with automotive accounting for >70% of demand; the GaN device market grew 43% YoY to US\$388mn (43% YoY) in 2024. We expect sustained market expansion of SiC and GaN, driven by rising penetration (automotive/renewable energy) and new application demand (AI data centers).
- **AI data centers, a structural demand frontier.** AI rack power scaling towards 1MW is making legacy power architecture inefficient, due to special limits, copper crisis, and efficiency constraints. The industry is shifting to 800V HVDC, a transition physically and economically enabled by SiC and GaN. This unlocks a multi-layered ecosystem opportunity, improving power usage effectiveness (PUE) by up to 5%, cutting total cost of ownership (TCO) by up to 30%, and enabling scalability beyond 1MW racks.
- **Supply chain in aggressive expansions:** We see the industry is racing to scale 8-inch wafer production (and eyeing 12-inch) to drive down costs and accelerate adoption. This has led to significant ASP erosions in SiC substrates/epitaxial wafers. However, we see this as a structural cost-curve reset, not a typical cyclical adjustments, which will accelerate adoption and broaden the addressable market. We expect the SiC market to reach a new price equilibrium in 2026.
- **Diverging competitive landscapes:**

SiC: specialization drives scale and cost reduction. The SiC supply chain has evolved with a more clear division of labor across substrates, epitaxy, and devices. This specialization allows for focused expertise and capital investment at each stage, facilitating rapid capacity expansion and aggressive cost reduction. We see Chinese players rapidly gaining share in substrates/epitaxy sectors, while global power semiconductor giants dominate the device market, leveraging high technical barriers, established customer relationships, and the long, stringent qualification cycles inherent to the automotive industry.

GaN: vertical integration as a strategic advantage. Integrated device manufacturers (IDMs) offers closer process and design co-optimization for performance and reliability, and enable better supply chain resilience. This is important as the industry navigates the planned exit of TSMC (the leading GaN foundry with 41% market share in 2024) from GaN foundry production by 2027.
- **InnoScience (2577 HK, BUY, TP: HK\$49),** based on 30x 2030E P/E: The Company is the pure-play GaN leader (#1 with 30% share, based on TrendForce data). We project the company's revenue to grow at a 55.2% CAGR from 2024-2027E, driven by industry tailwinds, strategic positioning and collaboration with global partners like

NVIDIA. Potential risks include: 1) slower-than-expected GaN penetration, 2) supply chain disruptions, and 3) IP litigations.

A transition from enabling technologies to critical components

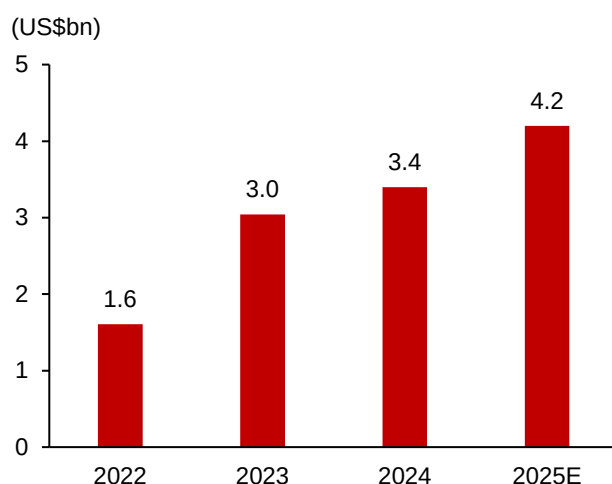
The wide-bandgap semiconductor industry, led by silicon carbide (SiC) and gallium nitride (GaN), is at a pivotal strategic inflection point, in our view. While SiC has been in development for decades, its adoption crossed into the mainstream in 2018 when Tesla's Model 3, powered by STMicroelectronics' SiC MOSFETs, disrupted the automotive power electronics landscape. Similarly, GaN, foundational to LED technology since the 1990s, achieved commercial scale through the fast-charging revolution post-2018. Today, both technologies are at another inflection point, driven by surging power and efficiency demands of AI data centers, positioning these wide-bandgap semiconductors as critical enablers of next-generation infrastructure and creating their next major growth vector.

■ Automotive remains the key application

The global SiC power device market reached an estimated US\$3.4bn in 2024 (12% YoY), and is expected to reach US\$4.2bn (24% YoY) in 2025E, per TrendForce. This growth is fueled by the industry's transition from 6-inch to 8-inch wafers for critical cost reduction, coupled with sustained demand from automotive, renewable energy, and emerging AI data center applications.

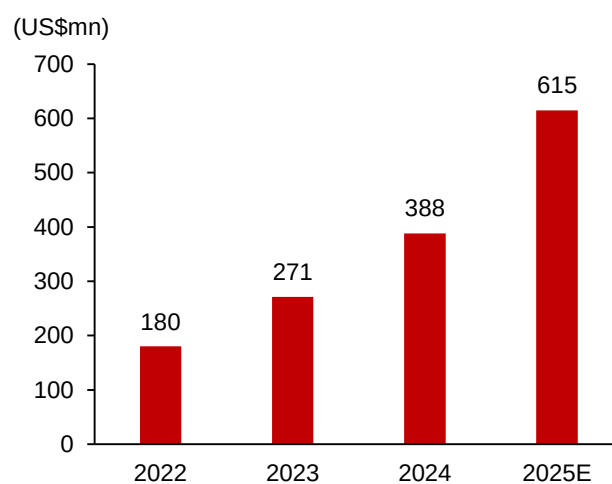
The global GaN power device market delivered significant 43% YoY growth to US\$388mn in 2024, and is expected to reach US\$615mn (59% YoY) in 2025E per TrendForce. We expect accelerated growth in the upcoming years, driven by the industry's pursuit of energy efficiency, the need for miniaturization, and supportive policy tailwinds.

Figure 76: SiC device market reached US\$3.4bn in 2024



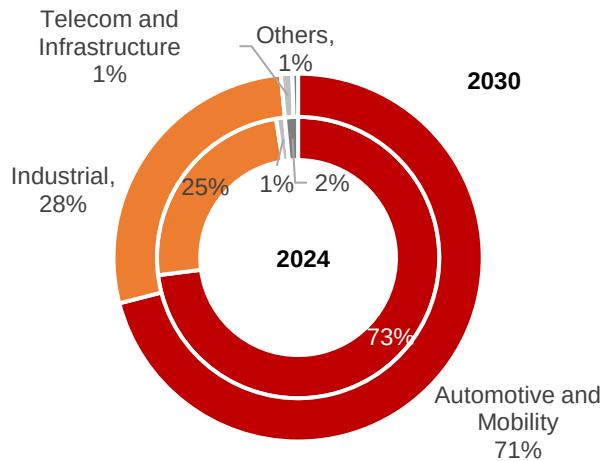
Source: TrendForce, CMBIGM

Figure 77: Global GaN power device market reached US\$388mn in 2024

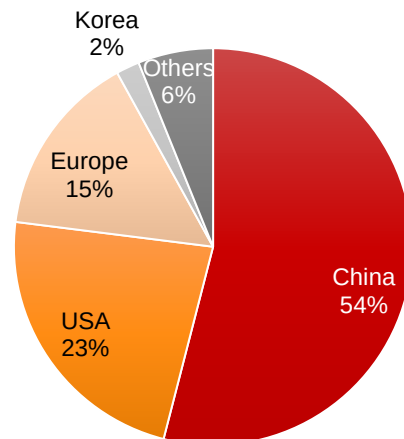


Source: TrendForce, CMBIGM

Automotive remains the dominant end-market for SiC power devices, accounting for over 70% of the total market from 2024 through 2030 per Yole. This structural demand is creating a powerful tailwind for the SiC supply chain (substrates, epitaxial wafers and devices). Benefiting from faster capacity build-out and a critical geographical advantage, i.e., proximity to the world's largest EV market, China players are rapidly expanding their market share in the upstream supply chain.

Figure 78: Automotive remains the largest application market of power SiC devices


Source: Yole, CMBIGM

Figure 79: China accounted for over 50% market share in SiC BEV market in 2024


Source: Yole, CMBIGM

■ AI emerges as new growth frontier

The explosive growth of artificial intelligence is driving a fundamental redesign of power architecture within AI data centers (AIDCs) and AI factories.

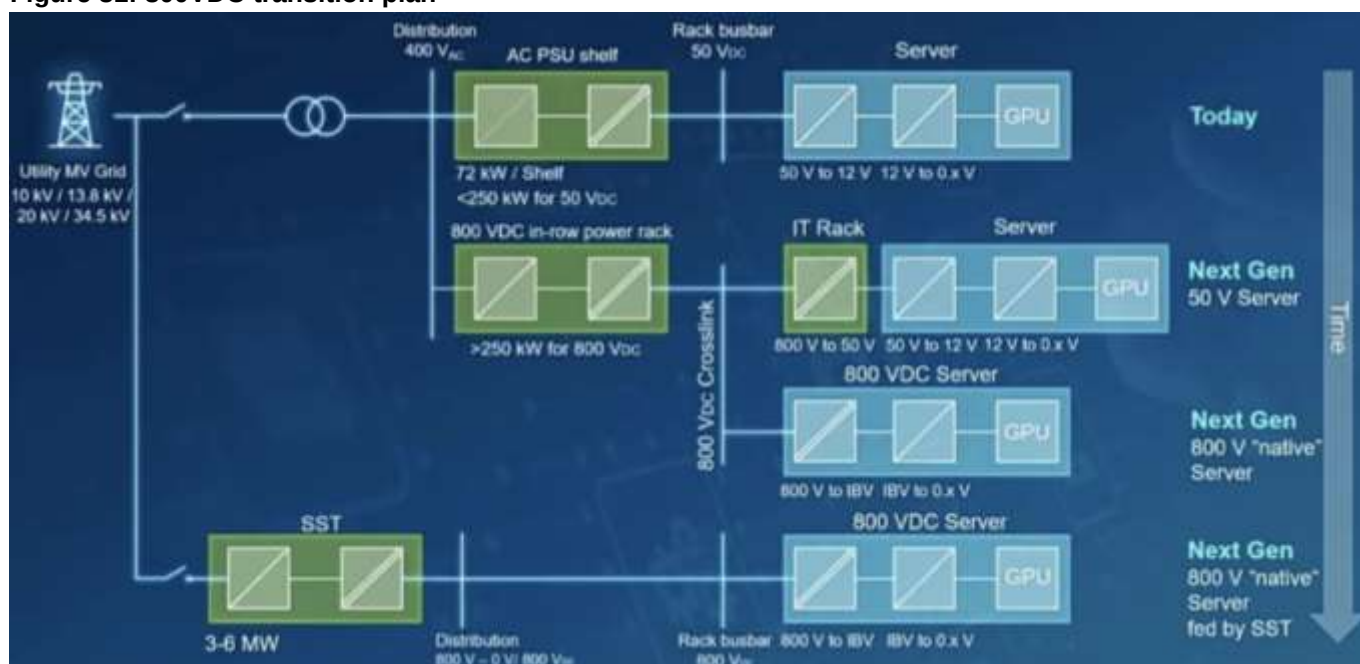
As AI rack power surges from 200 kW toward 1 MW, legacy 54V DC in-rack power standard approach hits physical and economic walls: 1) Space limitation: power distribution alone would consume up to 64U of rack space at MW scale, crowding out compute hardware. 2) Copper crisis: delivering 1 MW at low voltage requires ~200 kg of copper busbar per rack. At AI data centers scale, this balloons into a prohibitive half a million tons of copper, resulting in a massive cost and logistics barrier. 3) Efficiency drain: the legacy chain of multiple AC/DC conversions incurs significant energy loss and introduces unnecessary points of failure, undermining both PUE and reliability.

Figure 80: Conventional AC distributed data center infrastructure


Source: Delta, CMBIGM

The industry is poised for a transition to an 800V high-voltage direct current (HVDC) architecture, such as Nvidia's Kyber rack-scale systems (targeted for 2027). This simplifies power delivery from grid to chip.

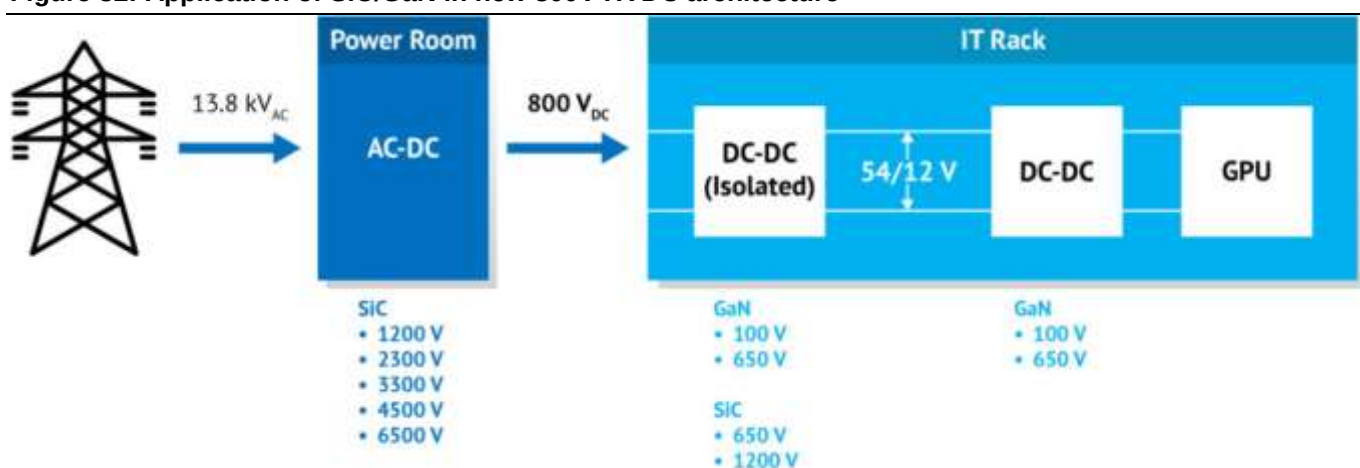
Figure 81: 800VDC transition plan



Source: Delta, CMBIGM

SiC and GaN are complementary technologies critical to this transition, acting as high-frequency, highly efficient electronic switches within power supply units (PSUs), i.e., GaN-based power factor correction (PFC) and SiC MOSFETs.

Figure 82: Application of SiC/GaN in new 800V HVDC architecture

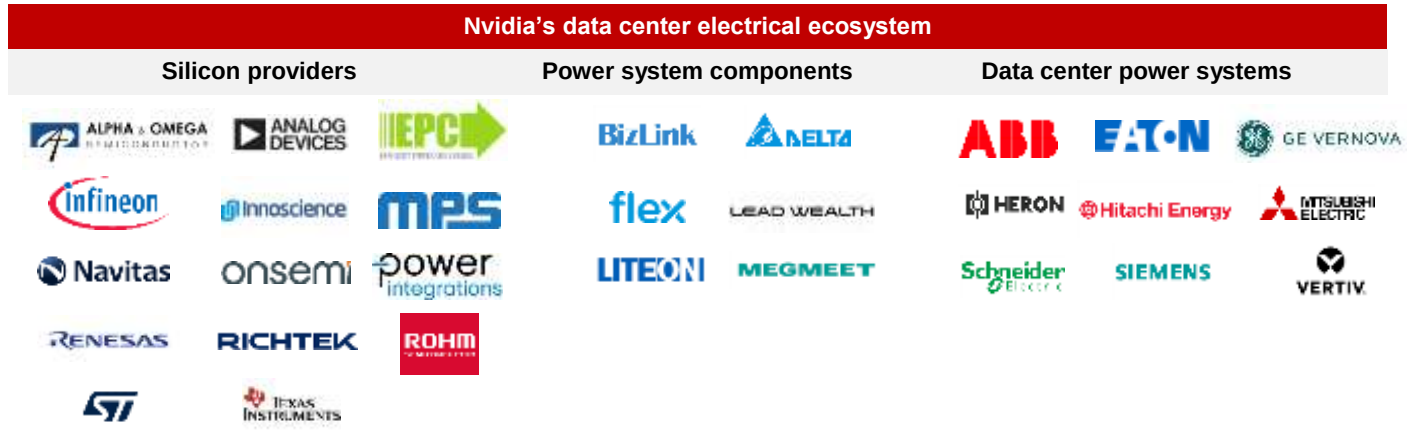


Source: Navitas, Yole, CMBIGM

The transition delivers compelling ROI: enhanced PUE by up to 5%, significant cost savings (reducing copper use by ~45% and TCO by up to 30%), and unlocked scalability (supporting rack power from 100kW to beyond 1MW).

A mature ecosystem from semiconductor providers (Infineon, STMicroelectronics, Navitas, InnoScience) to global data center infrastructure giants (Eaton, Schneider Electric, Vertiv) is poised to deploy this transition.

Figure 83: Nvidia and partners innovate from grid-to-chip with power delivery design: 800 VDC infrastructure for Kyber AI factories

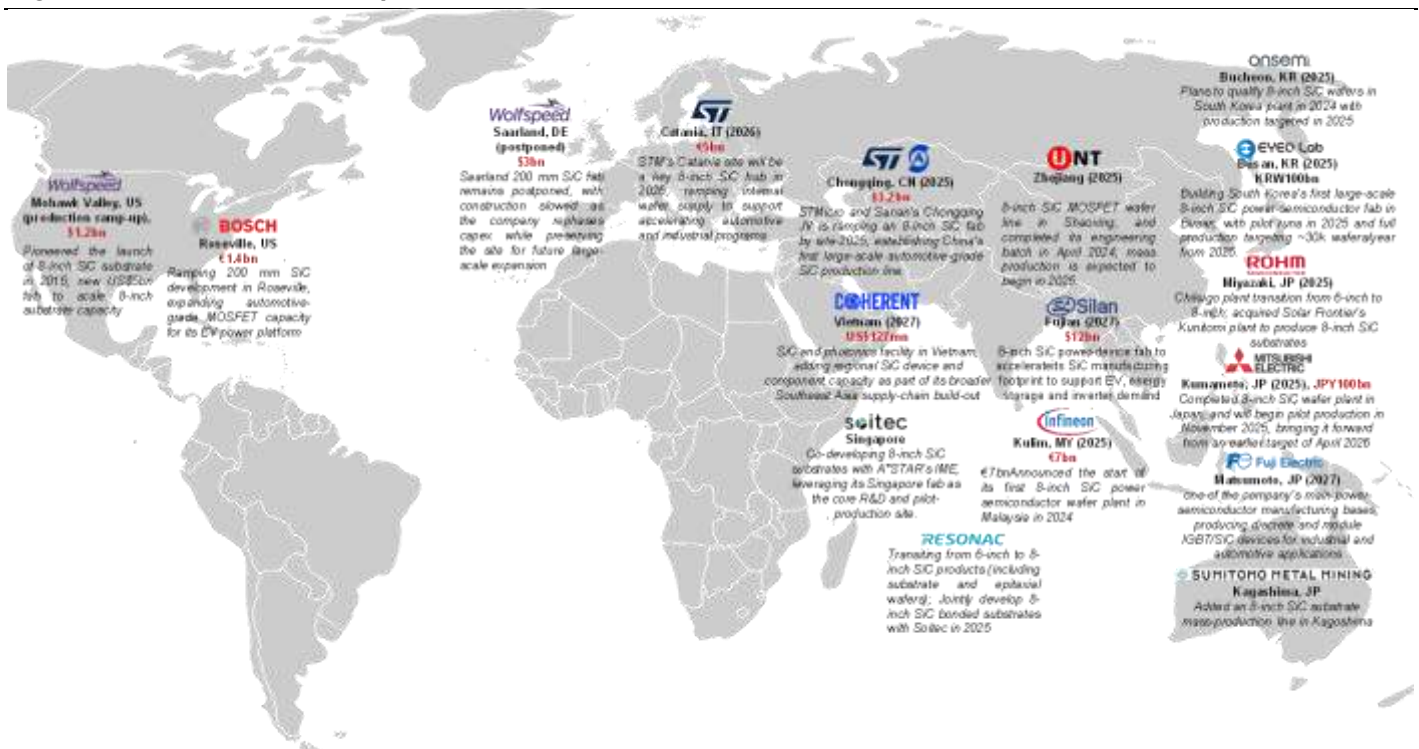


Source: Nvidia, CMBIGM

Supply chain's capacity race

The entire SiC/GaN supply chain is in aggressive investment mode, marked by capacity expansion and strategic M&A. Global SiC players are accelerating 8-inch plans and eyeing on 12-inch. GaN leader InnoSicence is ramping its 8-inch production (13kwpm capacity by 1H25). This scaling is essential to drive down cost.

Figure 84: 800VDC transition plan



Source: Trendforce, Semiconductor-today, Company data, CMBIGM

Figure 85: GaN supply chain developments (key players)

Company	Business model	Development on GaN
InnoScience	IDM	Largest GaN manufacturer globally by capacity, with 8-inch GaN-on-Si capacity reaching ~13k wafers per month by 1H25. Its portfolio spans GaN ICs, modules, and discrete devices across 15–1200V platforms.
Navitas	Fabless	Developed all its GaN power ICs in-house, pioneering monolithic GaN-on-Si integration since 2018 under its GaNFast platform
EPC	Fabless	Developed all its GaN technology in-house and was the first company to commercialize enhancement-mode GaN-on-silicon (eGaN) FETs
Infineon	IDM	Acquired GaN Systems for US\$830mn, marking the largest deal in the power GaN sector to date. Through this move, Infineon gains GaN Systems' packaging and high-power expertise, auto-grade designs, and R&D.
Power Integration	Fabless	Developed its GaN tech entirely in-house and launched its first GaN ICs in 2018. The company's GaN-on-sapphire platform now spans 1,250V and 1,700V devices, enabling 800V DC architectures
Renesas	IDM	Acquired Transphorm (GaN IDM) for US\$339 in 2024; developed 4th-gen 650V GaN FET in 2025; partners with Polar Semiconductor to produce 8-inch GaN devices

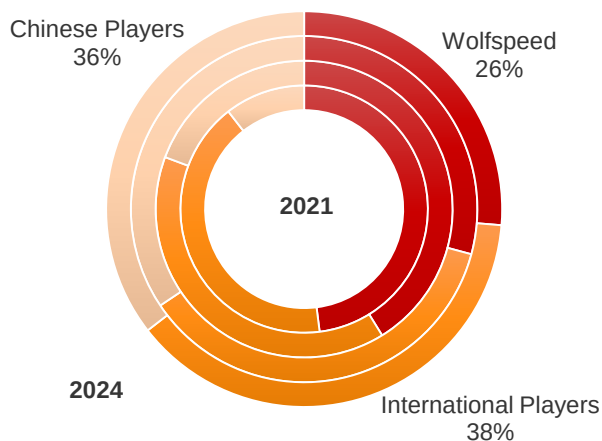
Source: Company data, Yole, TrendForce, CMBIGM

The SiC industry is experiencing a profound structural cost curve reset. Aggressive capacity growth has dragged substrate/epitaxial wafer ASP significantly, pressuring marginal producers but making SiC cost-competitive against silicon IGBTs. **We believe this will accelerating SiC's adoption and expect price to stabilize in 2026.**

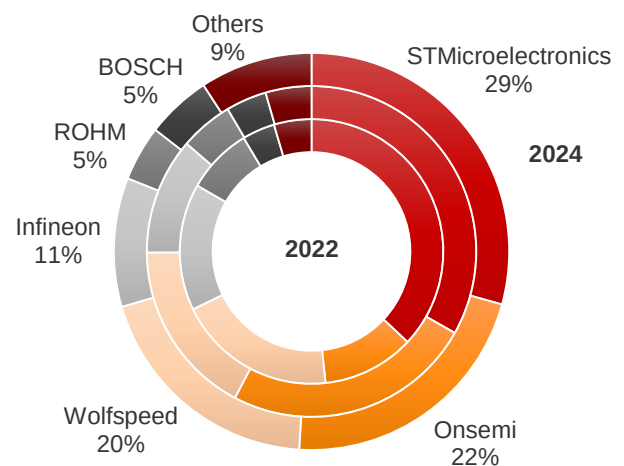
Competitive dynamics

■ SiC supply chain: diverging landscapes

In the materials segment (substrate/epitaxial wafer), Chinese manufacturers are rapidly gaining market share through aggressive capacity expansion and rapid technology catch-up, leveraging cost and geographical advantages in the world's largest EV market. The device market leadership remains firmly with global IDMs (STMicroelectronics, onsemi, and Infineon), due to deep application expertise and automotive qualification moats. We expect the winners will be those with scale, leading 8-inch yields, and certified automotive pipelines.

Figure 86: SiC substrate (N-type) market share

Source: Yole, CMBIGM

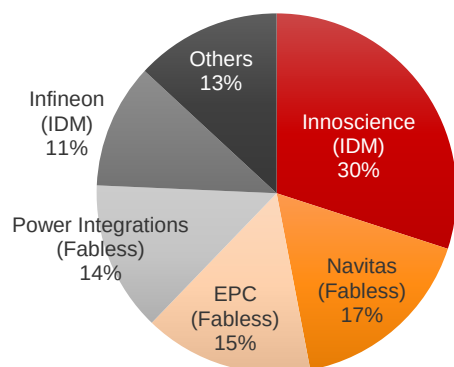
Figure 87: SiC device market share

Source: Yole, CMBIGM

■ GaN supply chain: the rise of IDMs

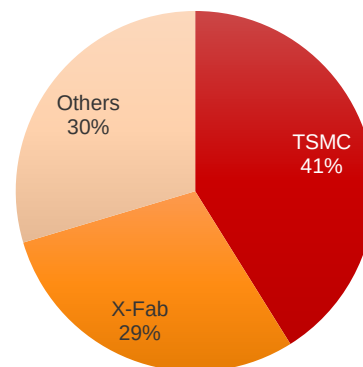
The market is concentrated, with the top five players holding nearly 80% share. The IDM model holds strategic advantages in process-design co-optimization and supply chain resilience.

Figure 88: Market share of GaN power devices (2024)



Source: Yole, CMBIGM estimates

Figure 89: Market share of GaN foundries (2024)



Source: TrendForce, CMBIGM

The supply chain resilience is critical given TSMC's (#1 in GaN foundry market with 41% share) planned exit from the GaN foundry market by July 2027, which is forcing key fabless players (i.e., Navitas, consuming 50%+ of TSMC's GaN volume per TrendForce) into complex foundry migration strategies (from TSMC to PSMC and GlobalFoundries). **The change in foundry suppliers suggests less resilience in GaN's fabless model.**

Future industry leaders will be characterized by: 1) technology & scale leadership (8-inch wafer mass production and yield improvement to win the cost-down curve), 2) vertical integration or deep alliance models, and 3) system-level solution expertise.

Maintain a positive outlook on InnoScience. Founded in 2017, InnoScience has rapidly scaled to become the world's leading pure-play GaN company (#1 with 30% share in 2024). It achieved an industry milestone by pioneering mass production of 8-inch GaN-on-Si wafers and operates two 8-inch fabs with a combined capacity of 13k wafers per month (as of 1H25). Its revenue is well-diversified across the value chain: wafers (34% of 2024 sales), chips & ICs (44%), and modules (22%). We project the company's revenue to grow at a 55.2% CAGR from 2024-2027E, driven by industry tailwinds, strategic positioning and collaboration with global partners like NVIDIA. Key risks: Slower-than-expected GaN penetration, 2) supply chain disruptions, and 3) IP litigations.

Figure 90: Peers table

Company	Ticker	Rating	Mkt Cap	P/E (x)		EPS (US\$)		GPM%	
			(US\$mn)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Domestic peers									
Times Elec	688187 CH	NR	8,381	15.8	13.7	0.43	0.50	33.0	33.0
San'an Opto	600703 CH	NR	9,238	137.7	59.5	0.01	0.03	14.3	16.3
Yangjie	300373 CH	NR	4,907	27.4	22.5	0.33	0.40	34.2	34.5
Wuxi NCE	605111 CH	NR	2,008	28.4	22.7	0.17	0.21	35.3	35.4
Starpower	603290 CH	NR	3,424	45.0	31.9	0.32	0.45	28.4	28.9
Jiangsu Jiejie	300623 CH	NR	3,132	35.0	27.7	0.11	0.14	35.0	36.0
CR Micro	688396 CH	NR	10,017	77.6	54.8	0.10	0.14	26.6	28.0
Silan Micro	600460 CH	NR	6,589	80.8	44.9	0.05	0.09	20.3	21.6
InnoScience	2577 HK	BUY	8,677	N/A	N/A	(0.128)	(0.087)	10.6	21.7
			Avg.	56.0	34.7	0.2	0.2	26.4	28.4
Overseas peers									
Diodes	DIOD US	NR	2,172	40.3	23.5	1.16	1.99	31.2	32.5
NXP	NXPI US	NR	54,198	18.3	15.6	11.77	13.76	56.8	58.0
STM	STM US	NR	21,496	39.0	21.8	0.62	1.11	33.8	35.5
Onsemi	ON US	NR	20,714	22.1	17.6	2.33	2.93	38.2	39.5
Infineon	IFX GY	NR	54,445	24.3	22.2	1.70	1.87	39.7	40.3
			Avg.	28.8	20.1	3.5	4.3	39.9	41.2

Source: Bloomberg consensus as of 3 Dec, 2025; forecasts for InnoScience are CMBIGM estimates

Optical transceivers – sustained AI-driven outperformance ahead

2025 has proven a standout year for optical transceiver suppliers with high AI-exposures, with key suppliers posting stellar revenue growth and material margin expansion. **We expect this outperformance to persist through 2026 and beyond**, underpinned by an unabated AI infrastructure investment cycle and a sustained mix shift to higher-value solutions. **We reiterate the sector as one of our top picks. Reiterate our BUY rating on Innolight (300308 CH, BUY, TP: RMB707.00).**

- **AI infrastructure capex continues to be a powerful tailwind.** The US Big Four hyperscalers (Google, Microsoft, Meta, Amazon) spent US\$230bn in 2024 (+55% YoY) and US\$259bn in 9M25 (+65% YoY), with 2025 full-year capex projected to reach US\$367bn (+59% YoY). 2026 capex growth is expected at 35% YoY to US\$495bn (Bloomberg consensus). Hyperscalers have reaffirmed aggressive spending plans. While 2027 growth appears to be more moderate at a current 14% YoY estimate, we see upside potentials ahead, mirroring the significant upward revisions seen for 2025 (33% YoY capex growth for 2025 estimated in Jan by Bloomberg consensus vs. 59% in Nov). AI infrastructure demand is broadening materially to other cloud, sovereign and enterprise clients, with NVIDIA's US\$500bn+ platform opportunity reinforcing our confidence in this super-cycle.
- **Leading optical transceiver vendors have capitalized on the AI wave with robust financial performance.** Coherent (COHR US, NR), Innolight, and Eoptolink (300502 CH, NR) posted strong revenue growth (15%/120%/175% in 2024 and 19%/44%/221% in 9M25, respectively), while their gross margins also expanded meaningfully (+2.5ppts/+9.2ppts/+5.4ppts from 3Q24 to 3Q25), driven by AI-led upgrades to 800G/1.6T. For 2026, we expect the strong performance to continue for sector leaders, supported by volume increases, favorable product mix and better pricing from 1.6T upgrades.
- **Supply-demand dynamics remain tight**, particularly for key components like electro-absorption modulated laser (EML) chips (demand far outstripping supply per Lumentum (LITE US, NR)). The EML industry is expanding capacity aggressively (i.e., 40% unit capacity increase from Lumentum). In addition, SiPho tech (does not require EML) penetration is accelerating, helping alleviate the EML bottleneck. We forecast SiPho's share will exceed 50% by 2026 (vs. 10%/33% in 2018/2024 per LightCounting). We estimate 800G and 1.6T shipments will reach 49mn and 22mn units globally, respectively, in 2026, still leaving a multi-million-unit supply-demand gap (most acute for 1.6T). By technology mix, we project a roughly 50/50 split between EML and SiPho for 800G, shifting to 30/70 for 1.6T in 2026.
- **Innolight (300308 CH, BUY, TP: RMB707), based on 28x 2026E P/E:** Innolight delivered a record 3Q25 with revenue up 57% YoY to RMB10.2bn and net profit up 125% YoY, as 800G volumes and rising 1.6T/SiPh adoption drove GPM to 42.8% and NPM to 30.7%. We expect sustained demand from hyperscalers' expanding AI capex (Google, Meta, Microsoft) to drive a multi-year growth runway, with 800G remaining robust and 1.6T SiPh entering mass production from early 2026, further enhancing mix and margins. Raw material tightness in EML/CWL remains a watch-point but is partially mitigated by Innolight's scale and long-term supplier arrangements. **Key risks include:** weaker-than-expected AI capex, geopolitics/tariffs, supply-chain bottlenecks.

AI-driven optical transceiver suppliers: sustained outperformance ahead

2025 has proven a standout year for optical transceiver and component suppliers with high AI-exposures. Coherent, Innolight and Eoptolink have delivered remarkable revenue growth (19%/44%/221% YoY in 9M25) and meaningful gross margin expansion (+2.5ppts/+9.2ppts/+5.4ppts from 3Q24 to 3Q25). **Looking ahead to 2026, the optical transceiver sector remains our top pick**, as expanding AI infrastructure capex is set to reinforce near- to medium-term growth for industry leaders.

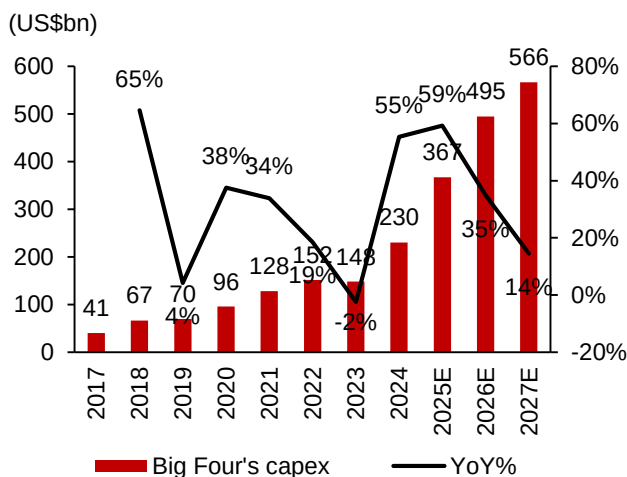
■ Tailwind from surging AI infrastructure capex

In recent years, major overseas hyperscalers have significantly scaled up their AI infrastructure investments, providing a robust tailwind for optical transceiver vendors. The US Big Four (GOOG/MSFT/META/AMZN) collectively spent US\$230bn on capex in 2024 (a 55% YoY increase) and further invested US\$259bn in 9M25 (up 65% YoY).

Looking forward, Bloomberg consensus projects the Big Four's 4Q25 capex to grow 10% sequentially to US\$108bn, pushing full-year capex to US\$367bn, a substantial 59% YoY rise. This growth trajectory has been validated by the hyperscalers' guidance: Google raised its CY25E capex forecast to US\$91–93bn (up from the previous US\$85bn), while Meta narrowed its spending target to the upper end of its guidance range (US\$70–72bn).

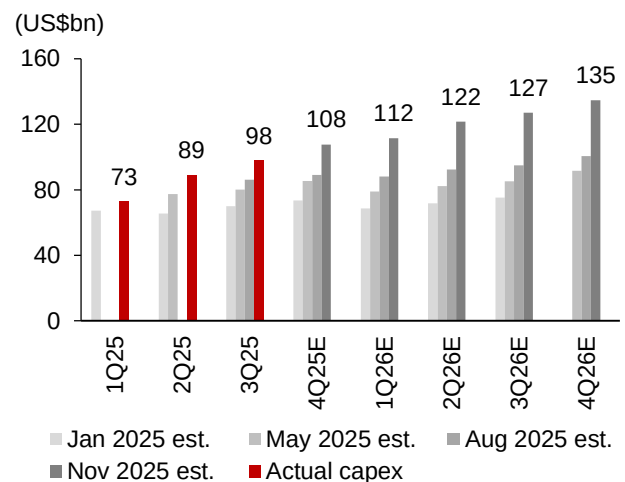
For 2026, Bloomberg consensus now anticipates 35% YoY capex growth for the Big Four, reaching US\$495bn. "FOMO" (fear of missing out) continues to drive the AI arms race: Microsoft reaffirmed that capex will keep growing despite earlier expectations of moderation; Google stated 2026 capex will be "significantly higher"; Meta emphasized spending will rise "notably higher" amid compute expansion; and Amazon noted another capex increase in 2026 fueled by data center and silicon investments.

Figure 91: The Big Four's capex rose 55% YoY in 2024; expected to grow 59%/35% YoY in 2025/26



Source: Company data, Bloomberg consensus, CMBIGM

Figure 92: Bloomberg consensus raised capex forecasts meaningfully during the year



Source: Company data, Bloomberg consensus, CMBIGM

While the investment momentum is expected to persist in 2026, investors have expressed concerns about 2027 growth. Current Bloomberg consensus forecasts a 14% YoY increase for the Big Four's capex for 2027, far less striking than the growth seen in 2024 and 2025. However, we see room for upward revisions. For context, the

consensus estimate for the Big Four's 2025 capex growth was 33% in January, which has since been revised up to 59%. **Historically, consensus estimates have been adjusted higher every quarter post-earnings, as visibility on actual spending improves.**

Demand for optical transceivers is also broadening beyond the Big Four. Other cloud providers, enterprises, and sovereign entities are emerging as significant sources of demand. We remain confident that the global AI infrastructure capex will continue to grow beyond 2026, given the early-stage nature of AI development. China's hyperscalers are also ramping up: Alibaba, Tencent, and Baidu collectively invested RMB165.0bn (~US\$23bn) in capex during 9M25, up 90% YoY. Alibaba earlier announced an RMB380bn capex roadmap (with upside potential per the latest earnings call) for 2024-26E (translating to ~US\$130bn in FY25), signaling sustained investment momentum ahead.

Nvidia, a key bellwether of AI infrastructure, has highlighted a revenue opportunity exceeding US\$500bn for its Blackwell and Rubin platforms across CY25 and CY26, validating our positive outlook. Notably, this figure excludes recent demand from key clients like KSA (an AI factory order for 400-600k GPUs) and Anthropic (marking its first adoption of NVIDIA architecture), both of which represent multi-GW incremental workloads. Looking further out, Nvidia management envisions the global AI infrastructure build-out reaching US\$3-4tn by 2030, which should underpin long-term growth in the AI supply chain.

Figure 93: Datacenter buildouts for hyperscalers/major GPU lessors and sovereign/regional demand in the US

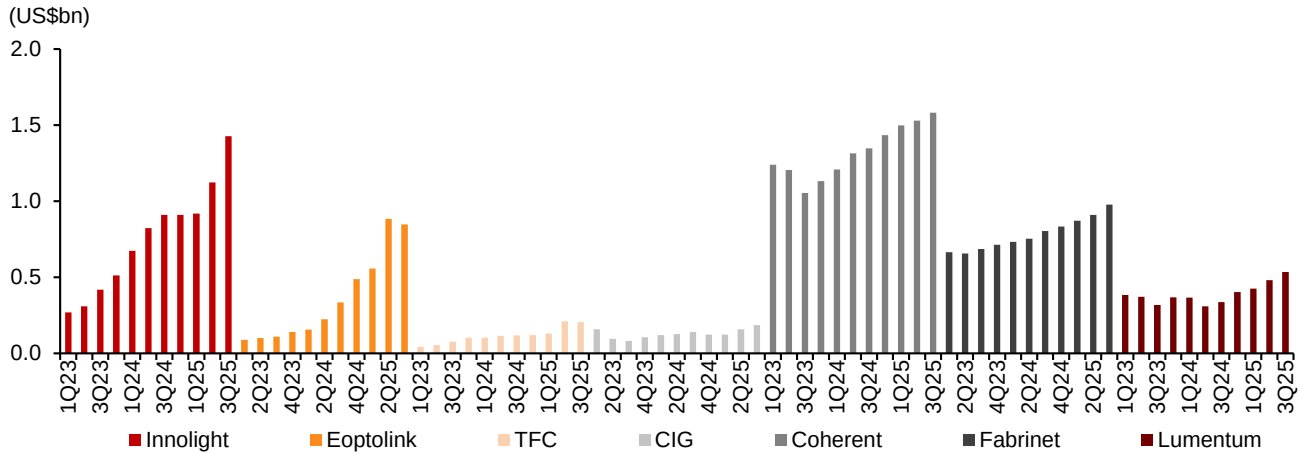
Project / Location	Location	Owner	Planned AI power (GW)	Status (operational vs. ramp)
US hyperscalers and major GPU lessors				
Meta – Prometheus supercluster		Meta	>1GW cluster	Construction since 2017; being densified into a >1GW AI cluster; expected to be Meta's first true multi-GW AI supercomputer around 2026
Meta – Hyperion AI campus	Louisiana, US	Meta/infra capital (Blue Owl, etc.)	2–2.2GW (LT plan to scale to ~5GW)	Groundwork underway; multi-year build with phased capacity
Google – Visakhapatnam AI Hub	Andhra Pradesh, India	Google	Up to 1GW (part of a US\$15bn five-year "AI hub" investment)	MoU signed with Andhra Pradesh govt in 2025; long-dated project, no firm online date yet (second half of decade)
xAI – Colossus 2	Southaven/Memphis, US	xAI	Target ~1.1–1.2GW	Rapid build-out; ramped from ~200MW to multi-hundred MW; aim is gigawatt-class by ~2027
Google - PJM datacenters		Google/PJM	NA	Google to invest \$25 billion in data centers and AI infrastructure across largest US electric grid
Microsoft AI DC	Wisconsin, US	Microsoft	3.9GW; 2GW of new DC capacity added over the past year (Aug 2025)	\$3.3bn + \$4bn investment committed
Crusoe campus	Wyoming, US	Crusoe/Tallgrass	1.8GW (designed to scale to 10GW)	Announced July 25; site selected, permitting/early works; no tenant disclosed yet
"Project Horizon"	Texas, US	Poolside/CoreWeave	2GW (8×250MW phases)	First 250MW phase with CoreWeave as anchor; >40k GB300 GPUs online around Dec 25; option to add another 500MW in early phases, up to 2GW
Sovereign & regional				
Stargate	Texas, US	OpenAI/Oracle	1.2GW campus	Under construction; first ~200MW phase 1H25; full 1.2GW ~mid-'26
"Critical Data Center"	Texas, US	Sharon AI + New Era Energy	Target 1GW+ (initial phase 250MW)	Early-stage: land secured, infrastructure work starting; no public tenant yet
Stargate UAE	UAE	G42/OpenAI/Oracle/Nvidia/SoftBank	5GW full campus (1GW "Stargate UAE" first phase; first 200MW online in 2026)	1st 200MW phase uses ~1,400 GB300 servers & ~100k Nvidia chips; 1GW phase expected to deploy ~500k GPUs; full 5GW campus likely to host >2M GPUs over time
Humain + xAI + Nvidia AI campus	Saudi Arabia	Humain/xAI/Nvidia	Initial 500MW data center (plan to reach ~1GW by 2030)	JV announced Nov 25; 500MW DC is xAI's largest outside US; supports Humain's 1GW target by 2030

Source: Company data, Bloomberg, Reuters, CMBIGM

■ Optical transceiver vendors enjoy robust revenue growth and margin expansion

Riding the AI wave, leading vendors have delivered impressive financial results. Coherent, Innolight, Eoptolink, and Fabrinet (FN US, NR) all reported strong revenue growth in 2024 (15%/120%/175%/15%) and 9M25 (19%/44%/221%/21%).

Figure 94: Peers analysis – Revenue surge during recent quarters, primarily driven by AI momentum

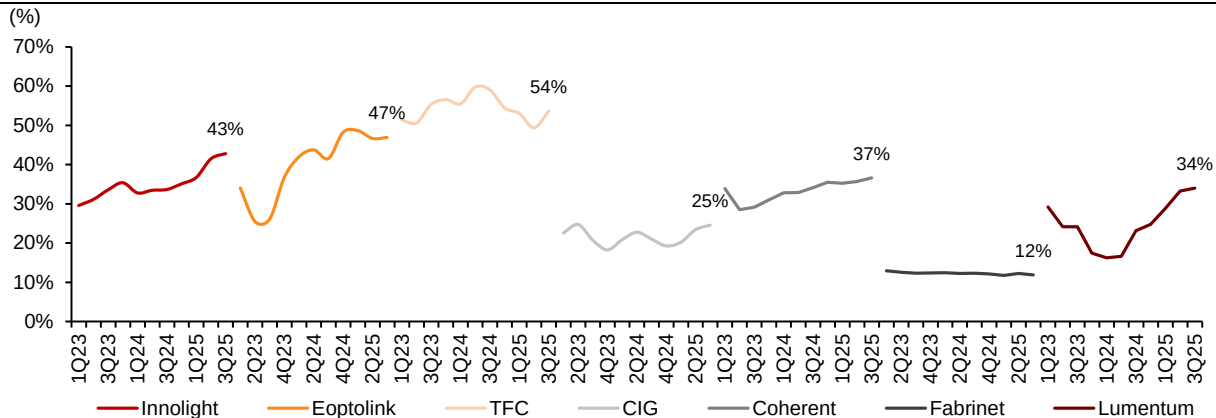


Source: Company data, Bloomberg, Wind, CMBIGM estimates

Note: Innolight (300308 CH, BUY, TP: RMB707), Eoptolink (300502 CH, NR), TFC (300394 CH, NR), CIG (603083 CH, NR), Coherent (COHR US, NR), Fabrinet (FN US, NR), Lumentum (LITE US, NR)

Beyond top-line growth, key players have achieved meaningful margin expansion, driven by the AI-led networking upgrade cycle from 200G/400G to 800G/1.6T. Coherent, Innolight, and Eoptolink all saw gross margin improvements from 3Q24 to 3Q25 (+2.5ppts/+9.2ppts/+5.4ppts).

Figure 95: Peers analysis – Margin expansion during recent quarters, primarily driven by AI momentum



Source: Company data, Wind, Bloomberg, CMBIGM

Following a stellar 2025, we expect optical transceiver leaders to deliver another year of robust growth in 2026, supported by sustained AI investments. Two key drivers are:

- **Volume growth** from ongoing AI capex demand across hyperscalers, enterprises, and sovereign entities;
- **Favorable product mix and ASP growth** amid the ramp-up of 1.6T solutions. While we anticipate normal annual price adjustment for 800G and 1.6T products, leading vendors should maintain elevated margins through technology advancements and operational efficiencies. Suppliers with a growing mix of 1.6T products are well positioned for further margin expansion.

Supply-demand dynamics

Supply constraints for key components, including EML chips, remain a near- to medium-term industry challenge. Lumentum, a market leader in EML, has publicly stated that demand continues to “far outstrip supply,” prompting a strategic shift toward prioritizing long-term agreements (LTAs) with key partners.

In response, the industry is undertaking aggressive capacity expansion. Lumentum plans to increase unit output by 40% over the coming quarters, despite already being sold out for the next six quarters. Coherent, a vertically-integrated player, has enhanced supply chain resilience via a new US\$127mn Vietnam facility, while Tower Semiconductor (TSEM US, NR) has allocated a total of US\$650mn in capex to scale its SiPho and SiGe capacity, largely earmarked for machinery at its 8-inch and 12-inch fabs. STMicroelectronics (STM US, NR) has also re-entered the SiPho business in early 2025 and collaborates with AWS.

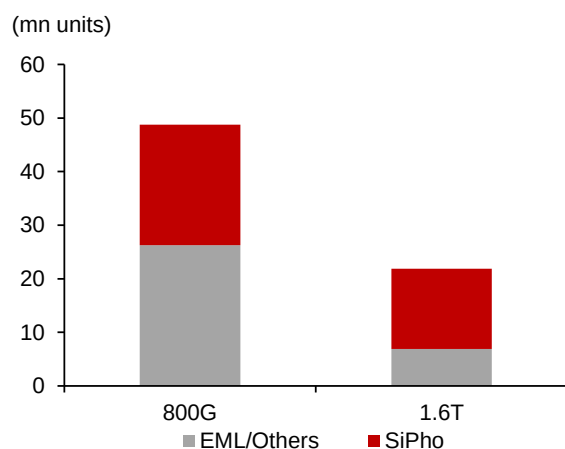
Figure 96: Industry capacity expansion initiatives

Players	Strategic focus and key developments
Lumentum	Plans to add 40% more unit capacity over the next few Qs; capacity sold out for the next 6Qs (Nov 2025)
Coherent	Opened a new US\$127mn semiconductor and photonics manufacturing plant in Vietnam to enhance supply chain resilience (July 2025)
GlobalFoundries	Recently acquired Advanced Micro Foundry (AMF), a Singapore-based chipmaker that focuses on silicon photonics (US\$1bn expected annual SiPho revenue for the combined company by 2030) (Nov 2025)
Tower Semiconductor	A total of US\$650mn capex in SiPho and SiGe capacity; primarily for machinery to increase capacity at its 8-inch and 12-inch fabs (Nov 2025)
STMicroelectronics	Re-entered SiPho business in early 2025; collaborates with AWS (early 2025)
Innolight	Advancing dual-site expansion in China and Thailand; capacity prioritized to 1.6T products (Recent quarters)
Eoptolink	Ramping up 1.6T module production at its second Thai plant (Recent quarters)

Source: LightCounting, Company data, Bloomberg, Reuters, CMBIGM

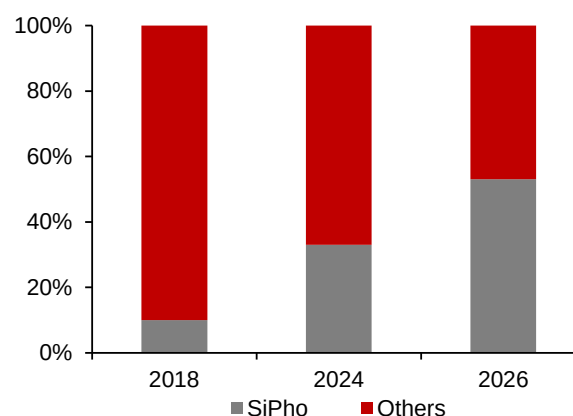
Concurrently, SiPho solutions are gaining meaningful market share and helping alleviate the EML bottleneck. According to LightCounting, SiPho accounted for 10% of optical transceiver sales in 2018, rising to 33% in 2024. **We forecast this share will exceed 50% by 2026.**

Figure 97: SiPho's growing contribution to 800G/1.6T shipments (2026)



Source: Company data, Bloomberg consensus, CMBIGM estimates

Figure 98: SiPho's share to exceed 50% by 2026 by our analysis



Source: LightCounting, company data, CMBIGM estimates

Despite these capacity additions and rising SiPho adoption, we expect supply shortages to be most acute for 1.6T solutions. Lumentum expects 200G EMLs to comprise ~10% of its product mix by early CY2026, yet overall EML capacity expansion continues to lag behind demand growth. We estimate 800G and 1.6T shipments will reach 49mn and 22mn units, respectively, in 2026, still leaving a multi-million-unit supply-demand gap. By technology mix, we project a roughly 50/50 split between EML and SiPho for 800G, shifting to 30/70 for 1.6T in 2026.

■ The optical transceiver sector remains a top pick

We maintain a constructive outlook on the optical transceiver industry and expect leading AI-exposed players to continue outperforming the broader market.

Our top pick remains Innolight (300308CH, BUY, TP: RMB707). As the 2024 global market share leader in optical transceivers (per Lightcounting), Innolight is a direct beneficiary of surging overseas AI infrastructure capex, with overseas transceiver revenue accounting for 86% of its total 1H25 sales. As top hyperscalers continue to scale investments and demand shifts toward higher-speed 1.6T products, we expect Innolight's net profit to see significant growth in 2026, reaching RMB23bn. We reiterate our BUY rating ([report](#)) on the stock.

Key risks include lower-than-expected AI infrastructure capex, geopolitical tensions and tariff uncertainties, supply chain disruptions and intensified competition, etc.

Figure 99: Peers table

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	P/E (x)			EPS (US\$)			GPM (%)		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Domestic peers													
Innolight	300308 CH	BUY	75,131	479.66	58.5	23.1	16.7	1.40	3.55	4.91	42.0	46.2	46.3
Eoptolink	300502 CH	NR	42,698	304.72	45.3	25.3	19.4	1.33	2.38	3.11	47.6	48.0	48.2
TFC	300394 CH	NR	16,190	147.73	72.0	49.7	37.8	0.41	0.59	0.78	52.3	51.8	51.7
CIG	603083 CH	NR	4,449	97.79	-	-	-	-	-	-	-	-	-
Accelink	002281 CH	NR	6,699	58.90	49.7	35.9	28.1	0.19	0.26	0.33	23.0	23.8	24.1
Huagong	000988 CH	NR	10,031	70.77	41.5	33.4	26.8	0.26	0.32	0.40	22.3	21.7	21.7
Average					53.4	33.5	25.8	0.7	1.4	1.9	37.4	38.3	38.4
Overseas peers			Overseas peers										
Lumentum	LITE US	NR	21,225	299.36	164.4	56.0	38.5	1.97	5.79	8.43	34.4	39.9	40.0
Coherent	COHR US	NR	23,857	151.81	50.9	35.0	28.2	3.51	5.09	6.32	38.1	39.1	40.1
Marvell	MRVL US	NR	72,235	83.79	54.0	29.9	23.6	1.56	2.83	3.58	61.0	59.5	58.6
Broadcom	AVGO US	NR	1,784,865	377.96	53.3	36.6	26.3	6.75	9.83	13.68	78.6	74.6	72.2
Average					80.7	39.4	29.2	3.4	5.9	8.0	53.0	53.3	52.7

Source: Bloomberg consensus, CMBIGM estimates

Note: Earnings forecasts for Innolight are CMBIGM estimates; data as of 15 Dec, 2025

PCB/CCL sector – AI-driven upcycle: structural growth with diverging dynamics

The global PCB and CCL industries are in the early innings of a structural upcycle, predominantly fueled by the AI infrastructure investment wave. This cycle is characterized by a divergence between high-performance and standard segments, with the PCB market poised for a 12.8% rebound in 2025 and the CCL sector already demonstrated superior pricing power with 18% growth in 2024. **Our positive outlook is rooted in value-accretive product mix shifts driven by stringent requirements of AI, which support resilient pricing and margin expansion for technology leaders.**

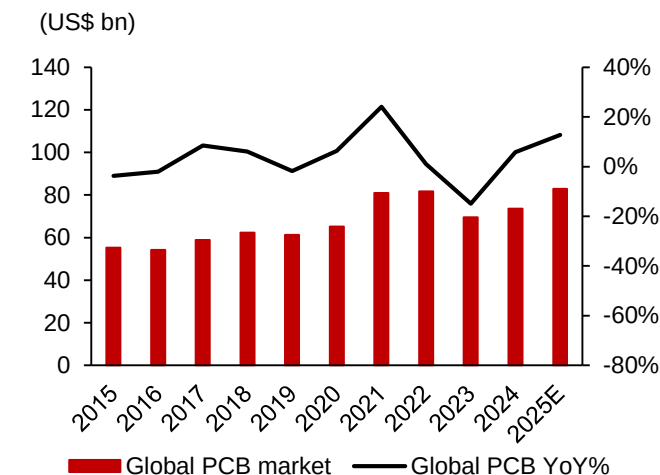
- **PCB recovery is driven by both volume and value.** The AI server rollout is creating a super-cycle for high-layer count (18L+), HDI, and advanced IC substrates. These high-performance boards have meaningfully higher ASPs and margins, driving a product mix uplift for capable suppliers. The market is also experiencing an atypical seasonal pattern, with a stronger-than-expected rebound in 1H25, signalling robust underlying demand ahead of the traditional 2H seasonal strength.
- **CCL market's outperformance is structural, backed by pricing power and mix.** The adoption of high-speed, specialty laminates (M7/M8 grades for 112Gbps transmission rate requirement, with M9 for 224G on the horizon) commands ASPs multiples of standard FR-4. This, combined with a consolidated supply structure, allows leaders to fully pass through cost inflation and expand margins, as evidenced by the specialty CCL segment's 52% YoY growth in 2024.
- **Competitive divergence: consolidated CCL oligopoly vs. fragmented PCB landscape.** The top 10 CCL suppliers hold a dominant market share of 77%, ensuring pricing discipline. In contrast, the fragmented PCB landscape (top 40 account for ~50% share) necessitates a strategic focus on high-value segments to maintain pricing power.
- **Copper-led cost inflation is a stress test that highlights this divergence.** With LME copper up ~24% YTD, CCL leaders are net beneficiaries through their pricing power. For PCB players, the impact is bifurcated: high-value AI suppliers are likely to be largely insulated, while commoditized producers face tangible margin pressure.
- **Shengyi Tech (600183 CH, BUY, TP: RMB90), based on 35x 2026 P/E:** We view Shengyi as a core, integrated AI infrastructure play, leveraging its leadership in high-speed, low-loss CCL and the explosive growth of its PCB subsidiary Shengyi Electronics, which is deeply exposed to high-layer HDI boards for AI servers. The AI-driven mix shift toward premium PCB products is driving both strong top-line growth and structural margin expansion, with PCB increasingly becoming the group's primary earnings engine on top of a solid CCL base. **Key risks include:** Slower-than-expected AI server / datacenter capex, execution risk around capacity ramp-up, and rising competition in high-speed CCL/PCB that could cap pricing and margins.

Global PCB market to rebound with 12.8% YoY growth in 2025

The global PCB market returned to growth in 2024, with sales increasing 5.8% YoY to US\$74bn per Prismark, following a 15% YoY contraction in 2023 driven by broad-based inventory destocking and weak end-demand. The recovery was primarily fueled by inventory normalization and early-stage investments in AI-related infrastructure.

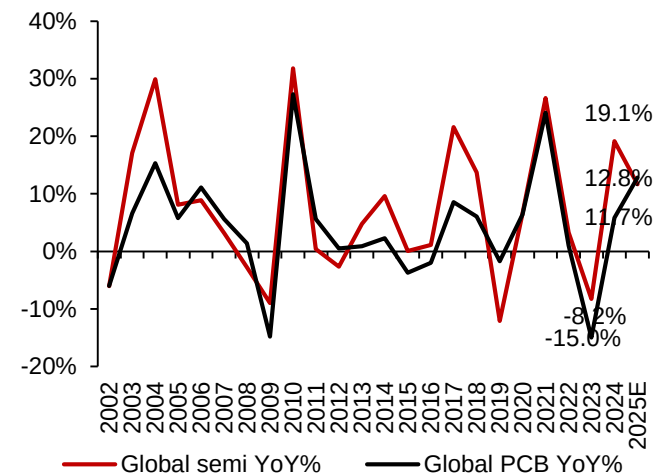
For 2025, Prismark has raised its growth forecast to 12.8% (from 7.6% previously), reflecting accelerating AI-driven demand, which requires higher-layer count, high-density, and high-performance PCBs. The PCB market's trajectory remains strongly correlated with the semiconductor cycle, and SIA projects global semiconductor sales to grow 11.7% in 2025, reinforcing the synchronous upcycle.

Figure 100: Global PCB market to rebound with 12.8% YoY growth in 2025



Source: Prismark, CMBIGM

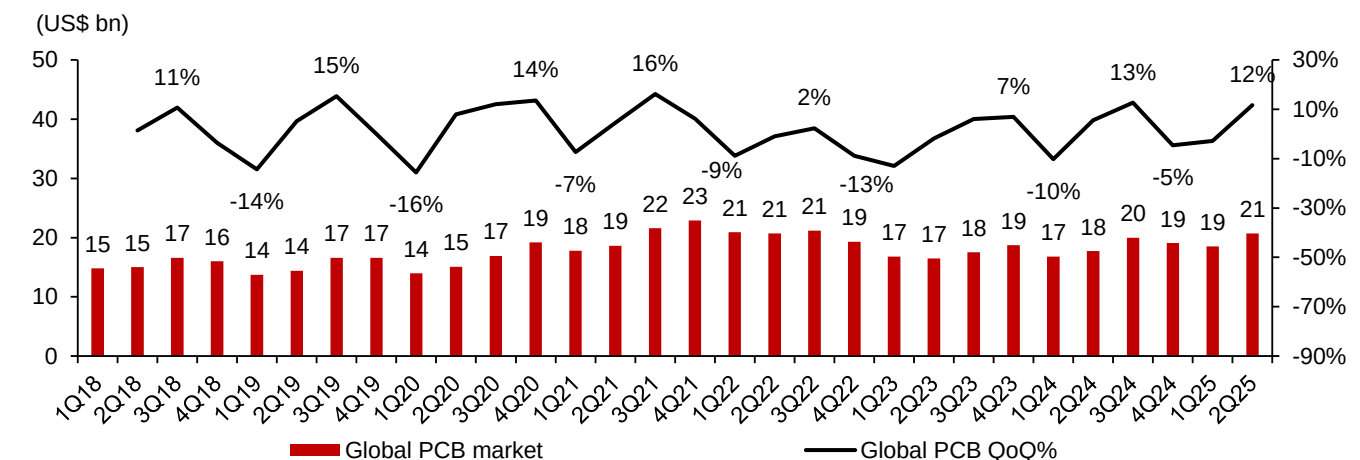
Figure 101: Historical data shows strong correlation between PCB and semiconductor industry sales



Source: SIA, Prismark, CMBIGM

We expect the 2025 recovery to be driven by both volume expansion and ASP recovery. Prismark estimates PCB sales area to grow 10.3% in 2025 (vs. 12.8% in value terms), indicating positive pricing contribution from rising material costs and mix shift toward advanced materials.

Figure 102: PCB market showed robust rebound with 17%/12% YoY/QoQ growth in 2Q25, following a strong 1Q with only a mild seasonal decline of 3% QoQ from 4Q24



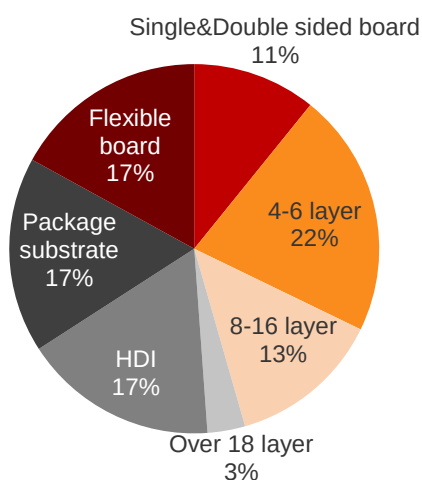
Source: Prismark, CMBIGM estimates

Historically, the PCB market exhibits seasonal strength in the second half of year. While the market typically delivered double-digit sequential growth in 3Q during 2018-2021, **the 2025 cycle has displayed an earlier and stronger rebound**: after a resilient 1Q (down only 3% QoQ), the market expanded 17% YoY and 12% QoQ in 2Q25. Based on Prismark's full-year estimate, we project 2H25 PCB sales to reach ~US\$44bn (vs. US\$39bn in 1H25), implying continued momentum.

By product types, we believe multi-layer above 18L and HDI are projected to be the **standout performers**, primarily fueled by robust demand from AI servers and high-speed networking. **Substrates continue to recover**, driven by AI-related demand for advanced computing and memory chips. **Geographically, China maintains its dominant position**, accounting for approximately 50% of global PCB production value in 2024, supported by its mature electronics supply chain and rising domestic demand for AI hardware and electric vehicles.

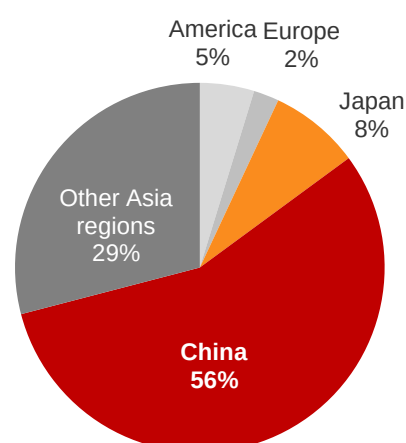
The AI revolution is fundamentally reshaping PCB specifications, driving demand for **extreme performance, signal integrity, and thermal management**. The industry is transitioning toward "system-level" PCBs that integrate multiple functionalities into single, highly complex solution: NVIDIA's GB200 reportedly adopted 22-layer 5-layer HDI, while the next-generation Rubin platform may require more advanced 24-layer 6-level boards. This raises technological barriers, favoring players with advanced R&D and manufacturing capabilities.

Figure 103: ML (18L+)/HDI/substrate (~accounted for 37%) are projected to be the standout performers



Source: Prismark, CMBIGM

Figure 104: China's market accounted for 56% of total PCB market (2024)



Source: Prismark, CMBIGM

Global CCL market: Structural outperformance continues

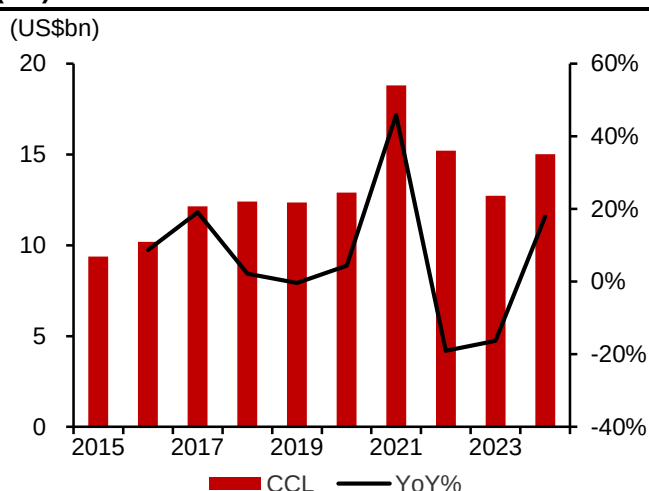
The global CCL market demonstrated a strong recovery in 2024, reaching an estimated US\$15bn, representing 18% YoY growth per Prismark. This rebound was driven by robust volume growth of 14% YoY, complemented by a modest ASP recovery of 4%. The CCL market notably outperformed the PCB market (18% vs. 6% growth), highlighting its superior pricing power and value capture from product mix shift.

Looking forward, we anticipate CCL prices will maintain their upward trajectory into 2H25, driven by sustained AI-related infrastructure investments and rising raw material costs. Within the segment, high-speed specialty CCL is poised to continue outperforming, following remarkable 50% YoY growth in 2024, fueled by persistent demand from AI infrastructure needs.

The material upgrade cycle is accelerating in lockstep with AI processing speeds. While M7/M8 grades are becoming the baseline for 112Gbps applications, the focus is rapidly shifting to M9-grade supporting 224Gbps data rates. This requires not just ultra-low dielectric loss (Df), but also exceptional thermal and mechanical stability to ensure reliability in high-power AI systems. The adoption of advanced raw materials including PPO, HVLP4, and Q glass further underscores the industry's technological barriers. CCL suppliers capable of qualifying and volume-producing these next-generation laminates will capture disproportionate value from the Rubin and post-Rubin generations.

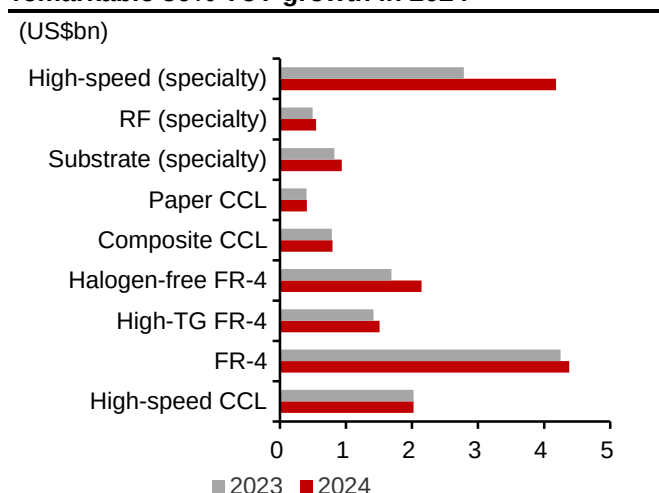
The top-tier competitive landscape remains consolidated and stable. The hierarchy of the top four players, Kingboard (1888 HK, NR), Shengyi Tech (600183 CH, BUY), EMC (2383 TT, NR), and Nanya Plastics (1303 TT, NR), is unchanged, collectively holding approximately 50% market share. However, growth divergence is evident, with specialty CCL leaders significantly outpacing the market. EMC, the sub-sector leader with 22% share, experienced over 50% revenue growth last year, solidifying its position as a critical CCL supplier within NVIDIA's AI infrastructure supply chain.

Figure 105: Global CCL market recovered with 18% YoY growth in 2024, outperforming the PCB market (6%)



Source: Prismark, ChinaCCL, CMBIGM

Figure 106: High-speed specialty CCL delivered remarkable 50% YoY growth in 2024



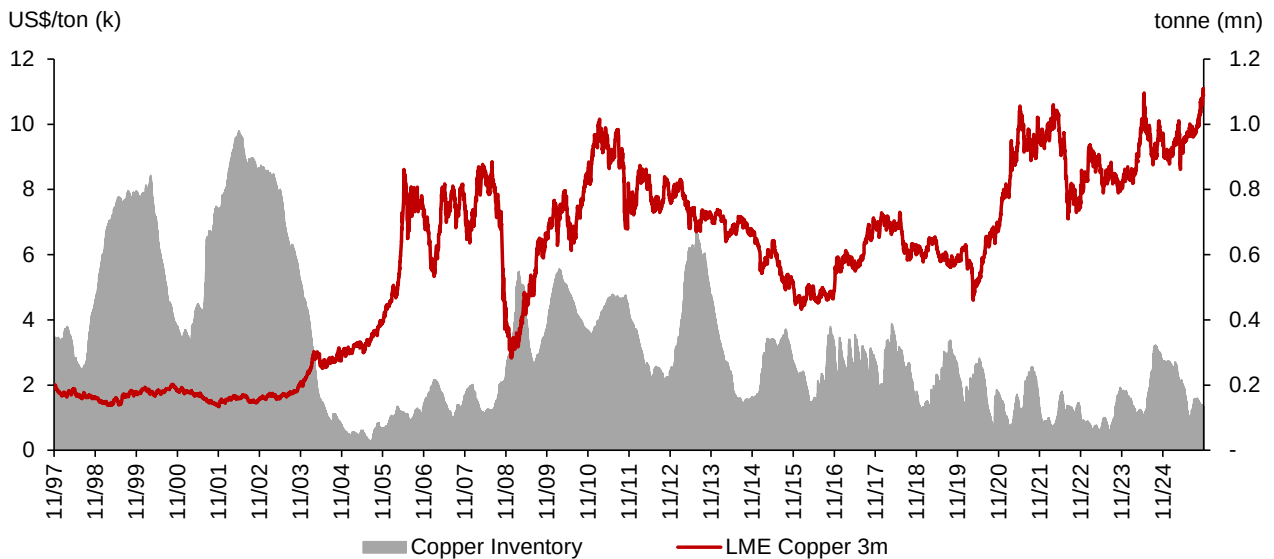
Source: Prismark, ChinaCCL, CMBIGM

Rising material costs and impacts on PCB/CCL sector

Copper constitutes 60%-70% of PCB's raw material cost. **The structural uplift in copper prices**, driven by supply constraints and burgeoning demand from AI and clean energy sectors, is **reshaping cost dynamics across the PCB and CCL supply chain**.

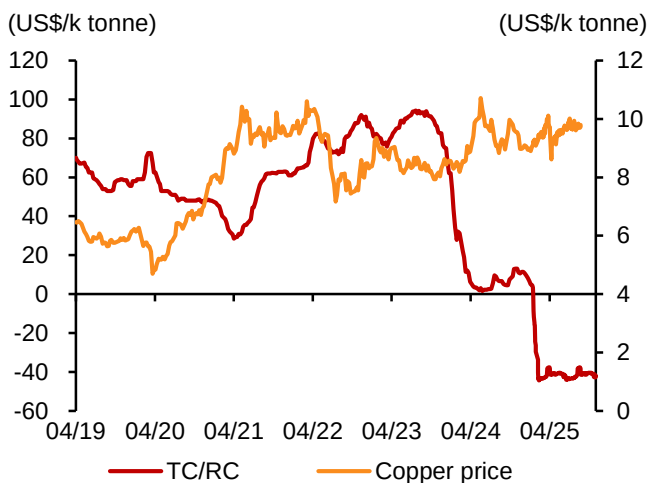
LME copper (3M) has sustained a steady upward trajectory since early 2024, rising ~24% YTD to over US\$10,000/ton. This rally has been primarily driven by an intensifying global concentrate shortage, reflecting in record lows of TC/RCs and recently turning negative.

Figure 107: 3M LME copper price



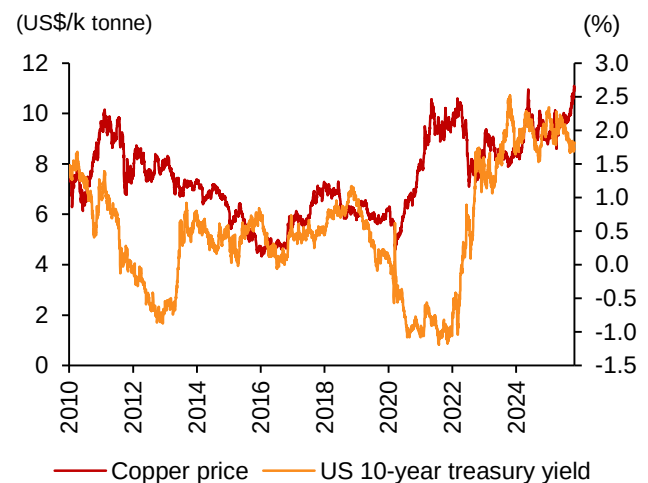
Source: Wind, CMBIGM

Figure 108: TC/RC vs. copper price



Source: Wind, Bloomberg, CMBIGM

Figure 109: Copper price vs. 10-year treasury yield



Source: Wind, Bloomberg, CMBIGM

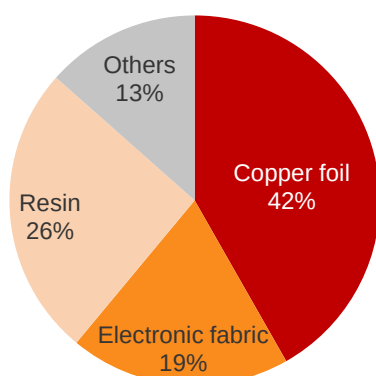
Looking ahead, we expect copper prices to remain elevated in 2026, driven by structural demand transformation and supply deficits. Demand transformation: Beyond traditional sectors like power and construction, demand is experiencing structural growth from new engines: AI computing infrastructure and new energy applications, creating a more resilient demand floor. **Supply disruptions:** production has been impacted by a series of mine disruptions in key resource countries like Indonesia, Chile, and Congo.

The International Copper Study Group (ICSG) predicts a sustained deficit for the global refined copper market, forecasting a shortfall of 150k metric tons in 2026, which attributed to slower production growth.

The surge in material price directly impacts production costs.

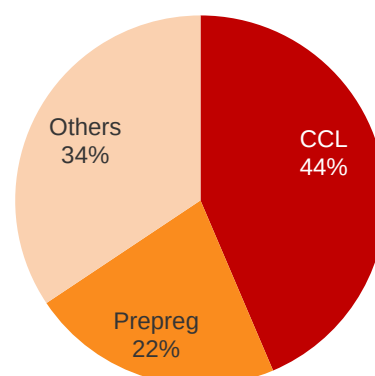
- In this industry upcycle, **CCL suppliers are successfully passing through cost increases to downstream PCB manufacturers**. Given the favorable competitive landscape, we believe CCL leaders will not only pass through costs but also deliver margin improvement due to stronger pricing power.
- **For PCB producers, the impact is bifurcated**. Manufacturers focused on traditional, standard products face margin compression in a highly competitive environment. Conversely, **suppliers with significant AI exposure are better positioned**. Advanced HDI products for AI servers command substantially better margins (~39% in 1Q25 for Victory Giant's HDI products vs. 20%+ for multi-layer or less PCBs and FPC), providing a crucial buffer against cost inflation. The ongoing mix shift toward these high-value applications may even support margin expansion for leading AI-focused PCB suppliers.

Figure 110: CCL cost breakdown: copper foil accounted for 42%



Source: Shengyi Tech, CMBIGM

Figure 111: PCB cost breakdown: CCL accounted for 44%



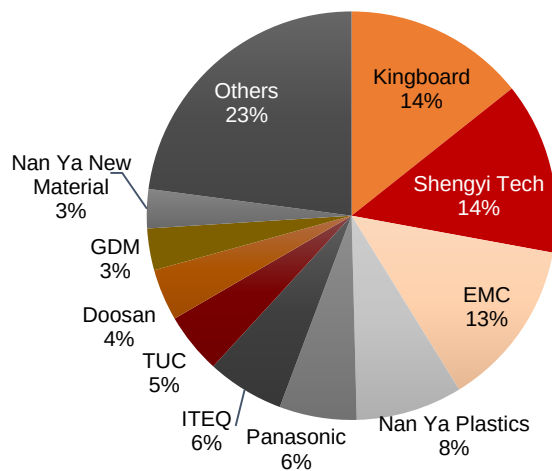
Source: Shengyi Tech, CMBIGM

Competitive landscape: consolidated CCL market vs. fragmented PCB market

The global CCL market maintains a highly consolidated and oligopolistic structure. According to Prismark, the top 10 suppliers commanded a dominant 77% of total market sales in 2024. The stability among the top four players underscores the high barriers to entry and sustainable pricing power in this segment.

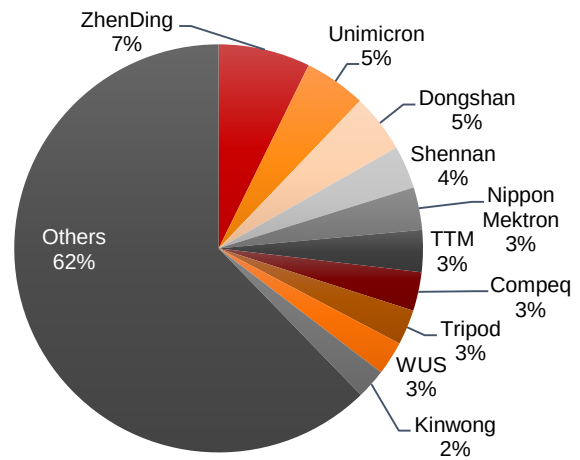
In contrast, the PCB market exhibits a more fragmented competitive landscape relative to its upstream CCL sector. The top 40 PCB manufacturers collectively account for just over half of total industry sales, highlighting a "long tail" of smaller participants. This market is progressively undergoing consolidation, with numerous smaller manufacturers exiting following the recent sector downturn.

Figure 112: The global CCL market maintains a highly consolidated and oligopolistic structure



Source: Prismark, ChinaCCL, CMBIGM

Figure 113: The PCB market exhibits a more fragmented competitive landscape



Source: Prismark, SPCA, CMBIGM

The current copper-led cost inflation acts as a stress test, highlighting the strategic positioning of companies within the PCB/CCL supply chain. CCL leaders are well-positioned with strong pricing power, and are likely to see expanding margins. Looking ahead, we expect consolidation to persist as PCB players strive to achieve scale and technology critical mass. Nevertheless, the PCB sector will remain competitive, particularly in the lower tiers. In this environment, operational efficiency and strategic focus on high-growth end markets will be crucial for sustainable growth.

Figure 114: Peers table - China PCB/CCL players

Company		Revenue		GPM%		NP		Revenue YoY%		NP YoY%	
US\$(mn)	Ticker	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
China CCL peers											
Kingboard	1888 HK	2,776	3,243	20.2	22.6	291	402	16.8	16.8	71.2	38.2
Shengyi Tech	600183 CH	3,935	5,163	27.0	28.8	490	731	38.9	31.2	103.1	49.0
Nanya	688519 CH	665	860	13.0	15.9	35	71	42.3	29.5	403.9	102.0
Wazam	603186 CH	602	650	16.2	15.3	46	28	12.1	8.1	-	-38.5
			Avg.	19.1	20.7			27.5	21.4	192.7	37.7
China PCB peers											
Dongshan	002384 CH	5,829	7,777	15.2	18.3	324	659	14.1	33.4	129.7	8.2
Avary	002938 CH	5,690	6,703	21.8	22.9	607	789	16.6	17.8	20.6	30.0

Victory Giant	300476 CH	2,849	4,571	37.2	40.2	706	1,296	91.2	60.4	340.6	83.4
WUS	002463 CH	2,598	3,504	36.1	37.3	538	773	40.2	34.9	49.8	43.7
Kinwong	603228 CH	2,140	2,610	23.8	25.6	208	305	21.7	22.0	27.9	46.9
SYE	688183 CH	1,367	2,086	32.7	33.9	227	376	110.0	52.6	392.5	65.5
Hongxin	300657 CH	1,190	1,560	12.9	15.0	45	72	45.8	31.2	473.8	58.5
Suntak	002815 CH	1,058	1,185	21.0	23.0	59	92	21.3	12.1	64.6	56.7
Fastprint	002436 CH	1,006	1,259	23.0	25.3	27	62	24.4	25.2	-199.0	128.9
Olympic	603920 CH	882	1,164	24.3	24.5	125	172	26.5	32.0	33.7	37.3
Aoshikang	002913 CH	784	942	22.6	23.6	61	85	23.7	20.1	24.0	39.3
Founder	600601 CH	636	814	25.0	28.0	66	107	31.4	28.0	85.0	62.2
Avg.				24.6	26.5			38.9	30.8	120.3	55.1
Top 12 total		26,029									
Global PCB TAM		77,888									
% of global PCB sales		33.4%									

Source: Bloomberg consensus, CMBIGM estimates; data as of 15 Dec, 2025

Figure 115: Peers table - China PCB/CCL players

Company	Ticker	Mkt Cap US\$m	Price (LC)	P/E		Performance (%)			ROE%	
				FY25E	FY26E	5-day	1M	YTD	FY25E	FY26E
China PCB peers										
Victory Giant	300476 CH	36,039	291.93	50.5	28.0	1.7	6.2	621.4	36.0	41.0
Dongshan	002384 CH	21,225	81.71	63.6	31.2	8.4	18.2	191.3	11.0	19.6
WUS	002463 CH	18,928	69.38	35.6	25.6	-2.6	12.6	81.3	26.7	29.8
Avary	002938 CH	15,819	48.12	25.8	19.9	-3.4	7.9	40.9	12.7	15.1
SYE	688183 CH	11,090	94.01	51.5	31.4	-3.3	-0.1	152.9	30.0	35.9
Kinwong	603228 CH	9,047	64.78	42.4	29.5	-5.2	-0.8	148.1	11.7	15.6
Founder	600601 CH	7,261	11.98	108.9	66.6	0.7	10.8	183.6	10.3	14.3
Fastprint	002436 CH	4,790	19.87	207.0	80.1	-8.6	-1.6	82.0	3.6	7.8
Olympic	603920 CH	4,128	40.37	32.6	23.8	-2.2	3.9	42.9	12.5	15.5
Suntak	002815 CH	2,345	13.58	35.7	22.6	-0.9	3.1	35.9	-	-
Hongxin	300657 CH	1,942	28.37	42.3	26.8	-7.5	2.8	27.1	21.9	25.8
Aoshikang	002913 CH	1,913	42.51	31.1	22.3	5.7	18.2	81.6	9.4	11.9
Avg.				60.6	34.0	-1.4	6.8	140.8	16.9	21.1
China CCL peers										
Shengyi Tech	600183 CH	20,666	60.00	42.6	28.8	0.9	5.6	161.3	20.6	26.2
Kingboard	1888 HK	4,720	11.72	16.2	11.7	-4.9	-2.6	77.9	13.8	17.0
Nanya	688519 CH	2,080	62.48	57.9	28.7	-10.1	-1.0	205.9	9.5	16.2
Wazam	603186 CH	911	45.24	19.8	32.1	-0.2	13.6	80.6	18.4	10.1
Avg.				34.1	25.3	-3.6	3.9	131.4	15.6	17.4

Source: Company data, Bloomberg, CMBIGM estimates; data as of 15 Dec, 2025



China Technology

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OUTPERFORM

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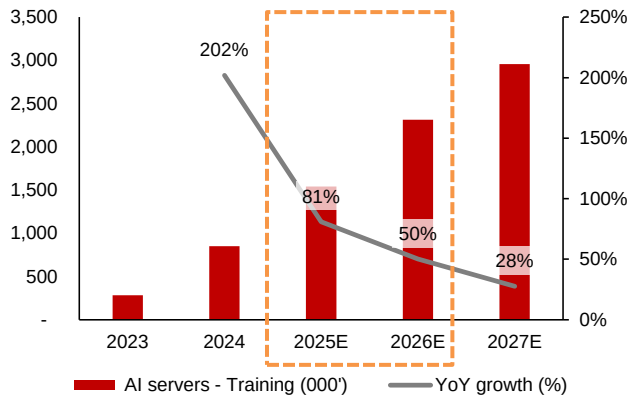
2026 Outlook: AI compute momentum expands to edge AI revolution

Looking ahead to 2026, we expect distinct divergence in global technology end-markets. While AI computing supply chain is set to continue strong momentum, driven by rapid LLM upgrade and sustained CSP capex, edge AI cycle (AI smartphones/PCs/glasses) is just beginning to accelerate. However, we anticipate near-term pressure on low-end consumer electronics demand due to macro uncertainty, fading China subsidies and rising memory costs. We believe expansion of AI computing demand and edge AI innovation will become major growth drivers in 2026, and recommend two key structural themes: 1) **AI infra supercycle**: Rubin/ASIC platform upgrade will unlock significant content value growth for ODMs/components (interconnects, thermal, power). 2) **Edge AI**: Product launches from foldable iPhones and AI phone/glasses/PC is set to drive a mix shift towards higher spec hardware. For stock picks, we favor quality leaders such as Luxshare, FIT Hon Teng, BYDE, Sunny Optical, AAC Tech and Xiaomi.

- **Servers: AI server momentum continues with VR/ASIC spec upgrades.** Backed by robust global AI infra investment, we forecast global AI server shipments to grow 50% YoY to 2.32mn in 2026, driven by "GPU + ASIC" dual growth engine. We expect rollouts of new Blackwell/Rubin platform and in-house ASIC upgrade will boost value content gain. 1) **Interconnects**: new Rubin/ASIC rollout will drive spec upgrade and breakthroughs in connectors/ cables and OCS/CPO. 2) **Thermal**: With single-chip TDP reaching 1,000W+, liquid cooling penetration is poised to accelerate, with mass production of micro-channel cold plates expected in 2027. 3) **Power**: HVDC/BBUs will become mainstream, driving volume/ASP growth for power components. We like leading ODMs/component suppliers such as Luxshare, FIT and BYDE.
- **Smartphones: memory cost headwinds; Focus on foldable iPhone & AI upcycle.** Given macro uncertainties, rising memory costs and fading subsidy tailwinds, we forecast 2026 global smartphone shipments to decline 5% YoY to 1.18bn, with low-end models impacted the most, while high-end segment will remain resilient thanks to AI innovations. We expect 2026 to be a strong year for Apple, featuring iPhone 18, foldable iPhone, smart home products and Apple Intelligence upgrade, consolidating its leadership in the premium segment. For Android, all OEMs are accelerating transition to AI smartphones, enhancing user experience through on-device LLMs. We recommend optics (periscope/hybrid), structural components (titanium/ hinges) and thermal (VC) names, including Luxshare, AAC and Xiaomi.
- **AR/VR: AI LLMs to kick off Smart Glasses 2.0 era.** We estimate global AI glasses shipments to surpass 10mn in 2026, becoming the key wearable category following TWS. In the long run, we expect AR glasses will be the ultimate form factor, and we forecast shipments to reach 32mn by 2030, as optical waveguide and micro-LED/LCOS technologies become mature. Beneficiaries include suppliers with optical technologies (waveguides/CCM) and OEMs, such as Sunny, AAC Tech and Q-Tech.
- **PC/Auto electronics: AI PC inflection point; L4+ ADAS accelerates.** We expect global PC market to face pressure in 1H26E as Win-11 replacement cycle nears its end and memory costs soar. We forecast global PC shipments to decline 2% YoY to 275mn in 2026. The bright spot lies in AI PC penetration to reach 50% in 2026. For auto, given favourable policies and declining costs, we expect mass adoption of L4 autonomous driving to speed up. We favor high-voltage/high-speed connectors, optics, smart cockpit displays, and domain controllers, such as Luxshare, FIT, BYDE, Sunny, AAC and BOEVx.

Focus Charts

Figure 1: Global AI training server market (2023-27E)



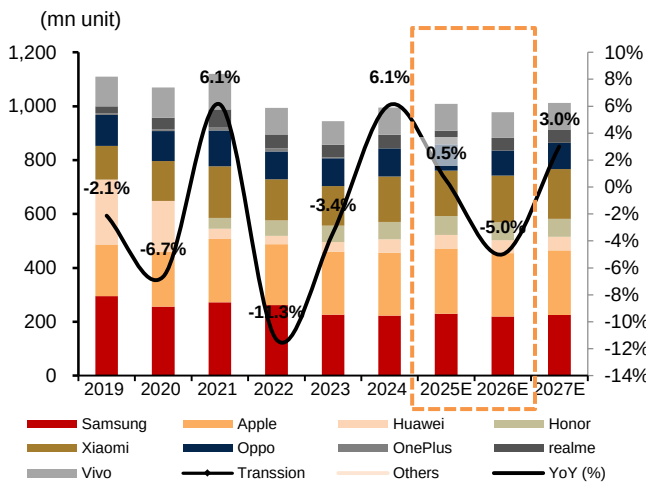
Source: Trendforce, CMBIGM estimates

Figure 2: GB/VR AI server ODM vendors (2025/26)

	GB/VR rack							
	2025E	2026E	广达	鸿海	英业达	纬颖	戴尔	美超微
Microsoft	25%	21%	40%	60%	-	-	-	-
AWS	7%	8%	70%	30%	-	-	-	-
Meta	16%	12%	70%	30%	-	-	-	-
Google	10%	8%	70%	10%	10%	-	-	-
Oracle	23%	25%	-	80%	-	20%	-	-
Tesla/XAi	11%	11%	-	-	-	-	80%	20%
Coreweave	7%	9%	-	-	-	-	100%	-
Others	1%	6%	-	-	-	-	-	-
Total	29,000	58,500						

Source: Trendforce, CMBIGM estimates

Figure 3: Global smartphone shipment forecast



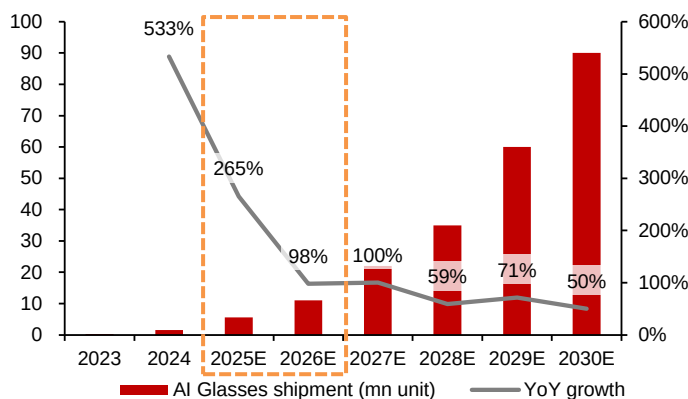
Source: IDC, CMBIGM estimates

Figure 4: Global smartphone shipments (by brand)

(mn unit)	2022	2023	2024E	2025E	2026E	2027E
Samsung	262	227	223	230	220	225
Apple	226	234	232	242	235	240
Xiaomi	153	146	168	169	173	185
Huawei	31	35	50	50	48	50
Honor	57	61	65	70	66	67
Oppo	166	154	154	148	141	146
Vivo	99	88	101	100	95	99
Transsion	73	95	107	121	110	115
Others	139	125	134	112	92	88
Total	1,206	1,165	1,236	1,242	1,180	1,215
YoY growth	-11%	-3%	6%	0.5%	-5%	3%

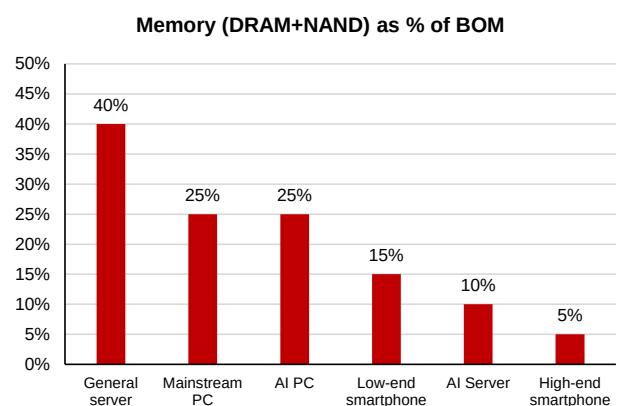
Source: IDC, CMBIGM estimates

Figure 5: Global AI glasses shipment forecasts



Source: IDC, CMBIGM estimates

Figure 6: Memory as % of BOM cost



Source: CMBIGM estimates

Figure 7: Global AI server TAM forecasts

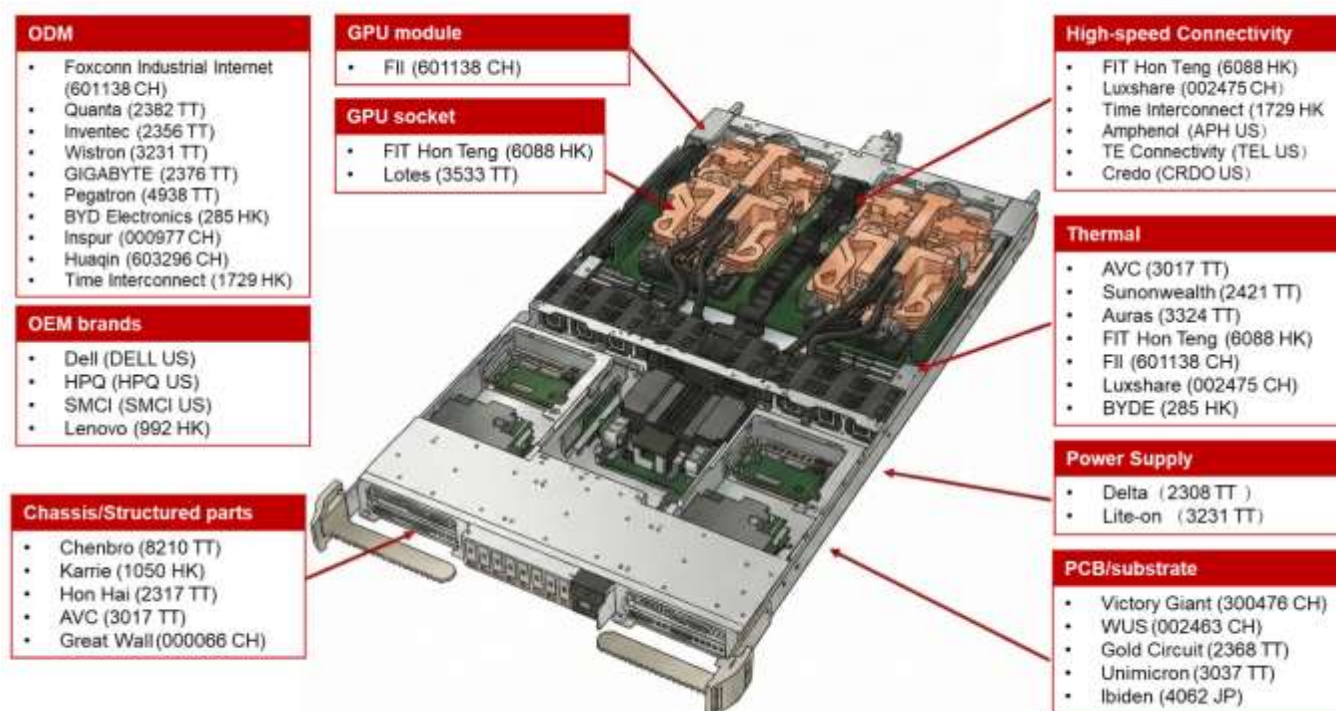
	2023	2024E	2025E	2026E
Total AI accelerator volume ('000)				
GPU chips	1,856	5,492	8,046	10,350
YoY growth		196%	47%	29%
Nvidia	1,563	5,048	7,321	9,084
YoY growth		223%	45%	24%
AMD	293	444	725	1,265
YoY growth		51%	64%	74%
ASIC chips	1,288	2,756	5,571	9,030
YoY growth		114%	102%	62%
Total	3,144	8,248	13,617	19,380
YoY growth		162%	65%	42%
AI server - Training ('000)				
GPU AI server	200	626	1,171	1,714
YoY growth		213%	87%	46%
ASIC AI server	82	226	371	600
YoY growth		176%	64%	62%
Total	282	852	1,542	2,315
YoY growth		202%	81%	50%
Nvidia AI server rack ('000)				
HGX/MGX Rack	45.5	147.6	150.8	145.6
GB200/300/VR200 NVL72	-	0.4	29.0	58.5
Total	45.5	148.0	179.9	204.1
YoY growth		226%	22%	13%
Global server shipments ('000)				
General and other servers	13,098	12,773	13,159	13,754
YoY growth		-2%	3%	5%
AI server – Training	282	852	1,542	2,315
YoY growth		202%	81%	50%
Alserver – Training mix (%)	2.2%	6.7%	11.7%	16.8%
Total	12,370	14,476	16,684	17,366
YoY growth		17%	15%	4%

Source: IDC, Trendforce, CMBIGM estimates

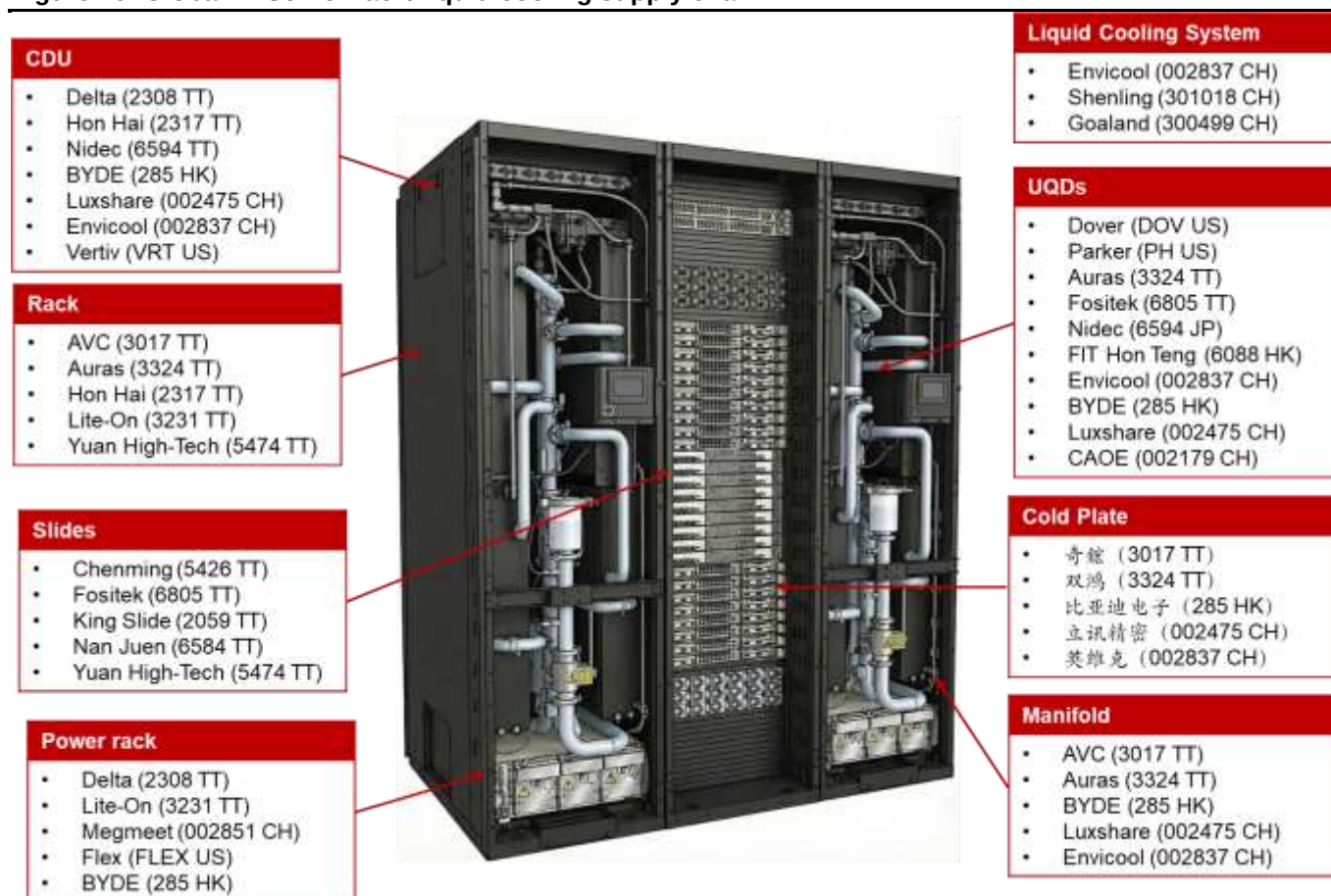
Figure 8: AI server ODM suppliers (2026)

	Quanta	Hon Hai	Inventec	Wiwynn	Dell	SMCI	Inspur	Huaqin	Nettrix	Lenovo	Others
US CSP											
Microsoft	20%	40%	15%	15%	-	-	-	-	-	-	10%
AWS	25%	45%	20%	5%	-	-	-	-	-	-	5%
Meta	55%	10%	5%	25%	-	-	-	-	-	-	5%
Google	40%	15%	40%	-	-	-	-	-	-	-	5%
Oracle	-	70%	-	-	20%	10%	-	-	-	-	0%
Tesla/Xai	-	-	-	-	30%	60%	-	-	-	-	10%
Coreweave	-	-	-	-	60%	30%	-	-	-	-	10%
Chinese CSP											
ByteDance	-	5%	5%	-	-	-	35%	-	30%	10%	15%
Tencent	-	5%	5%	-	-	-	25%	40%	-	10%	15%
Alibaba	-	5%	5%	-	-	-	35%	25%	15%	10%	5%
Baidu	-	-	10%	-	-	-	50%	-	-	-	40%

Source: Trendforce, CMBIGM

Figure 9: Global AI Server supply chain

Source: CMBIGM

Figure 10: Global AI Server rack/ liquid cooling supply chain

Source: CMBIGM

Figure 11: Smart glasses supply chain



Source: CMBIGM

Figure 12: Foldable smartphone supply chain



Source: CMBIGM

2026 Outlook: Robust AI computing momentum; Focus on Edge AI innovation opportunities

Global demand divergence; AI computing and edge innovation remain key growth drivers

Rapid development of AI LLMs and robust CSP capex have boosted exponential growth across AI supply chain in the past 2 years, while innovations in edge AI devices accelerates penetration of AI smartphones, AI glasses and AI PCs, as well as AI wearables and smart home devices. Looking into 2026, we expect near-term pressure for low-to-mid-end consumer electronics due to macro uncertainties, fading China subsidy and memory cost hike, while AI computing and edge AI supply chains are poised for new innovation cycle, backed by upgrade in general/AI servers and accelerated product launches for edge AI devices. We recommend two themes: 1) AI computing expansion and spec upgrade; 2) Accelerated edge AI proliferation (smartphones/PCs/wearables/glasses/smart home).

1) Servers: We expect general server recovery to continue and AI server momentum to remain strong. We forecast global server shipments to grow 7% YoY to 18.5mn. Ramp-up of Rubin platform and ASIC servers will further accelerate AI server demand, driving AI server shipment growth of 50% YoY to 2.32mn in 2026. **2) PCs:** We remain cautious on global PC demand for 2026, forecasting 2% YoY shipment decline to 275mn, given slowing Win-11 replacement and slower consumer demand on rising BOM costs. **3) Smartphones:** Given global macro uncertainties, fading China subsidy tailwinds and rising memory costs, we forecast 2026 global smartphone shipments to decline 5% YoY to 1.18bn.

Figure 13: Global TAM estimate: servers, PCs, smartphones, AR/VR, TV, iPhone/iPad/AirPods/Watch/Mac

(mn unit)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Server	9.6	10.2	11.8	12.7	13.5	14.9	12.4	14.5	16.7	17.4	18.5	19.7
YoY growth	-1%	6%	16%	7%	7%	10%	-17%	17%	15%	4%	7%	6%
AI Server- Training								0.3	0.9	1.5	2.3	3.0
YoY growth									202%	81%	50%	28%
PC	260.2	259.7	259.6	267.9	304.2	350.1	292.0	258.3	262.6	281.0	275.4	269.9
YoY growth	-6%	0%	0%	3%	14%	15%	-17%	-12%	2%	7%	-2%	-2%
Smartphones	1,469	1,465	1,403	1,373	1,281	1,360	1,206	1,165	1,236	1,242	1,180	1,215
YoY growth	2%	0%	-4%	-2%	-7%	6%	-11%	-3%	6%	0.5%	-5%	3%
AI Glasses								0.2	1.5	5.6	11.0	22.0
YoY growth									533%	265%	98%	100%
AR Glasses									0.6	0.6	0.9	1.7
YoY growth										9%	50%	89%
VR headsets	1.6	3.6	3.3	3.4	6.0	10.3	9.9	7.5	7.6	6.1	6.7	8.3
YoY growth		120%	-7%	3%	74%	72%	-4%	-24%	1%	-19%	9%	24%
TV					239.5	220.7	211.6	202.3	207.5	207.8	227.3	231.0
YoY growth						-8%	-4%	-4%	3%	0%	9%	2%
Apple Products												
iPhone	215.4	215.8	208.0	200.5	204.9	228.6	224.8	224.1	218.7	233.2	235.1	240.5
YoY growth	-7%	0%	-4%	-4%	2%	12%	-2%	0%	-2%	7%	1%	2%
AirPods			27.5	58.2	73.7	83.8	82.1	74.4	58.8	57.6	54.8	52.0
YoY growth				112%	27%	14%	-2%	-9%	-21%	-2%	-5%	-5%
iPad	42.5	43.8	44.8	46.0	57.3	62.2	63.6	52.4	59.6	61.0	62.9	66.0
YoY growth	-14%	3%	2%	3%	25%	9%	2%	-18%	14%	2%	3%	5%
Watch	11.6	18.2	21.4	27.2	34.2	43.4	42.8	40.6	37.1	36.7	36.0	37.0
YoY growth	32%	57%	18%	27%	26%	27%	-1%	-5%	-9%	-1%	-2%	3%
Mac	18.5	19.0	18.1	18.0	20.7	24.7	23.7	20.6	22.8	26.2	27.0	29.1
YoY growth	-9%	2%	-4%	-1%	15%	19%	-4%	-13%	11%	15%	3%	8%
HomePod			4.6	6.1	7.1	10.5	10.7	10.0	8.3	7.5	6.7	6.9
YoY growth				33%	16%	48%	2%	-7%	-17%	-9%	-10%	3%
Vision Pro									0.5	0.4	0.4	0.5
YoY growth										-21%	5%	5%

Source: IDC, Gartner, S&P, Trendforce, CMBIGM estimates

Potential implications of memory super cycle on supply chain

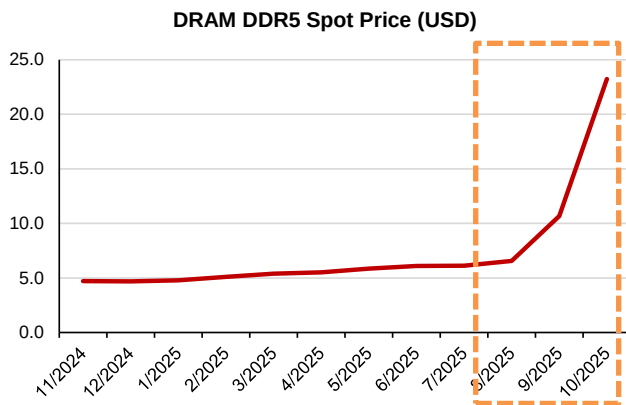
Since last year, rapid surge in memory prices has had a profound impact on technology supply chain. We expect rising cost will squeeze gross margins for downstream brands and ODMs in the near term, particularly in low-to-mid-end consumer market. Cost pressures will subsequently transfer to brands and component suppliers, ultimately reflected in higher ASPs and structural upgrades. Overall, vendors possessing strong pricing power (high-end/commercial) and robust inventory management will be able to buffer the short-term cost shock, while vendors with low inventory levels or slow turnover will face significant pressure from high-cost procurement.

1) AI servers: Limited impact with low customer sensitivity. Traditional DRAM/NAND accounts for 8-15% of BOM cost, while HBM accounts for a higher proportion (30-40%) and remains in tight supply. Therefore, we expect price hike to have minor impact on overall AI server costs. For AI server ODMs, in collaboration with CSPs, memory is often regarded as pass-through component. Purchase price fluctuations are directly transferred to clients, and therefore we do not expect ODMs to be materially affected by rising memory prices. For AI server OEMs (e.g., SMCI, HPE, Dell), due to intensified competition and eroding price premium for GPU supply, we expect OEM gross margins to face pressure.

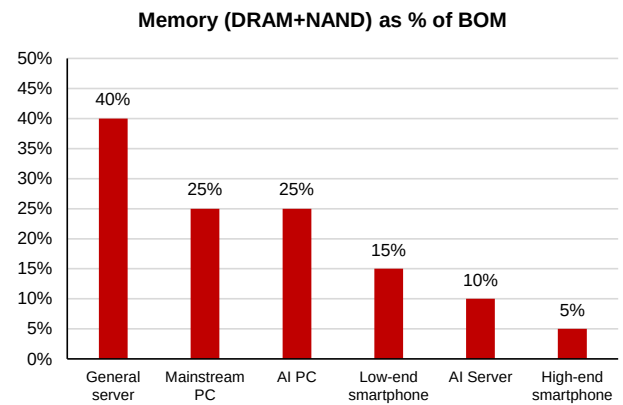
2) General servers: Significant cost pressure; recovery cycle elongated. Memory accounts for 30-40% of BOM for general-purpose servers. As customers in this segment have high price sensitivity, we expect OEMs to face margin pressure, with companies like Dell and HP anticipating that rising memory prices will impact their server businesses. Overall, we expect demand for low-end servers may be postponed, and some customers will delay the transition to DDR5. Shortages in enterprise SSDs will accelerate the migration toward QLC/PLC technologies. To alleviate cost pressures, we expect OEM brands to reduce specifications (de-spec) for non-memory components, focus on high-margin models, and raise product prices.

3) PC: Intensified cost pressure; accelerating differentiation and transformation. DRAM accounts for 8-15% of the BOM for mainstream notebooks, while NAND SSDs account for 7-12%. We estimate recent memory price hikes will push up per-unit costs by US\$15–30, creating a substantial shock for low-margin products. For OEM brands, we believe costs for high-end/commercial products can be partially passed on due to lower customer price sensitivity, while low-to-mid-end products have limited room for price hikes, leading to margin compression. For ODMs, although they utilize a "Cost Pass-Through" model, their bargaining power is weaker than brand vendors, and thus we expect ODMs to face pricing pressure. In the long term, We expect structural upgrade (QLC replacing NAND, LPDDR5 upgrades), and products such as AI PCs will see volume growth, driving technical upgrades across industry.

4) Smartphones: Low-end models hit hard with emerging de-spec trends. Memory accounts for 10-15% of BOM costs (4-5% for high-end). With 4Q25 DRAM contract prices rising 75% YoY, per-unit costs have increased by US\$10–25, leading to higher margin pressure on low-to-mid-range models than on flagships. For value-focused Android OEMs, we believe recent price hikes will directly impact GPM by 2-3 ppt., while high-end models (iPhone/Samsung Galaxy S) will see smaller impact due to stronger bargaining power and long-term supply agreements (LTA). Overall, we expect brands will reduce promotions or raise new model prices, potentially leading to shipment decline, while mid-priced models will see de-spec and non-core component suppliers may face pricing pressure or delays in spec upgrades. Given tight supply, smaller brands will face increasing difficulties in securing resources. We expect industry consolidation in 2026 with top-tier brands likely gaining further market share.

Figure 14: DDR5 spot up 250% in past 2 months

Source: DRAMeXchange, CMBIGM

Figure 15: Memory as % of BOM cost

Source: CMBIGM estimates

Global servers: general server recovery, VR/ASIC AI server upgrade accelerating

GPU/ASIC dual-engines: robust momentum in AI server supply chain

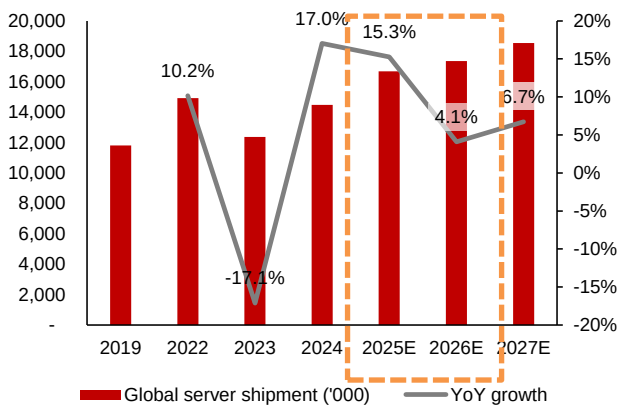
Looking ahead to 2026, global server industry's growth trajectory remains centered on AI, driven by HPC and AI applications. We forecast global AI server shipments (high-end + mid/low-end) to maintain strong growth at 24% YoY to 2.67mn in 2026. While AI remains the primary driver, overall server shipments are expected to see a moderate recovery of +4% YoY.

In terms of demand drivers, we expect CSPs and sovereign clouds will lead the way. We believe aggressive capex expansion from US CSPs will sustain market momentum in 2026, while Chinese CSPs are poised for robust growth, driven by ramp-up of DeepSeek adoption and accelerated localization of AI supply chain. In addition, while GPUs remain dominant, we expect penetration of ASICs to rise further as CSPs actively invest in in-house AI platforms—a key structural trend to watch in the coming years.

With Nvidia set to launch VR200 NVL144 rack solution in 2026, we believe the business model will accelerate its transition from JDM to L10 delivery. As key components become highly standardized, ODMs are required to leap from "standard assembly" to "Integrated Mechanical, Electrical, and Thermal Design." We expect this shift will raise technical barriers, which will accelerate market share concentration toward top-tier players. Overall, we maintain a positive view on AI hardware sector in 2026, and ODMs and suppliers of critical components (Interconnects, Liquid Cooling, Power) are well positioned to benefit from both volume growth and ASP expansion.

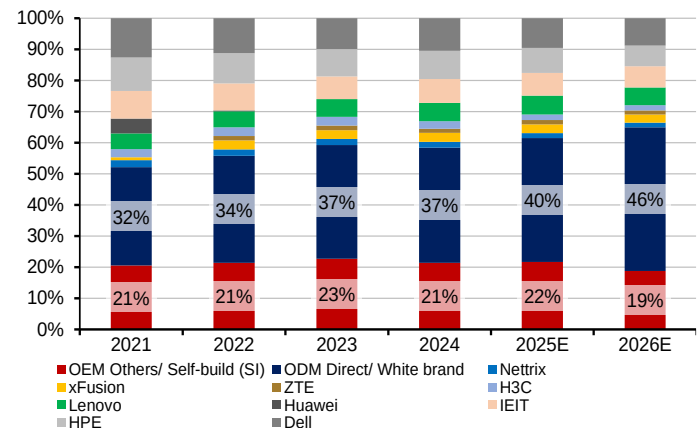
General servers: cloud demand resilient; enterprise better than expected. We forecast general server market to achieve moderate growth in 2026, with shipments up 4% YoY, driven by three key factors: 1) AI inference spillover: the surge in AI workloads is leading to spillover demand for storage servers and traditional computing servers. 2) CSP Capex: robust cloud spending provides a stable baseline for general server procurement. 3) Refresh Cycle: Replacement cycle, supported by rollout of new CPU platforms, will underpin market recovery. As noted by Dell, legacy infrastructure is being consolidated into more efficient, high-performance multi-core servers.

Figure 16: Global server shipments (2019-27E)



Source: IDC, CMBIGM estimates

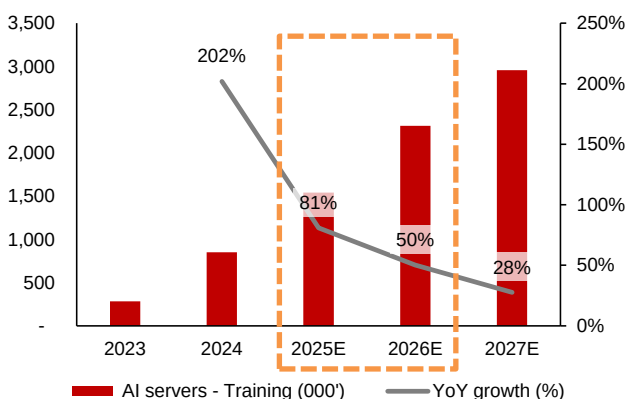
Figure 17: Global server shipments by brand (2021-26)



Source: Trendforce, CMBIGM estimates

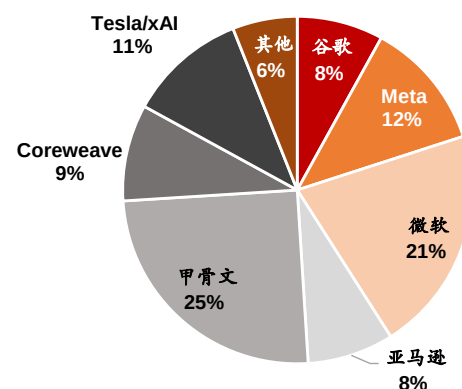
GPU AI servers: GB300 smooth transition; VR200 gearing up for 2026. For 2026, we expect GPU AI servers to account for 75% of total AI server shipments. We forecast high-end GPU AI server shipments to grow 87%/46% YoY to 1.17mn/1.71mn in 2025/26. **1) GB200/300 servers:** We expect Blackwell-based servers to capture >80% of Nvidia's high-end server mix. With GB300 racks ramp-up in 2H25E, we expect shipments in 2026 will be dominated by GB300 series. We forecast GB200/300 rack shipments to reach 290k/350k in 2025/26. **2) VR200 servers:** Nvidia is expected to continue promoting its full-rack AI solutions in 2026, with potential customer demand approaching 590k racks (GB/VR combined). As VR200 mass production will likely commence in 2H26E, we forecast VR200 rack shipments to reach 23k in 2026, positioning it to become the mainstream solution by 2027. **3) AMD servers:** AMD MI450 is expected to be launched in 2H26E, offering semi-custom solutions for major clients like Meta and OpenAI. Additionally, we expect AMD Helios server rack solution to gain market traction.

Figure 18: Global AI training server shipments (23-27E)



Source: IDC, Trendforce, CMBIGM estimates

Figure 19: Global GB/VR rack demand (2026)

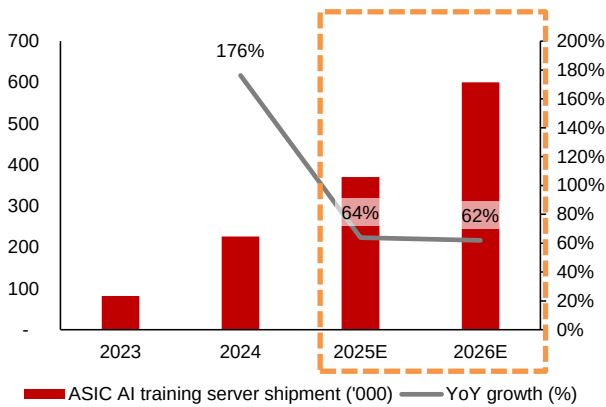


Source: Trendforce, CMBIGM estimates

ASIC servers: momentum accelerates; potential upside for 2026 AI server market. Major CSPs are increasingly accelerating the development of in-house ASICs due to their advantages in performance and customization. TrendForce forecasts that market share of ASIC AI servers will rise from 21% in 2025 to 25% in 2026, driven by aggressive CSP

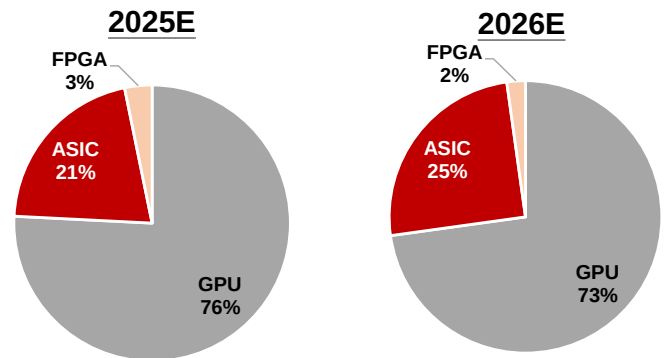
infrastructure investments. **1) Google TPU:** With a relatively mature ASIC ecosystem, we expect TPU v7 to become the mainstream platform by early 2026. We forecast TPU ASIC server shipments to reach 220k/500k in 2025/26. **2) AWS Trainium:** We believe AWS ASIC demand will remain robust throughout 2026. We view 4Q25-1Q26 as a transition period from Trainium 2 to Trainium 3, with strong growth momentum resuming in 2Q26. Notably, we expect Trainium 3 scale-up network to significantly enhance rack-level value. We forecast AWS ASIC server shipments to reach 410k/520k units in 2025/26. **3) Meta MTIA:** We expect the launch of Meta MTIA3 in 1H26E to be a market highlight. The growth of Meta's ASIC server shipments is poised to accelerate, which will reach 9k/32k in 2025/26, based on our estimates.

Figure 20: Global ASIC AI training server shipments (2023-26E)



Source: IDC, Trendforce, CMBIGM estimates

Figure 21: Global AI server mix by AI chip type (2025-26E)



Source: Trendforce, CMBIGM estimates

Figure 22: AI accelerator (GPU / ASIC) product roadmap

		1H24	2H24	1H25	2H25E	1H26E	2H26E	2027E
Nvidia	GPU	H200	B200 GB200 NVL72	B300 GB300 NVL72		R200 VR200 NVL144	VR200 NVL144 CPX	VR300
AMD	GPU		MI300		MI350		MI450	MI500
Google	ASIC		TPU v6e		TPU v6p	TPU v7p	TPU v7e	TPU v8e / TPU v8p
Amazon	ASIC		Trainium 2			Trainium 3		Trainium 4
Meta	ASIC				MTIA 2		MTIA 3	MTIA 4
Microsoft	ASIC		Maia 100				Maia 200	Maia 300
OpenAI	ASIC						AI Accelerator 1	AI Accelerator 2
xAI	ASIC						X1	

Source: Company data, CMBIGM estimates

Figure 23: Global AI server TAM forecasts

	2023	2024E	2025E	2026E
Total AI accelerator volume ('000)				
GPU chips	1,856	5,492	8,046	10,350
YoY growth		196%	47%	29%
Nvidia	1,563	5,048	7,321	9,084
YoY growth		223%	45%	24%
AMD	293	444	725	1,265
YoY growth		51%	64%	74%
ASIC chips	1,288	2,756	5,571	9,030
YoY growth		114%	102%	62%
Total	3,144	8,248	13,617	19,380
YoY growth		162%	65%	42%
AI server - Training ('000)				
GPU AI server	200	626	1,171	1,714
YoY growth		213%	87%	46%
ASIC AI server	82	226	371	600
YoY growth		176%	64%	62%
Total	282	852	1,542	2,315
YoY growth		202%	81%	50%
Nvidia AI server rack ('000)				
HGX/MGX Rack	45.5	147.6	150.8	145.6
GB200/300/VR200 NVL72	-	0.4	29.0	58.5
Total	45.5	148.0	179.9	204.1
YoY growth		226%	22%	13%
Global server shipments ('000)				
General and other servers	13,098	12,773	13,159	13,754
YoY growth		-2%	3%	5%
AI server – Training	282	852	1,542	2,315
YoY growth		202%	81%	50%
Alserver – Training mix (%)	2.2%	6.7%	11.7%	16.8%
Total	12,370	14,476	16,684	17,366
YoY growth		17%	15%	4%

Source: IDC, Trendforce, CMBIGM estimates

Figure 24: GB/VR AI server ODM vendors (2025/26)

	GB/VR rack		Quanda	HonHai	Inventec	Wiwynn	Dell	SMCI
	2025E	2026E						
Microsoft	25%	21%	40%	60%	-	-	-	-
AWS	7%	8%	70%	30%	-	-	-	-
Meta	16%	12%	70%	30%	-	-	-	-
Google	10%	8%	70%	10%	10%	-	-	-
Oracle	23%	25%	-	80%	-	20%	-	-
Tesla/XAi	11%	11%	-	-	-	-	80%	20%
Coreweave	7%	9%	-	-	-	-	100%	-
Others	1%	6%	-	-	-	-	-	-
Total	29,000	55,500						

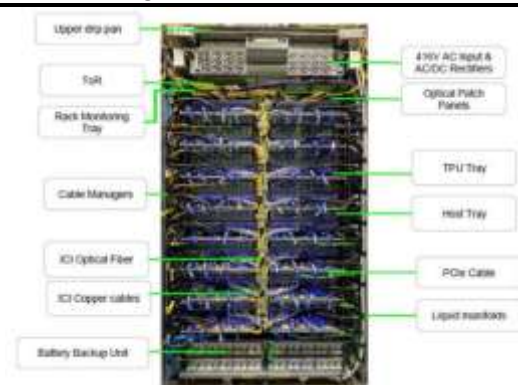
Source: Trendforce, CMBIGM estimates

Figure 25: AI server ODM suppliers (2026)

	Quanta	Hon Hai	Inventec	Wiwynn	Dell	SMCI	Inspur	Huaqin	Nettrix	Lenovo	Others
US CSP											
Microsoft	20%	40%	15%	15%	-	-	-	-	-	-	10%
AWS	25%	45%	20%	5%	-	-	-	-	-	-	5%
Meta	55%	10%	5%	25%	-	-	-	-	-	-	5%
Google	40%	15%	40%	-	-	-	-	-	-	-	5%
Oracle	-	70%	-	-	20%	10%	-	-	-	-	0%
Tesla/Xai	-	-	-	-	30%	60%	-	-	-	-	10%
Coreweave	-	-	-	-	60%	30%	-	-	-	-	10%
Chinese CSP											
ByteDance	-	5%	5%	-	-	-	35%	-	30%	10%	15%
Tencent	-	5%	5%	-	-	-	25%	40%	-	10%	15%
Alibaba	-	5%	5%	-	-	-	35%	25%	15%	10%	5%
Baidu	-	-	10%	-	-	-	50%	-	-	-	40%

Source: Trendforce, CMBIGM

Figure 26: Google TPU v7 rack



Source: Google, CMBIGM

Figure 27: Amazon EC2 Trn3 UltraServer rack



Source: Amazon, CMBIGM

ODM/OEM: Strong AI server momentum; Focus on VR/ASIC ramp-up

Sustained strong growth in 2026 driven by global AI capex. Global AI infrastructure investment remains the primary engine driving global server market in 2026. Benefiting from continued capex expansion by global CSPs, we expect ODM/OEM to achieve strong revenue growth. We project global AI server shipments (high-end + mid/low-end) to grow 24% YoY in 2026, with high-end AI training server shipments expected to surge +40% YoY. We believe CSPs remain the dominant customer base, accounting for 51% of AI server shipments in 2026. Regarding profitability, we expect rising memory costs will lead to near-term margin pressure for OEM brands (Dell, HPE, SMCI) in 2026. For ODMs, while "cost-plus" model offers some buffers, initial yield rates during new product introduction remain a key point to watch. That said, we expect GB300 ramp-up and rising liquid cooling penetration will offset margin pressure for server brands/ODMs in 2026-27.

Trend 1: The rise of ASIC platforms and accelerated customization. We believe ASICs are becoming the preferred solution for CSPs to enhance compute autonomy and efficiency. TrendForce projects share of ASIC AI servers to jump from 11% in 2025 to 25% for global AI server market in 2026, reflecting massive shift in CSP capex toward in-house silicon. We expect multiple next-gen ASIC platforms to ramp up in 2026, including AWS Trainium 3 (2Q26), Meta MTIA 3, Google TPU v7p (4Q26), and OpenAI's debut ASIC product (2H26-1Q27). On the supply side, we expect FII to secure projects across multiple CSPs, positioning it to benefit significantly from the ASIC trend.

Trend 2: GB/VR rollout and L10 standardization to drive consolidation. Nvidia's new GB/VR platforms will continue to drive industry evolution. GB300 rack is set for ramp-up in 1H26E, followed by VR200 mass production in 2H26E. We expect VR200 to bring several upgrades, including TDP increase to 1.8kW/2.3kW per chip and system power rising to 220-250kW, significantly boosting server complexity and value content. In addition, for VR200, we believe Nvidia will start to shift its model from traditional chip/board level (L6) to Level 10 (fully integrated compute tray), aiming to accelerate time-to-market and deepens Nvidia's transition from a "chip supplier" to a "system supplier". We believe this trend will raise entry barriers for L11 rack-level integration and global delivery, favoring top-tier ODMs. Furthermore, qualifications barrier for core components (thermal, connectors) will rise significantly, benefiting suppliers already within Nvidia's Reference Design.

Trend 3: Power supply upgrade and rising liquid cooling penetration. To cope with exponential growth in AI chip TDP, power and thermal systems are undergoing structural upgrades, unlocking significant value. Regarding power supply architecture, AI server power solutions are migrating toward 800V HVDC architectures. For instance, VR200 rack systems will adopt 110kW power shelves/cabinets, driving a substantial increase in power component value. As for liquid cooling, VR200 (2H26E) will feature liquid cooling as a standard solution, while next-gen CSP ASIC platforms will also increasingly adopt liquid cooling. We expect the market for liquid cooling systems (Sidecars/CDUs) to expand significantly. We expect these structural upgrades to significantly benefit AI server ASPs and the margins of ODMs/component suppliers. ODMs with leading capabilities in system integration and L11 rack assembly will be the core beneficiaries of this upgrade cycle.

Overall, we believe the supply chain will continue to benefit from robust AI demand, the rollout of GB/VR systems, and enterprise orders. **FII:** Tier-1 ODM supplier for GB/VR servers. **BYDE:** Mass production and shipment of server-related components. **FIT Hon Teng:** Server interconnect products and liquid cooling components. **Luxshare Precision:** Connector products and liquid cooling thermal components.

Figure 28: Server OEM brands 2026 outlook/guidance

Company	2026 Server Outlook (FY26/CY26)	Growth Drivers
Dell (DELL US)	FY26 AI server revenue: ~US\$20bn ISG revenue: >30% YoY growth	AI server backlog: ~US\$18.4bn (as of Oct) Client expansion: Expanding to Tier-2 CSPs, Neo-cloud, and Sovereign clients Traditional servers: Benefiting from consolidation and upgrade cycles
HPE (HPE US)	FY26 server revenue: >10% YoY growth AI servers: Double-digit growth Traditional servers: Mid-single-digit growth	Strategic focus: Sovereign and Enterprise-grade clients
SMCI (SMCI US)	FY26 revenue: Target at least US\$33bn, with sustained QoQ growth	Product cycle: Strong shipments of Blackwell/ Ultra AI servers
Lenovo (00992 HK)	FY26 ISG revenue: Maintain double-digit growth CSP business: Strong growth momentum Profitability: FY26 ISG to achieve breakeven or gradual profitability improvement	Order book: Strong orders for AI GPU servers

Source: Company data, CMBIGM

Figure 29: Server ODM 2026 outlook/guidance

Company	2026 Server Outlook (FY26/CY26)	Growth Drivers
FII (601138 CH)	Revenue: AI server-related revenue to grow >100% YoY. Volume: AI server rack demand expected to double to 50k-60k units (Bullish case: 100k). Mix: AI servers to account for >80% of Cloud Computing revenue Market Share: Targeting 40%+ global AI server market	NVIDIA: GB200/300 rack deliveries; Secured Vera Rubin series orders. ASIC: Mass production of ASIC server orders in 2026, projected to contribute 5-10% of AI server revenue.
Quanta (2382 TT)	Revenue: AI server revenue to achieve triple-digit percentage growth; Capacity expected to double. Mix: AI servers to exceed 80% of total server revenue. Visibility: AI order visibility extends into 2027. General Purpose: Revenue expected to remain flat.	Platform: Smooth transition to GB200/300 platforms. Strategy: Raising competitive barriers through complex design capabilities. Order wins: Secured new ASIC projects.
Wiwynn (6669 TT)	Revenue: AI server sales to grow +40-50% YoY. Mix: AI server revenue contribution expected to reach 55%. General Purpose: expected to grow >20% YoY	AWS: ASIC T3 servers (2H26). Oracle: GB300 project. Meta: AMD Helios platform project (shipments beginning 2H26).
Inventec (2356 TT)	Mix: AI servers to account for >50% of total server revenue (vs. 40-45% in 2025).	NVIDIA: HGX shipments remain strong; VR200 (Vera Rubin) project L11 assembly. Google: TPU v6p mass production in 2H25; L6 models shipping in Q4. Roadmap: Advancing next-gen TPU v7 series in 2Q26.

Source: Company data, CMBIGM

Server components: VR200/ASIC upgrade to drive volume and ASP expansion

AI server/rack upgrade to boost content value. Backed by robust capex from US CSPs and rising demand from sovereign clouds, global AI server market is poised to maintain strong growth momentum in 2026, and architecture upgrade of Nvidia's next-gen Rubin platform and CSP in-house ASICs will drive structural growth in server rack value, primarily stemming from enhanced computing performance, interconnect upgrades, and system-level enhancements. Beyond tier-1 CSPs, OEM brands like Dell and HPE are actively promoting AI servers (GB200/300, HGX) to Tier-2 CSPs, new cloud service providers, and sovereign AI developers, further fueling market demand. Furthermore, ASIC AI server will follow upgrade trends in GPU servers, where higher customization requirements will yield better margins for component and ODM suppliers. Overall, we believe AI server market will maintain rapid growth in tech space in 2026. With CSPs accelerating in-house ASIC adoption to drive autonomy and efficiency, we believe ODMs and component suppliers (power, thermal, interconnects) will be major beneficiaries of this structural growth trend.

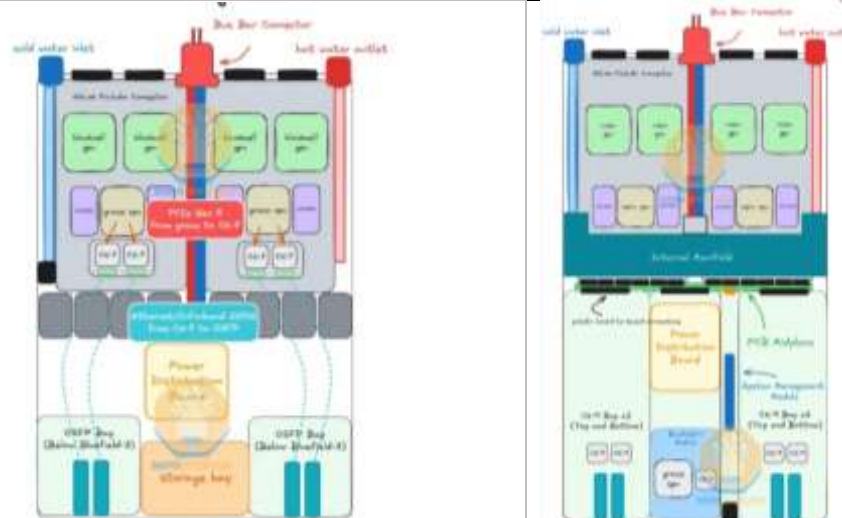
VR200 servers: Rising power and rack density to drive system-level transformation.

We anticipate the VR200 server to enter mass production in 2Q26, featuring significant design changes: **1) SOCAMM:** VR200 will adopt LPDDR SOCAMM sockets to reduce failure costs and mitigate supply chain risks. **2) Power supply:** TDP for VR200 chips is expected to rise from 1,400W (GB300) to 1,800W-2,300W, pushing total TDP of VR200 NVL144 rack to 240-260kW (vs. 136-140kW for GB300 NVL72). We expect CSPs to adopt 400V HVDC solutions in 2026, moving to 800V HVDC for Kyber in 2027. **3) Liquid cooling:** VR200 will adopt full liquid cooling design, with plans to adopt Micro-Channel Cold Plates (MCL) by 2027 for chip cooling. High-power platforms will drive strong demand and content value gain for cold plates, Quick Disconnects (QDs), sidecars, and CDUs. **4) Midplane:** We expect Rubin platform to introduce midplane architecture to replace cable harness solutions used in GB200/300. Additionally, scale-up solutions are evolving from copper connectivity toward orthogonal backplanes. **5) L10 delivery model:** we expect high rack density of VR200 will accelerate migration of liquid cooling. Under L10 delivery model, we expect Nvidia to directly specify or procure cold plates and UQDs, which will significantly raise qualification barriers for components like thermal and connectors, favoring suppliers already within Nvidia's Reference Design.

ASIC servers: strong demand for interconnects; inflection point for 800V HVDC and liquid cooling. Looking ahead to 2026, multiple next-gen ASIC platforms will enter mass production, including Trainium 3 (2Q26), MTIA 3, TPU v7p (4Q26), and OpenAI's ASIC (2H26-1Q27). Upgrade trend for ASIC servers will mirror GPU servers, focusing on computing performance, network interconnects, thermal and power supply.

- 1) **Interconnects:** With deployment of next-gen products like TPU v7 and Trainium 3 in 2026, we expect complexity of scale-up networks will rise significantly. Google TPU v7 cabinet will introduce OCS to support ultra-large-scale cluster expansion, while AWS Trainium 3 will employ PCIe Gen 6 switch chips for scale-up network. We expect strong demand for high-speed connectors and copper cables (DAC/AEC).
- 2) **Power supply:** Single-rack power density for ASIC servers will increase rapidly to 100kW or above (e.g., Meta/Google) in 2026, and power supply architectures will accelerate the transition from traditional 48V/54V to $\pm 400\text{V}$ or 800V HVDC. We also expect Google and Meta to adopt ORV3 high-power rack standard in 2026.
- 3) **Liquid cooling:** In 2026, mainstream CSPs will shift from air cooling to liquid (or hybrid) solutions. Trainium 3 (Teton 3 rack) is expected to introduce liquid cooling designs at scale in 2026, while MTIA 3 (Minerva rack), Maia 100/200 racks, and TPU v7 (Zebrafish) are also expected to adopt liquid cooling solutions to manage chip TDPs exceeding 1,000W.

Figure 30: AI server architecture and suppliers: GB200 vs GB300 vs VR200

	GB200 NVL72	GB300 NVL72	VR200 NVL144
Chip/Module (L6)			
Launch Timing	1Q25	2H25	2H26
GPU	B200	B300	R200
CPU	Grace	Grace	Vera
FP4 Dense FLOPS	720 PFLOPs	1,100 PFLOPs	2397.6 PFLOPs
HBM Bandwidth	576 TB/s	576 TB/s	1476 TB/s
GPU TDP	1,200W	1,400W	1,800W
GPU/SOCAMM2 Sockets	--	-	Yes
System Board (L10) – Compute Tray/ Switch Tray			
Compute Tray Connectivity	Overpass cables	Overpass cables	Midplane PCB
Front-end NIC (BF)	Bluefield-3	Bluefield-3	Bluefield-4
Scale-out NIC (CX)	4 CX7 (400Gbps)	4 CX8 (800Gbps)	8 CX8 (1.6 Gbps)
Cooling	Liquid (85%) + Air (15%)	Liquid (85%) + Air (15%)	Liquid (100%)
... Cold plates	72 (compute) + 18 (switch)	72 (compute) + 27 (switch)	72 (compute) + 72 (switch)
... QD	180 (compute)	180 (compute) + 180 (switch)	180 (compute) + 180 (switch)
NVSwitch	2 ASICs	2 ASICs	4 ASICs
Rack (L11 – L12)			
Rack design	18 compute + 9 switch	18 compute + 9 switch	18 compute + 9 switch
# of CPU	36 Grace	36 Grace	36 Vera
# of GPU	72 B200	72 B300	144 R200
Rack power (W)	130kW	140kW	200-220kW (Max Q) 240-260kW (Max Q)
Powerself	1RU 3+3 33kW power shelves	1RU 3+3 33kW power shelves	3RU 2+2 110kW power shelves
Busbar	Air cooling	Air cooling	Liquid cooling (50V)
Suppliers			
GPU socket	-	-	FIT, Lotes
CPU socket	FIT, Lotes, APH	FIT, Lotes, APH	FIT, Lotes, APH
Compute board	Wistron, Hon Hai/FII	Wistron, Hon Hai/FII	Wistron, Hon Hai/FII
NVLink switch board	Hon Hai/FII	Hon Hai/FII	Hon Hai/FII
Compute trays	ODMs	ODMs	ODMs
Switch trays	ODMs	ODMs	ODMs
Air cooling/ Liquid cooling	Cooler Master, AVC	Auras, AVC	Auras, AVC
... Cold plates	Cooler Master, AVC, Auras		
... CDU	Vertex, Delta, Hon Hai		
... Fan	Delta, AVC, Sunon		
Power Supply	Delta, Lite-On, Flextronics		
Rack ODM	Hon Hai/FII, Quanta, Wistron	Hon Hai/FII, Quanta, Wistron	Hon Hai/FII, Quanta, Wistron
			

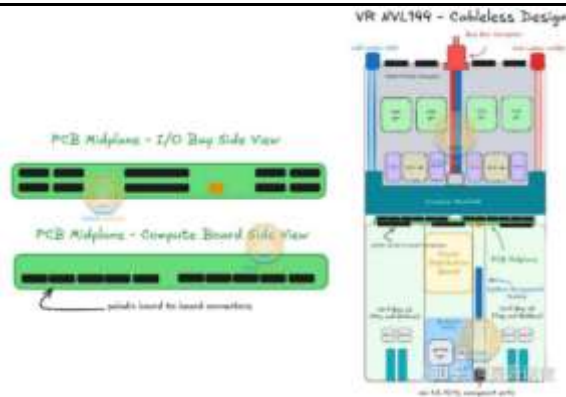
Source: Company data, CMBIGM

Interconnects: architecture upgrade to drive value content; Upcoming breakthroughs in connectors/cables/CPO

Intra-tray interconnects: VR200 returns to midplane design with connector upgrade.

Following design changes in VR200 platform, we expect a significant shift in intra-tray interconnects to transition from GB200's overpass cable (flyover) solution back to a high-end midplane design for connecting GPUs/CPUs with ConnectX-9 NICs. This shift addresses the need for higher rack density, standardized production and improved yield. This transition will also boost midplane value content, reduce usage of overpass cables, and increase adoption of mezzanine connectors. These components will be essential for transmitting high-speed signals between main board and midplane, driving a structural increase in demand for high-performance connectors.

Figure 31: VR200 NVL144 compute tray

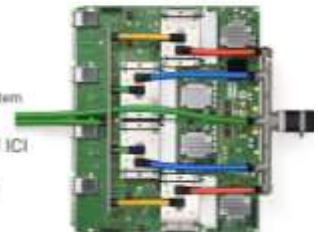


Source: SemiAnalysis, CMBIGM

Figure 32: Google TPU v4 board

The Board

- 4 TPUs per board
- Liquid cooled
 - 4 chips with parallel water flow
 - Flow rate controlled by valve
 - Similar to fan speed control in an air-cooled system
- PCIe Gen3x16 per TPU for host I/O
- 4 QSFP³ connectors per TPU for off-board ICI
 - Each QSFP supports 400Gbs each direction
 - 2 more links per chip on-board for interconnect



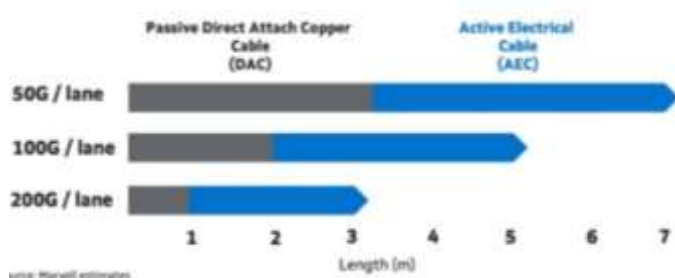
Source: Google, CMBIGM

Scale-up (intra-rack): AEC/DAC as mainstream; NPC/CPC to drive cable upgrades.

For 2026, we believe NVLink 6 adoption in scale-up will double the bandwidth of intra-rack interconnects. We expect copper backplanes to remain the mainstream solution for NVL 72/144 architectures. However, for NVL 576, we expect a shift from copper cabling to orthogonal backplanes. For intra-rack interconnects, we also expect penetration of AEC will increase, and short-distance intra-rack interconnects will transition from "DAC + partial AEC" mix to "AEC as core with NPC/CPC for critical connections."

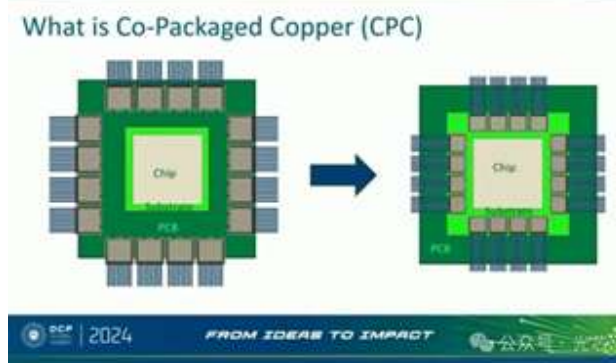
- 1) **DAC (Direct Attach Copper):** Given DAC's cost advantages for short-reach connections (0.5-3m), we expect DACs will remain mainstream solutions for these use cases. However, as interconnect density increases, traditional DAC is facing physical limitations on wire gauge and transmission distance.
- 2) **AAC/AEC (Active Copper/Electrical Cable):** We expect AEC (DAC with Retimers) to become mainstream for intra-rack connections in 3-7m range. AECs effectively address signal attenuation issues while offering lower power consumption and cost compared to optical cables.
- 3) **NPC (Near-Packaged Copper):** NPC integrates high-speed copper connectors directly onto chip substrate or in extremely close proximity to the chip. This creates an ultra-short channel that significantly reduces equalization complexity.
- 4) **Co-Packaged Copper (CPC):** CPC involves copper interconnect modules directly integrated with the connector and chip substrate. This technology effectively shortens signal transmission paths and reduces transmission loss, serving as the electrical connectivity mirror to CPO (Co-Packaged Optics).

Figure 33: Scale-up: DAC vs AEC



Source: Marvell, CMBIGM

Figure 34: Scale up: CPC solution

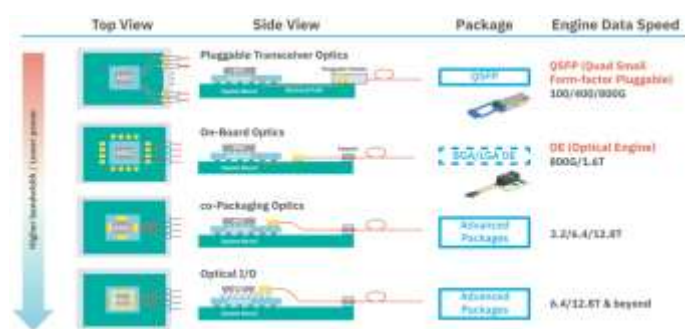


Source: Luxshare, CMBIGM

Scale-out (inter-rack): LPO enters 1.6T era; CPO/OCS adoption to accelerate. Scale-out networks are set to upgrade to 1.6T (ConnectX-9) in 2026. Google TPU will lead the deployment of OCS, while CPO is expected to commence mass production in Nvidia's Spectrum-6 switches. We expect two technologies to co-exist in 2026. Short-to-mid range LPO will be preferred for its low power consumption and low latency, while ultra-high density/long range CPO will be adopted to enhance energy efficiency, and hybrid solution of OCS with electrical switches will be introduced for massive cluster.

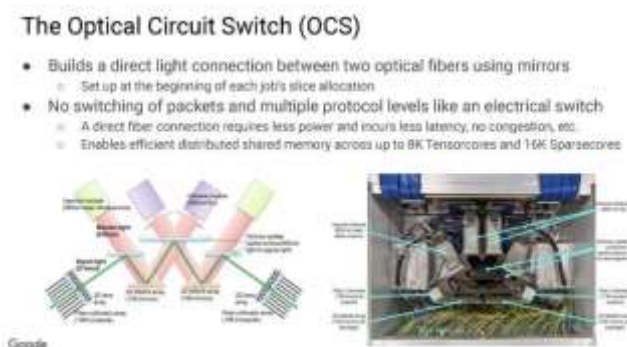
- 1) **LPO (Linear Pluggable Optics):** By replacing DSPs with linear drive and adopting switch ASIC for signal compensation, LPO offers significant power and cost advantages. We expect wide adoption by CSPs during 1.6T network rollout in 2026-27E.
- 2) **CPO (Co-Packaged Optics):** Nvidia's networking roadmap plans to introduce CPO technology in 2026-27. By co-packaging optical engine with switch silicon, CPO shortens the electrical domain and reduces power consumption and thermal density. Despite challenges in maintenance, we view its superior energy efficiency as the ultimate solution for future AI interconnects.
- 3) **OCS (Optical Circuit Switches):** Utilizing physical mirrors to reflect optical signals, OCS eliminates the need for optical-electrical-optical (O-E-O) conversion, achieving ultra-low latency and dynamic topology reconfiguration. Google has deployed OCS at scale in TPU v5/v6, using MEMS mirrors for all-optical switching to drastically reduce power and latency. With rapid expansion of TPU v7 servers in 2026, we believe the OCS market will continue rapid adoption.

Figure 35: CPO roadmap



Source: ASE, CMBIGMASE

Figure 36: Google OCS solutions



Source: Google, CMBIGM

Overall, we have identified three major trends in high-speed interconnect sector for 2026:

- 1) Intra-tray: VR200 architecture will adopt midplane design, driving an upgrade cycle for high-speed connectors.
- 2) scale-up (intra-rack): AEC will supersede DAC as the mainstream solution, while NPC/CPC technologies are expected to achieve significant breakthroughs.
- 3) Scale-out (inter-rack): LPO penetration will rise, ASIC platforms will drive OCS upgrades, and CPO is set to reach a commercial inflection point. We believe these trends will benefit:

1) Luxshare: The company offers a comprehensive portfolio of high-speed interconnect cables and connectors. Major products include Koolio Co-Packaged Copper (CPC) solution, OmniStack Near-Packaged Copper (NPC) solution, and Intrepid Cable Cartridge high-speed backplane solution. Leveraging a dual-track strategy of "CPO for high-end + CPC for mainstream," Luxshare is well-positioned to benefit from diversified product demand from global top-tier clients.

2) FIT Hon Teng: The company provides a robust portfolio of AI server connector products, covering intra-rack MCIO/Gen-Z/DDR connectors, high-speed backplane connectors & cables, DAC/ACC copper cables, OverPass solutions, and CPU/GPU sockets, alongside optical communication (400G/800G/CPO), power busbars, and liquid cooling products. FIT also collaborates with key chip solution vendors like MediaTek and Broadcom to develop CPO sockets and connection solutions.

Figure 37: FIT Hon Teng CPO solutions



Source: FIT Hon Teng, CMBIGM

Figure 38: Luxshare CPC interconnect solution



Source: Luxshare, CMBIGM

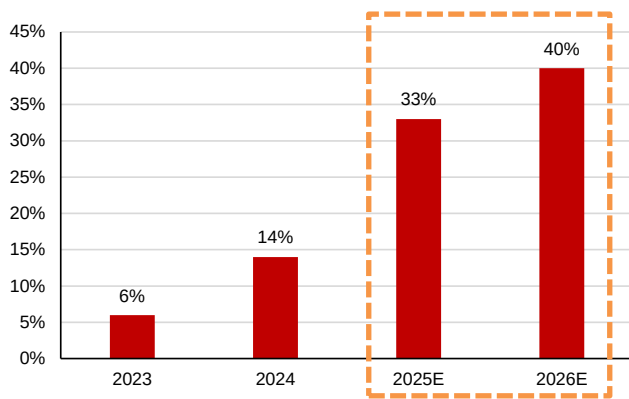
Thermal: Liquid cooling becomes ubiquitous; Micro-channel lids set for 2027 mass production

Liquid cooling penetration to reach 40% in 2026; Full liquid-cooled racks become mainstream for AI training. With rapid development of AI chips, chip TDP (Thermal Design Power) will exceed 1,000W in 2026, marking the year when liquid cooling becomes mainstream in AI servers. TrendForce forecasts liquid cooling penetration in global AI training servers to surge from 33% in 2025 to 40% in 2026.

Driven by GB300/VR200 ramp-up and liquid cooling adoption for CSP ASICs, we expect thermal architectures to accelerate transition from "hybrid air-liquid" to "full liquid cooling".

1) Nvidia platforms: In GB300/VR200 servers, liquid cooling will extend beyond compute trays to switch trays, significantly increasing thermal value content per rack. **2) ASIC platforms:** while AWS retains a "hybrid air-liquid" approach, we expect the other CSP ASIC servers (MTIA 3/TPU v7/Maia 100) will start to adopt "full liquid cooling" solutions in 2026.

Figure 39: Global AIDC liquid cooling penetration



Source: Trendforce, CMBIGM

Figure 40: Global AI server liquid cooling supply chain

	CDU	Cold Pplates	Manifolds	UQDs
MSFT	Delta, Foxconn	AVC, Cooler Master	AVC, Cooler Master	Danfoss, CPC, Parker, Auras, Fositek, FIT Hon Teng, Envicool, BYDE, Nidec
Meta	Delta, Quanta	AVC, Cooler Master	AVC, Cooler Master, Auras	
Google	Delta	AVC, Cooler Master	AVC, Cooler Master	
AWS	Delta	AVC, Cooler Master	AVC, Cooler Master, Auras	
SMCI	Nidec, CoolIT	Auras, Jentech	Karori, Auras	
Chinese OEMs	BYDE, Luxshare, Envicool	BYDE, Luxshare, Envicool, FRD	BYDE, Luxshare, Envicool	BYDE, Luxshare, Envicool, Jonhon

Source: CMBIGM

GB300/VR200: liquid cooling adoption to drive rack content value

1) GB300 spec: We expect major change for GB300 rack is to adopt liquid cooling in switch tray rather than air cooling in GB200. We estimate this will add around 180 UQDs and 27 cold plates per rack. Consequently, we forecast liquid cooling value content per GB300 rack to increase by 10-20% compared to GB200. **2) VR200 spec:** VR200 is to be launched in 2H26, and we expect single-chip TDP for VR200 platform to increase to 2.3kW (MaxP version), and VR200 NVL144 system will adopt a full liquid cooling design. Driven by increased compute density (CPX design), we estimate each compute tray will require an additional 3 cold plates and 6 pairs of UQDs, further fueling demand for thermal components. **3) CDU/sidecar upgrade:** As rack power density approaches 200kW+, thermal systems will gradually transition from Liquid-to-Air (Sidecar) to higher-efficiency Liquid-to-Liquid (CDU) solutions, favoring suppliers with robust system integration capabilities.

ASIC servers to enter liquid cooling era; AWS/Meta to lead adoption in 2026

We believe mainstream CSP ASIC projects are set to reach inflection point for liquid cooling in 2026. **1) Trainium servers:** AWS T3 project (Teton 3 rack) is expected to formally adopt liquid cooling in 2026. With power consumption below 1,000W, we estimate a liquid cooling adoption of ~20%. We expect usage of cold plates and UQDs in T3 racks to exceed GB300 racks (99 cold plates, 456 UQDs). **2) MTIA servers:** Meta's MTIA 3 (Minerva rack) are set to adopt liquid cooling solutions in 2026 to support power consumption exceeding 1,000W. **3) TPU servers:** Google TPU v7 will commence liquid cooling adoption in 2026. We expect

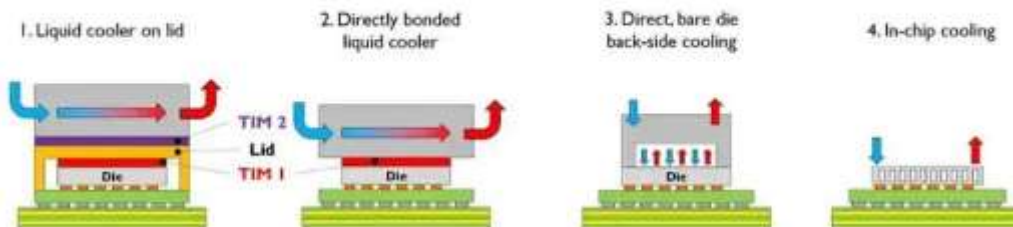
that growth of ASIC liquid cooling market value will outpace Nvidia platform in 2026, becoming a major growth engine for thermal solution providers.

Micro-channel lids (MCL): Ultimate solution for 3000W TDP targeting mass production in 2027. As single-GPU TDP is projected to exceed 3,000W threshold in 2027 (e.g., Rubin Ultra or Feynman), traditional thermal solutions with cold plates and TIM will face bottlenecks. Consequently, we believe the supply chain is developing the micro-channel lid (MCL) solution to integrate micro-channels directly into heat spreader of the chip package, which will effectively eliminate thermal resistance layer associated with TIM2. In terms of timeline, we expect MCL to see wide adoption in Rubin Ultra by 2027, and small-batch pilots are likely to commence with VR200 in 2H26E. Regarding manufacturing process, we believe MCLs require extreme metal processing precision and tight coordination with CoWoS packaging processes, which we believe will significantly raise entry barriers, favoring manufacturers with advanced precision manufacturing and packaging capabilities.

Overall, we identify the following supply chain leaders as major beneficiaries: **1) FIT Hon Teng:** The company boasts a robust AI server product matrix. Its UQD products have begun mass production and shipment for GB200 since last year. Leveraging its competitive edge in backplanes, high-speed connectors and power busbars, FIT provides a comprehensive "Power + Liquid" one-stop interconnect solution. **2) BYDE:** BYDE successfully secured Nvidia qualification for its liquid cooling products, including cold plates, UQDs and manifolds. The company has demonstrated mass production capability for a full series of critical liquid cooling components. **3) Luxshare:** the company is strategically positioned as "Connectivity + Thermal + Power" solution vendor. Its core liquid cooling offerings include cold plates, CDUs, and manifolds. Furthermore, Luxshare has established an early layout in micro-channel technology, with mass production target in 2026.

Figure 41: Thermal solution: Micro-channel lids (MCL)

Liquid cooling options



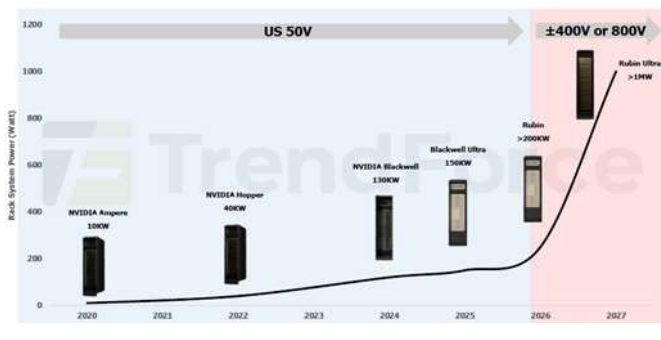
Source: IMEC, CMBIGM

Power supply: Entering the MW era; HVDC/BBU as the new standard

Power density to exceed 200kW; Power system to become "Core Infrastructure"

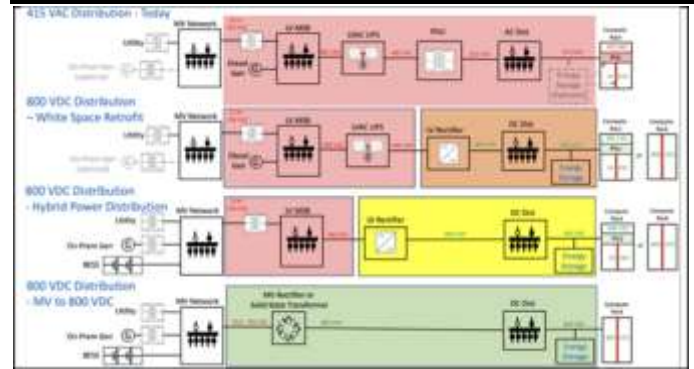
With VR200 to launch in 2H26E, we expect AI server power spec upgrades to accelerate as single-rack power density to surge from 130-150kW (GB200) / 180-200kW (GB300) in 2025 to 200-300kW for VR200 in 2H26E (350-400kW with CPX). Looking ahead, Kyber density is expected to increase to 600kW-1MW range in 2027. Since traditional 12V/48V power architectures are facing physical limitations due to copper-based busbar weight and high transmission losses, the industry trend is shifting toward sidecar or row-based power cabinet solutions.

Figure 42: MW-scale racks necessitate HVDC



Source: Trendforce, CMBIGM

Figure 43: Nvidia to shift from 415 VAC to 800 VDC



Source: NVidia, CMBIGM

400V/800V HVDC: The new standard in 2026 to break 54V limitations

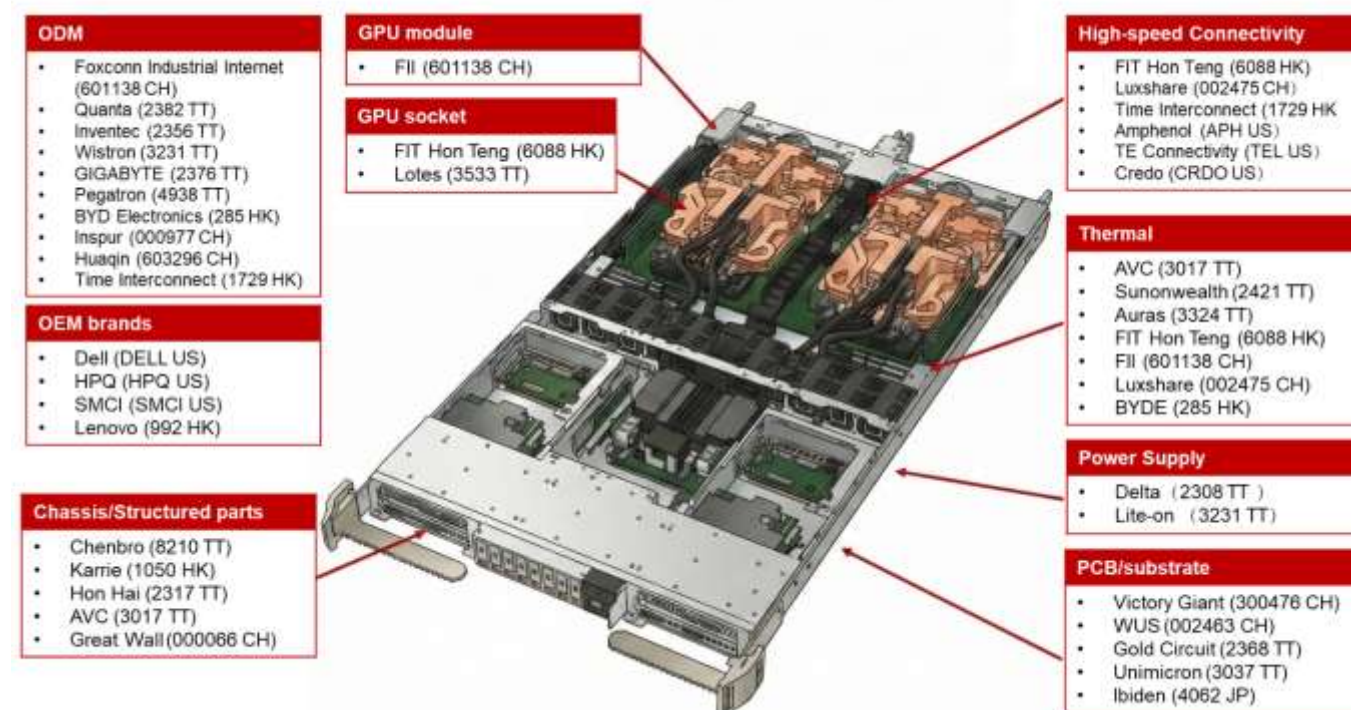
To reduce conversion losses and copper usage, power architectures are shifting from AC to 800V HVDC. Although Nvidia is promoting a 0-800VDC standard, we expect CSPs like Microsoft, Meta, and Google to initially deploy $\pm 400V$ HVDC solutions at scale in 2026, prioritizing safety regulations and supply chain maturity while preparing for the future 800V era. Compared to traditional 48V/54V architectures, HVDC solutions drastically reduce current for the same power output, thereby minimizing copper wiring usage and boosting end-to-end energy efficiency. While solid state transformers (SST) may not see large-scale adoption until 2027/28, we view 2026 as a critical period for power supply chain and module design evolution.

Spec upgrade: PSU power toward 12kW+; BBU becoming mainstream

We expect a significant upgrade in power specifications and per-rack value in 2026. Core components include PSUs (power supply units), BBUs (battery backup units), busbars, and power whips. **1) PSU density doubling:** To meet higher rack densities, mainstream AI server PSU spec will upgrade from current 5.5kW (GB200) to 12kW-18kW (VR200) in 2026. We expect penetration of next-gen power modules to rise significantly. **2) Rising BBU demand:** Under high power density, BBU will evolve into a standard configuration for AI power racks. We forecast BBU market to sustain rapid growth from 2026 to 2028. **3) Busbar/power whip:** With surging power requirements (VR200>100A), we expect busbars to upgrade to liquid-cooled designs, and spec/ASP of power whips will see a notable uplift.

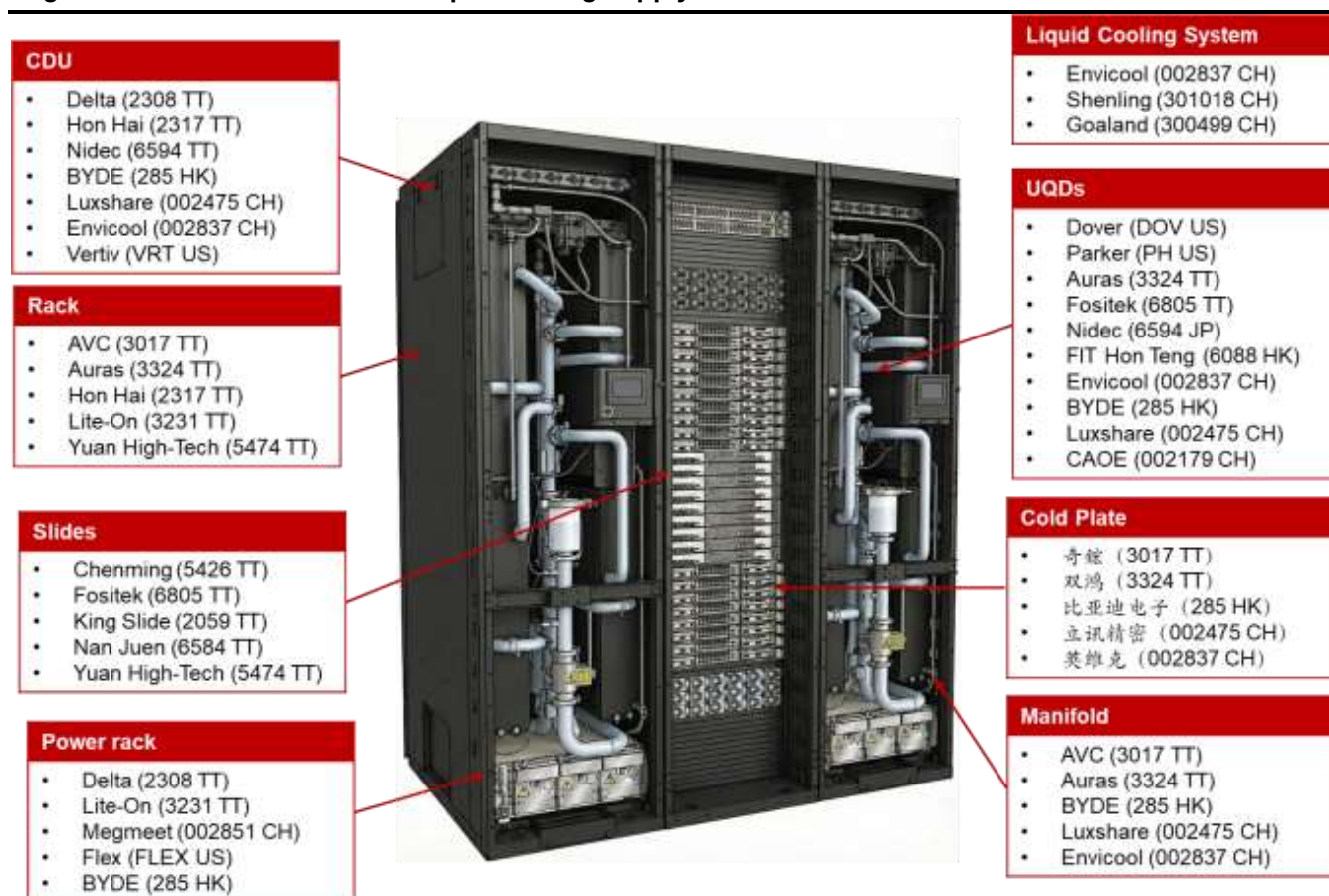
In 2026, power supply will shift from capacity increases to architectural upgrade, and we identify the following companies as key beneficiaries. **1) FIT Hon Teng:** FIT possesses Crown Clip and Power Clip product series, supporting ultra-high currents of 300A–500A+ with blind-mate capabilities. **2) BYDE:** BYDE has established a footprint in BBU products and power shelf assembly. Combined with its liquid cooling capabilities, BYDE offers a comprehensive "Liquid Cooling + Power" infrastructure solution. **3) Luxshare:** The company offers a complete power product portfolio, including DC/DC conversion modules, AC/DC PSUs, busbars, power whips, and HVDC solutions.

Figure 44: Global AI server supply chain



Source: CMBIGM

Figure 45: Global AI server rack/liquid cooling supply chain



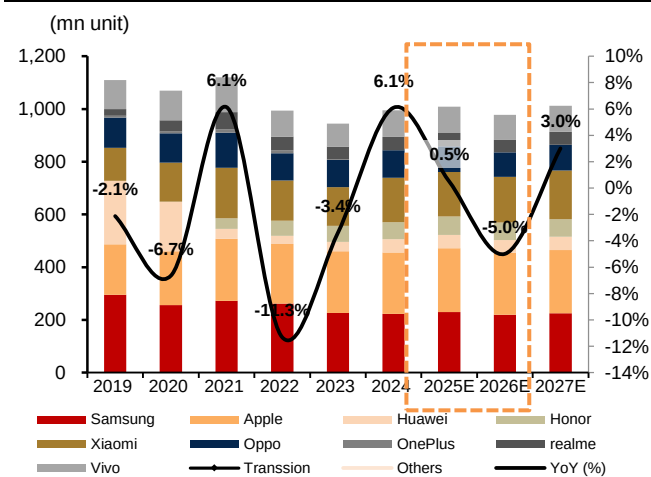
Source: CMBIGM

Global smartphones: memory price hikes weigh on demand; focus on foldable iPhone/ AI phones as catalysts

Global smartphone: 2026 shipments to decline by 5% YoY. After two consecutive years of recovery in 2024-2025, we expect global smartphone shipments to decline by 5% YoY in 2026 due to global macroeconomic uncertainties, fading China's subsidy impact, and memory price hike leading to higher BOM cost. We expect rising retail price will suppress demand, particularly for low-end consumer segment. If memory supply-demand imbalances further intensify, we expect **downside risk** to smartphone shipment forecasts.

China smartphone: cautious outlook in 1H26 followed by stabilization. We maintain a cautious view on China smartphone market for 2026. In near term, we expect 1H26E shipments to remain under pressure, due to high base on subsidies in 1H25, supply chain uncertainties and memory shortages impacting low-to-mid-end shipments. For 2H26E, we expect supply chain shortage to improve gradually. Overall, we hold a cautiously optimistic view for the full year, forecasting China smartphone shipments to be flat or slightly up YoY.

Figure 46: Global smartphone shipment forecast



Source: IDC, CMBIGM estimates

Figure 47: Global smartphone shipments by brand

(mn unit)	2022	2023	2024E	2025E	2026E	2027E
Samsung	262	227	223	230	220	225
Apple	226	234	232	242	235	240
Xiaomi	153	146	168	169	173	185
Huawei	31	35	50	50	48	50
Honor	57	61	65	70	66	67
Oppo	166	154	154	148	141	146
Vivo	99	88	101	100	95	99
Transsion	73	95	107	121	110	115
Others	139	125	134	112	92	88
Total	1,206	1,165	1,236	1,242	1,180	1,215
YoY growth	-11%	-3%	6%	0.5%	-5%	3%

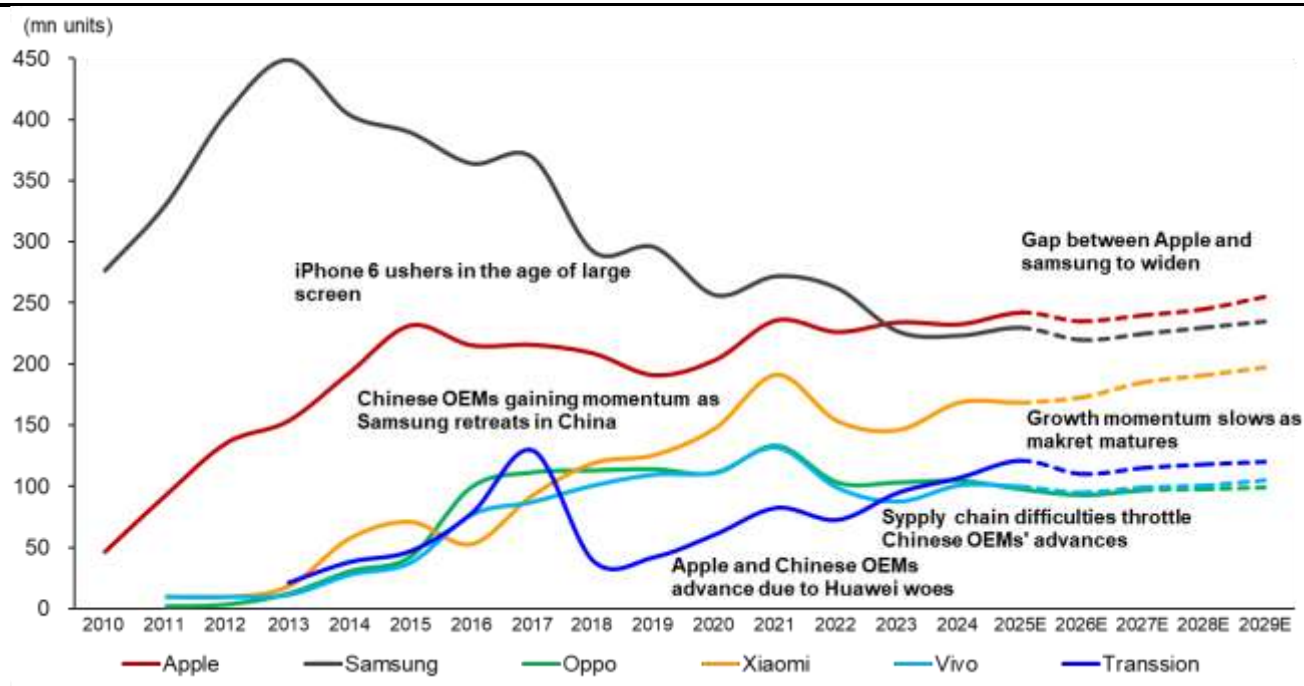
Source: IDC, CMBIGM estimates

Apple: Solidifying global leadership with 17e, Foldables and AI upgrade. We expect Apple's 2025 shipments to be robust, poised to overtake Samsung for the top spot, driven by replacement cycle, positive reception of iPhone 17, and lower-than-expected tariff impact. Counterpoint forecasted Apple's market share to reach 19.4% in 2025, while Samsung's shipments will grow 4.6% YoY to reach 18.7% global share. Looking ahead to 2026, we expect iPhone 17e to be launched in 1H26E, and the first foldable iPhone to debut in 2H26E, followed by a flip-style foldable in late 2027. Furthermore, Apple Intelligence features—positioned as a "more personalized Siri"—along with software enhancements are expected to roll out in 2026, further stimulating replacement demand. Overall, we remain constructive on Apple retaining its No. 1 position by global smartphone shipments in 2026.

Android: Samsung to focus on premium segment amidst fierce low-end competition. Driven by A-Series' improved spec and competitive pricing strategy, we expect rapid growth for Samsung in emerging markets (India, SEA, Middle East & Africa). In addition, as the Android premiumization trend continues, we expect Samsung to maintain a solid market share in North America, Europe, and East Asia. However, given intense competition from Chinese smartphone brands, we expect low-to-mid-end smartphone market to remain

under pressure. Consequently, we believe it will be difficult for Samsung to regain the global No. 1 spot in the coming year.

Figure 48: Major smartphone brands shipment trend



Source: Counterpoint, CMBIGM

Figure 49: Apple new products timeline (2026-2028)

	1H26	2H26	1H27	2H27	1H28	2H28
Smartphone	iPhone 17e	iPhone 18 Pro/Max iPhone Fold	iPhone 18 iPhone 18e	iPhone 19 (20th Anniversary Edition) iPhone Fold 2 iPhone 19 Air/Pro/Max		iPhone 20 series
PC/NB	MacBook Air/Pro (M5 chip)	Mac miniStudio (M5 chip) Brand new MacBook Pro		New Mac Studio (M5 Ultra chip)	MacBook Air (15 inch OLED edition)	Mac Pro (Modular ARM version)
Tablet	iPad Air (M4 chip) entry-level iPad (A18 chip) New iPad mini	iPad mini (A19 chip)	iPad Pro (OLED edition)		Foldable iPad (1st-gen)	
Wearables		Apple Watch 12 AirPod Pro 3 (camera)	AirPods 5	Apple Watch X (10th Anniversary Edition)		Apple Watch 14
Smart home	New Apple TV 4K HomePod mini 2	Display HomePod Home camera Video doorbell	Desktop robot			
AR/VR			Apple Vision Pro 2		Apple Glasses (AR glasses prototype)	

Source: Company data, CMBIGM

Apple: 2026 is a year of innovation; Focus on iPhone 18, foldables, and material upgrades

1. iPhone 18: variable aperture, 48MP ultra-wide, single-hole display and transparent back cover

For 2026, we remain bullish on iPhone share gains, and we expect **iPhone 18** to deliver significant innovations in both hardware spec and AI capabilities. Key spec upgrades include **1) Transparent back cover**: 18 Pro will adopt transparent design within back glass splicing. **2) Single-hole display & under-display Face ID**: 18 Pro/Max will further shrink Dynamic Island size, with Face ID technology moving under display to achieve a single-hole design. **3) Variable aperture**: 18 Pro/Max will introduce variable aperture technology. By dynamically adjusting the aperture size, users will gain more flexible control over depth-of-field effects and achieve cleaner image quality in low-light environments. **4) 48MP Ultra-wide**: "Air" model will feature 48MP sensors for both its main and ultra-wide cameras. Other updates include in-house 5G modem across entire iPhone 18 series, steel-cased battery for Pro Max model, and memory upgrade for iPhone 18 (DRAM 12GB, vs. 8GB in iPhone 17).

Figure 50: iPhone 18 series and iPhone Fold spec comparison

Categories	iPhone 18	iPhone 18 Pro	iPhone 18 Pro Max	iPhone Fold
Release time	Sep 2026	Sep 2026	Sep 2026	Sep 2026
Chip	A20	A20 Pro	A20 Pro	A20
Memory/storage	12GB / starting at 128GB	12GB / starting at 128GB	12GB / starting at 128GB	12GB / 1TB
Display /refresh rate	6.3 inch / 120Hz	6.3 inch/ 120Hz adaptive refresh rate	6.9 inch/ 120Hz adaptive refresh rate	7.8 inch foldable/ 120Hz adaptive refresh rate
Screen and facial recognition	2+1 punching, Face ID	Single hole screen +under screen Face ID	Single hole screen +under screen Face ID	Side Touch ID
Dynamic Island	Dynamic Island	Smaller dynamic island	Smaller dynamic island	-
Rear camera	48MP main camera 12MP Ultra-wide angle	48MP variable aperture main camera 48MP Ultra-wide angle 48MP periscope telephoto lens Macro photography/spatial photos 4K 120fps video	48MP variable aperture main camera 48MP Ultra-wide angle 48MP periscope telephoto lens Macro photography/spatial photos 4K 120fps video	48MP main camera Ultra-wide-angle +wide-angle +telephoto lens Telephoto lens OIS Night scene mode
Front camera	24MP	24MP	24MP	24MP
Body/back panel/middle frame	Aluminum metal middle frame Glass back plate	Aluminum metal one-piece formed body Glass back panel, Transparent back cover VC liquid cooling	Aluminum metal one-piece formed body Glass back panel, Transparent back cover VC liquid cooling, Steel shell battery	Middle frame: aluminum alloy or titanium metal Body: titanium metal Hinge: titanium alloy+ stainless steel composite
Others	Self-developed C2 baseband chip Solid-state /camera control buttons	Self-developed C2 baseband chip Solid-state /camera control buttons Lidar scanner	Self-developed C2 baseband chip Solid-state /camera control buttons Lidar scanner	UTG glass, crease-free screen technology Remove Face ID and use side Touch ID power button
Starting price (USD)	\$799 - \$849	\$1,099 - \$1,149	\$1,199 - \$1,299	\$2,399

Source: Company data, CMBIGM estimates

Figure 51: Main component supply chain names

	iPhone 17series	iPhone 18series
Baseband	Qualcomm, Apple	Qualcomm, Apple
Lens	Largan, Genius, Sunny Optical	Largan, Genius, Sunny Optical
VCM/OIS	Alps, Mitsumi, Luxshare , Mitsumi	Alps, Mitsumi, Luxshare , Largan
Variable aperture	-	Sunny Optical , Luxshare , Largan
Camera module	LGI, FIT Hon Teng, Cowell	LGI, Hon Hai Precision, Cowell
Shell structural components	Foxconn Industrial Internet, BYDE, Lens Tech, Luxshare	Foxconn Industrial Internet, BYDE, Lens Tech, Luxshare
Shell structural components (folding model)	-	Foxconn Industrial Internet , BYDE
Ultra-thin glass (folding phones)	-	Lens Tech , GIS
Hinge (folding phones)	-	Amphenol , Shin Zu Shing
Display panel	Samsung, LGD, BOE	Samsung, LGD, BOE
Acoustics	AAC Tech, Goertek, Luxshare	AAC Tech, Goertek, Luxshare
Vibration motor	AAC Tech, Luxshare, Nidec	AAC Tech, Luxshare, Nidec
Vapor Chamber	AVC , AAC Tech	AVC, AAC Tech
Glass back cover	Lens Tech, Biel, BYDE	Lens Tech, Biel, BYDE
Battery steel shell	Shineway, Ruilong, Lingyi Itech	Shineway, Ruilong, Lingyi Itech
Battery pack	Sunwoda Electronic, Desay, Simplo, TDK	Sunwoda Electronic, Desay, Simplo, TDK
Assembly	Hon Hai Precision, Luxshare , TATA	Hon Hai Precision, Luxshare , TATA

Source: company data, CMBIGM.

Note: suppliers marked red suggest their market share has gained

2. iPhone Fold: Debut in fall 2026; Flagship positioning to underpin premium pricing

We expect foldable iPhone to debut in September 2026 along with iPhone 18 Pro series, forming a flagship product lineup, but the official sales date may be delayed until Oct-Nov. In addition, Apple may forgo the industry-standard name "iPhone Fold" in favor of "iPhone Ultra." The main reasons include aligning with M-series chip naming convention (Ultra is higher than Max), redefining AI capabilities via Apple Intelligence, and justifying the "Ultra" premium price point. We summarize five key highlights across camera, materials, display, and hinge technologies:

Highlight 1: Quad-48MP camera system. We expect the device to feature four cameras with 48MP, including two rear main cameras and front cameras located on the outer screen and the inner screen. The two rear cameras will have 48MP, likely a primary wide angle plus either an ultra-wide or telephoto lens. The front camera spec highlights 1) external cover screen to adopt common punch-hole design, 2) internal main screen to equip with screen camera (USC) technology, allowing for video calls and selfies while enjoying a complete and unobstructed full-screen view.

Highlight 2: titanium reintroduction for chassis and hinge. We expect titanium to be reintroduced for both the chassis and hinge structure. Its high strength-to-weight ratio and scratch resistance make it ideal for foldables, balancing durability with portability to reinforce the premium positioning. We expect a hybrid metal frame, utilizing titanium for structural rigidity and aluminum for weight reduction. We expect the hinge components to combine titanium and stainless steel to ensure stability and alignment precision over repeated folding cycles.

Highlight 3: UTG substrate; Lens as primary supplier. We expect Ultra-Thin Glass (UTG) will be used as screen substrate, as UTG (thickness 0.1-1.2mm; with <0.2mm

offering >90% light transmission) provides superior visual quality. We expect Lens Technology to be the primary supplier, securing a 70% of UTG orders. The use of UTG reduces module weight and thickness, freeing up internal volume for larger batteries.

Highlight 4: "crease-free" visuals and ultra-slim profile. We expect iPhone Fold to adopt a brand-new screen technology to achieve a crease-free visual effect, significantly improving the user experience. The design emphasizes extreme thinness—approx. 9-9.5mm when folded and 4.5-8mm when unfolded—potentially thinner than the rumored "iPhone Air." This suggests significant breakthroughs in hinge and panel materials, proving that foldable structures need not be bulky.

Highlight 5: Liquid Metal Hinge for Perfect Flatness. We expect the proprietary hinge utilizes Liquid Metal (nano-alloy materials) to disperse folding stress at the molecular level. Crafted from liquid metal (2.5x the hardness of titanium) and integrated with a dynamic tension system featuring 200 micro-pressure sensors, the hinge allows for micro-hovering when folded and uniform tension when unfolded. We expect Durability is estimated to be 300% higher than industry standards (implied lifespan of 13 years at 100 folds/day). The hinge cost is significant at ~US\$80, accounting for 15% of total BOM. Apple has reportedly booked full-year capacity from Sumitomo Metal to secure the 7mn first-year shipment target.

3. iPad: Focus on OLED, AI Services & Waterproofing

1) iPad Air (1H26E): M4 Performance & Connectivity Boost. We expected the new iPad Air to launch in 1H26E, which is powered by M4 chip, delivering 10-20% performance uplift over the M3. Following the iPad Pro's lead, we expect the integration of Apple's in-house N1 network chip and C1X modem, enabling Wi-Fi 7 support and faster cellular connectivity.

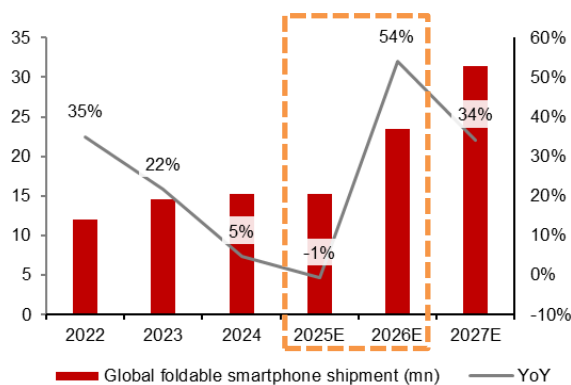
2) A18 iPad (1H26E): Bringing AI to Entry-Level This standard iPad also target for a 1H26 release, which will feature A18 chip. This marks the debut of Apple Intelligence features on the entry-level model. Similar to the Air, this device is expected to adopt Apple's proprietary network and modem chips for a comprehensive connectivity upgrade.

3) A19 iPad mini (2H26E): OLED Upgrade & Rugged Features Scheduled for 2H26, the new iPad mini will likely sport the A19 Pro chip. It is set to become the second iPad product line (after the Pro) to adopt an OLED screen, offering significantly enhanced visual quality. We also expect improved waterproofing capabilities.

Foldables: Apple entry to boost premium demand; Focus on screens, hinges, and UTG upside

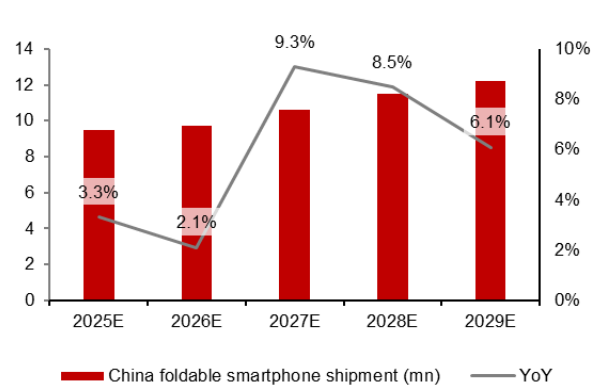
We estimate global foldable shipments to grow 51% YoY in 2026. Despite intensified competition, global foldable shipments remained flattish in 1H25E, based on Canalys. China market, delivering 32.8% YoY growth, was driven by Huawei's Mate and Pura X series, while US market delivered moderate growth at 7% YoY, supported by Motorola Razr 2025 series. For FY25E, we expect global foldable shipments to stay flattish at 15.2mn. However, we believe 2026 is poised to be an inflection point. Driven by intense competition and improved affordability of flip-style models, we expect the market will return to high growth at 51% YoY in 2026 and sustain momentum into 2027. We believe Apple's entry will be a significant catalyst for consumer demand in premium segment. Consequently, we expect global foldable shipment growth will outpace that of domestic Chinese foldables.

Figure 52: Global foldable smartphone shipment forecast



Source: Omdia, Canalys, CMBIGM estimates

Figure 53: China foldable smartphone shipment forecast

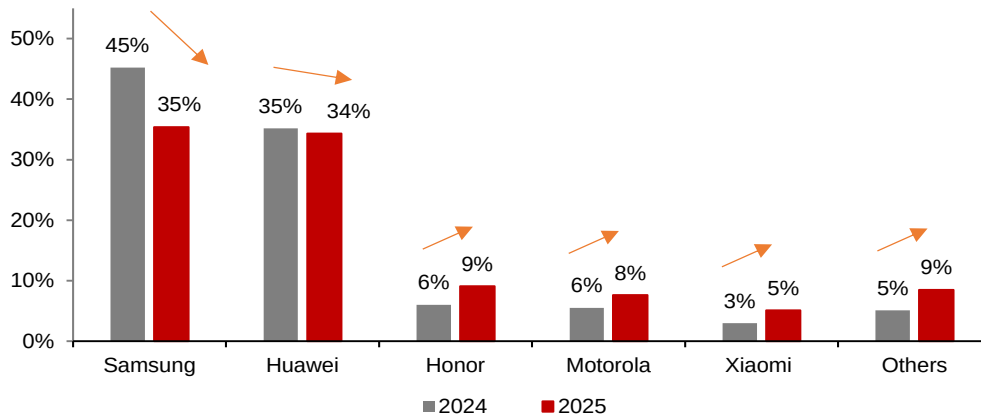


Source: IDC, CMBIGM estimates

Competitive landscape: Diverse & evolving; Samsung & Huawei lead. Although growth for foldable smartphones has moderated this year, this segment remains the primary focus for innovation in the mid-to-high-end segment, driven by technology advancement and cost decreases. OEMs are accelerating product launches, expanding product lines and price bands to position themselves for robust demand growth in 2026. Currently, the market is a duopoly led by Samsung and Huawei, but challengers are gaining ground.

- **Samsung (Global Leader):** Samsung continues to dominate the global market. The newly launched Galaxy Z Fold 7 features notable improvements in hinge structure, screen crease reduction, and form factor (weight/thickness). However, due to intensifying competition from other brands, we project its market share to contract from 45% in 2024 to 35% in 2025.
- **Huawei (Global #2):** Backed by robust performance in the Chinese market, Huawei ranks second globally with a projected 2025 market share of 34.3%.
- **Honor & Lenovo (Motorola):** Both brands are showing significant growth momentum in 2025, driven by aggressive expansion in the mid-to-high-end market. Honor: Share expected to rise from 6% (2024) to 9.1% (2025). Motorola: Share expected to rise from 5.5% (2024) to 7.6% (2025).
- **Xiaomi:** Leveraging MIX Flip series to penetrate the lightweight/clamshell foldable market, Xiaomi's share is projected to grow from 3% (2024) to 5.1% (2025).
- **Others (OPPO/Vivo, etc.):** Projected to hold a combined share of 8.5%.

Figure 54: 2024-25E global foldable smartphone market share



Source: Trendforce, CMBIGM

Apple vs. Samsung: Prioritizing display, hinge & camera; Pricing to rival Z Fold. For Samsung Galaxy Z Fold series, the two core components—display and hinge—account for ~50% of total cost, effectively defining the high cost for foldable smartphones. As for Apple's strategy, we believe Apple's BOM structure will differ significantly from Samsung's. We expect Apple to prioritize top-tier spec for three critical components to address user experience: screen, hinge, and camera. In addition, Apple can leverage cost advantage through its in-house A-series silicon. While positioned along with "Pro Max" tier, iPhone Fold's BOM cost significantly exceeds that of a top-spec iPhone Pro Max, necessitating a premium price tag. We estimate BOM will exceed US\$750, and retail price will range at US\$1,800-2,000, directly competing with Samsung Galaxy Z Fold 7.

Figure 55: Major foldable flagship smartphone feature comparison

Brand	Model	Folding form	Outer display size	Inner display size	Processor	Camera system	Special technology/notes
OPPO	Find N5	Horizontal inward folding	6.5 inch	7.8 inch	Snapdragon 8 Gen 4	50MP main-cam/ultra-wide-angle/periscope telephoto	New hinge (thinner and lighter), UTG ultra-thin glass, AI image enhancement
Huawei	Mate X6	Horizontal inward folding	6.7inch	8.1 inch	Kirin 9100 (5G)	50MP quad-cam (variable aperture)/periscope	Xuanwu body + second-generation Kunlun glass, satellite communication 3.0, HarmonyOS 5.0
Samsung	Galaxy Z Fold7	Horizontal inward folding	6.2 inch	7.6 inch	Snapdragon 8 Gen 4 for Galaxy	200MP main-cam/12MP ultra-wide-angle+10MP telephoto lens	Enhanced UTG, S Pen support, IPX8 water resistance, AI multi-task optimization
VIVO	X Fold4	Horizontal inward folding	6.6 inch	8.0 inch	Snapdragon 8 Gen 4	50MP V3 image chip/Zeiss full focal range	Super durable hinge, 3D ultrasonic under-screen fingerprint, Zeiss T coating
Honor	Magic V3	Horizontal inward folding	6.5 inch	7.9 inch	Snapdragon 8 Gen 4	50MP triple-cam (Hawk-eye camera)	Luban Titanium hinges, nano-crystalline glass, enhanced privacy and security
Apple	iPhone Fold	Horizontal inward folding	6.3 inch	8.0 inch	A19 Pro/ M series	48MP main-cam/multi-cam system, integrated with computational photography	Brand-new hinge design, super porcelain crystal glass panel, supporting Apple Pencil, ecological integration is the core selling point

Source: Company data, CMBIGM

Supply chain analysis: Hinges & displays dominate >50% of BOM. The BOM cost for foldable smartphones is heavily concentrated in mechanical structural components (hinges) and display modules, which together account for over 50% of total cost, significantly higher than in traditional smartphones. **1) Hinges (14-22%):** A single hinge unit costs between RMB 800-1,200, representing 3-4x the cost found in traditional phones. **2) Display modules (30-40%):** The most expensive component category. **3) Batteries (10-12%):** Costs have risen to support the higher power consumption requirements of foldables. **4) Others:** Processors, memory, and chips make up the remainder.

Apple 2026 entry: Upside for key components. With Apple to launch its foldable phone in 2026, we expect significant growth opportunities for screens, hinges, and cover glass suppliers. **1) Screens: Advanced LTPO.** While iPhones already utilize LTPO for ProMotion, foldables are hypersensitive to power consumption. We expect Apple to adopt advanced LTPO backplane technology, supporting a wider variable refresh rate range (1-120Hz or beyond) to optimize efficiency, benefiting BOE (000725 CH). **2) Hinges: The core of user experience.** As the component determining crease visibility, folding feel, lifespan, and device thinness, we believe Apple is likely to adopt a complex multi-axis linkage structure or an optimized water-drop hinge to achieve a seamless "crease-free" effect and a tighter folding radius. Beneficiaries include Everwin Precision (300115 CH) and Gian Technology (300709 CH). **3) Cover glass: UTG adoption.** Similar to Samsung, we expect Apple to select UTG (ultra-thin glass) as the cover material for its superior optical properties and durability. Beneficiaries include Lens Technology (300433 CH) and Kaisheng Technology (600552 CH).

Figure 56: Samsung Galaxy Z Fold 6 breakdown



Source: Company website, CMBIGM

Figure 57: Huawei P50 Pocket breakdown



Source: eet-China, CMBIGM

AI smartphones: Doubao AI empowers ecosystem; Apple set for major AI upgrades

SoC advancements to drive performance and application upgrade. Major mobile SoC vendors have successively released their latest generation of AI processors, laying the technical foundation for enhanced AI performance and deeper application integration. **1) Apple: A19 Pro.** Powering iPhone 17 Pro series and iPhone Air, it features significantly stronger CPU and GPU performance, and introduces hardware-accelerated ray tracing and hardware-accelerated AI capabilities to handle high-demand gaming and complex applications. **2) Qualcomm: Snapdragon 8 Gen 5.** It features 3rd Gen Oryon CPU, which delivers 36% CPU boost, 11% GPU boost, and a 46% increase in AI performance, compared to Snapdragon 8 Gen 3. It is equipped with the same Adreno 840 GPU and X80 5G Modem as "Ultimate Edition". However, the lack of Adreno High-Performance Memory (HPM) results in slightly lower performance under ultra-high gaming loads compared to the top-tier variant. It targets models in ~RMB 3,000 price band. **3) MediaTek: Dimensity 9500.** It is positioned as flagship 5G AI Chip, which Integrates a Generative AI engine alongside robust CPU/GPU capabilities, and supports 4K 120fps video recording and console-level ray tracing. It utilizes multiple AI technologies to optimize communication power efficiency, network connectivity, and positioning accuracy. Overall, we believe continuous upgrade of mobile processors by major SoC vendors will be the major growth engine supporting upgrade of AI smartphone performance and applications.

Figure 58: Major smartphone SoC manufacturers have released updated AI phone processor chips

	Qualcomm	MediaTek	Apple	Google
Type	Qualcomm Snapdragon 8 Gen 5	Mediatek Dimensity 9500	Apple A19 Pro	Google Tensor G5
Release date	1/10/2025	1/9/2025	1/9/2025	1/10/2025
First release model	Oneplus Ace 6T	vivo X300	iPhone 17 Pro	Pixel 10 Pro
Process	TSMC 3nm N3P	TSMC 3nm N3P	TSMC 2nm N3E	TSMC 3nm N3P
CPU frequency	Super large core 4.61GHz	Super large core 4.21GHz	performance core is 4.25GHz	Super large core 3.5GHz
CPU architecture	Self-developed Oryon (2+6) full large core	The third-generation all-large core (1+3+4)	Self-developed (2+4) six-core	Self-developed (2+6) octa-core
CPU core configuration	2x 4.6GHz Prime + 6x 3.62GHz	1x 4.21GHz C1-Ultra + 3x 3.5GHz C1-Premium + 4x 2.7GHz C1-Pro	2x 4.26GHz performance cores + 4x 2.6GHz efficiency cores	2x 3.5GHz performance cores + 6x 2.7GHz efficiency cores
GPU type	Adreno 840	G1-Ultra MC12	Self-developed 6-core (96EU)	Mali-G720 MC12
Memory	LPDDR5X 7500MHz	LPDDR5X 7500MHz	LPDDR5 7500MHz	LPDDR5X 7500MHz
Wireless	Wi-Fi 7, bluetooth 5.4	Wi-Fi 7, bluetooth 5.4	Wi-Fi 7, Bluetooth 5.4	Wi-Fi 7, Bluetooth 5.4
Modem	Integrated X75	Integrated M80	Integrated X75	Integrated X75
AI chip/NPU	Hexagon NPU (220 TOPS)	APU 7.0	16-core neural network engine	Self-developed TPU (AI performance improved by 34%)
Core highlights	all-large core design enhances the energy efficiency ratio	All-large core architecture with optimized energy efficiency ratio	2nm process, leading single-core performance	AI capabilities on the edge side are outstanding

Source: Company website, CMBIGM

Doubao AI phone: Shifting competition toward AI ecosystem

Marking the "AI Native Era"; From components to ecosystems. The emergence of Doubao AI smartphone marked the beginning of "AI Native Era," highlighting a shift in OEM competition from hardware spec to AI ecosystem. On Dec 1, 2025, ZTE unveiled Nubia M153 engineering prototype (priced at RMB 3,499), featuring "Technical Preview Edition" of Doubao Assistant. The device delivers enhancements in system-level operation capabilities and accessibility/portability of invoking LLMs. Users can invoke the assistant directly via voice commands, a dedicated side button, or Doubao Ola Friend headphones. High-frequency features (e.g. voice calls, video calls, screen sharing) are integrated in the assistant and can be accessed via a double-click of the side AI button. Overall, we believe competition among smartphone OEMs will no longer be limited to hardware spec (chips, screens, cameras) but will shift toward the maturity and openness of AI ecosystems.

Figure 59: Doubao AI smartphone



Source: ZTE official website, CMBIGM

Figure 60: Doubao phone technical preview version



Source: ZTE official website, CMBIGM

Apple Intelligence: New AI features to drive service revenue growth. Leveraging upgraded App Intents technology, Apple aims to enable precise control over applications via voice commands. **1) Enhanced Siri:** Siri will support advanced NLP, and integrate with apps like Safari and Photos to perform tasks such as summarization, object recognition, and calculations. **2) Productivity:** Across Mail, Notes, and Pages, AI will offer one-click proofreading, tone adjustment, and summarization. **3) iMessage:** New features include "background chat" capabilities and AI-generated shortcuts to enhance messaging efficiency. **4) System-Level & Ecosystem Integration (iOS 27):** AI integration is planned to expand to more native applications, including smart battery management and Genmoji, enriching usage scenarios. Apple Intelligence will be integrated across iOS, iPadOS, and macOS, enabling seamless cross-device interoperability. We believe the deployment of server-side Apple Intelligence, combined with Siri's intelligent upgrades and the rollout of new features, will drive revenue growth for App Store and Subscription Services in 2026.

Figure 61: Apple Intelligence key features



Source: Apple, CMBIGM

Figure 62: Siri AI/Apple Intelligence blend



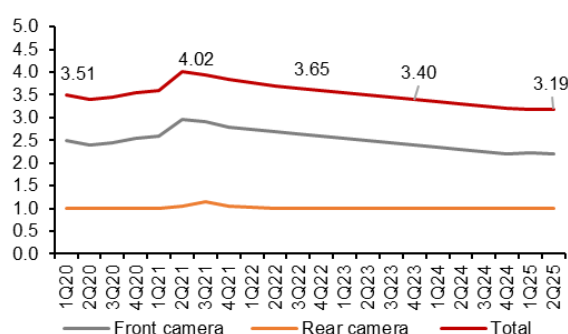
Source: Apple, CMBIGM

Smartphone components: Focus on optics, structural parts, hinges and thermal management

Optics: Multi-cam, periscope, hybrid lens and variable aperture

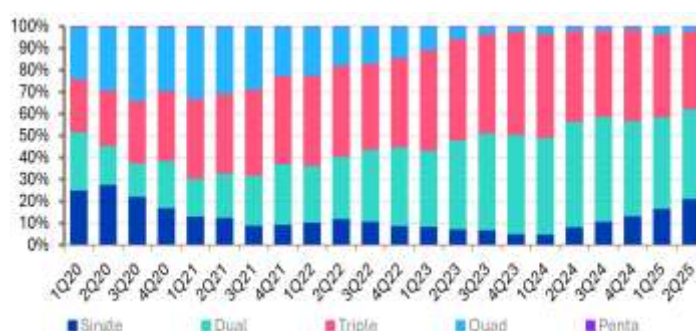
Multi-cam adoption to diversify in 2026; Low-end retains single-cam. We expect smartphone camera spec to show increasing diversification in 2026. According to Omdia, average number of cameras per smartphone in 2Q25 was 3.19, down from 3.37 in 2Q24. For low-end segment, 21% of models still feature a single-camera design, primarily concentrated in the budget/low-end market. For flagship models, triple-camera setups have become the industry standard, enhancing user experience through multi-focal length coverage and scenario-based photography. For instance, Apple adopts a "Golden Triangle" structure (Ultra-wide + Main + Telephoto) to achieve full focal length coverage and breakthroughs in computational photography. The Xiaomi 17 Ultra features a 1-inch main sensor + 200MP periscope telephoto + ultra-wide, bolstering professional-grade imaging capabilities. Currently, while triple-camera is penetrating from premium flagships into mid-range models, core value proposition remains focused on main camera quality rather than increase of camera numbers. Looking ahead, we expect a potential shift toward quad-camera configurations. We recommend focusing on leading camera lens and module manufacturers, including Sunny Optical (2382 HK) and Q Tech (1478 HK).

Figure 63: 1Q20-2Q25 smartphone average number of cameras



Source: Omdia, CMBIGM

Figure 64: Smartphone camera shipment market share contribution



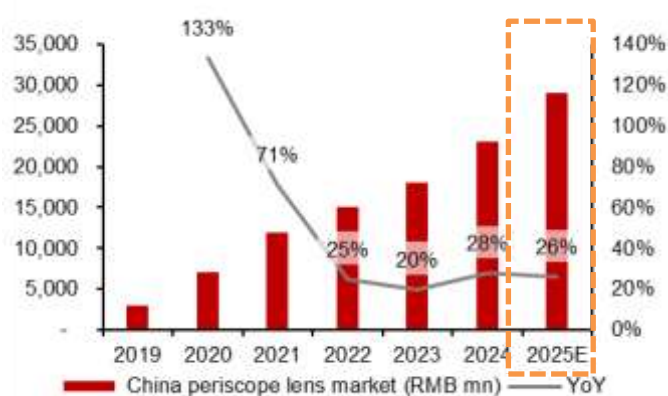
Source: Omdia, CMBIGM

Periscope telephoto: Penetration to accelerate in 2026. We expect penetration of periscope telephoto cameras to accelerate in 2026. While periscope camera adoption has extended from flagship models to mid-to-high-end devices, camera spec varies significantly. Premium models feature large-sensor, high-resolution units, whereas mid-range models often utilize smaller sensors with lower resolution. For 2026, we expect the periscope spec as the mature solution for achieving optical zoom due to space constraints of smartphones. Driven by increasing consumer interest in telephoto use cases (e.g., portraits, close-ups, and long-range shots), the periscope lens is poised to become the second most important lens after the main camera. We expect periscope telephoto lenses will become increasingly ubiquitous in smartphones priced at RMB 3,000 and above in 2026. According to QYR Research, global periscope telephoto lens market sales stood at US\$61.18bn in 2025 and are expected to reach US\$138.59bn by 2031, representing a CAGR of 15%.

Glass-plastic hybrid lenses: Expanding in the premium segment. We expect glass-plastic hybrid lenses will see broader adoption in high-end smartphones. Over the past few years, nearly 20 models across brands like Xiaomi, Sony, vivo, and Transsion have adopted this technology, mostly for rear main cameras. In 2025, **Huawei Pura 80 series**

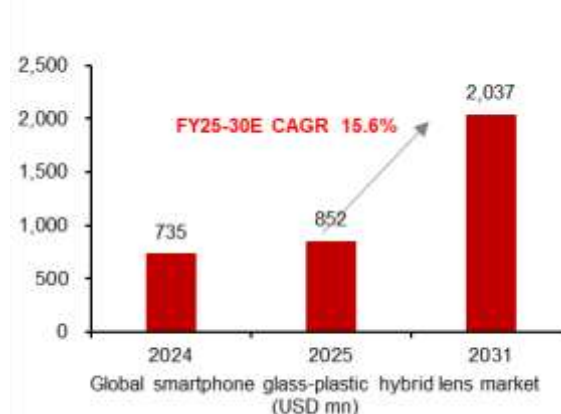
main camera adopted a glass-plastic hybrid lens, with stocking volume in the tens of millions. Currently, this technology is utilized on a small scale only in top-tier flagships (e.g., Xiaomi 14 Ultra, vivo X100 Ultra), serving as a symbol of ultimate imaging capability. Glass lenses (molded aspherical glass) offer higher refractive indices, lower dispersion, and better thermal stability compared to plastic. This effectively resolves issues such as edge quality degradation, chromatic aberration, and focus drift caused by thermal expansion/contraction in large-sensor setups. For 2026, while we do not expect rapid mass-market adoption, we believe glass-plastic hybrid technology will serve as a "moat" for top-tier imaging flagships to maintain differentiation. As supply chain technologies (e.g., Sunny Optical, AAC Tech) mature and costs decline, we expect adoption will increase but remain concentrated in ultra-premium models. Furthermore, we expect to see this technology applied to periscope telephoto lenses to further enhance resolution and chromatic aberration control, which is crucial for high-quality high-magnification zoom. Leading global optics suppliers, such as Sunny Optical, Largan and AAC Tech (WLG), have all established product offerings and achieved mass production delivery.

Figure 65: China periscope telephoto lens market sales forecast



Source: Guanyantianxia, CMBIGM

Figure 66: Global smartphone glass-plastic hybrid lens market size



Source: GIR, CMBIGM

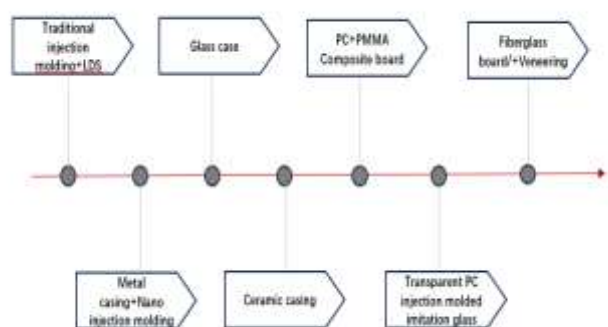
Variable aperture: integration with computational photography in 2026. Variable aperture technology has been adopted in flagship models from Samsung, Huawei, Xiaomi, and Honor. However, the industry is still exploring the optimal technical pathways and practical use cases for this feature. Early implementations primarily focused on creating background bokeh (using large apertures) and enhancing starburst effects in night scenes (using small apertures). For 2026, we expect the value proposition of variable aperture to evolve significantly through integration with computational photography. Key advancements include **1) image quality optimization:** Systems will feature intelligent stepless or multi-stage adjustment (e.g., between f/1.4 and f/4.0) based on the scene. The aperture will automatically stop down in well-lit conditions to improve edge sharpness and depth of field, while opening up in low-light environments to maximize light intake. **2) Video recording:** The technology will enable smoother exposure transitions during video recording, thereby reducing the reliance on ND filters for exposure control.

Structural parts/casings: Apple returns to Titanium/Aluminum; Android material diversification

iPhone 18: Pro returns to Titanium; Standard retains Aluminum; Stainless steel frame returns. To achieve comprehensive optimization in efficiency and battery life, iPhone 17 Pro/Pro Max adopted a lighter, thermally superior aluminum unibody design. The back cover featured a clever splicing of aluminum alloy and glass, with antennas integrated into the chassis periphery to satisfy wireless charging and high-performance signal transmission requirements. Looking ahead to 2026, we expect a strategic shift in materials for the iPhone 18 lineup: **1) Pro models (return to titanium):** The iPhone 18 Pro chassis is expected to revert to titanium alloy, continuing to enhance scratch and drop resistance. Additionally, reports suggest a return of the stainless steel frame. **2) Standard models (retain aluminum):** Due to cost pressures resulting from the upgrade in starting memory specifications (RAM), the standard iPhone 18 models are expected to retain the aluminum alloy chassis. **3) iPhone 18 Pro Max (aesthetics):** The back glass will utilize a new "Color-infused Glass" process. This innovation aims to significantly minimize the color disparity between the glass material and the metal chassis, thereby enhancing the overall seamlessness and unibody aesthetic of the device.

Material diversity: Wide adoption of glass, plastic, fiberglass, and ceramics. **1) Nano-microcrystalline glass: The new standard for durability.** We believe Nano-microcrystalline glass has achieved wide adoption across major brands (Apple, Huawei, Honor, Xiaomi, Meizu, OPPO, and vivo), ushering in a new era of drop resistance and protection for smartphones. **2) Plastic: The budget-friendly solution.** PC/PMMA composite sheets and transparent PC injection molding remain the primary cover materials for mid-to-low-end models. **3) Fiberglass (GFRP): The lightweight mainstream.** Composed of high-performance resin and glass fiber reinforcement, fiberglass offers low density, superior mechanical properties, a low dielectric constant, excellent heat resistance, and chemical stability. It offers good processability via die-cutting/CNC (for flat designs) or thermoforming (for 3D designs). Combined with decorative finishes, its characteristics of being light, thin, and strong have made it a mainstream back cover material for smartphones and tablets. **4) Ceramics: The ultra-premium niche.** With a Mohs hardness of ~8 (far exceeding metal and glass), ceramics offer superior scratch resistance, longevity, and biocompatibility, and provides a comfortable and premium, "jade-like" aesthetic. Adoption is constrained by high processing difficulty and cost. Ceramics are generally thicker and heavier than glass, and limited to specific ultra-premium flagship models.

Figure 67: Smartphone cases' material innovation and upgrade trend



Source: Aibang, CMBIGM

Figure 68: Fiberglass and glass cover/composite comparison

Phone cover	3D Fiberglass Board (New)	Glass cover board (mature)	Composite board (mature)
Weight	*	***	**
Strength	****	*	**
Surface hardness	***	****	**
Thickness	*	**	**
Cost	**	**	**
Resistance	***	***	***
Heat dissipation	**	**	**
Environment friendly	**	**	***
Process maturity	***	***	****
Yield rate	**	**	***
Texture	***	***	***
Molding process time	***	***	**
Fire resistance	****	****	**
Forming process	Hot pressing	Hot bending	High pressure

Source: Aibang, CMBIGM, Note: more * means higher the attribute

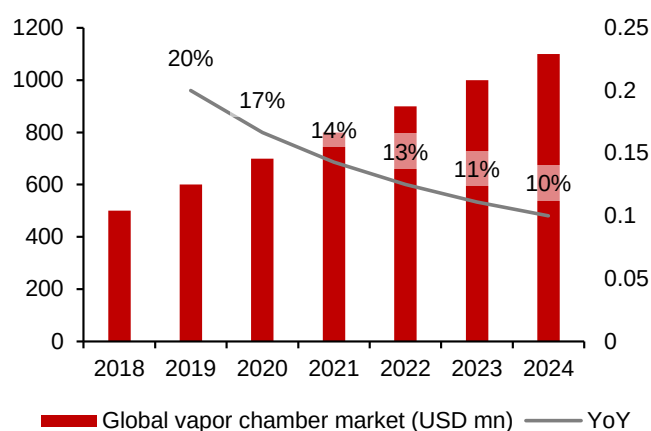
Thermal management: Apple adopts VC as standard; AI drives cooling upgrades

Rising thermal demands in computing era. In the era of AI smartphones, continuous upgrade of computing power and power consumption has made thermal management a critical component to ensure device stability. Meanwhile, the industry's pursuit for thinner, lighter, and more integrated designs has constrained internal cooling space. The combination of high-frequency, high-power components within shrinking form factors is compelling the development of more efficient heat dissipation solutions.

Global VC market size to grow at 14.5% CAGR in FY25-31E. Driven by upgraded thermal requirements across electronic devices, vapor chamber (VC) market will maintain fast growing. The market size is projected to reach US\$2,984mn by 2031, reflecting a robust CAGR of 14.5% during 2025-2031, based on GIR. During 2010-2020 (Explosive Growth), the trend toward miniaturization and high performance in consumer electronics (smartphones/tablets) drove VCs toward extreme thinness (down to 0.25mm) and higher efficiency. Flagship models from Xiaomi and Huawei were early adopters, leveraging process improvements like multi-layer copper mesh microstructures and diffusion bonding to meet dual demands for space savings and thermal efficiency. Starting from 2020 (High-End Transition), the market has entered a transformation phase, with 5G base stations, NEVs, and AR/VR devices emerging as new growth engines.

Apple strategy: VC becoming standard across iPhone & iPad. Apple introduced VC technology for the first time in the iPhone 17 Pro/Max. The adoption came with the return to an aluminum chassis and system-level thermal optimization, passive cooling efficiency improved by 300%. In high-load gaming scenarios (e.g., *Genshin Impact*), device temperature dropped by 6-12°C, significantly enhancing frame rate stability. This upgrade marks a major breakthrough for Apple in passive thermal management, signaling a new industry standard for thermal efficiency. Looking ahead, we expect Apple to continue utilizing VC solutions for its upcoming foldable device, with AVC (3017 TT) serving as the manufacturer. For 2027 iPad Pro, we expect Apple to introduce a VC liquid cooling system into iPad Pro. Similar to iPhone 17 Pro structure, this will further improve stability and heat resistance under high-performance computing workloads. We believe the proliferation of VC vapor chambers in premium handsets will provide a strong tailwind for manufacturers within the Apple supply chain that possess VC production capabilities. Key beneficiaries include Jones Tech (300684 CH), Lingyi iTech (002600 CH), and AAC Tech (2018 HK).

Figure 69: Global vapor chamber market (2018-24)



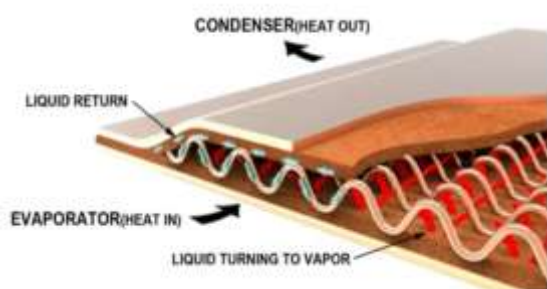
Source: Chyxx, CMBIGM

Figure 70: Heat dissipation module/VC suppliers

Name	Core products	Competitive advantage and customers
Lingyi Itech	Stainless steel ultra-thin VC, heat dissipation module, graphite sheet	- Full-stack capabilities in heat pipes, vapor chambers, water-cooling modules, - Clients: Apple, Huawei, OPPO, and vivo
Jones Tech	Graphite film, VC thermal interface material	- Graphite heat dissipation with solid position and actively expanding into VC - Clients: Apple, Huawei, OPPO, and vivo
AAC Tech	Ring-shaped cold pump, ultra-thin VC, precision components	- Exclusive supply of ring-shaped cold pump cooling system for Xiaomi 13 Ultra - Clients: Xiaomi, Honor, OPPO, etc.
Frd Science & Tech	Micro-pump liquid cooling module, VC, thermal conductive material	Micro-pump liquid cooling modules and solutions including graphite sheets and thermal conductive adhesives
Tianmai Thermal	Heat pipes, VC, thermal interface materials	- Profound technical and patents in VC - Clients: Samsung, OPPO, vivo, Huawei
Suqun New Material	Graphite film, VC, thermal conductive gasket	- Products: synthetic graphite, heat dissipation films - Clients: major US clients, mainstream domestic brands

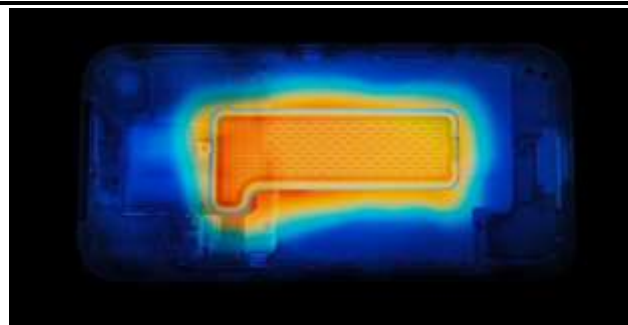
Source: Chyxx, CMBIGM

Figure 71: Smartphone vapor chamber structure



Source: CIME 2025, CMBIGM

Figure 72: iPhone 17 Pro uses VC vapor chamber



Source: Apple, CMBIGM

Foldable UTG: Innovation, material demand & cost reduction

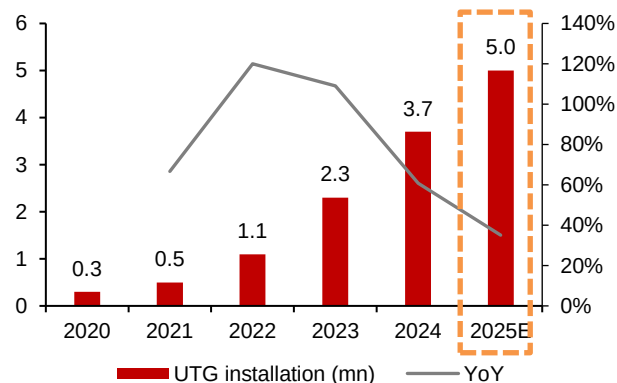
We believe the shift from CPI to UTG CPI (colorless polyimide) and UTG (ultra-thin glass) are the primary cover materials for foldable screens and are critical in addressing the screen crease issue. While CPI was the initial choice for foldable covers in 2019, OEMs have increasingly shifted focus toward UTG since 2020. Samsung Galaxy Z Flip marked the industry's pivot as the first foldable device to adopt UTG technology. According to CINNO, UTG shipments in Chinese foldable market reached 5mn in 2025, representing a +35.1% YoY growth. Looking ahead, we believe UTG market is poised for rapid expansion, driven by three key factors: **1) Tech innovation:** Continuous improvements addressing key user experience pain points, such as crease visibility, weight, and durability. **2) New entrants:** The entry of major OEMs, specifically for Apple Foldable. **3) Cost reduction:** The ongoing decline in unit costs making the technology more accessible.

Figure 73: Lens's UTG glass for foldable iPhone



Source: QYResearch, CMBIGM

Figure 74: China foldable smartphone UTG market

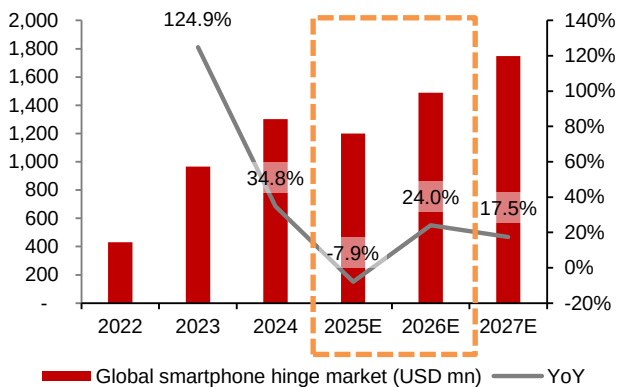


Source: CINNO Research, CMBIGM

Hinges: Crease elimination and lightweighting drive rapid growth

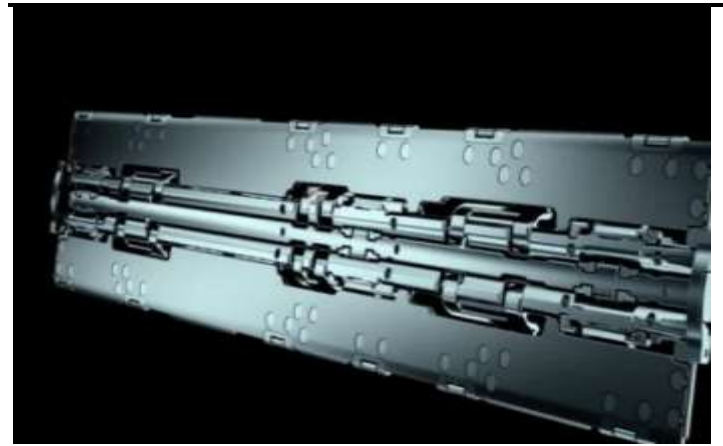
The water-drop hinge has emerged as the mainstream solution in foldable smartphone industry. This structure is favorable to minimize screen wear, enhance overall durability, and facilitate ultra-thin chassis designs. To address the critical requirement for lightweighting, the industry is accelerating technological innovation. Notably, we expect Apple's upcoming foldable to adopt liquid metal hinges, a move poised to significantly enhance mechanical performance. We expect that the dual mandates of crease elimination and weight reduction will be the primary drivers of rapid expansion in the hinge market. TrendForce projects the foldable smartphone hinge market to reach US\$1.2bn in 2025. In 2025, Huawei will maintain #1 market share position, followed by OPPO (#2) and Samsung (#3). With Apple entering the market in 2026, leveraging proprietary hinge patents to drive technical innovation, we expect the competitive landscape for hinges to become increasingly diversified.

Figure 75: Global foldable phone hinge market size forecast



Source: Trendforce, CMBIGM

Figure 76: Vivo's liquid metal hinge solution



Source: vivo, CMBIGM

Figure 77: Global hinge supply chain

Tier	Supplier	Country/region	Technology features	Major customers
Tier 1 Hinge module supplier	Shin Zu Shing	China Taiwan	Precision hinge module, integrated sliding mechanism, dust-proof	Apple, Samsung, OPPO, Huawei, Xiaomi
	KH Vatec	South Korea	Dual-axis water-drop hinge, ultra-thin module	Samsung Galaxy Z series
	Shinhan Precision	South Korea	High-precision module processing	Samsung
	Amphenol	US	Precision mechanical components, hinge module parts	Apple, Samsung
Tier 2 Precision components Metal parts	Fositek	China Taiwan	Metal structural components, sliding guide rails, frame supports	New Dayung, Huawei
	Everwin Precision	China	High-precision metal processing, hinge components	OPPO, Honor
	Jarlllytec	China Taiwan	Precision hinges and sliding components	New Dayung, tier-1 module integrator
	Pacific Union	China Taiwan	Hinge metal structural components, CNC precision machining	New Dayung, Samsung
	Kersen Science & Technology	China	CNC precision structural components, hinge brackets	Huawei, OPPO

Source: Trendforce, CMBIGM

Figure 78: Foldable smartphone supply chain



Source: CMBIGM

Figure 79: Supply chain names and revenue contribution (2026)

Company	Stock code	Apple	Huawei	Samsung	Other brands	Others	Main products
AAC Tech	2018 HK	34%	10%	10%	33%	12%	Acoustics, touch, optics, housing
FIT Hon Teng	6088 HK	25%	-	-	-	75%	Connectors, AirPods, accessories, EVs, servers
Sunny Optical	2382 HK	5%	5%	15%	60%	15%	Mobile phone camera modules, lens groups, automotive lenses/modules
BYDE	285 HK	60%	5%	5%	15%	15%	Metal/glass/plastic casings, ODM/OEM, automobiles
Luxshare	002475 CH	60%	10%	3%	-	27%	Wireless, iPhone/AirPods/ watch OEM, acoustic/tactile
Lens Tech	6613 HK	50%	25%	-	7%	18%	Glass/metal/sapphire/ceramic panels, structural components, functional modules
FII	601138 CH	13%	-	-	-	87%	Precision structural components
Cowell	1415 HK	95%	-	3%	-	2%	Camera module
Tongda	698 HK	-	5%	5%	40%	50%	Metal/plastic casing
Q-Tech	1478 HK	-	5%	-	85%	15%	Camera module/lens, fingerprint module, automotive CCM
TK Group	2283 HK	-	-	-	10%	90%	Plastic molding, plastic precision
Truly International	732 HK	-	-	3%	62%	35%	Camera module, fingerprint, display module

Source: Company data, CMBIGM estimates

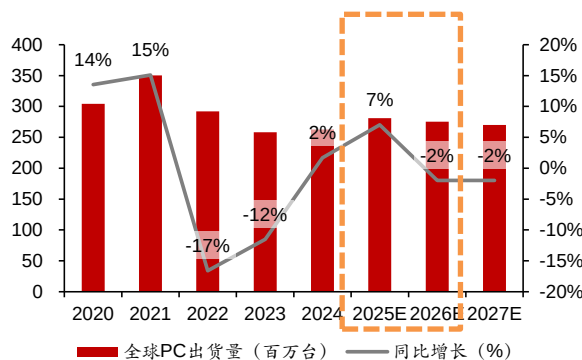
Global PCs: Consumer segment faces near-term pressure; AI PC penetration set to reach 50% in 2026

PC: 2025 better than expected; rising memory costs to dampen demand in 2026

Following inventory destocking and post-pandemic correction in 2022-23, global PC market recovered in 2024-25E thanks to replacement cycle and recovery in enterprise IT budgets. We forecast 2025 global PC shipments to grow 7% YoY to 281mn, backed by lower-than-expected tariff impacts and robust commercial demand driven by Windows 11 upgrade.

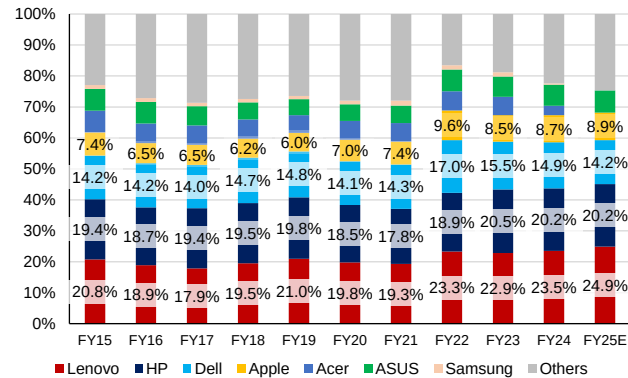
For 2026, we maintain cautious on global PC demand, and estimate shipments to decline 2% YoY to 275mn, mainly attributed to: 1) fading replacement cycle of Windows 11, 2) rising memory price leading to higher ASP and thus weaker demand for low-end consumer models, and 3) shortages in mainstream Intel Raptor Lake supply. Overall, we expect the commercial market to outperform the consumer market, supported by enterprise refresh cycles. Conversely, consumer segment, which has higher price sensitivity, will face demand pressure due to rising retail prices.

Figure 80: Global PC shipment estimates



Source: IDC, CMBIGM

Figure 81: Global PC market share (2015-2024E)



Source: IDC, CMBIGM

Figure 82: Global PC processor chips development roadmap

	1H24	2H24	1H25	2H25E	1H26E	2H26E	2027E
Intel	Meteor Lake 11 TOPS (4nm)	Lunar Lake 48 TOPS (3nm) Arrow Lake 13 TOPS (3nm)			Arrow Lake Refresh 13 TOPS (3nm)	Nova Lake 74 TOPS (18A / TSMC N2)	
AMD	Hawk Point 16 TOPS (4nm)		Strix Point 48 TOPS (4nm)			Olympic Ridge (2nm)	Medusa Halo (2nm)
Apple	M4 38 TOPS (3nm)			M5 45 TOPS (N3P)	M5 Pro / Max 50 TOPS (N3P)	M5 Ultra 80 TOPS M6 60 TOPS (2nm)	M6 Pro / Max 70 TOPS (2nm)
Qualcomm	Snapdragon X Elite 45 TOPS (4nm)		Snapdragon X Plus 45 TOPS (4nm)		Snapdragon X2 Elite 80 TOPS (3nm)		Snapdragon X3 Elite 100 TOPS (2nm)
MediaTek			Kompanio Ultra 50 TOPS (3nm)		Kompanio "N1X" (w/ NVIDIA) 60 TOPS (3nm)	Kompanio Refresh 40 TOPS (4nm)	Next-Gen AI PC Chip 100 TOPS (2nm)

Source: Company data, CMBIGM

Rising memory costs to weigh on brands' earnings in 2H26E

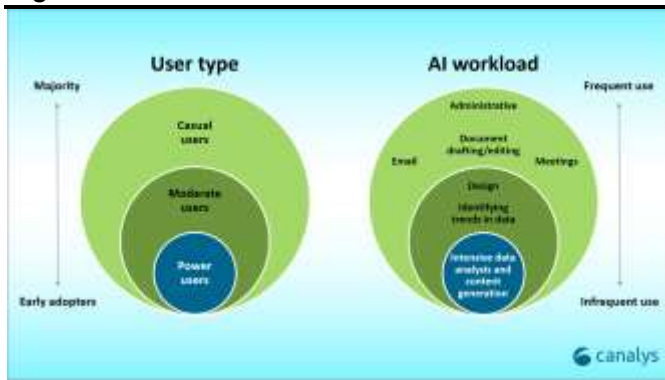
NAND/DRAM prices began an upcycle since early 2024, with significant price hikes in 2H24 and 2025. We expect prices will fluctuate at high levels throughout 2026, which will become the largest headwind for PC sector in 2026. With memory accounting for 15-20% of PC BOM costs, we expect price hikes to exert margin pressure on PC brands, particularly in the low-end segment. Without price adjustments, rising costs will erode OEM GPM. Notably, HP recently acknowledged that memory cost headwinds will negatively impact profitability in the coming year. For 2026, we expect PC brands to adopt the following mitigation strategies: 1) absorb costs temporarily at the expense of GPM; or 2) raise retail prices to pass through costs, potentially impacting demand in the price-sensitive consumer segment. We believe major vendors currently hold 2-3 quarters of low-cost memory inventory, which should buffer the cost impact in 1H26E. However, margin pressure is expected to intensify significantly in 2H26E after low-cost inventory is depleted. Overall, we view Lenovo and Dell as more defensive relative to HPQ and Asus, given their stronger pricing power and supply chain bargaining leverage.

AI PC: Penetration breakout; Mix optimization to cushion cost headwinds

AI PCs feature heterogeneous computing power combining CPU + GPU + NPU, delivering on-device AI inference capabilities ranging from 10 TOPS to 100 TOPS, which can support local LLMs, real-time multi-modal interaction, and private knowledge base retrieval. We expect AI PC penetration to accelerate in 2026, becoming the standard configuration for mainstream models. Lenovo indicated that its AI PC shipment mix reached 33% in 3Q25 and expects double-digit growth in the coming quarters. With the proliferation of Intel Lunar Lake/Arrow Lake, AMD Ryzen AI, and Qualcomm X Elite chips, the NPU is becoming a standard feature. Although "killer apps" are still in the incubation phase, we believe consumer interest in AI functionalities is rising. Given that AI PCs are equipped with higher memory specifications and more robust thermal modules, we expect a structural upgrade in product ASPs.

For 2026, we expect brand vendors to leverage the premium product mix driven by AI PCs to offset a portion of cost pressure from memory price hikes. Overall, we believe Lenovo offers the strongest near-term defensiveness, underpinned by its high inventory levels of low-cost components. Dell demonstrates strong resilience, supported by its direct sales model and "second growth curve" driven by its AI server business. Conversely, we believe HP will face greater near-term pressure, as mgmt. highlighted the cost impact and subsequently lowered its margin guidance.

Figure 83: AI PCs to become mainstream



Source: Canalsys, CMBIGM

Figure 84: AI PC penetration to reach 50% by 2026



Source: Omdia, CMBIGM

Lenovo: Strategic inventory mitigates near-term impact; Leading AI PC share at 31%

Lenovo delivered robust performance in FY2Q26 (Sep-quarter), with PC revenue growing 17% YoY and global market share reaching a historic high of 25.6%. AI PC penetration reached 33%, and the company secured a commanding 31% global market share in AI PCs, ranking first globally. This leadership position is expected to accelerate product mix upgrades. Benefiting from premiumization strategy and superior supply chain management, Intelligent Devices Group (IDG) maintained a healthy OPM of 7.3%. Facing soaring memory prices, Lenovo currently holds 7-8 months of memory inventory, significantly higher than peer average of 2-3 months. We believe this strategic stocking will effectively shield the company from direct cost shocks over the next two quarters. However, as low-cost inventory begins to deplete starting in 2H26E, margins may face pressure.

Looking ahead, management remains optimistic on 2026 outlook, projecting mid-single-digit growth for overall PC market and targeting to outperform the industry. We believe market concern currently lies in whether raising ASPs to pass through costs might dampen end demand. Overall, as a leading global PC brand, Lenovo's close collaboration with upstream processor vendors and OS providers positions it as a core leader in the AI PC wave, and we believe it is poised to benefit from the trend of AI PC adoption.

Dell: Solid commercial recovery; Direct model offers edge in cost pass-through

Dell's Client Solutions Group (CSG) revenue grew 3% YoY. Growth in Commercial PCs (+5%) was partially offset by decline in Consumer PCs (-7%). While PC business remained stable, major highlight was AI server segment with orders surging to US\$12.3bn and recording high backlog of US\$18.4bn. Management acknowledged the "unprecedented" memory cycle but emphasized that its direct sales model and supply chain scale allow for faster pricing adjustments compared to competitors. Historically, Dell has been able to recover approximately two-thirds of cost increases within 90 days. Management believes its ability to secure components in a shortage environment will be a key competitive advantage, expressing confidence in margin resilience for 2026. For 2026, Dell expects overall PC market to remain flat, with key growth driver being the refresh cycle triggered by Windows 10 EOS. For FY27E, the company's outlook aligns with its long-term growth framework (CSG growth of 2-3%), demonstrating strong confidence in navigating market risks.

HP: FY26 guidance weighed down by memory costs; PC margin outlook cut

In FY4Q25, HP's Personal Systems (PS) revenue grew 8% YoY and shipments rose 7%, driven by market share gains in commercial and premium consumer segments. Regarding cost impacts and margin guidance, the company provided a cautious outlook for FY26E. OPM target for Personal Systems business was set at lower end of 5-7% range (previously higher), reflecting challenges in passing through cost increases to customers. To address cost pressures, HP announced a new cost-saving initiative targeting US\$1 billion in gross savings by the end of FY28, with US\$300 million expected to be realized in FY26. The company projects FY26E PC revenue growth to slightly outpace the market (low-single-digit), driven by AI PC mix improvement and price hike rather than shipment growth.

Figure 85: PC OEM brands' 2026 outlook/guidance

Company	2026 PC Guidance/Outlook (FY26/CY26)	Growth Drivers
Lenovo (00992 HK)	- The most bullish among peers; expects the 2026 PC market to achieve Mid-Single-Digit (MSD) growth. Revenue: Aims to outperform the broader market, targeting double-digit YoY growth in the upcoming two quarters (4Q25-1Q26). Margins: Confident that margins will remain unaffected by memory price hikes over the next two quarters due to strategic stocking.	Strategic Inventory: Holding 7-8 months of memory inventory (vs. peers' 2-3 months), providing a cost competitive advantage in 1H26. Market Share: F2Q26 share reached a historical high of 25.6%, with AI PC share at 31%, showing strong momentum. Hybrid AI: Advancing the "One AI, Multiple Devices" strategy, leveraging synergies between AI PCs and AI Phones to drive premiumization.
Dell (DELL US)	Shipment: Expects CY26 PC shipments to remain flat YoY; Maintain cautious stance on market recovery. Revenue: Expects Client Solutions Group (CSG) revenue to achieve Low-to-Mid Single-Digit (LSD-MSD) growth in CY26, primarily driven by Commercial PC ASP uplifts. Margins: Reiterate long-term CSG operating margin target of 5-7%.	Refresh Cycle: US\$500mn opportunity in PC & peripherals refresh, targeting installed base of 4+ year-old devices incompatible with Windows 11. Pricing Power: Emphasized Direct Sales model allows faster pricing adjustments than peers (typically recouping ~2/3 of cost increases within 90 days), a key advantage in supply-constrained environments. AI PC Mix: despite consumer softness, commercial demand is accelerating; rising AI PC mix will support ASP expansion.
HPE (HPE US)	Revenue: Personal Systems (PS) revenue growth guided to be slightly above the market average. Margins: Expects FY26 PS OPM at low end of long-term target range (5-7%). Headwinds: Notes significant pressure in 2H FY26; estimates memory price hikes will result in a net negative impact of approx. US\$0.30 EPS for the full year.	Memory Costs: Noted DRAM/NAND price hikes exceeded expectations (30-50%); while 1H FY26 is buffered by inventory, 2H faces severe margin challenges. Cost Savings: Announced new "Future Ready" plan targeting US\$1bn in total savings by FY28 (~\$300mn in FY26), including a workforce reduction of 4,000–6,000 to protect profitability. AI PC Penetration: AI PC shipment mix reached 30% in F4Q25; expected to rise further in FY26, improving product mix and ASP.

Source: Company data, CMBIGM

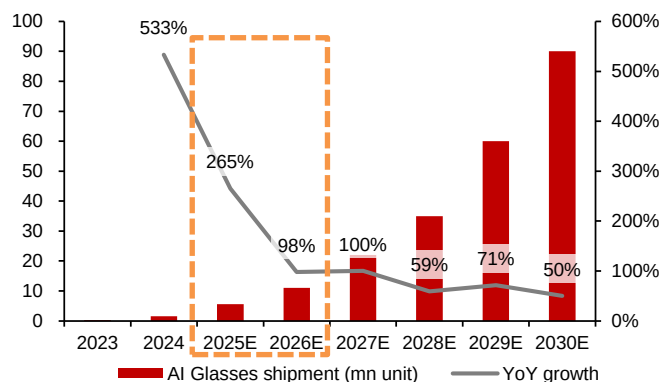
AR/VR: AI enablement to kick off Smart Glasses 2.0 Era

The smart glasses industry is undergoing a profound transformation. The "Glasses 1.0" era, represented by Google Glass, failed to expand into mass market due to hardware bottlenecks, prohibitive costs, and lack of disruptive applications. Driven by rapid development of Generative AI and LLMs since 2023, we believe the industry is entering an AI-driven "Glasses 2.0" era.

The launch of 2nd-Gen Ray-Ban Meta smart glasses in 2023 received positive feedback from global consumers, and shipments exceeded 2mn during Sep-2023 to Feb-2025. Its success not only validates the business model of combining "AI features with Fashionable Design" but has also reignited consumer interest in smart wearables. Based on WellsennXR, global AI smart glass shipments are forecasted to reach 5.5mn in 2025 (vs. 1.52mn in 2024). We expect shipments to exceed 10mn mark in 2026, positioning AI glasses as the next core wearable category following TWS device.

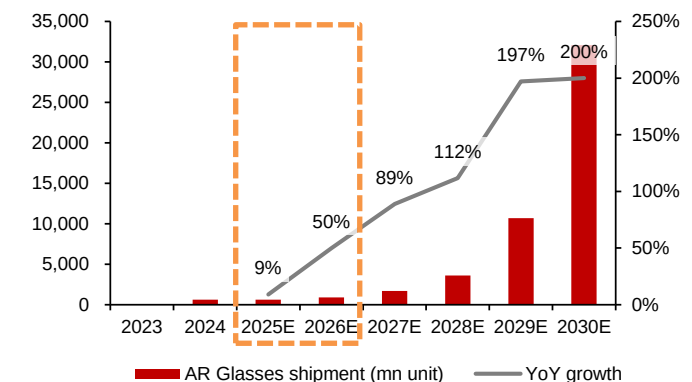
We view AR glasses as the ultimate form factor for AI glasses industry. By overlaying virtual information onto the real world to achieve "Virtual Reality," AR glasses unlock use cases far richer than audio-based AI glasses, such as immersive navigation, real-time translation subtitles, and remote collaborative guidance. The enrichment of use cases by AI, combined with investments from global tech giants, is driving technical advancements and building ecosystem. TrendForce forecast global AR glasses shipments will reach 32mn by 2030, representing a CAGR of 97% during 2024 and 2030.

Figure 86: Global AI glasses shipment trend



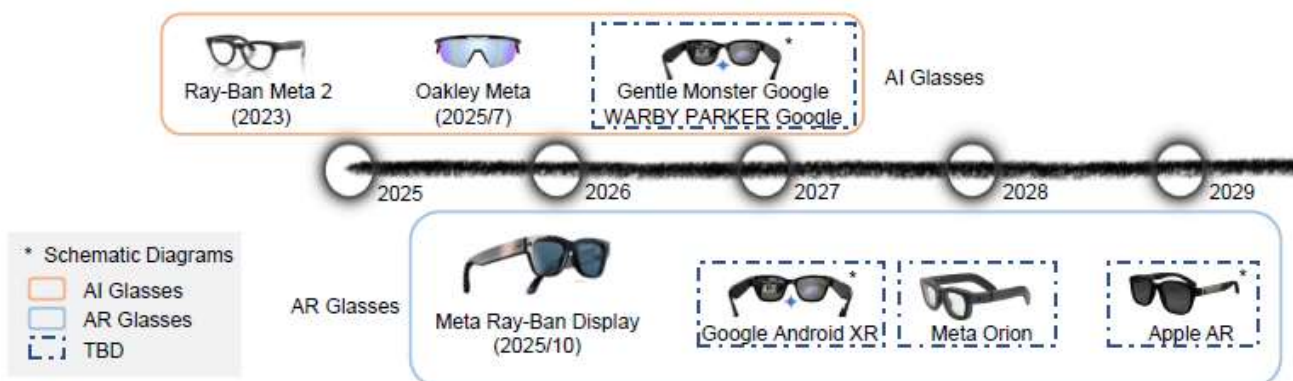
Source: Wellsenn XR, CMBIGM

Figure 87: Global AR glasses shipment trend



Source: Trendforce, CMBIGM

Figure 88: Global AI/AR glasses product launch timeline



Source: Trendforce, CMBIGM

Tech giants set to accelerate product launches; Apple Glasses in focus

We expect 2025-2027 will be critical period for smart glasses industry. Product roadmaps from major tech brands will not only shape the competitive landscape but also mark the technology roadmap for the supply chain. From Meta, Google, and Apple to leading Chinese internet/tech companies, players are expanding their strategic roadmap to seize first-mover advantages in this emerging market. Internet companies could leverage their strengths in applications and content (e.g., AI, short-video, social media), while smartphone brands possess massive user bases (Apple's installed base of 1bn+ devices; Xiaomi's global MAU above 70mn). We believe the entry of these giants will unlock upside potential for smart glasses market.

Based on our checks, industry product roadmap is evolving as follows: 1) **Meta**: Following 2H25E launch of Meta Ray-Ban Display (monocular full-color AR glasses with LCoS and Geometric Waveguide), we expect Meta to unveil its first high-end AR glasses featuring LEDoS technology in mid-2027. 2) **Amazon**: it planned launch of two AR glasses models in 2026, one targeting internal user case (e.g., logistics) and another designed for consumer market. 3) **Samsung**: it plans to launch its AI Glasses in 2026. 4) **Apple**: We expect Apple's smart glasses to be unveiled in 2028, with mass production slated for 2029. The form factor is expected to resemble the Ray-Ban Meta smart glasses. 5) **ByteDance**: Its AR glasses is under development and target to launch in **1Q26E**. 6) **Alibaba**: it released **Quark AI Glasses** in **Dec 2025**. Powered by **Quark/Tongyi Qianwen** LLMs. These glasses focus on information search and object recognition, and aim at domestic market with a high cost-performance strategy.

Figure 89: Global smart glasses roadmap

Brand	Model / Project	Launch Time	Category	Key features/ Strategy
Meta	Oakley	Sep 2025	AI Glasses	No display; built-in camera and AI. Focuses on sports & training scenarios .
	Hypernova	Sep 2025	AR Glasses (Monocular)	Display on the right lens ; capable of showing notifications, AI information, etc
	Orion	2027	AR Glasses (Binocular)	Meta's flagship full-function holographic AR glasses project.
Amazon	Amelia	2026	AR Glasses	Targeted at internal use (e.g., logistics/warehouse).
Samsung	XR Glasses	2026	AI Glasses	Core device of the Android XR camp; powered by Google Gemini .
Google	Project Astra	2026	AR Glasses	Based on Android XR OS and Gemini AI ; supports advanced features like real-time translation and navigation.
Apple	Smart Glasses	2028/29	AI Glasses	Equipped with camera and microphone; features deep integration with Siri and Apple Intelligence .
ByteDance	AI Glasses	1Q26	AR Glasses	Active R&D in AR glasses; noted for aggressive specification configurations .
Alibaba	Quark AI Glasses(G1/S1)	Nov 2025	AR Glasses	G1 : Focuses on AI Audio/Capture. S1 : Equipped with Micro-OLED screen. Core Strategy: Integration of Quark's visual search and recognition capabilities.
Xiaomi	Xiaomi AI Glasses	Jun 2025	AI 眼鏡	Smart glasses focused on AI and Camera functions; deeply bound to Xiao AI assistant and the Xiaomi EV/IoT ecosystem .
Rokid	Rokid Glasses	Nov 2024	AR Glasses	Integrates multiple global LLMs (e.g., Ernie Bot , Gemini); focuses on AI interaction .

Source: Company data, CMBIGM

AI glasses: Lightweight form factor leads the way, capturing the mass market

We believe 2025-27 will enter the nascent phase, display-free AI glasses are set to be the primary growth engine. Their simpler design, lower cost structure, and form factor, which closely resembles traditional eyewear, make them the ideal entry-level product to capture mass-market consumer market.

AI glasses can be defined by AI-enabled and transparent visual experience. Based on hardware spec, they can be grouped into two categories: 1) **Camera-free AI Glasses:** Relying on microphones and speakers for voice interaction, these devices focus on audio assistance and real-time notifications. 3) **Camera-equipped AI Glasses:** Exemplified by **Ray-Ban Meta**, these devices capture images and video to interact with **multimodal AI models**, unlocking richer use cases such as real-time image recognition and environmental understanding. **Overall**, while AI glasses are rapidly gaining market share due to their lightweight nature and high cost-performance ratio, we believe the next major leap in functionality and value will stem from **AR glasses** with display capabilities.

Figure 90: Ray-Ban Meta Smart Glasses



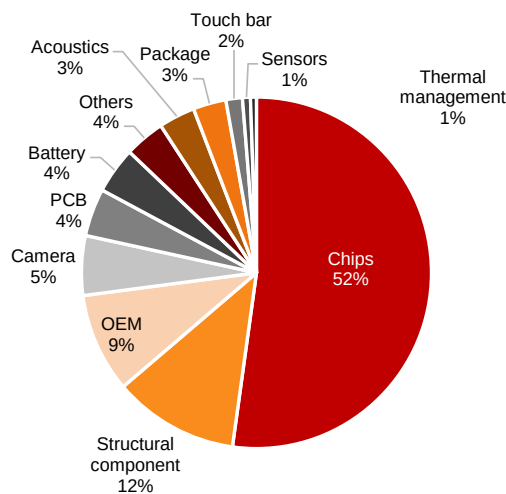
Source: Company, CMBIGM

Figure 91: Xiaomi AI Glasses



Source: Company, CMBIGM

Figure 92: Ray Ban Meta BOM cost breakdown



Source: Wellsenn XR, CMBIGM

AR glasses: virtual-real fusion; Defining the future form factor

We view AR glasses as the ultimate form factor for smart glasses. Utilizing optical see-through technology, AR glasses offer distinct advantages over VR headsets: they are lighter, provide a more realistic visual experience, and closely mimic the form factor and wearing comfort of traditional eyewear. However, this functional leap will lead to a price premium. BOM cost of AR glasses is significantly higher than that of AI glasses. Retail prices range from US\$400 to over US\$1,000, primarily driven by costs of two high-value optical components: optical waveguides and micro-displays. Each technology will lead to differences across light transmission, optical path designs, and device volume/form factors.

Figure 93: MetaOrion AR Glasses



Source: Wellsenn XR, CMBIGM

Figure 94: Meta Ray-Ban Display glasses



Source: Meta, Trendforce, CMBIGM

Component teardown: optics and display as key innovation drivers

One of the major bottlenecks for AR glasses lies in the breakthroughs of two critical optical components: **Optical waveguides** and **micro-displays**.

Optical waveguides:

Waveguide is the key component to transmit light signals generated by micro-display to the human eye, blending it with ambient light from the real world. This enables the user to view overlaid virtual information while maintaining a view of the physical environment. We expect that geometric waveguides and diffractive waveguides will coexist in the near term, catering to distinct product positionings. 1) **Geometric waveguides**: Superior optical performance and display quality and better suited for high-end flagship products. 2) **Diffractive waveguides**: Greater flexibility for cost performance and production scalability.

Figure 95: AR optical waveguide technology comparison

Technology	Advantages	Challenges / Disadvantages	Key Suppliers
Geometric Waveguide	• High Image Quality: Excellent color reproduction. • No Artifacts: Free from dispersion issues ("rainbow effect"). • FOV: Relatively large Field of View.	• Manufacturing: Complex process (coating, stacking, cutting). • Yield: Low production yields. • Cost: High unit cost.	• Himax Technologies • Crystal-Optech • Lingxi AR • SCHOTT
Diffractive Waveguide	• Scalability: Design is relatively simple; suitable for mass production via semiconductor processes. • Form Factor: Lenses are thinner and lighter.	• Optical Issues: Prone to dispersion ("rainbow effect"). • Efficiency: Lower light/optical efficiency. • FOV: Limited Field of View.	• Sunny Optical • AAC Technologies • Vuzix
SiC-based Diffractive Waveguide	• Refractive Index: Silicon Carbide (SiC) offers an extremely high index (2.6-2.7). • Ultra-Wide FOV: Enables massive FOV (e.g., Meta Orion's 70°). • Quality: Superior image clarity.	• Cost: Extremely high material costs. • Processing: High hardness makes processing difficult; yield rates are a massive challenge. • Maturity: Still far from consumer-level commercialization.	• Meta (Project Orion)

Source: CMBIGM

Micro-displays:

Micro-displays serve as the "optical engine" of AR glasses, which generate virtual images, convert image data into light signals, and couple them into the optical waveguide via collimating lenses. Their performance will determine brightness, contrast, power consumption, and form factor. In terms of technology roadmap, LCoS is currently the mainstream solution for consumer-grade AR glasses, underpinned by its cost-efficiency and technological maturity. For instance, Meta Ray-Ban Display launched in 2025 adopted LCoS, which pivoted its display solution from expensive Micro-LEDs to the more mature LCoS technology, addressing the challenges of high BOM costs and mass-market viability.

In the long term, we believe Micro-LED will become the next evolution, given its superiority in brightness, power efficiency and lifespan. However, high cost and mass production challenges remain the near-term barriers. Overall, we believe commercialization for high-performance, low-cost display solutions will be the battleground in the coming year.

Figure 96: Micro-display: LCoS vs. Micro-OLED vs. Micro-LED

Technology	Advantages	Disadvantages / Challenges	Key Suppliers
LCoS	• Maturity: Highly mature technology with an established supply chain. • Cost: Low manufacturing cost. • Specs: High resolution.	• Mechanism: Reflective imaging requires an external light source, leading to bulkier modules. • Performance: Low optical efficiency and relatively lower contrast.	• OmniVision • Himax • Sony • Kopin • Raontech
Micro-OLED	• Mechanism: Self-emissive. • Performance: Extremely high contrast and fast response time. • Efficiency: Lower power consumption. • Form Factor: Compact size.	• Brightness: Relatively low brightness makes it unsuitable for bright outdoor environments. • Lifespan: Organic materials degrade over time (shorter lifespan).	• Sony
Micro-LED	• Performance: Self-emissive with ultra-high brightness (multiples of OLED) and high contrast. • Efficiency: Extremely low power consumption and nanosecond-level response speed. • Durability: Long lifespan.	• Manufacturing: Extremely complex process (specifically Mass Transfer). • Cost/Yield: Extremely high cost and currently low yields. • Color: Full-color technology remains immature.	• JBD • Aledia • Porotech • PlayNitride

Source: CMBIGM

Meta vs. Google: Diverging strategies; ecosystem as the new moat

As hardware technology matures, we believe long-term competitive advantages will shift from spec to ecosystem, and Meta and Google have adopted different strategies as below.

Meta: "Apple" strategy (vertical integration). We believe Meta is replicating iPhone's model through vertical integration of software and hardware to deliver a seamless user experience. Meta's massive user base can provide an established distribution channel and a rich data source for training AI models. Meta aims to launch AI glasses early and define future use cases, and roll out mid-to-high-end products later for broader consumer base.

Google: "Android" strategy (platform openness). Mirroring its smartphone strategy, Google aims to become the industry standard-setter by opening the Android XR platform, inviting diverse brands to operate within its ecosystem. We believe this platform-centric strategy effectively leverages synergies across the supply chain to rapidly expand market scale and enrich application ecosystem, particularly in the enterprise market.

Figure 97: Strategic comparison: Meta vs. Google in AR/AI Glasses

	Meta	Google
Strategic Focus	Social & Consumer Interaction: Glasses as the primary gateway to redefining how humans interact with AI.	Productivity & Enterprise: Focuses on AI as a productivity tool, prioritizing enterprise-grade applications and an open platform ecosystem.
Ecosystem Strategy	Closed Route: leverages in-house Meta OS and Meta AI , combined with social media dominance, to create a sticky, integrated user experience.	Open Route: Launches the Android XR platform to attract third-party OEMs, aiming to become the foundational Operating System for the industry.
Hardware Strategy	Vertical Integration: Deeply involved in hardware development; leads product design and definition through exclusive partnerships with industry giants like EssilorLuxottica .	Horizontal / Platform Model: Focuses on providing Reference Designs and software platforms; collaborates with hardware partners (e.g., Avegant , Xreal) rather than manufacturing first-party hardware.
AI Integration	Data-Centric: Meta AI is deeply integrated into social apps; leverages first-person (egocentric) data to train and optimize multimodal AI models.	Service-Centric: Gemini AI serves as the core engine of Android XR, providing cloud-based and generative agent services.

Source: CMBIGM

Optics & assembly supply chain poised to benefit

Driven by smart glasses booming market, we are bullish on players with critical components. We prefer ODMs with a strong client portfolio, such as Luxshare. For Optical waveguides, we recommend vendors with collaborations with major international clients, including Sunny Optical and AAC Tech. For optics, we favor Sunny Optical and Q Tech.

Figure 98: Smart glasses supply chain



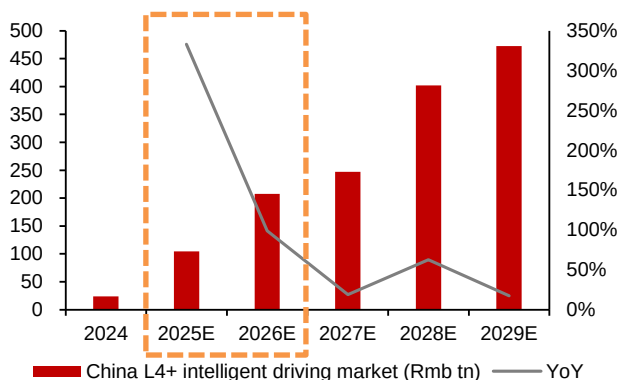
Source: CMBIGM

Auto electronics: rapid development in L4+ intelligent driving and rising NEV penetration

Evolution of AI, computing power platforms and sensor technologies are driving the intelligent driving industry towards deep intelligence. The intelligent driving solution is a complete set of system capabilities that achieve perception, semantic understanding and dynamic modeling of the vehicle's surrounding environment through the combination of a multi-sensor system and AI algorithms, and rely on the vehicle-end computing platform for real-time decision-making and control. In terms of functional architecture, intelligent driving solutions can cover different stages from single assisted driving functions to full-scenario autonomous driving. Intelligent driving solutions can be classified into driving solutions and parking solutions based on their functions. The continuous evolution of AI, computing power platforms and sensor technologies, coupled with the government's constant improvement of regulations and standards, is driving the industry to move from functional superimposition to deep intelligence.

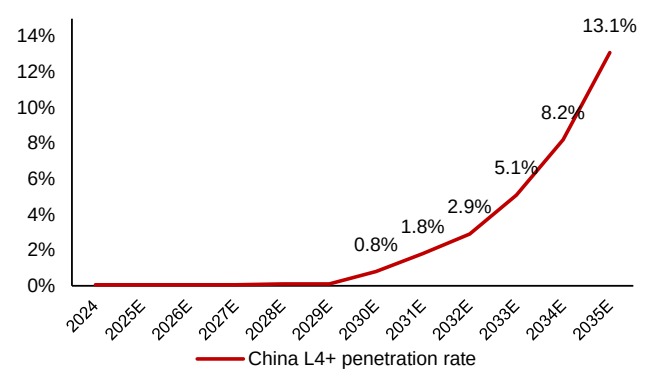
L4+ level intelligent driving commercialization has significantly accelerated. Intelligent driving solutions that achieve L1 to L5 levels of automation are often referred to as autonomous driving solutions, which can perform varying degrees of continuous vehicle motion control in dynamic driving tasks. At present, the penetration rate of L2-level assisted driving has generally exceeded 50%, and L3-level assisted driving has entered a small-scale industrialization stage. According to data from Yicai, the market penetration rate of L4 and higher-level intelligent driving in China will only be 5% in 2025, but it is expected to rise significantly to 50% by 2040. The main driving forces include: 1) Policies: National-level planning and the pilot program of full opening in five cities (i.e., Shanghai, Guangzhou, Shenzhen, Chongqing and Hangzhou) clearly define the division of accident responsibilities and remove institutional obstacles; 2) Technology: The system cost continues to decline, the vehicle-road-cloud collaboration capability is enhanced, and the reliability in complex environments is improved. 3) Scenarios: Pilot projects in multiple scenarios such as Robotaxi, unmanned delivery, and long-haul logistics are accelerating the transition from low-speed closed scenarios to medium and high-speed open scenarios. Under the combined effect of the release of policy dividends, the advancement of core technologies and the expansion of application scenarios, the number of L4 vehicles in the five cities is expected to exceed 100,000 by 2025, driving the scale of the related industrial chain to exceed RMB 20bn.

Figure 99: China L4+ intelligent driving market



Source: CAAM, CMBIGM

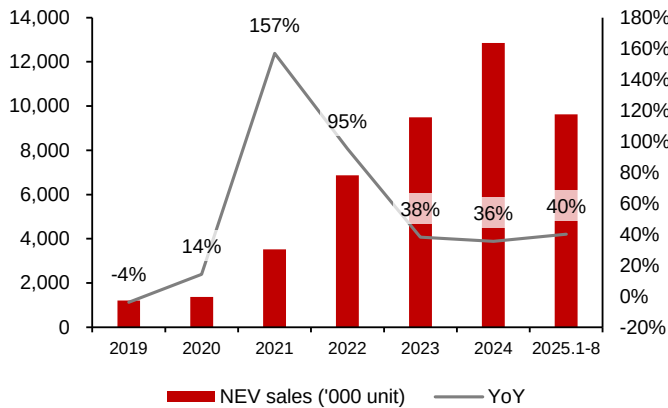
Figure 100: China L4+ smart driving penetration



Source: ijiou, CMBIGM

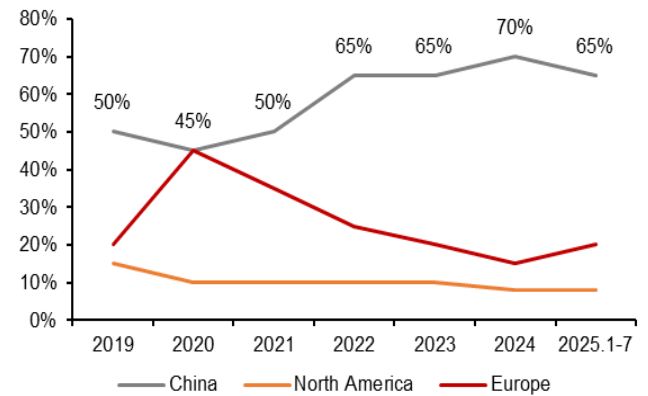
Penetration of NEV to exceed 60% in 2026 (vs. 50% in 2025). According to CAAM, in October this year, monthly penetration of NEVs in China exceeded 50% for the first time. Looking ahead to 2026, sales volume and ownership of new energy vehicles will continue to reach new highs, and penetration of NEVs is expected to exceed 60%, thanks to new product launches and technology upgrade by Chinese NEV manufacturers. According to "Technical Roadmap 3.0 for Energy-saving and New Energy Vehicles", penetration of NEVs in China will reach 80% by 2040.

Figure 101: China NEV sales



Source: CAAM, CMBIGM estimates

Figure 102: China/North America/Europe NEV penetration

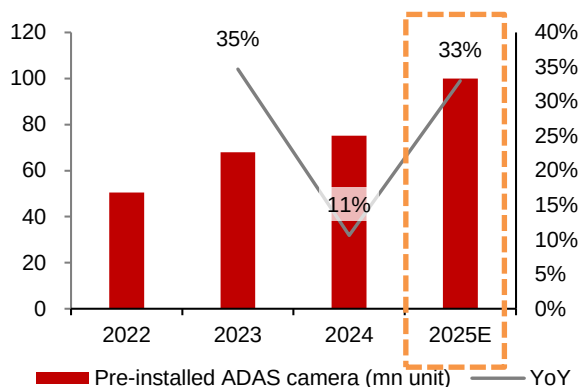


Source: CADA, CMBIGM

ADAS popularization to drive auto cameras to grow rapidly

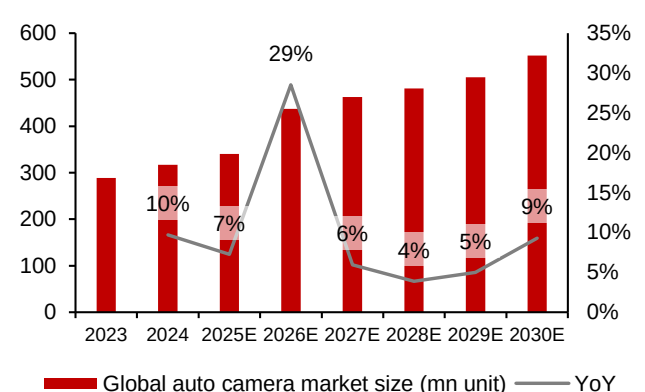
ADAS market in China is expanding rapidly, driving demand for high-end intelligent driving (L2+ and above) multi-cam systems. We believe in-vehicle camera is a core component of vision technology. Average number of L2+ cameras per car will exceed 7, and average number of L2++ cameras per car will exceed 11. Sunny Optical expected that advanced intelligent driving will rely on multi-cam perception, and average number of L3 cameras per car will increase to 11-13 while the number of L4/L5 cameras per car will exceed 15. Shipment mix of 8MP and above will also rapidly increase. Due to rapid ADAS adoption in China, total number of ADAS cameras installed in China's passenger vehicles will exceed 100mn by 2025, driving rapid growth of global automotive lens market. Sunny Optical estimated that global demand for automotive lenses will reach 437mn by 2026.

Figure 103: China pre-installed ADAS camera market



Source: auto gasgoo, CMBIGM

Figure 104: Global automotive cam module market

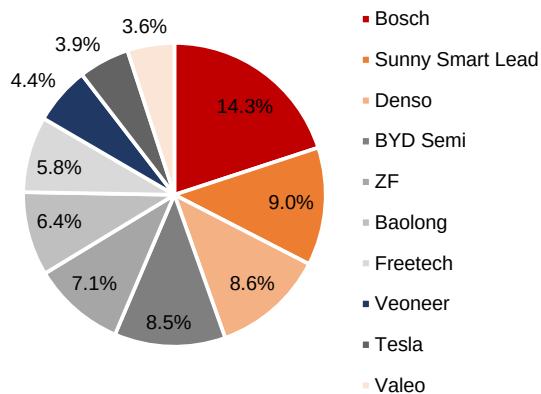


Source: Sunny Optical, CMBIGM estimates

High-resolution cameras and multi-cameras as future trends. The resolution of in-vehicle cameras has been improving, evolving from 1.2MP to the later 2MP, 3MP and 5MP. Currently, mainstream HD cameras are all 8MP, and cameras with higher resolutions will emerge in the near future. With the improvement of perception accuracy of assisted driving, the presentation of information and the demand for long-distance monitoring, 8MP cameras have become the standard spec for advanced intelligent driving, and we expect higher-resolution cameras will continue to upgrade. In addition, average number of cameras per car is increasing, evolving from single V (one front-view camera) to current 11V (multiple front-view, rear-view, side-view, and surround-view cameras) solution, to meet the demands for more complex driving scenarios.

In terms of competition landscape, tier-1 suppliers include BOSCH, which secured project wins of 3rd-gen multi-functional camera evo version (MPC3 evo) from several mainstream Chinese brands, including Chery, BYD, and Changan, providing them with the perception solutions for L2 assisted driving. The tier-2 suppliers consist of leading domestic Tier1 suppliers and system suppliers, including Huayu Automotive, Desay SV, Huawei and other domestic companies. The tier-3 suppliers consist of optical module manufacturers and cross-industry suppliers, including Sunny Optical, Lianchuang Electronics, Ofilm, and other companies with optical business. In particular, Sunny Optical has been deeply engaged as its core business. Leverage "three highs and one rapid" (high base, high quality, high-cost performance and rapid response), we expect Sunny's automotive lenses will continue to gain share in global auto lens market. In addition, its high-pixel 17M automotive lens has secured project wins from an internationally renowned client and is expected to enter mass supply in 2026.

Figure 105: Front-view camera supplier market



Source: auto gasgoo, CMBIGM

Figure 106: Sunny Optical innovation roadmap

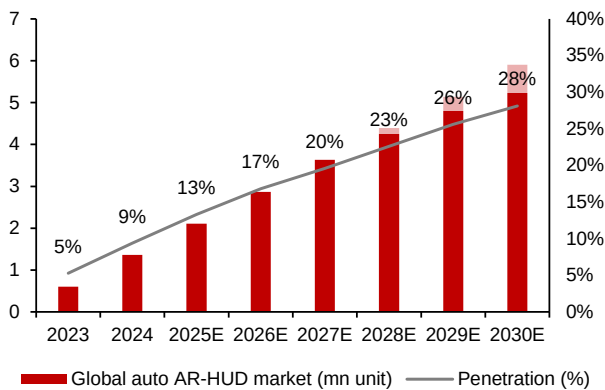


Source: Sunny Optical, CMBIGM

Auto display: AR-HUD penetration rises; Mini-LED/OLED demand booms

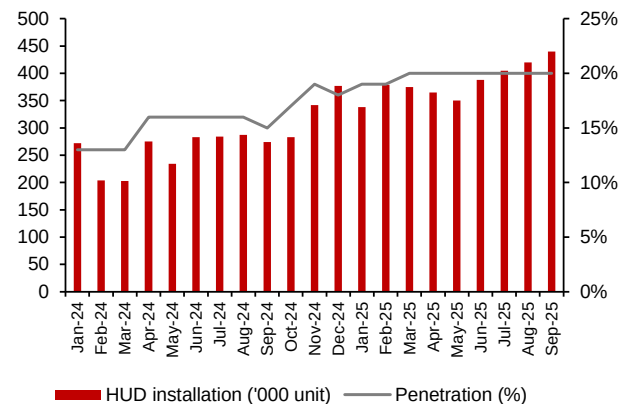
Intelligent NEV upgrades drive sustained AR-HUD growth. Driven by the wave of intelligent upgrades in NEVs, penetration of augmented reality head-up displays (AR-HUD) is poised for sustained growth. By seamlessly fusing navigation information with real-world scenes, this technology significantly enhances driving safety and convenience. According to GAC, HUD penetration in China passenger car market continues to climb. In Sept 2025, installation volume reached **440,000**, with penetration reaching **20%** for the first time. Looking ahead, we believe automakers will continue to expand AR-HUD adoption. Against the backdrop of performance homogeneity resulting from EV platformization, the smart cockpit and autonomous driving experience have become core competitive differentiators. As one of the most intuitive spec delivering a "high-tech" feel and direct user engagement within the cockpit, AR-HUD has become a critical battleground for OEMs.

Figure 107: Global auto AR-HUD market



Source: Sunny Optical, CMBIGM

Figure 108: China auto HUD market



Source: auto gasgoo, CMBIGM

Mini-LED: Mainstream choice for mid-to-high-end; Cost reduction unlocks demand.

Mini-LED technology is now widely adopted in mid-to-high-end models given its superiority in cost, brightness, lifespan and contrast. Latest models include Cadillac LYRIQ (33-inch integrated instrument/center stack), Zeekr (center screen), and Xiaomi YU7 (PHUD Horizon Display), all utilizing Mini-LED technology. Technologically, improved yields combined with economies of scale have lowered unit costs. This cost reduction is driving penetration from RMB 300k-500k premium segment to RMB 200k-300k mass-market bracket. Leading domestic Mini-LED backlight module suppliers with mass production capabilities and high yields include Hisense Visual, MTC, Coretronic, and HKC.

OLED: Targeting premium segment; BOEVx to accelerate capacity expansion.

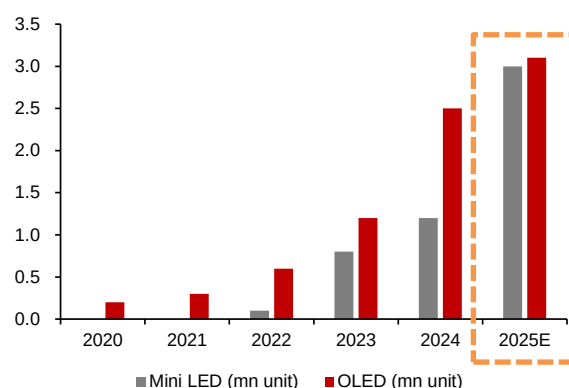
Despite cost and lifespan challenges, OLED is leveraging its distinct advantages—self-emission, ultra-thin profile, and flexibility—to penetrate in premium vehicle center stacks and instrument panels, further solidifying its leadership in high-end market. **BOE Varitronix**, the global automotive display leader, invested RMB 2bn in Heyuan Manufacturing Base Phase III project. With mass production target in Dec 2026, this facility will add over 10mn annual capacity, focusing on high-end products like OLED smart cockpits. We believe BOEVx's strong partnership with automakers, coupled with its support for upgrading OLED demand amidst the vehicle intelligence trend, will drive sustained growth in its automotive business.

Figure 109: Mini-LED/OLED feature comparison

	Mini LED backlit display	OLED display
Light source	Mini LED Backlight	OLED Self Emission
LED chip size	100~300μm	Not required
Process features	Upgrading the existing LED equipment does not increase the cost much	The cost of reinvesting capital expenditure is quite high
Relationship with LCD	Use LCD and replace the backlight with Mini LED	Substitution relationship, no need for liquid crystal and LED backlighting
LED used	The number of controls depends on the panel size and the area	Not required
HDR effect	Medium to high	High
Cost	Medium	High

Source: Trendforce, CMBIGM

Figure 110: Global auto Mini LED/OLED shipments



Source: Sigmaintell, CMBIGM

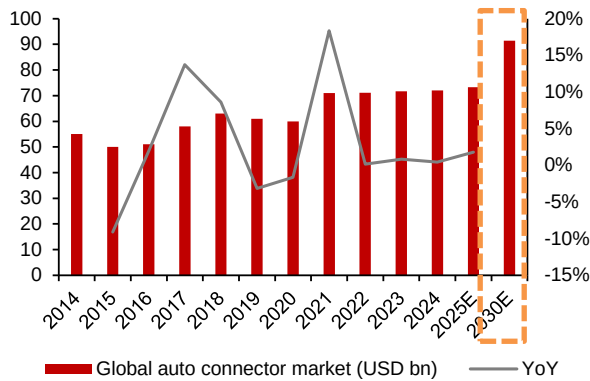
Auto connector: strong demand for high-voltage and high-speed connectors

Electrification & intelligence drive dual growth engines. As the industry trends from traditional 500-600V platforms toward 800V, demand for HV connectors is increasing. The transition to 48V and 800V electrical architectures is fundamentally reshaping connector requirements, shifting from 12V systems to support electric turbochargers, regenerative braking, and high-power charging capabilities. Rapid penetration of ADAS and autonomous driving demands for high-speed connectors. According to Mordor, global auto connector market is projected to reach US\$9.14bn by 2030, reflecting a CAGR of 4.5% (2025-2030).

Global concentration remains high; Chinese players innovating to catch up. Global connector market is highly concentrated, with top 10 players capturing over 60% market share. TE Connectivity, the world's largest manufacturer, captures over 40% share in NEV HV connector segment. Amphenol, leveraging its telecom leadership (supplying Huawei, Ericsson), holds a 60% share in global 5G base station connectors. Yazaki commands a 30% share of global automotive wire harness market and serves as a core supplier to Tesla.

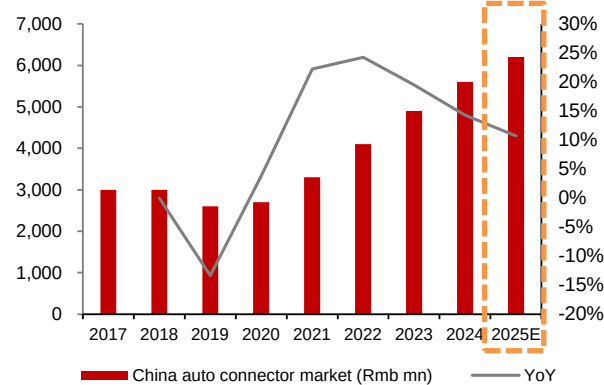
Chinese companies are rapidly closing the gap through innovations: 1) Luxshare: It launched full product portfolio of auto connectors in 2025, covering low-voltage, high-voltage, high-speed and custom components. With qualifications from global OEMs and overseas orders for HV connectors, Luxshare targets to become the largest Chinese auto connector supplier by 2027. 2) Recodeal: It is a core supplier for NIO's battery swap connectors, and its HV products account for a significant portion of its new energy business, driving rapid growth in recent years.

Figure 111: Global auto connector market



Source: Mordor Intelligence, CMBIGM

Figure 112: China auto connector market



Source: auto gasgoo, CMBIGM

Figure 113: Peers valuation – Smartphone/Smart Glasses/Smart Home supply chain

Company	Ticker	Mkt Cap (US\$ mn)	Price (LC)	P/E (x) FY25E	P/E (x) FY26E	P/B (x) FY25E	P/B (x) FY26E	ROE (%) FY25E	ROE (%) FY26E	Perf YTD (%)
Brand										
Apple	AAPL US	4,106,201	277.9	37.6	33.6	64.5	45.6	177.8	145.7	11.0
Xiaomi	1810 HK	138,227	41.3	22.3	17.4	3.5	2.9	15.5	16.6	19.7
Transsion	688036 CH	10,989	67.5	21.2	15.2	3.6	3.1	16.8	20.4	(29.0)
Samsung	005930 KS	434,247	107,900	18.6	10.1	1.7	1.5	9.4	16.2	102.8
LG	066570 KS	10,531	95,100	10.9	9.2	0.8	0.7	6.9	7.5	13.9
TCL Electronics	1070 HK	3,642	11.2	12.0	10.0	1.5	1.4	12.6	14.0	82.8
		Average		20.4	15.9	12.6	9.2	39.8	36.7	33.5
ODM/EMS										
BYDE	285 HK	9,929	34.3	16.1	12.6	2.0	1.8	12.2	14.0	(18.5)
Luxshare	002475 CH	63,054	61.2	25.5	20.3	4.3	3.5	16.7	17.4	50.2
Lens Tech	6613 HK	21,717	25.5	25.1	18.0	2.3	1.9	9.4	12.0	-
Hon Hai Precision	2317 TT	105,341	235.0	16.1	13.3	1.9	1.8	11.7	13.3	27.7
		Average		20.7	16.1	2.6	2.3	12.5	14.2	19.8
Optics										
Sunny Optical	2382 HK	9,570	68.0	19.8	16.2	2.5	2.3	12.7	29.0	(1.2)
Q Tech	1478 HK	1,436	9.4	13.4	11.1	1.7	1.5	13.1	13.9	44.9
Truly	732 HK	416	1.1	-	-	-	-	-	-	(6.1)
Cowell	1415 HK	3,240	29.0	17.1	13.4	4.7	3.5	30.0	28.7	2.6
Largan	3008 TT	8,912	2,080	13.1	11.3	1.5	1.3	11.2	12.4	(22.2)
Genius	3406 TT	1,616	446.5	14.1	12.4	1.9	1.7	14.2	14.8	(11.9)
O-Film	002456 CH	5,295	11.2	485.2	97.0	7.6	6.7	1.6	8.1	(6.9)
Lg Innotek	011070 KS	4,610	286,500	15.1	11.6	1.2	1.1	8.2	9.8	76.9
		Average		82.5	24.7	3.0	2.6	13.0	16.7	9.5
Acoustics/Haptics										
AAC Tech	2018 HK	5,792	38.5	15.9	12.6	1.6	1.4	10.0	11.5	2.7
Luxshare	002475 CH	63,054	61.2	25.5	20.3	4.3	3.5	16.7	17.4	50.2
Merry	2439 TT	823	101.0	18.0	13.1	1.4	1.4	6.8	9.8	(6.5)
Knowles	KN US	1,994	23.4	21.4	19.1	-	-	-	-	17.5
Nidec	6594 JP	15,922	2,081	13.1	13.5	1.3	1.3	10.8	10.2	(27.1)
		Average		20.3	17.3	2.3	2.1	10.8	11.9	9.3
Connector										
FIT Hon Teng	6088 HK	5,351	5.7	27.4	16.9	1.9	1.8	7.1	10.4	56.2
Luxshare	002475 CH	63,054	61.2	25.5	20.3	4.3	3.5	16.7	17.4	50.2
TE	TEL US	68,834	234.0	27.2	21.9	5.5	5.0	20.4	23.5	63.7
Amphenol	APH US	171,441	140.1	42.4	34.1	12.9	10.4	36.0	34.2	101.7
		Average		30.6	23.3	6.2	5.2	20.1	21.4	67.9
Structured Components										
BYDE	285 HK	9,929	34.3	16.1	12.6	2.0	1.8	12.2	14.0	(18.5)
Tongda	698 HK	112	4.5	235.8	172.3	14.0	12.7	5.9	7.4	10.6
TK Group	2283 HK	275	2.6	7.8	6.8	1.2	1.1	15.3	16.7	14.1
Everwin	300115 CH	8,458	43.9	85.7	60.7	7.0	5.0	8.1	10.8	170.6
Lens Tech	300433 CH	21,717	25.5	25.1	18.0	2.3	1.9	9.4	12.0	-
Catcher	2474 TT	3,914	195.5	17.5	14.0	0.8	0.8	4.2	4.8	0.8
Jabil	JBL US	24,083	225.4	24.0	20.3	16.8	15.6	63.3	71.5	56.7
		Average		58.9	43.5	6.3	5.5	16.9	19.6	39.0
Hinge										
AAC Tech	2018 HK	5,792	38.5	15.9	12.6	1.6	1.4	10.0	11.5	2.7
Jiangsu Gian	300709 CH	1,185	45.0	-	-	-	-	-	-	12.1
KH Vatec	060720 KS	187	11,600	11.5	8.5	1.0	0.9	8.6	13.6	42.5
Foseltek	6805 TT	3,356	1,525	49.0	27.9	15.8	11.6	33.3	44.9	88.3
Jarlytec	3548 TT	197	90.8	30.4	15.8	1.1	1.1	-	-	(47.3)
NBTM	600114 CH	2,608	29.2	31.4	24.7	5.8	5.0	18.6	20.8	80.6
Dongguan Eontec	300328 CH	1,601	16.4	-	-	-	-	-	-	122.7
		Average			17.9	5.1	4.0	17.6	22.7	43.1

Source: Bloomberg, CMBIGM estimates, As of 12/8/2025 close price

Figure 114: Peers valuation – PC/Server supply chain

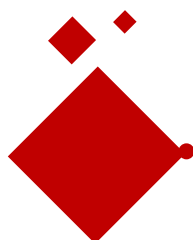
Company	Ticker	Mkt Cap (US\$ mn)	Price (LC)	P/E (x) FY25E	FY26E	P/B (x) FY25E	FY26E	ROE (%) FY25E	FY26E	Perf YTD (%)
PC/Server										
Lenovo	992 HK	15,659	9.8	11.1	10.2	2.5	2.2	23.9	24.7	(2.6)
Dell	DELL US	94,922	140.4	17.9	14.1	-	-	(173.2)	(344.6)	21.8
HPE	HPE US	31,471	23.9	12.6	10.1	1.3	1.3	10.9	13.3	11.8
HP Inc	HPQ US	23,433	25.1	8.0	8.1	-	110.4	(405.1)	273.8	(23.2)
Super Micro	SMCI US	21,115	35.4	16.9	17.3	3.5	3.1	21.3	22.2	16.0
ASUSTeK	2357 TT	14,354	602.0	11.2	11.6	1.6	1.6	13.9	13.4	(2.3)
Inspur	000977 CH	13,466	64.8	35.4	26.2	4.3	3.7	12.3	14.1	25.0
Dawning	603019 CH	20,949	101.2	58.4	46.8	6.6	5.9	11.4	12.8	40.0
Average				21.4	18.1	3.3	18.3	(60.6)	3.7	10.8
ODM/OEM										
Fii	601138 CH	189,538	67.5	38.9	22.3	7.8	6.3	20.5	29.5	213.9
Huaying	603296 CH	14,072	97.9	24.6	19.7	3.9	3.3	16.0	17.2	38.0
BYDE	285 HK	9,929	34.3	16.1	12.6	2.0	1.8	12.2	14.0	(18.5)
Time Interconnect	1729 HK	4,165	-	-	-	-	-	-	-	308.4
Quanta	2382 TT	36,640	295.5	16.6	13.6	5.1	4.5	30.8	34.6	3.0
Wistron	3231 TT	15,314	150.0	16.5	11.5	2.8	2.4	18.4	22.8	44.2
Wiwynn	6669 TT	27,084	4,540.0	17.0	14.6	6.9	6.0	47.2	43.1	73.3
Inventec	2356 TT	5,240	45.5	19.1	16.0	2.4	2.3	12.4	13.9	(9.2)
GigaByte	2376 TT	5,249	243.5	12.9	10.8	2.7	2.5	21.8	23.1	(10.6)
Average				20.2	15.1	4.2	3.6	22.4	24.8	71.4
Connectors										
FIT Hon Teng	6088 HK	5,351	5.7	27.4	16.9	1.9	1.8	7.1	10.4	56.2
Luxshare	002475 CH	63,054	61.2	25.5	20.3	4.3	3.5	16.7	17.4	50.2
Time Interconnect	1729 HK	4,165	-	-	-	-	-	-	-	308.4
TE Connectivity	TEL US	68,834	234.0	27.2	21.9	5.5	5.0	20.4	23.5	63.7
Amphenol	APH US	171,441	140.1	42.4	34.1	12.9	10.4	36.0	34.2	101.7
Average				30.6	23.3	6.2	5.2	20.1	21.4	116.0
Switch/Storage										
Cisco	CSCO US	311,583	78.9	20.8	19.2	6.8	6.3	31.9	33.2	33.2
Arista	ANET US	162,586	129.1	45.1	38.7	12.7	9.8	31.0	28.0	16.8
Keysight	KEYS US	35,887	209.6	29.6	25.9	6.2	5.5	22.3	21.1	30.5
Seagate	STX US	60,952	285.4	35.9	25.2	-	88.2	(159.3)	660.9	230.7
Western Digital	WDC US	58,048	169.8	32.3	22.1	10.6	7.5	24.9	42.9	276.8
Average				37.7	28.1	8.5	18.6	0.5	105.4	105.4
Substrate										
Unimicron	3037 TT	11,520	232.0	68.3	25.7	3.7	3.3	5.5	13.7	65.8
Ibiden	4062 JP	11,988	13,265.0	61.5	44.6	3.6	3.5	6.1	8.2	178.1
NYP CB	8046 TT	5,777	278.5	111.8	31.0	3.9	3.6	3.6	12.4	113.4
Average				80.5	33.8	3.8	3.5	5.1	11.5	119.1
Power Supply										
Delta	2308 TT	80,631	967.0	40.4	28.5	9.5	8.0	23.6	28.6	124.6
Lite-on	2301 TT	11,862	159.5	23.2	18.3	3.9	3.7	17.0	20.5	60.3
Average				31.8	23.4	6.7	5.8	20.3	24.6	92.5
Thermal										
Vertiv	VRT US	70,966	185.6	45.3	35.4	19.4	14.7	50.4	46.7	63.4
Fii	601138 CH	189,538	67.5	38.9	22.3	7.8	6.3	20.5	29.5	213.9
Sunowealth	2421 TT	2,667	903.0	30.4	16.9	7.9	6.1	27.4	40.9	34.4
AVC	3017 TT	17,507	1,405.0	28.5	19.8	12.9	9.1	52.5	49.3	126.1
Average				35.8	23.6	12.0	9.1	37.7	41.6	109.4

Source: Bloomberg, CMBIGM estimates, As of 12/8/2025 close price

Figure 115: Peers valuation – Auto electronics

		Mkt Cap	Price	P/E (x)		P/B (x)		ROE (%)		Perf
Company	Ticker	(US\$ mn)	(LC)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	YTD (%)
Auto Electronics										
BYDE	285 HK	9,929	34.3	16.1	12.6	2.0	1.8	12.2	14.0	(18.5)
Sunny Optical	2382 HK	9,570	68.0	19.8	16.2	2.5	2.3	12.7	29.0	(1.2)
AAC Tech	2018 HK	5,792	38.5	15.9	12.6	1.6	1.4	10.0	11.5	2.7
FIT Hon Teng	6088 HK	5,351	5.7	27.4	16.9	1.9	1.8	7.1	10.4	56.2
BOE Varitronix	710 HK	521	5.1	9.9	8.1	0.4	0.3	3.7	3.6	(24.3)
Intron Tech	1760 HK	287	2.1	13.1	8.8	0.8	0.7	5.9	8.3	69.4
Luxshare	002475 CH	63,054	61.2	25.5	20.3	4.3	3.5	16.7	17.4	50.2
Desay SV	002920 CH	9,278	109.9	24.2	19.0	4.9	4.1	21.5	22.3	(0.2)
Jingwei Hirain	688326 CH	1,604	94.5	475.0	45.5	2.7	2.5	0.6	5.7	12.4
Foryou	002906 CH	2,190	29.5	18.6	14.4	2.2	2.0	12.2	14.0	(4.1)
O-Film	002456 CH	5,295	11.2	485.2	97.0	7.6	6.7	1.6	8.1	(6.9)
LianChuang	002036 CH	1,642	11.0	112.2	43.1	4.7	4.2	4.0	10.5	17.0
Average				166.6	37.0	4.1	3.6	9.6	12.8	20.2

Source: Bloomberg, CMBIGM estimates, As of 12/8/2025 close price



China Consumer Staples

China Consumer Staples

MARKET-PERFORM

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Structural opportunities amid downward pressure on asset prices

Consumer environment outlook: Dual constraints of depreciation pressure and demand weakness

Consumer spending faces dual pressures of housing wealth effect erosion and sluggish income recovery. Asset-driven headwinds: releasing of Nearly-new housing inventory in tier-1 cities and banks' bulk disposal of property-linked assets may prolong secondary price bottoming, suppressing consumer confidence. Demand-side pressures: Export uncertainty perpetuates income/job insecurity, sustaining pronounced downgrading toward essential goods and low-cost emotional reprieves. Thus, we suggest investors focus on three investment themes below:

Investment theme 1: Deepening consumption tiering

We believe consumer stratification will intensify further in 2026, with distinct behavioral shifts across income segments: **1) Affluent downgrading:** High-net-worth individuals shifting spend from luxury to premium-accessible segments (light-luxury, domestic premium, or niche specialty brands). Core thesis: Quality preservation with strategic expenditure scaling. **2) Mass-market value maximization:** Accelerating substitution toward affordable alternatives drives expansion of hard-discount models—including near-expiration goods and private-label FMCG channels (snack warehouse stores, community discount outlets).

Investment theme 2: make the life get by + affordable emotional comfort

Amidst contracted consumer expenditure, demand concentrates around non-discretionary essentials and low-cost emotional reprieves: **1) Make life get by:** resilient demand for necessities — distinct consumption elasticity visible across staples, condiments, and packaged water. **2) “Affordable emotional comfort” in life** - affordable indulgences: consumers gravitate toward low-ticket experiences offering psychological relief (experience > ownership), as manifested through: **youth stress alleviation:** snacks, beer, microcations, concert experiences; **millennial/Gen-Z companionship:** petcare products, accessible collectibles; **middle-aged/elderly support:** basic nutraceuticals (vitamins/probiotics), regional wellness retreats; and **daily-life premiumization:** value-for-quality beauty, home fragrances.

Investment theme 3: Overseas expansion

Against lingering domestic consumption uncertainties, enterprises with advanced global footprints can hedge demand volatility via overseas expansion: 1) Supply chain-driven outreach: Condiment/snack firms leverage cost/production advantages to expand into Southeast Asia/Latin America, driving incremental revenue. 2) Brand-powered globalization: Differentiated product players (e.g., specialty snacks, pet food) enter EU/US niche markets via cross-border e-commerce, building regional brand awareness. Their overseas operations are likely to be 2026's core earnings growth driver, safeguarding operational stability amid domestic demand fluctuations.

Focus Charts

Figure 1: Valuation comps – staples / cosmetics / gold jewellery

Company	Ticker	Last Price	Mkt Cap	P/E (x)			NP growth (%)			GPM (%)	NPM (%)	Payout ratio	Div yield			PEG
		(LC)	(USD mn)	25E	26E	27E	25E	26E	27E	24A	24A	24A	24A	25E	26E	
Nongfu Spring	9633 HK Equity	48.10	69,498	33.0 x	28.9 x	25.6 x	22.6	14.5	12.8	11.8	58.1	65%	1.7%	2.1%	2.0 x	
Eastroc Beverage	605499 CH Equity	266.50	19,619	30.5 x	24.1 x	19.8 x	36.9	27.1	21.9	19.4	44.8	53%	1.3%	1.9%	0.9 x	
Tingyi	322 HK Equity	11.97	8,668	14.5 x	13.6 x	12.6 x	13.0	7.4	7.6	2.6	33.1	100%	5.9%	6.9%	1.8 x	
Want Want China	151 HK Equity	4.80	7,279	12.3 x	12.6 x	11.9 x	5.2	-3.3	6.5	3.8	46.6	67%	5.0%	5.9%	n.a.	
Cr Beverage	2460 HK Equity	10.47	3,226	18.7 x	15.1 x	12.8 x	-26.0	24.5	17.6	7.7	47.3	79%	5.8%	2.4%	0.6 x	
U-Presid China	220 HK Equity	8.23	4,567	14.5 x	13.4 x	12.2 x	20.2	8.8	9.0	5.8	32.5	102%	5.9%	6.9%	1.5 x	
Chengdelolo	000848 CH Equity	8.65	1,250	14.8 x	13.4 x	12.1 x	-7.9	10.5	10.3	7.2	40.9	34%	2.3%	3.2%	1.3 x	
Lzy	605337 CH Equity	12.34	682	23.7 x	21.6 x	19.9 x	-8.8	9.8	7.6	3.3	39.1	71%	3.5%	4.1%	2.2 x	
VI Delicious	9985 HK Equity	10.78	3,367	16.8 x	14.0 x	12.1 x	32.6	19.9	15.5	14.6	48.1	63%	3.1%	5.1%	0.7 x	
Chacha Food Co.,L	002557 CH Equity	22.05	1,579	26.3 x	15.5 x	13.6 x	-53.5	75.4	18.4	4.9	28.8	42%	3.6%	2.7%	0.2 x	
Yankershop	002847 CH Equity	69.77	2,694	23.4 x	19.2 x	16.0 x	27.4	21.7	19.9	15.7	30.7	51%	1.7%	2.5%	0.9 x	
Three Squirrels	300783 CH Equity	23.71	1,348	43.6 x	23.3 x	17.1 x	-46.4	86.9	36.2	15.3	24.2	30%	1.3%	0.7%	0.3 x	
Jzsp	003000 CH Equity	11.77	751	21.5 x	17.4 x	14.8 x	-15.5	23.9	17.3	11.3	30.5	21%	1.2%	2.0%	0.7 x	
Ctg Duty-Free	601888 CH Equity	81.83	23,750	42.9 x	34.3 x	29.7 x	-7.3	24.6	15.8	7.3	30.7	50%	1.5%	1.2%	1.4 x	
Ctg Duty-Free	1880 HK Equity	75.65	23,750	36.2 x	28.4 x	24.8 x	-7.8	27.5	15.0	7.3	30.7	49%	1.7%	1.4%	1.0 x	
Giant Biogene	2367 HK Equity	38.28	5,267	15.3 x	12.6 x	10.5 x	15.1	15.5	22.6	19.0	82.1	37%	2.1%	3.0%	0.8 x	
Mao Geping	1318 HK Equity	88.50	5,573	32.7 x	25.4 x	20.1 x	36.5	29.0	26.2	25.8	84.4	113%	2.7%	1.1%	0.9 x	
Chicmax	2145 HK Equity	83.90	4,387	27.4 x	21.6 x	17.5 x	41.6	26.7	23.3	20.5	75.2	65%	1.8%	2.5%	0.8 x	
Beautyfarm Med	2373 HK Equity	26.20	791	17.2 x	13.9 x	11.6 x	47.2	24.3	18.1	13.5	46.3	20%	0.9%	2.6%	0.6 x	
Bernal Beauty	6883 HK Equity	2.11	368	9.0 x	7.8 x	6.4 x	27.5	14.4	20.8	17.0	50.3	75%	n.a.	7.0%	0.5 x	
Proya	603605 CH Equity	70.20	3,935	16.8 x	15.0 x	13.3 x	5.9	12.2	12.6	10.9	71.4	33%	1.8%	2.1%	1.2 x	
Botanee	300957 CH Equity	40.72	2,442	34.4 x	27.5 x	24.2 x	-0.3	25.3	13.7	8.7	73.7	34%	1.4%	1.3%	1.1 x	
Marubi	603983 CH Equity	34.69	1,969	35.1 x	27.7 x	23.1 x	14.6	26.4	19.5	20.0	73.7	38%	1.0%	1.7%	1.1 x	
Shanghai Jahwa	600315 CH Equity	23.27	2,215	40.1 x	31.6 x	25.9 x	-147.2	26.5	21.4	9.9	57.6	30%	0.6%	0.6%	1.2 x	
Ruoyucheng	003010 CH Equity	35.45	1,561	61.3 x	36.5 x	26.2 x	70.4	72.9	40.9	28.8	44.6	35%	0.5%	0.9%	0.5 x	
Runben	603193 CH Equity	24.82	1,422	31.1 x	25.4 x	20.9 x	6.0	22.3	21.4	21.5	58.2	27%	0.8%	1.0%	1.1 x	
Freda	600223 CH Equity	7.50	1,079	31.1 x	25.9 x	22.1 x	-2.4	19.9	15.0	8.9	52.7	16%	0.5%	1.1%	1.3 x	
SYANG	300740 CH Equity	20.06	1,108	36.8 x	25.7 x	20.2 x	90.3	45.7	26.9	10.4	63.0	16%	0.4%	0.6%	0.6 x	
Laopu Gold	6181 HK Equity	678.50	15,375	21.7 x	15.9 x	12.7 x	231.6	35.9	25.4	23.4	41.2	23%	0.3%	3.0%	0.4 x	
Chow Tai Fook	1929 HK Equity	13.82	17,515	16.3 x	14.3 x	12.8 x	42.6	13.9	12.2	4.9	29.5	84%	3.4%	5.1%	1.0 x	
Zhou Liu Fu	6168 HK Equity	40.68	2,303	19.4 x	17.1 x	15.2 x	13.3	13.4	12.6	11.5	25.9	30%	n.a.	1.4%	1.3 x	
Lok Fook	590 HK Equity	26.10	1,969	12.7 x	9.8 x	8.7 x	-22.5	39.9	11.5	11.0	27.2	46%	5.5%	4.0%	0.2 x	
Chow Sang Sang	116 HK Equity	12.09	1,043	5.8 x	5.5 x	5.0 x	89.9	3.7	12.1	4.4	28.3	40%	3.4%	6.5%	1.5 x	
Lfx	600612 CH Equity	44.70	2,723	14.0 x	12.5 x	11.7 x	-14.4	11.3	7.0	5.1	8.9	43%	3.7%	3.4%	1.1 x	
Chow Tai Seng	002867 CH Equity	12.58	1,933	12.3 x	11.1 x	10.1 x	10.1	11.3	9.6	9.6	20.8	58%	4.6%	6.1%	1.0 x	
Chj	002345 CH Equity	13.18	1,658	24.3 x	18.6 x	15.5 x	148.7	30.9	19.9	16.0	23.6	66%	2.1%	2.3%	0.6 x	
Leysen 1855	603900 CH Equity	8.92	433	33.0 x	22.5 x	15.6 x	-150.1	47.7	43.0	22.7	33.2	n.a.	n.a.	n.a.	0.5 x	
Average				28.6 x	23.5 x	20.3 x	28.5	20.8	15.8	11.8	45.9	59%	2.1%	2.7%	1.3 x	

Source: Company data, Wind, CMBIGM (as of December 4, 2025)

Investment themes

Consumer environment outlook: asset price pressure & consumption confidence reshaping

We believe the core constraints on household consumption in 2026 stem from "asset-side shrinkage + sluggish recovery in income expectations." 1) Asset-side pressure: Supply-side stress in the secondary housing market has surged—concentrated entry of nearly-new properties in tier-1 cities coupled with banks' bulk disposal of real estate-related non-performing assets may push secondary home prices to further bottom out, leading to periodic shrinkage of household wealth and constraining consumption willingness recovery. 2) Demand-side constraints: Uncertainties in the international trade environment remain unresolved; impacts of external demand volatility on domestic employment and income persist. Household consumption maintains the "downgrading" trend, with spending shifting toward "non-discretionary demand" and "low-cost emotional comfort," while demand elasticity of discretionary consumption continues to weaken. Based on this, we expect household consumption to retain the "downgrading" theme and recommend the following investment themes:

Investment theme 1: Deepening consumption stratification – HNWI rationalization + cost-effectiveness in the mass market

The trend of consumption stratification is likely to further intensify in 2026, with differentiated shifts in consumption preferences across income groups: **1) "Rational consumption" among high-net-worth individuals (HNWIs):** shifting from high-end luxury to affordable luxury, domestic luxury, or niche specialty brands. For instance, demand for high-end Baijiu has been diverting to mid-to-high-end/regional leaders; high-end dairy consumption has been shifting to cost-effective chilled products, underpinned by the core logic of "no quality compromise, moderate spending contraction." **2) "Cost-priority logic" in the mass market:** The "budget alternatives" trend for basic consumer goods has strengthened, potentially fueling hard discount expansion (e.g., near-expiration food, private-label FMCG channels like snack bulk stores, community hard discount outlets). It may also benefit domestic tech consumer goods with supply chain advantages (e.g., smart small home appliances, functional apparel).

Investment theme 2: Make life get by + affordable emotional comfort

Amid constrained household consumption spending, demand structure is focusing on "non-discretionary subsistence demand" and "affordable emotional comfort," pointing to two key sub-segments: **1) Basic livelihood sustainability:** Resilient demand in essential sectors. As the core of household expenditures, these sectors exhibit strong demand resilience. **Grain, oil, rice & flour:** Stable end-market inventory turnover driven by non-discretionary demand; regional leaders further gain market share via channel expansion in lower-tier markets. **Basic condiments:** Rising at-home cooking frequency supports steady demand for soy sauce, vinegar, edible oil, etc.. **Small-packaged, cost-effective products** see growing end-market off-take share. **Bottled water:** As one of the lowest-priced, most staple demand categories in F&B, it boasts "defensive attributes amid consumption downgrade," becoming a relatively frequent purchase item in daily household spending. we recommend Nongfu Spring (9633 HK) and CR Beverage (2460 HK). **2) Affordable emotional comfort:** Low-cost emotional value segments. While cutting discretionary spending, households tend to seek emotional relief through low-AOV consumption, with the core logic of "experiential value > material value," including but not limited to: **Stress relief for younger groups:** Cost-effective snacks, affordable beer/RTD cocktails post faster off-take growth than industry average; demand for "low-AOV experiential consumption" (e.g., short-distance local travel, small-scale concerts) rebounds as a core stress-relief choice for

young people. **Spiritual sustenance for younger groups:** Sustained popularity of "companionship consumption" drives resilient demand for pet food/supplies and affordable trendy toys, featuring strong emotional alternative attributes. **Comfort for middle-aged and elderly groups:** Steady demand for basic health supplements (vitamins, probiotics); short-distance wellness travel emerges as a core alternative to long-haul trips, combining health needs and emotional relief. **Low-cost options for daily life experience upgrading:** Affordable domestic beauty products, fragrances (e.g., perfumes, aromatherapy) – achieving emotional satisfaction via external image enhancement or ritual sense for self-pampering. Recommendations: Giant Biogene (2367 HK), Eternal Beauty (6883 HK), etc.

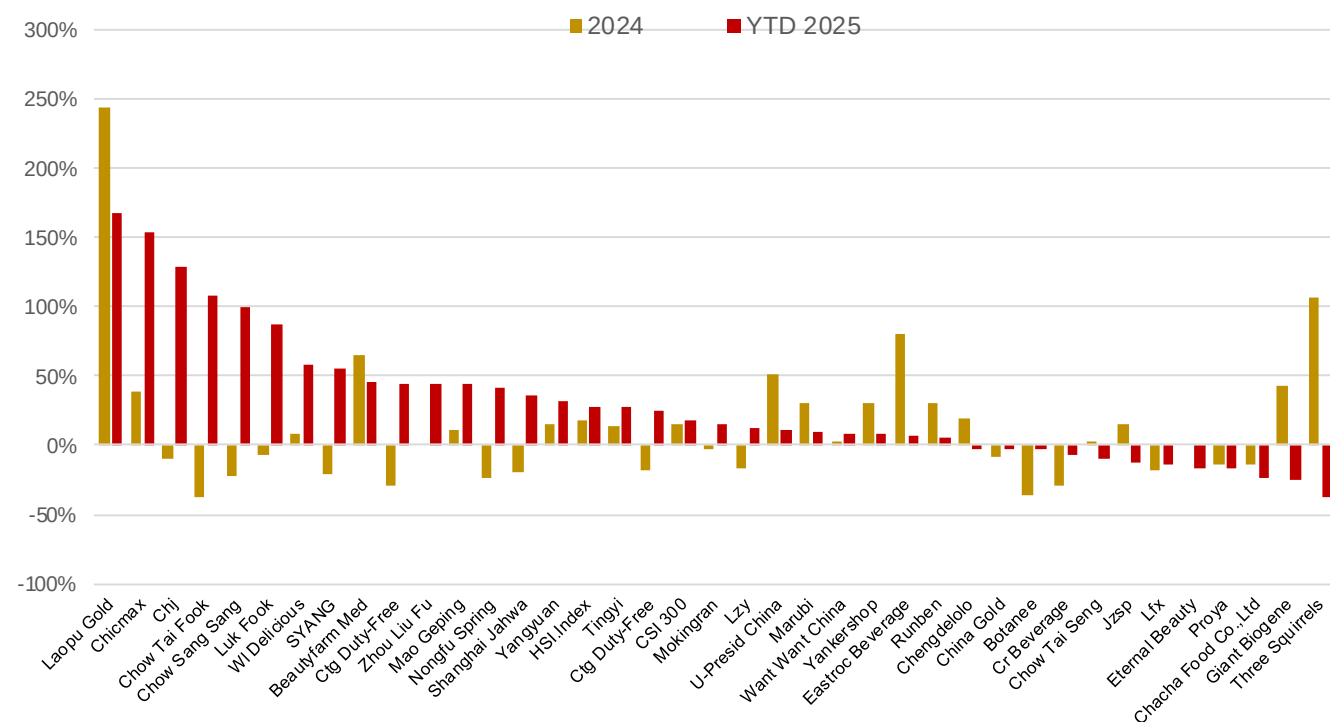
Investment theme 3: Overseas expansion – a hedge against domestic demand uncertainty

Against lingering uncertainties in the domestic consumption environment, enterprises with substantial progress in global expansion can hedge against domestic demand volatility via overseas market penetration: 1) Supply chain advantage-driven overseas expansion: Condiment and snack food enterprises are leveraging cost and production capacity strengths to expand into emerging markets (e.g., Southeast Asia, Latin America), delivering incremental revenue growth. 2) Brand power-led globalization: Selected enterprises with product differentiation (e.g., specialty snacks, pet food) are entering niche segments in Europe and the US via cross-border e-commerce, gradually building regional brand awareness. Their overseas businesses are likely to become the core source of earnings growth in 2026, serving as a pillar of operational stability amid domestic demand fluctuations.

Stock recommendations: In the F&B sector, we maintain a BUY rating on Nongfu Spring (9633 HK); recommend CR Beverage (2460 HK) with depressed valuations and sequential improvement in market share trends. In the beauty and skincare sector, we retain BUY ratings on Giant Biogene (2367 HK) and Eternal Beauty (6883 HK).

Stock performances

Figure 2: Stock performances in subsectors



Source: Wind, CMBIGM (as of December 9, 2025)

Note: Share price performances for Zhou Liu Fu, Eternal and Mokingran since their listing.

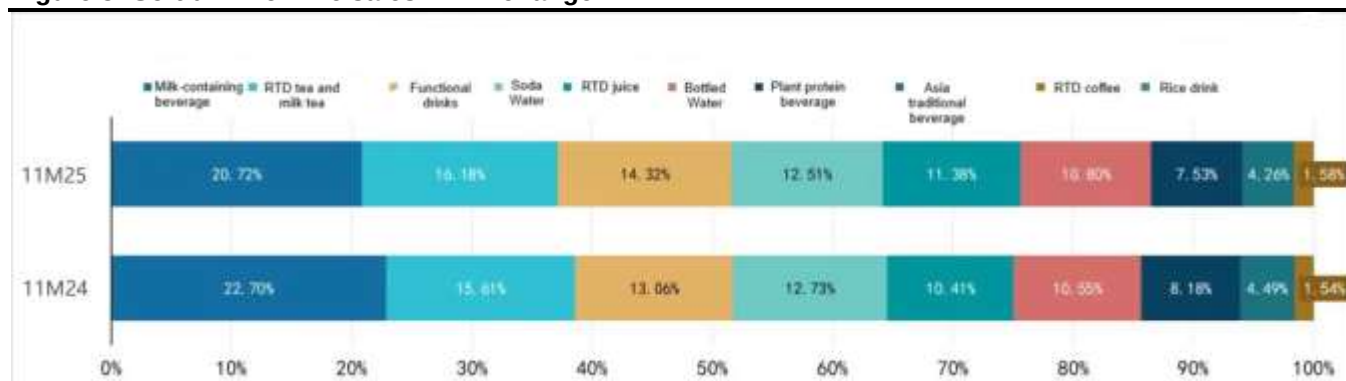
Sub-sector Outlook

Soft drinks: RTD juice & functional drinks to expand

■ Structural mix: milk-containing beverages as the top drag

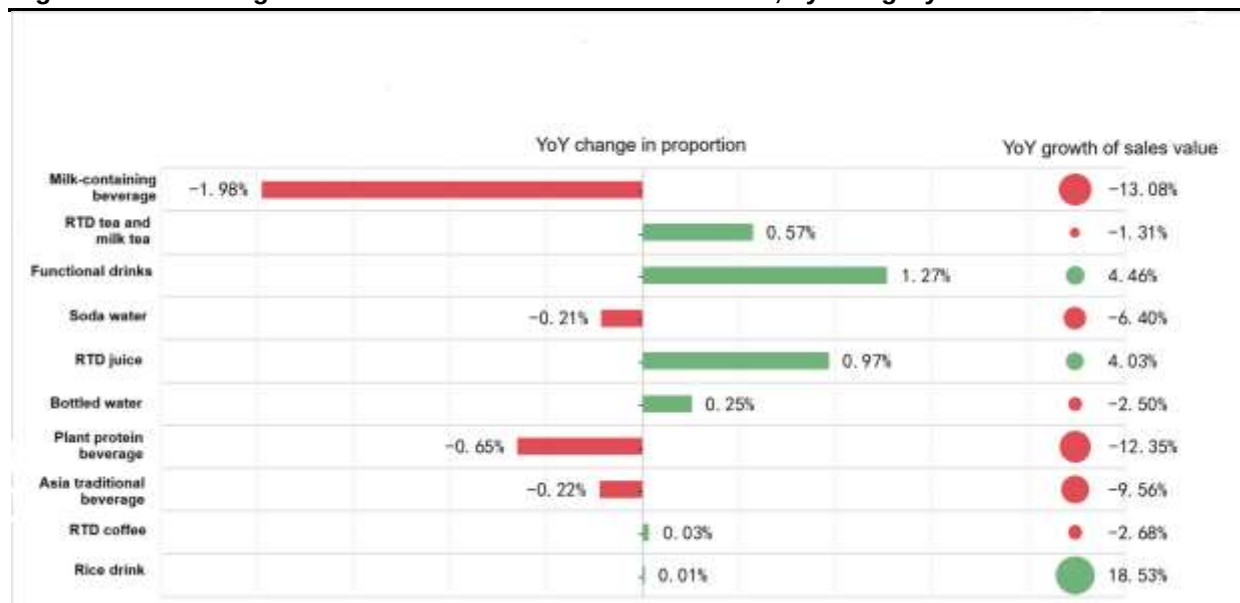
In 11M25 vs. 11M24, the sales structure of the soft drinks industry shows a trend of "modest contraction in top categories and slight expansion in niche segments": 1) Among top categories, milk-containing beverages remain the largest, but their share dropped from 22.70% in 11M24 to 20.72% (-1.98 pts YoY), the biggest decline across all categories; 2) RTD tea & milk tea and functional drinks expanded their shares, rising from 15.61% and 13.06% to 16.18% and 14.32% (+0.57 pts and +1.27 pts YoY, respectively); 3) Bottled water and RTD juice posted marginal gains, up +0.25 pts and +0.97 pts YoY to 11.38% and 12.51%, respectively; 4) Plant-based protein drinks and traditional Asian beverages contracted slightly, falling -0.65 pts and -0.22 pts YoY to 7.53% and 4.26%, respectively.

Figure 3: Soft drink offline sales – mix change



Source: Mashangying, CMBIGM

Figure 4: YoY change in share of soft drinks and sales value, by category



Source: Mashangying, CMBIGM

■ YoY sales growth: marked divergence

In 11M25, soft drink sales growth saw intensified divergence, featuring a pattern of "positive growth in a handful of segments and pressure on the majority": Positive growth concentrated in niche categories: 1) **Rice drinks** led the industry with 18.53% YoY growth. As a low-base niche segment, its strong expansion reflects rising consumer preference for "low-alcohol, low-sugar, scenario-specific" beverages, aligning with lightweight consumption scenarios (e.g., leisure, accompaniment) to drive robust off-take—though its 1.58% share has a limited impact on the overall industry. 2) **Functional drinks** recorded 4.46% YoY growth with share expansion, underpinned by demand resilience: consumption scenarios (e.g., overtime, sports) remained stable, while ingredient upgrades (electrolytes + vitamins) by key brands enhanced functionality, sustaining steady off-take. 3) **RTD juice** achieved 4.03% YoY growth (+0.97 pcts share gain), driven by deepening health-centric consumption: rising preference for "natural, low-sugar" drinks and product upgrades (NFC, fresh-squeezed concepts) aligned with healthy eating trends.

Negative growth spanned most mainstream segments: Milk-containing beverages (-13.08% YoY) and plant-based protein drinks (-12.35% YoY) faced severe pressure. Milk-containing beverages—the weakest performer—saw both declining sales and share, pressured by raw material cost pass-through and shifting preferences to "lighter, low-burden" categories (e.g., RTD tea, bottled water). Plant-based protein drinks' slowdown stemmed from muted innovation and consumer shifts to cost-effective alternatives. Additionally, traditional Asian beverages (-9.56% YoY), soda water (-6.4% YoY), bottled water (-2.5% YoY), and RTD coffee (-2.68% YoY) posted declines.

In summary, only two categories—RTD juice and functional drinks—delivered both YoY sales growth and share expansion.

■ 2026 outlook: sustained category divergence, rigid-demand segments to show greater resilience

We anticipate the soft drink industry will maintain the divergences among categories in 2026, with demand continuing to be driven by the core theme of "cautious consumption + rigid scenario demand," leading to differentiated performances across segments: 1) Basic rigid-demand categories: Despite short-term growth pressure, bottled water's strong demand rigidity may sustain its marginal share gain trend (11M25). Amid cautious household consumption, its "cost-effectiveness + daily necessity" attributes are expected to further enhance off-take stability. 2) Functional drinks: Their rigid-demand nature (e.g., overtime, sports scenarios) will continue to underpin resilience; coupled with product upgrades (electrolytes + functional ingredients), category growth should remain in a steady range. 3) RTD juice: Leveraging health-centric consumer mindset, it may sustain modest growth. 4) Underperforming categories' recovery trajectory: Demand constraints for milk-containing beverages and plant-based protein drinks may persist; their future performance will likely depend on product structure optimization (e.g., lightweight formulations, meal-accompanying/meal-replacement scenario bundling), but near-term growth recovery is could only be gradual.

Overall, for 2026, we believe soft drink industry growth will be more concentrated in "rigid-demand scenarios + niche innovation" segments, while traditional major categories may still face dual pressures from shifting consumer preferences and cost volatility. For stocks, we recommend investors to watch Nongfu Spring (9633 HK), a beneficiary of RTD juice and functional drink growth, and CR Beverage (2460 HK) with narrowing bottled water market share declines and depressed valuations.

Cosmetics: Douyin drives overall growth

■ Industry GMV

As of October 2025, year-to-date (YTD) GMV of skincare and color cosmetics categories across three major platforms (TBTM, Douyin, JD.com) rose 3% YoY to RMB372.1 bn. Breakdown by platform: TBTM fell 12% YoY to RMB147.3 bn; Douyin surged 19% YoY to RMB187.4 bn; JD.com grew 7% YoY to RMB36.4 bn. By category: Skincare GMV increased 2% YoY to RMB264.7 bn YTD; make-up GMV rose 7% YoY to RMB106.4 bn.

Figure 5: Cosmetics online GMV – by platform

GMV (RMBbn)	2023	2024	10M25
TBTM	217.0	199.4	147.3
Douyin	182.8	192.4	187.4
JD	38.1	44.1	36.4
Industry	438.0	435.9	371.1
YoY growth	2023	2024	10M25
TBTM	-19%	-8%	-12%
Douyin	39%	5%	19%
JD	n.a.	16%	7%
Industry	n.a.	0%	3%

Source: Mojing, CMBIGM

Figure 6: Cosmetics online GMV – by product type

GMV (RMBbn)	2023	2024	10M25
Skincare	324.6	314.9	264.7
Make-up	113.4	121.0	106.4
Industry	438.0	435.9	371.1
YoY growth	2023	2024	10M25
Skincare	n.a.	-3%	2%
Make-up	n.a.	7%	7%
Industry	n.a.	0%	3%

Source: Mojing, GMBIGM

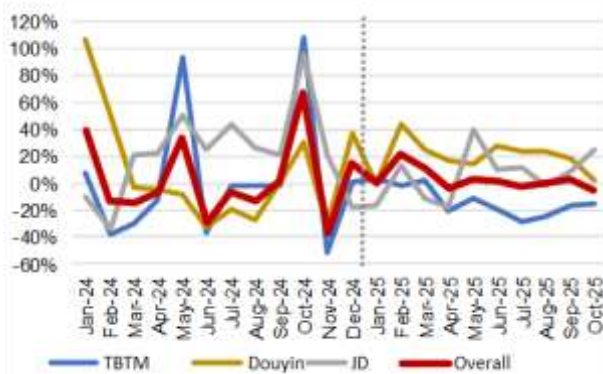
■ Channel dynamics: Divergence seen across platforms, Douyin leads growth

1) Douyin's robust growth: Douyin outperformed the industry, with core driver likely stemming from the alignment between its content ecosystem and skincare categories — skincare-related content (e.g., ingredient breakdowns, usage experiences) is more effectively reaching consumers via short videos/livestreaming. Coupled with brand resource allocation tilted toward Douyin (e.g., exclusive products, KOL seeding), this supports efficient traffic-to-GMV conversion.

2) JD.com's underperformance in skincare: JD.com's skincare growth lagged the industry and peers, potentially due to weaker consumer mindshare for cosmetics categories on its platform. Skincare category penetration remains in a relatively nascent stage, leading to more moderate demand expansion momentum compared to other platforms.

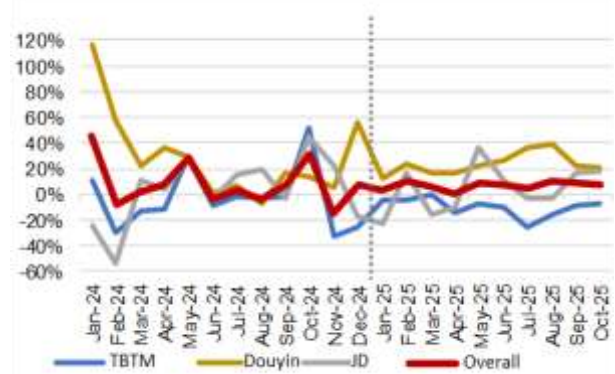
3) TBTM's growth pressure: Both skincare and make-up product growth on TBTM trailed the industry, attributable to two key factors: first, the competitive landscape for cosmetics categories on the platform is relatively mature, with marginal contraction of new traffic dividends; second, content marketing of cosmetic products on emerging channels like Douyin has diverted some user demand.

Figure 7: Skincare product GMV YOY – by platform

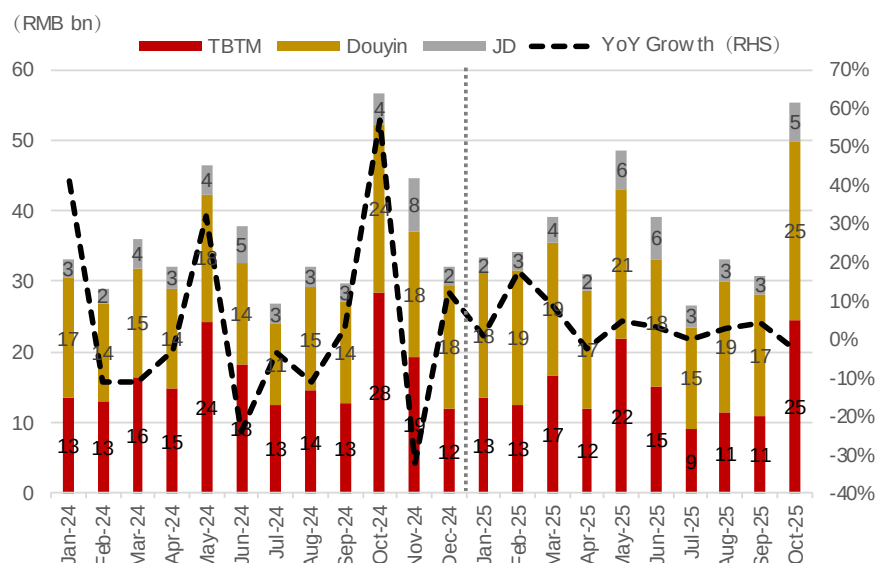


Source: Mojing, CMBIGM

Figure 8: Make-up product GMV YOY – by platform



Source: Mojing, CMBIGM

Figure 9: Cosmetics online GMV

Source: Mojing, CMBIGM

Note: data covers skincare and make-up products on TBTM, Douyin and JD

■ Brand-level dynamics: divergence among domestic vs. international brands

1) Domestic brands: high-growth cohorts achieved success via content; some brands face growth pressure

High-growth cohorts: Shanghai Jahwa, Mao Geping, Marubi led gains

Shanghai Jahwa and Mao Geping achieved 35% YoY growth in 10M25, while Marubi recorded 28% YoY growth, emerging as the fastest-growing domestic brands. Their market share expanded concurrently: Mao Geping rose from 0.4% in 2023 to 0.8% as of 10M25, and Marubi increased from 0.5% to 0.9%.

Lagging cohorts: Freda, Botanee, Proya underperformed

Freda posted a 13% YoY sales decline in 10M25 (the slowest among domestic brands), Botanee fell 8% YoY, and Proya's growth turned negative to -4%. Their respective market share contracted marginally: Freda dropped from 1.0% in 2024 to 0.9%, and Proya declined from 3.1% in 2024 to 2.9%. The pressure stemmed primarily from a significant high-base effect (Freda and Proya both achieved 29% YoY growth in 2024, while Botanee grew 9%) and intensified competition in the domestic skincare segment. Product upgrades and channel resource tilt by peers have periodically diverted end-demand, leading to a slowdown in GMV growth.

2) International brands: steady growth backed by scale barriers; premium segment showed resilience

International brands mainly delivered steady growth supported by scale barriers, with relative resilience in the premium segment: Chanel achieved 14% YoY growth in 10M25, and Estée Lauder grew 12% YoY—ranking among the fastest-growing international brands. Estée Lauder's market share rose from 3.9% in 2023 to 4.3% as of 10M25. This performance is underpinned by resilient demand for premium beauty products, coupled with new product cycles and refined channel operations (e.g., synergy between premium department stores and private domains), supporting steady GMV growth and market share expansion.

Figure 10: Cosmetics brands' market share change

		Market share 市场份额			Δ change	
Brand	品牌	2023	2024	10M25	2024	10M25
L'Oreal	欧莱雅	7.2%	7.9%	8.2%	0.7%	0.3%
Estee Lauder	雅诗兰黛	3.9%	4.2%	4.3%	0.3%	0.2%
Maogeping	毛戈平	0.4%	0.6%	0.8%	0.2%	0.2%
Chicmax	上美股份	1.1%	2.1%	2.2%	1.0%	0.1%
Marubi	丸美股份	0.5%	0.8%	0.9%	0.3%	0.1%
Shanghai Jahwa	上海家化	0.4%	0.4%	0.5%	0.0%	0.1%
Lancome	兰蔻	2.0%	2.0%	2.0%	0.0%	0.1%
Giant biogene	巨子生物	0.5%	1.0%	1.0%	0.5%	0.0%
Chanel	香奈儿	0.5%	0.5%	0.6%	0.0%	0.0%
Joy Group	橘宜集团	0.5%	0.5%	0.5%	0.0%	0.0%
Shiseido	资生堂	2.4%	2.6%	2.5%	0.2%	-0.1%
Botanee	贝泰妮	0.9%	1.0%	0.9%	0.1%	-0.1%
Proya	珀莱雅	2.4%	3.1%	2.9%	0.7%	-0.1%
Freda	福瑞达	0.8%	1.0%	0.9%	0.2%	-0.1%

Source: Mojing, CMBIGM

Figure 11: Cosmetics brands' GMV growth (RMB mn)

Cosmetics sales (RMBmn)		GMV (YTD)		YoY	
Company	公司	2024	10M25	2024	10M25
Shanghai Jahwa	上海家化	1,841	1,997	6%	35%
Maogeping	毛戈平	2,556	2,882	57%	35%
Marubi	丸美股份	3,324	3,266	49%	28%
Chanel	香奈儿	2,319	2,070	8%	14%
Chicmax	上美股份	9,161	8,320	39%	14%
Estee Lauder	雅诗兰黛	18,114	16,135	6%	12%
Giant biogene	巨子生物	4,293	3,818	33%	7%
L'Oreal	欧莱雅	34,555	30,387	9%	6%
Lancome	兰蔻	8,669	7,595	1%	4%
Shiseido	资生堂	11,348	9,458	7%	-3%
Proya	珀莱雅	13,305	10,925	29%	-4%
Joy Group	橘宜集团	2,217	1,719	6%	-6%
Botanee	贝泰妮	4,365	3,394	9%	+8%
Freda Pharmaceutical	福瑞达	4,378	3,175	29%	-13%
Industry	行业整体	435,944	371,134	0%	3%

Source: Mojing, CMBIGM

Note: data covers skincare and make-up products on TBTM, Douyin and JD

■ 2026 outlook: Sustained divergence; category expansion as core theme

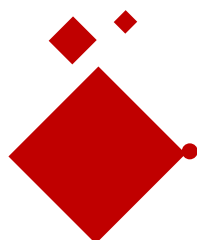
China's economic recovery is expected to proceed at a moderate pace in 2026, with the cosmetics industry maintaining the pattern of brand divergence and structural demand growth. Against this backdrop, brands are likely to further pursue growth by expanding category boundaries (covering hair care, personal care, maternal & infant products, fragrances, etc.) leveraging existing user mindshare and channel resources. Demand for hair care, personal care, and maternal & infant products are relatively non-discretionary, while fragrances align with the "low-cost emotional comfort" consumption trend—both can reach users through existing beauty content ecosystems. Additionally, these categories enable brands to reuse existing channel, supply chain, and user operation resources, reducing expansion costs and risks. Overall, category expansion will emerge as a key growth driver amid the divergent landscape in 2026, but its effectiveness will depend on the alignment between the new categories and the brand's core mindshare—categories more highly aligned with the brand's existing positioning are more likely to achieve simultaneous growth in scale and market share.

Valuation

Figure 12: Valuation comps – staples / cosmetics / gold jewellery

Company	Ticker	Last Price	Mkt Cap	P/E (x)			NP growth (%)			GPM (%)	NPM (%)	Payout ratio	Div yield		PEG
		(LC)		(USD mn)	25E	26E	27E	25E	26E	27E	24A	24A	24A	24A	
Nongfu Spring	9633 HK Equity	48.10	69,498	33.0 x	28.9 x	25.6 x	22.6	14.5	12.8	11.8	58.1	65%	1.7%	2.1%	2.0 x
Eastroc Beverage	605499 CH Equity	266.50	19,619	30.5 x	24.1 x	19.8 x	36.9	27.1	21.9	19.4	44.8	53%	1.3%	1.9%	0.9 x
Tingyi	322 HK Equity	11.97	8,668	14.5 x	13.6 x	12.6 x	13.0	7.4	7.6	2.6	33.1	100%	5.9%	6.9%	1.8 x
Want Want China	151 HK Equity	4.80	7,279	12.3 x	12.6 x	11.9 x	5.2	-3.3	6.5	3.8	46.6	67%	5.0%	5.9%	n.a.
Cr Beverage	2460 HK Equity	10.47	3,226	18.7 x	15.1 x	12.8 x	-26.0	24.5	17.6	7.7	47.3	79%	5.8%	2.4%	0.6 x
U-Presid China	220 HK Equity	8.23	4,567	14.5 x	13.4 x	12.2 x	20.2	8.8	9.0	5.8	32.5	102%	5.9%	6.9%	1.5 x
Chengdelolo	000848 CH Equity	8.65	1,250	14.8 x	13.4 x	12.1 x	-7.9	10.5	10.3	7.2	40.9	34%	2.3%	3.2%	1.3 x
Lzy	605337 CH Equity	12.34	682	23.7 x	21.6 x	19.9 x	-8.8	9.8	7.6	3.3	39.1	71%	3.5%	4.1%	2.2 x
Wl Delicious	9985 HK Equity	10.78	3,367	16.8 x	14.0 x	12.1 x	32.6	19.9	15.5	14.6	48.1	63%	3.1%	5.1%	0.7 x
Chacha Food Co.,L	002557 CH Equity	22.05	1,579	26.3 x	15.5 x	13.6 x	-53.5	75.4	18.4	4.9	28.8	42%	3.6%	2.7%	0.2 x
Yankershop	002847 CH Equity	69.77	2,694	23.4 x	19.2 x	16.0 x	27.4	21.7	19.9	15.7	30.7	51%	1.7%	2.5%	0.9 x
Three Squirrels	300783 CH Equity	23.71	1,348	43.6 x	23.3 x	17.1 x	-46.4	86.9	36.2	15.3	24.2	30%	1.3%	0.7%	0.3 x
Jzsp	003000 CH Equity	11.77	751	21.5 x	17.4 x	14.8 x	-15.5	23.9	17.3	11.3	30.5	21%	1.2%	2.0%	0.7 x
Ctg Duty-Free	601888 CH Equity	81.83	23,750	42.9 x	34.3 x	29.7 x	-7.3	24.6	15.8	7.3	30.7	50%	1.5%	1.2%	1.4 x
Ctg Duty-Free	1880 HK Equity	75.65	23,750	36.2 x	28.4 x	24.8 x	-7.8	27.5	15.0	7.3	30.7	49%	1.7%	1.4%	1.0 x
Giant Biogene	2367 HK Equity	38.28	5,267	15.3 x	12.6 x	10.5 x	15.1	15.5	22.6	19.0	82.1	37%	2.1%	3.0%	0.8 x
Mao Geping	1318 HK Equity	88.50	5,573	32.7 x	25.4 x	20.1 x	36.5	29.0	26.2	25.8	84.4	113%	2.7%	1.1%	0.9 x
Chicmax	2145 HK Equity	83.90	4,387	27.4 x	21.6 x	17.5 x	41.6	26.7	23.3	20.5	75.2	65%	1.8%	2.5%	0.8 x
Beautyfarm Med	2373 HK Equity	26.20	791	17.2 x	13.9 x	11.6 x	47.2	24.3	18.1	13.5	46.3	20%	0.9%	2.6%	0.6 x
Eternal Beauty	6883 HK Equity	2.11	368	9.0 x	7.8 x	6.4 x	27.5	14.4	20.8	17.0	50.3	75%	n.a.	7.0%	0.5 x
Proya	603605 CH Equity	70.20	3,935	16.8 x	15.0 x	13.3 x	5.9	12.2	12.6	10.9	71.4	33%	1.8%	2.1%	1.2 x
Botanee	300957 CH Equity	40.72	2,442	34.4 x	27.5 x	24.2 x	-0.3	25.3	13.7	8.7	73.7	34%	1.4%	1.3%	1.1 x
Marubi	603983 CH Equity	34.69	1,969	35.1 x	27.7 x	23.1 x	14.6	26.4	19.5	20.0	73.7	38%	1.0%	1.7%	1.1 x
Shanghai Jahwa	600315 CH Equity	23.27	2,215	40.1 x	31.6 x	25.9 x	-147.2	26.5	21.4	9.9	57.6	30%	0.6%	0.6%	1.2 x
Ruoyucheng	003010 CH Equity	35.45	1,561	61.3 x	36.5 x	26.2 x	70.4	72.9	40.9	28.8	44.6	35%	0.5%	0.9%	0.5 x
Runben	603193 CH Equity	24.82	1,422	31.1 x	25.4 x	20.9 x	6.0	22.3	21.4	21.5	58.2	27%	0.8%	1.0%	1.1 x
Freda	600223 CH Equity	7.50	1,079	31.1 x	25.9 x	22.1 x	-2.4	19.9	15.0	8.9	52.7	16%	0.5%	1.1%	1.3 x
SYANG	300740 CH Equity	20.06	1,108	36.8 x	25.7 x	20.2 x	90.3	45.7	26.9	10.4	63.0	16%	0.4%	0.6%	0.6 x
Laopu Gold	6181 HK Equity	678.50	15,375	21.7 x	15.9 x	12.7 x	231.6	35.9	25.4	23.4	41.2	23%	0.3%	3.0%	0.4 x
Chow Tai Fook	1929 HK Equity	13.82	17,515	16.3 x	14.3 x	12.8 x	42.6	13.9	12.2	4.9	29.5	84%	3.4%	5.1%	1.0 x
Zhou Liu Fu	6168 HK Equity	40.68	2,303	19.4 x	17.1 x	15.2 x	13.3	13.4	12.6	11.5	25.9	30%	n.a.	1.4%	1.3 x
Lok Fook	590 HK Equity	26.10	1,969	12.7 x	9.8 x	8.7 x	-22.5	39.9	11.5	11.0	27.2	46%	5.5%	4.0%	0.2 x
Chow Sang Sang	116 HK Equity	12.09	1,043	5.8 x	5.5 x	5.0 x	89.9	3.7	12.1	4.4	28.3	40%	3.4%	6.5%	1.5 x
Lfx	600612 CH Equity	44.70	2,723	14.0 x	12.5 x	11.7 x	-14.4	11.3	7.0	5.1	8.9	43%	3.7%	3.4%	1.1 x
Chow Tai Seng	002867 CH Equity	12.58	1,933	12.3 x	11.1 x	10.1 x	10.1	11.3	9.6	9.6	20.8	58%	4.6%	6.1%	1.0 x
Chj	002345 CH Equity	13.18	1,658	24.3 x	18.6 x	15.5 x	148.7	30.9	19.9	16.0	23.6	66%	2.1%	2.3%	0.6 x
Leysen 1855	603900 CH Equity	8.92	433	33.0 x	22.5 x	15.6 x	-150.1	47.7	43.0	22.7	33.2	n.a.	n.a.	n.a.	0.5 x
Average				28.6 x	23.5 x	20.3 x	28.5	20.8	15.8	11.8	45.9	59%	2.1%	2.7%	1.3 x

Source: Company data, Wind, CMBIGM estimates (as of December 4, 2025)



China Consumer Discretionary

China Consumer Discretionary

MARKET-PERFORM

Walter Woo – walterwoo@cmbi.com.hk

🍀 2026 Outlook: Be wary of subsidy phasing out; exports, wealth, and consumer confidence are keys

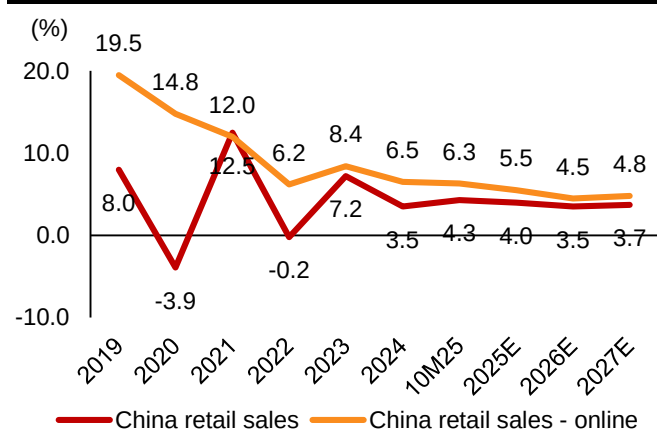
Exports, wealth effect and consumer confidence are the keys. Tea drinks & coffee, pop toys, textile and apparel sectors may outperform

China's consumption sector has started to rebound in 2025, supported by “small happiness” spending behavior, food delivery subsidies, favorable policy measures and rising risk-aversion sentiment. Among sub-sectors, pop toys, tea drinks and coffee, gold and jewelry have delivered the strongest performance.

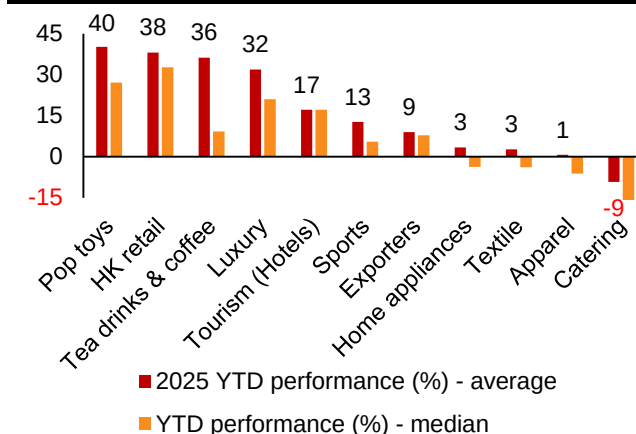
Retail sales grew 4.3% in Jan–Oct 2025, and we estimate full-year growth at around 4.0%, accelerating from 3.5% in 2024. Key drivers include: 1) government consumption subsidies for home appliances and related categories; 2) subsidy competition among food delivery platforms boosting the restaurant sector; 3) rising risk-aversion sentiment supporting gold purchases; and 4) policy adjustments around holiday schedules.

By channel, online sales continued to outperform offline sales. While 1H25 growth remained solid and 3Q25 momentum was steady, our channel checks suggest a noticeable slowdown in retail activities in Oct–Nov, indicating a weaker outlook for 4Q25.

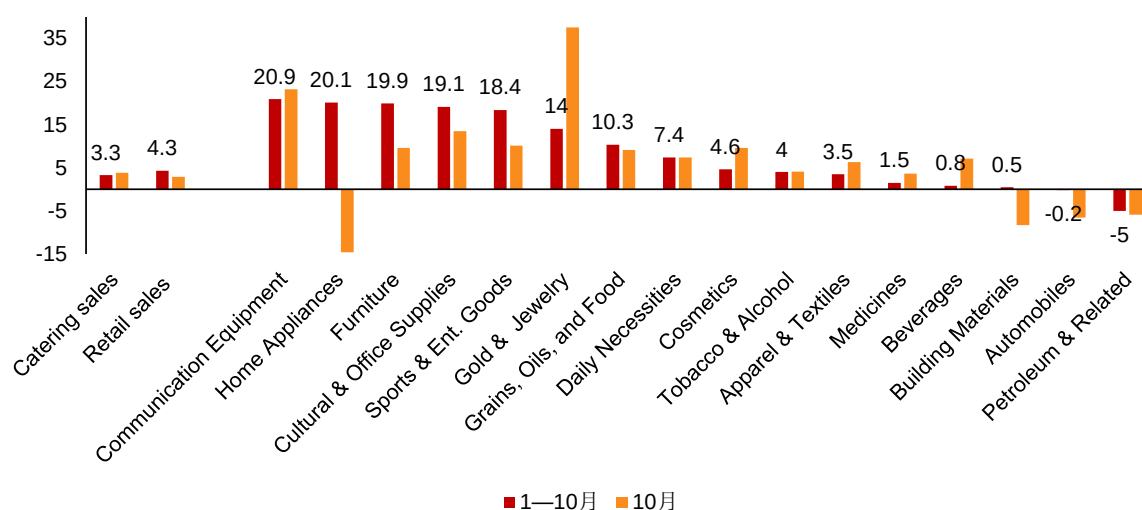
New retail names outperformed strongly. Pop toys companies benefited from consumers' emotional demand for “small happiness” products and the global success of Pop Mart's IPs such as Labubu. Tea and coffee chains, namely Mixue Bingcheng, Goodme, and Luckin Coffee, also saw robust momentum. Product innovation and delivery-driven demand spikes fueled strong store expansion and share price performance. Within luxury consumption, rising risk-aversion sentiment and the renewed popularity of traditional gold jewelry boosted sales, while the rate-cut cycle helped stabilize property prices and lifted equity market returns through the wealth effect. Sportswear stocks also performed well, led mainly by 361 Degrees, while peers stayed largely stable. Other consumption sub-sectors broadly met expectations, including home appliances, travel and hotels, and apparel. Export and textile manufacturers saw gradual improvement in demand, but ongoing trade tensions weighed on short-term margins, capping stock performance.

Figure 1: China retail sales growth, overall and on e-commerce channel

Source: NBS, CMBIGM estimates

Figure 2: Stock price YTD performance in 2025, by average and median

Source: Bloomberg, CMBIGM estimates, data as of 8 Dec 2025

Figure 3: China retail sales growth (Jan-Oct 2025 and Oct 2025), by subsectors

Source: NBS, CMBIGM estimates

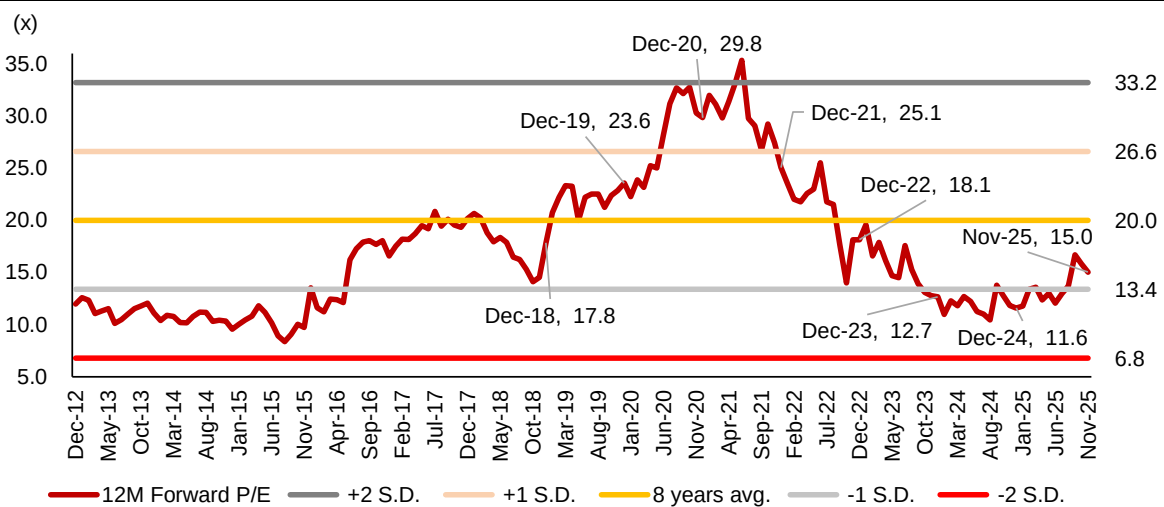
■ **Valuation has likely bottomed, but near-term upside risk is somewhat limited.**

We believe sector valuations have largely bottomed and still have room for recovery. However, investors should remain cautious about potential overvaluation if fundamental improvement proves insufficient. From a broader cycle perspective, we think sector valuation bottomed out in 2025 and has started to rebound. That said, the current sector P/E of 15x remains below the eight-year historical average of around 20x, suggesting valuations are still reasonable.

Looking ahead to the next 12 months, we expect sector growth to slow, and various geopolitical risks could add further uncertainties. Unless sizable policy stimulus is introduced or the property sector shows a clear rebound, valuations are unlikely to re-rate meaningfully in the near term.

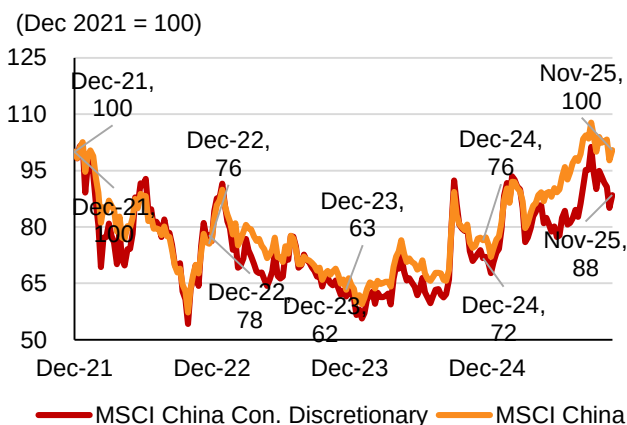
Given this backdrop, we take a relatively cautious stance and suggest investors wait for better entry opportunities and accumulate on dips.

Figure 4: Valuation of Consumer Discretionary Sector



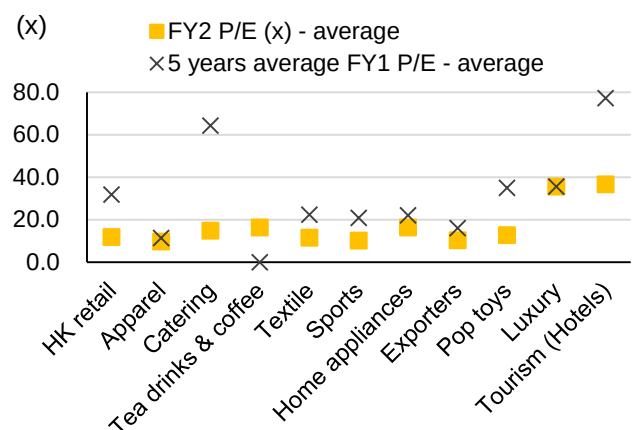
Source: Bloomberg, CMBIGM estimates

Figure 5: MSCI China vs MSCI China Consumer Discretionary



Source: Bloomberg, CMBIGM estimates

Figure 6: Industry valuation – current vs 5-year average



Source: Bloomberg, CMBIGM estimates

■ **2026 outlook: Our view for consumer discretionary sector is market-perform.**

We maintain “Market-Perform” on China’s discretionary consumption sector for 2026, expecting retail sales growth of around 3.5%, down from roughly 4.0% in 2025. Our slightly conservative outlook reflects that headwinds outweigh tailwinds.

Possible headwinds include: 1) the expiry of national consumption subsidies, 2) fading food-delivery subsidies, 3) a potential slowdown in export growth, and 4) broader AI adoption that may reduce employment opportunities.

Positive drivers may come from: 1) later-than-usual Spring Festival with an extended holiday period, 2) a potential recovery in the property sector, and 3) continued resilience in the equity market.

We also expect stock performance to remain under pressure in 1H26, with greater rebound potential in 2H26.

Under our base-case scenario, we categorize consumer spending into several types, and **we are more positive on** the following:

1) Essential / survival consumption – characterized by thrift, low unit price, and high value-for-money spending. Key beneficiaries: Guoquan (2157 HK, BUY), Yum China (9987 HK, BUY), Luckin Coffee (LKNCY US, BUY), DPC Dash (1405 HK, BUY), Bosideng (3998 HK, BUY).

2) Emotional compensation consumption – covering “small happiness” spending, affordable entertainment, emotional value, and experiential products.

3) Hedging & defensive consumption – driven by demand for gold, silver, and high-dividend yields. Key beneficiaries: Bosideng (3998 HK, BUY), JNBY Design (3306 HK, BUY), China Lilang (1234 HK, BUY), Topsports (6110 HK, BUY).

We are less optimistic about big-ticket consumption linked to durable goods, property-related categories, luxury products, and premium travel.

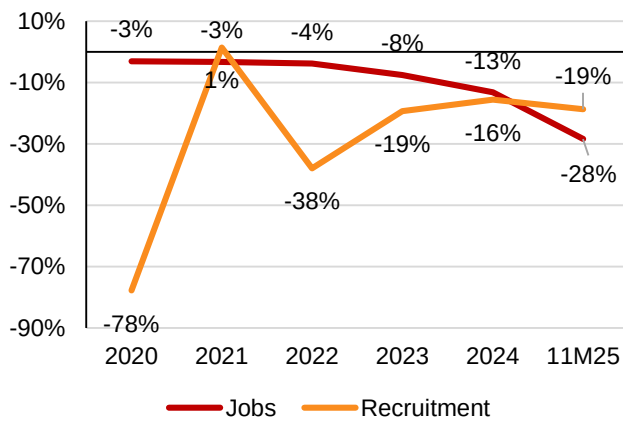
In a more optimistic or bull-market scenario—assuming the wealth effect strengthens as the equity market remains buoyant and the property market gradually stabilizes, big-ticket consumption could outperform. Key beneficiaries may include: Haier Smart Home (6690 HK / 600690 CH, BUY), Midea Group (300 HK / 000300 CH, BUY), Haidilao (6862 HK, BUY), and Anta Sports (2020 HK, BUY).

■ Employment market and consumer confidence remain weak

We observe that both the job market and consumer confidence remain subdued. New jobs creation in 2025 has been disappointing, with a double-digit decline YoY. Although the employment sub-index in the PMI has stayed broadly flat through 2025, it remains below the 50 threshold, indicating ongoing contraction.

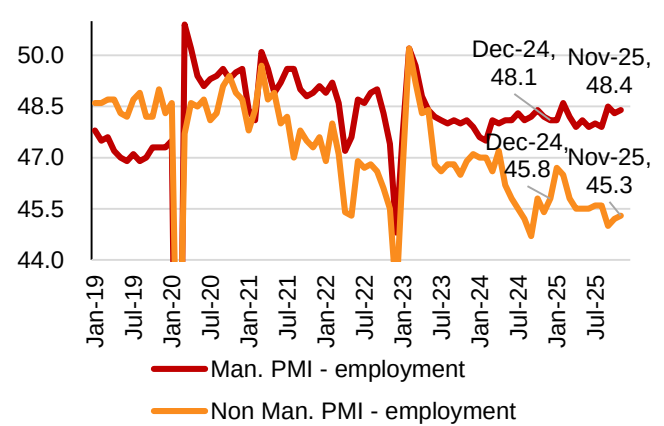
Unemployment has shown no meaningful YoY improvement, and pressure remains highest among young people and fresh graduates. Expenditures from the unemployment insurance fund continue to increase. More concerning is that, based on PBOC survey data, the share of respondents preferring to save remained stable, the proportion inclined to invest rose slightly, yet the proportion interested in spending hit a record low, implying persistently weak consumption appetite.

Figure 7: Baidu Index search volume for the keywords "jobs" and "recruitment"



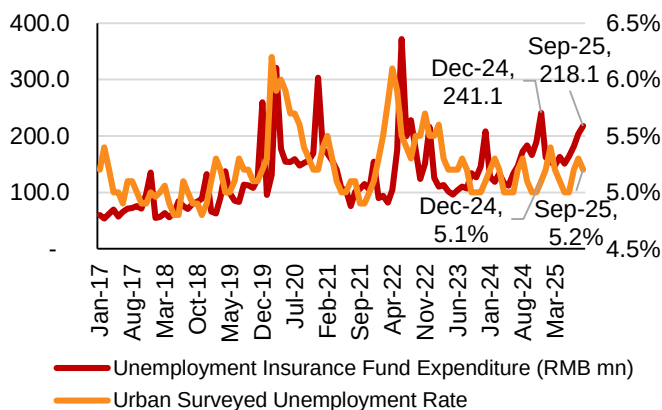
Source: Baidu Index, CMBIGM estimates

Figure 8: Employment Index of Manufacturing PMI and Non-manufacturing PMI



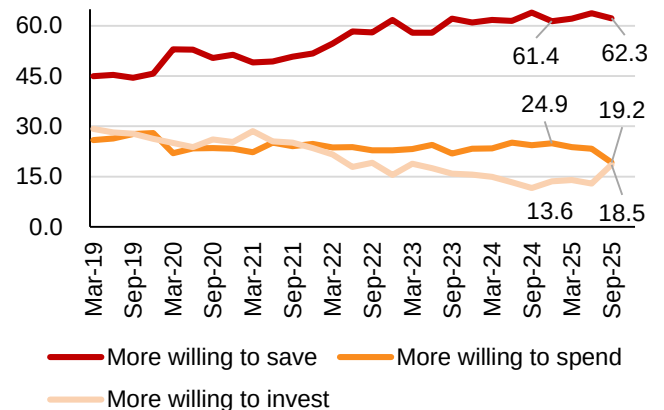
Source: NBS, CMBIGM estimates

Figure 9: Unemployment rate and unemployment fund expenditures



Source: NBS, Ministry of Human Resources and Social Security of the People's Republic of China, CMBIGM estimates

Figure 10: The proportion of urban residents who prefer saving, investing, and consuming



Source: PBOC, CMBIGM estimates

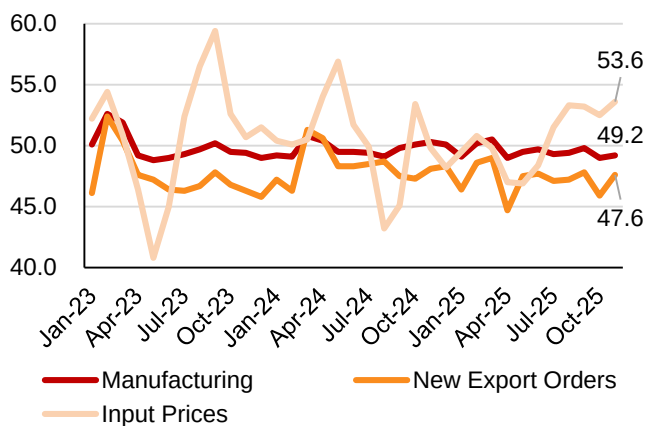
■ Corporate condition is still stable for now, but export outlook will be the key

Corporate fundamentals have remained relatively stable, although the export outlook could be the decisive swing factor. For instance, in 2025, we noted solid growth in corporate income tax revenue and a mild rebound in industrial profits, which returned to positive growth, pointing to improving business and management income trends.

However, with reducing government subsidies and the PMI new-orders index turning negative, risks are emerging. Export growth momentum also slowed and even turned negative after October, suggesting potential challenges ahead in 2026.

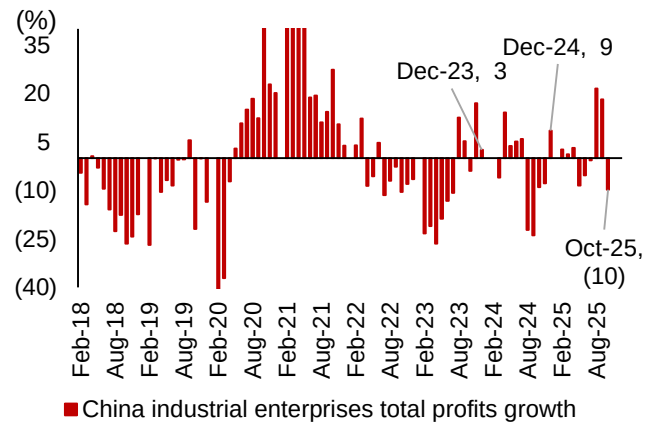
That said, as the US enters its rate-cut cycle, its economy and consumption are likely to remain resilient. This could partially offset downside risks and support China's exports, even though concerns persist over the renewed threat of trade frictions, tariffs, and possible extraterritorial ("long-arm jurisdiction") measures.

Figure 11: China Manufacturing PMI



Source: NBS, CMBIGM estimates

Figure 12: China's industrial profits growth



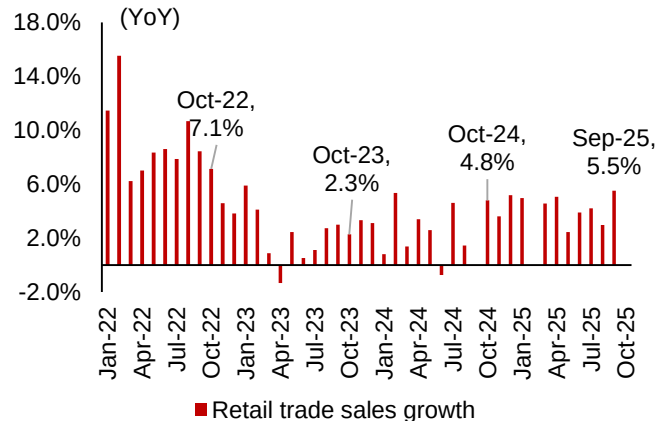
Source: NBS, CMBIGM estimates

Figure 13: China's export sales growth

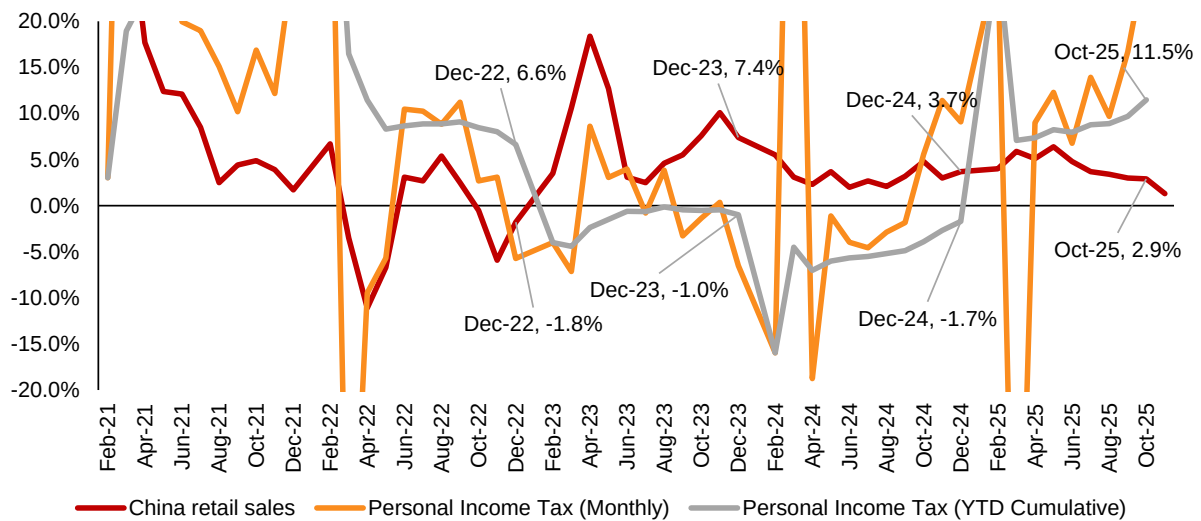


Source: NBS, CMBIGM estimates

Figure 14: US retail sales growth



Source: US Census Bureau, CMBIGM estimates

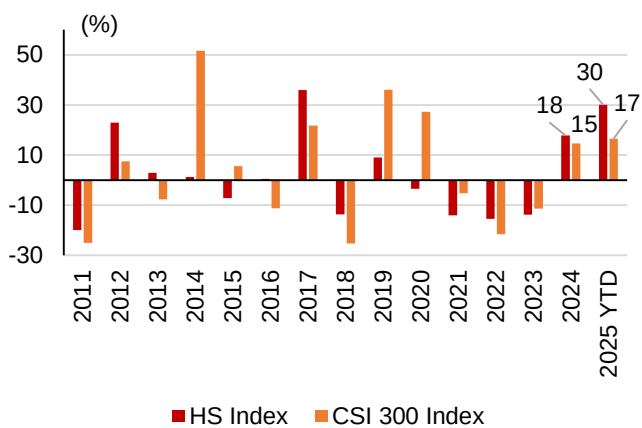
Figure 15: China's retail sales growth compared to personal income tax revenue growth

Source: NBS, CMBIGM estimates

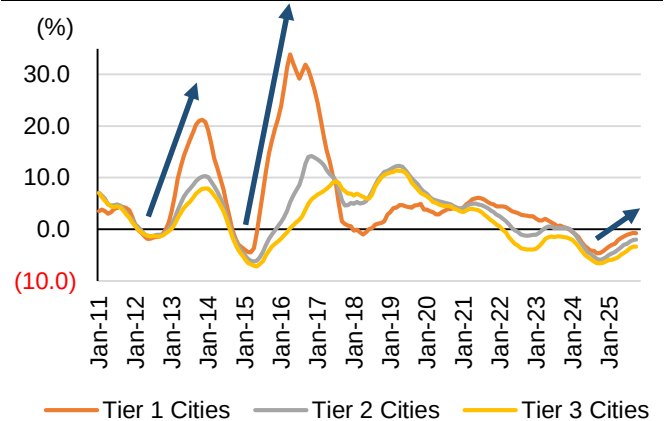
■ Wealth effect showing mild improvement and may persist into 2026

Encouragingly, the wealth effect has started to improve slightly and may continue into 2026. In 2025, housing prices continued to decline but at a slower pace month-on-month. While we do not expect a strong rebound in 2026, even a narrower decline or stabilization should help alleviate downward pressure on consumption.

Meanwhile, the equity market performed robustly in 2025, outperforming most global peers and delivering solid returns. Although our stance on the consumption sector remains relatively cautious, we expect equity market gains to extend into 2026, likely generating a modest positive wealth effect that could lend support to overall consumption growth.

Figure 16: Annual returns of Hang Seng Index and CSI 300 Index

Source: Bloomberg, CMBIGM estimates

Figure 17: Price Index of new commercial housing in 70 major and medium-sized cities in China

Source: NBS, CMBIGM estimates

Outlook of the sub-sectors in the Consumer Discretionary Sector

Overall speaking, in 2026E, among all the sub sectors, we will prefer:

1) Tea drinks & coffee (Outperform)

In the long term, we believe the new-style tea and coffee segment still offers ample growth opportunities due to: 1) product substitution — freshly made beverages continue to replace bottled drinks and traditional desserts in both freshness, variety, and social appeal; 2) supply-side upgrade — improvements in raw-material utilization and innovation have continued to create new demand; and 3) increasing consumption frequency, as both the younger generation and working adults develop regular coffee-drinking habits.

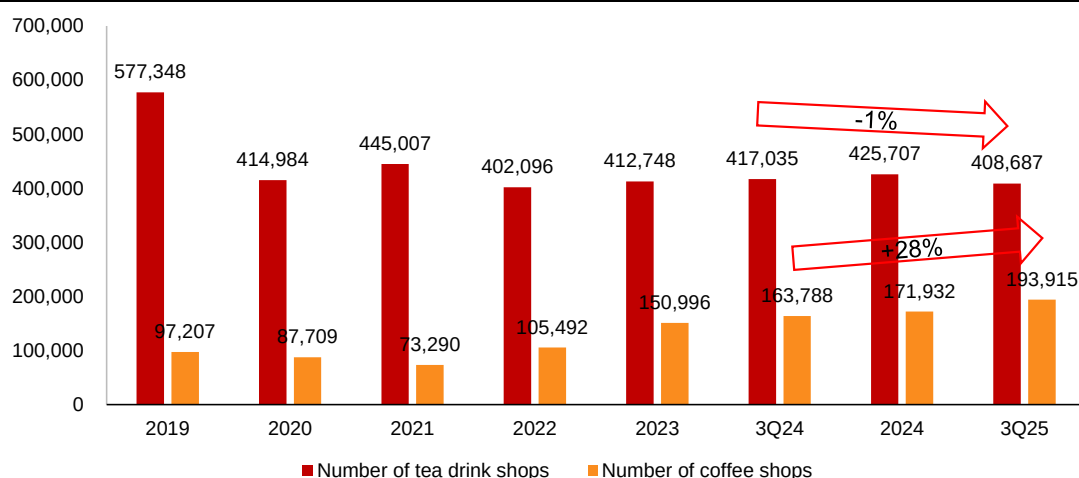
In the near term, however, some headwinds have emerged following the “delivery subsidy war,” including a high base, short-term demand normalization, and sales dilution from accelerated store expansion. As a result, we expect the sector’s growth to moderate in 2026 compared with 2025. Nevertheless, given the “small happiness,” low-ticket, and high-frequency nature of tea and coffee consumption, we expect the category to remain resilient under the current macro environment. Overseas expansion potential also remains sizable. Industry leaders should continue to deliver positive same-store sales through product innovation, stronger marketing, and category expansion. Even if Starbucks China fine-tunes its strategy, leading local chains still hold significant store-opening potential and strong competitive advantage, even though valuation risks may rise as growth slows.

Top pick: Luckin Coffee (LKNCY US, BUY)

Reasons: 1) The base is not high in 2025; same-store growth was modest and margin pressure persisted due to self-operated store mix, leaving solid upside in 2026, 2) the brand enjoys stronger customer stickiness with recurring demand. During the 2025 delivery-subsidy period, Luckin successfully acquired and reactivated a large user base, supporting repurchase momentum, 3) product-line expansion potential is significant, beyond beverages like milk tea and fruit tea to include breakfast, bakery, light meals, and desserts and 4) a potential Hong Kong relisting could drive further valuation re-rating.

Related companies: Mixue Bingcheng (2097 HK, NR), Goodme (1364 HK, NR), ChaBaiDao (2555 HK, NR), Auntea Jenny (2589 HK, NR).

Figure 18: Number of tea shops and coffee shops in China in recent years



Source: <https://www.canyin88.com>, CMBIGM estimates

2) Pop toys (Outperform)

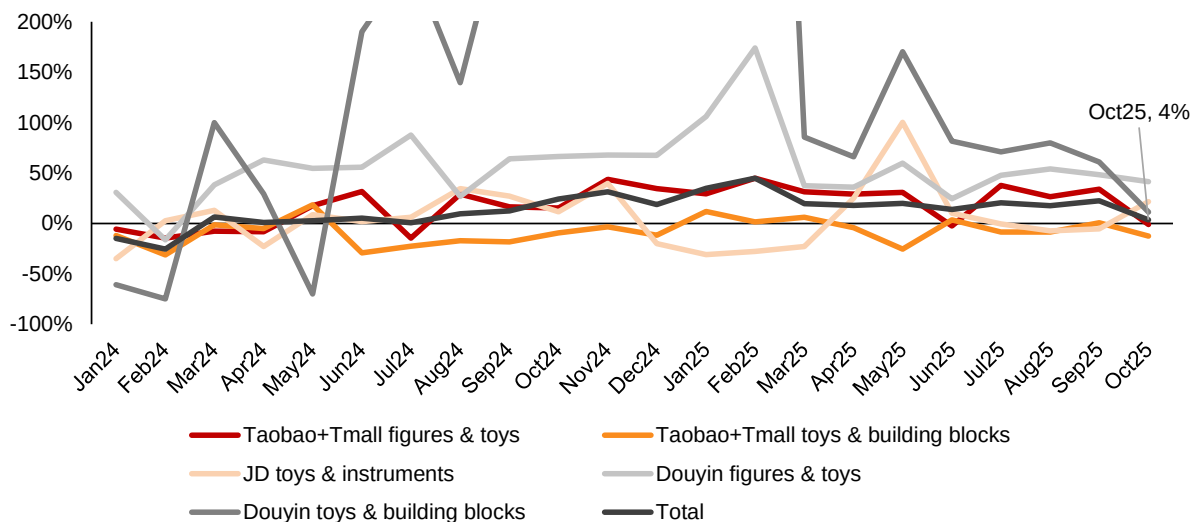
Although growth in the pop toy segment may decelerate slightly in 2026 versus 2025, we maintain a positive view, supported by stable consumer habits—demand for affordable, instantly gratifying entertainment remains strong during economic downturns—and by a favorable demographic structure, with continued growth among middle- and high-school, university, and early-career consumers.

For industry leaders, we are still constructive: 1) the market has largely priced in slower growth under multiple scenarios (bull, base, bear), so valuation downside appears limited even if sales decline YoY, 2) core IPs such as Labubu plush series (versions 4.0 and 5.0) are scheduled to launch in 2026, with expected innovation levels surpassing prior Pin for Love designs, 3) logistically controlled product launches facilitate scarcity value and secondary-market premiums, enhancing viral marketing, 4) the strong popularity of current IPs supports new cross-brand collaborations, which will materialize in 2026 and 5) Overseas markets present large untapped potential: fan base expansion is rapid, penetration remains low, and offline retail ratios in North America and Europe remain high, implying significant room for store openings. Markets such as Canada, Japan, and Australia are also underdeveloped.

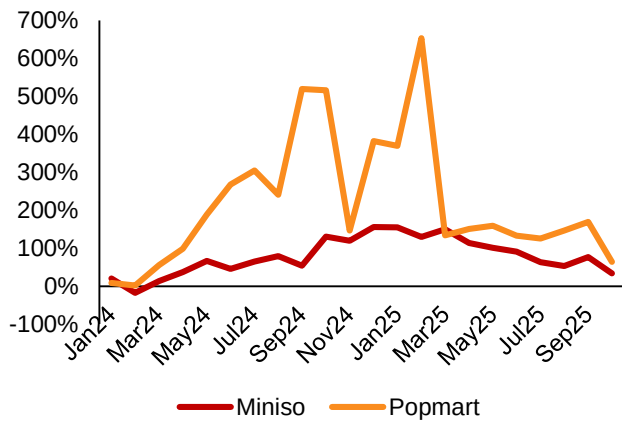
However, competition remains intense. The bubble around Pop Mart in 2025 coincided with notable revenue and share declines among traditional IPs. Careful stock selection remains necessary in 2026. That said, valuations across the sector are not demanding, especially for leading companies. So, execution accuracy should keep overall pressure manageable.

Related companies: Pop Mart (9992 HK, NR), MINISO (9896 HK / MNSO US, NR).

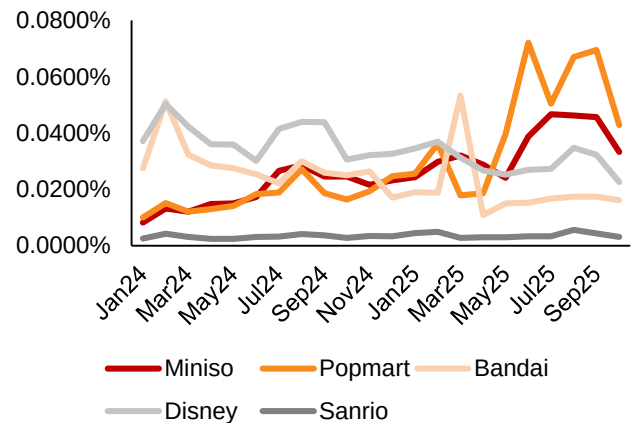
Figure 19: Sales growth of the pop toys industry on different e-commerce platforms



Source: <https://www.mktindex.com>, CMBIGM estimates

Figure 20: Pop Mart and Miniso's e-commerce sales growth in China


Source: Wind, CMBIGM estimates

Figure 21: Market share of different pop toys brands on Chinese e-commerce platforms


Source: Wind, CMBIGM estimates

3) Apparel (Outperform)

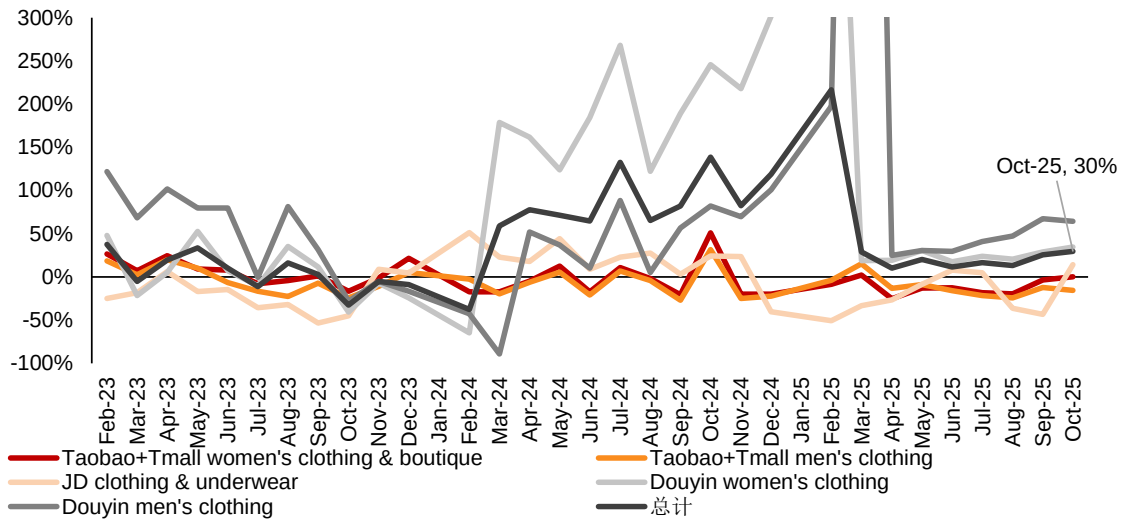
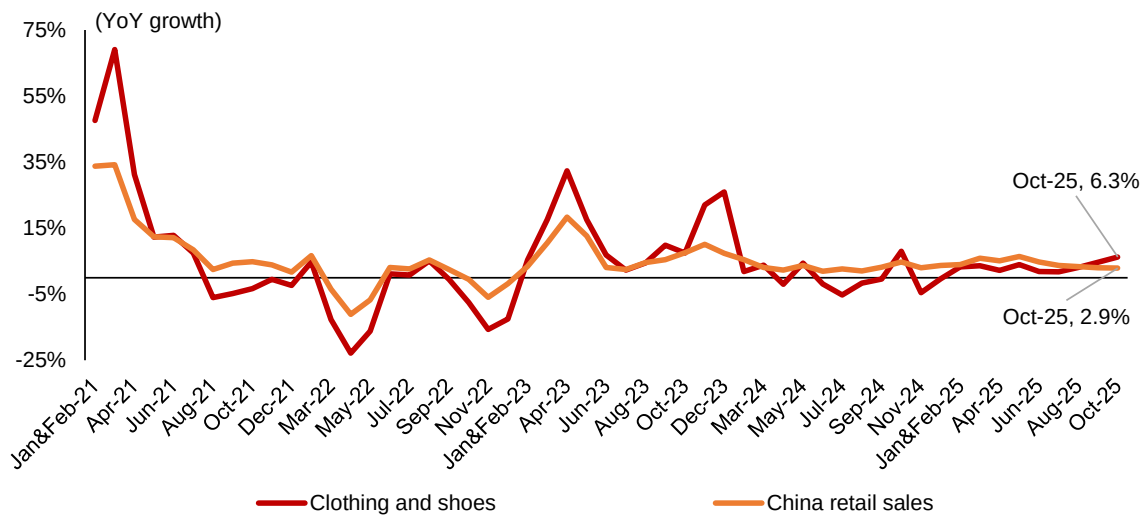
We expect apparel sector sales growth to be flat to slightly higher in 2026 compared with 2025, supported by short-term tailwinds: 1) later-than-usual Chinese New Year, and 2) a likely cold winter (based on both China's and US's Meteorological Agency models). Order-book growth remains conservative while inventories are healthy, implying manageable discount pressure.

Excluding these seasonal factors, structural headwinds remain: 1) During economic downturn, consumers extend usage cycles and trade down to lower-priced or even second-hand apparel; 2) Emotional resonance of most apparel products is limited, making them less relevant for real-time "happiness" consumption among younger cohorts; 3) Product homogeneity continues to weigh on purchase motivation. Hence, our mid-term stance remains cautious.

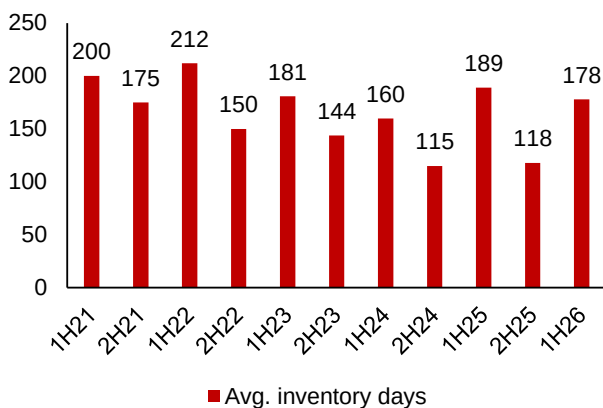
Top pick: Bosideng (3998 HK, BUY)

Given low sector valuations and high dividend yields, leading players with sustained outperformance still warrant exposure. Bosideng continues to outgrow peers, benefiting from product innovation, category expansion, store upgrades, and improved operational efficiency. With a March fiscal year-end, the company remains well-positioned to capture tailwinds from the late Spring Festival and longer public holidays in 2026.

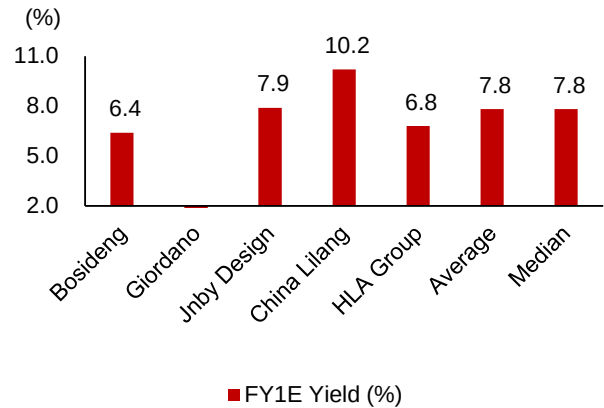
Related companies: JNBY Design (3306 HK, BUY) — highest dividend yield in the sector; Lilang (1234 HK, BUY).

Figure 22: Sales growth of the apparel industry on different e-commerce platformsSource: <https://www.mktindex.com>, CMBIGM estimates**Figure 23: China's retail sales and apparel sales growth**

Source: NBS, CMBIGM estimates

Figure 24: Bosideng inventory days

Source: Company data, CMBIGM estimates

Figure 25: Forward 1-year yield

Source: Bloomberg, CMBIGM estimates

4) Textile (Outperform)

We hold a slightly positive view on the textile sector in 2026, with the main support coming from expected interest-rate cuts in the US and Europe, which could stabilize overseas demand and potentially re-accelerate consumption growth.

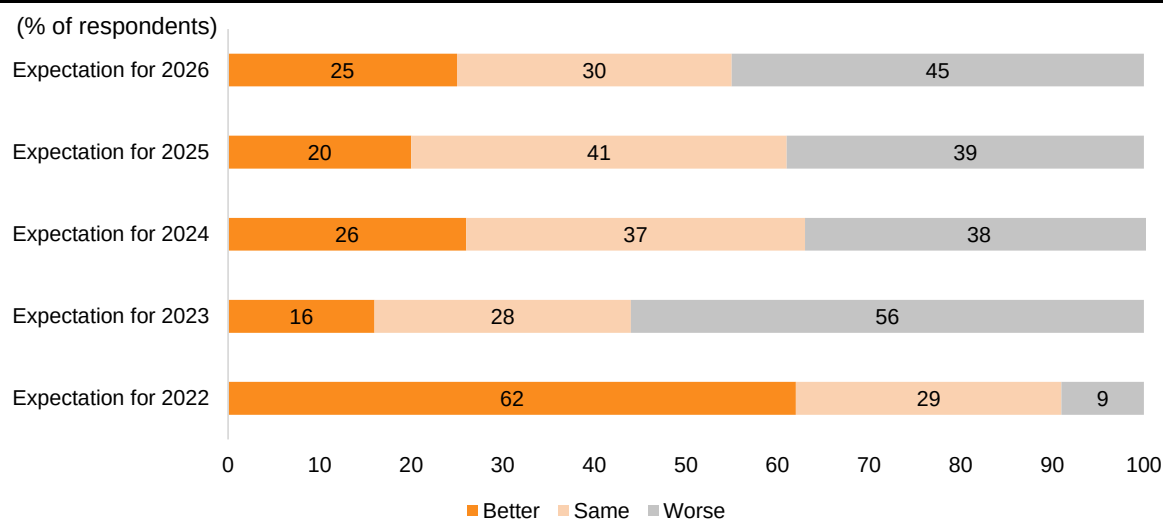
That said, we remain mindful of several downside risks: 1) rising overseas inflation and persistently high unemployment levels, 2) renewed trade frictions and tariff increases, 3) downbeat sentiment among apparel and luxury executives toward US and European market prospects, 4) channel inventory levels remain elevated, roughly back to or slightly above 2019 levels, implying that the restocking boost may have largely ended.

Still, leading players could benefit from multiple factors: 1) stronger order flows from Nike amid brand re-acceleration, 2) 2026 FIFA World Cup potentially boosting demand for jerseys and sportswear, 3) better market-share capture by companies with established Southeast Asia capacities and 4) production ramp-up efficiencies from capacity expansions initiated in 2025.

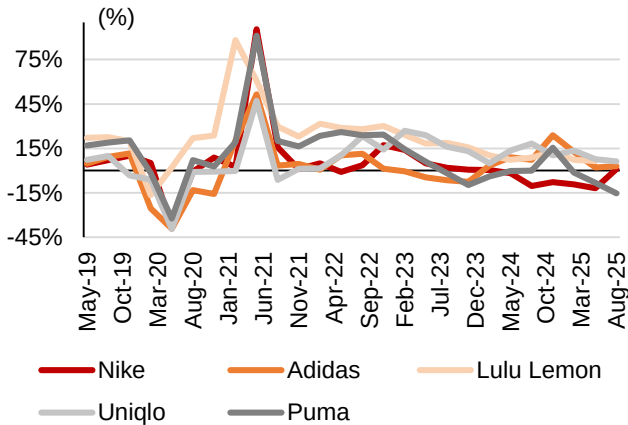
Overall, despite the volatility, we stay confident in leading exporters with clear execution and client diversification.

Related companies: Shenzhou (2313 HK, NR), Stella (1836 HK, NR), Crystal International (2232 HK, NR), Pou Sheng (3813 HK, NR), Huali Group (300979 CH, NR).

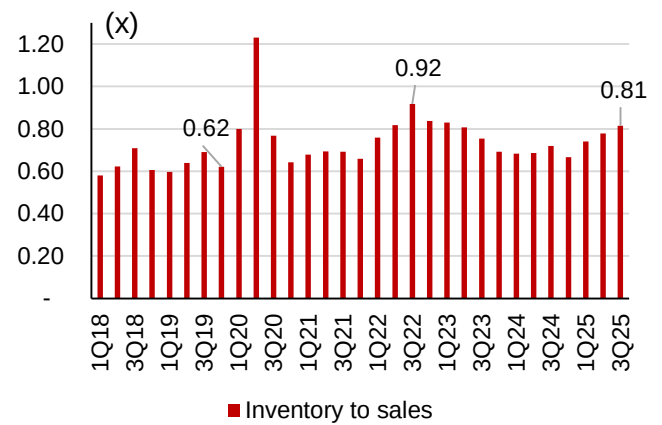
Figure 26: Compared to last year, what are the industry executives' expectations for the fashion industry in the coming year (how will it evolve)?



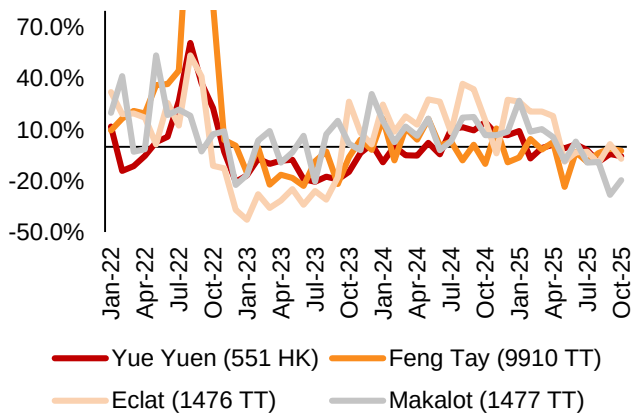
Source: State of fashion & McKinsey, CMBIGM estimates

Figure 27: International sports and apparel brand sales growth

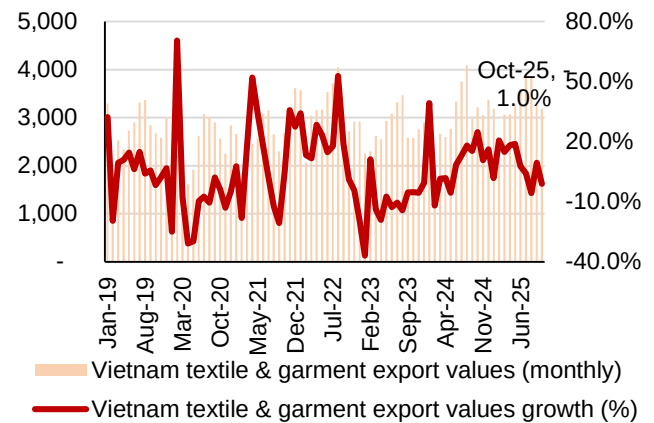
Source: Company data, CMBIGM estimates

Figure 28: Average inventory-to-sales ratio of international sports and apparel brands

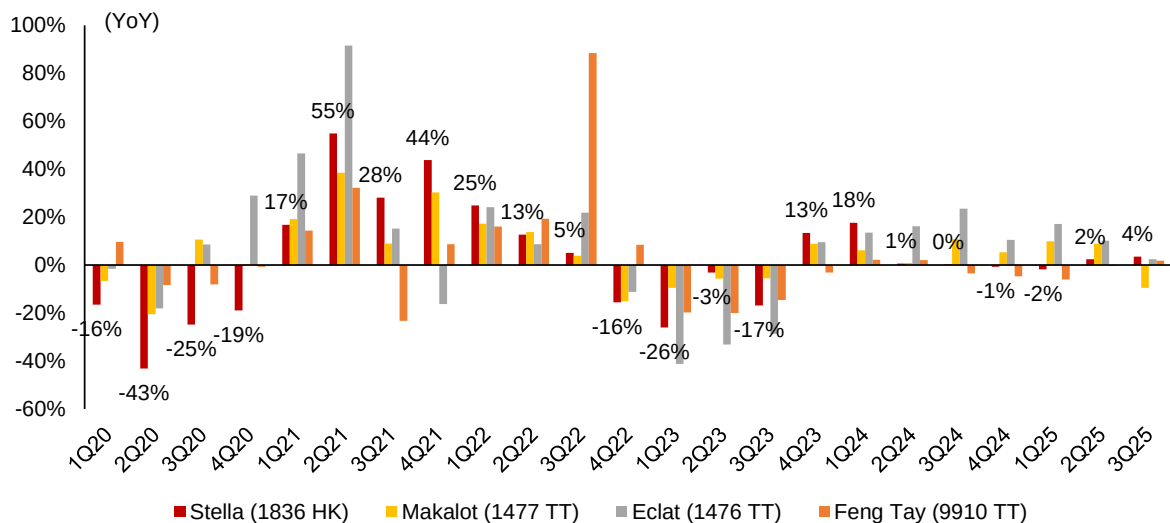
Source: Company data, CMBIGM estimates, Note: Refers to Nike, Adidas, Lululemon, Uniqlo, and Puma.

Figure 29: Sports and apparel makers' sales growth

Source: Company data, CMBIGM estimates

Figure 30: Vietnam's textile export sales and growth

Source: Vietnam Statistics Bureau, CMBIGM estimates

Figure 31: Sports and apparel makers' quarterly sales growth

Source: Company data, CMBIGM estimates

We have a **Market-perform** rating on the following sub-sectors:

5) Catering (Market-perform)

Over the long term, we remain positive on the restaurant sector's structural growth, supported by faster living pace, growing demand for dining out and delivery, and continuous pursuit of a better lifestyle and consumption upgrade. On the supply side, improvements in raw-material utilization, storage and logistics, and product innovation will continue to create new demand.

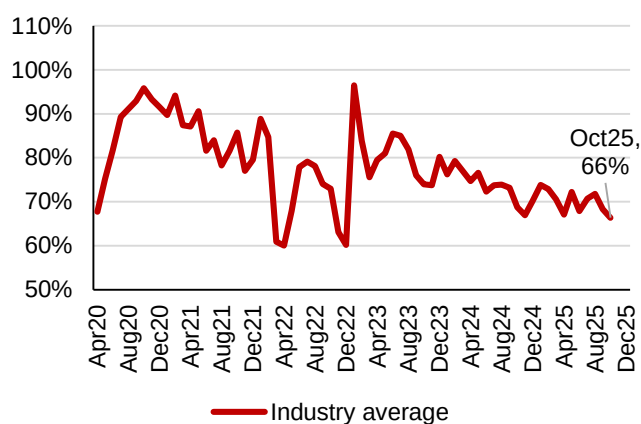
In the near term, however, we observe clear signs of weakness. Same-store sales growth slowed notably in October–November 2025, and the recovery ratio versus 2019 has deteriorated sequentially, signaling softening demand. For 2026, we are cautious on sales growth (though dine-in could show mild recovery) and expect a slower pace than 2025, likely following a “weak 1H, stronger 2H” pattern. Key reasons include: 1) rising base and fading delivery subsidies leading to weaker demand growth; 2) fewer policy tailwinds (e.g., reducing national subsidies and no further holiday extension); 3) ongoing consumption downgrade boosting at-home eating; 4) supply not yet consolidated—restaurant count in 3Q25 stayed roughly flat versus end-2024, keeping competition intense. By category, we favor convenient, healthy, low-price, and value-for-money concepts.

Top pick: Guoquan (2517 HK, BUY)

We like its vertically integrated “production-to-retail” model and recent initiatives such as viral hero products, diversified menu expansion, channel upgrades, membership optimization, enhanced staff training, and stronger customer stickiness. We also like **Yum China (9987 HK / YUMC US, BUY)** — as we see high resilience backed by constantly improving value-for-money, new market penetration (across demographics, channels, and lower-tier cities), and its RGM 3.0 strategy driving efficiency across the value chain from supply chain to store operations and virtual platforms. Solid cash generation should continue supporting shareholder returns.

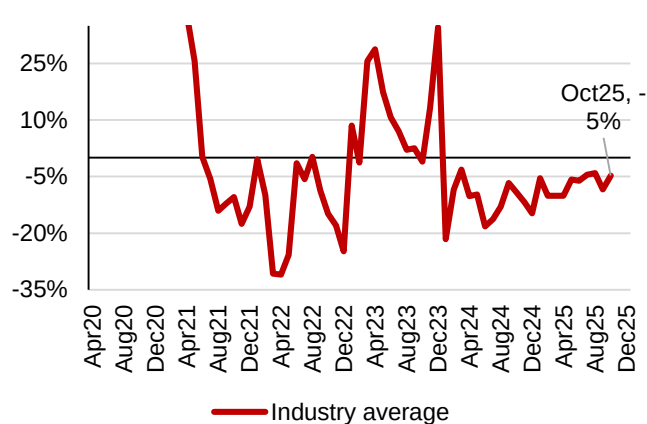
Related companies: DPC Dash (1405 HK, BUY), Green Tea Group (6831 HK, BUY), Haidilao (6862 HK, BUY), Jiumaojiu (9922 HK, BUY), and Cafe de Coral (341 HK, HOLD).

Figure 32: Same store sales recovery rate in the catering industry (compared to 2019)



Source: Company data, CMBIGM estimates, Note: Industry: refers to Jiu Mao Jiu, Tai Er, Haidilao, Xiabuxiabu, Coucou, KFC, Pizza Hut, Song Hotpot, and Green Tea Group.

Figure 33: Same store sales growth in the catering industry



Source: Company data, CMBIGM estimates, Note: Industry: refers to Jiu Mao Jiu, Tai Er, Haidilao, Xiabuxiabu, Coucou, KFC, Pizza Hut, Song Hotpot, and Green Tea Group.

6) Sportswear (Market-perform)

We expect sales growth in China's sportswear sector to remain broadly flat in 2026, compared with 2025. The sector may see limited near-term support from a colder winter and late spring in 2026, although the magnitude should be mild. Consumers generally associate warmth with apparel and outdoor brands, while channel inventory is inching up, prompting heavier discounts. Similar challenges persist: 1) During economic downturn, consumers extend product life cycles and trade down; 2) Product homogeneity remains significant, with limited user experience upgrades; 3) Emotional resonance and instant gratification from most products are insufficient.

In the medium term, the rising proportion of sub-healthy individuals could cap sports participation, especially as economic pressures and dietary habits worsen. We also monitor demographic shifts—e.g., the number of primary school students has peaked, limiting kids' apparel and youth basketball/football demand. However, growth among middle-schools, universities, and adult populations should still benefit running, training, badminton, golf, and outdoor categories.

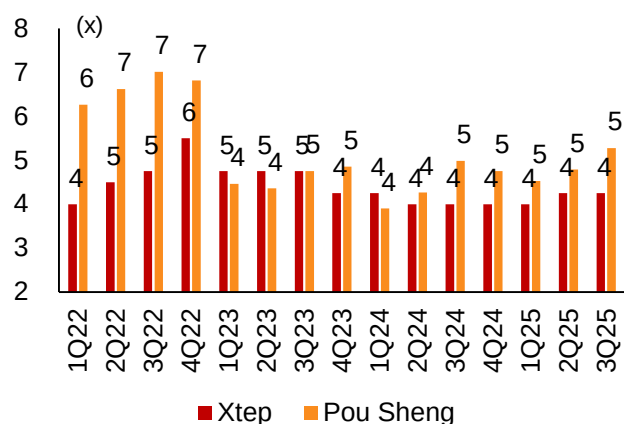
For 2026, by category, we expect running to maintain strong growth, basketball to improve slightly, while lifestyle footwear and apparel may remain under pressure. Outdoor should continue to see structural growth, supported by younger consumers' desire to "escape the city" (aesthetic fatigue from homogeneous malls) and wealthier cohorts' pursuit of identity and social connection.

Top pick: Li Ning (2331 HK, BUY)

We expect a fundamental turnaround as most adverse factors and cost pressures have been digested in 2025, paving the way for a stronger recovery in 2026. Nike's reform progress on product innovation, localized marketing, streamlined management, and faster decision-making is encouraging, supporting a more constructive view on **Topsports (6110 HK, BUY)**.

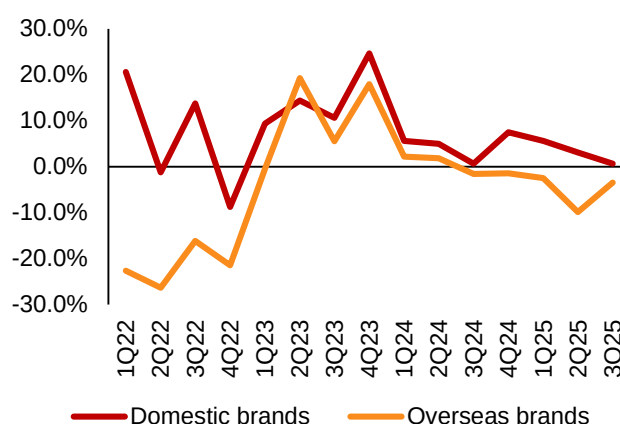
Related companies: We are less bullish on **Anta (2020 HK, BUY)** given weaker core-brand momentum and potential financial risks from future acquisitions. **Xtep (1368 HK, BUY)**, **361 Degrees (1361 HK, BUY)**, **Pou Sheng (3813 HK, NR)**.

Figure 34: Channel inventory-to-sales ratio - Xtep and Pou Sheng



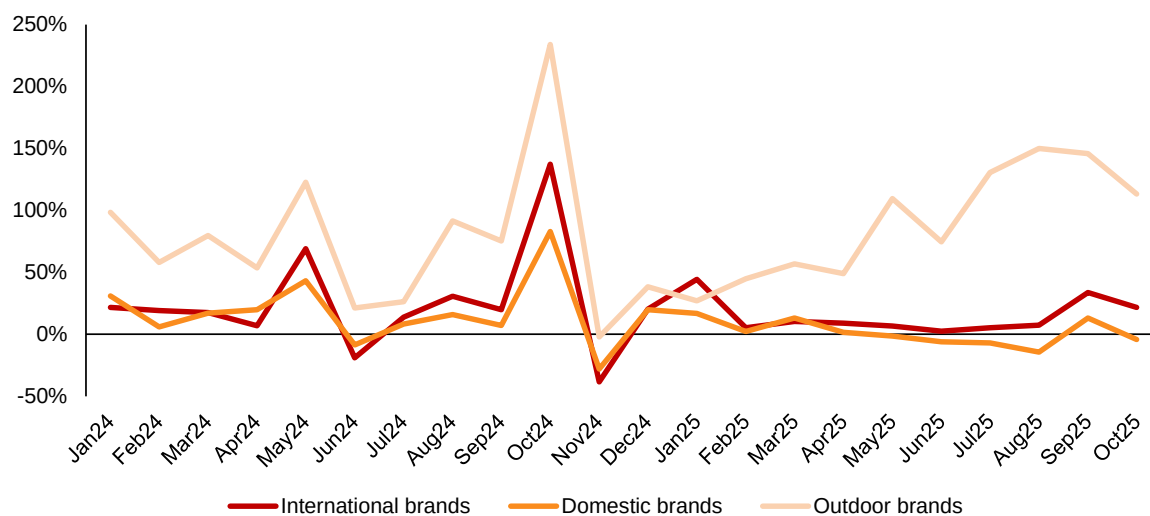
Source: Company data, CMBIGM estimates

Figure 35: Retail sales growth - Domestic vs. international brands



Source: Company data, CMBIGM estimates, Note: Domestic brands refer to Li-Ning, Anta, Xtep, and FILA; international brands refer to Nike China, Adidas China, and Pou Sheng.

Figure 36: E-commerce sales growth of domestic sporting goods brands, international sporting goods brands, and outdoor brands in China



Source: <https://www.mktindex.com>, CMBIGM estimates

7) Tourism - Hotel (Market-perform)

In the mid-to-long term, we remain confident in the structural growth of China's hospitality sector. Per-capita tourism spending and trip frequency remain far below those in developed markets. Meanwhile, young and emerging middle-class consumers continue to prioritize experiential and "check-in" travel, increasing tourism's share of total household spending.

In 2H25E, hotel operators performed well (RevPAR turned positive YoY), partly aided by increased domestic travel and demand shifts driven by tense China-Japan relations in 4Q25.

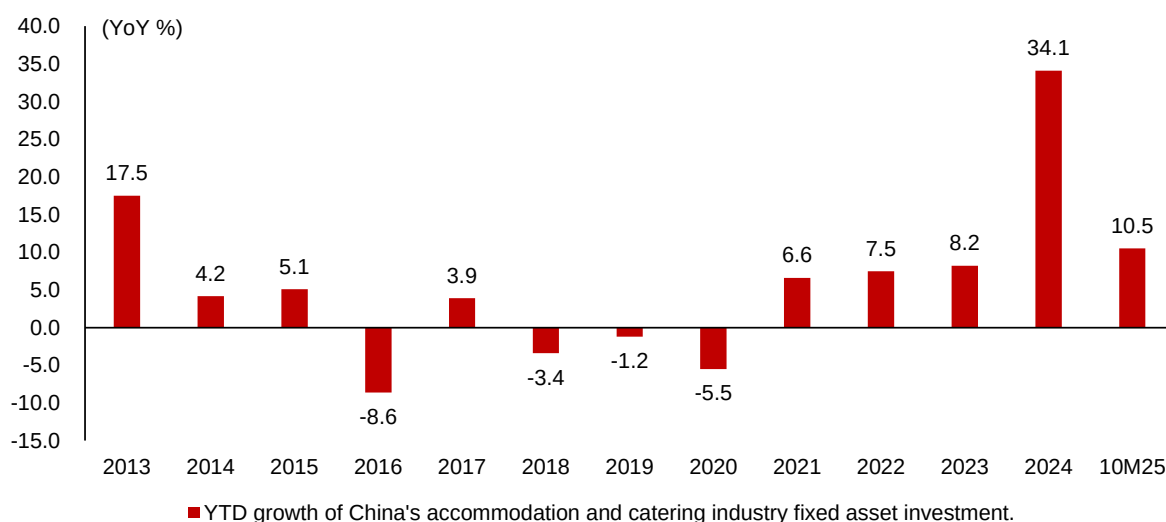
Looking into 2026, however, our stance turns more cautious due to: 1) fewer supportive government measures on holidays compared with 2025, 2) persistent macro headwinds—elevated unemployment, weak consumer confidence, and PMI deterioration across manufacturing and services in Nov 2025. If export-related sectors face further pressure, consumer spending power could weaken. While there are positives (e.g., slower new supply growth), overall supply could still outpace demand due to continued hotel conversions from commercial real estate.

Inbound travel remains a bright spot, with policy support fueling solid growth and RevPAR uplift, although it still represents a small portion of total revenue.

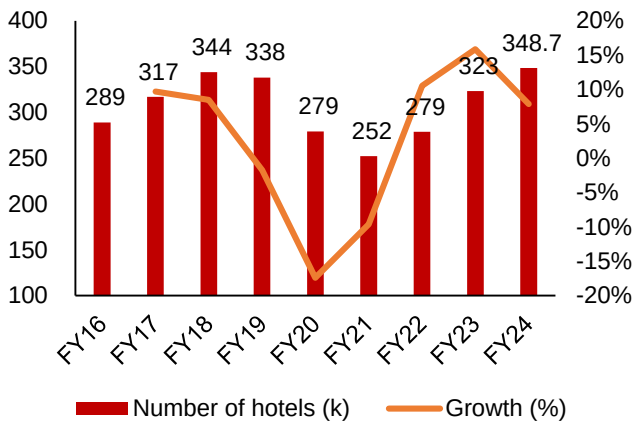
Leading operators can continue to drive share gains through: 1) strong product upgrades and retail extensions around sleep-related scenarios, 2) disciplined "good-store" expansion to lift RevPAR and 3) deepening lower-tier and overseas market penetration.

Related companies: H-World (1179 HK / HTHT US, NR), Jin Jiang Hotels (600754 CH, NR), BTG Hotels (600258 CH, NR).

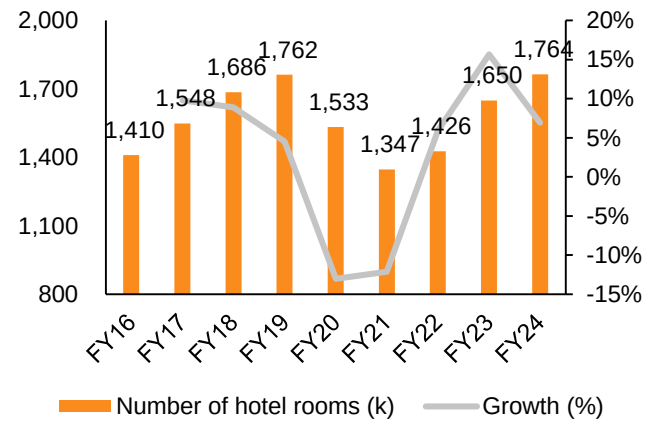
Figure 37: YTD growth of China's accommodation and catering industry fixed asset investment



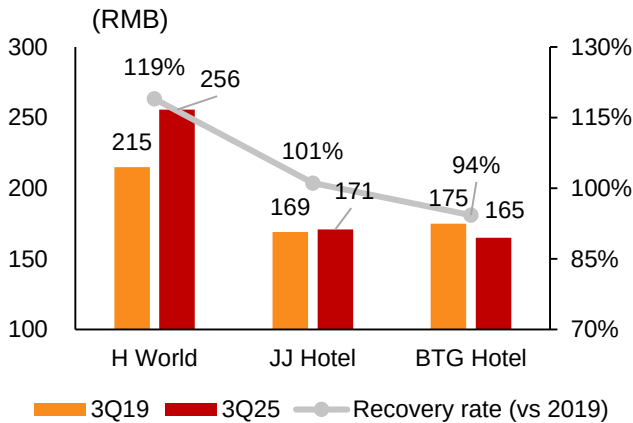
Source: NBS, CMBIGM estimates

Figure 38: Number and growth of hotels in China

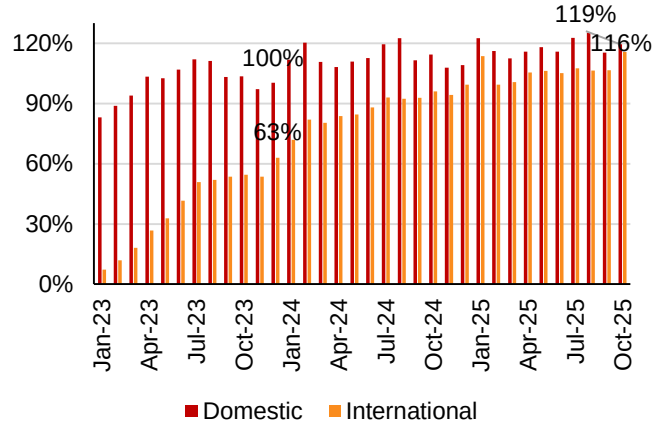
Source: China Hotel Association, CMBIGM estimates

Figure 39: Number of hotel rooms and growth in China

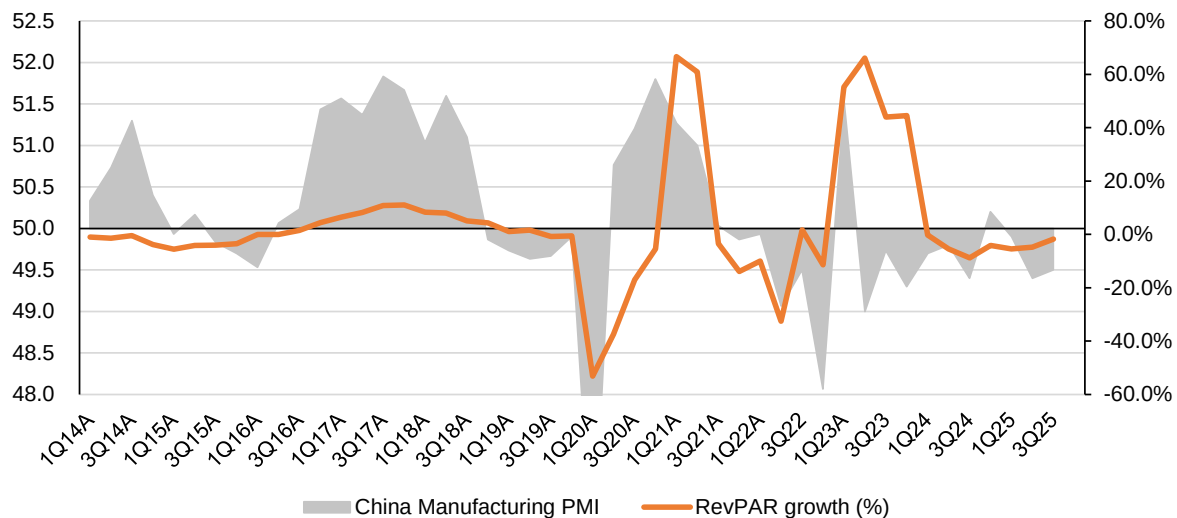
Source: China Hotel Association, CMBIGM estimates

Figure 40: RevPAR recovery rate (3Q25 vs. 3Q19) - by company

Source: Company data, CMBIGM estimates

Figure 41: Recovery rate of domestic and overseas civil aviation passenger traffic (compared to 2019)

Source: Civil Aviation Administration of China, CMBIGM estimates

Figure 42: China's Manufacturing PMI compared to industry RevPAR growth

Source: NBS, Company data, CMBIGM estimates

8) Home appliance (Market-perform)

We adopt a conservative stance on the sector's short-term sales outlook. Listed companies' reported revenue may still outperform domestic retail trends due to restocking and overseas contributions, but several risks stand out: 1) Consumption was front-loaded by past national subsidies, creating a high base and demand pull-forward; 2) New home completions continue to fall YoY, showing weak underlying demand.

Even if new subsidies are reintroduced in 2026, we doubt the scale will be large enough to meaningfully offset the drag. Although channel inventory is relatively low, potential restocking by distributors is unlikely to drive material growth. If retail sales continue to soften in the next six months, pricing competition could intensify. Low-price mass products may hold up better, but overall gross margins will face pressure.

Sector performance will likely hinge on export trends. We hold a slightly optimistic view since the US rate cuts in 2H25E should support housing, furniture, and related appliance consumption. While consensus GDP and retail growth forecasts for the US and Europe are conservative, exports to emerging markets could surprise on the upside.

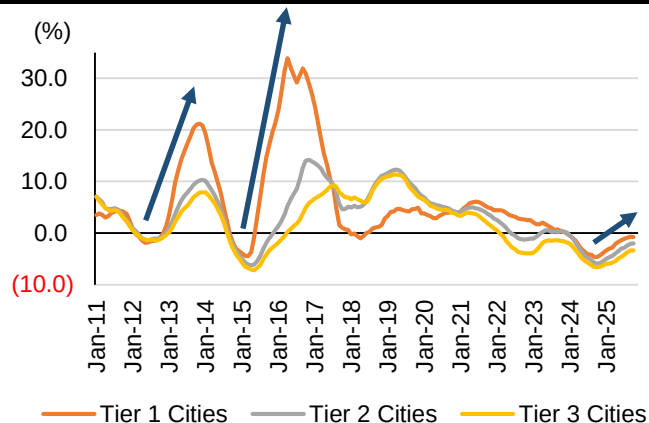
Commercial air-conditioning should remain resilient—the segment benefited little from past subsidies, and hence faces limited downside now.

Top pick: JS Global (1691 HK, BUY)

We are positive on its intrinsic value, strong cash position, and SharkNinja's rapid expansion in the Asia-Pacific region.

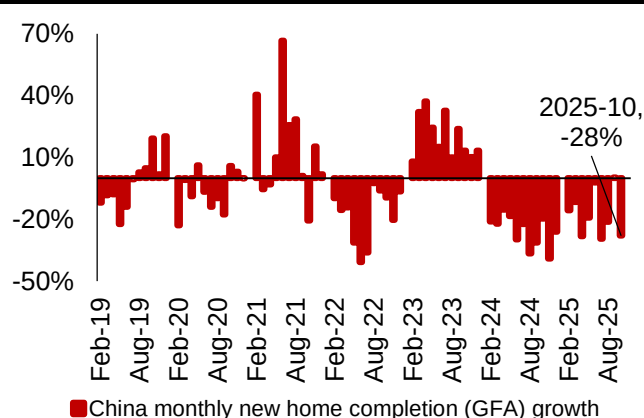
Related companies: Haier Smart Home (6690 HK, BUY), Midea Group (000333 CH, BUY), Hisense (921 HK, NR), Roborock (688169 CH, NR), Ecovacs (603486 CH, NR), Joyoung (002242 CH, NR), Supor (002032 CH, NR).

Figure 43: Price Index of New Commercial Housing in 70 major and medium-sized cities in China

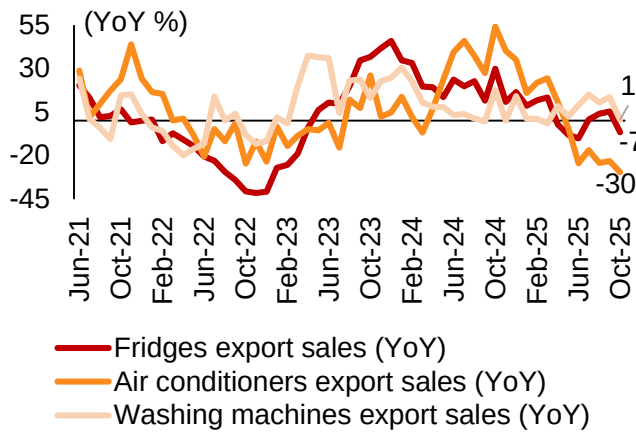


Source: NBS, CMBIGM estimates

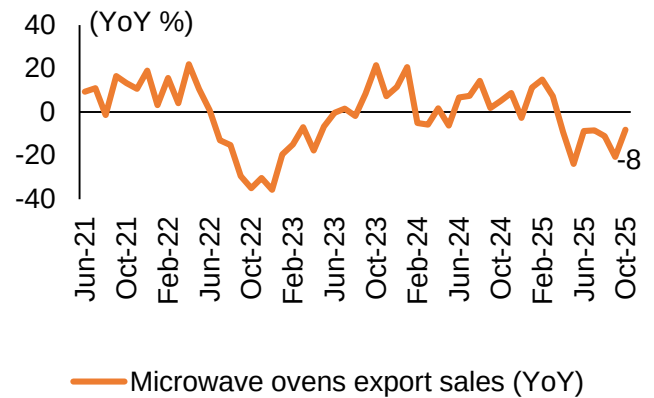
Figure 44: China new home completion (in terms of gross floor area) growth



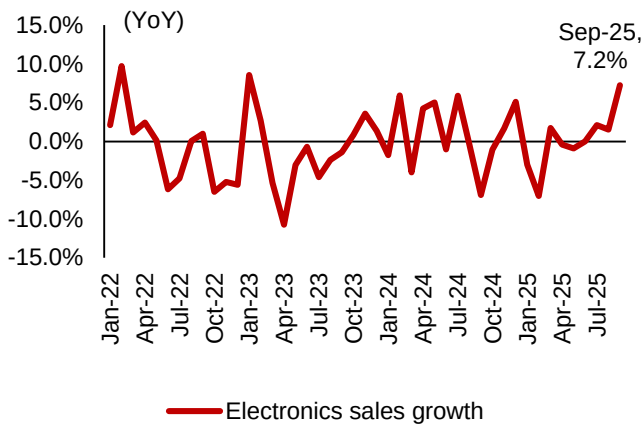
Source: NBS, CMBIGM estimates

Figure 45: China large home appliances exports sales growth

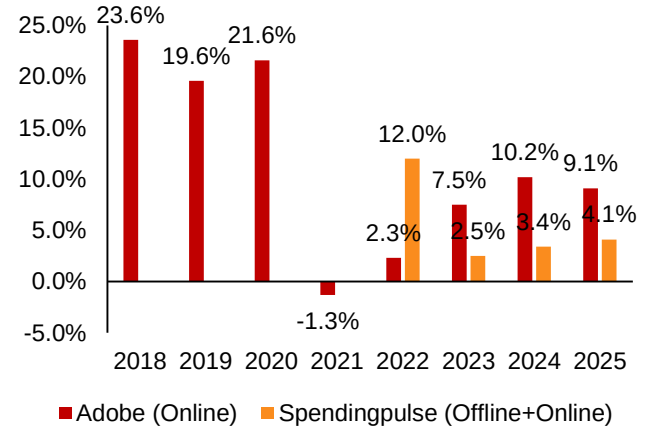
Source: Wind, CMBIGM estimates

Figure 46: China small appliance exports sales growth

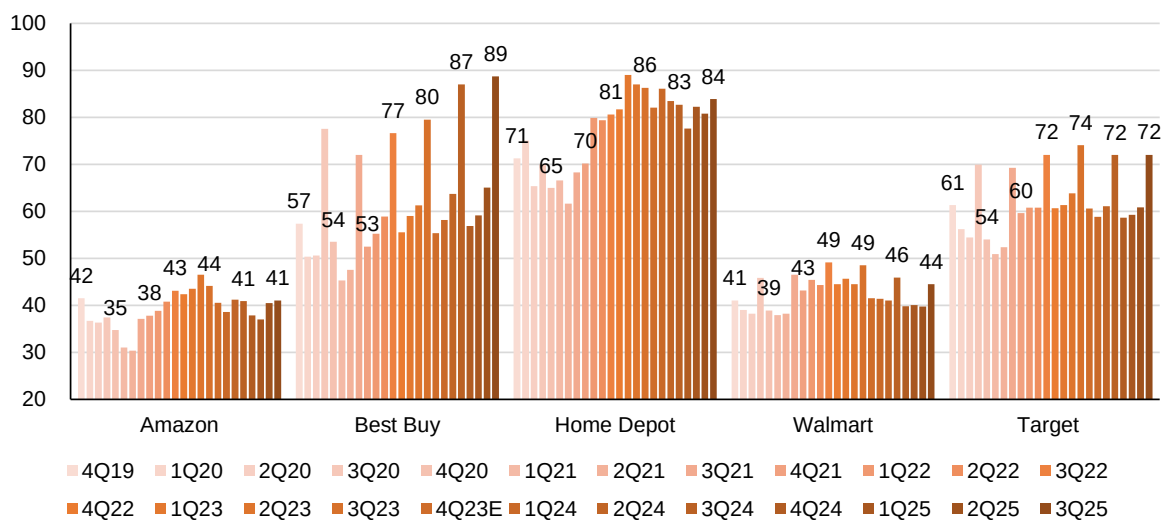
Source: Wind, CMBIGM estimates

Figure 47: US home appliance sales growth

Source: Wind, CMBIGM estimates

Figure 48: US Black Friday sales growth

Source: Adobe, Spendingpulse, CMBIGM estimates

Figure 49: Inventory days for US retailers

Source: Company data, CMBIGM estimates

Peers' Valuation

Figure 50: Peer's valuation table 1

Company	Ticker	Price L.C.	Mkt cap HK\$ mn	Rating	TP L.C.	Year End	PER (x)		EV/EBITDA (x)		PBR (x)		Yield (%)	Net gearing	YTD performanc	
Sports																
Anta Sports	安踏体育	2020 HK	82.15	230,613	BUY	105.30	Dec-24	15.8	14.0	9.0	7.7	3.0	2.6	3.1	(9.3)	5.5
Li Ning	李宁	2331 HK	16.99	43,916	BUY	23.02	Dec-24	15.8	13.9	5.4	4.7	1.5	1.4	3.2	(21.0)	3.2
Xtep	特步	1368 HK	5.52	15,490	BUY	7.39	Dec-24	10.0	9.0	5.6	5.2	1.4	1.3	5.2	0.6	(2.1)
361 Degrees	361度	1361 HK	5.88	12,158	BUY	7.09	Dec-24	8.6	7.6	3.8	3.0	1.0	0.9	5.6	(40.5)	38.7
Topsports	滔搏	6110 HK	3.19	19,782	BUY	3.77	Feb-25	13.8	12.2	7.1	6.3	1.9	1.9	7.8	16.3	11.6
Pou Sheng	宝胜	3813 HK	0.45	2,397	-	-	Dec-24	5.9	4.6	0.1	n/a	0.2	0.2	6.4	0.6	(6.6)
China Dongxiang	中国动向	3818 HK	0.48	2,800	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(30.0)	38.8
Average								11.6	10.2	5.2	5.4	1.5	1.4	5.2	(11.9)	12.7
Median								11.9	10.6	5.5	5.2	1.4	1.4	5.4	(9.3)	5.5
Apparel																
Bosideng	波司登	3998 HK	4.95	57,762	BUY	5.55	Mar-25	13.1	11.8	7.5	6.7	2.8	2.6	6.4	(57.3)	27.6
Giordano	佐丹奴	709 HK	1.49	2,408	-	-	Dec-24	10.6	9.9	2.7	2.5	n/a	n/a	n/a	(3.1)	(11.3)
Esprit	思捷环球	330 HK	1.12	317	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	26.0	(15.2)
Cosmo Lady China	都市丽人	2298 HK	0.31	697	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.9	19.2
Viva Goods	非凡领越	933 HK	0.60	5,975	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.0	(1.6)
Jnby Design	江南布衣	3306 HK	20.20	10,479	BUY	23.30	Jun-25	10.0	9.3	n/a	n/a	3.6	3.3	7.3	(26.2)	15.2
China Lilang	中国利郎	1234 HK	3.37	4,036	BUY	4.42	Dec-24	7.0	6.3	n/a	n/a	0.9	0.8	10.1	12.1	(10.8)
Hla Group	海澜之家	600398 CH	6.21	32,828	-	-	Dec-24	12.9	11.5	4.8	4.8	1.7	1.6	6.7	(29.3)	(17.2)
Average								10.7	9.8	5.0	4.7	2.2	2.1	7.6	(6.7)	0.7
Median								10.6	9.9	4.8	4.8	2.2	2.1	7.0	1.4	(6.2)
Restaurant																
Haidilao	海底捞	6862 HK	13.72	76,475	BUY	17.46	Dec-24	15.9	14.1	8.1	7.4	6.2	5.5	5.4	(32.7)	(13.7)
Super Hi	特海国际	9658 HK	14.19	9,228	-	-	Dec-24	25.3	23.4	n/a	n/a	2.9	2.6	0.0	(11.6)	(35.5)
Xiabuxiabu	呷哺呷哺	520 HK	0.82	891	BUY	4.89	Dec-24	n/a	n/a	n/a	n/a	1.2	1.3	2.0	56.2	(18.0)
Dpc Dash	达势	1405 HK	78.45	10,307	BUY	105.96	Dec-24	60.0	37.2	13.4	10.8	3.8	3.5	0.0	22.2	0.6
Xiaocaiyuan	小菜园	999 HK	9.58	11,271	-	-	Dec-24	13.6	11.0	7.8	6.5	3.7	3.2	4.5	(25.1)	4.9
Green Tea Group	绿茶集团	6831 HK	6.11	4,115	BUY	10.74	Dec-24	7.4	6.1	n/a	n/a	2.9	2.0	6.4	107.7	n/a
Jiumaojiu	九毛九	9922 HK	1.71	2,390	BUY	3.18	Dec-24	14.8	9.4	3.0	2.6	0.7	0.6	3.5	71.8	(49.8)
Helens	海伦司	9869 HK	1.00	1,265	-	-	Dec-24	5.6	9.1	n/a	n/a	1.4	1.6	14.0	1.0	(53.8)
Cafe De Coral	大家乐	341 HK	5.63	3,265	HOLD	6.52	Mar-25	14.1	12.3	n/a	n/a	1.1	1.1	7.1	39.4	(27.9)
Tam Jai	譚仔	2217 HK	n/a	n/a	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(35.6)	n/a
Tai Hing	太兴	6811 HK	1.09	1,059	-	-	Dec-24	9.9	8.4	n/a	n/a	109.0	109.0	7.6	82.6	50.5
Fairwood	大快活	52 HK	5.00	648	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	61.1	(17.8)
Ajisen	味千	538 HK	0.90	982	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(34.7)	5.9
Guoquan Food	锅圈食品	2517 HK	3.46	9,129	BUY	4.80	Dec-24	20.4	16.5	9.5	7.3	2.6	2.4	4.4	(56.0)	78.4
Gourmet Master	美食达人	2723 TT	67.90	3,053	-	-	Dec-24	n/a	14.4	n/a	n/a	1.2	1.1	n/a	(4.9)	(29.9)
Tsui Wah	翠华	1314 HK	0.16	230	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	23.1	(26.6)
Yihai	颐海国际	1579 HK	12.42	12,876	-	-	Dec-24	14.5	13.2	7.6	6.8	2.4	2.2	6.2	(43.1)	(17.6)
Yum China	百胜中国	9987 HK	362.20	129,906	BUY	457.48	Dec-24	18.6	16.3	10.2	9.5	3.0	2.9	1.9	8.9	(3.2)
Yum China	百胜中国	YUMC US	46.23	129,033	BUY	58.56	Dec-24	18.5	16.2	10.2	9.4	3.0	2.9	1.9	8.9	(4.0)
Average								18.3	14.8	8.7	7.5	9.7	9.5	4.6	12.6	(9.3)
Median								14.8	13.7	8.8	7.4	2.9	2.4	4.5	8.9	(17.6)
Tea drinks, coffee																
Mixue Group	蜜雪集团	2097 HK	404.60	153,594	-	-	Dec-24	24.0	20.9	16.4	13.6	6.5	5.0	1.2	(51.3)	102.9
Guming Holdings Ltd	古茗	1364 HK	24.60	58,503	-	-	Dec-24	21.3	19.8	16.2	14.6	12.1	9.1	4.5	(140.3)	154.9
Sichuan Baicha Baidao	四川百茶百道	2555 HK	7.15	10,565	-	-	Dec-24	11.3	10.3	5.4	4.4	2.2	2.1	6.6	(92.2)	(34.3)
Auntea Jenny Shanghai	沪上阿姨(上海)	2589 HK	94.20	9,910	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(93.3)	n/a
Nayuki	奈雪的茶	2150 HK	1.07	1,824	BUY	3.43	Dec-24	n/a	19.8	14.8	7.4	0.4	0.4	0.0	22.3	(21.3)
Chagee	茶姬	CHA US	14.58	20,825	-	-	Dec-24	9.3	9.2	5.8	3.7	2.3	1.9	0.0	(116.8)	n/a
Luckin Coffee	瑞幸咖啡	LKNCY US	35.90	79,134	BUY	54.68	Dec-24	19.9	18.4	10.0	7.8	5.0	3.9	0.0	2.1	39.9
Tim's China	Th International	ITHCH US	2.68	660	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(24.5)
Average								17.2	16.4	11.4	8.6	4.7	3.7	2.1	(67.1)	36.2
Median								19.9	19.1	12.4	7.6	3.7	3.0	0.6	(92.2)	9.3
Home appliances																
Haier Smart Home- H	海尔智家	6690 HK	26.70	268,272	BUY	29.05	Dec-24	10.7	9.8	7.4	6.7	1.8	1.7	4.7	7.4	(2.9)
Midea Group	美的集团	300 HK	90.70	688,957	-	-	Dec-24	14.1	12.9	11.0	9.9	2.7	2.5	4.8	(22.6)	20.1
Js Global Lifestyle	Js环球生活	1691 HK	1.91	6,636	BUY	2.44	Dec-24	n/a	15.3	n/a	n/a	1.8	1.5	4.1	(58.6)	37.4
Aux Electric	奥克斯电气	2580 HK	15.30	24,300	-	-	Dec-24	6.8	6.1	3.2	2.0	2.0	1.6	0.0	(54.5)	n/a
Vesync	Vesync	2148 HK	n/a	n/a	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(25.8)	n/a
Carote	卡罗特	2549 HK	4.73	2,605	HOLD	4.64	Dec-24	6.4	5.5	n/a	n/a	1.7	1.5	3.5	(32.6)	(5.4)
Hisense - H	海信家电	921 HK	25.28	38,199	-	-	Dec-24	9.4	8.5	n/a	n/a	1.9	1.6	5.4	0.9	3.0
Midea - A	美的	000333 CH	81.36	688,952	BUY	66.70	Dec-24	13.9	12.8	11.0	9.9	2.6	2.5	4.9	(22.6)	8.2
Gree	珠海格力电器	000651 CH	40.67	250,744	-	-	Dec-24	7.3	7.1	5.0	4.4	1.5	1.4	6.7	(18.0)	(10.5)
Haier Smart Home - A	海尔智家	600690 CH	27.15	268,270	-	-	Dec-24	11.9	10.9	6.7	5.9	2.0	1.8	4.1	7.4	(4.6)
Hisense - A	海信家电	000921 CH	26.14	38,240	-	-	Dec-24	10.6	9.6	4.1	3.2	2.1	1.9	4.8	0.9	(9.6)
Joyoung	九阳	002242 CH	10.57	8,877	-	-	Dec-24	40.7	28.6	48.3	27.9	2.3	2.2	1.2	(10.6)	2.0
Zhejiang Supor	苏泊尔	002032 CH	48.32	42,620	-	-	Dec-24	17.4	16.3	13.9	12.9	5.9	5.7	5.1	(2.7)	(9.2)
Bear Electric Appliance	小熊电器	002959 CH	43.53	7,536	-	-	Dec-24	17.6	15.4	n/a	n/a	2.3	2.1	2.9	(13.1)	(9.1)
Ecovacs Robotics	科沃斯机器人	603486 CH	80.24	51,121	-	-	Dec-24	23.3	20.1	16.8	13.9	5.3	4.4	1.3	(35.5)	70.7
Beijing Roborock	石头世纪科技	688169 CH	157.21	44,835	-	-	Dec-24	23.8	16.8	24.0	14.9	2.8	2.5	0.6	(48.6)	0.4
Hangzhou Robam	老板电器	002508 CH	19.78	20,573	-	-	Dec-24	11.6	11.0	9.5	8.6	1.6	1.4	4.5	(22.5)	(7.7)
Goneo Group	公牛集团	603195 CH	42.90	85,400	-	-	Dec-24	18.1	16.7	14.4	13.1	4.5	4.2	4.2	(87.3)	(14.5)
Zhejiang Meida	浙江美大	002677 CH	7.87	5,596	-	-	Dec-24	148.5	76.4	n/a	n/a	3.0	3.0	0.6	(54.5)	7.2
Vatti	华帝股份	002035 CH	6.24	5,822	-	-	Dec-24	11.3	10.4	n/a	n/a	1.3	1.2	4.3	(30.5)	(15.0)
Average								22.4	16.3	13.5	10.3	2.6	2.4	3.6	(26.2)	3.4
Median								12.9	12.8	11.0	9.9	2.1	1.9	4.2	(22.6)	(3.8)

Source: Bloomberg, CMBIGM estimates, data as of 8 Dec 2025

Figure 51: Peer's valuation table 2

		Price	Mkt cap	Rating	TP	Year	PER (x)		EV/EBITDA (x)		PBR (x)		Yield (%)	Net gearing	YTD	
Company	Ticker	L.C.	HK\$ mn		L.C.	End	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY0	performanc	
Hotels																
H World	华住	HTHT US	47.90	114,415	-	-	Dec-24	23.3	20.1	12.9	11.5	7.1	6.1	2.9	198.6	45.0
Shanghai Jinjiang	锦江国际酒店	600754 CH	24.98	26,649	-	-	Dec-24	29.0	23.3	9.7	9.2	1.7	1.6	2.0	73.5	(7.0)
Btg Hotels	首旅酒店	600258 CH	15.57	19,136	-	-	Dec-24	20.4	18.0	7.1	6.6	1.4	1.3	2.3	58.7	6.1
Ssaw Hotels	君亭酒店	301073 CH	26.75	5,723	-	-	Dec-24	182.0	101.7	n/a	n/a	5.4	5.5	0.1	100.8	28.2
Greentree	格林酒店	GHG US	1.82	1,438	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15.0	(28.9)
Average							56.1	36.7	11.5	10.0	5.3	4.6	1.8	56.6	17.2	
Median							25.8	20.1	11.3	10.4	5.4	5.5	2.0	66.1	17.2	
HK retail																
Chow Tai Fook	周大福珠宝	1929 HK	13.85	136,629	-	-	Mar-25	16.4	14.3	9.3	9.1	4.6	4.3	5.1	48.2	105.8
Luk Fook	六福	590 HK	26.40	15,500	-	-	Mar-25	9.9	8.8	4.5	4.6	1.1	1.0	5.2	6.8	84.1
Chow Sang Sang	周生生	116 HK	12.18	8,181	-	-	Dec-24	5.8	5.6	n/a	n/a	0.6	0.6	6.4	29.7	87.7
Hong Kong	香港科技探索	1137 HK	1.44	1,140	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(8.9)	24.3
Sa Sa Int'l	莎莎国际	178 HK	0.61	1,893	-	-	Mar-25	14.2	13.3	10.1	9.7	n/a	n/a	4.8	30.9	(11.6)
Cafe De Coral	大家乐	341 HK	5.63	3,265	HOLD	6.52	Mar-25	14.1	12.3	n/a	n/a	1.1	1.1	7.1	39.4	(27.9)
Wharf REIT	九龙仓置业	1997 HK	24.76	75,177	-	-	Dec-24	12.1	11.6	11.8	11.4	0.4	0.4	5.2	17.8	24.7
Link Reit	领展房地产投资	823 HK	34.72	89,661	-	-	Mar-25	13.4	13.2	14.8	14.6	0.6	0.5	7.5	30.3	5.7
Hang Lung Properties	恒隆地产	101 HK	8.98	45,409	-	-	Dec-24	14.2	13.8	17.2	16.7	0.3	0.3	5.8	33.6	44.1
Swire Properties	太古地产	1972 HK	21.00	120,907	-	-	Dec-24	17.6	16.0	19.6	18.9	0.4	0.4	5.5	15.7	32.7
Hysan Development	希慎兴业	14 HK	17.76	18,240	-	-	Dec-24	10.2	10.0	22.7	22.3	0.3	0.3	6.1	31.4	50.0
Average							12.8	11.9	13.7	13.4	1.1	1.0	5.9	25.0	38.1	
Median							13.7	12.8	13.3	13.0	0.6	0.5	5.6	30.3	32.7	
Textile																
Shenzhou Int'l	申洲	2313 HK	64.20	96,507	-	-	Dec-24	13.4	12.1	9.7	8.5	2.2	2.0	4.4	(33.8)	3.5
Crystal Int'l	晶苑	2232 HK	6.90	19,684	-	-	Dec-24	11.1	9.9	5.8	5.1	1.5	1.4	5.8	(16.4)	59.7
Huali Industrial	中山华利实业	300979 CH	58.25	74,757	-	-	Dec-24	20.1	16.9	12.1	10.5	3.7	3.3	3.1	(21.1)	(25.9)
Regina Miracle	维珍妮	2199 HK	2.11	2,583	-	-	Mar-25	11.7	7.0	n/a	n/a	0.8	0.7	3.8	109.5	(1.9)
Pacific Textiles	互太纺织	1382 HK	1.25	1,737	-	-	Mar-25	10.4	8.3	n/a	n/a	n/a	n/a	8.8	24.2	(19.4)
Nameson	南旋控股	1982 HK	1.06	2,416	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25.2	26.2
Best Pacific	超盈国际	2111 HK	3.23	3,359	-	-	Dec-24	5.5	4.9	3.8	3.3	0.9	0.8	9.3	21.1	5.9
Texwinca	德永佳	321 HK	1.07	1,478	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(7.8)	47.6
Win Hanverky	永嘉	3322 HK	0.23	293	-	-	Dec-24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	32.7	35.7
Eagle Nice	鹰美 (国际)	2368 HK	3.52	2,021	-	-	Mar-25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	59.0	(14.8)
Texhong	天虹国际	2678 HK	4.53	4,156	-	-	Dec-24	5.2	4.9	n/a	n/a	0.4	0.4	n/a	36.7	13.5
Yue Yuen	裕元工业	551 HK	16.24	26,058	-	-	Dec-24	9.3	8.7	4.4	4.1	0.7	0.7	7.1	1.0	(6.7)
Stella Int'l	九兴控股	1836 HK	16.27	13,662	-	-	Dec-24	11.1	10.0	6.2	5.7	1.5	1.5	9.0	(36.8)	3.3
Pou Chen	宝成	9904 TT	31.30	23,043	-	-	Dec-24	8.0	7.2	n/a	n/a	0.7	0.6	3.9	4.4	(15.2)
Feng Tay	丰泰	9910 TT	122.50	30,222	-	-	Dec-24	23.2	19.3	10.6	9.7	4.6	4.3	3.6	6.4	(7.9)
Eclat	儒鸿	1476 TT	416.50	28,550	-	-	Dec-24	21.1	17.5	13.9	11.9	3.8	3.6	3.4	(24.1)	(18.2)
Makalot	聚阳实业	1477 TT	302.00	18,613	-	-	Dec-24	21.1	18.8	13.9	12.6	5.3	5.0	4.3	(10.8)	(5.9)
Fulgent Sun	钰齐	9802 TT	114.00	5,724	-	-	Dec-24	16.4	11.7	7.8	5.9	1.6	1.5	3.7	(0.5)	(3.8)
Lai Yih Footwear	来亿兴业	6890 TT	285.00	17,758	-	-	Dec-24	21.5	16.9	12.7	9.8	2.8	2.5	2.8	(0.8)	(25.1)
Average							13.9	11.6	9.2	7.9	2.2	2.0	5.2	8.8	2.7	
Median							11.7	10.0	9.7	8.5	1.6	1.5	4.1	1.0	(3.8)	
Exporters																
Man Wah	敏华控股	1999 HK	4.74	18,382	-	-	Mar-25	8.4	8.0	5.7	5.2	1.3	1.2	6.0	2.3	(1.5)
Goodbaby	好孩子国际	1086 HK	1.14	1,905	-	-	Dec-24	7.6	5.0	n/a	n/a	0.3	0.3	3.9	10.6	28.1
Vtech	伟易达	303 HK	61.85	15,655	-	-	Mar-25	14.1	12.9	n/a	n/a	3.3	3.3	7.3	(30.0)	17.1
Techtronic	创科实业	669 HK	94.50	172,922	-	-	Dec-24	18.2	15.5	11.3	9.7	3.1	2.8	2.6	13.4	(7.8)
Average							12.1	10.3	8.5	7.4	2.0	1.9	4.9	(0.9)	9.0	
Median							11.2	10.4	8.5	7.4	2.2	2.0	5.0	6.4	7.8	
Pop toys																
Miniso - H	名创优品	9896 HK	38.44	47,572	-	-	Dec-24	15.9	16.7	9.6	10.7	4.0	5.0	2.9	(32.0)	(18.3)
Miniso	名创优品	MNSO US	19.28	46,421	-	-	Dec-24	16.3	11.3	10.5	8.2	4.9	4.1	3.3	(32.0)	(19.3)
Pop Mart	泡泡玛特	9992 HK	202.40	271,543	-	-	Dec-24	19.7	14.5	12.8	9.0	11.2	7.0	1.7	(79.6)	125.8
Bloks Group	布鲁可	325 HK	70.80	17,602	-	-	Dec-24	20.5	14.2	18.2	12.5	50.3	4.8	0.4	n/a	n/a
Dream Int'l	德林国际	1126 HK	8.59	5,814	-	-	Dec-24	7.5	7.0	n/a	n/a	1.3	1.2	n/a	(37.0)	72.5
Average							16.0	12.7	12.8	10.1	14.3	4.4	2.1	(45.2)	40.2	
Median							16.3	14.2	11.6	9.9	4.9	4.8	2.3	(34.5)	27.1	

Source: Bloomberg, CMBIGM estimates, data as of 8 Dec 2025



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2026 Outlook: Second half of the NEV match

Both passenger vehicle (PV) retail sales and wholesale volumes in China are likely to hit new highs in 2025E. That, along with trade-in subsidy and purchase-tax saving phase-out, could make 2026 interesting and complex.

■ Resilient industry growth despite subsidy cuts

We project China's PV retail sales volume to be largely flat YoY and wholesale volume to rise 2.9% YoY in 2026E, despite subsidy cuts. We are probably a bit more positive than the market on China's auto sales resilience, and we do not rule out the possibility of new stimulus measures if 1H26 sales volume is weak. We project China's passenger new-energy vehicle (NEV) retail sales volume to rise 15.5% YoY to 14.93mn units in 2026E, with a market share of 61.8%, aided by a plethora of new models. We forecast passenger NEV wholesale volume to rise 18.5% YoY to 18.50mn units (a market share of 59.2%) in 2026E, as we project China's NEV export volume to rise 40% YoY, lifting overseas' NEV sales in 2026.

■ Key trends in 2026

We expect competition in China's auto industry to be even stiffer in 2026, with a possible all-time high number of new models in 2026E. Some automakers have benefited from an aggressive pricing strategy, which pushes more peers to follow suit, as Chinese consumers pursue value-for-money with diminishing brand loyalty. We project Chinese brands to continue gaining market share in 2026E, while we may start to see more competitive NEV models from foreign brands from next year. We expect battery price to increase in 2026 on a more positive outlook for energy storage batteries. That could dent automakers' margins. We also project PHEV to regain traction in 2026 amid trade-in subsidy phase-out, more PHEV models and possible battery price hikes.

■ Investment thesis

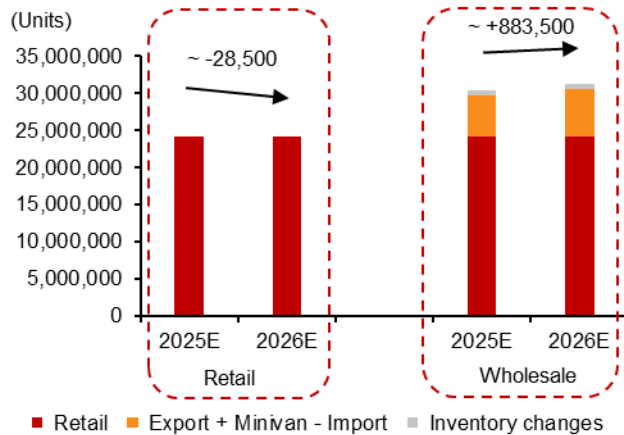
We are more concerned about competition and possible battery price hikes for China's auto industry in 2026, rather than industry sales volume slowdown. We are of the view that NEV competition in China could enter the 2nd half in 2026 for the following reasons: 1) valuation premium for start-ups may start to narrow with incumbent carmakers; 2) competition may no longer be limited to car making, but also AI, such as robotaxi and robotics; 3) foreign brands accelerate NEV launches with a better understanding of China's NEV market. We think range trading and contrarian bets could be good options in 2026, as winners still change constantly.

■ Top picks

Geely (175 HK, BUY) is our top pick for Chinese automakers. We believe strong NEV sales volume growth could continue in 2026, as it still has room for new models in 2026 to complete a comprehensive NEV model line-up. Higher sales contribution from high-margin models launched in 2H25, along with NEV export acceleration, could lift margins. We also find its valuation attractive compared with its peers. Zenergy (3677 HK, BUY) could be overlooked by investors given its IPO in Apr 2025. It has achieved an industry-leading gross margin as a latecomer, aided by its minimal legacy burden and superb operational efficiency. We expect its client mix to improve in 2026 with higher revenue from GAC Toyota, VW and SAIC Motor, which could lift margins. It may also benefit from a possible battery price hike in 2026.

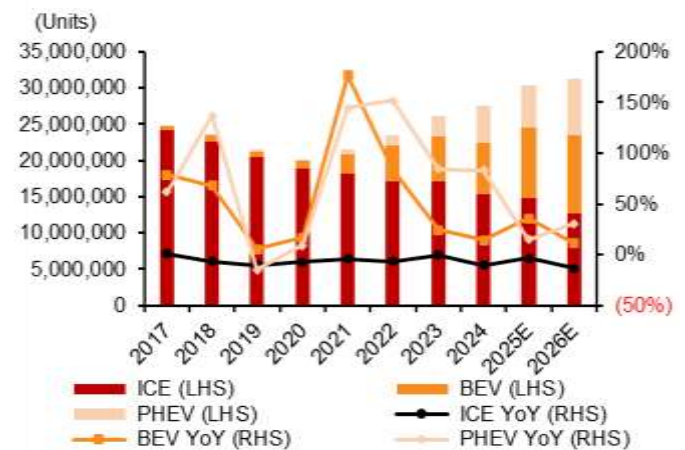
Focus Charts

Figure 1: Retail vs. wholesale volume in 2025-26E



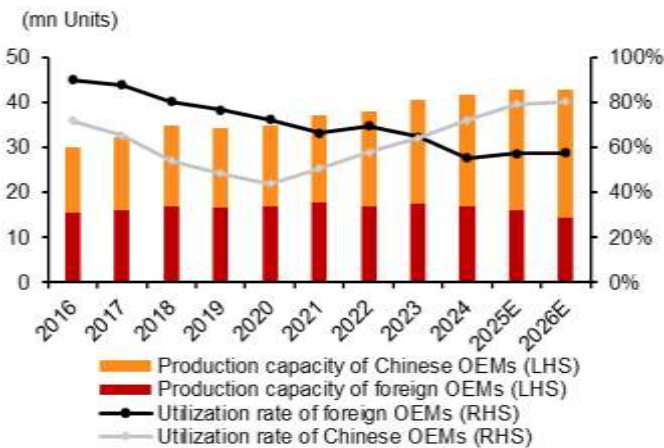
Source: CAAM, CATARC, CMBIGM estimates

Figure 2: China's PV wholesale volume breakdown



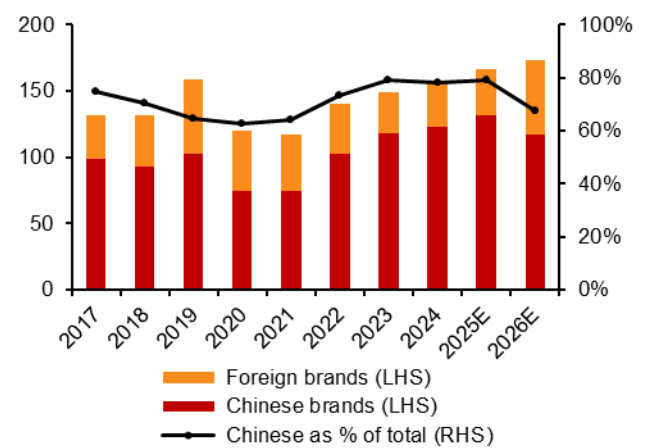
Source: CAAM, CMBIGM estimates

Figure 3: PV production capacity and utilization rate



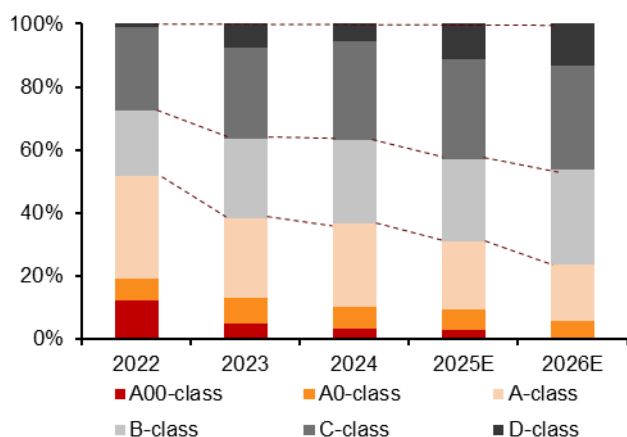
Source: Company data, CAAM, Marklines, CMBIGM estimates

Figure 4: No. of new models by brand origin



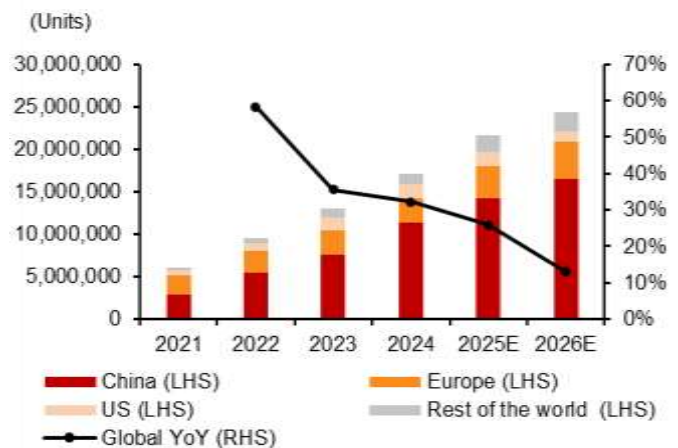
Source: Company data, CMBIGM estimates

Figure 5: Breakdown of new NEV models by size



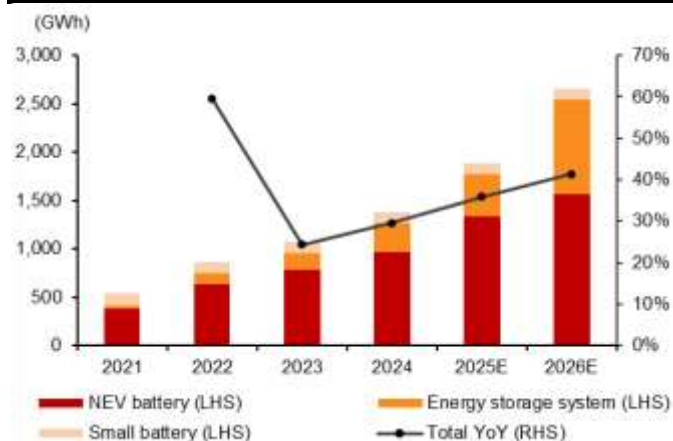
Source: Company data, CMBIGM estimates

Figure 6: Global NEV sales volume forecast



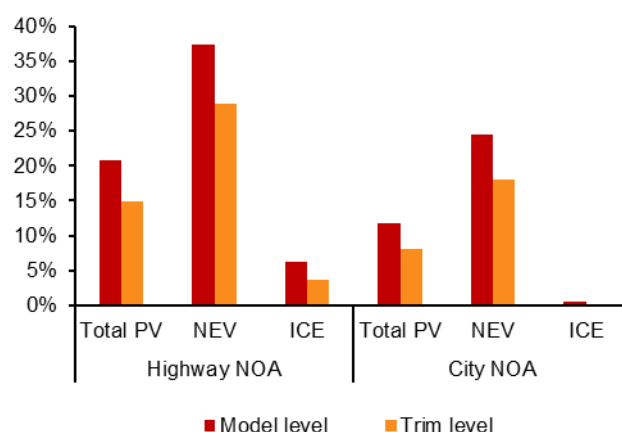
Source: Marklines, CMBIGM estimates

Figure 7: Global lithium-ion battery sales forecast



Source: GGII, Frost & Sullivan, EV Tank, CMBIGM estimates

Figure 8: Highway and city NOA penetration rate



Source: Autohome, CMBIGM

Figure 9: Our forecast for Chinese brands' potential overseas market size in the medium term

Regions (excl. China)	Total annual sales (units)	Our market share assumption for Chinese brands	Potential annual market size for Chinese brands (units)	Current EV market share in each region
US	16,600,000	0%	0	8%
Japan, South Korea and India	11,900,000	4%	458,000	6%
Western Europe with own brands	9,400,000	9%	860,000	29%
Latin America	6,000,000	25%	1,500,000	7%
MENA	4,800,000	25%	1,200,000	3%
Western Europe without own brands	3,400,000	15%	509,000	31%
Southeast Asia	3,300,000	25%	825,000	13%
Canada	1,900,000	2%	38,000	5%
Central Europe	1,800,000	25%	450,000	10%
Russia	1,550,000	40%	620,000	1%
Oceania	1,400,000	30%	420,000	12%
Northern Europe	800,000	20%	160,000	64%
Central Asia	800,000	35%	280,000	6%
Eastern Europe (excl. Russia)	200,000	30%	60,000	1%
Others	1,400,000	30%	420,000	5%
Total	65,250,000	12%	7,800,000	

Source: Marklines, CMBIGM estimates

Investment Thesis and Top Picks

■ Industry sales volume slowdown may have limited impact on stock prices, despite our more positive view on China's auto industry resilience

We are probably a bit more positive than the market in projecting China's industrywide sales in 2026, as we expect PV retail sales volume to be flat YoY and wholesale volume to rise 2.9% YoY next year, despite possible all-time highs for both retail and wholesale volume in 2025 and subsidy phase-out in 2026. We believe vehicle consumption's importance to China's economy, more new model rollouts with accelerated facelifts and steady-state PV demand are key factors to support China auto sales resilience. We also think new stimulus measures are possible, if 1H26 auto sales volume turns out to be weak.

On the other hand, we are of the view that industrywide sales volume growth now has limited impact on automotive players' stock performance, based on historical data in the past few years. In fact, the market's pessimistic views on industry sales volume may provide room to beat expectation, which matters more on stock performance.

■ Competition, battery price hikes are our key concerns for 2026

Compared with possible industry sales volume slowdown, we are more concerned about competition, which is likely to be even stiffer in 2026. Competition has outweighed macro- or industry-level factors in recent years, in our view, which has resulted in larger stock performance divergence among different players. Number of new models is likely to hit a new high of 173 in 2026E, based on the data we have compiled, higher than 167 in 2025E and 157 in 2024. Moreover, some automakers have benefited from an aggressive pricing strategy, which pushes more automakers to follow suit, as Chinese consumers pursue value-for-money vehicles across all the sizes and price ranges with diminishing brand loyalty.

Possible battery price hikes, resulted from a more positive outlook for energy storage batteries, may have not been fully priced in yet, in our view. That may benefit battery makers but dent automakers' margins, although we believe such cost burden is still manageable by OEMs given more reasonable price hikes compared with 2022.

■ Range trading still works as winners change constantly

Previous market leaders including BYD, Tesla and Li Auto lost market share to Xiaomi, Xpeng, Geely and Leapmotor this year, meaning a stable industry landscape is still far away. Such market share shift occurred in 2021-23 between traditional automakers and start-ups or even within start-ups, and we believe that could occur again in the future. We think that the market sometimes could overprice current winners by using linear extrapolation. We believe focusing on the sales volume growth sustainability could be more important, with detailed analysis on new models' competitive edge and marginal effect for the current model line-ups. Contrarian bets could also be a good option in auto stock trading in 2026.

■ Perception gap between incumbent carmakers and start-ups to narrow

Investors have given valuation premiums to start-up carmakers for the past few years, as they expected higher sales growth potential, especially with their new technologies and mentality during the transformation. We believe such valuation premiums could be narrowed gradually, as the leading start-ups have been established for around 10 years and now have a sizable annual sales volume of about 0.4mn-1.0mn units with lower growth potential. Most of them have turned profitable or are close to breakeven. Incumbent players have been catching up by learning start-ups' technologies and marketing strategies.

■ Competition may no longer be limited to cars, and thus catalysts could be more diversified

AI capabilities led by autonomous driving technologies and humanoid robots fuelled automotive players' share prices this year, especially for players like Xpeng and Sanhua (002050 CH/2050 HK, NR). Li Auto is set to transform itself to an AI device company, probably as it has realized that the barrier for car making is still too low. We are of the view that automakers, especially those with leading autonomous driving technologies, are well positioned in the humanoid robot industry, as the VLA (Vision Language Action) model utilized in the autonomous driving data training could fit well in humanoid robot's AI development. We expect catalysts for automotive players' share prices to be more diversified in 2026, not only limited to new-model sales, earnings, stimulus measures etc.

■ Foreign brands start to understand China NEV market better

Although we do not expect foreign brands to gain market share in 2026E, we may start to see more competitive NEV models from next year. The Toyota bZ3X BEV and Nissan N7 BEV are good lessons for foreign automakers to better understand China's NEV market, including pricing strategy and utilization of local partners' technologies and parts procurement. We expect VW to launch 10 new NEV models in 2026E, which could be more competitive than its previous ID series. The sales performance of those more "localized" models could be key to foreign brands' market share from 2027 and onwards.

■ Top picks: Geely, Zenergy

Geely is our top pick for Chinese automakers, with key reasons as below: 1) Geely has found the key to NEVs' successful launches with almost all the recent new models being well received. Yet, it still has room for new models in 2026 to complete a comprehensive NEV model line-up, which will extend its strong sales volume growth at least into 2026. 2) Improving product mix from the full-year sales contribution of the high-margin models, Zeekr 9X and Galaxy M9, could lift Geely's gross margin in 2026E. 3) NEV export acceleration could also lift sales volume and margins in 2026E. 4) Attractive valuation.

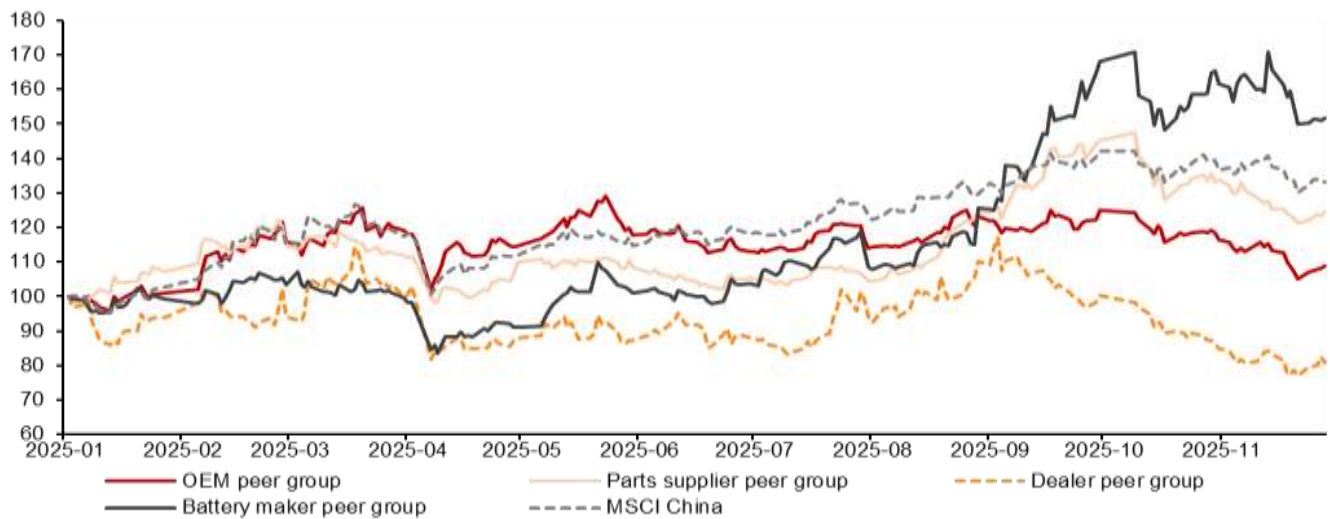
Zenergy could be overlooked by investors given its IPO in Apr 2025 and investors all eye on CATL (300750 CH/3750 HK, NR). We list key reasons as below: 1) It has a much lower legacy burden than most of its peers. That, along with its management's priority to enhance manufacturing efficiency through standardized cells and platform-based packs, has lifted its gross margin to an industry-leading level as a latecomer, just after CATL. 2) Leapmotor's strong sales growth has aided Zenergy's sales and gross margin in 2025, while improving client mix including new clients like GAC Toyota, VW and SAIC Motor will not only fuel its sales, but also margins. 3) Possible battery price hikes could benefit battery makers. 4) Growth for lithium-ion batteries is still solid and Zenergy now only accounts for about 2% of China's market, which implies huge room for growth.

Share Performance in 2025

Battery makers outperformed again; OEMs and auto parts saw positive absolute returns

We have created four market cap-weighted peer groups to review the share performance in the first 11 months of 2025 for different players along the automotive value chain: OEMs, dealers, parts suppliers and battery makers. The overall stock performance YTD largely mirrored the patterns last year: a rebound occurred in Sep, with only the battery-maker group outperforming MSCI China (+19ppts YTD), while the dealer peer group underperformed the most (-52ppts YTD).

Figure 10: Share performance for different automotive peer groups YTD (rebased to 1 Jan 2025)



Source: Bloomberg, CMBIGM

Notes: OEM peer group consists of Li Auto, NIO, Xpeng, BYD, Geely, Great Wall, GAC, Chery (9973 HK, NR), Leapmotor, Zeekr (ZK US, NR), BAIC (1958 HK, NR), BAIC BluePark (600733 CH, NR), SAIC Group (600104 CH, NR), Changan (000625 CH, NR), Seres (601127 CH, NR), Dongfeng Motor Group (489 HK, NR) and JAC (600418 CH, NR).

Dealer peer group consists of Zhongsheng (881 HK, NR), Meidong and Yongda.

Parts supplier peer group consists of Inovance Technology (300124 CH, NR), Fuyao Glass (600660 CH, NR), HASCO (600741 CH, NR), Xingyu (601799 CH, NR), Desay SV Automotive (002920 CH, NR), Tuopu Group (601689 CH, NR), Minth, and Nexteer (1316 HK, NR) etc..

Battery maker peer group consists of CATL, Eve (300014 CH, NR), Gotion High-Tech (002074 CH, NR), Farasis (688567 CH, NR), Zenergy, REPT (666 HK, NR) and CALB (3931 HK, NR) etc.

■ Battery makers: Rising lithium carbonate price, higher earnings visibility

CATL dominates the battery peer group's performance, as its market cap accounts for over 80% of the segment. Lithium carbonate price rebounded from Jul 2025 from about RMB60,000/metric ton to about RMB93,000/metric ton in Nov 2025. We expect lithium carbonate price to continue rising in 2026E, with detailed reasoning laid out in the section of "Battery price hike risk could be manageable for OEMs in 2026E" in this report.

■ Car dealers: Three-year underperformance

Chinese auto dealers have underperformed other automotive players for three consecutive years. From time to time in 2025, some investors started to think if the worst is over, especially as some leading dealers start to open more NEV stores and traditional luxury automakers become more rational. We do not recommend investors to take the bottom fishing risk now, as we believe dealers are still in the process of the survivor's game.

■ Parts suppliers: benefit more from robotics theme than autos

Parts-supplier group started to underperform OEMs in 2Q25, as investors were worried that a prolonged price war may dent suppliers' margins more than OEMs'. The concerns started to ease from 3Q25, as automakers claimed to shorten payable days. More

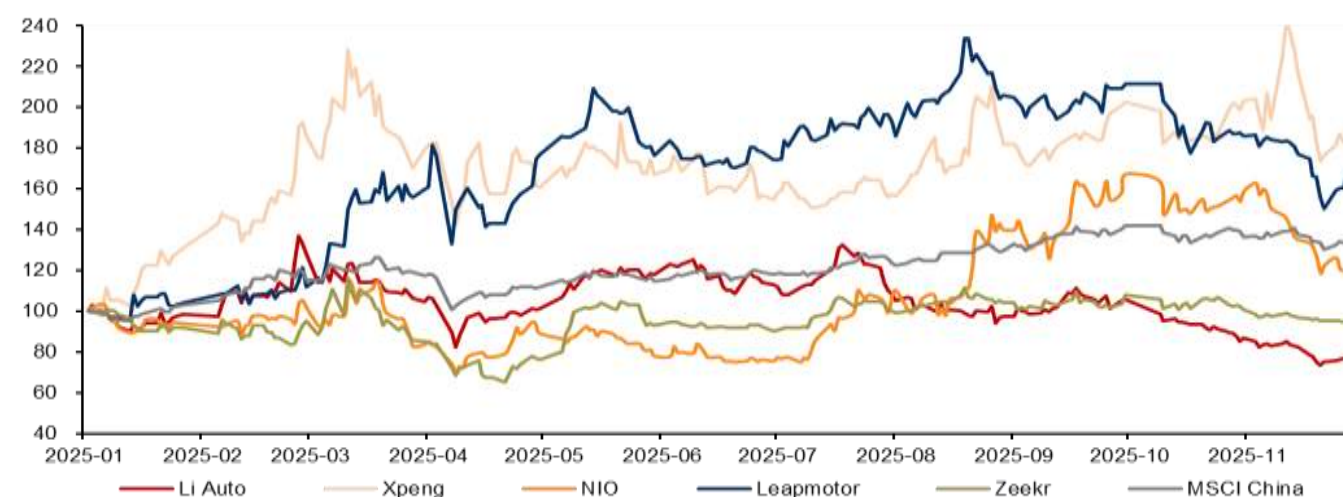
importantly, the humanoid robotics theme fuelled parts suppliers' share price from late 3Q25, which has helped parts suppliers outperform OEMs since Sep 2025.

■ OEMs: Range trading, stock picking as key amid rising competition

While OEM peer group's share performance appeared to be stable with a 9% YTD return, divergence among automakers is significant with huge short-term volatility. For instance, BYD and Geely delivered 12% and 19% return, respectively, while NIO, Leapmotor, and Xpeng surged 45%, 77%, and 84%. In contrast, Li Auto's share price fell 24% over the same period.

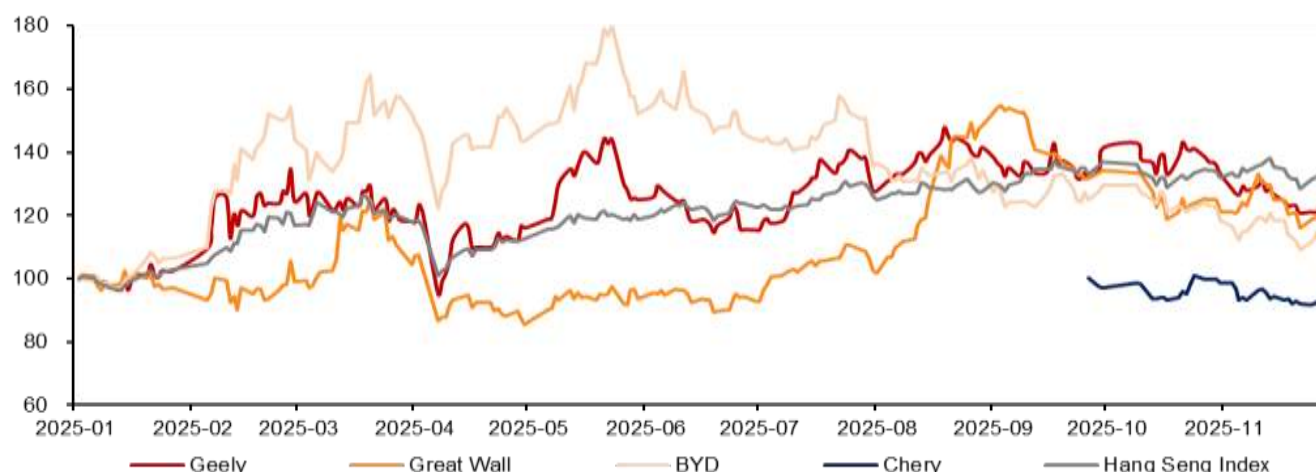
Share prices of the NEV start-ups continued to be more volatile than traditional automakers. Xpeng had the best share price performance YTD (+84%) among all Chinese NEV start-ups, aided by its strong sales volume with net profit breakeven expectation in 4Q25E and first-mover advantage in humanoid robotics among Chinese automakers. Strong sales volume also lifted Leapmotor's profits and share price in 2025. Despite share price decline in 1H25, NIO's share price rose 45% YTD after the successful launches of the Onvo L90 and redesigned ES8, ending its share price declines since 2021. Li Auto was the worst performer (-24% YTD) among all Chinese carmakers on weaker sales volume and margins.

Figure 11: Share prices of NIO, Li Auto, Xpeng, Leapmotor and Zeekr vs. MSCI China (rebased to 1 Jan 2025)



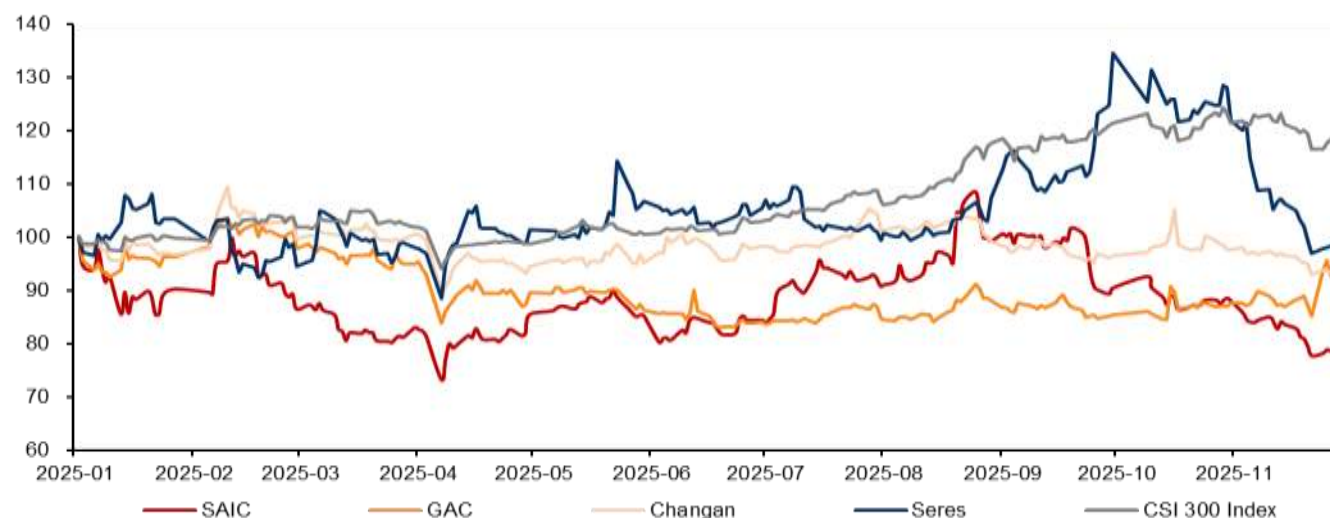
Source: Bloomberg, CMBIGM

The share prices of three HK-listed non-SOE automakers diverged prior to Aug 2025, with BYD outperforming the benchmark and Great Wall underperforming. Share prices of three OEMs started to converge from Aug 2025 when BYD's sales volume and margins deteriorated amid stiffer competition and pessimistic sentiment for 2026. Great Wall's share price rebounded from Aug 2025 with rising sales volume and better model cycle.

Figure 12: Share prices of Geely, Great Wall, BYD and Chery vs. Hang Seng Index (rebased to 1 Jan 2025)

Source: Bloomberg, CMBIGM

Share price volatilities for automakers primarily listed in A-share also became larger than last year. Seres' share price gained before its H-share IPO on 5 Nov 2025 and fell sharply afterwards. In contrast, GAC was the worst performer prior to Oct 2025 but rebounded significantly in late Nov, as investors anticipate its upcoming solid-state batteries and new models under Qijiang, a brand partnered with Huawei.

Figure 13: Share prices of SAIC, GAC, Changan and Seres vs. CSI 300 Index (rebased to 1 Jan 2025)

Source: Bloomberg, CMBIGM

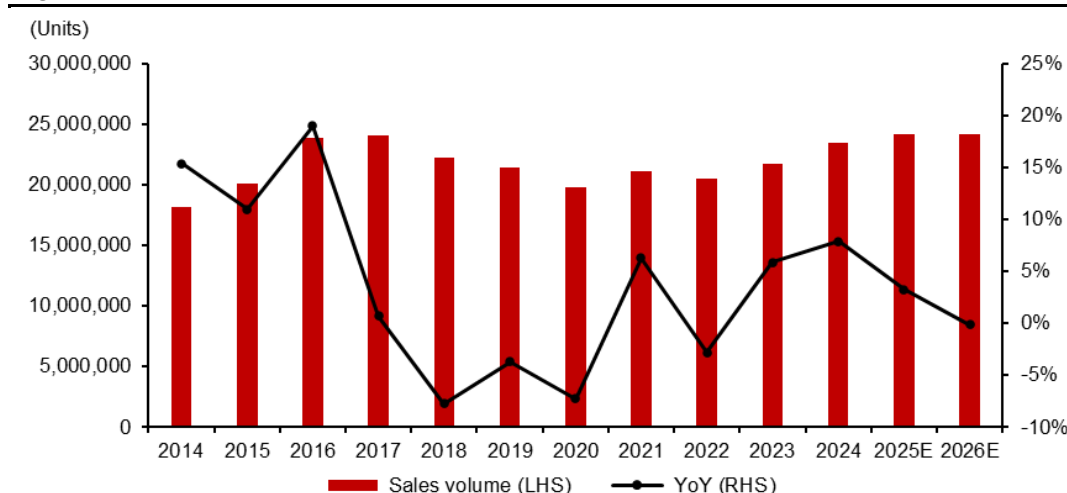
2026 Industry Outlook: Stiff Competition to Continue

Retail sales volume: resilient in 2026 despite subsidy cuts

It is likely that 2025 will end with a historical-high PV retail sales volume of 24.18mn units (+3.2% YoY) on our estimates, surpassing 24.09mn units in 2017, about 4.8% higher than our original forecast made in Dec 2024. China's retail sales volume has beaten investors' expectations for three years in a row despite some economic challenges. The market has been pessimistic about China's auto sales volume in 2026, as the NEV purchase-tax exemption is to be halved (from 10% to 5%) and capped at RMB15,000 from 2026, and trade-in subsidies for both NEV and ICE (internal-combustion engine) vehicles (initiated in Apr 2024 and doubled from mid-Aug 2024) are likely to be ended by 2025 (some regions have already used up the quotas).

We are more positive about auto sales volume's resilience in China and project retail sales volume to fall only 0.1% YoY in 2026E to 24.15mn units. We believe vehicle consumption's importance to China's economy, more new model rollouts with accelerated facelifts and steady-state PV demand are key factors to support China auto sales' resilience.

Figure 14: China's PV retail sales volume



Source: CATARC, CMBIGM estimates

■ New stimulus measures are likely if 1H26 auto sales volume is weak

Vehicle consumption is now one of the most important ways, if not the most important way, to stimulate the economy in China. We are of the view that the main reason why the Chinese government gradually phases out the trade-in subsidies is that a significant portion of the subsidies has gone to used-car dealers and other similar players. We believe the government may roll out new stimulus measures again, should auto sales volume turn out to be weak in 1H26. We expect retail sales volume in Mar and Jun 2026 to face sharper declines than other months in 2026 amid high comparison base, which could be good timing to monitor potential policy changes.

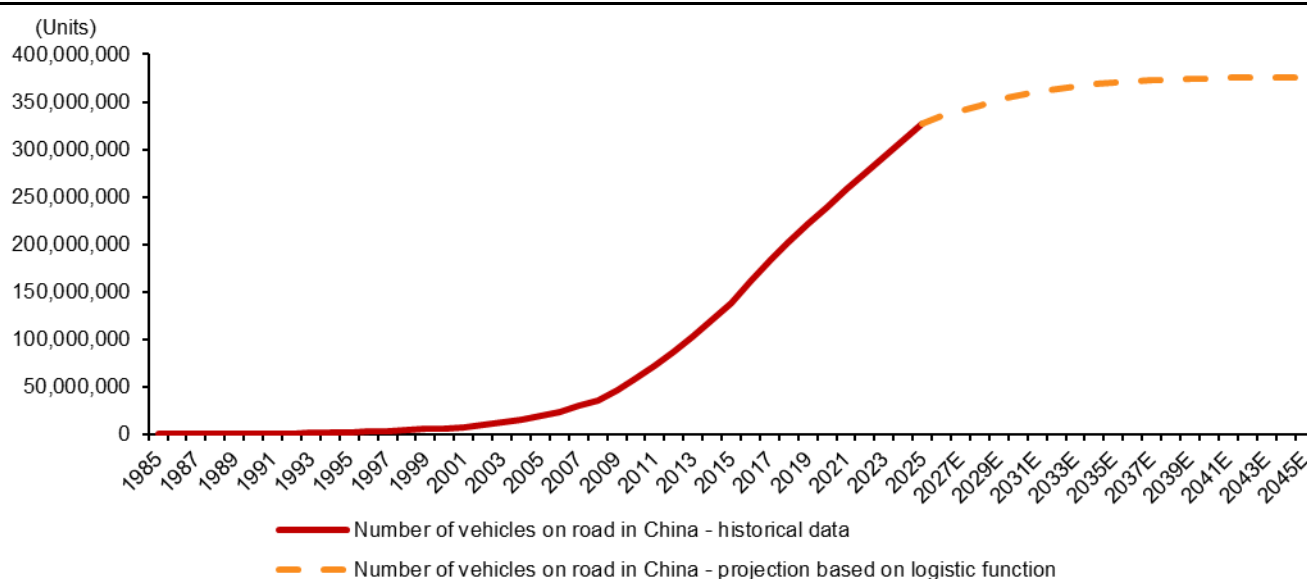
■ Shorter purchase cycle as cars become more electronic

We estimate about 167 new model rollouts in China in 2025, the highest in history. The number may further increase to 173 in 2026, based on the data we have compiled. Such shortened model cycles, along with more frequent facelifts, have boosted car replacement demand in China. In other words, battery powertrain, smart cockpit and autonomous driving technologies have made cars' model cycle shorter and thus a shorter purchase cycle for Chinese consumers. We will analyze upcoming new models in detail in the next section.

■ Our steady-state replacement demand forecast implies room for growth

We have been using a single-factor model to roughly project China's long-term number of vehicles on the road and steady-state replacement demand. See page 23-24 of [our 2023 outlook report](#) published on 7 Dec 2022 for calculation details. We run the same non-linear regression based on the logistic function with new data points in 2024 and 2025, and we obtain the steady-state number of PVs on the road of about 377mn units. The new forecast is about 3% higher than our previous projection made in 2024, implying more resilient sales in 2023-25 than expected. We also revise the average vehicle scrappage time from 14-15 years (replacement rate of 6.7%-7.1%) to 13.5-14.5 years (replacement rate of 6.9%-7.4%) in China to reflect cars' increasing electronic content. Therefore, we derive China's steady-state annual replacement demand to be around 26.0-27.9mn units.

Figure 15: Projection on number of vehicles on the road in China based on logistic function

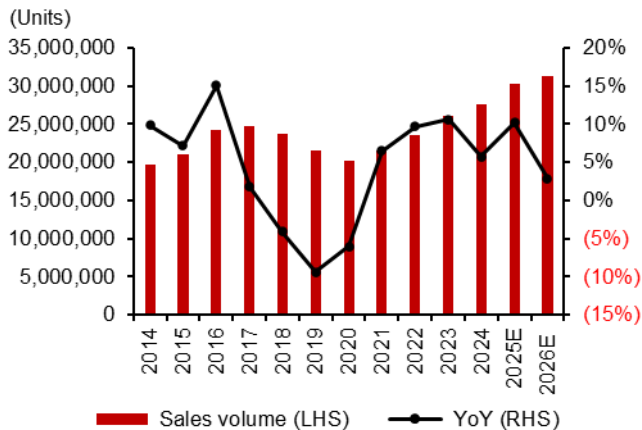


Source: CAAM, CATARC, NBS, CMBIGM estimates

Wholesale volume: 2.9% YoY growth amid exports, stockpiling

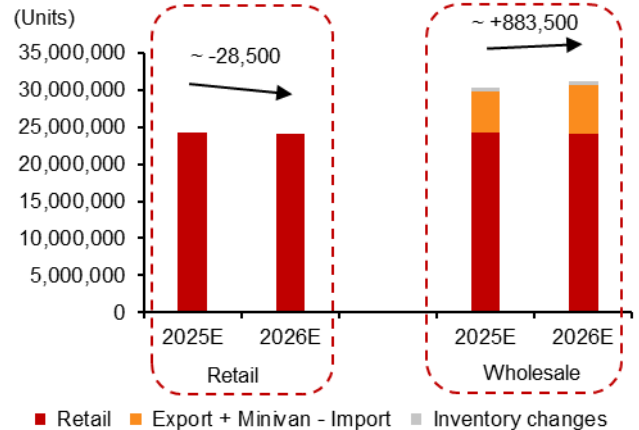
China's PV wholesale volume is likely to hit 30mn units for the first time in history in 2025, as it rose 12.9% YoY to 24.21mn units in the first 10 months of 2025, stronger than most investors' expectation. We project China's PV wholesale volume to rise 2.9% YoY from 30.37mn units in 2025E to 31.25mn units in 2026E, aided by rising exports and inventory restocking.

Figure 16: China's PV wholesale volume



Source: CAAM, CMBIGM estimates

Figure 17: Retail vs. wholesale volume in 2025-26E



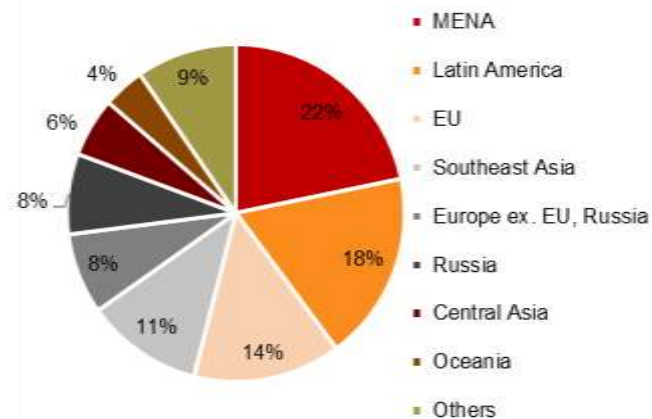
Source: CAAM, CATARC, CMBIGM estimates

■ Export: Chinese NEVs' overseas demand may be stronger than prior expectation

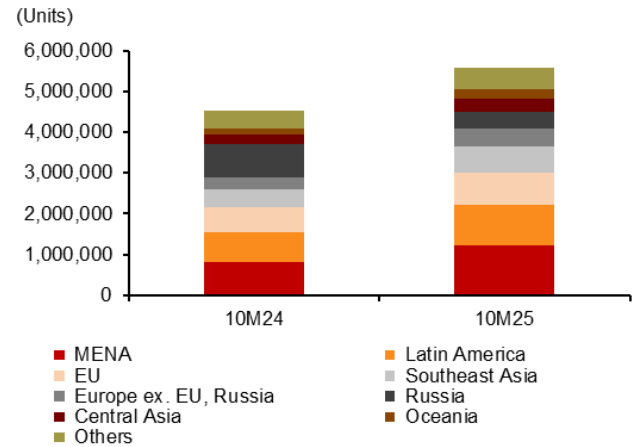
Despite the challenges that China PV exports face as we mentioned last year, China's PV export volume is likely to rise 18% YoY from 5.0mn units in 2024 to 5.8mn units in 2025E, or 6% higher than our original forecast of 5.5mn units. The stronger-than-expected export volume was mainly driven by surging NEV exports. In fact, all the YoY growth of China's PV exports in the first 10 months of 2025 came from NEVs, according to CAAM. The sluggish ICE export volume was mainly due to the plunge in Russia.

In the first 10 months of 2025, China exported PVs to more than 200 countries with the top 10 countries accounting for 49% of the total, according to the data from customs. Russia remained as the No.1 destination despite a 48% YoY export plunge. Its market share fell from 18.8% in 2024 to 7.7% in the first 10 months of 2025. Mexico remained as the No.2 export market for PVs produced in China with a market share of 7.3% in the first 10 months of 2025, followed by United Arab Emirates (7.0%), Belgium (4.6%) and UK (4.4%).

Chinese automakers have been cultivating other markets to offset the declines in Russia. Exports to the Middle East and North Africa (MENA, including Turkey) in the first 10 months of 2025 surged 52% YoY, led by UAE and Algeria. Exports to Latin America rose 36% YoY during the same period, led by Mexico and Brazil. Despite heightened tariffs for NEVs, total export volume to the EU still rose 27% YoY in the first 10 months of 2025, with about 70% being NEVs. Chinese automakers have also seized the rising NEV penetration in the UK which is not subject to the EU tariffs for Chinese NEVs. The UK became the 2nd largest NEV export hub for China, right after Belgium in the first 10 months of 2025. Exports to Southeast Asia also surged 51% YoY in the first 10 months of 2025, led by the Philippines and Indonesia. These four regions (MENA, Latin America, EU and Southeast Asia) accounted for 22%/18%/14%/11% of China's PV export volume in the first 10 months of 2025.

Figure 18: China PV export breakdown by region in 10M25


Source: China Customs, ThinkerCar, CMBIGM

Figure 19: China PV exports by region


Source: China Customs, ThinkerCar, CMBIGM

We divide overseas markets into different regions based on their auto industry development, local consumers' brand loyalty and policies: 1) the US, 2) Canada, 3) Japan, South Korea and India, 4) Western Europe with own brands (Germany, France, Italy etc.), 5) Western Europe without own brands (Belgium, the Netherlands, Switzerland etc.), 6) Northern Europe, 7) Central Europe, 8) Eastern Europe, 9) Russia, 10) Latin America, 11) MENA, 12) Southeast Asia, 13) Central Asia, 14) Oceania, and 15) Others.

We project Chinese brands' market share to be ranged 0-40% in these regions in the medium term as illustrated in the table below, and thus we can calculate potential market size of 7.8mn units for Chinese-brand overseas sales in the medium term. As we project China's export volume of 4.77mn units for Chinese brands and 1.04mn units for foreign brands in 2025E, there is about 64% growth potential for Chinese brands in overseas markets in the next five years or so, or a CAGR of 10-12%.

Our newly projected medium-term market size of 7.8mn units for Chinese automakers' overseas sales volume is about 11% higher than our projection made in 2024, mainly due to several reasons: 1) global auto market excluding China is still growing; 2) Chinese automakers' expansion in some markets, such as the Oceania and UK, has exceeded our prior expectation; 3) Chinese automakers' accelerating global production plans could mitigate tariff obstacles.

Figure 20: Our forecast for Chinese brands' potential overseas market size in the medium term

Regions (excl. China)	Total annual sales (units)	Our market share assumption for Chinese brands	Potential annual market size for Chinese brands (units)	Current EV market share in each region
US	16,600,000	0%	0	8%
Japan, South Korea and India	11,900,000	4%	458,000	6%
Western Europe with own brands	9,400,000	9%	860,000	29%
Latin America	6,000,000	25%	1,500,000	7%
MENA	4,800,000	25%	1,200,000	3%
Western Europe without own brands	3,400,000	15%	509,000	31%
Southeast Asia	3,300,000	25%	825,000	13%
Canada	1,900,000	2%	38,000	5%
Central Europe	1,800,000	25%	450,000	10%
Russia	1,550,000	40%	620,000	1%
Oceania	1,400,000	30%	420,000	12%

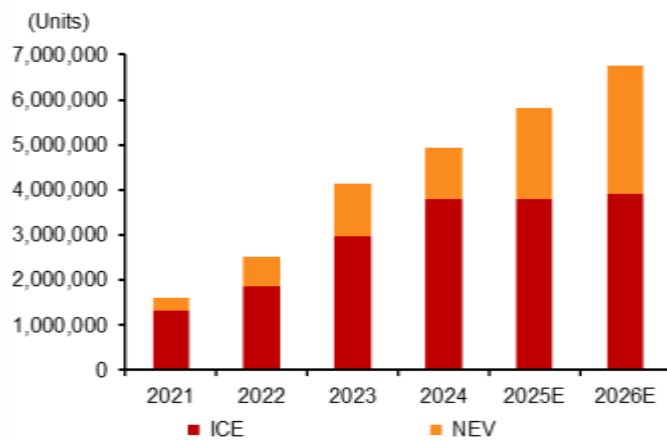
Northern Europe	800,000	20%	160,000	64%
Central Asia	800,000	35%	280,000	6%
Eastern Europe (excl. Russia)	200,000	30%	60,000	1%
Others	1,400,000	30%	420,000	5%
Total	65,250,000	12%	7,800,000	

Source: Marklines, CMBIGM estimates

We project China's total PV exports to rise by 16% YoY to 6.75mn units in 2026E, with 5.67mn units being Chinese brands. In other words, we expect overseas sales volume for Chinese brands to rise 19% YoY in 2026E.

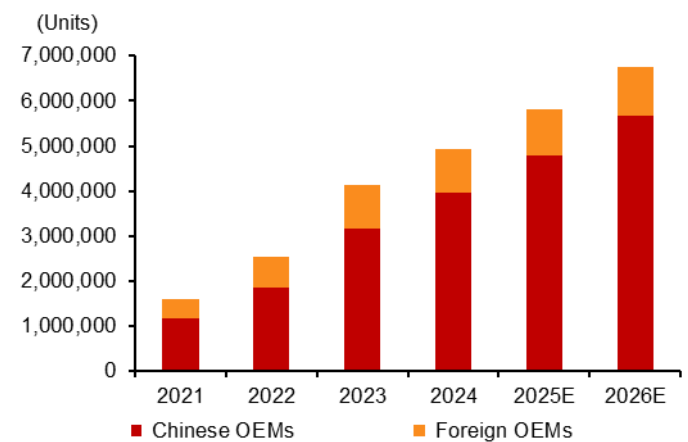
We also expect the majority of China's PV export growth in 2026E to come from NEVs. We project China's NEV exports to surge 40% YoY from 2.02mn units in 2025E to 2.83mn units in 2026E.

Figure 21: China's PV exports by powertrain



Source: CAAM, CMBIGM estimates

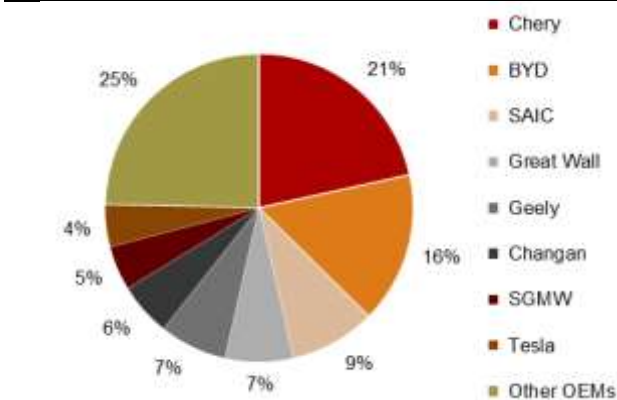
Figure 22: China's PV exports by brand origin



Source: CAAM, CMBIGM estimates

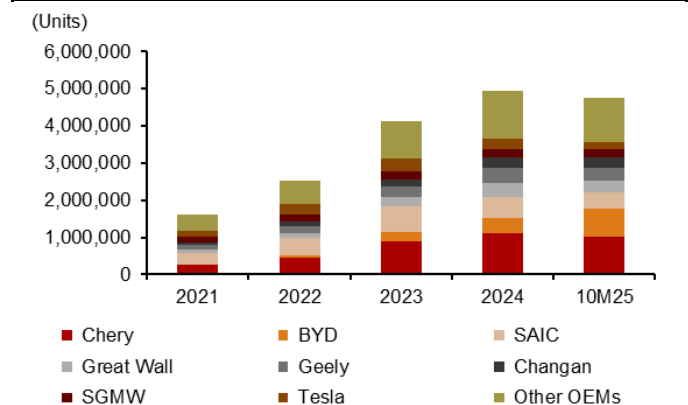
In the first 10 months of 2025, Chery remained as the largest PV exporter in China with 10% YoY growth to 1.02mn units, according to CAAM. BYD extended its strong growth into this year, with 133% YoY growth. BYD accounted for 45% of China's total passenger NEV exports in the first 10 months of 2025, followed by Tesla (13%). The export volume growth from Chery and BYD combined contributed the majority of China's total PV export growth in the first 10 months of 2025. SAIC, Great Wall and Geely were ranked 3rd-5th largest PV exporters in China in the first 10 months of 2025 with low single-digit YoY growth or declines.

Figure 23: China PV export breakdown by OEM in 10M25



Source: CAAM, CMBIGM

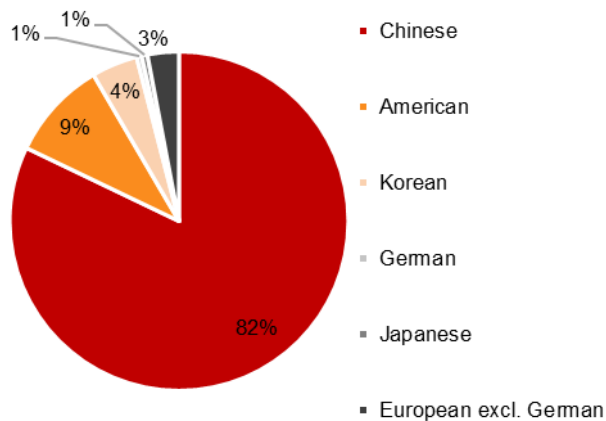
Figure 24: China PV exports by OEM



Source: CAAM, CMBIGM

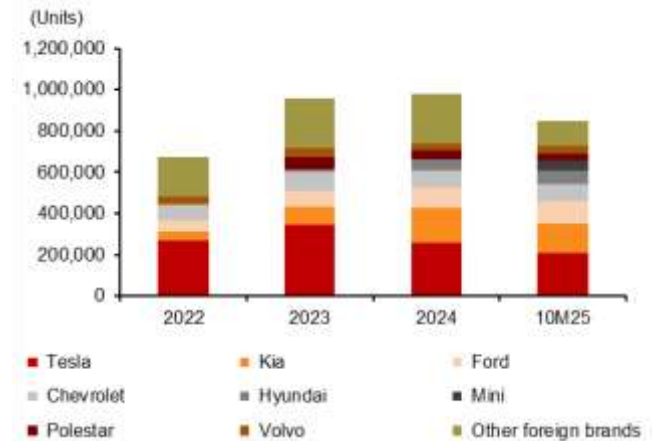
Foreign automakers' export volume from China only rose 2% YoY to 0.85mn units in the first 10 months of 2025, as volume increase from brands like Ford, Hyundai and Mazda was largely offset by declines from Tesla, Honda, Buick, BMW and Dacia. Although Tesla explored new markets for Shanghai-made models, it halted the China-made *Model Y*'s exports to Europe from 2025. EU's tariffs also dented China-made models for BMW and Dacia in 2025. Therefore, we project foreign brands' export volume from China to only rise 4% YoY to 1.08mn units in 2026E.

Figure 25: China PV export breakdown by brand origin in 10M25



Source: CAAM, CMBIGM

Figure 26: Foreign brands' PV exports from China

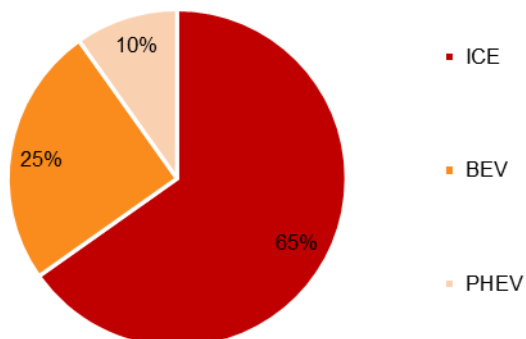


Source: CAAM, CMBIGM

Unlike 2024 when passenger NEV export volume fell 1% YoY dragged by foreign brands, we project passenger NEV export volume to surge 77% YoY to 2.02mn units in 2025E, driven by Chinese automakers such as BYD and Geely. BYD contributed about 62% of China's passenger NEV export volume growth in the first 10 months of 2025.

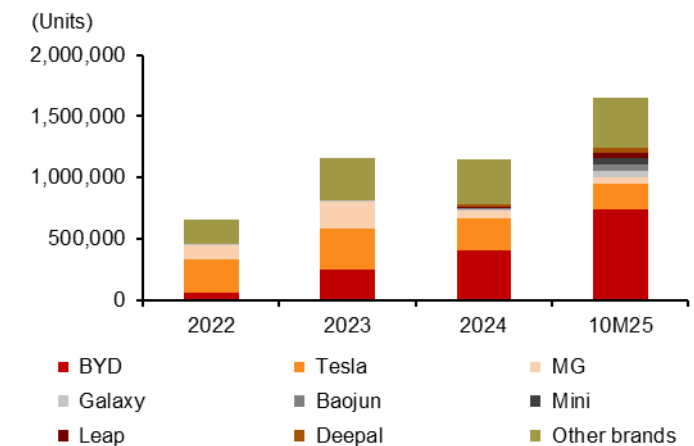
We project China's passenger NEV export volume to continue its strong growth in 2026E, with a 40% YoY growth to 2.83mn units, as automakers like Geely, Leapmotor and Chery would be more aggressive next year in NEV exports. Li Auto has also accelerated its overseas plan recently. BYD, which faces challenges in domestic market this year, could also be aggressive in overseas expansion in 2026, especially with more plants ready for local production in Thailand, Brazil and Hungary.

Figure 27: China PV exports by powertrain in 10M25



Source: CAAM, CMBIGM

Figure 28: China NEV exports by brand



Source: CAAM, CMBIGM

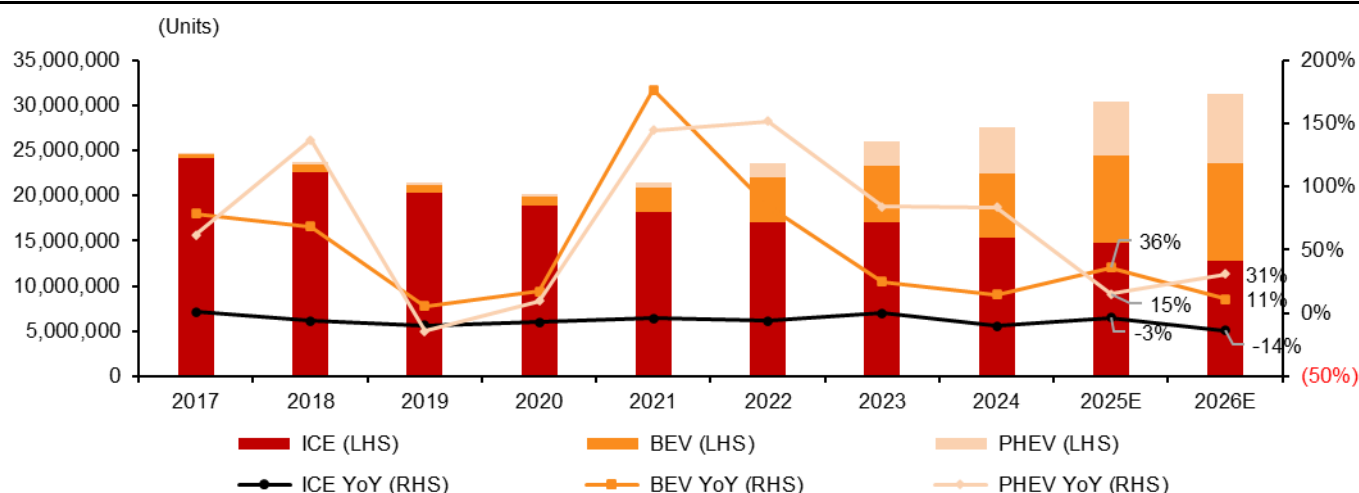
■ Inventory may continue to rise in 2026E after a cut in 2024

It has become increasingly difficult to estimate inventory changes now with different statistical data for China's PV exports. To the best of our knowledge, both industrywide and NEV inventory levels are about 1.5-1.6 months as of the end of Oct 2025. We expect inventories, especially NEV inventories, to rise mildly in both 2025E and 2026E, as domestic retail sales volume gradually returns to historical high levels, and NEV sales volume continues to grow.

■ ICE wholesale volume decline to reaccelerate in 2026E

With our forecasts for retail sales volume, exports and inventory changes, we project China's PV wholesale volume to rise 2.9% YoY to 31.25mn units in 2026E. From powertrain perspective, NEV is to be the driver for China's auto sales growth again. We forecast China's NEV wholesale volume to rise 19% YoY from 15.6mn units in 2025E to 18.5mn units in 2026E, details of which will be discussed in the NEV outlook sector of this report. Unlike 2025, we expect PHEV (including EREV) wholesale volume growth (+31% YoY) to outpace BEV (+11% YoY) in 2026E amid more new PHEV/EREV models, trade-in subsidy phase-out and potential battery price increases. Our industrywide and NEV forecasts imply that China's ICE wholesale volume is to fall 14% YoY in 2026E, the largest decline in history. We are of the view that the slower decline rate for ICE vehicle wholesale volume in 2025E than that in 2024 was mainly due to the trade-in subsidies which help both NEV and ICE cars.

Figure 29: China's PV wholesale volume breakdown by powertrain



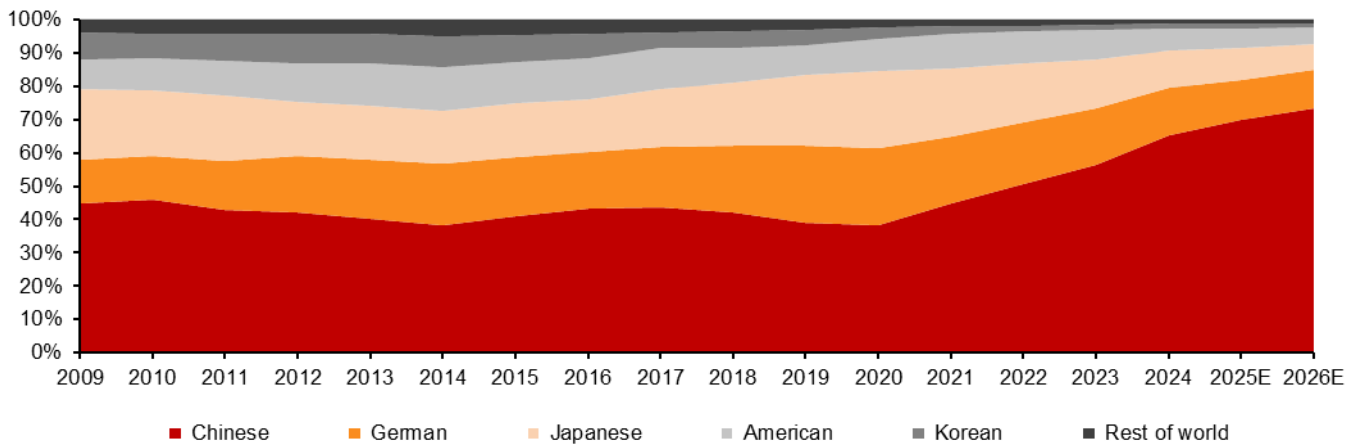
Source: CAAM, CMBIGM estimates

Chinese brands could continue gaining market share with more competitive models

Although Chinese brands in 2025E may only gain the least market share (+4.6ppts YoY on our estimates) in the past five years, we do not expect foreign brands' market share loss to halt in 2026E. Although foreign automakers such as VW (VOW GR, NR) and Toyota (7203 JP, NR) have been increasingly leveraging local supply chain, including platform sharing and technology partnership with Chinese partners, as well as local parts procurement, they are still not fast enough to catch up with leading Chinese automakers, in our view, as their decision making still takes too long, especially with headquarters involved. More "localized" models are scheduled to roll out in 2026E, the sales performance of which could be crucial for foreign brands' market share in China from 2027 onwards.

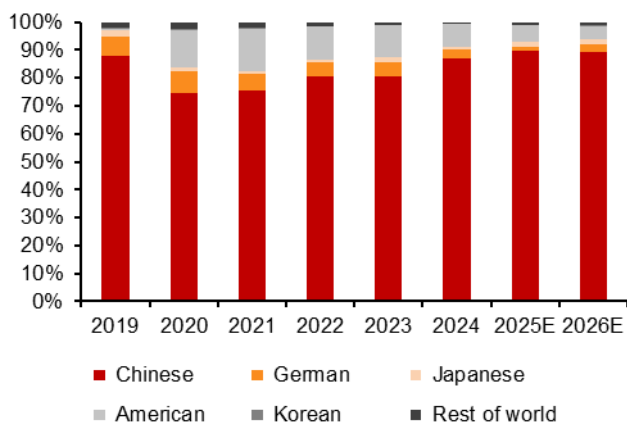
We project Chinese brands' market share on a wholesale basis to widen by 3.6ppts to 73.3% in 2026E from 69.7% in 2025E, extending their market share gains into seven years in a row. We project Chinese brands' market share in the NEV segment to narrow YoY slightly in 2026E given their dominance with about 90% market share now, as foreign marques accelerate electrification. On the other hand, we expect Chinese brands to continue gaining market share in the ICE segment, making up half of ICE wholesale volume in China in 2026E. Although exports contribute a significant portion of Chinese ICE vehicle wholesale volume, Chinese brands' market share gains in the ICE segment on a retail basis during 2023-25 still showcase their improving brand image.

Figure 30: PV market share by brand origin in China on a wholesale basis



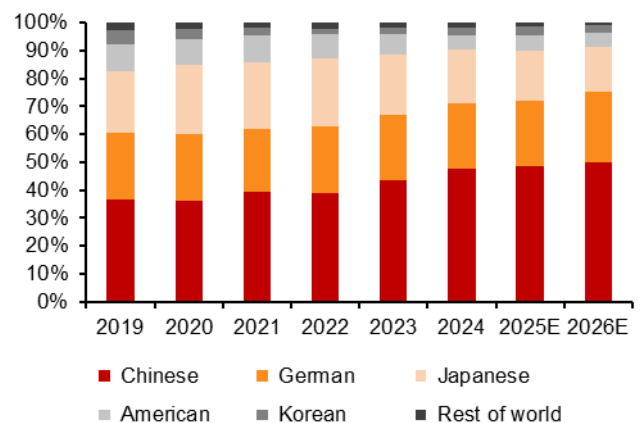
Source: CAAM, CMBIGM estimates

Figure 31: NEV market share by brand origin on a wholesale basis



Source: CAAM, CMBIGM estimates

Figure 32: ICE market share by brand origin on a wholesale basis



Source: CAAM, CMBIGM estimates

■ Model pipeline: larger size NEVs, more aggressive pricing and Huawei Inside

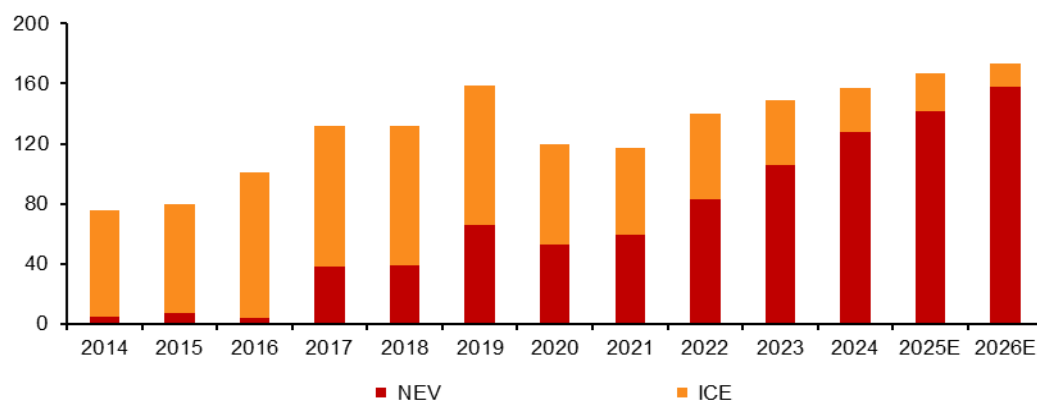
2025 is likely to be another record year for the number of new-model launches in China's history, with about 167 new models, surpassing 157 in 2024, based on the data we have compiled. About 151 new models have been launched in the first 11 months of 2025, which are close to our original forecast of 153 new models for the full year of 2025.

1) Both number of new models and new NEVs to reach all-time high again in 2026E

We estimate about 173 new models to be launched in 2026E, the highest in history, reflecting continuously stiff competition. About 158 new models, or 91% of the total are to be NEVs or have NEV powertrain choices, the highest ratio in history (85% in 2025E and

82% in 2024). NEV's dominance in the new model pipeline fuels its continuous market share gains in 2026-27E. New model pipeline in 2025-26 is also one of the key reasons why we expect ICE wholesale volume decline to accelerate in 2026.

Figure 33: No. of new model launches by powertrain in China

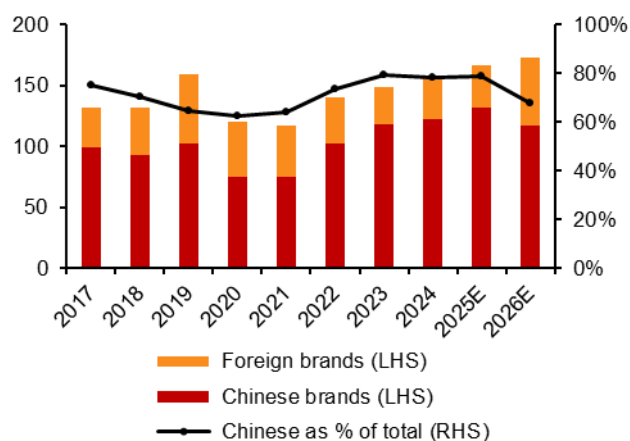


Source: Company data, CMBIGM estimates

2) Chinese-brand new model launches keep beating expectation while foreign brands fall behind

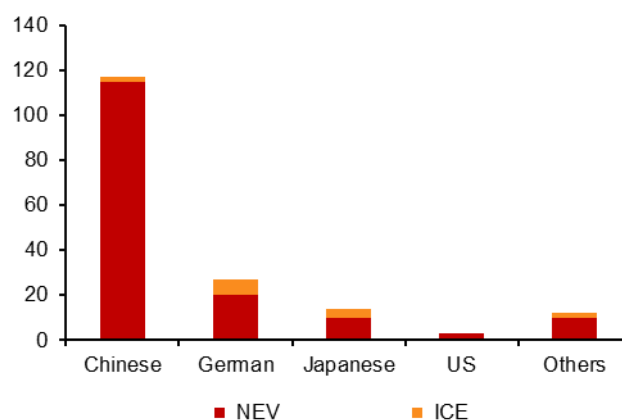
We expect Chinese brands to roll out 117 new models in 2026E with 115 being NEVs. We believe the actual number of new models from Chinese brands could be higher than our projection given their massive R&D investments and engineering flexibility to stay ahead of the competition, which occurred in the past few years. For example, the number of Chinese-brand new models is likely to reach 132 in 2025E, 31% higher than our original forecast of 101 made in Dec 2024.

Figure 34: No. of new models by brand origin



Source: Company data, CMBIGM estimates

Figure 35: No. of new models by brand origin in 2026



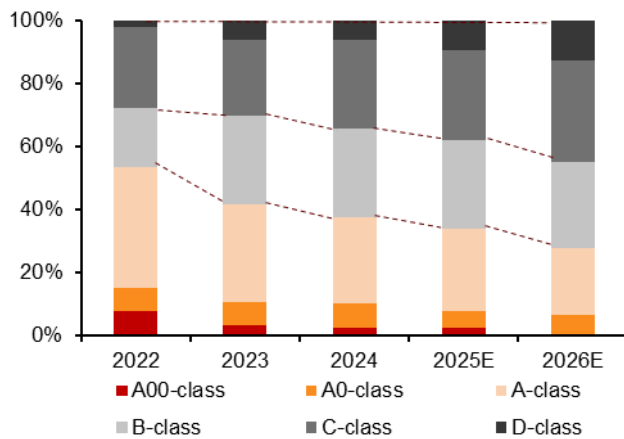
Source: Company data, CMBIGM estimates

On the other hand, foreign brands' new-model launches often missed our estimates in the past few years due to their lack of competitiveness for previously scheduled new models. In Dec 2024, we projected 52 new-model launches for foreign brands in 2025E, which may only end up with 35. We now estimate 56 new models for foreign brands in 2026E with 43 being NEVs. We cannot rule out the possibility that some new models are to be delayed or cancelled again, although we believe foreign brands' new NEV models in 2026E should exceed the number in 2025E (about 22 based on our estimates).

3) Car size is still getting larger in China

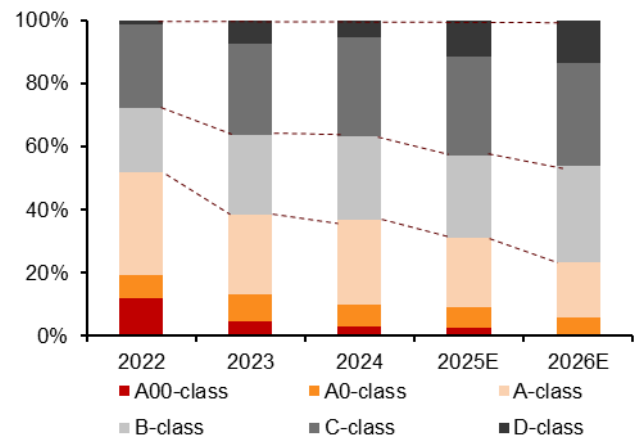
Quite a few automakers in China have launched the so-called “9-series” flagship models during 2024-25. Such trend is likely to continue in 2026: about 72% of new models in 2026E are to be medium size or above, the highest in history, vs. 66% in 2025E, 62% in 2024 and 58% in 2023. Such ratio is even higher for new NEV models in 2026E. We estimate medium size (B-class), medium-to-large size (C-class) and large size (D-class) to account for 30%/33%/13% of total new NEV model launches in 2026E. All three ratios are expected to be the highest in history.

Figure 36: Breakdown of new models in 2026E by vehicle size



Source: Company data, CMBIGM estimates

Figure 37: Breakdown of new NEV models in 2026E by vehicle size

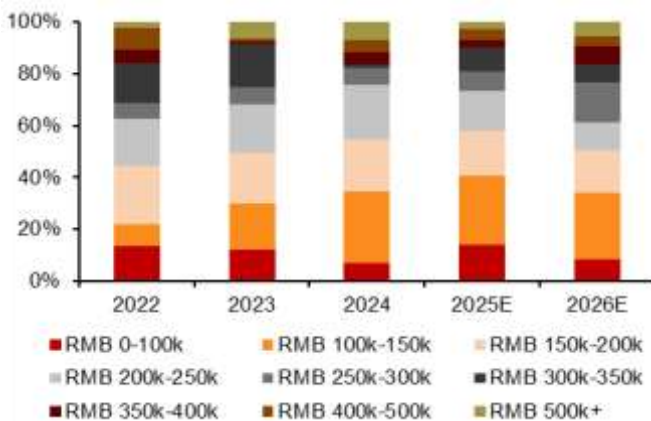


Source: Company data, CMBIGM estimates

4) Chinese consumers pursue value-for-money, but not consumption downgrade

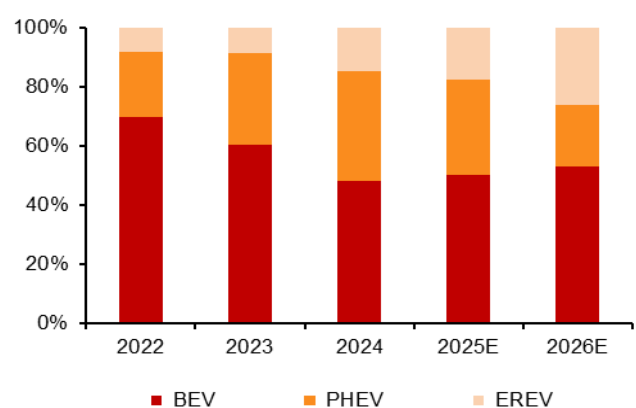
While the number of models priced between RMB100,000-150,000 is to remain the largest among all new NEV models in 2026E (41, or 26% on our estimates), the number of new NEVs priced between RMB250,000-300,000 may increase the most in 2026E. The majority of new NEVs priced between RMB250,000-300,000 in 2026E would be medium-to-large smart sedans or SUVs, which were priced above RMB300,000 prior to 2025. We estimate that about 39% of all new NEV models in 2026E are to be priced above RMB250,000, the highest in history.

Figure 38: Breakdown of new NEV models by price range



Source: Company data, CMBIGM estimates

Figure 39: Breakdown of new NEV models by powertrain



Source: Company data, CMBIGM estimates

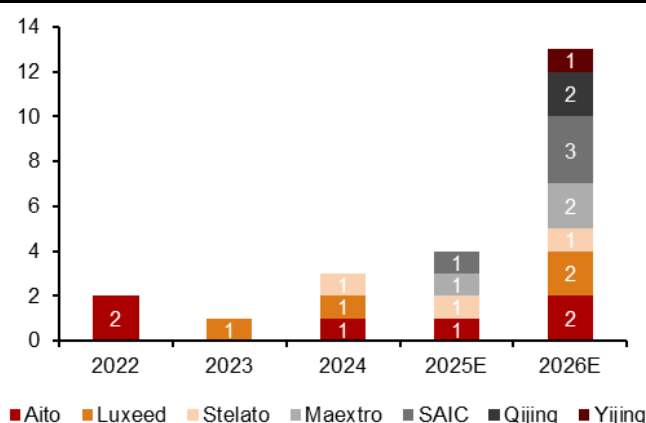
5) More EREVs in 2026E to lift PHEV sales volume

As cars are still getting larger in China, more automakers in China have been launching EREVs which have simple engineering architecture to ease some consumers' range anxiety. Xpeng, IM and GAC Motor all launched their first EREVs in 2025. Xiaomi and VW will follow suit in 2026. About 54 new models are to have EREV powertrain available in 2026E, based on the data we have compiled, higher than 29 in 2025E and 19 in 2024. Full-year sales contribution from EREVs launched in 2025, along with more models with PHEV/EREV powertrain available, could help PHEV sales volume outpace BEV, in our view.

6) More models powered by Huawei in 2026E

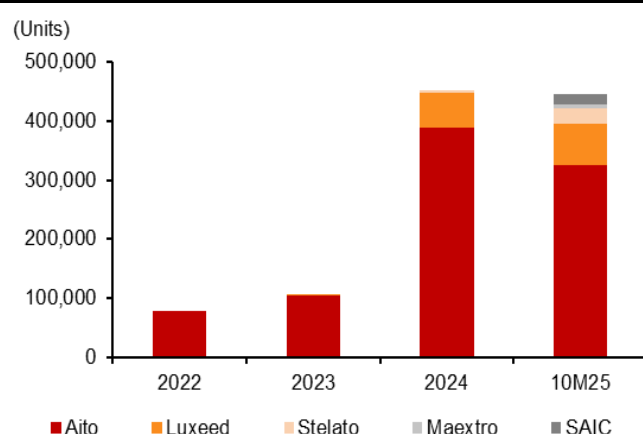
Aito's huge success has pushed other automakers, especially weaker players, to work closely with Huawei. Following five brands (Aito, Luxeed, Stelato, Maextro and SAIC) under Harmony Intelligent Mobility Alliance (HIMA), Huawei continued to partner with GAC and Dongfeng to set up Qijing and Yijing. We project 13 new models under these seven brands to be launched in 2026E, vs. 4 in 2025E and 3 in 2024. Huawei smart car business unit also provides technologies and parts to other brands including Avatr, Voyah, Deepal, Trumpchi, Fangchengbao and Audi. There are already about 30 models on sale powered by Huawei's technologies.

Figure 40: HIMA, Qijing, Yijing's no. of new models



Source: Company data, CMBIGM estimates

Figure 41: HIMA's wholesale volume



Source: CAAM, CMBIGM

Possible key models to watch in 2026

New models' contribution to an automaker's sales volume and profit has become increasingly important, as the model cycle accelerates. New models launched during Oct 2024-Sep 2025 contributed about 31% of China's total wholesale volume in Oct 2025, based on our calculations. Top 20 new models launched during Oct 2024-Sep 2025 contributed about 17% of total wholesale volume in Oct 2025. Both figures were at similar levels last year.

Meanwhile, it becomes increasingly difficult for us to identify key new models, not only because models have now become less differentiated, but also due to different pricing strategies amid heightened competition. For example, sales volume of the NIO ES8 could jump as high as 10x after the new generation trimmed its price by about RMB130,000. Such success may also push rivals to launch a similar model with even more aggressive pricing, making sales volume of each model more volatile and generating many one-hit-wonder models.

On the other hand, BYD's *Han L* and *Tang L*, the larger versions of BYD's popular *Han* and *Tang* models equipped with the automaker's latest autonomous driving and fast charging

technologies, have not been well received by customers since their launches in Apr 2025. That may also partially reflect Chinese consumers' price sensitivity on NEVs with a plethora of models on sale.

■ **BYD: We expect more aggressive pricing and cutting-edge technologies in 2026**

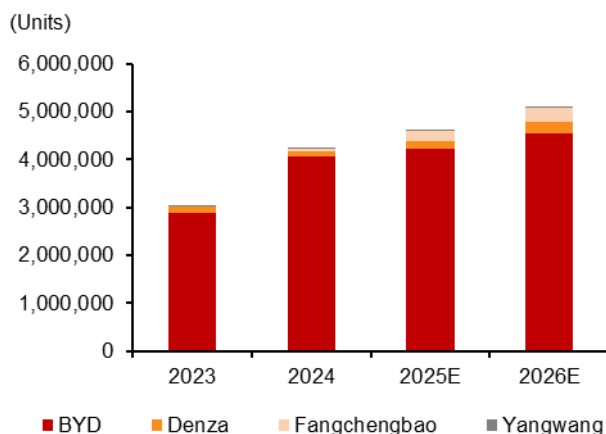
BYD rolled out 16 new models (BYD brand: 10, Denza: 2, Fangchengbao: 2, Yangwang: 2) in 2025, higher than 11 in 2024. However, new models have not translated into strong sales volume growth yet, as we project BYD's wholesale volume to only rise 8% YoY in 2025E, lower than overall NEV's 27% YoY growth in China.

We are of the view that the new models now have diminishing marginal effect on BYD's sales volume growth given its comprehensive model line-up. BYD's strategy in 2025 was to empower new models with more technologies such as autonomous driving and fast charging with similar price tags as before, which did not work well. Therefore, we expect BYD to switch back to aggressive pricing strategy in 2026 for its new models, including its premium brands. BYD's premiumization has been below its expectation in the past two years despite its initial success in the Denza D9. We believe the recent success in the Fangchengbao *Tai 7* PHEV, an off-road style medium-to-large SUV priced between RMB179,800-219,800, could be a good lesson for BYD to go upscale: value-for-money is also crucial for premium brands in China.

We also expect BYD to equip its new models with more state-of-the-art technologies in 2026, in order to differentiate itself from its rivals and lower costs, given its massive R&D investments in recent years. Meanwhile, we expect BYD to introduce its existing technologies for premium brands, such as the e3 intelligent control technology platform, to more mass-market models in 2026.

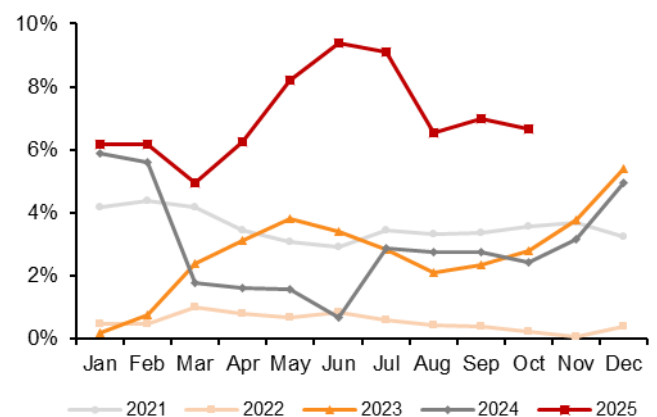
We project BYD's wholesale volume (including commercial vehicles) to rise 11% YoY to 5.17mn units in 2026E, still lower than our projected overall NEV growth of 19% YoY.

Figure 42: BYD's wholesale volume forecast by brand



Source: CAAM, CMBIGM estimates

Figure 43: BYD's discounts at dealers



Source: ThinkerCar, CMBIGM

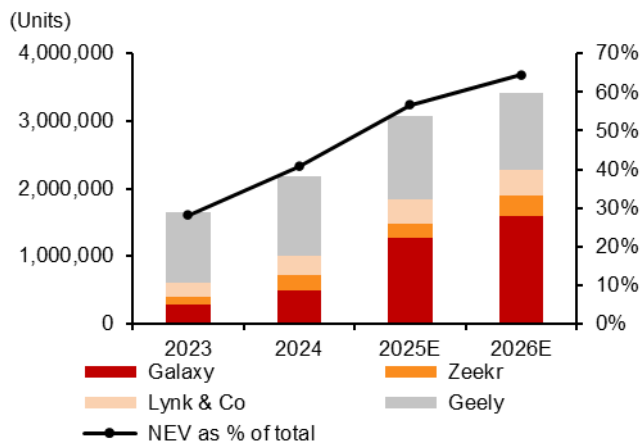
Geely: Still a few subsegments to enter in 2026, especially for medium-size SUVs

As we expected last year, Geely appeared to have found the key to making popular NEVs by simplifying its CMA platform into the GEA platform and modifying its hybrid technologies to EM-i (P1+P3 with a reducer). Most of its new NEV models in 2025, such as the Galaxy A7 PHEV, *Xingyao 8* PHEV, *M9* PHEV, Lynk & Co 900 PHEV and Zeekr 9X PHEV, have been well received. Geely launched 11 new models in the first 11 months of 2025 (Geely: 3, Galaxy: 4, Lynk & Co: 2, Zeekr: 2). Among the 13 new models launched during Oct 2024-Sep 2025, six models' monthly wholesale volumes exceeded 10,000 units in Oct 2025.

Now most of the subsegments have been covered by key NEV models: *Panda Mini* BEV for mini cars, *Starwish* BEV for small cars, *Xingyao 6* PHEV for compact cars, *Starship 7* PHEV and *E5* BEV for compact SUVs, *A7* PHEV for medium cars, *Xingyao 8* PHEV for medium-to-large cars, and *M9* PHEV for medium-to-large SUVs. It appears to us that Geely still needs a small BEV SUV, a compact BEV car, a medium-size BEV/PHEV SUV and large-size PHEV SUV, to complete its NEV model line-up. We believe most of Geely's new models in 2026 would be focused on these subsegments.

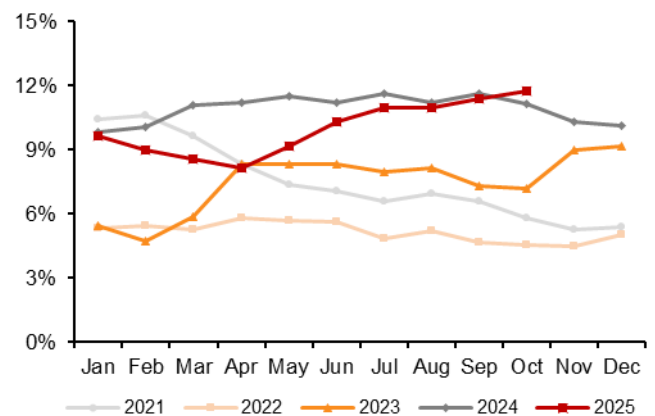
We project Geely's total sales volume to rise 11% YoY from 3.08mn units in 2025E to 3.42mn units in 2026E, with NEV market share widening from 57% (1.75mn units) in 2025E to 65% (2.21mn units) in 2026E. Seven models, including the Galaxy *M9* PHEV, *A7* PHEV, *Xingyao 6* PHEV, Geely *Emgrand EC7*, *Boyue* and Zeekr *9X* were launched after 1 Aug 2025, which could contribute a significant portion of sales volume growth in 2026E.

Figure 44: Geely's wholesale volume forecast



Source: CAAM, CMBIGM estimates

Figure 45: Geely's discounts at dealers

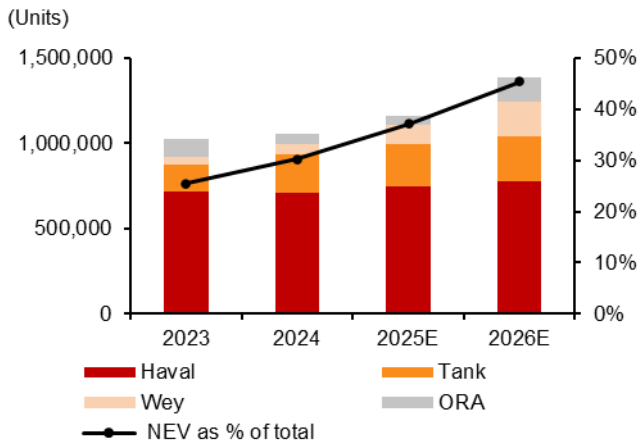


Source: ThinkerCar, CMBIGM

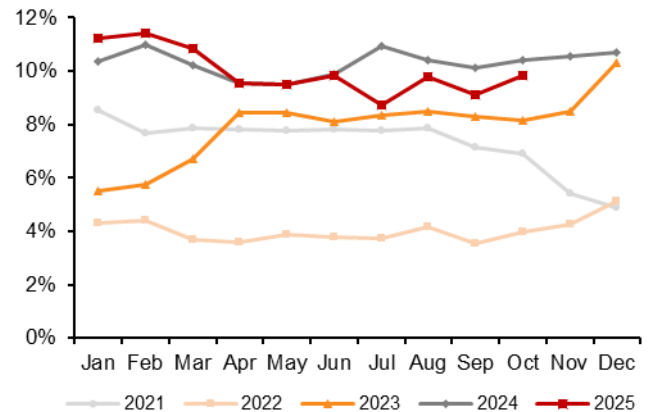
■ Great Wall: Can Wey and Ora's new models follow the Gaoshan's success?

Great Wall Motor rolled out eight models in 2025, doubling the number in 2024. Yet, it still trailed its multiple-brand rivals, such as BYD, Geely and Chery. We are of the view that Great Wall is still optimizing its model line-up, causing new model delays and cancellations. That makes its new model pipeline a bit unclear to us. Nevertheless, we believe the focus would be on Wey and Ora in 2026 and these two brands are poised to enter the fast lane from 2026. We project wholesale volume of these two brands combined to double YoY to 0.3mn units in 2026E, although the automaker targets even higher.

We project Great Wall's total wholesale volume (including pickup trucks) to rise 13% YoY to 1.54mn units in 2026E. We expect NEVs to account for 47% of its total PV wholesale volume in 2026E, up from 37% in 2025E, still trailing most Chinese automakers.

Figure 46: Great Wall's wholesale volume forecast

Source: CAAM, CMBIGM estimates

Figure 47: Great Wall's discounts at dealers

Source: ThinkerCar, CMBIGM

■ GAC Motor: All eyes on Qijiang

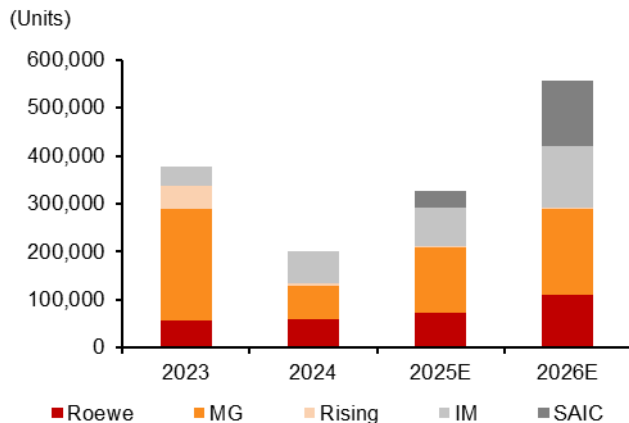
GAC Motor extended its NEV sales volume declines into 2025, despite seven new NEV model rollouts under Aion, Hyptec and Trumpchi this year. We project GAC Motor's NEV wholesale volume to fall 23% YoY to 0.33mn units in 2025E, vs. its previous peak of 0.51mn units in 2023. We estimate Aion, Hyptec and Trumpchi to launch four new NEV models in total in 2026E, including an off-road style medium-size SUV. However, we believe all eyes in 2026 should be on Qijiang, a new brand that works closely with Huawei. We expect Qijiang to turn GAC Motor's NEV wholesale volume into positive growth territory in 2026E, while we also see challenges for Qijiang after Huawei's partnerships with more and more automakers.

■ SAIC Motor: A possible positive surprise for NEV sales growth in 2026

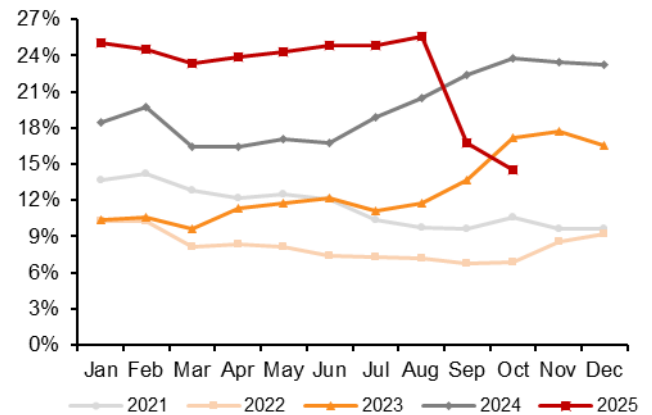
NEV sales volume for SAIC Motor's homegrown brands (including Roewe, MG, Rising, IM and SAIC) has recovered in 2025 after a sharp decline of 47% YoY in 2024, mainly driven by MG in both China and overseas markets.

We estimate that SAIC may post one of the strongest NEV sales volume growth rates among Chinese automakers in 2026E, which may be overlooked by many investors. The SAIC brand, the 5th brand under HIMA, launched its first model, a medium-size SUV, in Sep 2025. More models, which are likely to be medium-to-large size, will be rolled out in 2026E. Moreover, we are of the view that IM is also becoming more competitive with new models like the LS9. This large SUV, launched in Nov 2025 with a price tag of RMB332,800-362,800, impressed us during the Guangzhou Auto Show. Wholesale volume for the LS6 exceeded 11,000 units in Oct 2025 after adding the EREV version in Sep 2025. It also plans to launch a medium-to-large size SUV, the LS8, in 2026E.

We project NEV sales volume for SAIC's homegrown brands to rise 70% YoY to 0.56mn units in 2026E. We may turn more positive on our forecast, if any new models under the IM or SAIC brand are better received by Chinese consumers.

Figure 48: SAIC Motor's NEV wholesale volume forecast by brand

Source: CAAM, CMBIGM estimates

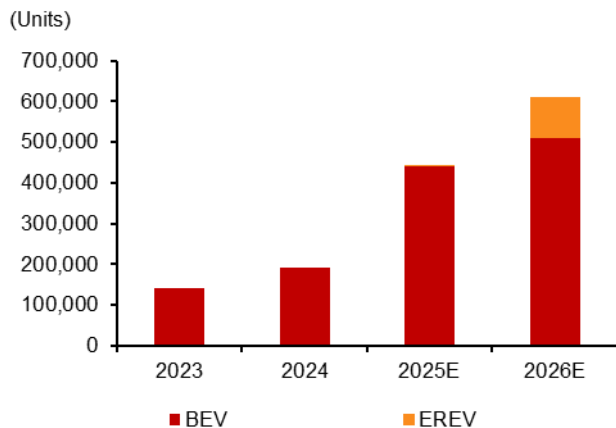
Figure 49: SAIC Motor's (incl. Roewe, MG, Rising and SAIC) discounts at dealers

Source: ThinkerCar, CMBIGM

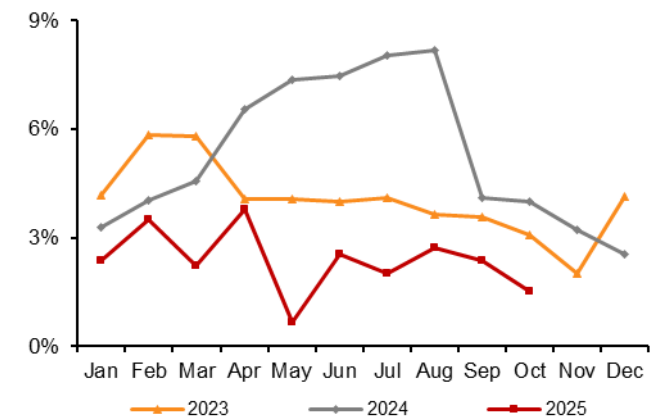
■ Xpeng: EREVs + Mona SUVs

Xpeng's strong sales volume growth in 2025E (+134% YoY on our estimates) is fuelled by two models launched in late 2024: the *P7+* and *Mona M03*. We believe that the sales volume growth in 2026E could come from the Mona SUVs and newly added EREV versions of existing models, including the *X9*, *G9*, *G7* and *P7+*. Xpeng plans to debut four brand-new models, including two Mona SUVs and one 6-seat SUV. We are positive on the Mona SUVs, given the *Mona M03*'s success. Our largest concern may lie in their exterior design, which was key to the *Mona M03*'s success, in our view.

We project Xpeng's deliveries to rise 37% YoY from 445,000 units in 2025E to 610,000 units in 2026E.

Figure 50: Xpeng's sales volume forecast

Source: CAAM, CMBIGM estimates

Figure 51: Xpeng's discounts

Source: ThinkerCar, CMBIGM

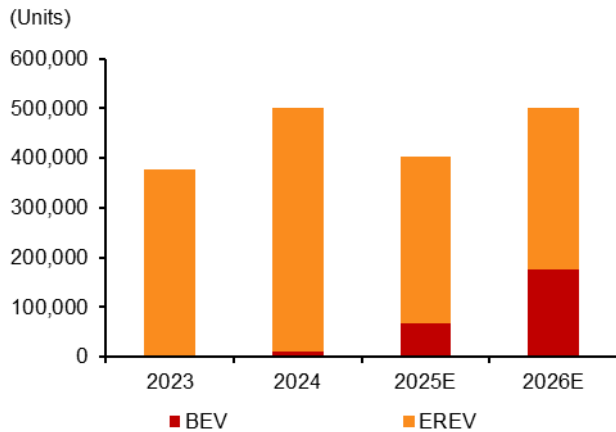
■ Li Auto: Dilemma between sales volume and gross margin

Li Auto faces sales volume decline in 2025, the first time in its history. It also posted a net loss in 3Q25, the first time in the past 12 quarters. As we expected earlier, Li Auto prioritized sales volume over margins on the *i6* BEV, which could make the *i6*'s gross margin around 10% now, based on our estimates. The new-generation L-series models next year may also face the same dilemma amid stiffer competition in China, especially for EREVs. Although upgraded autonomous driving and smart cockpit experience supported by its

proprietary chips and greater battery capacity could make its redesigned L-series more competitive, we believe pricing is still key to its sales volume.

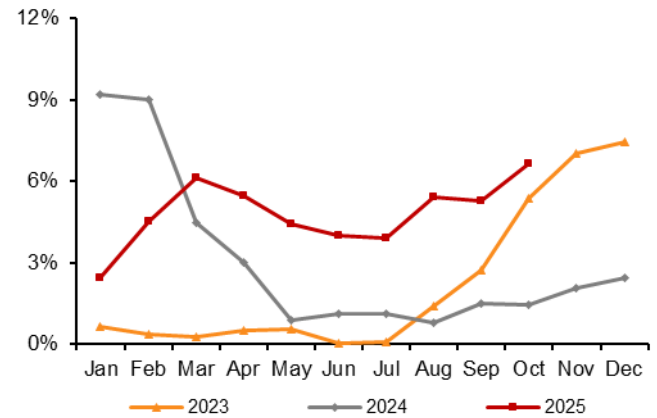
We project Li Auto's deliveries to rise 24% YoY to 0.5mn units in 2026E, back to its prior peak level in 2024. Meanwhile, we expect its gross margin to narrow by 1.4ppts to 17.0% in FY26E, dragged by the *i6* and redesigned L-series.

Figure 52: Li Auto's sales volume forecast



Source: CAAM, CMBIGM estimates

Figure 53: Li Auto's discounts

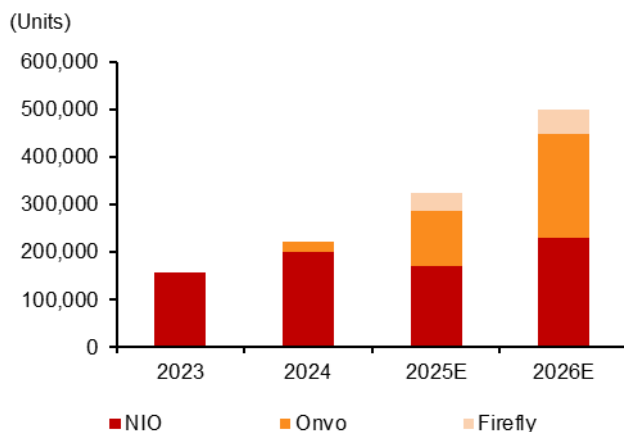


Source: ThinkerCar, CMBIGM

■ NIO: Focus on large SUVs following the success of the ES8, Onvo L90

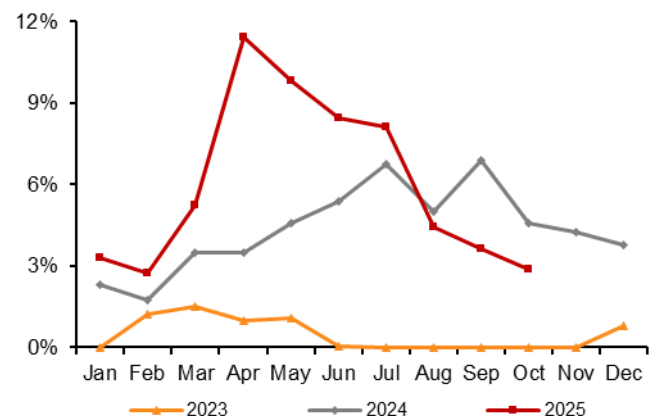
NIO's monthly sales volume reached 30,000 units in Aug 2025, aided by its new Onvo L90. The redesigned ES8 with a significant price cut then lifted NIO's monthly sales volume to 40,000 units in Oct 2025. The success of these two models gives NIO more confidence in rolling out large SUVs in 2026, including the ES9, ES7 and Onvo L80. Meanwhile, taking into consideration the competitive environment (as we estimate 47 new medium-to-large and large-size SUVs to be launched in 2026E in China, higher than 35 in 2025E), we believe linear extrapolation for both sales volume and gross margin is not suitable in China's highly competitive auto market. NIO's 4Q25 sales volume guidance may also imply that the Onvo L90's sales volume may have peaked in Oct 2025. Nevertheless, we project NIO's sales volume to surge 53% YoY to 500,000 units in 2026E, the highest growth rate since 2022.

Figure 54: NIO's sales volume forecast



Source: CAAM, CMBIGM estimates

Figure 55: NIO's (incl. NIO, Onvo, Firefly) discounts



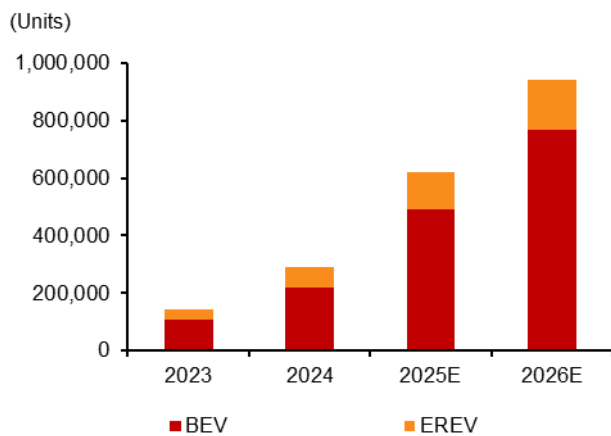
Source: ThinkerCar, CMBIGM

■ Leapmotor: We see competitiveness in D-series and uncertainties for A-series

Leapmotor is likely to double its sales volume again in 2025E, after a 105% YoY growth in 2024. Sales volume of the B-series models beat our prior expectation. These three models (the *B10*, *B01* and *Lafa5*) are to contribute full-year sales volume in 2026E. More interestingly, wholesale volume of the *C10* and *C11* combined surged 81% YoY in the first 10 months of 2025. The *C10* showed strong sales momentum after its facelift in May 2025.

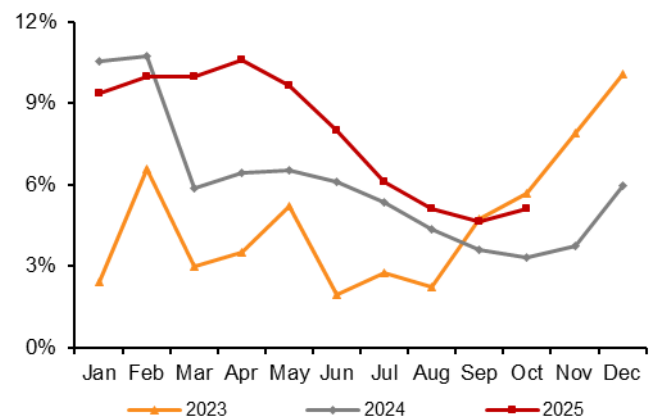
Leapmotor plans to roll out two D-series models and two A-series models in 2026E. The medium-to-large SUV, the *D19*, had its debut on 1 Nov 2025 and was well received by customers based on its refundable deposits. The small-size SUV, the *A10*, had its premiere in the 2025 Guangzhou Auto Show. We expect Leapmotor's wholesale volume to rise 52% YoY to 0.94mn units in 2026E, slightly lower than the company's guidance of 1mn units. We believe the difference probably comes from the A-series models, as we are concerned about the A0-class vehicle's market size post the trade-in subsidies' phase-out.

Figure 56: Leapmotor's wholesale volume forecast



Source: CAAM, CMBIGM estimates

Figure 57: Leapmotor's discounts at dealers



Source: ThinkerCar, CMBIGM

■ Xiaomi: Can it surpass Tesla in its 3rd year?

Despite the recent incidents related to car safety, Xiaomi's wholesale volume reached 48,000 units in Oct 2025 with only two models on sale. Sales volume of the *YU7* SUV exceeded 33,000 units in Oct 2025, the 5th month since its debut.

Xiaomi plans to launch its 3rd model, a large-size SUV, in 2026E, with both BEV and EREV versions available. We are of the view that Tesla's sales volume performance in China during 2020-23 could be a good reference for Xiaomi. Tesla's retail sales volumes (excluding exports) were about 147,000/323,000/442,000/613,000 units during 2020-23, with production disruption from COVID and chip shortage in 2021-22. Xiaomi achieved sales volume of about 140,000 units in its first year (2024) and is likely to achieve 410,000 units in 2025E based on our estimates. We project Xiaomi's sales volume to reach 610,000 units in 2026E, a similar level as Tesla's 4th year in China with local production.

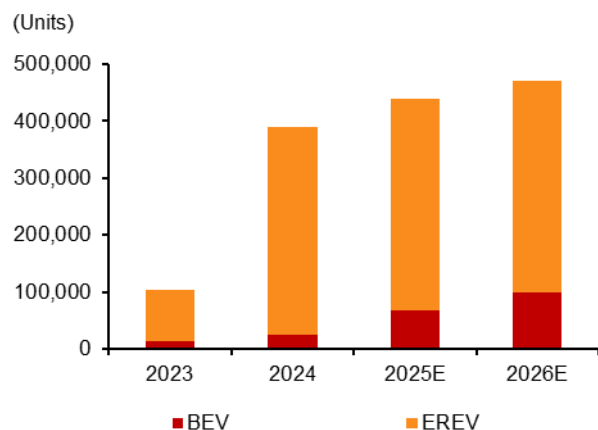
■ Seres: Positive on the M6 but concerned about competition for the M7, M8, M9

We project Aito's wholesale volume to rise 13% YoY to 0.44mn units in 2025E, 15% lower than our original forecast made in Dec 2024. The *M7*'s weaker sales volume was the main reason for the miss. It appears to us that the *M7* is more vulnerable to competition, as its strong sales period is short-lived. Moreover, the sales cannibalization between the *M7* and *M8* appears to be severe given the sales volume declines for the *M8* after the new-generation *M7*'s launch in Sep 2025.

Seres plans to launch the *M6* in 2026E, in a bid to revive sales in the medium-size SUV segment, as the *M5* is the least successful model under Aito so far. While we expect the

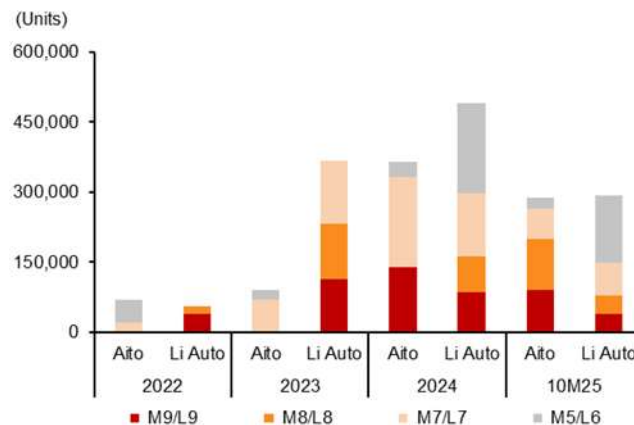
M6 to be more successful than the M5, we are still concerned about the competition for the M7, M8 and M9, not only from other automakers, but also from Huawei's other partners, as the value-add from Huawei is likely to be diluted when Huawei works with more partners. We project Aito's wholesale volume to rise 7% YoY to 0.47mn units in 2026E.

Figure 58: Aito's wholesale volume forecast



Source: CAAM, CMBIGM estimates

Figure 59: Aito's EREV sales volume vs. Li Auto's

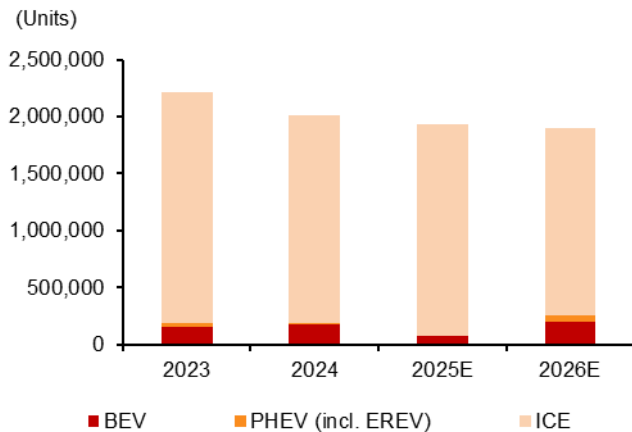


Source: CAAM, CMBIGM

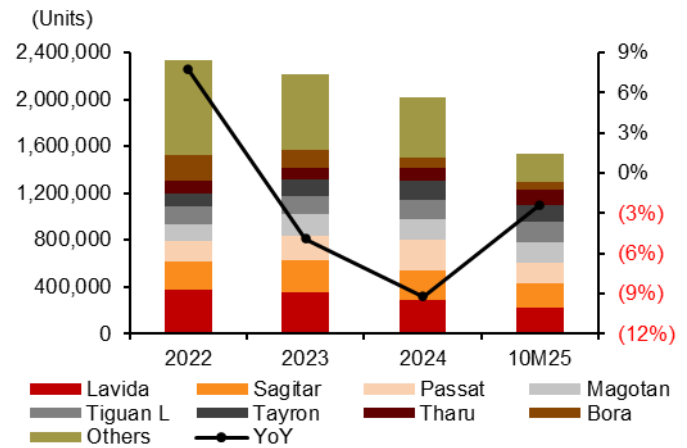
■ VW brand: Can its “in China, for China” strategy work in 2026?

We estimate the VW brand to roll out 10 new NEV models in 2026E, accounting for about 23% of total foreign brands' new NEV models next year. VW fully leverages resources in China for its electrification: 1) two new models will be based on Xpeng G9's platform; 2) some models will be based on VW's China-specific platform CMP to lower costs; 3) VW plans to launch its first EREV model in 2026E; 4) VW formed a joint venture with Horizon Robotics (9660 HK, BUY; covered by our semiconductors team) named CARIZON in 2023 and some NEV models in 2026 are likely to adopt autonomous driving solutions from Horizon Robotics. Although details of VW's new NEV models in 2026E are still lacking, we are more positive on VW's electrification now, as the chance for one model to stand out from 10 could be high. That could be a good lesson for VW to optimize new models in the future. We project VW's NEV sales volume to more than triple YoY in 2026E to 0.26mn units.

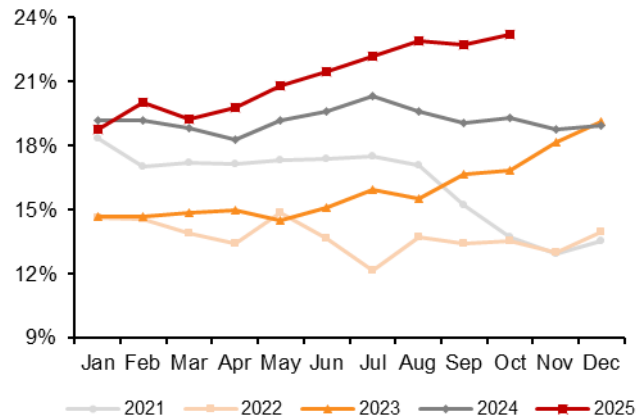
VW's ICE vehicle sales volume is more resilient than its peers, rising 4% YoY in the first 10 months of 2025 on a wholesale basis, stronger than 1% YoY decline for industrywide ICE sales volume. The new-generation *Magotan* and *Tiguan L* launched in 2024 were quite successful, in our view. The redesigned *Sagitar* and *Tayron* in 2H25 could also support VW's ICE resilience in 2026. Therefore, we project VW's ICE wholesale volume to fall 11% YoY in 2026E, vs. 14% YoY decline for industrywide ICE wholesale volume based on our forecast. Accordingly, we expect VW's total wholesale volume to fall 2% YoY in 2026E, the smallest decline in four years.

Figure 60: VW's wholesale volume forecast in China

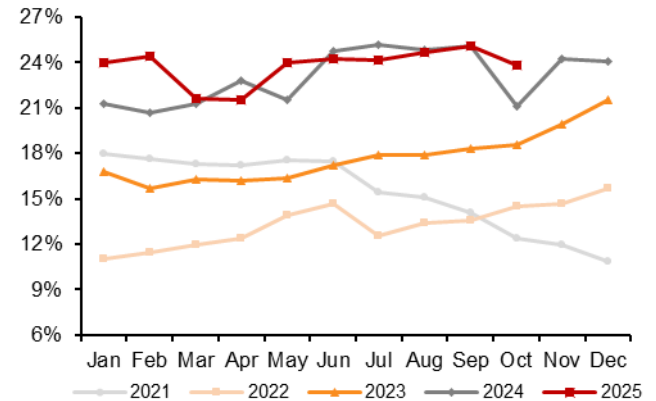
Source: CAAM, CMBIGM estimates

Figure 61: VW's wholesale volume by model

Source: CAAM, CMBIGM

Figure 62: SAIC VW's discounts at dealers

Source: ThinkerCar, CMBIGM

Figure 63: FAW VW's discounts at dealers

Source: ThinkerCar, CMBIGM

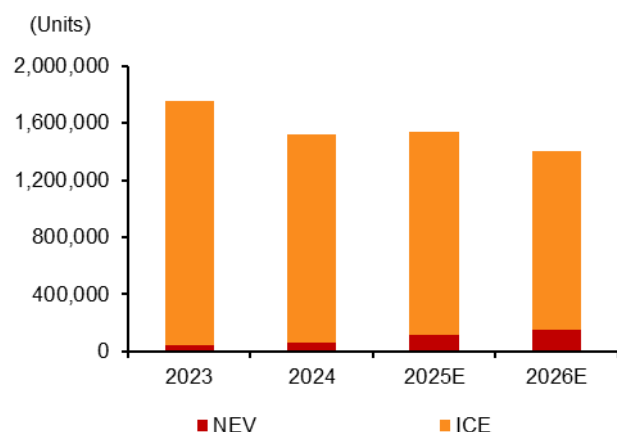
■ Toyota: More challenges in 2026 despite a resilient 2025

Toyota is likely to post a positive YoY growth rate in 2025E in terms of its wholesale volume in China, outpacing most foreign brands in China. We also expect Toyota to almost double its NEV wholesale volume to 0.12mn units in China in 2025E, the highest among incumbent foreign brands in China, aided by its *bZ3X* SUV.

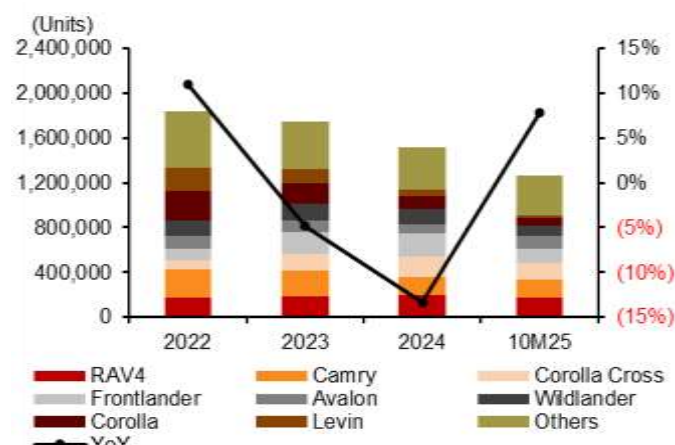
The *bZ7*, a medium-to-large sedan, is probably the most important new NEV model for Toyota in 2026E in China. In our view, it is still too early to draw a conclusion for the *bZ7*'s sales volume, as it may face stiffer competition, not only from Chinese automakers, but also from foreign marques like VW and Nissan (7201 JP, NR).

We are of the view that Toyota's electrification still lags and the company is less determined than VW and Nissan. The *bZ3X* appears to be more like a trial, rather than a start of a plethora of new NEV models, although the model turned out to be one of the most successful NEV models so far in China among the incumbent foreign automakers. GAC Toyota plans to roll out the PHEV versions for its *Highlander* and *Sienna* in 2027E, which could be a bit too late, in our view.

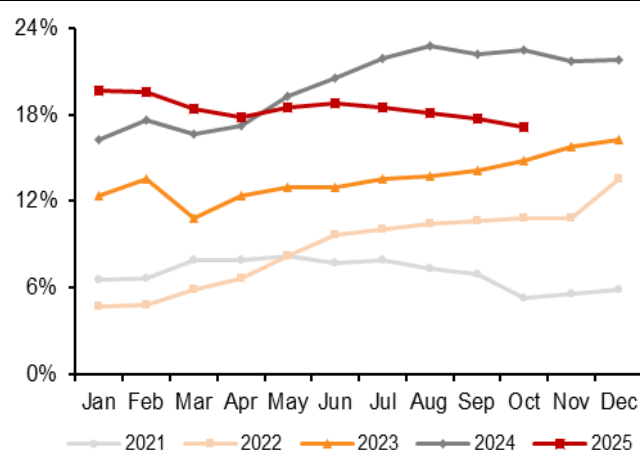
We project Toyota's total wholesale volume to fall 9% YoY to 1.4mn units in 2026E with NEVs accounting for 11%.

Figure 64: Toyota's wholesale volume in China

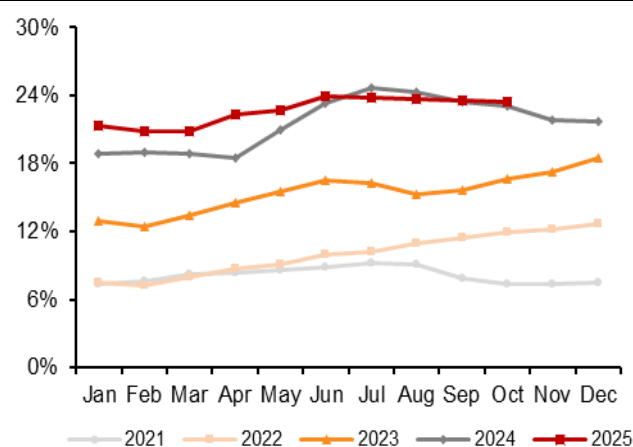
Source: CAAM, CMBIGM estimates

Figure 65: Toyota's wholesale volume by model

Source: CAAM, CMBIGM

Figure 66: GAC Toyota's discounts at dealers

Source: ThinkerCar, CMBIGM

Figure 67: FAW Toyota's discounts at dealers

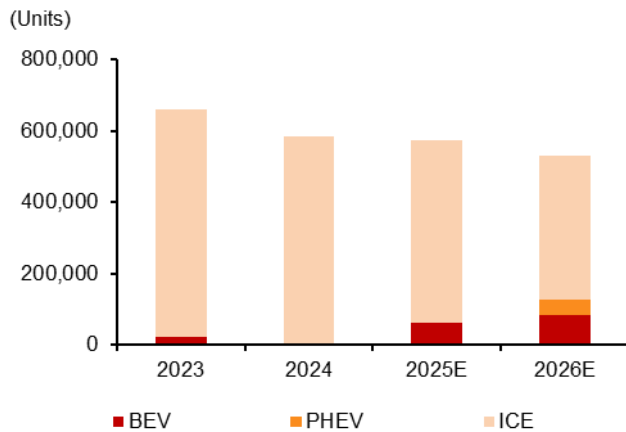
Source: ThinkerCar, CMBIGM

■ Nissan: Electrification may accelerate following the N7's aggressive pricing

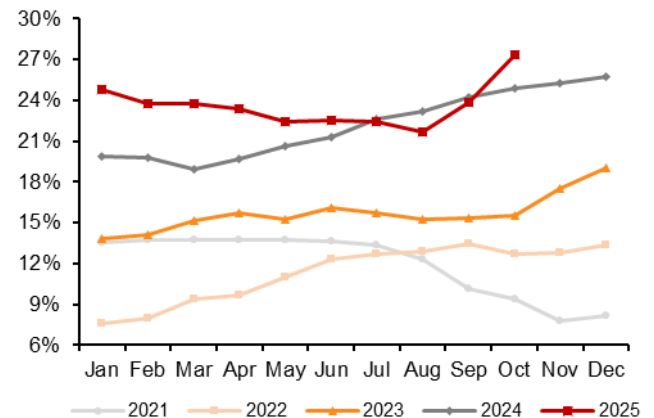
Nissan unveiled a medium-to-large size sedan, the *N7*, in late Apr 2025 with a price tag of RMB119,900-149,900. Its average monthly wholesale volume reached 7,000 units in the first six months after its debut, helped by its aggressive pricing. Nissan just launched a slightly smaller sedan, the *N6*, on 1 Dec 2025, with a price tag of RMB99,900-121,900. Dongfeng Nissan is likely to roll out another two or three new NEV models in 2026E, based on its previous plan. We estimate its new NEV models to cover medium-size and medium-to-large SUV segments in 2026E. Similar to VW, we are of the view that Nissan may see strong NEV sales volume growth in 2026E, should its new NEV models continue to adopt aggressive pricing strategy.

On the other hand, Nissan's most important model in China, the *Sylphy*, which accounted for 56% of Nissan's total wholesale volume in China in the first 10 months of 2025, is likely to launch a new generation in 2026E. Although we do not expect the redesigned *Sylphy* to lift Nissan's sales volume, it may still help Nissan's sales volume to decline at a slower pace in China.

We project Nissan's NEV wholesale volume to double YoY to 127,000 units and its total wholesale volume to decline 8% YoY to 530,000 units in 2026E.

Figure 68: Nissan's wholesale volume in China

Source: CAAM, CMBIGM estimates

Figure 69: Dongfeng Nissan's discounts at dealers

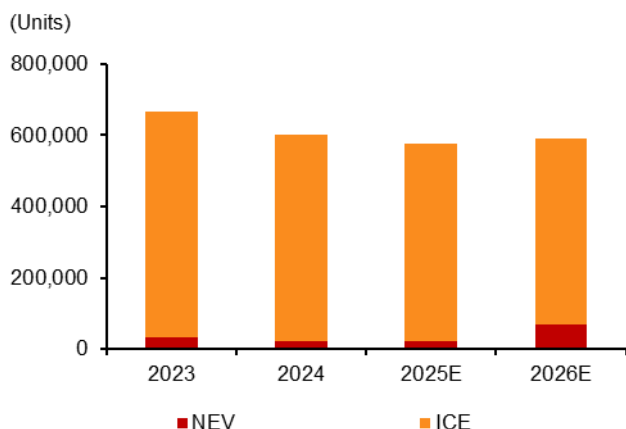
Source: ThinkerCar, CMBIGM

■ Audi: A plethora of new models in the next 12 months

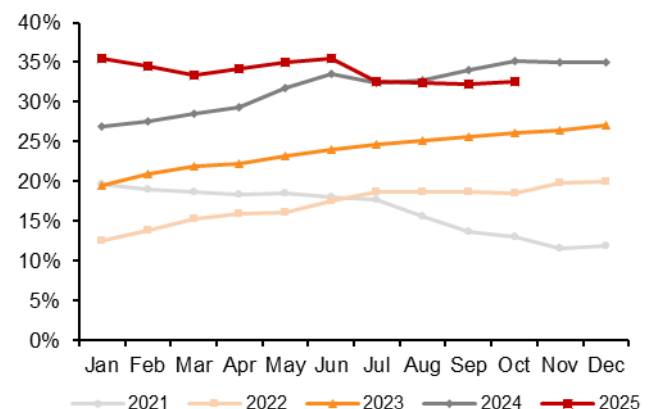
Audi is likely to surpass BMW and Mercedes-Benz in 2025E in terms of both retail sales and wholesale volume (excluding imports) in China. Audi has started to roll out a plethora of new models since Aug 2025 after its thorough preparation and restructuring. Audi did not launch any new models during 4Q22-2Q25.

Audi launched the A5L and A5L Sportback (medium-size sedan) for both joint ventures with FAW and SAIC, respectively, in early Aug 2025. Audi FAW NEV, a new joint venture where Audi and VW China combined take up 60% stakes, unveiled its first model, the Q6L e-tron BEV (medium-to-large SUV) in Aug 2025. The Audi E5, a medium-size sedan based on IM's platform, was also rolled out in Sep 2025.

We estimate Audi to launch eight new models (5 ICE and 3 BEVs) in the next 12 months, covering compact car, compact SUV, medium-size SUV, medium-to-large car and large-size car. Therefore, we project Audi's wholesale volume to rise 3% YoY to 0.59mn units in 2026E in China, extending its leading position among the luxury "German Big Three". Meanwhile, it may be still too early to draw a conclusion for Audi's new NEV models, in our view.

Figure 70: Audi's wholesale volume forecast in China

Source: CAAM, CMBIGM estimates

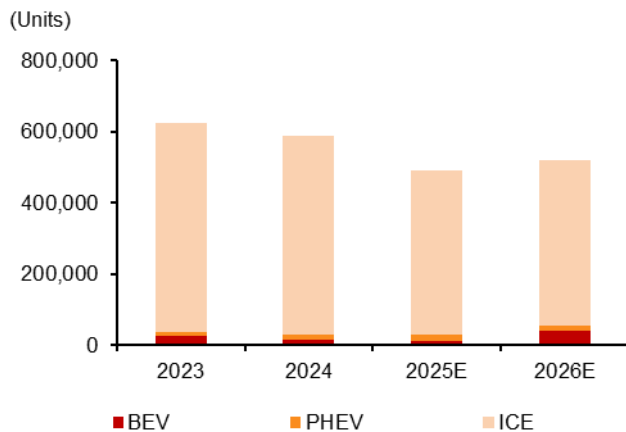
Figure 71: FAW Audi's discounts at dealers

Source: ThinkerCar, CMBIGM

Mercedes-Benz: Locally-produced GLE to revive sales volume

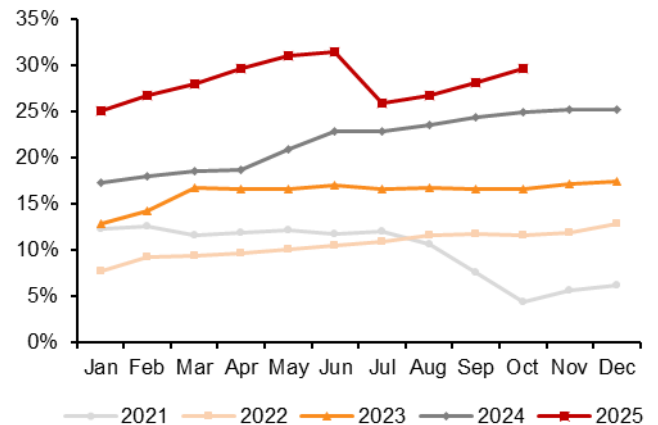
Both Mercedes-Benz's retail sales and wholesale volumes in China are likely to decline the most among the luxury "German Big Three" in 2025E. It may roll out more new models in a bid to revive sales in 2026. It launched the CLA BEV in early Nov 2025 and is likely to electrify its C-Class and GLC models in 2026E. An important new model to watch in 2026 for Mercedes-Benz is the locally-produced GLE, although such decision is a bit late, in our view. While Mercedes-Benz's retail sales volume may continue to face challenges in China, we expect its wholesale volume (excluding imports) to rise 6% YoY to 0.52mn units in China in 2026E, aided by new models.

Figure 72: Mercedes-Benz's wholesale volume



Source: CAAM, CMBIGM estimates

Figure 73: Beijing Benz's discounts at dealers



Source: ThinkerCar, CMBIGM

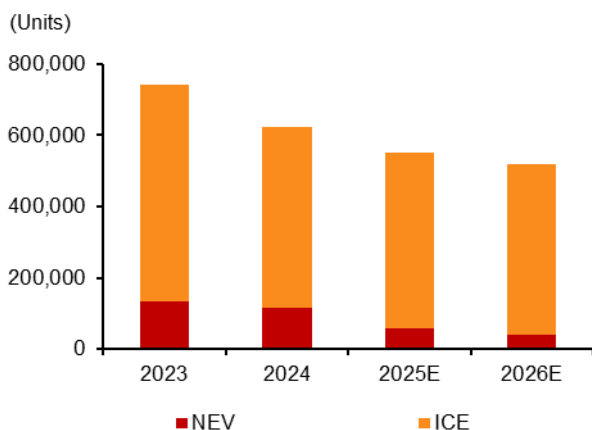
BMW: Challenges to continue in both ICE and NEV

We project BMW Brilliance's wholesale volume to drop 12% YoY in 2025E, with NEVs plunging 51% YoY. Exports accounted for about 25-30% of BMW's total NEV wholesale volume during 2021-23. The ratio fell to only 2% in the first 10 months of 2025 after it halted the iX3's exports to Europe.

BMW plans to introduce its first Neue Klasse model, a medium-size SUV, into China in around Sep 2026, which may be of little help in its NEV sales volume, not only because of its launch time, but also its design, in our view.

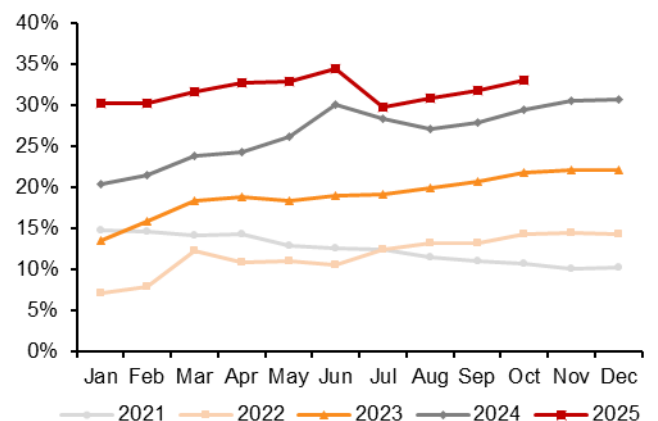
We project BMW Brilliance's wholesale volume to fall 6% YoY to 0.52mn units in 2026E, with NEVs accounting for only 8%.

Figure 74: BMW Brilliance's wholesale volume



Source: CAAM, CMBIGM estimates

Figure 75: BMW Brilliance's discounts at dealers



Source: ThinkerCar, CMBIGM

Figure 76: China's passenger-vehicle wholesale volume forecasts by OEM / brand

	Sales volume in 2024 (units)	Sales volume forecast in 2025E (units)	Sales volume forecast in 2026E (units)	2026E YoY (%)	2025E market share (%)	2026E market share (%)
Chinese OEMs	17,954,093	21,177,215	22,898,000	8%	69.7%	73.3%
Geely	2,225,684	3,080,000	3,420,000	11%	10.1%	10.9%
Great Wall Motor	1,055,235	1,177,000	1,355,000	15%	3.9%	4.3%
Changan	1,612,642	1,770,000	1,700,000	-4%	5.8%	5.4%
SAIC-GM-Wuling	1,062,538	1,350,000	1,150,000	-15%	4.4%	3.7%
SAIC	772,518	950,000	1,080,000	14%	3.1%	3.5%
BYD	4,240,854	4,596,400	5,089,000	11%	15.1%	16.3%
GAC Motor	789,475	660,000	654,000	-1%	2.2%	2.1%
Chery	2,467,941	2,700,000	2,730,000	1%	8.9%	8.7%
Dongfeng	430,873	521,000	560,000	7%	1.7%	1.8%
FAW	562,235	670,000	560,000	-16%	2.2%	1.8%
BAIC Group	265,079	370,000	390,000	5%	1.2%	1.2%
JAC	166,763	154,000	120,000	-22%	0.5%	0.4%
NIO	221,970	326,000	500,000	53%	1.1%	1.6%
Li Auto	500,513	402,000	500,000	24%	1.3%	1.6%
Xpeng	190,068	445,000	610,000	37%	1.5%	2.0%
Avatr	64,303	119,000	150,000	26%	0.4%	0.5%
Leapmotor	291,424	620,000	940,000	52%	2.0%	3.0%
Seres	465,610	495,000	510,000	3%	1.6%	1.6%
Xiaomi	140,354	410,000	610,000	49%	1.4%	2.0%
German brands	3,996,302	3,722,000	3,680,000	-1%	12.3%	11.8%
VW	2,014,007	1,930,000	1,900,000	-2%	6.4%	6.1%
Audi	600,220	575,000	590,000	3%	1.9%	1.9%
BMW	625,091	550,000	520,000	-5%	1.8%	1.7%
Mercedes-Benz	589,314	490,000	520,000	6%	1.6%	1.7%
Japanese brands	3,075,328	2,843,625	2,411,000	-15%	9.4%	7.7%
Honda	896,802	640,000	400,000	-38%	2.1%	1.3%
Toyota	1,516,062	1,540,000	1,400,000	-9%	5.1%	4.5%
Nissan	583,922	575,000	530,000	-8%	1.9%	1.7%
American brands	1,774,245	1,790,000	1,530,000	-15%	5.9%	4.9%
Buick	322,859	435,000	370,000	-15%	1.4%	1.2%
Ford	252,604	250,000	200,000	-20%	0.8%	0.6%
Tesla	916,660	837,000	800,000	-4%	2.8%	2.6%
Korean brands	431,215	465,000	410,000	-12%	1.5%	1.3%
Hyundai	182,998	205,000	190,000	-7%	0.7%	0.6%
Kia	248,217	260,000	220,000	-15%	0.9%	0.7%
Others	321,325	368,700	321,000	-13%	1.2%	1.0%
Total	27,552,508	30,366,540	31,250,000	3%	100.0%	100.0%

Source: CAAM, CMBIGM estimates

Figure 77: China's passenger NEV wholesale volume forecast by OEM / brand

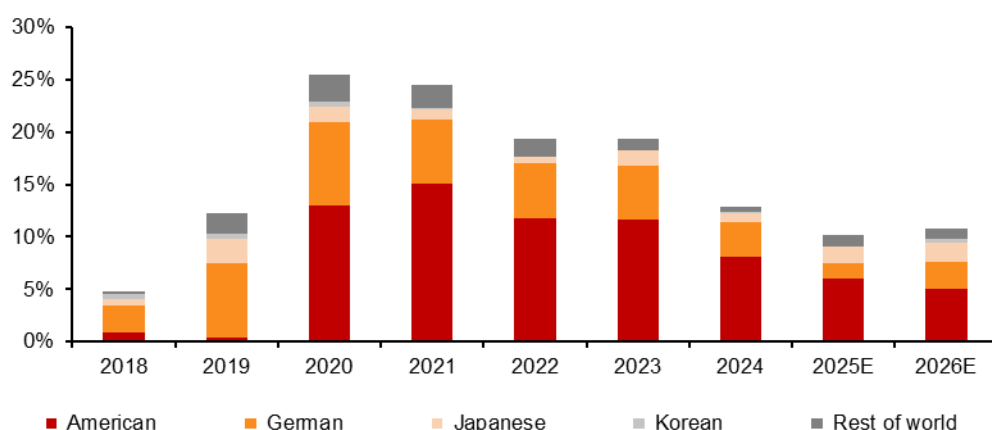
	Sales volume in 2024 (units)	Sales volume forecast in 2025E (units)	Sales volume forecast in 2026E (units)	2026E YoY (%)	2025E market share (%)	2026E market share (%)
Chinese OEMs	10,684,918	14,022,356	16,511,000	18%	89.9%	89.2%
Geely	888,235	1,745,970	2,205,000	26%	11.2%	11.9%
Great Wall Motor	320,848	433,000	630,000	45%	2.8%	3.4%
Changan	605,335	795,000	850,000	7%	5.1%	4.6%
SAIC-GM-Wuling	722,954	949,300	800,000	-16%	6.1%	4.3%
SAIC	199,993	327,700	556,000	70%	2.1%	3.0%
BYD	4,240,854	4,596,400	5,089,000	11%	29.5%	27.5%
GAC Motor	430,847	332,000	389,000	17%	2.1%	2.1%
Chery	507,328	840,700	960,000	14%	5.4%	5.2%
Dongfeng	300,871	408,291	497,000	22%	2.6%	2.7%
FAW	197,872	315,800	300,000	-5%	2.0%	1.6%
BAIC Group	116,283	244,500	280,000	15%	1.6%	1.5%
JAC	31,183	35,080	48,000	37%	0.2%	0.3%
NIO	221,970	326,000	500,000	53%	2.1%	2.7%
Li Auto	500,513	402,000	500,000	24%	2.6%	2.7%
Xpeng	190,068	445,000	610,000	37%	2.9%	3.3%
Avatr	64,303	119,000	150,000	26%	0.8%	0.8%
Leapmotor	291,424	620,000	940,000	52%	4.0%	5.1%
Seres	428,484	478,400	487,000	2%	3.1%	2.6%
Xiaomi	140,354	410,000	610,000	49%	2.6%	3.3%
German brands	408,054	234,808	493,000	110%	1.5%	2.7%
VW	190,673	78,300	260,000	232%	0.5%	1.4%
Audi	21,829	21,000	70,000	233%	0.1%	0.4%
BMW	116,451	57,008	40,000	-30%	0.4%	0.2%
Mercedes-Benz	29,432	29,500	55,000	86%	0.2%	0.3%
Japanese brands	95,156	241,287	325,000	35%	1.5%	1.8%
Honda	29,474	20,700	13,000	-37%	0.1%	0.1%
Toyota	60,510	116,087	150,000	29%	0.7%	0.8%
Nissan	1,680	62,500	127,000	103%	0.4%	0.7%
American brands	997,706	933,319	926,000	-1%	6.0%	5.0%
Buick	73,543	94,000	115,000	22%	0.6%	0.6%
Tesla	916,660	837,000	800,000	-4%	5.4%	4.3%
Others	82,260	174,006	245,000	41%	1.1%	1.3%
Total	12,268,094	15,605,776	18,500,000	19%	100.0%	100.0%

Source: CAAM, CMBIGM estimates

Foreign marques accelerate NEV rollouts with more aggressive pricing, cut capacity in China

While Chinese brands continue to dominate in China's NEV market in 2026E, we expect foreign brands to gain market share slightly, by 0.7ppts YoY, aided by VW, Audi and Nissan, as we noted in the previous part of this report. We project German brands' NEV market share to widen by 1.2ppts YoY to 2.7% in 2026E and Japanese brands' NEV market share to rise by 0.3ppts to 1.8% during the same period. On the other hand, we expect American brands' NEV market share to narrow by 1ppt to 5.0% in 2026E, as we forecast Tesla's wholesale volume in China to fall 4% YoY to 0.8mn units in 2026E, after a 9% YoY decline in 2025E.

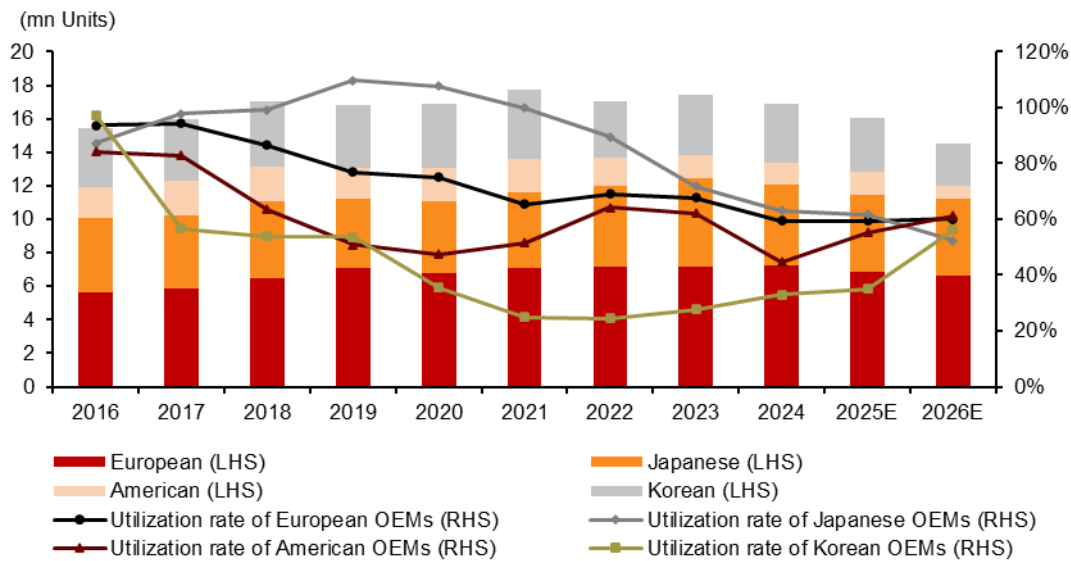
Figure 78: Foreign brands' NEV market share forecast



Source: CAAM, CMBIGM estimates

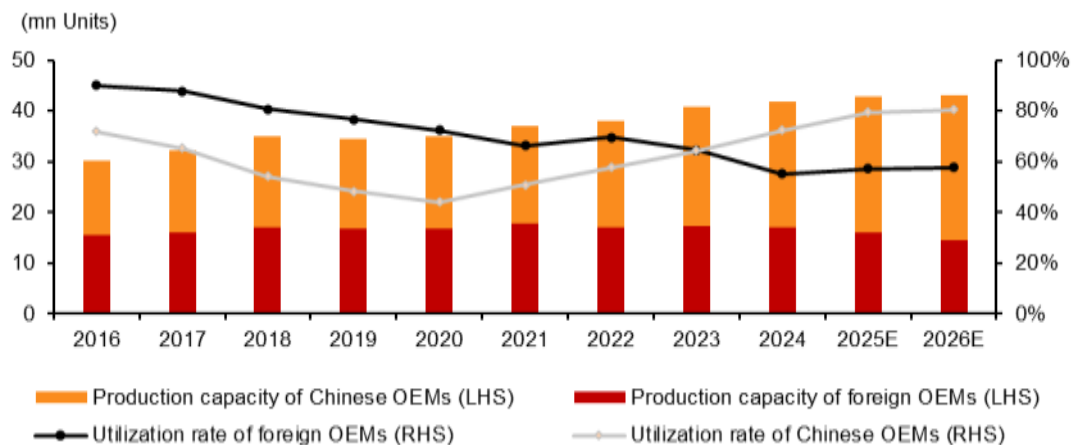
Despite foreign brands' efforts to catch up in the NEV market, we expect total wholesale volume for foreign brands in China to continue declining in 2025-26E, which will likely result in production capacity cuts.

Although foreign marques cut their production capacity by 2% in 2024, their capacity utilization rate in China hit an all-time low of 55% last year, based on our estimates. We expect foreign brands to cut their production capacity by 5% in 2025E and 10% in 2026E, in order to stabilize their capacity utilization rate. We project foreign brands' capacity utilization rates in China to rise slightly to 57% in 2025E and 58% in 2026E, mainly because we forecast SAIC GM to cut its capacity. Japanese brands, which were well-known for their cautious capacity expansion and high capacity utilization, only had a capacity utilization rate of 63% in 2024 in China, vs. around 100% during 2017-2021. We expect the capacity utilization rate to continue falling to 62% in 2025E and below 60% in 2026E. To make it worse, the recent China-Japan tension could make Japanese brands' sales in China more uncertain in 2026E.

Figure 79: Foreign brands' PV production capacity and utilization rate in China

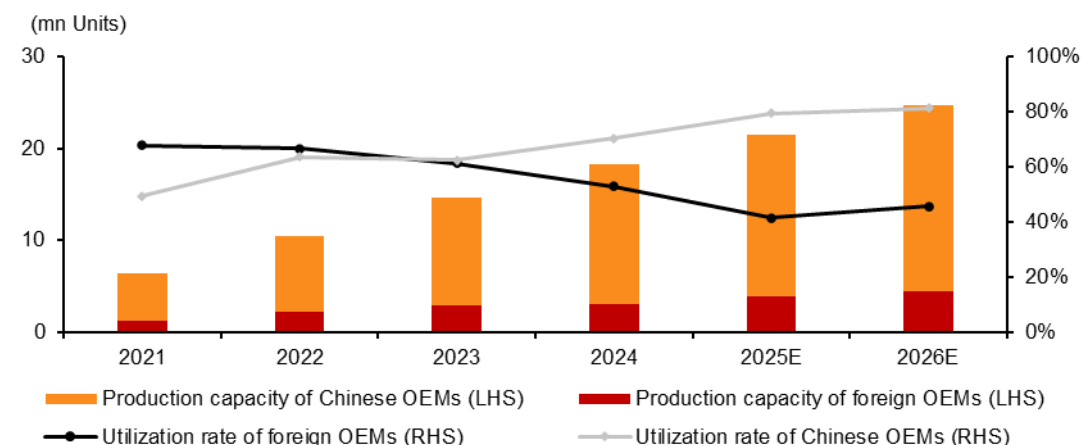
Source: Company data, CAAM, Marklines, CMBIGM estimates

Chinese brands, in contrast, have been increasing their production capacity utilization rate since 2021, which hit an all-time high of 72% in 2024. We expect it to continue rising to 79% in 2025E and 80% in 2026E, with a capacity increase of 7% YoY in both years.

Figure 80: Chinese brands' PV production capacity and utilization rate vs. foreign brands'

Source: Company data, CAAM, Marklines, CMBIGM estimates

Chinese automakers' capacity utilization rate increase coincides with China's NEV boom. In fact, it is much more difficult to estimate NEV capacity utilization rate, as quite a few NEV models are made in the same production line with ICE models. Our best guesstimation for Chinese automakers' NEV capacity utilization rates in China are 70%/79%/81% in 2024-26E, similar to their overall capacity utilization rates during the same period. As Chinese brands dominate NEV sales volume in China, they lift China's overall NEV capacity utilization rates to 67%/73%/75% in 2024-26E, slightly higher than China's overall PV capacity utilization rates during the same period, despite foreign brands' lower NEV capacity utilization rates than their total PV utilization rates.

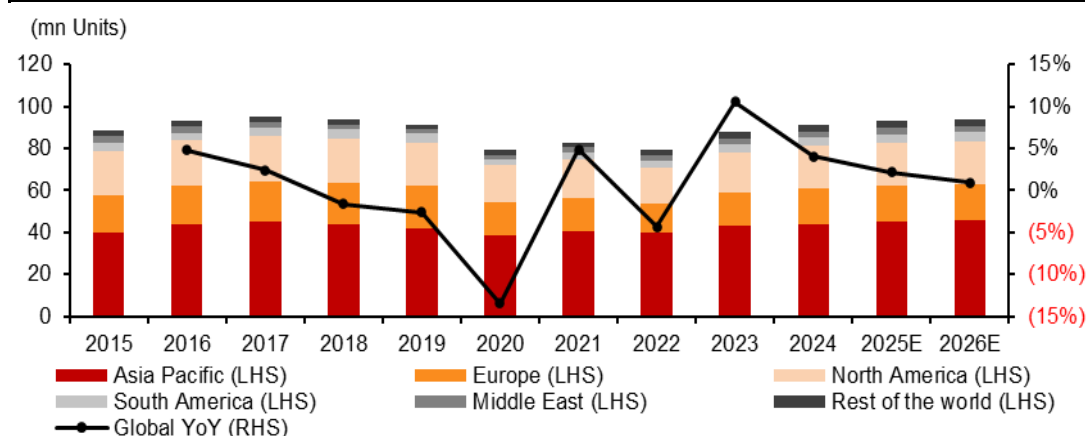
Figure 81: China's passenger NEV production capacity and utilization rate

Source: Company data, CAAM, Marklines, CMBIGM estimates

Global auto sales in a nutshell: China plays a more important role

We project global auto sales volume (including commercial vehicles) to rise 2.2% YoY to 93.18mn units in 2025E, stronger than our prior forecast of 0.4% made in Dec 2024, setting positive growth rates for three consecutive years after the chip shortage. The beat mainly came from China, as we originally expected China's retail sales volume to decline slightly in 2025. China's impact on global auto sales goes beyond the domestic market: Sales volume in MENA and South America in the first 10 months of 2025 also beat our prior expectation, largely due to strong sales from Chinese brands. On the other hand, sales volume in Russia and other Eastern Europe countries missed our projection, as Russia imposed higher vehicle recycling fees for imported vehicles, mainly Chinese brands, after Western automakers exited the market in 2022.

Global auto sales volume has been recovering gradually. Our projected global auto sales volume in 2025E is about 2.3% lower than its all-time high of 95.34mn units in 2017, when China's retail sales volume reached an all-time high. We project global auto sales volume to rise 0.9% YoY to 94.02mn units in 2026E, as we expect China's retail sales volume to be flat YoY.

Figure 82: Global auto sales volume by region

Source: Marklines, CMBIGM estimates

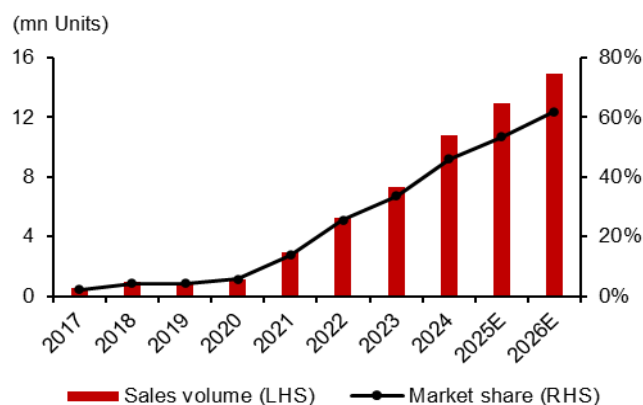
2026 NEV Outlook: Larger, Smarter But Cheaper NEVs Needed Despite Possible Battery Price Hikes

Solid NEV sales growth to continue in 2026 despite subsidy cuts

We project China's passenger NEV retail sales volume to rise 15.5% YoY from 12.93mn units in 2025E to 14.93mn units in 2026E, which implies NEV market share of 61.8% in 2026E, up from 53.5% in 2025E.

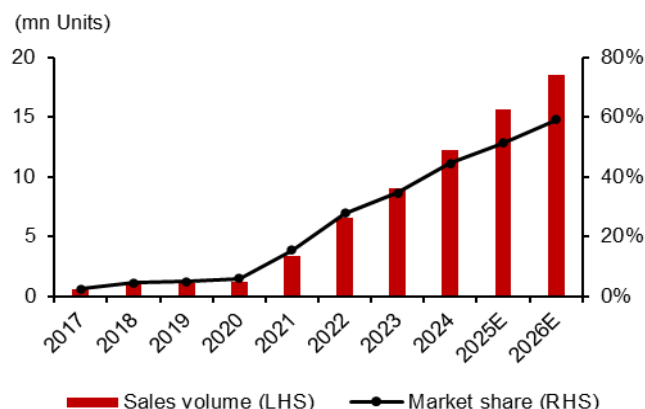
We also project China's passenger NEV wholesale volume to rise 18.5% YoY from 15.61mn units in 2025E to 18.50mn units in 2026E, which implies NEV market share of 59.2% in 2026E, up from 51.4% in 2025E. The lower NEV market share on a wholesale basis than a retail basis is mainly due to exports. We project China's NEV exports to rise 40% YoY to 2.83mn units in 2026E, after a 77% YoY growth in 2025E despite EU's tariffs on China-made NEVs. That implies NEV market share of 42% for China's export volume in 2026E.

Figure 83: China's NEV retail sales volume forecast



Source: CATARC, CMBIGM estimates

Figure 84: China's NEV wholesale volume forecast

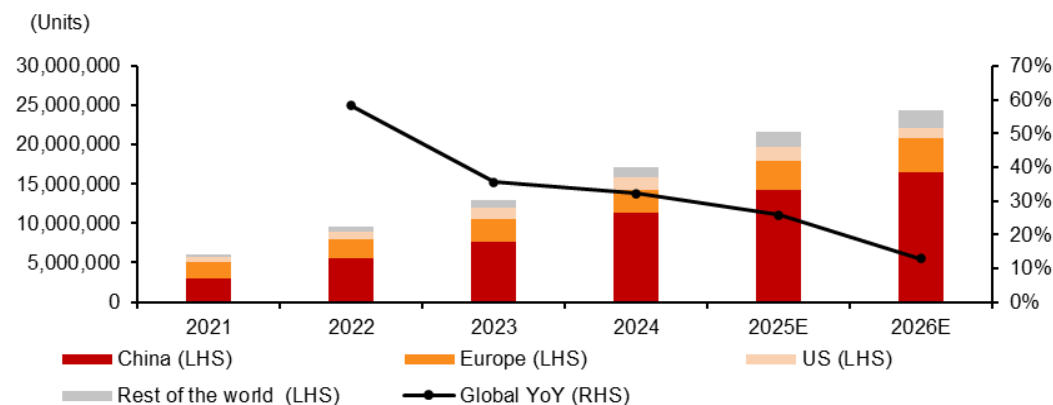


Source: CAAM, CMBIGM estimates

Global NEV sales in a nutshell: China's impact expands to overseas; US to decline

We project global NEV sales volume to rise 26% YoY to 21.58mn units in 2025E, 5% higher than our prior forecast, as Europe, China and the US all beat our projection. Strong NEV sales in overseas markets are likely to make global NEV sales volume grow at a similar rate as China's in 2025E. Yet, China is still likely to make up 66% of global NEV sales volume in 2025E, based on our estimates.

Figure 85: Global NEV sales volume forecast by region



Source: Marklines, CMBIGM estimates

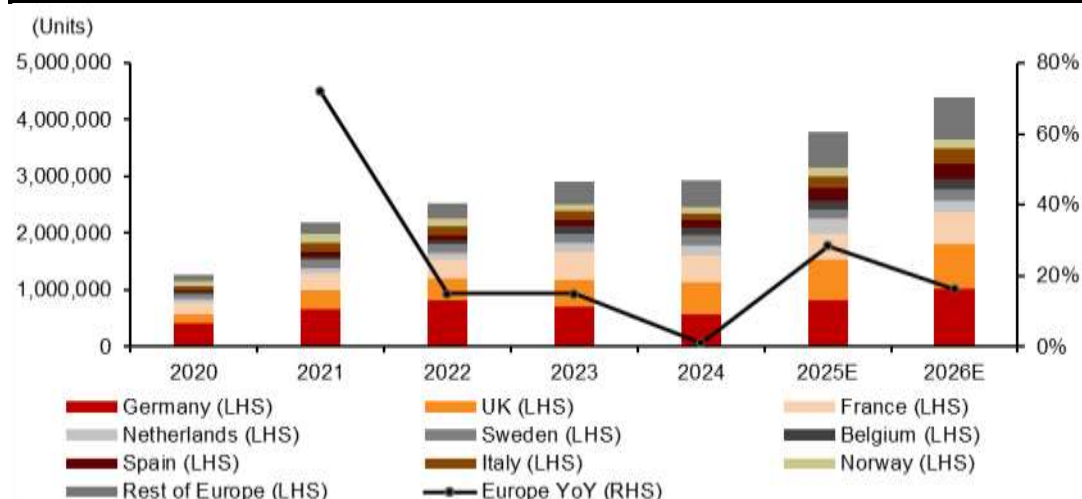
We project global NEV sales volume to rise 13% YoY to 24.38mn units in 2026E, with China making up 67%. We project China to outpace the global average again, as the US is to drag the global sales down. We expect Europe to extend its strong NEV sales volume into 2026E amid tightening CO₂ emission standards. In our view, South America could be a positive surprise in 2026E, following ASEAN's pattern in the past three years, as more Chinese automakers tap into the market, although the region still has limited impact on the global NEV market.

■ Europe: Local brands resume grip; Chinese carmakers gain traction

While we had projected a positive surprise from NEV sales in Europe for 2025 amid the EU's tightened CO₂ emission standards, NEV sales volume in Europe is likely to be 12% higher than our prior forecast in 2025E, with NEV market share reaching 22.4% this year.

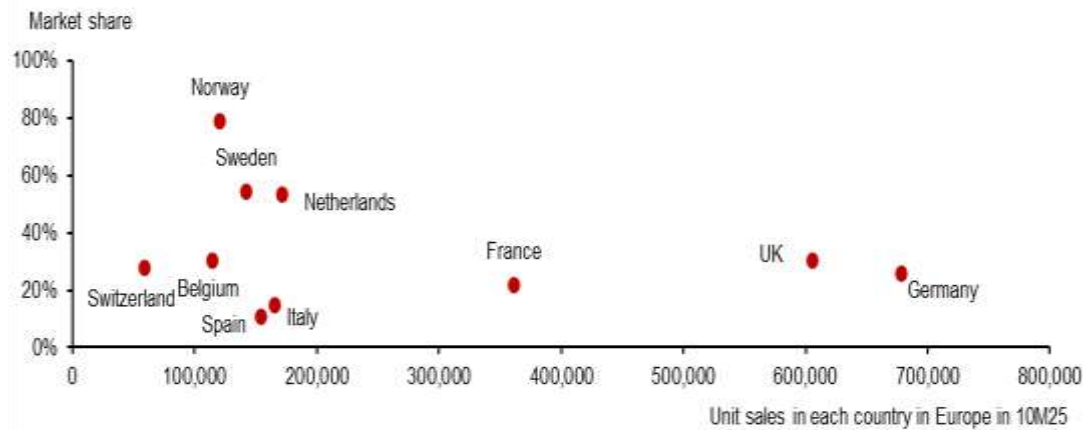
In May 2025, the EU amended the emission standards to allow carmakers to fulfil the requirement by averaging their performance during 2025-27. According to International Council on Clean Transportation (ICCT), carmakers are on track to meet the requirement, with 9% away from the fleet-average CO₂ target for 2025-27, based on sales volume in Jan-Jun 2025. That also means strong NEV sales volume may continue in 2026, especially with many countries resuming or extending NEV subsidies. We project NEV sales volume to rise 16% YoY to 4.39mn units in 2026E in Europe, with an NEV market share gain of 3ppts YoY to 25.4%.

Figure 86: Europe NEV sales volume forecast



Source: Marklines, CMBIGM estimates

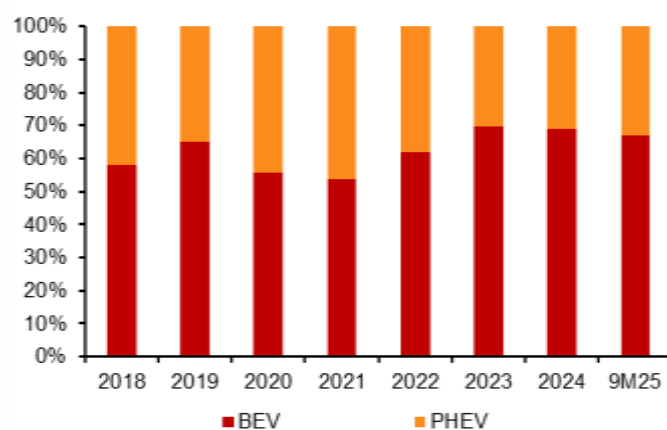
Germany, the largest auto market in Europe for both PVs and NEVs, posted strong NEV sales volume growth of 46% YoY in the first 10 months of 2025, accounting for about 22% of total NEV sales volume in Europe. The UK continued its strong NEV sales volume growth this year, with a YoY growth rate of 34% in the first 10 months of 2025, as the country has adopted the Zero Emission Vehicle (ZEV) Mandate since 2024 with a rising percentage of NEVs from 22% in 2024 to 100% in 2035. Spain's NEV sales volume surged 73% YoY in the first 10 months of 2025, the fastest growth among the top 10 countries in Europe in terms of NEV sales volume. Norway still has the highest NEV market share of over 70% in Europe, while Denmark, Sweden and the Netherlands are set to surpass 50% NEV market share in 2025E.

Figure 87: NEV sales volume and market share by country in 10M25 in Europe

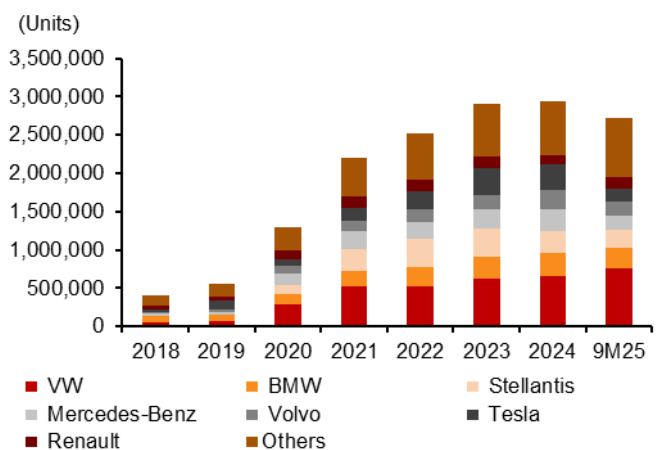
Source: Marklines, CMBIGM

European automakers have gradually resumed their grip in European NEV market. VW's NEV sales volume rose 72% YoY in the first nine months of 2025, aided by brands including VW, Skoda and CUPRA, accounting for 28% of NEV sales volume in Europe. BMW (BMW GR, NR) ranked No. 2 with 10% market share after its NEV sales volume rising 28% YoY in the first three quarters of 2025, followed by Stellantis (STLAM US, NR, 8%), Mercedes-Benz (MBG GR, NR, 7%) and Volvo (VOLCARB SS, NR, 7%), although the latter three carmakers posted YoY declines in NEV sales volume during the same period. Tesla fell to the 6th place after posting a 29% YoY sales volume decline in the first three quarters of 2025.

Chinese brands are grabbing NEV market share in Europe despite the imposed tariffs. Chinese brands' NEV sales volume more than doubled YoY to 0.27mn units in the first three quarters of 2025, based on the data compiled by Marklines, led by BYD, MG and Chery. Chinese brands accounted for 10% of NEV sales volume in Europe in the first nine months of 2025, with BYD taking up about 4.4%. In fact, Chinese automakers' NEV market share in Europe climbed to an all-time high of 13.9% in Sep 2025. We expect such trends to continue in 2026E.

Figure 88: BEV and PHEV sales breakdown in Europe

Source: Marklines, CMBIGM

Figure 89: NEV sales volume by OEM in Europe

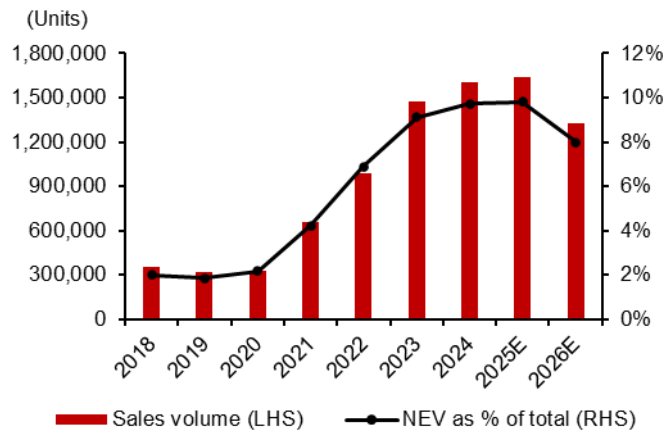
Source: Marklines, CMBIGM

■ US: NEV gap with China and Europe to widen in the next few years

NEV sales volume in the US was halved MoM in Oct 2025, as the EV tax credit of US\$7,500 in the Inflation Reduction Act (IRA) was ended at the end of Sep 2025 by the Trump Administration. NEV market share narrowed to 7% in Oct 2025, from almost 15% in Sep

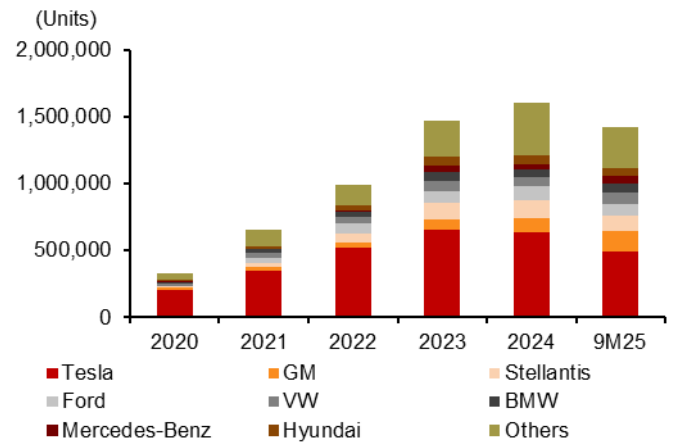
2025 and 11% in the first nine months of 2025. We expect NEV market share in the US to remain flat YoY at 9.8% in 2025E and fall to 8.0% in 2026E.

Figure 90: US NEV sales volume forecast



Source: Marklines, CMBIGM estimates

Figure 91: US NEV sales volume by OEM



Source: Marklines, CMBIGM

Tesla also lost market share in its home market in the first 10 months of 2025, partially due to some American consumers' subtle changes in its brand perception amid Elon Musk's previous engagement in politics, as we noted last year. GM (GM US, NR) gained the most NEV market share, from 7.0% in 2024 to 10.9% in the first 10 months of 2025. Three German automakers VW, BMW and Mercedes-Benz all gained NEV market share in the US during the same period. We still see little chance for Chinese automakers to enter the US market in the foreseeable future.

Battery price hike risk could be manageable for OEMs in 2026E

Lithium carbonate's recent price increase raises a question of whether the battery price will hike to an unreasonable level as in 2022. We are of the view that the recent price increase is mainly due to rising expectation on energy storage system installation and demand hike for both passenger and commercial NEVs before the subsidy cuts. We expect capacity utilization rate for both battery manufacturers and raw-material suppliers to improve YoY in 2026E. However, we believe players along the supply chain could be more rational and less panicked with smaller stockpiling after the experience in 2021-22. Therefore, we expect battery prices to rise but within a more reasonable level compared with 2022.

■ LCE demand hike in 2026E mainly comes from energy storage

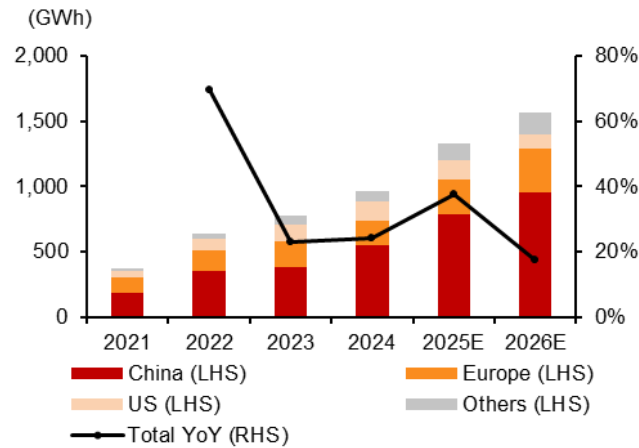
We project global NEV sales volume to rise 26% and 13% YoY to 21.58mn units and 24.38mn units in 2025-26E, respectively, as noted earlier. We estimate global NEV battery sales volume to rise 38% YoY to 1.3TWh, a higher growth rate than global NEV sales volume growth for the first time since 2023, due to greater market share from BEVs and rising inventories in anticipation of price hikes. We expect inventory restocking to continue in 2026E, with a 17% YoY growth rate for global NEV battery sales volume in 2026E, although we project PHEV market share to widen.

We project global energy storage sales volume to rise 55% YoY to 454GWh in 2025E amid solid installation growth in 1H25 and strong new orders for both China and overseas. We expect both strong installation and inventory restocking to continue in 2026E, especially for overseas markets given the strong order backlog. Therefore, we project global energy storage sales volume to more than double YoY to 983GWh in 2026E, much stronger than forecasts by other data sources.

Despite slower demand growth from NEV batteries, strong energy storage installation with optimistic expectation, along with demand from consumer electronics and others, would

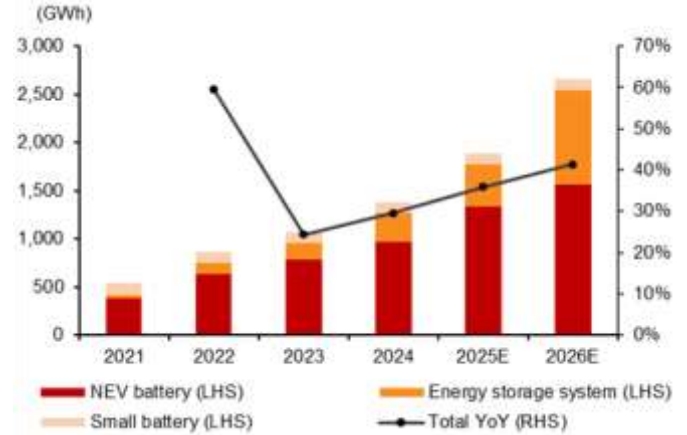
translate into a demand of 1.29mn metric tons for lithium carbonate equivalent (LCE) in 2025E and 1.74mn metric tons in 2026E, based on our estimates, or 29% YoY and 35% YoY growth rates for 2025-26E, respectively.

Figure 92: Global NEV battery sales forecast



Source: GGII, CMBIGM estimates

Figure 93: Global lithium-ion battery sales forecast

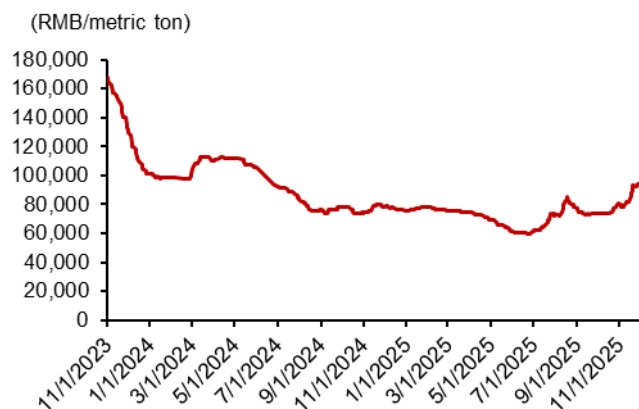


Source: GGII, Frost & Sullivan, EV Tank, CMBIGM estimates

■ **Battery price increase may benefit battery makers, while margin dent on automakers could be manageable**

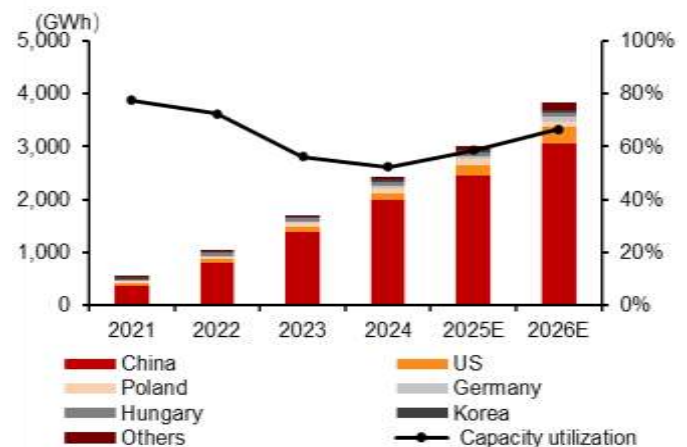
We expect LCE capacity utilization rate to rise 79% in 2025E and 88% in 2026E, based on our estimates on LCE supply compiled from salt lake and hard rock data. Despite our optimistic forecast with inventory restocking expectation, LCE capacity utilization in 2026E could still be below 90%+ in 2021-22. Therefore, we expect battery price to rise in 2026E, but unlikely to reach unreasonable levels as 2022.

Figure 94: Battery-grade lithium carbonate price



Source: ICCSINO, CMBIGM

Figure 95: Battery makers' capacity forecast



Source: Company data, CMBIGM estimates

Meanwhile, we project capacity utilization rate for battery makers to widen by 8ppts YoY to 67% in 2026E, the highest since 2023, based on the capacity data that we have compiled. Battery makers are likely to pass through the raw-material cost hike to automakers, denting automakers' gross margin, as the intensifying competition in China makes automakers more difficult to pass through such costs to customers. However, we believe such cost increase for automakers is manageable, as they may absorb it through greater economies of scale and cost reduction from other suppliers, especially as batteries now make up a smaller portion of a vehicle's total costs than that in 2021-22.

We expect PHEV/EREV to regain traction in 2026E

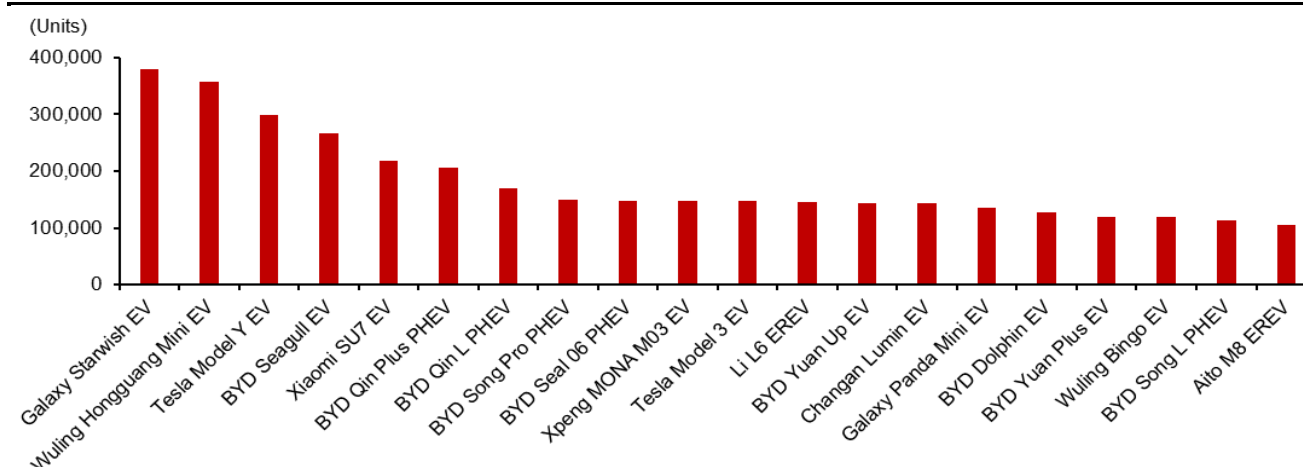
Unlike our prior forecast, PHEVs (including EREV) accounted for only 37.5% of total NEV wholesale volume in China in the first 10 months of 2025, down from 41.7% in 2024. We attribute such trend to three reasons.

- 1) Trade-in subsidies in 2025 benefit small NEVs more than larger ones in terms of discounts in percentage, and BEVs take up a large portion of small-size NEVs.
- 2) Most of the key new models launched late last year or in 1H25, such as the Xiaomi YU7, Xpeng Mona M03, Galaxy Starwish, and Leap B10, are BEVs, which also partially reflects consumer preference shift with lower range anxiety.
- 3) Some automakers launched new BEVs with an aggressive pricing compared with their equivalent EREV models, as battery prices are at a low level now.

■ Mini, small BEV market share to fall amid subsidy cuts, battery price increase

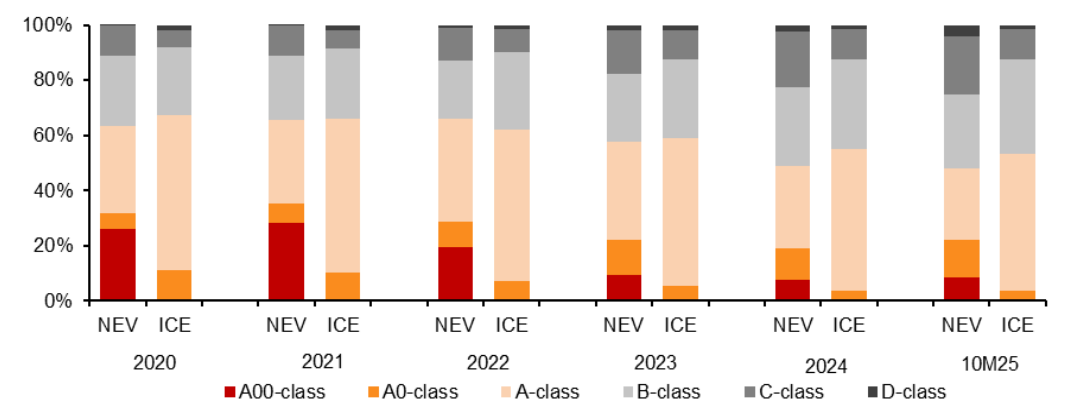
In the first 10 months of 2025, mini- and small-size NEVs (A0-class or below) accounted for 22.2% of China's total NEV retail sales volume, 3.7pts higher than 2024. That was the first growth since 2022. Among the top 20 best-selling NEV models (on a retail basis) in the first 10 months of 2025, only seven were PHEVs/EREVs, compared with 10 in 2024. Reappearance of the *Lumin* and *Panda Mini* on the list, which were rolled out in 2022 and 2023, respectively, showcased the importance of trade-in subsidies for those mini and small BEVs, not even to mention other small BEVs on the list, such as Galaxy *Starwish*, Wuling *Hongguang Mini* and BYD *Seagull*, *Dolphin* and *Yuan Up*.

Figure 96: Top 20 NEV models in China in terms of retail sales volume in 10M25



Source: CATARC, CMBIGM

Despite Leapmotor's upcoming A-series, we expect mini- and small-size NEVs' market share in the NEV segment to shrink in 2026E, as trade-in subsidies phase out. Although we do expect possible subsidies in 2H26E again, it may not benefit small NEVs as much as trade-in subsidies in 2025. Moreover, possible battery price hike would have a more significant impact on small NEVs' cost structure, denting sales volume and margins.

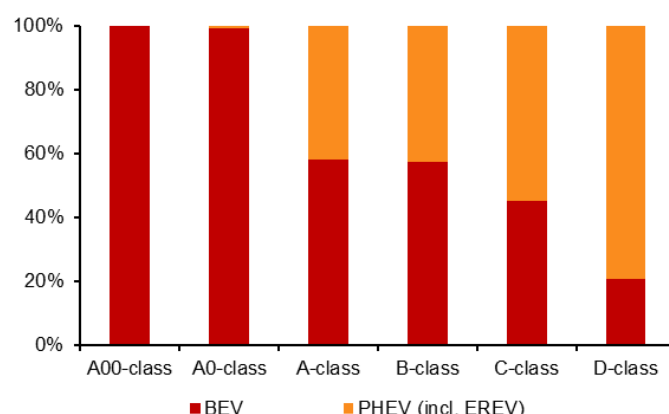
Figure 97: NEV retail sales volume breakdown by vehicle size in China

Source: CATARC, CMBIGM

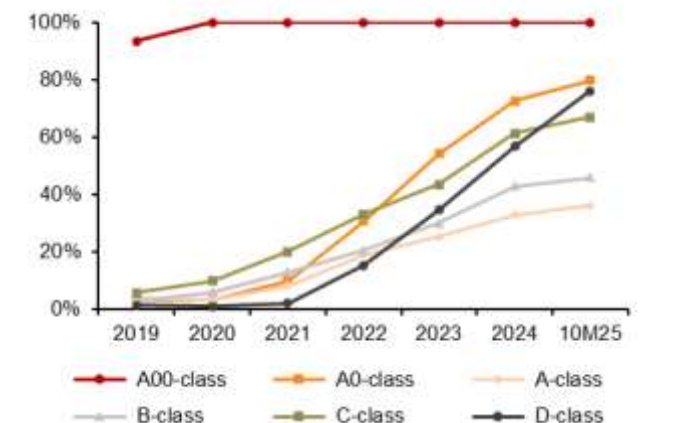
■ Small BEV's market expansion does not mean car size is getting smaller

In the first 10 months of 2025, medium and medium-to-large size NEVs (C-class or above) accounted for 25.2% of China's total NEV retail sales volume, 2.4ppts higher than 2024, and the highest in history. We expect larger NEV's market share to further increase in the NEV segment, supported by a plethora of new models in 2H25 and 2026. Almost 50% of new models in 2026E are C-class or above, based on our estimates. NEVs made up 68% of total retail sales volume for C-class or above vehicles in China in the first 10 months of 2025, still trailing 87% for A0-class or below. We believe there is still room for further electrification in large vehicles.

PHEVs (including EREVs) made up 59% of total retail sales volume for C-class and above size NEVs in the first 10 months of 2025, much higher than 37% across all the sizes of NEVs. Although NIO launched the Onvo L90 and redesigned ES8 in 2H25 to grab larger market share for BEVs in the large SUV segment, many automakers have been rolling out competitive large PHEV or EREV models. New models launched in 2H25, such as Galaxy M9 PHEV, Zeekr 9X PHEV, Fangchengbao Tai 7 PHEV, Xpeng X9 EREV, IM LS9 EREV, would contribute more sales when their production ramps up in 2026.

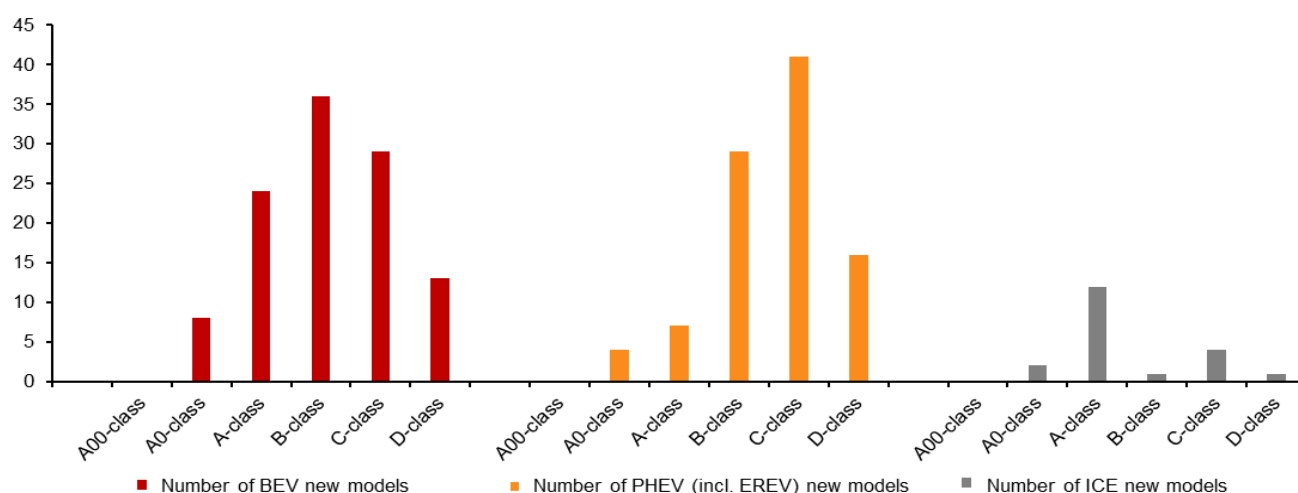
Figure 97: BEV, PHEV market share in NEVs by vehicle size in 10M25 (on a retail basis)

Source: CATARC, CMBIGM

Figure 99: NEVs as % of China's PV retail sales volume, by vehicle size

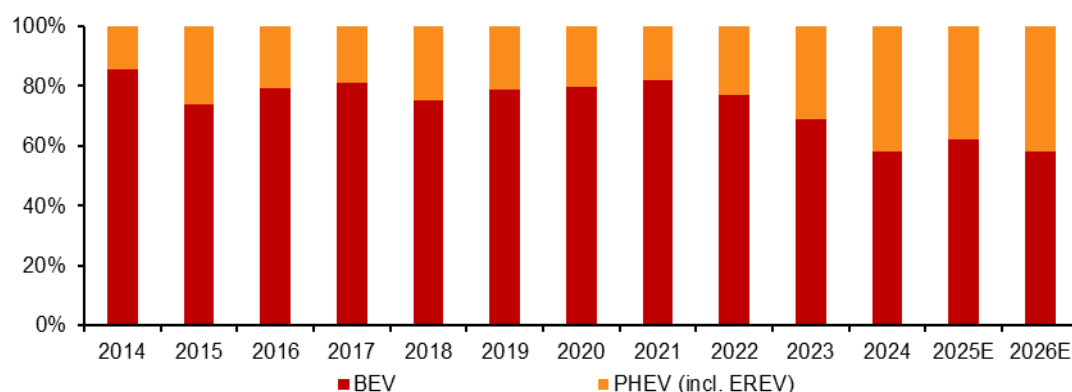
Source: CATARC, CMBIGM

We project 57 new C-class or above models to have PHEV or EREV versions in 2026E, based on the data we have compiled, vs. 42 new BEV models sized C-class or above. Moreover, possible battery price hikes in 2026E could dent large BEV's cost structure more severely than PHEV's of a similar size, making PHEVs more competitive.

Figure 100: New model pipeline breakdown by vehicle size in 2026E

Source: Company data, CMBIGM estimates

We thus project PHEVs (including EREVs) to account for 41.7% of total NEV wholesale volume in China in 2026E, up from 37.8% in 2025E, amid trade-in subsidy phase-out, possible battery price rise and strong PHEV/EREV model pipeline.

Figure 101: BEV and PHEV (incl. EREV) wholesale volume breakdown in China

Source: CAAM, CMBIGM estimates

NEV price analysis: value-for-money as key to Chinese consumers; Can Chinese brands go upscale amid the price war?

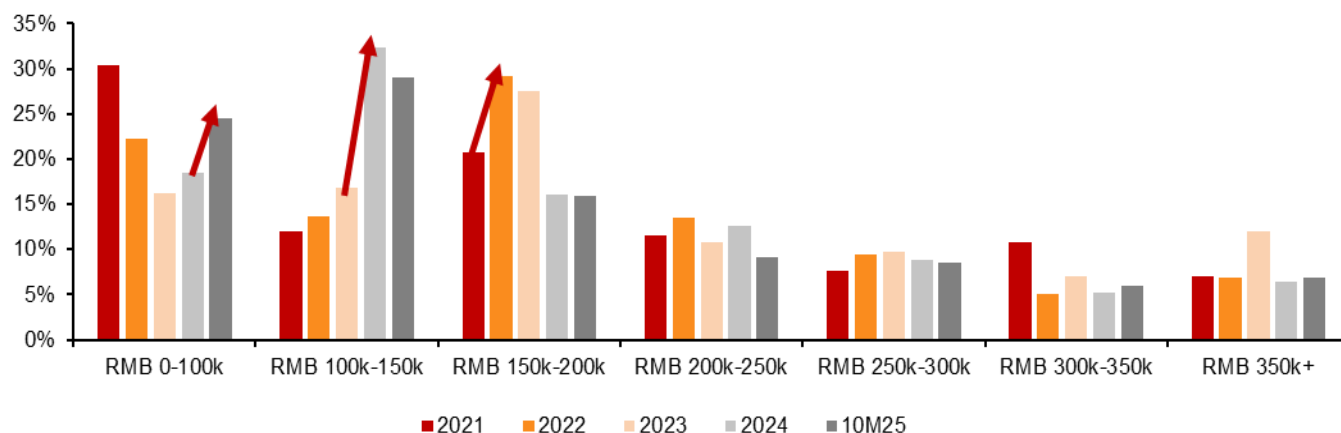
The NEV competition is still getting stiffer in China. The top 20 best-selling models combined only accounted for 37% of China's total NEV retail sales volume in the first 10 months of 2025, down from 43% in 2024 and 53% in 2023. Despite more perspectives and functions for Chinese consumers to compare now than before, such as autonomous driving technology, smart cockpit and air suspension, cutting prices to make vehicles more value-for-money seems to be the most important method to stay competitive for all the automakers in China.

■ Price war reshapes NEV price distribution

NEVs priced below RMB100,000 accounted for almost 25% of total NEV retail sales volume in China in the first 10 months of 2025, 6ppts higher than that in 2024. While trade-in subsidies aided small BEVs such as the Galaxy *Starwish* and Wuling *Hongguang Mini* to gain market share, vehicle price cuts also contributed significantly to such shift. BYD cut prices for its *Qin Plus* PHEV and *Yuan Up* BEV from RMB100,000-150,000 to below RMB100,000. Great Wall followed suit with its Ora *Haomao* BEV. Accordingly, NEVs priced

between RMB100,000-150,000 as a percentage of total NEV retail sales volume fell 3.4ppts to 29% in the first 10 months of 2025.

Figure 102: NEV retail sales volume breakdown by price range in different years



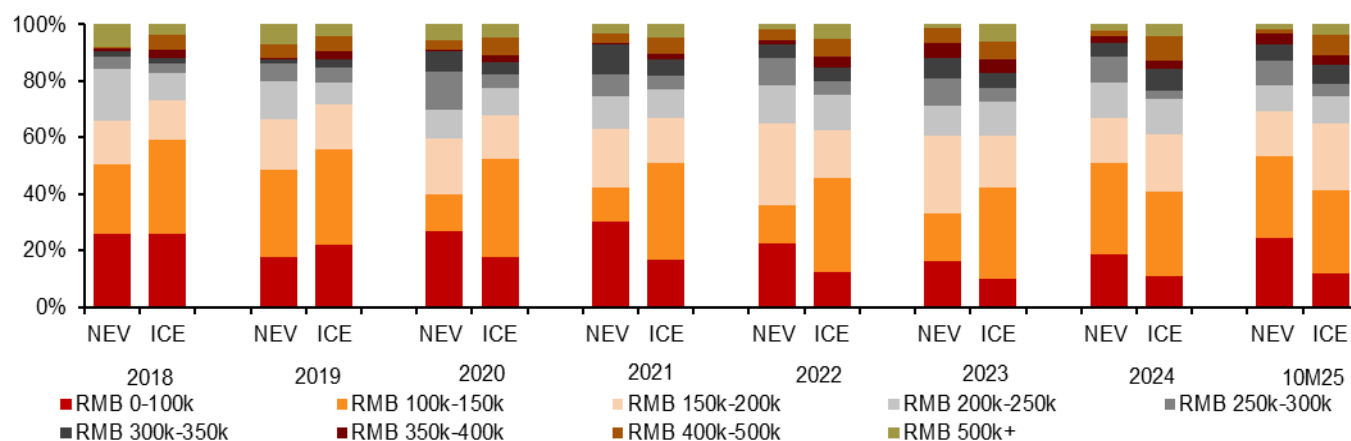
Source: CATARC, CMBIGM

Another interesting trend to watch is the price pattern changes over time. In 2021, NEVs priced below RMB100,000 and between RMB300,000-350,000 as a percentage of total NEV retail sales volume rose the most YoY, as consumers either pursued lower total cost of ownership or tried premium NEVs that were very different from ICE cars, such as Tesla. In 2022, NEVs priced between RMB150,000-200,000 as a percentage of total NEV retail sales volume widened the most, as NEV prices started to drop, especially battery prices. Price war extended into 2024 with NEVs priced between RMB100,000-150,000 gaining the most as a percentage of total retail NEV sales volume. It further spread into NEVs priced below RMB100,000 this year.

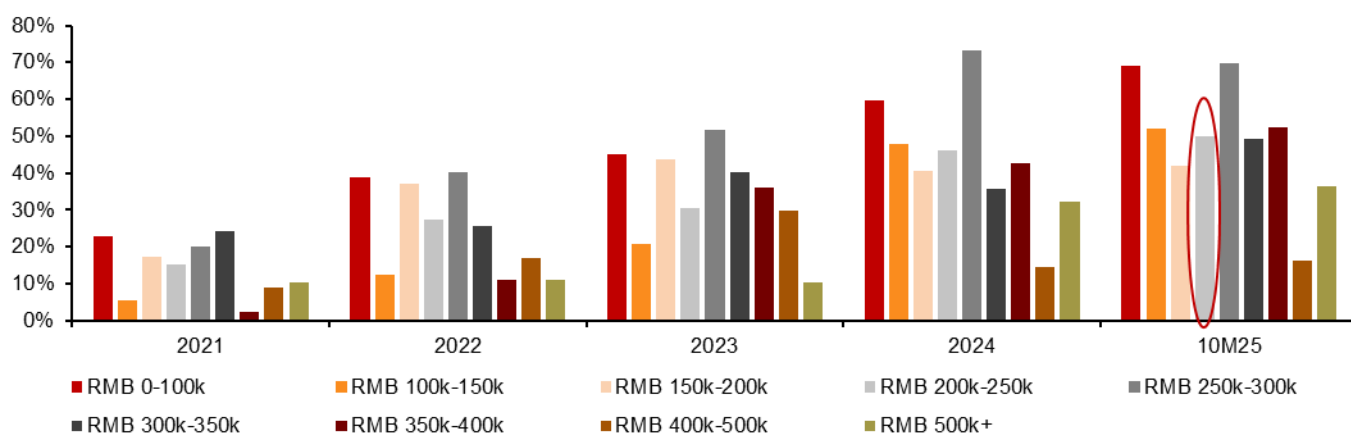
■ We expect NEV price pattern to further converge with ICE in 2026E

NEV's price pattern diverged from ICE's in 2025, as NEVs grabbed market share in vehicles priced below RMB100,000. On the other hand, ICE vehicles priced between RMB150,000-200,000 accounted for 24% of total ICE retail sales volume in the first 10 months of 2025, with the highest share gain among all the price segments. That was because foreign automakers including Toyota and Honda (7267 JP, NR) cut prices for the *Avalon*, *Accord* and *Breeze* from RMB200,000-250,000 to RMB150,000-200,000.

We expect NEVs priced below RMB100,000 to lose share to NEVs priced between RMB150,000-200,000 in 2026E, further converging with the ICE vehicle price pattern. NEVs only accounted for 42% of retail sales volume for vehicles priced RMB150,000-200,000 in the first 10 months of 2025, the lowest market share among all the price segments of below RMB400,000.

Figure 103: Retail sales volume breakdown by price range (NEV vs. ICE)

Source: CATARC, CMBIGM

Figure 104: NEV market share in each price segment (on a retail basis)

Source: CATARC, CMBIGM

■ When can Chinese brands lead in the price segments of above RMB200,000?

The table below illustrates the top five brands in each price segment in the past five years, which shows some interesting trends.

Figure 105: Leading brands in different price segments in China

	2021	2022	2023	2024	10M25
RMB0-100k (14-19% of total retail sales volume)	Wuling (18%)	Wuling (24%)	Wuling (25%)	Wuling (23%)	BYD (21%)
	Geely (14%)	Changan (14%)	Changan (15%)	BYD (20%)	Wuling (19%)
	Changan (13%)	Geely (9%)	BYD (9%)	Changan (10%)	Galaxy (16%)
	Chery (6%)	Chery (9%)	Geely (7%)	Geely (8%)	Changan (10%)
	Dongfeng (5%)	Dongfeng (5%)	Chery (7%)	VW (7%)	Geely (6%)
RMB100k-150k (28-33% of total retail sales volume)	VW (11%)	Changan (12%)	BYD (13%)	BYD (27%)	BYD (20%)
	Changan (10%)	VW (10%)	Changan (12%)	Changan (8%)	Chery (8%)
	Nissan (9%)	Toyota (10%)	VW (10%)	Chery (7%)	Toyota (7%)
	Haval (8%)	BYD (9%)	Geely (8%)	Nissan (6%)	Geely (6%)
	Honda (7%)	Nissan (7%)	Toyota (7%)	Toyota (6%)	Nissan (6%)
RMB150k-200k (16-21% of total retail sales volume)	VW (23%)	VW (18%)	BYD (20%)	VW (20%)	VW (18%)
	Nissan (11%)	BYD (17%)	VW (16%)	BYD (18%)	BYD (16%)
	Toyota (11%)	Honda (10%)	Toyota (11%)	Toyota (14%)	Toyota (13%)
	Honda (10%)	Toyota (10%)	Honda (8%)	Geely (5%)	Hongqi (7%)
	Buick (6%)	Nissan (8%)	GAC Aion (6%)	Hongqi (4%)	Honda (7%)
RMB200k-300k (15-19% of total retail sales volume)	VW (19%)	VW (18%)	VW (18%)	Tesla (16%)	VW (14%)
	Toyota (16%)	Toyota (13%)	Honda (12%)	VW (14%)	Tesla (13%)

retail sales volume)	Honda (14%)	Honda (12%)	Toyota (11%)	Honda (12%)	Xiaomi (8%)
	Buick (6%)	Tesla (10%)	Tesla (11%)	Toyota (6%)	Honda (6%)
	Audi (5%)	BYD (9%)	BYD (11%)	Aito (6%)	Toyota (6%)
RMB300k-400k (7-11% of total retail sales volume)	Mercedes-Benz (14%)	Mercedes-Benz (15%)	BMW (15%)	BMW (13%)	BMW (12%)
	Tesla (11%)	Toyota (12%)	Mercedes-Benz (11%)	Mercedes-Benz (11%)	Audi (10%)
	BMW (9%)	BMW (10%)	Lixiang (11%)	Toyota (10%)	Toyota (9%)
	Cadillac (9%)	Audi (10%)	Toyota (10%)	Lixiang (10%)	Mercedes-Benz (8%)
	Audi (9%)	VW (6%)	Tesla (8%)	Audi (7%)	Aito (7%)
	BMW (27%)	BMW (26%)	Mercedes-Benz (20%)	Mercedes-Benz (22%)	Mercedes-Benz (24%)
RMB400k+ (7-11% of total retail sales volume)	Mercedes-Benz (21%)	Mercedes-Benz (23%)	BMW (18%)	Audi (20%)	BMW (17%)
	Audi (18%)	Audi (16%)	Audi (18%)	BMW (19%)	Audi (14%)
	Volvo (6%)	Volvo (6%)	Volvo (6%)	Aito (7%)	Aito (8%)
	Lexus (5%)	NIO (5%)	Buick (5%)	Volvo (6%)	Volvo (7%)

Source: CATARC, CMBIGM

Notes: percentage in the brackets next to brand names represents the brand's market share in the corresponding price segment

Chinese brands dominate sales of vehicles priced below RMB100,000, with 90%+ market share. BYD surpassed Wuling to become the best-selling brand below RMB100,000 in the first 10 months of 2025. Geely, if combining its Geely and Galaxy brands, became the best-selling automaker in this segment during the same period. VW was the only foreign brand in the top 10 list in the first 10 months of 2025, as it cut the *Lavida's* price to below RMB100,000. Toyota and Honda dropped out the top 10 list after 2022, as they discontinued small models like the *Yaris* and *Fit*. We are of the view that foreign brands may need to pay more attention to this price segment again as price war persists.

Chinese brands have also topped in the price segment of RMB100,000-150,000 since 2022. BYD took a market share of 27% in this price segment in 2024, the highest in history, but fell to 20% in the first 10 months of 2025 amid stiffer competition. Number of foreign brands in the top 10 in this price segment fell from six in 2022 to three (Toyota, Nissan and VW) in the first 10 months of 2025.

VW's previous dominance in the price segment of RMB150,000-200,000 has been challenged by BYD since 2022. BYD took the crown in 2023 but lost it to VW in 2024 and likely in 2025 again. Chinese brands already took up seven spots in the top 10 list in the first 10 months of 2025 including some start-ups like Leapmotor and Xpeng. We expect more Chinese brands in the top 5 list in 2026, although the competition for No.1 is stiff.

Tesla was the only brand which surpassed VW in terms of retail sales volume for vehicles priced RMB200,000-300,000, at least in the past eight years. Competition continues this year, but it seems that VW is set to take back the crown in 2025E. Xiaomi took the 3rd spot in the first 10 months of 2025, the best ranking for Chinese brands in history. We expect Xiaomi to take a larger market share in this price segment in 2026E, as the *YU7* ramps up. We also expect other Chinese brands including Lixiang, Onvo and Aito to gain market share in 2026E with more models on sale in this segment. In fact, Chinese brands made up 48% of retail sales volume in the price segment of RMB200,000-300,000 in the first 10 months, and we expect the ratio to exceed 50% in 2026E.

Foreign brands' dominance in the price segment of RMB300,000-400,000 has also been diminishing, with market share narrowing to 65% in the first 10 months of 2025, vs. 90% in 2021. Although it may take a while for Chinese brands to challenge the leaders, we expect more Chinese brands to enter the top 10 list. Four Chinese brands (Aito, Lixiang, NIO and Denza) were on the top 10 list in the first 10 months of 2025.

Traditional luxury brands, Mercedes-Benz, BMW and Audi, held the top 3 spots in the price segment of above RMB400,000 in the past eight years. Aito has taken the 4th position since 2024, aided by its *M9* SUV. The launches of the Aito *M9*, Li *Mega*, Maextro *S800* and Zeekr *9X* make Chinese brands visible in the luxury segment. In fact, Chinese brands'

market share in the price segment of above RMB400,000 was 20% in the first 10 months of 2025, vs. 16% in 2024 and 5% in 2021.

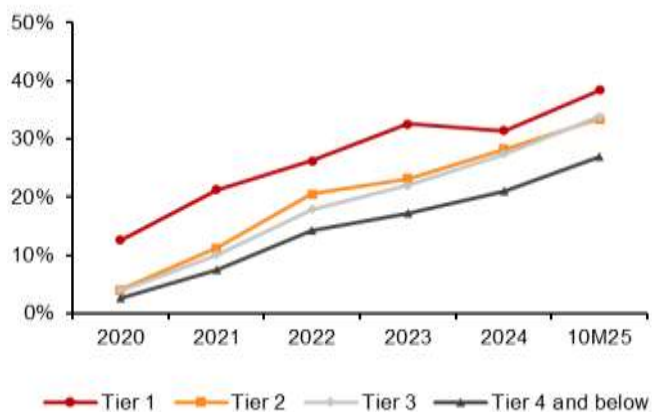
It appears that 27% is probably the highest market share that one single brand could achieve in any price segment, based on the data in the past five years. It could be a reference to forecast a brand's market share ceiling in the long term, should historical data repeat.

Every city is important as lower-tier cities catch up in electrification

Nationwide NEV market share rose to 52.0% in the first 10 months of 2025, up from 46.0% in 2024, with different city tiers contributing at similar levels, the first time in history. NEV market share in tier-4 and below cities climbed to 46.5% in the first 10 months of 2025, only 5.5ppts lower than the nationwide average, the narrowest gap since 2022. It appears to us that now every city with a fair amount of auto sales volume becomes important to NEV makers, which could be reflected by a rapidly rising number of showrooms for new NEV brands, especially in lower-tier cities.

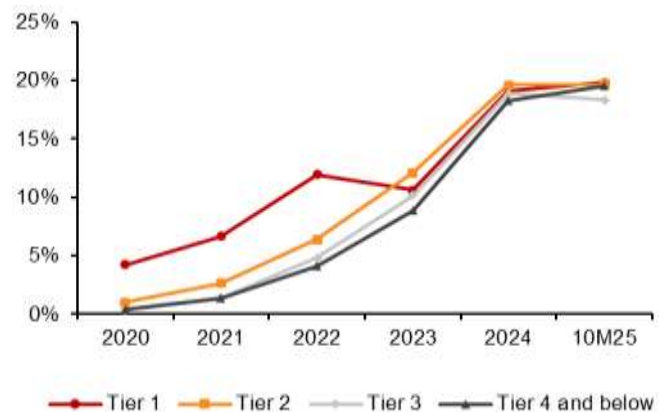
The NEV market share rise in 2025 mainly came from BEVs, as PHEV market share in all the city tiers remained sluggish. PHEVs accounted for 19.5% of total PV retail sales volume in tier-4 and below cities in the first 10 months of 2025, vs. 19.8% in tier-1 cities. PHEV market share in tier-3 cities fell slightly to 18.4% in the first 10 months of 2025.

Figure 106: BEV market share in different city tiers (on a retail basis)



Source: CATARC, CMBIGM

Figure 107: PHEV market share in different city tiers (on a retail basis)

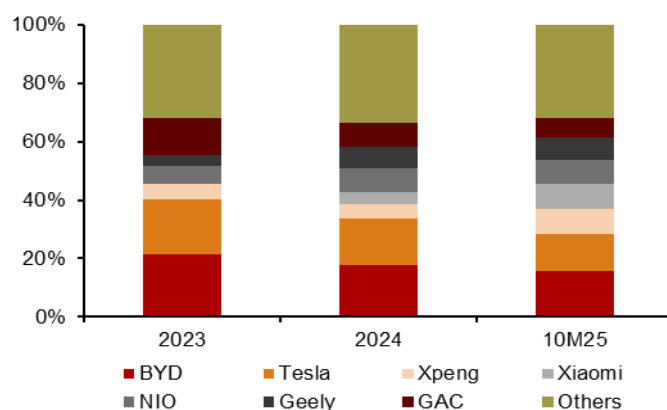


Source: CATARC, CMBIGM

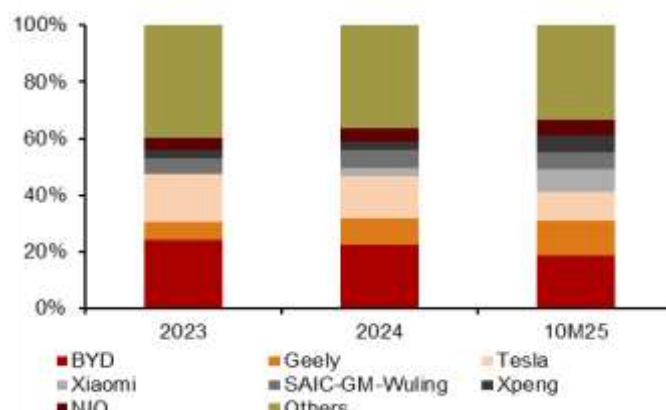
■ Xiaomi gained the most share in tier-1 and tier-2 BEV market; Geely grabbed the most in lower-tier cities

Two largest BEV players in tier-1 cities, BYD and Tesla, lost market share to Xiaomi and Xpeng in the first 10 months of 2025, reflecting heightened competition in China's tier-1 cities. Xiaomi gained a market share of 5.0ppts YoY, the most among all the automakers, whereas BYD lost the most market share (-3.5ppts) YoY in the first 10 months. Aion also lost BEV market share in tier-1 cities, while Leapmotor probably benefited, although it only took a market share of 3.6% in the tier-1 city BEV market in the first 10 months of 2025.

BEV market dynamics in tier-2 cities were very similar to tier-1 cities in the first 10 months of 2025: Xiaomi gained the most share (+5.1ppts YoY), followed by Xpeng (+3.3ppts YoY). BYD once again lost the most share (-4.5ppts YoY), followed by Tesla (-4.4ppts YoY). Geely surpassed Tesla to be the 2nd largest player in tier-2 city BEV market in terms of retail sales volume.

Figure 108: BEV market share by OEM in tier-1 cities (on a retail basis)


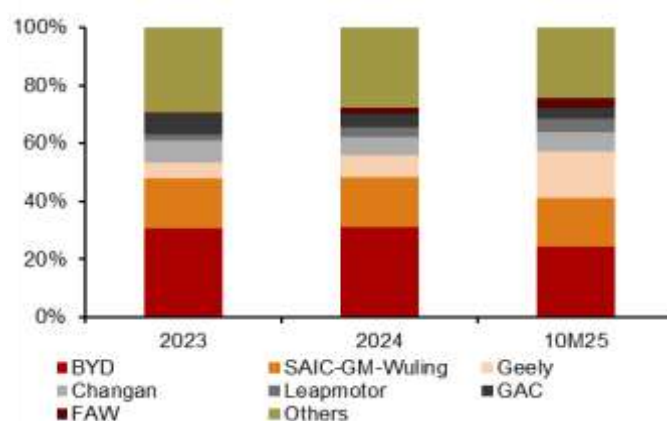
Source: CATARC, CMBIGM

Figure 109: BEV market share by OEM in tier-2 cities (on a retail basis)


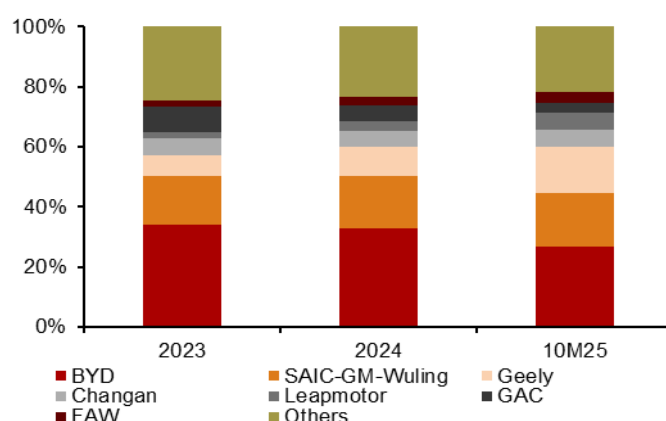
Source: CATARC, CMBIGM

BEV market in tier-3 cities also becomes more competitive after BYD lost a market share of 8.2ppts YoY to Geely (+8.9ppts YoY) in the first 10 months of 2025. The market share gap between the top three players becomes much smaller now: 24.5%/16.6%/15.8% for BYD, SAIC-GM-Wuling and Geely during the first 10 months of 2025.

BEV market in tier-4 and below cities followed a similar pattern as tier-3 cities in the first 10 months of 2025: Geely gained the most share (+6.7ppts YoY), whereas BYD lost the most share (-7.6ppts YoY). Leapmotor and Xpeng also gained share in this market at the cost of BYD and Aion.

Figure 110: BEV market share by OEM in tier-3 cities (on a retail basis)


Source: CATARC, CMBIGM

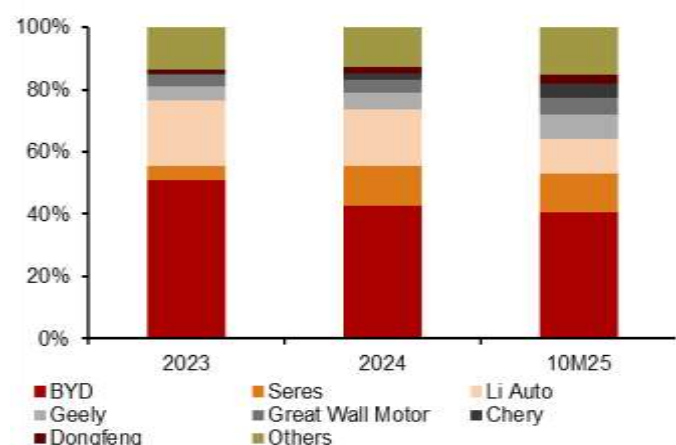
Figure 111: BEV market share by OEM in tier-4 and below cities (on a retail basis)


Source: CATARC, CMBIGM

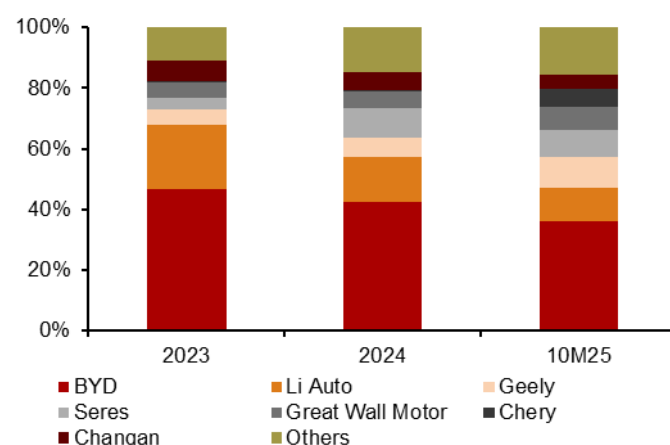
■ **Geely gained the most share in PHEV market across all city tiers; Li Auto lost the most in tier-1 cities, whereas BYD lost the most in lower-tier cities**

The top three PHEV players in tier-1 cities, BYD, Seres and Li Auto, all lost market share in the first 10 months of 2025. Li Auto lost the most (-7.7ppts YoY), while Geely gained the most (+2.6ppts YoY), followed by Chery (+2.3ppts YoY) and Great Wall (+1.5ppts YoY). BYD remained its reign in the tier-1 city PHEV market with a share of 40.8% in the first 10 months of 2025, despite a 1ppt YoY market share decline.

Geely, Chery and Great Wall were once again the largest market share gainers in the PHEV market in tier-2 cities, at the cost of BYD and Li Auto's market share declines. BYD's share in the tier-2 city PHEV market narrowed to 36.2% in the first 10 months of 2025, down from a historical high level of 57.8% in 2022.

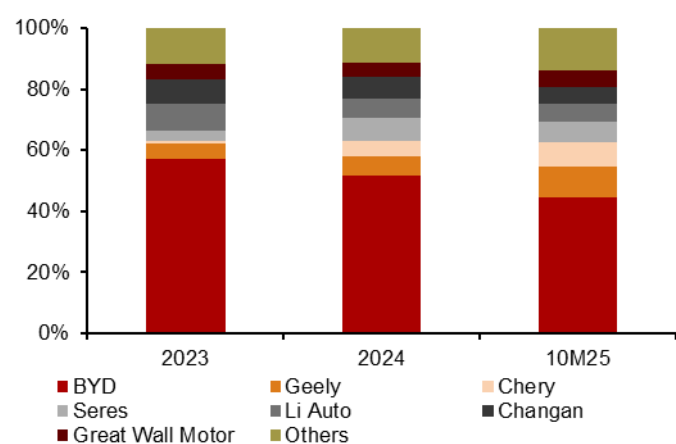
Figure 112: PHEV market share by OEM in tier-1 cities (on a retail basis)


Source: CATARC, CMBIGM

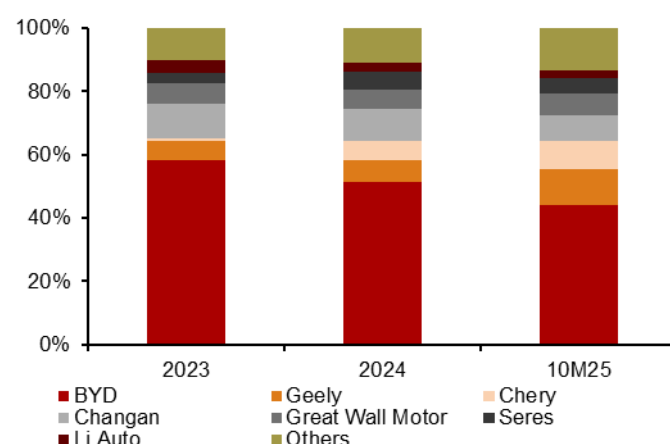
Figure 113: PHEV market share by OEM in tier-2 cities (on a retail basis)


Source: CATARC, CMBIGM

BYD's dominance in the tier-3 city PHEV market also faces challenges, because 1) automakers like Geely, Chery and Leapmotor launch similar PHEV models by leveraging their economies of scale; 2) The likes of Li Auto and Seres expand their model portfolio to RMB200,000-250,000 or even lower. BYD's share in the tier-3 city PHEV market fell 7.4ppts YoY in the first 10 months of 2025, while Geely gained the most share of 4.2ppts YoY. PHEV market dynamics in tier-4 and below cities, including current market share distribution and market share changes, were very similar to tier-3 cities in 2025.

Figure 114: PHEV market share by OEM in tier-3 cities (on a retail basis)


Source: CATARC, CMBIGM

Figure 115: PHEV market share by OEM in tier-4 and below cities (on a retail basis)


Source: CATARC, CMBIGM

■ Leading NEV brands' store expansion continues, especially in lower-tier cities, to push ICE brands out

Leading NEV brands, including BYD, Tesla, Lixiang, Xpeng, NIO and Leap, have continued to expand their store network in 2025, especially in lower-tier cities.

Tesla, which laid off a significant number of sales personnel last year and relies more on livestreaming to sell cars now, still expanded its showroom number by around 24% YoY as of Sep 2025, based on the data we have compiled. Unlike before, Tesla starts to pay attention to tier-3 and below cities, with more stores opening in 2025. Its store efficiency fell by about 26% YoY amid sales volume decline. Yet, its store efficiency still topped among major brands.

Li Auto probably pays the most attention to store efficiency among Chinese automakers, with the fewest number of stores among the NEV trio. Its number of stores rose 16% YoY to 551 as of Oct 2025. Interestingly, it closed 7 stores in Nov 2025. Li Auto's store efficiency is still the highest among all Chinese start-ups, following Tesla and BYD, despite its sales volume decline in 2025.

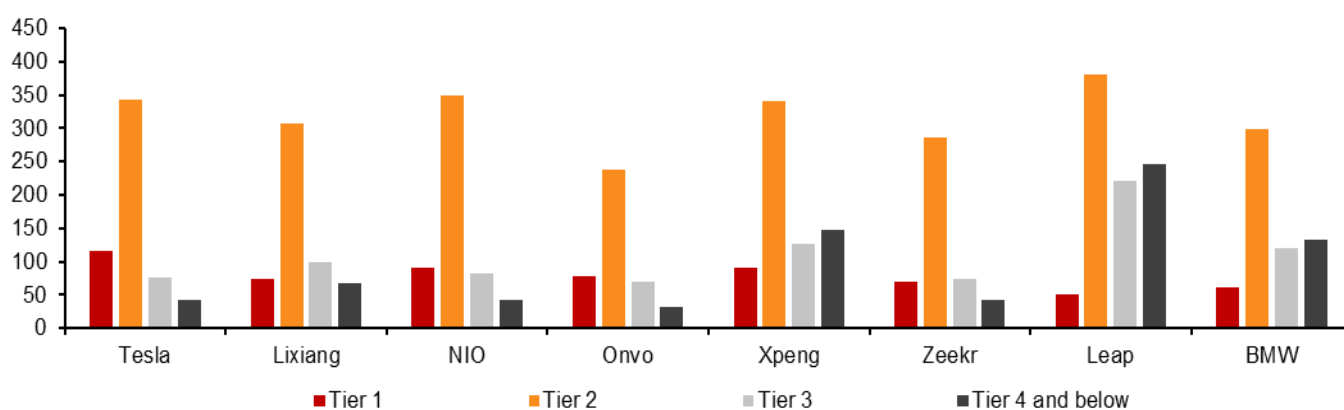
Xpeng accelerated its showroom expansion in 2024 after it switched to dealer model. Its number of stores was close to 700 as of Sep 2025. Yet, its store efficiency more than doubled YoY this year amid its strong sales volume growth.

Despite NIO's cautious expansion in store network this year, the brand's store efficiency dropped to the lowest among Chinese NEV start-ups. On the other hand, Onvo's number of stores more than doubled YoY to more than 400 now. While store expansion lifts sales volume in the short term, the automaker may need to balance the expansion and efficiency. NIO has the highest SG&A ratio among the NEV trio, which is one of the reasons why we expect NIO's breakeven sales volume to be higher than Xpeng and Li Auto.

Leapmotor has been expanding its store network rapidly this year amid doubled sales volume, which dragged its store efficiency improvement. We estimate its store efficiency to rise about 20% in 2025E with 60%+ YoY increase in store number.

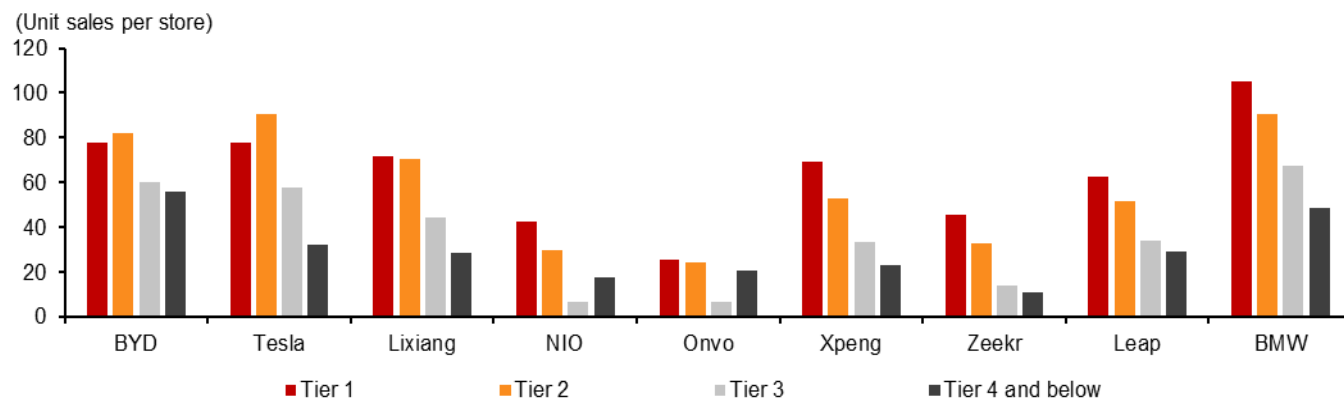
BMW and Mercedes-Benz, on the other hand, have been closing their dealer stores. Yet, BMW still keeps a similar store efficiency level this year as last year.

Figure 116: Major brands' number of stores in different city tiers as of Sep 2025



Source: Company data, CMBIGM

Figure 117: Monthly average unit sales per store for different brands in different city tiers (10M25)



Source: CATARC, company data, CMBIGM

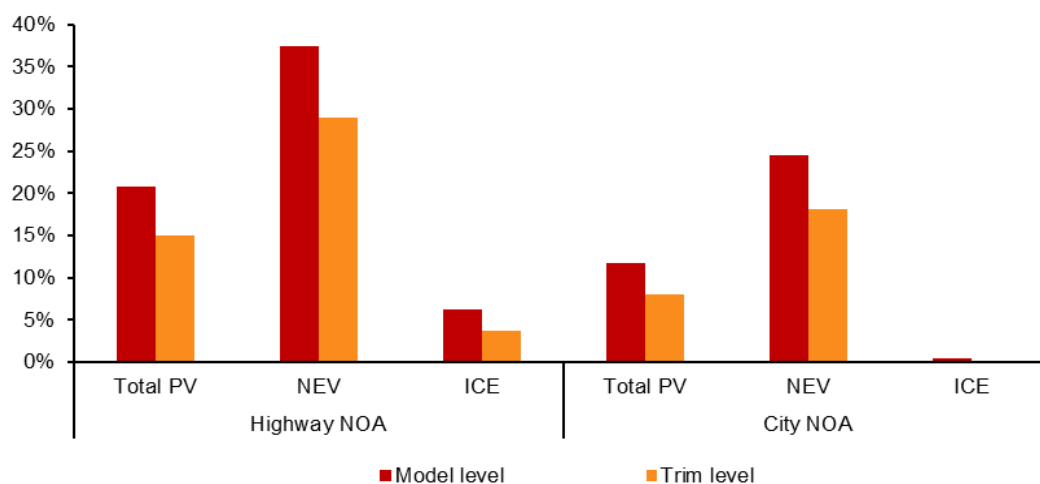
City NOA to expand at a faster pace in 2026E

We have compiled the data of 1,209 vehicle models on sale in China and the corresponding 7,881 trim levels of these models from the Autohome website. About 874 models, or 72% of the total, have the L2 ADAS (advanced driver-assistance system) functionalities available in at least one trim level. About 58% of all trim levels have L2 ADAS functionalities available.

About 252 models, or 21% of the total, have at least highway NOA functionalities available in one or several of their trim levels. The highway NOA penetration rate is about 37% for NEVs, much higher than 6% for ICE vehicles. Yet, more automakers, especially foreign marques, have started to launch ICE vehicles with highway NOA functionalities.

More interestingly, about 12% of models on sale now have city NOA functionalities available in at least one of their trim levels. About one out of four NEVs have city NOA functionalities available in one or several of their trim levels, which is higher than we had thought. We expect such ratio, especially for NEVs to increase rapidly in 2026E, as more automakers will partner with Momenta or Horizon Robotics to make city NOA functionalities available in their new models.

Figure 118: % of no. of models/trim levels on sale with highway and city NOA



Source: Autohome, CMBIGM

Valuation

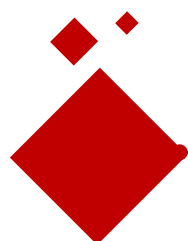
Figure 119: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	P/E (x)		P/S (x)		ROE (%)	
						FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Li Auto	LI US	HOLD	19,375	18.1	18.0	165.1	40.9	1.2	1.1	1.2	4.5
Li Auto	2015 HK	HOLD	19,182	69.8	70.0	163.5	40.4	1.2	1.0	1.2	4.5
NIO	NIO US	HOLD	12,441	5.0	6.4	N/A	N/A	1.0	0.6	N/A	N/A
NIO	9866 HK	HOLD	12,411	39.1	50.0	N/A	N/A	1.0	0.6	N/A	N/A
Xpeng	XPEV US	BUY	18,773	19.7	29	N/A	32.2	1.7	1.2	(4.5)	12.6
Xpeng	9868 HK	BUY	18,498	75.4	113	N/A	31.7	1.7	1.2	(4.5)	12.6
Leapmotor	9863 HK	BUY	9,202	53.0	73	75.6	18.5	1.0	0.7	7.2	22.0
Tesla	TSLA US	NR	1,427,575	429.2	N/A	259.4	188.7	15.0	13.2	6.7	7.7
Average						164.3	36.3	1.3	1.0	1.2	8.6

Company	Ticker	Rating	Mkt Cap (RMB mn)	Price (LC)	TP (LC)	P/E (x)		P/S (x)		ROE (%)	
						FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Geely	175 HK	BUY	155,189	16.9	25.0	8.9	7.7	0.4	0.4	19.7	20.5
BYD	1211 HK	BUY	812,025	98.2	125.0	24.1	18.5	1.0	0.9	15.4	16.3
BYD	002594 CH	BUY	866,590	95.1	125.0	25.7	19.8	1.1	0.9	15.4	16.3
Great Wall	2333 HK	BUY	112,526	14.5	20.0	10.0	8.5	0.5	0.4	13.6	14.2
Great Wall	601633 CH	BUY	186,818	21.8	28.0	16.6	14.1	0.8	0.7	13.6	14.2
GAC	2238 HK	BUY	38,401	4.2	4.3	N/A	N/A	0.4	0.4	(3.7)	(1.6)
GAC	601238 CH	BUY	90,346	8.9	10.0	N/A	N/A	1.0	0.8	(3.7)	(1.6)
Yongda	3669 HK	BUY	2,912	1.7	2.5	N/A	13.5	0.1	0.1	(26.7)	2.0
Meidong	1268 HK	BUY	1,906	1.6	2.8	N/A	9.5	0.1	0.1	(28.7)	9.4
Tuhu	9690 HK	BUY	12,354	16.5	23.0	22.1	17.5	0.8	0.7	10.7	11.6
Mint	425 HK	BUY	34,660	32.8	38.0	13.0	11.3	1.3	1.2	12.4	12.9
Zenergy	3677 HK	BUY	20,862	9.0	18.0	36.6	16.0	2.7	1.5	8.5	16.0
EVA	838 HK	BUY	1,429	0.9	1.3	5.7	4.9	0.2	0.2	8.6	9.3
Average						9.8	5.1	0.8	0.6	4.2	10.7

Source: Bloomberg, CMBIGM estimates.

Note: Data as of 3 Dec 2025



China Healthcare

China Healthcare

OUTPERFORM

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Divergence expected, focus on stock selection

As of Nov 21, 2025, the MSCI China Healthcare Index has surged by 62.8% YTD, significantly outperforming the MSCI China Index by 32.2 ppts. However, healthcare sector has experienced a recent pullback, with the MSCI China Healthcare Index declining 8% since October. In our view, this pullback was primarily due to the year-end profit-taking and the underperformance of some biotechs relative to previously elevated valuations and BD expectations. Notably, several outlicensing deals failed to meet market expectations in terms of scale or strategic impact.

Looking ahead to 2026, we do not expect a broad-based sector rise in 2026E, given that valuations have already undergone substantial recovery. Instead, we expect market performance to differentiate, with selective opportunities emerging in sub-sectors such as medical services, pharmaceuticals and CXOs, where valuation and earnings recovery remain attractive.

Rising pressure on medical insurance funds with weak domestic demand

In 2024, the basic medical insurance fund (including maternity insurance) reported total revenue of RMB3.49tn and expenditures of RMB2.98tn, maintaining an annual surplus. However, structural pressure persists as expenditure growth outpaced revenue growth for the second consecutive year. Specifically, revenue in 2024 increased by only 4.2% YoY (vs. + 8.3% YoY in 2023) while expenditures rose 5.5% YoY. In 9M25, cumulative revenue of the pooled fund grew 4.6% YoY, while expenditure declined by 1.7%, resulting in positive surplus growth. Despite short-term fluctuations—partly driven by the implementation of DRG 2.0 and other cost-containment measures—China's long-term medical demand remains structurally resilient due to the aging population. We continue to expect medical insurance expenditures to trend upward over the long term.

Under the pressure of medical insurance payment and a challenging macroeconomic environment, domestic healthcare demand was subdued, with slight declines in pharmaceutical retail sales and a contraction in cumulative revenue and profits across the pharmaceutical manufacturing sector. According to Menet.com, total pharmaceutical sales across China's "Three Terminals and Six Markets (三大终端六大市场)" fell by 1.2% YoY in 2024, followed by a further decline of 1.8% in 1H25. This trend indicated the combined impact of policies such as medical insurance cost controls, volume-based procurement (VBP), intensified regulatory scrutiny, along with macroeconomic headwinds. In 1H25, total sales in these markets exceeded RMB840bn, with chemical drugs accounting for over 60%, traditional Chinese medicines accounting for over 24%, and biologics increasing their market share to 15%.

Boom in out-licensing deals, pipeline progress to drive further value upside

Given sluggish growth in the domestic pharmaceutical market, Chinese biotechs and biopharmas have aggressively pivoted toward out-licensing and BD. Leveraging cost-efficient and highly productive R&D capabilities, Chinese companies have seen a rapid acceleration in out-licensing activity. In 2024, the total disclosed value for Chinese innovative drug license-out deals reached US\$52.3bn, with upfront payments totaling US\$4.1bn (up 16% YoY). This momentum accelerated further in 2025. By the end of October, both total deal value and upfront payments had already surpassed full-year 2024 levels, with upfronts reaching US\$6.3bn (+53% YoY).

Since 2020, the number of deals, total transaction value, and upfront payments for the out-licensing of Chinese innovative drugs have grown consistently, underscoring the strengthening global competitiveness of Chinese innovative drugs. Consequently, China's share in global out-licensing transactions has increased significantly. As of Oct 2025, Chinese companies accounted for 38% of global deal value and 50% of total upfront payments—well above the 5% and 3% levels recorded in 2020.

This surge in out-licensing activity is underpinned by China's structural advantages in drug R&D—namely, lower costs, superior efficiency, and improving innovation quality. According to McKinsey, Chinese biotechs can advance from target identification to IND application two to three times faster than global peers, at merely 1/3 to 1/2 the cost of global best practices. In clinical development, Chinese developers are able to recruit patients two to five times faster, with per-patient costs less than half of those in the US and Europe. These efficiencies are supported by China's massive population base, extensive network of clinical research centers, abundant talent pool, and a comprehensive, scalable CRO/CDMO ecosystem.

Multinational corporations (MNCs) have shown increasing interest in Chinese pipelines. Data from PharmaCube indicates that in 9M25, 20% of global in-licensing transactions by top MNCs originated from China, accounting for 39% of total deal value. Chinese assets have become strategic priorities for global pharma. However, a key point to watch is the financial capacity of MNCs following a series of significant M&A transactions in 2025. As of 9M25, the average cash on hand among leading MNCs was US\$10.8bn, with an average debt-to-asset ratio of 32%. According to Bloomberg consensus, their estimated average free cash flow in 2025E is US\$11.8bn, indicating sufficient financial capacity to support continued in-licensing and M&A activity.

Given the high risks and long cycles of innovative drug development, we think the long-term value from out-licensed assets will derive primarily from milestone payments and sales-based royalties rather than upfront payments. Therefore, the overseas development and commercialization progress of out-licensed assets will be the key driver of value realization. We think that with the significant recovery in both BD activities and capital market, Chinese biotechs are likely to face reduced pressure to out-license early-stage assets at undervalued terms ("green shoots sales"). This financial flexibility may allow Chinese biotechs to hold assets longer and pursue out-licensing at later development stages, where deal valuations are typically higher.

Looking ahead to 2026E, we expect the out-licensing trend to continue, with Chinese pipelines becoming more diverse in terms of modality and therapeutic focus. However, given current market expectations and pipeline maturity, we will place greater emphasis on the clinical progress of already out-licensed assets, which we believe offers clearer visibility and stronger stock price catalysts. This is because: 1) clinical advancement provides

tangible milestones for valuation re-rating, and 2) the majority of economic value from licensing deals is realized through successful commercialization, not upfront payments. For example, 3SBio (1530 HK) could benefit from Pfizer's accelerated clinical development of compound 707 (a PD-1/VEGF bispecific antibody).

Looking ahead to 2026, we expect the outbound BD trend to persist, with deal structures diversifying across molecular modalities and indications. However, considering that initial expectations are largely priced in, our focus shifts to the clinical progression of out-licensed assets. This is because clinical milestones offer higher certainty and serve as key share price catalysts, and the majority of value realization depends on commercial success and subsequent milestone payments rather than upfronts. For instance, companies such as 3SBio may benefit significantly from Pfizer accelerating the clinical development of 707 (PD-1/VEGF).

R&D demand rebound drives the recovery in the CXO subsector

Pharmaceutical R&D demand in China has maintained growth despite market volatility, entering a clear recovery phase in 2025. In our view, the rebound in industry sentiment is primarily driven by three factors:

First, following the COVID-19 pandemic, R&D spending by large domestic pharmaceutical companies and biotechs has maintained healthy growth. Meanwhile, Capex of CXO companies, which had been on a downward trend, saw a meaningful reversal in 1H25.

Second, China's out-licensing activities have further accelerated in 2025, providing a significant influx of capital to domestic companies. In 10M25, domestic companies accounted for 38% of global out-licensing deal value and 50% of global upfront payments—significantly higher than the 5% and 3% recorded in 2020, respectively.

Third, the surge in out-licensing has reignited capital market interest in China's innovative drugs, driving a recovery in fundraising. In 2024, total biotech financing fell 44% YoY to US\$6.4bn, only 18% of the peak level during the pandemic. However, with renewed investor enthusiasm driven by robust BD momentum, financing rebounded sharply in 2025. According to PharmCube, innovative drug financing in China rose 444% YoY in 3Q25. Biotech subsector also experienced a strong rise in the equity markets, particularly in Hong Kong, where biotech IPOs and follow-on offerings reached HK\$65.7bn YTD as of end-November. We believe this recovery in capital availability should reinforce the positive cycle of increased R&D spending and out-licensing activities among Chinese biopharmas and biotechs.

Globally, the total innovative drug fundraising was US\$60.3bn in 2024 (+11% YoY), marking the first positive growth post-pandemic, according to PharmCube. Although global biopharma fundraising declined 19% YoY in 9M25 due to geopolitical uncertainty and Federal Reserve policy pacing, 3Q25 saw a return to growth (+8.6% YoY). We think that the expected onset of the Fed's rate-cutting cycle will support a sustained recovery in biotech financing, which further stimulating global biotech R&D demand.

Beyond financing, pharmaceutical companies' internal R&D spending remains a critical engine of global demand. Large pharmaceutical companies continue to serve as the anchor for global R&D investment. Historical data confirms a consistent upward trend. Our analysis of ten representative MNCs shows their total R&D spending reached US\$123.5bn (+22.8% YoY) in 2023, well above the 4.4% CAGR recorded from 2010 to 2023. Despite a temporary 1.9% decline in 2024 due to the IRA and a post-COVID revenue slowdown, R&D spending recovered in the first half of 2025, increasing by 5.3% YoY. Given their substantial absolute

scale, MNC investments serve as a stabilizing force for global R&D demand, hedging against biotech financing volatility.

Chinese CXO companies, which are deeply embedded in the global pharmaceutical value chain, are already witnessing signs of recovery. WuXi AppTec (603259 CH) reported a 41.2% YoY increase in backlog as of Sep 2025. Notably, its TIDES segment (peptides and oligonucleotides) grew backlog by 17.1% YoY, indicating that backlog growth in traditional small molecules outpaced the Company average. Pharmaron (300759 CH) also reported strong momentum, with new order intake increasing more than 13% YoY in 9M25, including approximately 20% growth in the small-molecule CDMO segment.

VBP continues; IVD subsector faces dual pressures on volume and price

Since 2023, the scope of VBP in the medical device market has expanded rapidly. IQVIA expected that by 1H26E, VBP would cover over 50% of the medical consumables and in vitro diagnostics (IVD) markets. While the pace of VBP expansion has slowed in most high-value consumables segments, it has accelerated in areas such as IVD reagents, vascular intervention consumables, and low-value consumables. Meanwhile, VBP of medical equipment is also progressing.

1) High-value consumables: In the high-value consumables segment, the negative impact of VBP has gradually waned. In orthopedics, for instance, pricing pressure has largely been absorbed as the pace of VBP stabilizes. IQVIA forecasted the Chinese orthopedic market would grow moderately by around 3% in 2025E. Since 2024, leading domestic orthopedic companies have seen a steady recovery in both revenue and profit growth, signaling the industry's entry into a "post-VBP" recovery phase. According to IQVIA, the vascular intervention market grew by approximately 5% YoY in 1H25, driven by sustained surgical volume growth in electrophysiology, pacemakers, and neuro-intervention. However, the expansion of VBP into coronary and peripheral intervention has led to slight declines in those markets. Overall, we think that VBP coverage in many high-value consumables categories is already extensive, and the marginal impact of policy is diminishing. As VBP disruptions subside, earnings of relevant companies are expected to recover, paving the way for a return to stable growth. For segments where VBP is still expanding, such as vascular intervention, we believe close attention should be paid to the specific policy implementation details.

2) Medical equipment: The medical equipment procurement activity has experienced an interim recovery driven by the implementation of equipment renewal policies and centralized procurement. According to Joinchain, the national public tender market for medical devices grew by over 60% YoY in 1H25 and maintained nearly 30% YoY growth in 3Q25. Consequently, China's medical equipment market staged a cyclical rebound, with IQVIA estimating market growth of 7.5% YoY in 1H25, including 12% growth in imaging equipment. We think the current strength in procurement continues to be driven by replacement needs. Notably, equipment renewal projects have been gradually launched since Nov 2024, leading to a rebound in hospital procurement activity and raising the base of comparison. Given this high base, we expect future procurement growth to normalize. On the revenue side, the cycle from bid award to revenue recognition has been extended due to regulatory tightening and VBP, resulting in a lag between tender activity and actual sales. As strong order intake in 9M25 continues to convert into revenue, we expect the recovery momentum of the medical equipment companies to maintain in 4Q25E. Furthermore, domestic companies are achieving technical breakthroughs in high-end medical imaging, and VBP implementation is accelerating import substitution. Domestic

brands may further increase their market share in high-end markets such as CT, MR, and PET-CT.

Looking ahead to 2026, the three-year equipment renewal program will continue to provide demand support, but growth in the procurement market may decelerate due to the high base in 2025, in our view. Global medical equipment MNCs (the "GPS": GE Healthcare, Philips, and Siemens Healthineers) remained cautious to the Chinese market. Philips management noted weak endogenous momentum and highlighted that VBP has extended tender cycles and intensified competition, making it difficult to convert winning bids into meaningful orders. Siemens Healthineers has cited low-price bidding in certain regions and a loss of share for some MNCs. Conversely, domestic brands continue to gain share. Given the challenging domestic macro environment and hospital budgets, the sustainability of growth in the medical equipment segment remains uncertain.

3) IVD: The IVD industry is under dual pressure from declining prices and volumes, due to policies such as VBP implementation, price regulation, and the unbundling of diagnostic test packages. According to IQVIA, the domestic IVD market declined by 5% YoY in 1H25. Biochemistry and immunoassay segments saw sharper drops of 10% and 12%, respectively. In contrast, molecular and pathological diagnostics maintained solid growth, supported by increased adoption of respiratory testing and higher testing penetration among oncology patients. Pressure is evident across both prices and testing volumes: on one hand, VBP and price control policies have significantly reduced test pricing. On the other hand, under medical insurance cost-containment efforts, initiatives such as unbundling of test packages, mutual recognition of test results, and the rollout of DRG/DIP payment models have curbed unnecessary testing, weighing on overall test volumes. At the same time, market dynamics are being reshaped: localization is accelerating, competition is intensifying, and market concentration is rising.

Looking ahead to 2026, we expect both pricing and volume pressures to persist, though the rate of decline may moderate due to base effects. However, the timing of a potential turning point remains uncertain. Overseas markets have become increasingly important growth drivers. Chinese IVD companies were accelerating their global expansion. According to Joinchain, exports of IVD instruments and reagents grew by 32% and 5% YoY in 1H25, respectively. We think the leading domestic IVD companies with strong R&D capabilities and global commercialization channels will enhance their earnings resilience through international market expansion.

Valuation

Figure 1: China healthcare valuation comps

Company	Ticker	Rating	Mkt Cap (US\$m)	Price (LC)	TP (LC)	Upside/ Downside	P/E (x) FY26E	FY27E	P/B (x) FY26E	FY27E	ROE (%) FY26E	FY27E
Medical service												
Jinxin Fertility	1951 HK	BUY	843	2.39	3.33	39.2%	20.7	18.3	0.6	0.6	2.7	3.3
Aier Eye Hospital	300015 CH	N/A	15,148	11.50	N/A	N/A	24.7	21.4	4.0	3.6	16.7	17.0
Hygeia Healthcare	6078 HK	N/A	1,004	12.64	N/A	N/A	11.6	10.4	0.9	0.9	8.1	8.4
Gushengtang	2273 HK	BUY	886	29.92	44.95	50.2%	12.2	9.4	2.8	2.6	23.3	28.6
Average							17.3	14.9	2.1	1.9	12.7	14.3
Biotech												
Hutchmed	13 HK	BUY	2,519	22.48	31.39	39.7%	26.6	11.5	2.0	1.7	7.8	16.0
BeOne	ONC US	BUY	42,064	340.64	392.43	15.2%	41.0	28.0	7.0	5.3	19.3	21.4
Zai Lab	ZLAB US	N/A	2,236	19.97	N/A	N/A	N/A	23.2	2.3	2.0	0.5	14.4
Average							33.8	20.9	3.8	3.0	9.2	17.3
CXO												
Wuxi Apptec	603259 CH	BUY	38,495	91.19	123.35	35.3%	19.1	16.9	3.2	2.8	18.2	18.0
Pharmaron	300759 CH	N/A	6,871	28.95	N/A	N/A	23.8	20.0	3.0	2.6	13.2	14.1
Asymchem	002821 CH	N/A	4,645	92.75	N/A	N/A	24.3	20.5	1.8	1.7	7.7	8.6
Tigermid	300347 CH	BUY	5,940	51.01	58.88	15.4%	33.6	27.1	1.9	1.8	5.8	6.7
Wuxi XDC	2268 HK	BUY	10,544	65.45	74.00	13.1%	35.4	26.9	6.9	5.4	21.6	22.4
Average							27.2	22.3	3.4	2.9	13.3	14.0
Medical device												
Microport	853 HK	N/A	2,755	11.21	N/A	N/A	43.6	24.0	4.0	3.4	9.4	15.3
MedBot	2252 HK	N/A	2,981	22.50	N/A	N/A	N/A	94.7	91.8	58.1	39.6	(22.1)
Weigao Group	1066 HK	N/A	3,205	5.55	N/A	N/A	10.0	9.1	0.9	0.8	9.0	9.3
Zylox - Tonbridge	2190 HK	N/A	1,087	25.08	N/A	N/A	26.3	19.6	2.1	1.9	8.2	9.9
Mindray	300760 CH	BUY	34,939	204.01	249.21	22.2%	23.8	20.7	5.6	5.1	24.5	25.7
United Imaging	688271 CH	BUY	15,495	133.10	162.29	21.9%	46.3	36.2	4.7	4.2	10.3	12.0
APT Medical	688617 CH	N/A	4,663	234.11	N/A	N/A	28.7	22.9	7.6	6.0	28.4	28.9
Average							29.8	32.5	16.7	11.4	18.5	11.3
Pharma												
CSPC Pharm	1093 HK	BUY	11,709	7.91	11.05	39.8%	15.4	14.2	2.1	2.0	15.0	15.0
Jiangsu Hengrui	600276 CH	N/A	58,385	62.08	N/A	N/A	41.7	34.6	6.0	5.3	15.3	15.8
Sino Biopharm	1177 HK	N/A	16,992	7.05	9.40	33.3%	29.4	26.5	2.2	2.0	10.7	10.8
Hansoh	3692 HK	N/A	31,288	40.22	45.26	12.5%	44.9	34.9	6.2	5.6	14.5	16.8
3SBio	1530 HK	BUY	9,769	31.26	37.58	20.2%	26.2	25.0	2.5	2.4	11.5	11.1
Average							31.5	27.0	3.8	3.5	13.4	13.9
Medical aesthetic												
IMEIK	300896 CH	N/A	6,213	145.37	N/A	N/A	23.7	21.1	4.6	4.1	19.1	18.9
Giant Biogene	2367 HK	BUY	4,978	36.18	58.35	61.3%	14.2	12.5	2.8	2.4	21.2	20.6
Angelalign	6699 HK	BUY	1,365	62.20	86.47	39.0%	72.3	39.8	2.7	2.5	3.8	6.5
Average							36.7	24.5	3.4	3.0	14.7	15.3

Source: Bloomberg, CMBIGM estimates (as of Nov 28, 2025)



China Capital Goods

China Capital Goods

OUTPERFORM

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Key themes in 2026: Focus on Mining equipment + Power for data centres + Replacement cycle

We believe mining machinery (in particular large-size excavators & trucks) will become a key growth area for Chinese machinery players in 2026E, given (1) the elevated miners' capex supported by the strong metal prices, declining ore grades and aging machinery fleets; (2) the rising Chinese investment in overseas mines to drive more Chinese machinery demand. We believe Zoomlion, SANY Heavy and SANYI are the key beneficiaries. In China, we expect the overall machinery replacement cycle will continue and expect tenders for the Yarlung Zangbo hydropower project will speed up in 2026E, which will serve as a driver for new demand. On the power side, we forecast the global backup power engines for data centres to surge 70% between 2025E and 2030E, offering excellent opportunities for Weichai Power to penetrate.

- **Penetration into large-size mining equipment segment.** The large-size mining excavator and mining truck market has long been dominated by players like Caterpillar and Komatsu, due to the long history of brand and world class engine technology. We note that Chinese brands, such as Zoomlion, SANY Heavy, SANYI and XCMG, are trying to close the gap through the increase of product offerings (electric, intelligent) and the expansion of after-sales network (as full-cycle machinery cost is the primary consideration for miners). Besides, we see aftermarket revenue as the next growth driver once the installed base is expanded, as service revenue for mining equipment typically accounts for >60% of total revenue (vs ~30% for construction machinery), according to Komatsu's data.
- **Africa and Brazil are key markets for Chinese mining machinery.** We analyze the import data of Brazil and Africa for the major types of mining machinery. We note that China's share has continued to outpace the US across different products over the past few years. Given the abundant mineral reserves and close economic ties with China, these regions will continue to offer huge potential room for the Chinese brands to explore.
- **Upcycle in China to continue, but with different stages of replacement.** We expect the replacement-driven upcycle for earth-moving machinery (excavators and wheel loaders) will continue. Truck cranes will likely see a clear upcycle in 2026E, driven by (1) the beginning of replacement cycle (generally later than earth-moving), and (2) demand growth from the power sector such as nuclear and wind power installation. For HDTs, we believe the growth to slow in 2026E due to the uncertainties over the extension of subsidies for truck renewal in China.
- **Backup power engines driven by data centre growth.** We expect a solid growth of data centres from now to 2030E will boost a corresponding growth of ICE generators for backup power. We estimate the market size of ICE generators to expand >70% from ~US\$4bn in 2025E to ~US\$6.8bn in 2030E. While the prime power and backup power engine sector is currently controlled by only limited players, with Caterpillar, Cummins and MTU (Rolls-Royce) the top three players, Weichai is emerging as a fast-growing player in the backup power segment.
- **Stock ideas:**

- **SANY Heavy (6031 HK/600031 CH)** - Clear target on mining excavator growth ([link](#))
- **Zoomlion (1157 HK/000157 CH)** - Full range of products to expand globally ([link](#))
- **Weichai Power (2338 HK/000338 CH)** - Expect HDT engines growth to slow in 2026E; Eyes on backup power for data centres ([link](#))

Valuation

Figure 1: Peers comparison

Ticker	Company	Rating	Price (local currency)	TP (local currency)	Upside/ (downside)	Market cap (US\$ mn)	PE (x)		PB (x)		Yield (%) FY25E
							FY25E	FY26E	FY25E	FY26E	
Hong Kong											
631 HK Equity	SANY INTERNATIONAL	BUY	7.61	8.90	17%	3,159	9.7	7.6	1.6	1.4	4.1
1157 HK Equity	ZOOMLION HEAVY-H	BUY	7.40	9.20	24%	9,764	11.9	10.4	1.0	0.9	5.6
6031 HK Equity	SANY HEAVY IND-H	BUY	21.52	29.50	37%	26,467	20.0	17.4	2.0	1.8	2.5
2338 HK Equity	WEICHAI POWER-H	BUY	19.23	21.90	14%	21,172	12.3	10.8	1.6	1.5	4.5
3808 HK Equity	SINOTRUK HK LTD	HOLD	28.88	20.40	-29%	10,244	12.2	11.4	1.7	1.5	4.5
564 HK Equity	ZHENGZHOU COAL-H	NR	21.44	-	-	5,892	8.2	7.5	1.6	1.3	5.6
	HK listed average						12.4	10.9	1.6	1.4	4.5
A share											
000338 CH Equity	WEICHAI POWER-A	BUY	17.08	22.30	31%	21,137	12.0	10.6	1.6	1.5	4.6
601100 CH Equity	JIANGSU HENGLI-A	BUY	104.25	105.00	1%	19,756	46.5	40.7	7.8	7.0	0.8
603338 CH Equity	ZHEJIANG DINGLI -A	HOLD	59.34	48.00	-19%	4,247	15.7	14.6	2.6	2.3	2.0
600031 CH Equity	SANY HEAVY-A	BUY	20.40	27.00	32%	26,423	20.8	18.2	2.1	1.9	2.4
000157 CH Equity	ZOOMLION HEAVY-A	BUY	8.25	12.00	45%	9,748	14.6	12.8	1.2	1.1	4.6
000425 CH Equity	XCMG-A	NR	10.50	-	-	17,442	16.2	12.6	1.9	1.7	2.3
000528 CH Equity	GUANGXI LIUGONG-A	NR	12.35	-	-	3,547	14.3	10.7	1.3	1.2	2.5
603638 CH Equity	YANTAI EDDIE P	NR	20.18	-	-	2,370	40.4	33.1	4.5	4.1	0.7
600761 CH Equity	ANHUI HELI CO-A	NR	20.20	-	-	2,543	12.6	11.3	1.6	1.5	2.5
603298 CH Equity	HANGCHA GROUP-A	NR	25.68	-	-	4,754	14.9	13.2	2.8	2.5	2.2
000951 CH Equity	CNHTC JINAN T-A	NR	17.00	-	-	2,823	11.8	10.0	1.2	1.1	4.2
301039 CH Equity	CIMC VEHICLES -A	NR	9.92	-	-	2,829	18.8	14.1	1.3	1.2	3.5
601717 CH Equity	ZHENGZHOU COAL-A	NR	23.92	-	-	5,883	10.1	9.2	1.9	1.6	4.6
600582 CH Equity	TIAN DI -A	NR	5.90	-	-	3,451	8.6	8.0	n/a	n/a	n/a
	A-share average						18.4	15.6	2.5	2.2	2.9
Overseas											
CAT US Equity	CATERPILLAR INC	NR	582.5	-	-	272,584	31.3	26.1	14.7	13.2	1.0
DE US Equity	DEERE & CO	NR	469.2	-	-	126,825	27.3	20.7	5.5	5.1	1.5
CMI US Equity	CUMMINS INC	NR	501.5	-	-	69,225	22.1	19.1	5.8	5.1	1.5
6305 JP Equity	HITACHI CONST	NR	4,633.0	-	-	6,375	13.1	11.0	1.2	1.1	3.8
6301 JP Equity	KOMATSU LTD	NR	5,069.0	-	-	30,835	12.8	11.8	1.4	1.3	3.8
042670 KS Equity	DOOSAN INFRACORE	NR	14,750.0	-	-	1,894	16.1	10.7	1.4	1.2	0.7
VOLVB SS Equity	VOLVO AB-B	NR	280.8	-	-	60,137	15.5	13.7	3.1	2.9	5.2
	Average						19.7	16.2	4.7	4.3	2.5
Hydraulic components											
PH US Equity	PARKER HANNIFIN	NR	858.9	-	-	108,387	28.4	25.9	7.3	6.5	0.8
7012 JP Equity	KAWASAKI HVY IND	NR	10,125.0	-	-	10,876	20.1	16.3	2.2	2.0	1.5
7242 JP Equity	KYB CORP	NR	4,590.0	-	-	1,482	9.8	9.3	n/a	n/a	3.1
6474 JP Equity	NACHI-FUJIKOSHI	NR	4,060.0	-	-	647	21.5	16.6	0.6	0.6	2.5
6268 JP Equity	NABTESCO CORP	NR	3,431.0	-	-	2,657	27.0	22.7	1.5	1.5	2.3
	Average						21.3	18.2	2.9	2.6	2.0
Aerial work platform											
TEX US Equity	TEREX CORP	NR	46.5	-	-	3,050	9.5	8.3	1.5	1.3	1.5
OSK US Equity	OSHKOSH CORP	NR	124.8	-	-	7,892	11.5	10.0	1.8	1.6	1.6
LNR CN Equity	LINAMAR CORP	NR	78.8	-	-	3,359	7.8	6.9	0.8	0.7	1.4
PIG FP Equity	HAULOTTE GROUP	NR	2.2	-	-	78	n/a	10.8	0.4	0.4	1.8
6345 JP Equity	AICHI CORP	NR	1,303.0	-	-	622	12.7	12.6	n/a	n/a	4.6
	Average						10.4	9.7	1.1	1.0	2.2

Source: Bloomberg, company data, CMBIGM estimates; data as of 3 Dec 2025

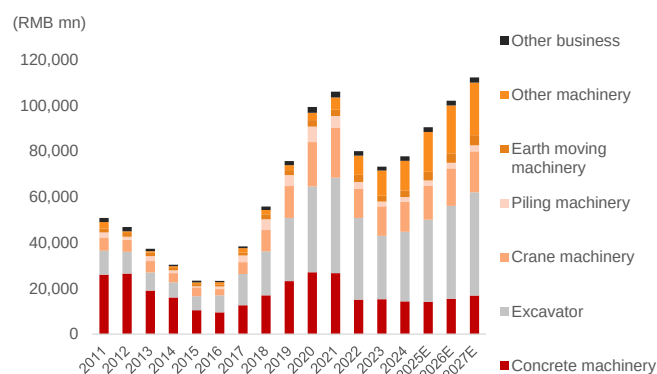
Figure 2: Overseas revenue contribution for major Chinese manufacturers

Company	Ticker	% of overseas revenue			
		2022	2023	2024	1H25
Zhejiang Dingli	603338 CH	65%	64%	77%	85%
SANY Heavy	600031 CH	47%	61%	64%	60%
Zoomlion	1157 HK / 000157 CH	24%	38%	51%	56%
XCMG	000425 CH	30%	40%	45%	47%
Sinotruk	3808 HK	47%	36%	40%	43%
SANY International	631 HK	27%	31%	37%	33%
Jiangsu Hengli*	601100 CH	22%	22%	22%	-
Weichai Power**	2338 HK / 000338 CH	54%	53%	56%	51%

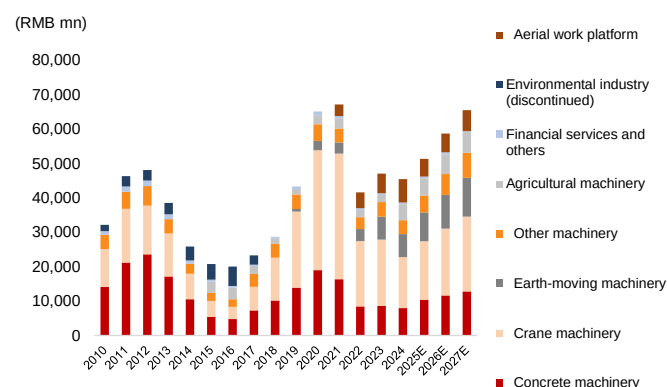
Source: Company data, CMBIGM

Note: * Certain domestic sales will become final products for export.

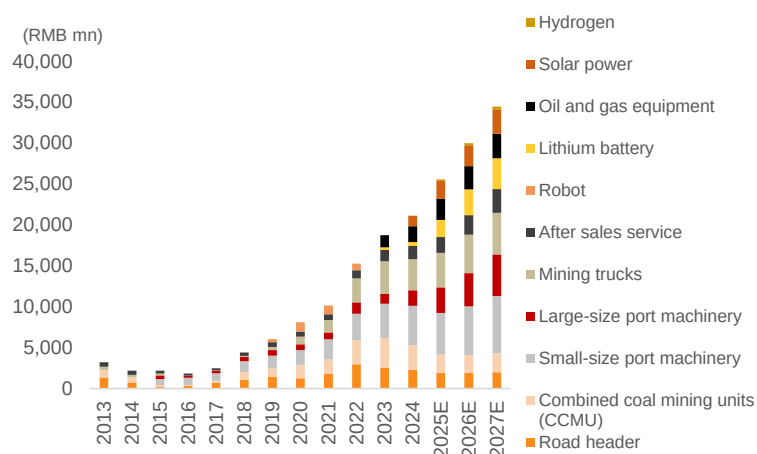
** Weichai owns 46.5% interest in KION (KGX GR), the major source of overseas revenue. Adjusted for KION's revenue, together with Weichai's direct and indirect export, we estimate Weichai's attributable overseas revenue accounted for 30-40% of total revenue.

Figure 3: SANY Heavy revenue breakdown

Source: Company data, CMBIGM estimates

Figure 4: Zoomlion revenue breakdown

Source: Company data, CMBIGM estimates

Figure 5: SANYI revenue breakdown

Source: Company data, CMBIGM estimates

Mining machinery a key potential market

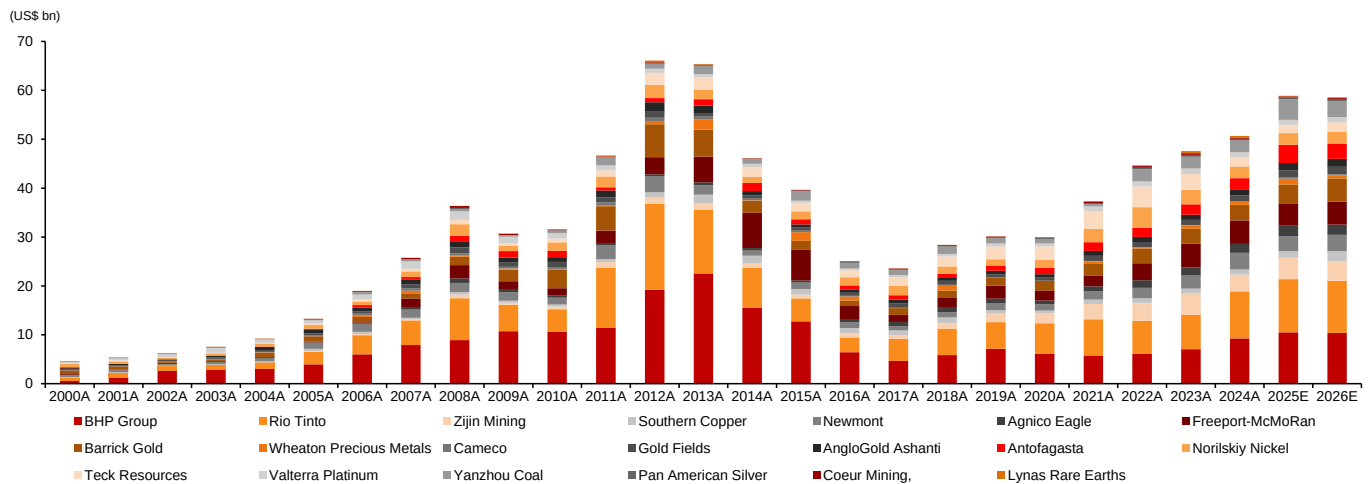
Global mining capex to stay high in 2026E

The global mining capex (based on our selected 20 major global miners) have maintained an upcycle since 2017, and reached US\$51.5bn in 2024. The global mining capex is expected to increase 16% YoY in 2025E and remain elevated in 2026E (based on the Bloomberg consensus). We expect the mining capex to be well-supported by rising demand for energy-related metals, declining ore grades and elevated metal prices, which will translate to solid demand for mining machinery, in particular mining trucks and large-size excavators.

In the Investor Day held in Nov 2025, Caterpillar forecast the global mining capex to grow 50% in 2030E (from 2024).

In addition, according to Caterpillar, a lot of miners have been stretching the lives of their machines beyond previous levels due to cost discipline. Many aging fleets are therefore entering a critical phase, which should result in a large potential replacement demand.

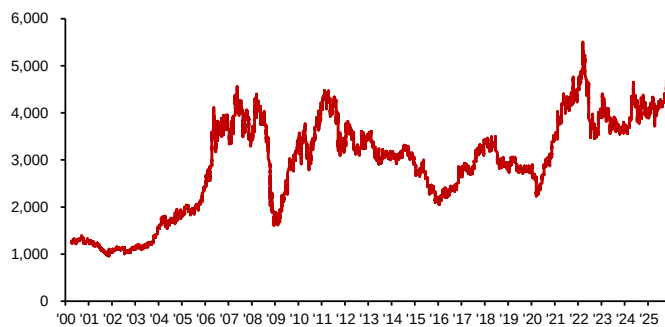
Figure 6: Major global miners' capex cycle



Source: Bloomberg, CMBIGM

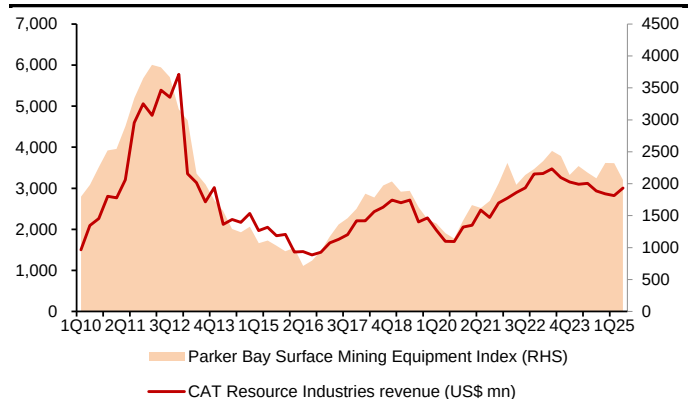
Note: based on 20 selected major miners

Figure 7: LME index

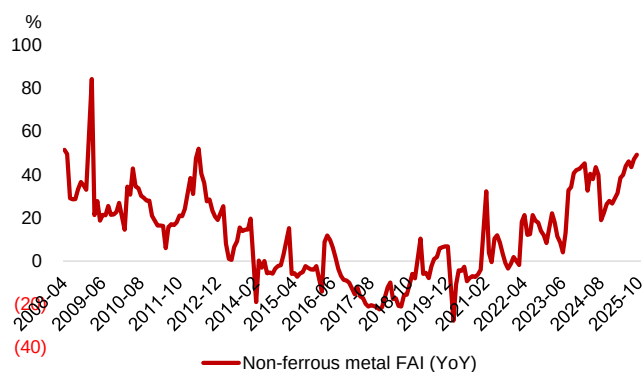


Source: London Metal Exchange, CMBIGM

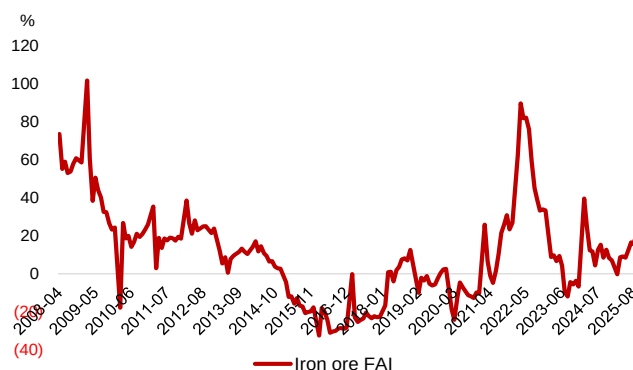
Figure 8: Mining equipment index vs CAT Resource Industries revenue



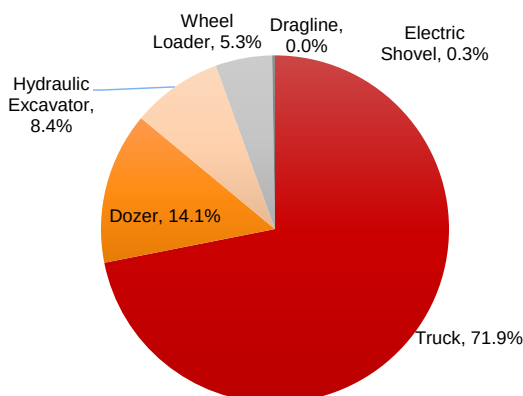
Source: Parker Bay, Bloomberg, CMBIGM

Figure 9: China non-ferrous metal FAI growth (YTD, YoY)


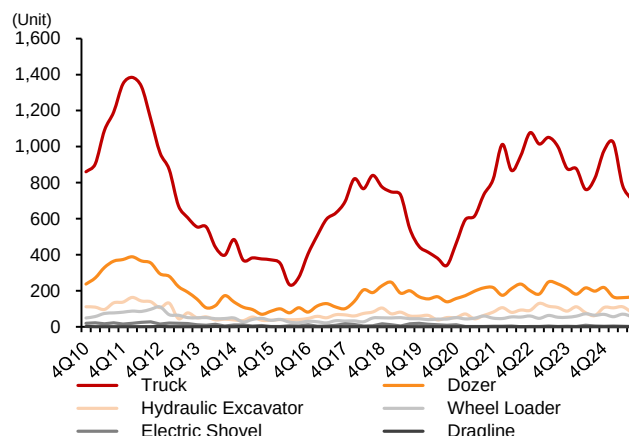
Source: Wind, CMBIGM

Figure 10: China iron ore FAI growth (YTD, YoY)


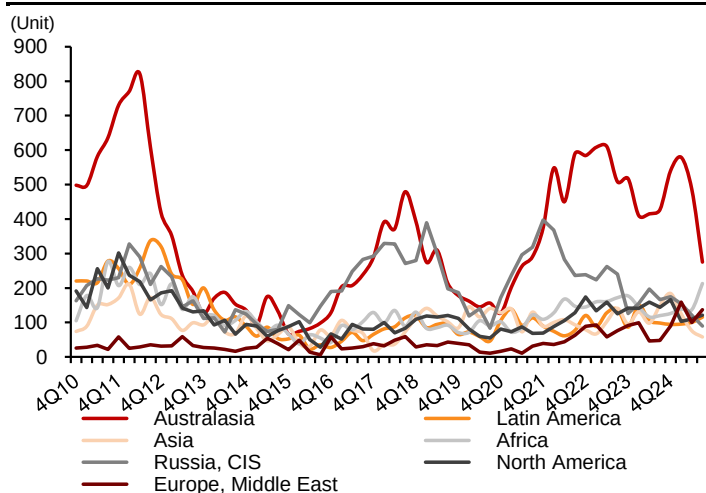
Source: Wind, CMBIGM

Figure 11: Global mining equipment sales volume breakdown in 9M25 (by type of machinery)


Source: Bloomberg, Parker Bay, CMBIGM

Figure 12: Global mining equipment sales volume


Source: Bloomberg, Parker Bay, CMBIGM

Figure 13: Global mining equipment sales volume (breakdown by region)


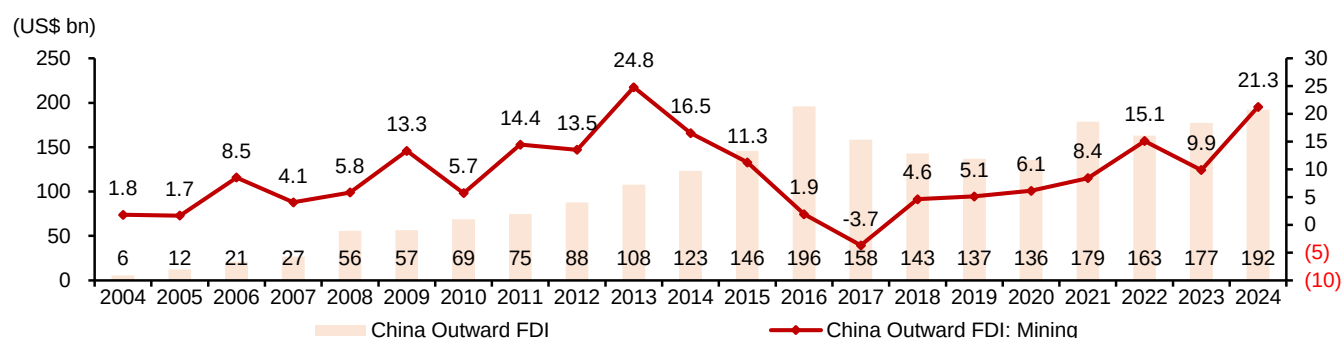
Source: Bloomberg, Parker Bay, CMBIGM

Riding the wave of Chinese miners' overseas expansion

In 2024, China's foreign direct investment (FDI) in mining sector reached US\$21.3bn (11% of total FDI), which is the highest in the last decade and second only to the peak of US\$24.8 bn in 2013.

We believe this ongoing expansion of Chinese miners will enable Chinese mining machinery manufacturers to grow their global market share, in particular in the ultra-class mining trucks and excavators, as Chinese miners are more likely to use Chinese machinery brands.

Figure 14: China outward FDI and FDI in mining sector



Source: Statistical Bulletin of China's Outward Foreign Direct Investment, CMBIGM

Upgrading to ultra-class models

Chinese machinery/truck producers have long been focusing on the small- and medium-size mining trucks and excavators. While challenges remain in engine technology, useful life and after-sales service support, Chinese players' strategic move towards large-size models has been underway by leveraging several strengths:

- The proven track record in smaller-size models;
- Advantages in new energy solutions (e.g., Zoomlion's 90t hybrid trucks achieved 20% lower fuel consumption than Caterpillar equivalents, while SANY plans aggressive marketing of its 90t 1000kWh electric trucks in 2026);
- Continuous investment in overseas channels that support aftermarket services for ultra-class models.

■ Ultra-class mining trucks

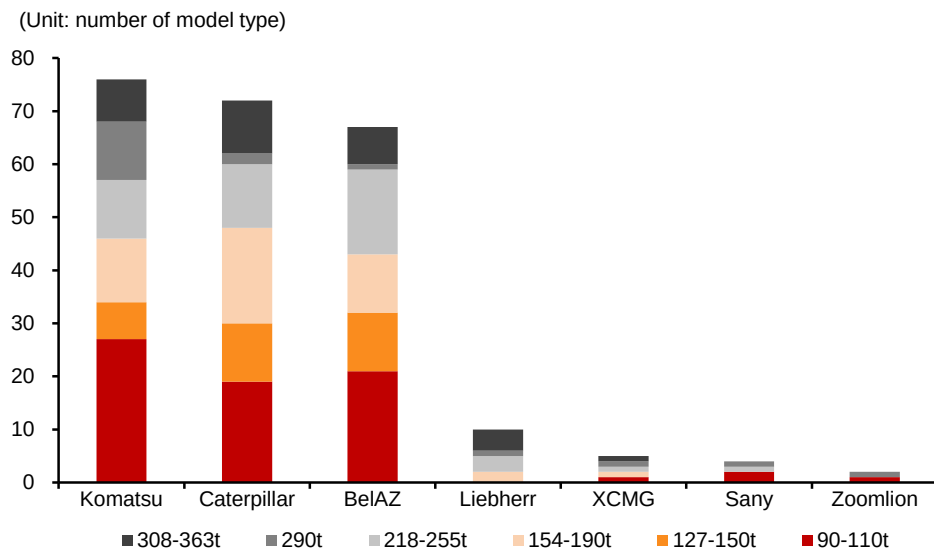
In contrast to the fierce competition in the wide-body truck market (small-size mining trucks) in both China and overseas, ultra-class trucks (payload >308t, per equipment consulting firm Parker Bay) are a promising market, due to their much higher technical barriers, higher unit value, and in particular the substantially larger aftermarket potential compared to small- and medium-sized trucks.

While the market has long been dominated by limited global players such as Caterpillar and Komatsu, leading Chinese manufacturers have gradually rolled out models to penetrate this market, through breakthroughs in product design as well as the expansion of after-sales services network:

- XCMG's launch and shipment of its 400t XDE440 to South America in 2023
- SANYI's introduction of its 300t SET320S in 2024 (currently in testing stage)
- Zoomlion's introduction of its hybrid-powered 300t ZET520 in 2025

SANYI also revealed its strategy to penetrate the high-end truck market (in 3Q25 earnings call), with a target to increase sales of large mining trucks (as % of total mining truck sales) from 22% in 2024 to 40%/55% in 2025E/26E.

Figure 15: Number of truck model type, by payload weight



Source: Parker Bay, CMBIGM

Figure 16: Comparison of mining truck specifications

Model	Payload (t)	Engine	Rated Power (kW)	Drive
Caterpillar				
798 AC	410	Cat C175-16	2,573	Electric Drive
797F	400	Cat C175-20	2,940	Mechanical Drive
796 AC	360	Cat C175-16	2,573	Electric Drive
794 AC	327	Cat C175-16	2,573	Electric Drive
Komatsu				
980E-5SE	400	Komatsu SDA16V190-1	3,234	Electric Drive
930E-5SE	320	Komatsu SSDA18V170	2,573	Electric Drive
980E-5	400	Komatsu SSDA18V170	2,573	Electric Drive
930E-5	320	Komatsu SSDA16V160	1,985	Electric Drive
Liebherr				
T284	363	MTU 20V4000	2,720	Electric Drive
T274	305	MTU 20V4000	2,720	Electric Drive
XCMG				
XDE440	400	MTU 20V4000	2,800	Electric Drive
XDE320	300	MTU 16V4000	2,014	Electric Drive
SANY				
SET320S	300	Not disclosed	Not disclosed	Electric Drive
Zoomlion				
ZTE520	300	Diesel + Hybrid Battery	n.m.	Electric Drive

Source: Company data, CMBIGM

■ Large-size mining excavators

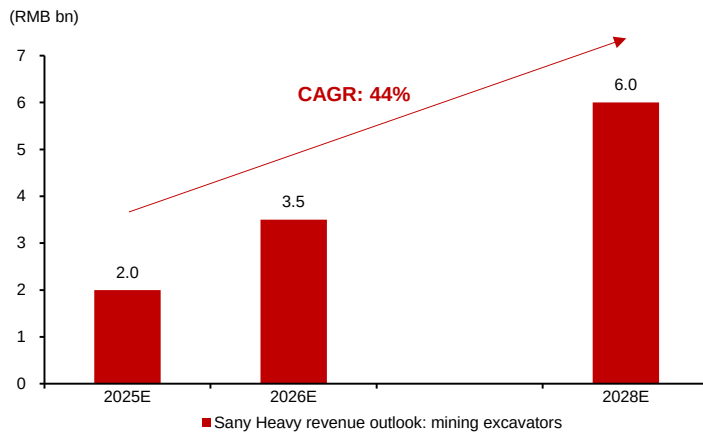
At present, Chinese brands still lag behind the global top-tier players in terms of payload capacity. That said, certain Chinese players such as SANY Heavy and XCMG are leveraging their advantage in electric technologies to outpace the global players.

Besides, given that mining excavators complement trucks in operation, the introduction of large models in both categories can generate synergies for customers. For instance, Zoomlion put the focus on large-size, electric, intelligent and integrated solutions, which has enabled it to achieve 58% YoY growth in mining machinery revenue growth (overseas +120% YoY) in 9M25. Besides, SANY Heavy revealed in the 3Q25 earnings call that it targets to boost the annual mining excavator sales from RMB2bn in 2025E to RMB6bn in 2028E.

Figure 17: Comparison of mining excavator specifications

Model	Output power (kW)	Bucket capacity (m3)	Operating weight (t)
Caterpillar			
6090 FS	3,360	37-55	1,000
6060	2,256	34	599
6050 FS	1,880	26	537
6040	1,550	22	405
6030	1,230	17	294
6020	776	12	230
6015	615	8	140
Komatsu			
PC8000-11	2 x 1800	42	830
PC7000-11	2 x 1250	38	680
PC5500-11	2 x 940	29	550
PC4000-11	1,400	22	390
PC3000-11	940	15-16	250
PC2000-11	780	12-13.7	200
XCMG			
XE7000	2 x 1193	36	672
XE5600	2 x 1193	35	570
XE4000E	6000V 1200kW	21-23	380
XE4000	1,491	20-22	384
XE3000	1,193	12-17	285
XE2800E	6000V 1200kW	12-17	280
XE2000E	610	8-12	192
XE2000	810	8-12	192
XE1150	567	5.8-8.2	115
Sany			
SY4000H	Not disclosed	Not disclosed	~400
SY2000H	Not disclosed	12	~200
SY1250H	567	8	120
SY2600E	6000V 900kW	Not disclosed	~300
SY1650E	6000V 630kW	10	~165
Zoomlion			
ZE4000G	1,491	22-24	~400
ZE2000G	Not disclosed	12-14	~200
ZE1650G	Not disclosed	10-12	~165
ZE1350G	Not disclosed	10	~135
ZE1250G	567	7.1-10	116

Source: Company data, CMBIGM

Figure 18: SANY Heavy's outlook of large mining excavator revenue

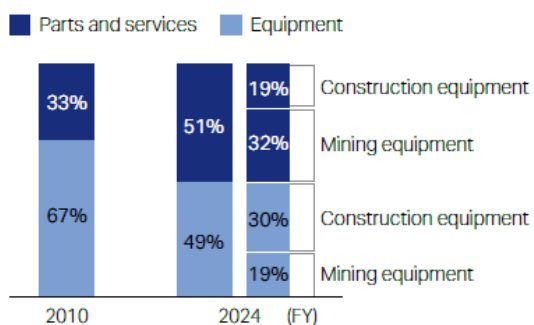
Source: Company data, CMBIGM

High potential for Chinese players in aftermarket services

For major machinery manufacturers, aftermarket service is a major source of sustainable revenue with high profit margin. This revenue normally grows alongside the installed base of machines. Taking Komatsu as reference, the construction and mining equipment aftermarket revenue ratio (as % of total revenue) increased from 33% in 2010 to 51% in 2024.

Compared with construction machinery, mining equipment aftermarket is bigger, given longer lifecycles (10-15 years) and customers' emphasis on durability. Taking Komatsu again as reference, in 2024, aftermarket accounted for 63% of its mining equipment revenue, while aftermarket only accounted for 39% of construction equipment revenue.

Compared to Caterpillar and Komatsu, the Chinese players have a much smaller installed base in overseas markets at present. Therefore, aftermarket sales generally still account for a small portion of total revenue (e.g. SANY Heavy aftermarket sales accounts for <10% of total excavator revenue in overseas markets). But given their fast-growing installed base overseas, aftermarket will serve as an important and sustainable source of growth in the next stage, in our view.

Figure 19: Komatsu aftermarket and equipment revenue

Source: Komatsu, CMBIGM

Figure 20: Comparison between automobile, construction and mining equipment

Source: Komatsu, CMBIGM

Brazil and Africa continue to be good potential markets for Chinese mining machinery

Africa and Brazil have become important destinations for Chinese mining machinery, due to abundant mineral reserves with strong demand for mine production, China's favorable diplomatic ties with these countries, and most importantly, the rising competitiveness of Chinese machines.

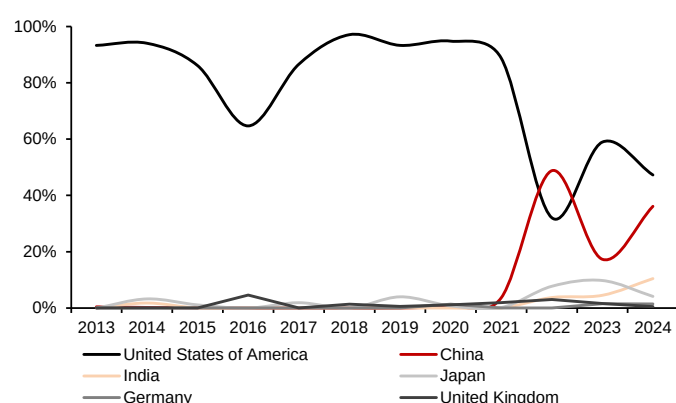
We analyze the import data of Brazil and Africa (based on TradeMap), for the major types of mining machinery. We note that China's share has continued to outpace the US, in particular over the past few years.

■ Brazil

We observe a clear trend of rising Chinese imports but declining US imports across off-highway dump trucks, earth-moving machines and parts.

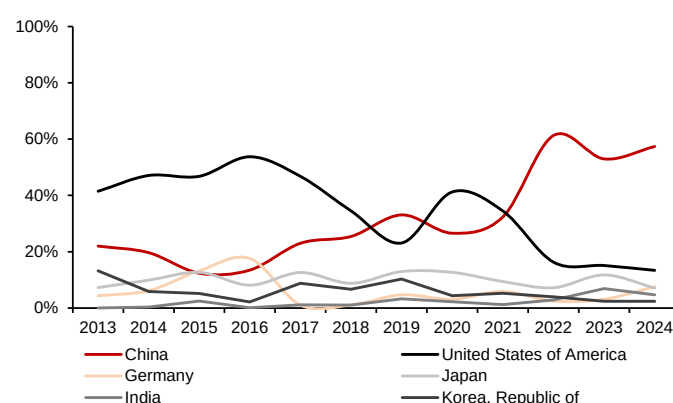
In particular, while Brazil historically sourced almost all of the off-highway dump trucks from the US, the imports from China surged from nil in 2021 to ~40% by 2024.

Figure 21: Brazil's imports of dump trucks for off-highway use, by region



Source: TradeMap, CMBIGM

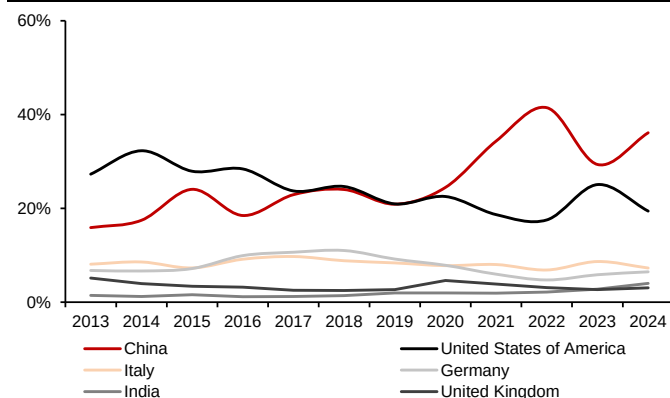
Figure 22: Brazil's imports of earth-moving machinery, by region



Source: TradeMap, CMBIGM

Note: Machines in this chart (category HS 8429) include self-propelled bulldozers, angledozers, graders, levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers.

Figure 23: Brazil's imports of machinery parts, by region

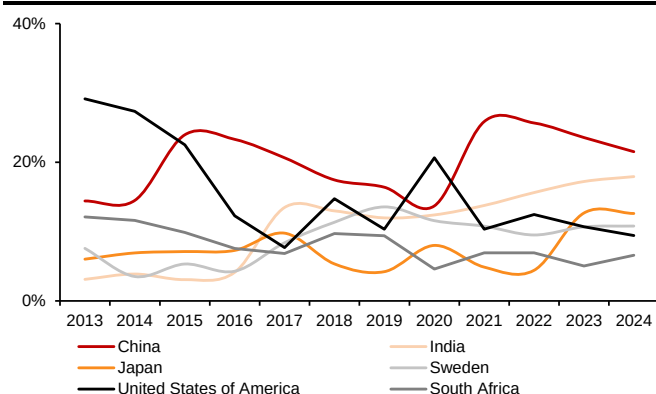


Source: TradeMap, CMBIGM

■ Africa

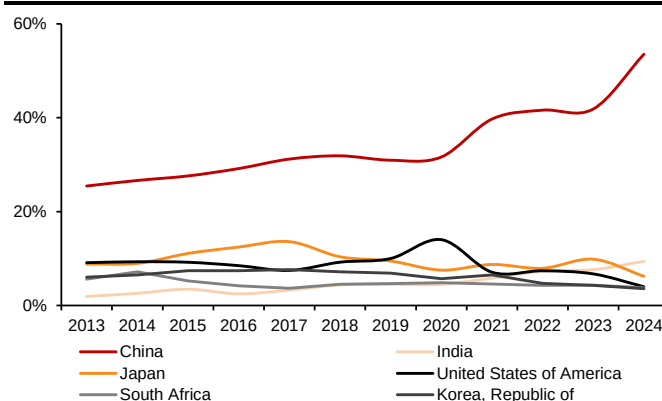
Imports from China have a high percentage in Africa's total imports of mining equipment across all construction and mining machinery, with robust growth in earth-moving machines, as well as parts.

Figure 24: African imports of dump trucks for off-highway use, by region



Source: TradeMap, CMBIGM

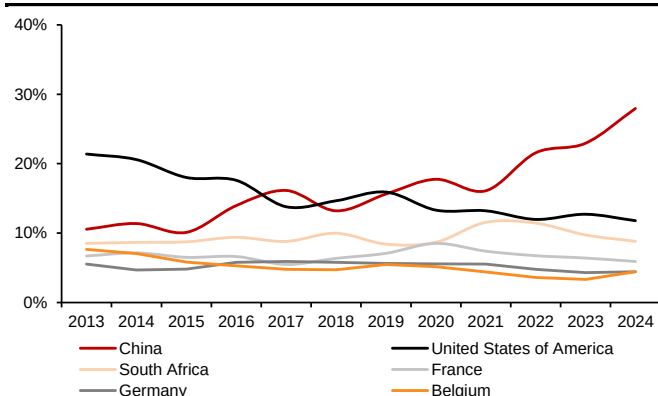
Figure 25: African imports of earth-moving machinery, by region



Source: TradeMap, CMBIGM

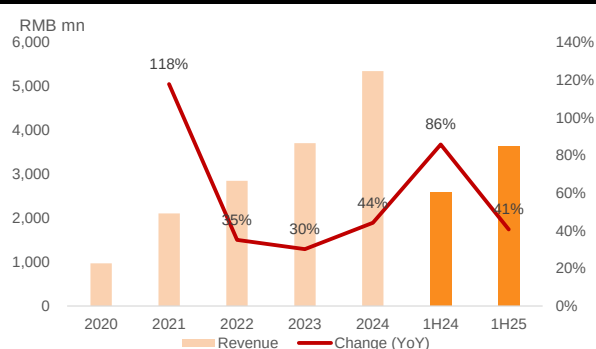
Note: Machines in this chart (category HS 8429) includes self-propelled bulldozers, angledozers, graders, levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers.

Figure 26: African imports of machinery parts, by region



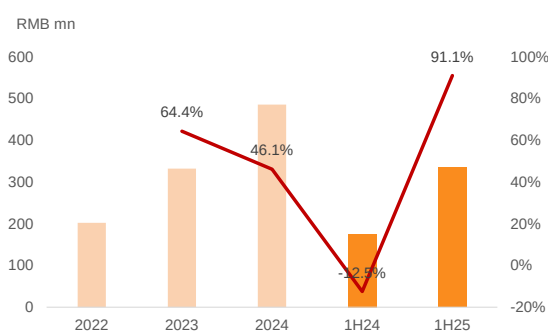
Source: TradeMap, CMBIGM

Figure 27: SANY Heavy's revenue from Africa



Source: Company data, CMBIGM

Figure 28: SANY International's revenue from Africa (mining equipment)



Source: Company data, CMBIGM

China: Yarlung Zangbo River hydropower project to boost new demand

We believe this mega hydropower project will serve as an important driver to boost the new demand for construction machinery. According to an official release ([link](#)), the project will involve a capex of ~RMB1.2tn. Assuming ~20% of the capex will be related to construction machinery with a total construction period of 10 years, the average annual spending will be ~RMB24bn.

Based on our understanding, the tender amount is insignificant in 2025, but will likely surge in 2026-27 to a level that will be enough to boost the machinery demand. At the early stage of construction, earth-moving machine, dump trucks and concrete machinery will likely be the beneficiaries.

Replacement cycle in China: Ongoing for earth-moving machines; Early stage for cranes

Excavator: Expect 13% growth in domestic sales + exports in 2026E

For earth-moving machinery, the replacement cycle has started since last year. Given the large volume of machinery sales in 2017-21, even if we assume ~30% of the volume will not be replaced (amidst the structural decline for property-related demand), we expect the upcycle to continue in 2026E.

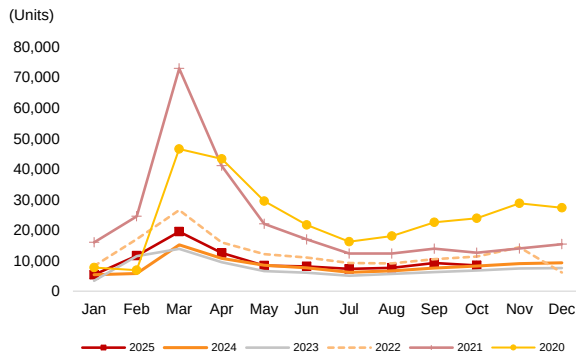
China's domestic sales of excavators have maintained a strong growth trend since mid-2024, driven largely by the recovery of small-size models on the back of municipal projects and small infrastructure spending. In 10M25, sales in China grew 20% YoY to 98k units.

Exports of excavators from China have been resilient as Chinese OEMs continue to focus on the overseas markets. In 10M25, export volume grew 14% to 93.8k units, accounting for around half of the total excavator production in China.

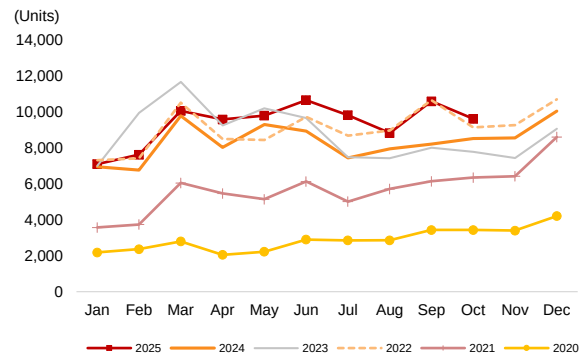
Our projection for 2026E:

We forecast excavator sales volume (domestic sales + exports) to grow 13% YoY in 2026E, based on the following assumptions:

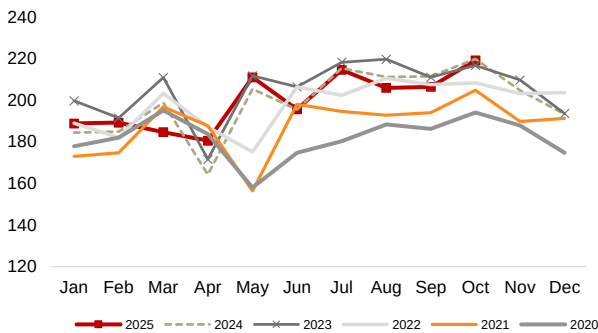
- **China market: To grow 11% YoY to 133k units in 2026E.** Our industry model suggests that the construction-related FAI (i.e. infrastructure + property + mining investment) per unit of operating excavator fell from the peak of ~RMB24mn in 2019 to RMB21.5mn in 2025E (Note: higher amount means tighter supply of the machinery). We assume the per-unit FAI of operating excavators to drop to slightly below RMB21mn in 2026E, given a slowdown of infrastructure spending.
- **Exports: To grow 15% YoY to 133k units in 2026E.** We expect emerging economies such as Africa, the Middle East, Latin America, and India, will continue to be the key markets for Chinese players. In particular, we expect good potential in the mining excavator segment (discussed in previous sections).

Figure 29: Monthly excavator sales in China

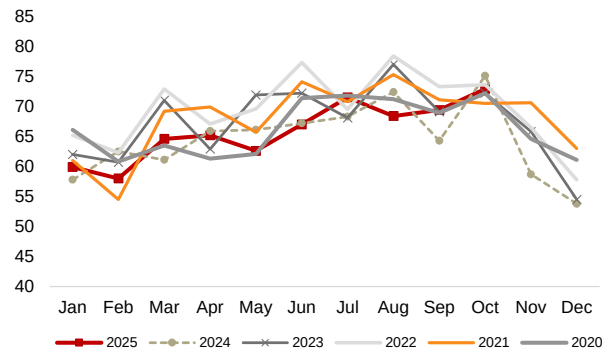
Source: CCMA, CMBIGM

Figure 30: Monthly excavator export volume

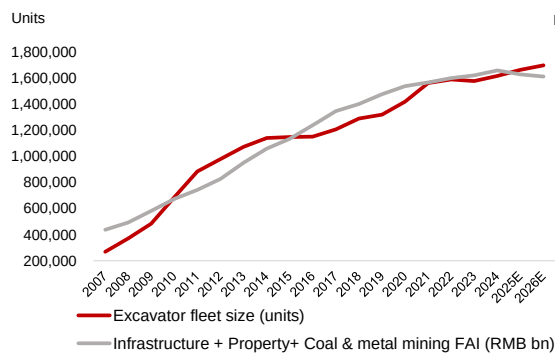
Source: CCMA, CMBIGM

Figure 31: Komatsu excavator monthly utilisation hours in Indonesia

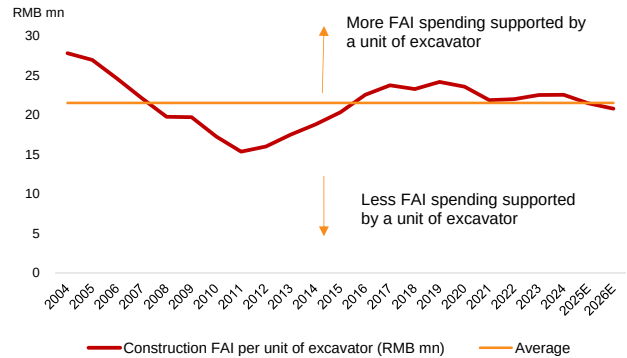
Source: Komatsu, CMBIGM

Figure 32: Komatsu excavator monthly utilisation hours in North America

Source: Komatsu, CMBIGM

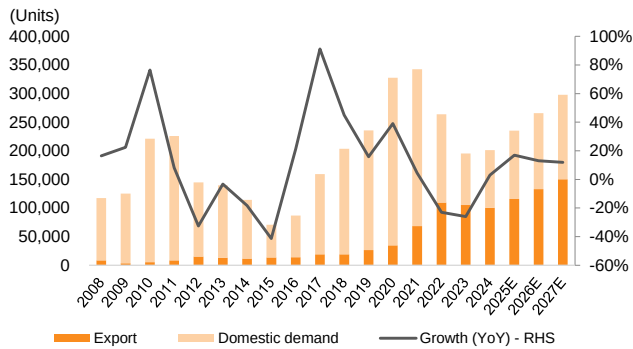
Figure 33: Excavator fleet size versus construction-related FAI

Source: CCMA, Wind, CMBIGM estimates

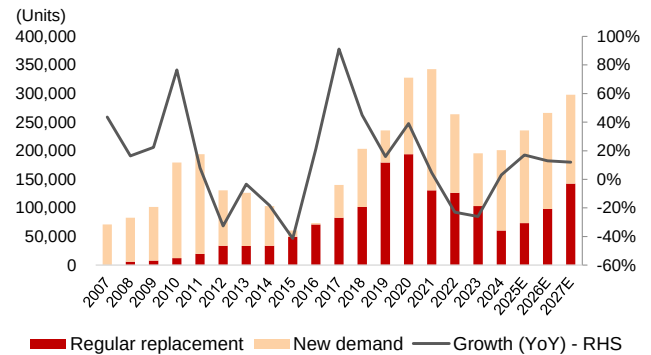
Figure 34: Construction FAI per unit of excavator in operation

Source: CCMA, Wind, CMBIGM estimates

Note: Construction FAI = infrastructure + property + mining

Figure 35: CMBIGM excavator sales projection (breakdown by region)


Source: CCMA, CMBIGM estimates

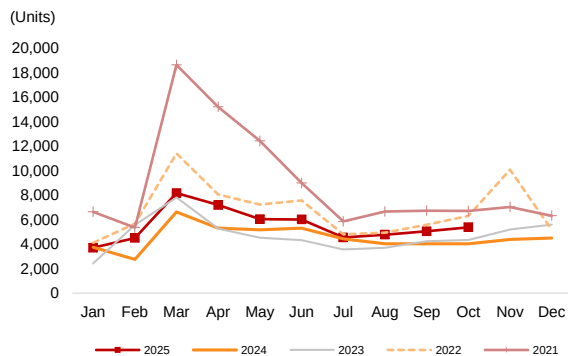
Figure 36: CMBIGM excavator sales projection


Source: CCMA, CMBIGM estimates

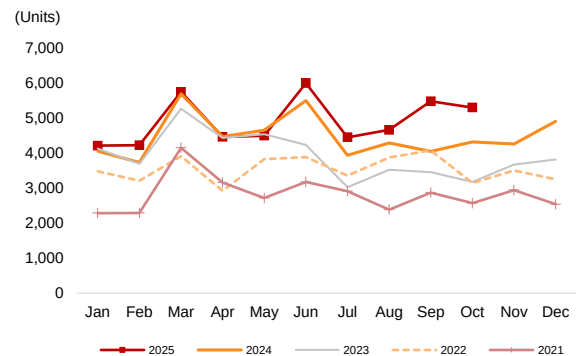
Wheel loader: Electric ratio is already high but expect exports to remain strong

China's domestic sales of wheel loaders grew 22% YoY 55k in 10M25, which is stronger than our expectations. The key driver is the electric model, which surged 158% YoY to 24k units in 10M25. This represented 44% of total domestic sales of wheel loaders, and 23% of total wheel loader sales (including exports).

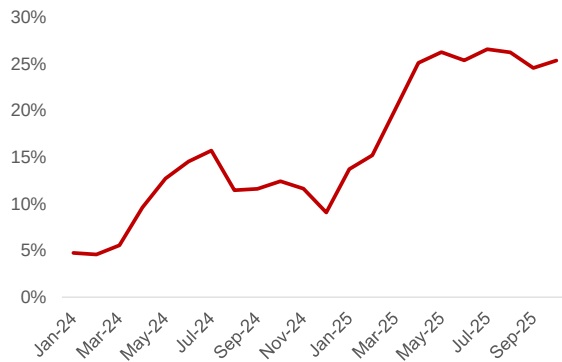
We expect the domestic sales in 2026E to grow 10% YoY, driven by the replacement cycle. We do not expect the electric ratio to further increase as it has remained largely stable at 25-26% since Apr 2025. For export, we forecast the growth in 2026E to reach 15% YoY, helped by the mining demand.

Figure 37: Monthly wheel loader sales in China


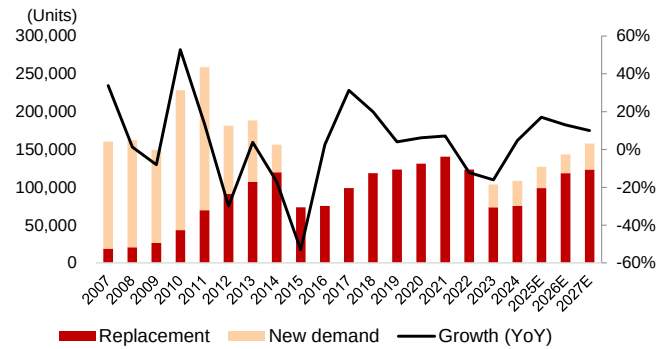
Source: CCMA, CMBIGM

Figure 38: Monthly wheel loader export volume


Source: CCMA, CMBIGM

Figure 39: Electric wheel loader sales as a percentage of total wheel loader sales


Source: CCMA, CMBIGM

Figure 40: CMBIGM wheel loader sales projection


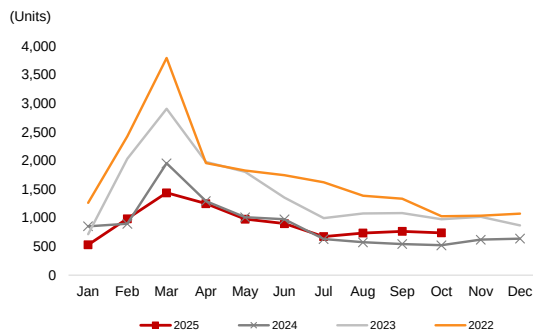
Source: CCMA, CMBIGM estimates

Truck cranes: Replacement cycle has just begun

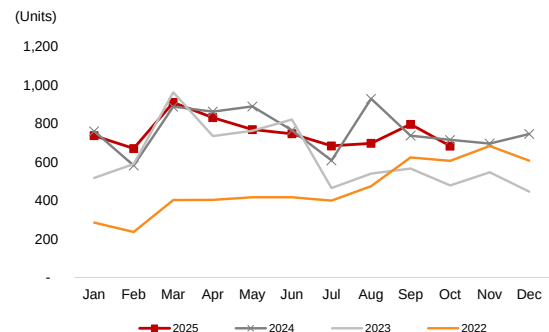
Both truck cranes and crawler cranes sales in China have not only turned positive (YoY) but also reported strong growth rates since mid-2025. We believe they were driven by (1) the beginning of replacement cycle, and (2) demand growth from the power sector such as nuclear and wind power installation.

Projection:

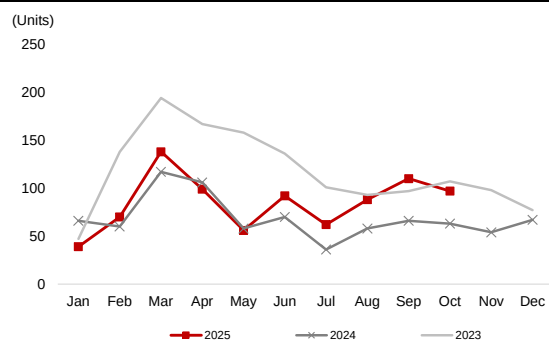
We forecast total sales volume (China sales + exports) to grow 10% YoY in 2026E. Given that the replacement has just started (one year behind earth-moving machinery), we expect the replacement volume will be even higher after 2026E.

Figure 41: Truck crane monthly sales in China


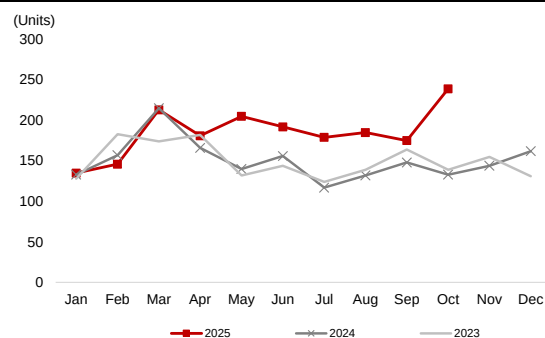
Source: CCMA, CMBIGM

Figure 42: Truck crane monthly export volume


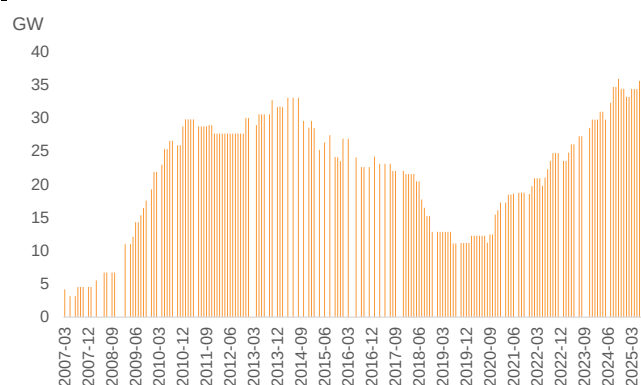
Source: CCMA, CMBIGM

Figure 43: Crawler crane monthly sales in China

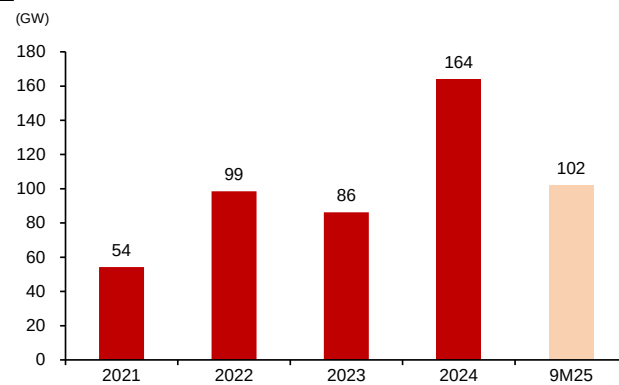
Source: CCMA, CMBIGM

Figure 44: Crawler crane monthly export volume

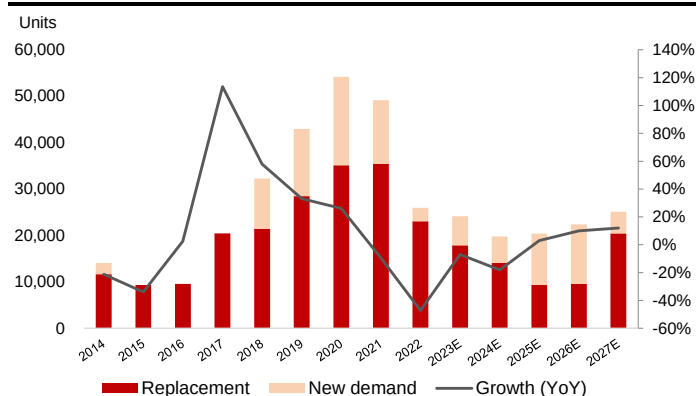
Source: CCMA, CMBIGM

Figure 45: China nuclear power capacity under construction

Source: Wind, CMBIGM

Figure 46: China wind power tender volume

Source: Goldwind, CMBIGM

Figure 47: CMBI truck crane sales projection

Source: CCMA, CMBIGM estimates

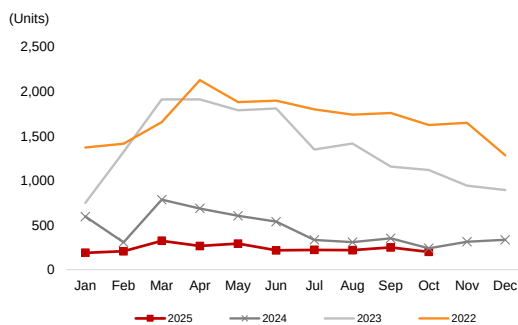
Tower cranes: Still dragged by domestic property weakness but export will help stabilize

For tower cranes, domestic sales have been weak among the major types of machinery due to the high exposure to property investment (almost 100%). That said, the rate of decline (YoY) has been narrowing since Oct. Meanwhile, exports of tower cranes grew 28% YoY in 10M25, accounted for 47% of total tower crane sales.

Projection:

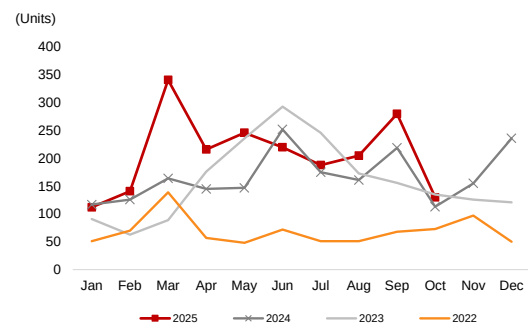
We expect a 5% YoY decline as the weakness in China will continue but will be partially offset by exports whose contribution has become a lot higher.

Figure 48: Tower crane monthly sales in China



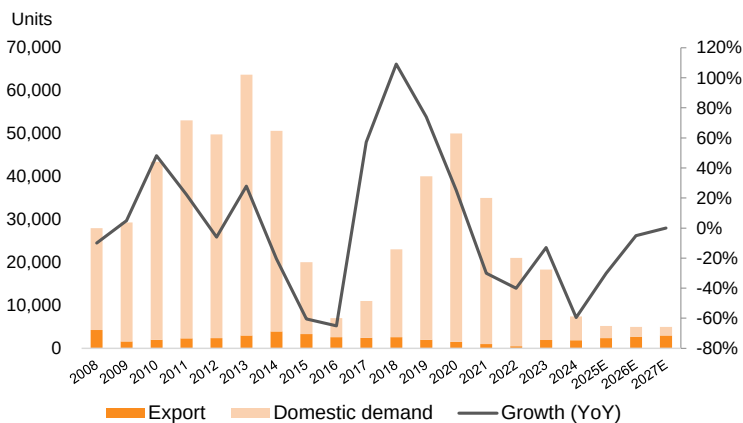
Source: CCMA, CMBIGM

Figure 49: Tower crane monthly export volume



Source: CCMA, CMBIGM

Figure 50: CMBI tower crane sales projection

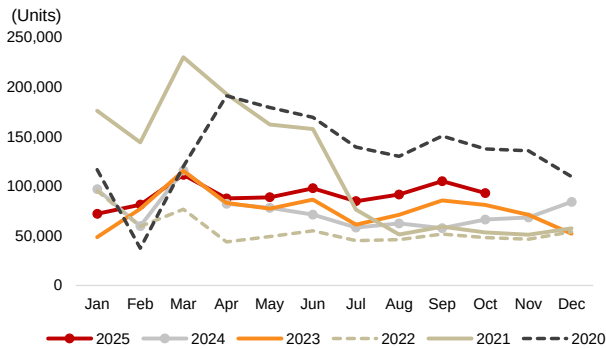


Source: CCMA, CMBIGM estimates

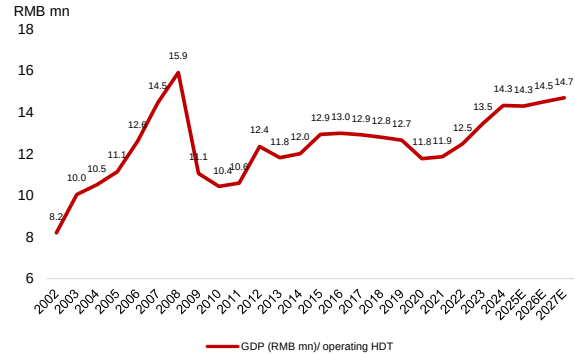
Heavy-duty trucks (HDTs) – Expect volume to stay high on replacement cycle, despite uncertainties over extension of subsidies

Helped by the truck renewal subsidies program launched in Mar 2025, China heavy-duty truck (HDT) wholesale volume (domestic sales + exports) has surged since mid-2025, with sales volume in 10M25 up 24% YoY to 928k units. A trend worth noting in 2025 is the significant increase in electric HDTs' penetration rate, which increased from 3.7% in 2024 to 19% in Oct 2025 (with a record high of 22.8% in Sep 2025), helped by improving product efficiency and renewal subsidies.

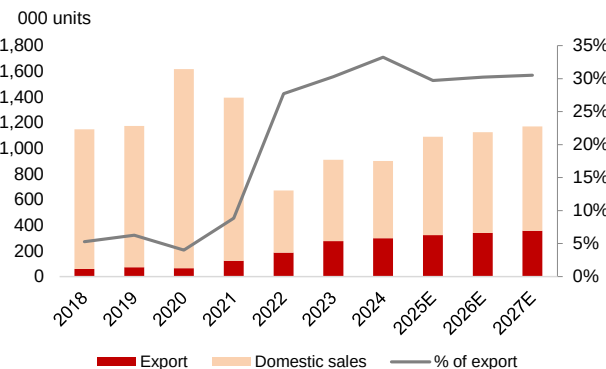
Looking forward, while our industry model shows that the GDP value supported by per unit of operating HDT is on a rising trend (in other words, it requires less HDT capacity to support the generation of a unit of GDP, possible due to change in economic structure), the large volume of old trucks for potential replacement (sales between 2017 and 2021 were a record high) will support the HDT demand to stay high. That said, given that 2025 is a high base year and the extension of renewal subsidies is uncertain at this stage, we only expect 3% YoY growth in HDT sales (China sales + exports) in 2026E.

Figure 51: China HDT monthly sales volume


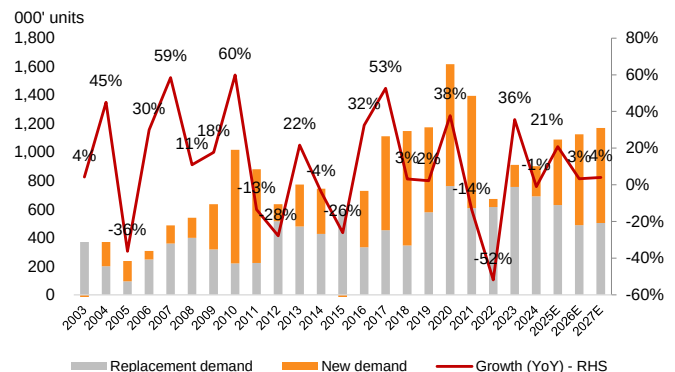
Source: Cwworld, Wind, CMBIGM
Note: Domestic sales + exports

Figure 52: China GDP per unit of operating HDT


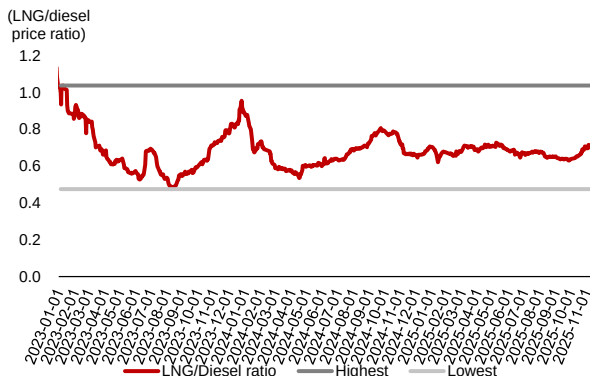
Source: Cwworld, Wind, CMBIGM estimates

Figure 53: Domestic sales and exports of HDTs


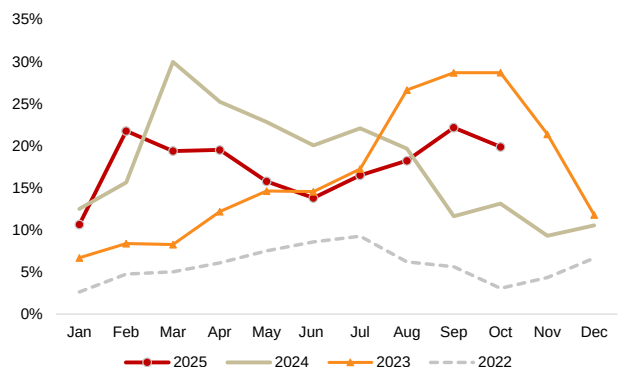
Source: Wind, CMBIGM estimates

Figure 54: CMBIGM HDT sales projection


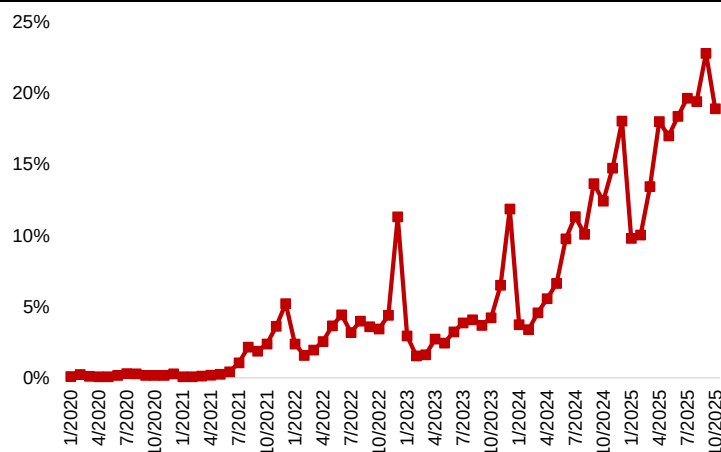
Source: Cwworld, Wind, CMBIGM estimates
Note: China's domestic sales + exports

Figure 55: LNG/diesel price ratio


Source: Wind, Bloomberg, CMBIGM
Note: Based on Shadong diesel price and Shanghai LNG price

Figure 56: Natural gas HDTs as % of total HDTs sold


Source: Wind, Cwworld, CMBIGM

Figure 57: New energy HDTs as % of total HDTs sold

Source: Wind, Cwworld, CMBIGM

Backup power engines driven by data centre growth

An essential part of data centres

Backup power generators in data centers are engineered to bridge the gap between primary grid power and full restoration, in order to ensure zero downtime for servers, cooling systems, and networking equipment. The typical setup integrates multiple layers: uninterruptible power supplies (UPS) for immediate response, followed by generators for sustained outages:

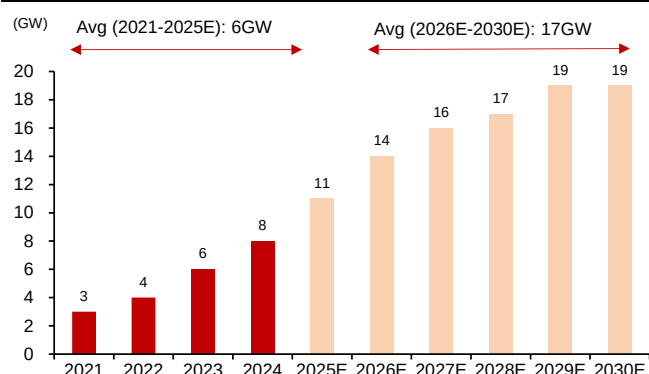
- An automatic transfer switch (ATS) monitors for anomalies. Upon detecting a failure—such as a voltage sag or blackout—the ATS activates the UPS within milliseconds.
- UPS systems, often battery-based, provide 10-30 minutes of bridge power, preventing even brief interruptions that could corrupt data or trigger hardware shutdowns.
- Concurrently, the backup engine starts, typically achieving full load in 10-20 seconds.

The reciprocating internal combustion engine is the core for backup power, which is commonly diesel or natural gas-powered. At present, diesel engines dominate due to their high energy density and self-contained fuel storage. Meanwhile, natural gas engines are gaining traction due to much lower emission.

Potential demand by 2030

Global data center capacity is forecast to nearly double to 163GW by 2030E, from ~78GW in 2025E (according to Bain & Company). Based on this forecast, the average annual data centre capacity addition will be ~17GW in 2026E-30E, far higher than an average of 6GW in 2021-25E.

We expect the solid growth of data centers will boost a corresponding growth of ICE generators for backup power. Assuming a typical 2.5 MW capacity per unit and 50% of data centre backup power to be supported by ICE, we estimate the market size of ICE generators for data centers to expand >70% from ~US\$4bn in 2025E to ~US\$6.8bn in 2030E.

Figure 58: Global data centers newly added capacity

Source: Bain & Company, CMBIGM estimates

Figure 59: Projection of global backup power generator demand (for data centers)

	2020	2025E	2030E
Data center capacity (GW)	46	78	163
Additional data center capacity (GW)	2	11	19
Backup power redundancy	20%	20%	20%
Backup power capacity (GW)	2	13	23
ICE backup power capacity (GW)	1	7	11
ICE generators as % of total backup power	50%	50%	50%
ICE generator ASP (US\$ mn/GW)	600	600	600
ICE generator market size (US\$ mn)	720	3,960	6,840

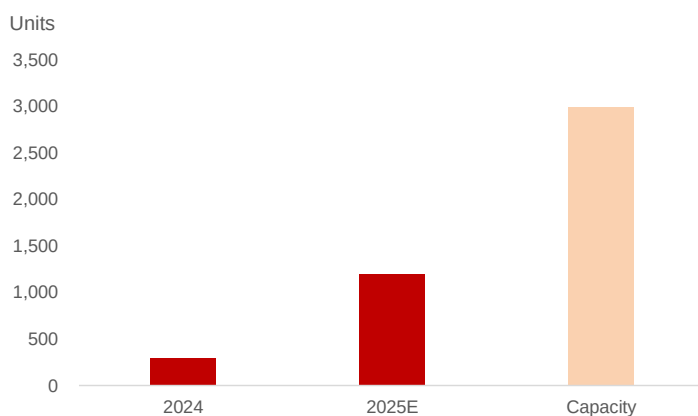
Source: Bain & Company, CMBIGM estimates

Major players are expanding capacity

The prime power and backup power engine sector is currently controlled by only limited players, with Caterpillar, Cummins and MTU (by Rolls-Royce) the top three players. Meanwhile, Weichai is emerging as a fast-growing player in the backup power segment.

- Caterpillar:** In the Investor Day held in Nov 2025, Caterpillar targets to double the power generation equipment sales by 2030 (vs 2024). On the capacity side, the natural gas turbine in 2030 will be 2.5x of that in 2024.
- Cummins:** Cummins revealed in 3Q25 post-results call that it's reaching the end of doubling its large engines capacity (mainly for backup power for data centers). Cummins is also exploring opportunities to offer engines for peak shaving, a way to solve the prime power challenge in data centers.
- Weichai:** We estimate Weichai to deliver 1.2k units of backup power engines (for data centers) in 2025E (+3x YoY). Given that Weichai has 3k units of backup power engine capacity at present, we forecast Weichai to deliver 2k units in 2026E.

Figure 60: Weichai's sales volume and capacity of engines for data centres



Source: Company data, CMBIGM estimates



Uranium

OUTPERFORM

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 Jake Zhang – jakezhang@cmbi.com.hk

Tight uranium supply continues to support a multi-year upcycle

Our bottom-up industry analysis suggests that uranium demand in 2026-30 will likely see upside surprise on the back of power plant's resumption in the US, with structural AI-driven demand growth in the long run (post-2030). On the supply side, however, we forecast existing uranium mines' output to peak in 2027, while new mines contribution will increase from 4% in 2027 to 17% in 2030, making the overall supply vulnerable to potential delay in commencement. The analysis implies that uranium pricing will be well-supported by the tight supply that could last longer-than-expected, which reaffirms our positive stance on the uranium sector. We maintain BUY on **CGN Mining (1164 HK)**.

- **Further upside of nuclear demand likely comes from the US.** We forecast the global nuclear installed capacity to increase 20% to 451GW in 2030 from 377GW in 2024. On top of this forecast, we see two factors to boost further upside: (1) demand arising from the restart of U.S. reactors, fuelled by deregulation; (2) the potential build-up of U.S. strategic reserve proposed by the US Secretary of Energy. Assuming a reserve to support one year of nuclear power generation in the US, ~15.5k tU of uranium will be needed.
- **Production cut by the global top two players to limit the upside of near-term supply.** With Kazatomprom (KAP LI) cutting its uranium licensed production capacity in 2025/26 by 17%/9%, and Cameco (CCJ US) trimming its 2025 production guidance by ~10%, the supply growth in the foreseeable future remains restrictive. We expect this will boost the uranium price over the coming 12-18 months.
- **Uranium supply growth vulnerable to potential delay of new mine commencement.** Our analysis suggests that global uranium output from existing uranium mines will peak in 2027E, and contribution from new mines will increase from 4% in 2027E to 17% in 2030E. Given that the commencement of new mines is subject to many factors and delay is common (due to long lead cycle of 8-15 years), we expect the actual supply will be less than that in the pipeline.
- **Long-term uranium price (post-2030E) will be supported by structural demand growth and tight supply.** Supportive regulatory changes, rising energy needs from AI, cloud services, energy security and climate goals, as well as small modular reactor (SMR) development, are main drivers for demand. On the supply side, long construction cycles, vulnerability to disruptions, a concentrated market landscape, and disciplined production strategies among major producers reinforce a structurally bullish pricing outlook.

Medium-term outlook (2026-30)

Medium-term demand

We forecast global nuclear capacity to reach 451 GW by 2030 (377 GW in 2024), calculated by projects pipeline and potential reactor restarts with explicit timeline.

We see further upside potential arising from U.S. reactor restarts (total net capacity of shutdown reactors as of Dec 2025: ~20 GW, according to IAEA PRIS), where regulatory processes are faster than that in Japan, despite the latter's larger potential size of capacity restart (total net capacity of shutdown and suspension as of 1 Dec 2025: 19 GW and 17 GW, respectively, according to IAEA PRIS).

Figure 1: Uranium demand projection

Uranium demand	Unit	2024A	2025E	2026E	2027E	2028E	2029E	2030E
Assumptions:								
Uranium consumption rate	160 tU/GW/Yr							
Uranium storage requirement	2 year(s)							
Secondary demand for financial investments	7,000 tU/Yr							
Projections:								
# of new nuclear reactors	Unit	-	11	10	12	8	9	6
# of restarted nuclear reactors	Unit	-	1	0	1	2	1	0
Change in year-end # of nuclear reactors	Unit	4	12	10	13	10	10	6
# of year-end nuclear reactors	Unit	417	429	439	452	462	472	478
Growth rate (yoy)	%	1%	3%	2%	3%	2%	2%	1%
Change in year-end nuclear capacity	GW	5	12	10	13	12	15	11
Year-end nuclear capacity	GW	377	389	399	412	424	440	451
Growth rate (yoy)	%	1%	3%	3%	3%	3%	4%	2%
Uranium consumption rate	tU/GW/Yr	160	160	160	160	160	160	160
Uranium storage requirement	Year(s)	2	2	2	2	2	2	2
Uranium demand: power generation	tU	60,322	62,222	63,851	65,963	67,911	70,361	72,095
Uranium demand: storage	tU	1,750	3,801	3,257	4,224	3,896	4,900	3,468
Uranium demand for nuclear reactors	tU	62,072	66,023	67,108	70,187	71,807	75,260	75,563
Secondary demand	tU	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Total demand	tU	69,072	73,023	74,108	77,187	78,807	82,260	82,563
Growth rate (yoy)	%	4%	6%	1%	4%	2%	4%	0%

Source: IAEA PRIS, WNA, CMBIGM estimates

Figure 2: Nuclear power installed capacity projection (MW)

Country	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E
USA	95,835	96,952	97,757	98,562	100,186	102,411	104,636	106,861
France	61,370	63,000	63,000	63,000	63,000	63,000	63,000	63,000
China	53,152	55,320	58,204	63,250	71,223	76,926	84,858	86,167
Russia	27,727	26,802	29,202	29,502	29,502	29,502	30,652	30,652
Korea	25,825	25,609	28,289	28,289	28,289	28,289	28,289	28,289
Ukraine	13,107	13,107	13,107	13,107	13,107	13,107	13,107	13,107
Canada	13,699	12,714	12,714	12,714	12,714	12,714	12,714	12,714
Japan	11,046	12,631	12,631	12,631	12,631	13,691	16,066	18,441
Spain	7,123	7,123	7,123	7,123	7,123	7,123	7,123	7,123
Sweden	6,944	7,008	7,008	7,008	7,008	7,008	7,008	7,008
India	6,290	6,920	7,390	9,224	11,688	11,688	11,688	11,688
UK	5,883	5,883	5,883	5,883	5,883	5,883	7,513	9,143
UAE	4,011	5,348	5,348	5,348	5,348	5,348	5,348	5,348
Finland	4,394	4,369	4,369	4,369	4,369	4,369	4,369	4,369
Czech	3,934	3,963	3,963	3,963	3,963	3,963	3,963	3,963
Belgium	3,908	3,908	3,908	3,908	3,908	3,908	3,908	3,908
Pakistan	3,262	3,262	3,262	3,262	3,262	3,262	3,262	3,262
Switzerland	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
Slovakia	2,308	2,302	2,742	2,742	2,742	2,742	2,742	2,742
Belarus	2,220	2,220	2,220	2,220	2,220	2,220	2,220	2,220
Bulgaria	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006
Hungary	1,916	1,916	1,916	1,916	1,916	1,916	1,916	1,916
Brazil	1,884	1,884	1,884	1,884	1,884	1,884	1,884	1,884
South Africa	1,854	1,854	1,854	1,854	1,854	1,854	1,854	1,854
Argentina	1,641	1,641	1,641	1,641	1,666	1,666	1,666	1,666
Mexico	1,552	1,552	1,552	1,552	1,552	1,552	1,552	1,552
Romania	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Taiwan	1,874	938	938	938	938	938	938	938
Iran	915	915	915	915	915	1,889	1,889	1,889
Slovenia	688	696	696	696	696	696	696	696
Netherlands	482	482	482	482	482	482	482	482
Armenia	416	416	416	416	416	416	416	416
Türkiye	0	0	1,114	2,228	3,342	4,456	4,456	4,456
Bangladesh	0	0	1,080	2,160	2,160	2,160	2,160	2,160
Egypt	0	0	0	0	0	1,100	1,100	4,400
Capacity (MWe)	371,539	377,014	388,887	399,066	412,266	424,442	439,754	450,593
Net Change		5,475	11,873	10,179	13,200	12,176	15,312	10,839
Growth YoY		1%	3%	3%	3%	3%	4%	2%

Source: IAEA PRIS, WNA, CMBIGM estimates

A new driver under the Trump administration is the potential build-up of strategic reserves for national security. While the strategic reserves focus mainly on enriched uranium, we see potential increase in demand for uranium. Assuming a storage level for one year's nuclear power generation, the U.S. government would need ~15.5k tU of uranium for the reserve.

Figure 3: Independent nuclear fuel cycle plan of the U.S. and EU

United States	
Mar-25	U.S. President Donald Trump signed an executive order to increase domestic production of critical minerals, including uranium, by identifying and approving priority projects immediately
Sep-25	U.S. Energy Secretary Chris Wright announced plans to expand the nation's strategic enriched uranium reserve to reduce dependence on Russia
EU	
May-25	the European Commission outlined a roadmap called RepowerEU to eliminate Russian uranium imports. In Action 5, it plans to build the EU's nuclear value chain and restrict new supply contracts for nuclear materials from Russia

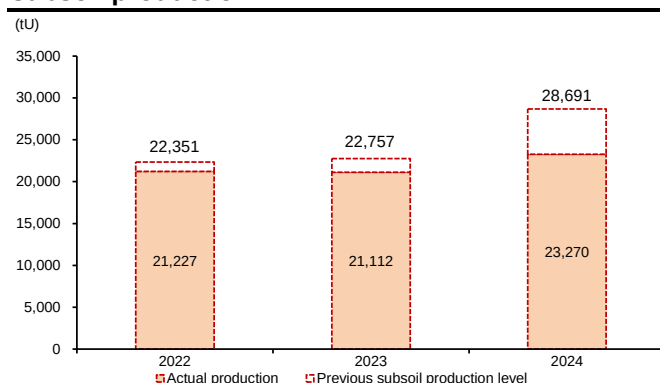
Source: The White House, Bloomberg, European Commission, CMBIGM

Medium-term supply

In Aug 2025, KAP reduced its Subsoil Use Agreement (SUA) levels (which is defined as the nominal licensed production capacity) by 17%/9% for 2025/26, respectively. KAP said these adjustments “reflect current market conditions and aim to preserve reserves for anticipated market deficits beyond 2030”.

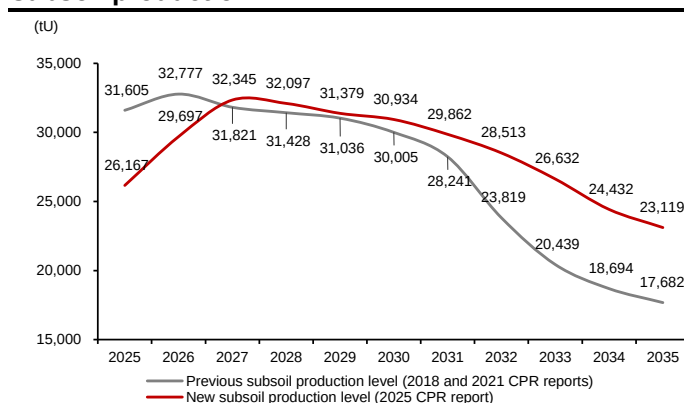
We believe the actual reduction on the production volume could be less than the aforementioned percentage, as the historical production has consistently fallen below SUA levels (e.g., by 5%/7%/19% in 2022/23/24, respectively). That said, it shows that upside on production will become difficult in the near-term.

Figure 4: KAP actual production and previous subsoil production



Source: KAP data book, CMBIGM

Figure 5: Comparison of KAP previous and current subsoil production



Source: KAP data book, CMBIGM

In the same month, Cameco lowered its 2025 production guidance by 8%-11% (previous guidance: 36 mn pounds U3O8, equivalent to 13.8k tU; current guidance: 32-33 mn pounds U3O8, equivalent to 12.4k-12.7k tU), due to the delays in transitioning the McArthur River mine to new mining areas.

By applying a bottom-up approach, we project that new mines could contribute 14k tU in 2030, which will account for 17% of the output in 2030 (vs 4% in 2025E). We see uncertainties on the actual time of commencement that will affect the actual output.

Figure 6: Uranium supply projection

Country	2025E	2026E	2027E	2028E	2029E	2030E
Kazakhstan	25,750	27,538	31,821	31,428	31,036	30,005
Canada	12,809	13,712	14,385	15,065	17,168	19,336
Namibia	8,654	9,413	10,700	11,285	11,859	12,146
Australia	4,657	5,272	5,272	5,272	5,272	5,273
Uzbekistan	3,300	3,300	3,300	3,300	3,300	3,300
Russia	2,508	2,508	2,508	2,997	3,974	4,463
Mainland China	1,700	1,700	1,700	1,700	1,700	1,700
India	600	600	600	600	600	600
United States	478	1,317	1,721	2,043	2,226	2,308
Malawi	231	923	923	923	923	924
South Africa	200	200	200	200	200	200
Finland	128	170	170	170	170	170
Ukraine	100	100	100	100	100	100
Pakistan	45	45	45	45	45	45
Brazil	43	43	458	1,287	1,701	1,845
Iran	20	20	20	20	20	20
Niger	0	298	893	1,190	1,190	1,190
Tanzania	0	0	0	0	0	638
Total production (tU)	61,222	67,158	74,815	77,624	81,484	84,262
Growth rate YoY	8%	10%	11%	4%	5%	3%

Source: IAEA PRIS, WNA, Company websites, Company reports, CMBIGM estimates

Figure 7: Planned/ prospective/ expansionary uranium mines production forecast

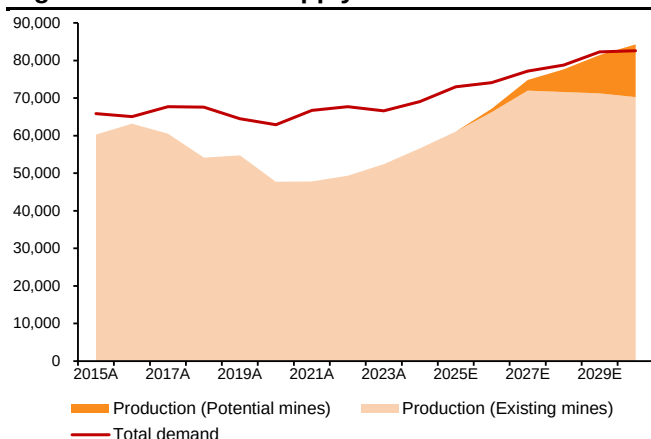
Key assumption:

- 1 Utilization rate 85%
- 2 Fully ramp-up in: 3 years
- 2 Assuming start at the middle of the year

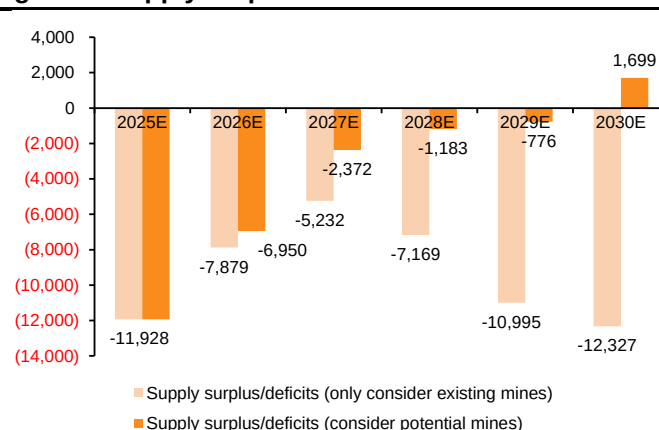
Country	Mine	Starting year	Nominal capacity (tU)	2024	2025	2026	2027	2028	2029	2030
Finland	Terraframe	2024	200	43	128	170	170	170	170	170
China	Ordos	2025	NA		NA	NA	NA	NA	NA	NA
United States	Shirley Basin	2026	770			164	491	655	655	655
Namibia	Tumas	2026	1,400			298	893	1,190	1,190	1,190
Niger	Dasa	2026	1,400			298	893	1,190	1,190	1,190
Brazil	Santa Quitéria	2027	1,950				415	1,244	1,658	1,658
United States	Dewey-Burdock	2028	385					82	245	327
Namibia	Etango	2028	1,350					287	861	1,148
Canada	Phoenix(a)	2028	3,200					680	2,040	2,720
Russia	Priargunsky (Mine 6)	2028	2,300					489	1,466	1,955
Canada	Triple R(b)	2029	3,500						744	2,231
Brazil	Caetité Expansion	2030	678							144
Tanzania	Mkuju River	2030	3,000							638
Russia	Elkon	2040	5,000							
Total				43	128	929	2,861	5,986	10,219	14,026

Source: IAEA PRIS, WNA, Company websites, Company reports, CMBIGM estimates

Notes: 1)The starting years are production beginning years estimated by WNA Red Book 2024; 2) the production capacity of Ordos mine in China is not disclosed officially

Figure 8: Demand & supply of uranium

Source: IAEA PRIS, WNA, CMBIGM estimates

Figure 9: Supply surplus/ deficit of uranium

Source: IAEA PRIS, WNA, CMBIGM estimates

Long-term outlook (post-2030)

Long-term demand

Following the initiatives to triple the nuclear power by 2050 at COP28, several countries set specific nuclear targets in 2025. Besides, the Trump administration set a target to quadruple the nuclear installed capacity to 400 GW by 2050, a further increase from the Biden administration's target of 300 GW.

We continue to see key long-term drivers from: (a) explosive demand from AI and cloud services; (b) SMR commencement; (c) energy security; and (d) climate goals.

Figure 10: Favourable nuclear policies

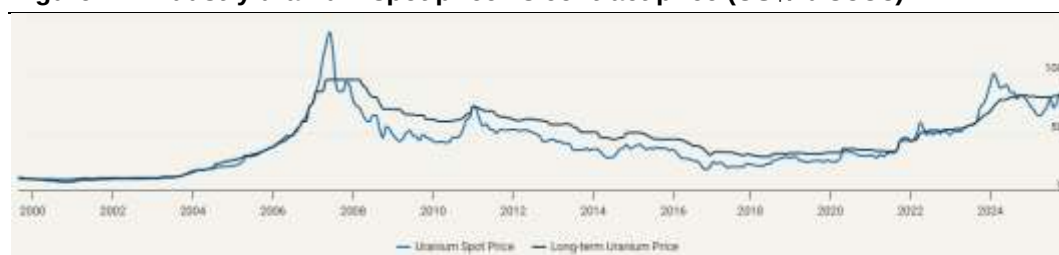
Country/ Org.	Date	Policy
Czech	Jan-25	Planned to increase nuclear power share from 40% in 2023 to 44% in 2030 and 68% in 2040
Japan	Feb-25	Basic Energy Plan: Planned to increase nuclear power generation share from 8.5% to 20% by 2040
Korea	Feb-25	Planned to increase nuclear power generation share from 31.4% in 2024 to 35.2% in 2038
Russia	Apr-25	Energy Strategy 2050: Planned to increase nuclear power generation share to 25%
U.S.	May-25	President Trump signed executive order to quadruple U.S. installed nuclear capacity to 400 GWe by 2040
Indonesia	May-25	Planned to add 10 GW of installed nuclear power capacity by 2040
Danmark	May-25	Considered lifting its 40-year ban on nuclear power development to enhance energy security
Belgium	May-25	Overtaken the "nuclear power phase-out" policy
France	May-25	Approved legislation to raise nuclear capacity by 27 GWe by 2050
The World Bank	Jun-25	Lifted its long-standing ban on financing nuclear power
UK	Sep-25	UK and U.S. companies signed multiple deals to build at least 6 GWe nuclear power in UK
U.S.	Oct-25	The US government and Cameco (CCJ US)/ Brookfield Asset Management (BAM US) announced they had struck an \$80bn deal to build a fleet of new nuclear reactors across the states

Source: Public information, CMBIGM

Long-term supply

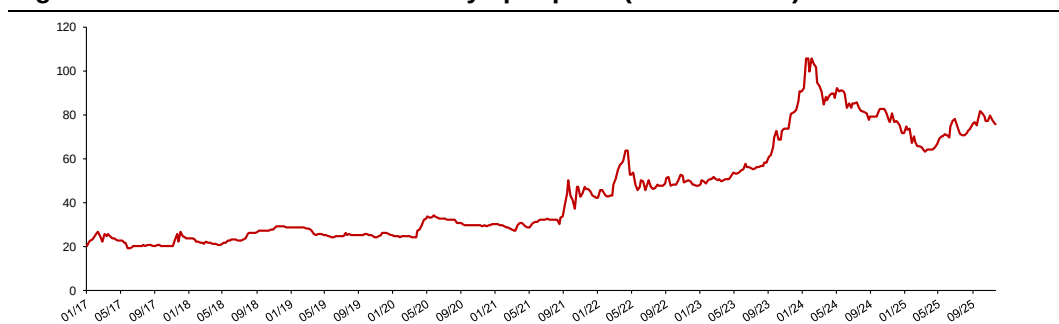
Recent disruptions at key uranium mines (e.g., KAP's SUA production cuts, CCJ's reduced production guidance, Niger mines affected by nationalization, and Langer Heinrich's full production postponed two years to 2027) underscore supply volatility. Besides, new projects, with long lead time of 8-15 years, increase the uncertainties of actual commencement time. In addition, the secondary supply (historically accounted for ~10% of global supply) is diminishing over time. All these point to supply risk which is supportive to the uranium price.

Uranium Price

Figure 11: Industry uranium spot price vs contract price (US\$/lb U3O8)

Source: UxC, TradeTech, Cameco, CMBIGM

Note: as of 31 Oct 2025

Figure 12: UxC Uranium U3O8 weekly spot price (US\$/lb U3O8)

Source: Bloomberg, CMBIGM

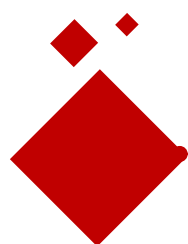
Note: as of 24 Nov 2025

Figure 13: Peers comp

Ticker	Company	Rating	Price (local currency)	Market cap (US\$ mn)	PE (x)		PB (x)		Yield (%)
					FY25E	FY26E	FY25E	FY26E	FY25E
US listed									
NXE US Equity	NEXGEN ENERGY LT	NR	9.05	5,924	n/a	n/a	2.9	3.4	0.0
UEC US Equity	URANIUM ENERGY	NR	12.03	5,812	n/a	91.1	4.7	4.8	n/a
DNN US Equity	DENISON MINES CO	NR	2.59	2,324	n/a	n/a	5.3	5.9	n/a
UUUU US Equity	ENERGY FUELS INC	NR	15.05	3,345	n/a	171.0	n/a	n/a	n/a
EU US Equity	ENCORE ENERGY CO	NR	2.70	506	n/a	n/a	n/a	n/a	n/a
CCJ US Equity	CAMECO CORP	NR	88.23	38,416	85.0	58.5	5.5	5.0	0.2
URG US Equity	UR-ENERGY INC	NR	1.33	500	n/a	n/a	n/a	n/a	n/a
UROY US Equity	URANIUM ROYALTY	NR	3.75	519	83.1	402.6	n/a	n/a	n/a
Average					84.0	180.8	4.6	4.8	0.1
Canada listed									
NXE CN Equity	NEXGEN ENERGY LT	NR	12.66	5,904	n/a	n/a	4.1	4.7	0.0
EFR CN Equity	ENERGY FUELS INC	NR	21.03	3,330	n/a	171.2	n/a	n/a	n/a
EU CN Equity	ENCORE ENERGY CO	NR	3.78	504	n/a	n/a	n/a	n/a	n/a
CCO CN Equity	CAMECO CORP	NR	123.56	38,329	85.3	58.8	7.8	6.9	0.2
URE CN Equity	UR-ENERGY INC	NR	1.86	499	n/a	n/a	n/a	n/a	n/a
URC CN Equity	URANIUM ROYALTY	NR	5.26	518	83.5	404.6	n/a	n/a	n/a
ISO CN Equity	ISOENERGY LTD	NR	12.00	468	99.2	n/a	n/a	n/a	n/a
Average					89.3	211.5	5.9	5.8	0.1
UK listed									
KAP LI Equity	NAC KAZATOG-REGS	NR	57.90	19,846	12.8	10.0	2.8	2.4	5.5
Australia listed									
PDN AU Equity	PALADIN ENERGY	NR	8.48	2,487	116.3	16.3	3.4	2.9	0.0
BOE AU Equity	BOSS ENERGY LTD	NR	1.69	458	n/a	11.7	1.3	1.3	0.0
DYL AU Equity	DEEP YELLOW LTD	NR	1.68	1,067	n/a	n/a	2.8	2.6	0.0
Average					n/a	14.0	2.5	2.3	0.0
HK listed									
1164 HK Equity	CGN Mining	BUY	3.21	3,134	87.8	26.2	5.6	4.6	0.2

Source: Bloomberg, company data, CMBIGM estimates

Note: as of 3 Dec 2025



China Insurance

China Insurance

OUTPERFORM

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Pivoting to quality-driven growth

We believe the Chinese insurance sector is entering a new phase of transformation in 2025, regulated with the “anti-involution” policies and accelerated insurance fund entry into the capital markets. The sector is embarking on a comprehensive transition toward high-quality development, focusing on balanced value growth and optimized asset-liability matching. For life insurers, the PIR cuts in recent years guided with a market-oriented benchmark issued by the China Insurance Association (IAC) have steadily lowered the liability cost and fueled growth of participating insurance, which is likely to take place of traditional increasing whole-life insurance (IWLP) in 2026E in our view. We see participating insurance products back to the spotlight during the jumpstart sales of 2026, and expect a comeback of era for floating yield product sales. For P&C insurers, the non-auto commission restructuring that took effect on Nov. 1 could strengthen the sector’s underwriting performance, while it could weigh on premium income growth in the near term based on our view. On the other hand, auto insurance overseas expansion can construct a second growth curve for premium increase.

Given the changing dynamics in both Life and P&C insurance sectors, we summarize the key themes in 2026E: 1) For life insurers, should eye on investment-driven earnings flexibility and the progress on floating yield product shift; 2) For P&C insurers, should follow the non-auto CoR improvement and incremental contributions from the auto insurance overseas expansions.

We maintain the “OUTPERFORM” rating on the insurance sector, given 1) an accelerated transition to participating insurance products among top players, which lowered the interest rate sensitivity of NBV as evidenced in 1H25; 2) increasing allocation to equity investments, as participating insurance accounts typically enjoy higher risk tolerance on the risky assets; and 3) the policy-induced COR improvement on non-auto commercial lines could unleash ample headroom for UW profitability. By 3Q25, the total net profit of five listed insurers grew 68% YoY to RMB 247.8bn, with net investment results contributing 76% of pre-tax income. Unlike the previous year, net investment result was boosted by realized investment gains.

Figure 1: Sector’s valuation table

Company	Ticker	Rating	12M TP (LC)	Price (LC)	Upside/Downside	Mkt Cap (LC bn)	P/EV(x)		P/B (x)		Yield (%)	
							FY25 E	FY26 E	FY25 E	FY26 E	FY25E	FY26E
China/HK:												
Ping An	2318 HK	BUY	75.00	56.70	25.2%	1,027	0.61x	0.56x	0.87x	0.80x	5.3%	5.5%
China Life	2628 HK	BUY	31.00	26.86	8.0%	759	0.43x	0.40x	1.07x	0.96x	4.4%	4.5%
CPIC	2601 HK	BUY	40.00	30.88	29.5%	297	0.44x	0.41x	0.92x	0.84x	4.3%	5.0%
NCI	1336 HK	BUY	54.00	46.38	16.4%	145	0.47x	0.43x	1.26x	1.11x	6.3%	5.2%
China Taiping	966 HK	BUY	15.00	17.37	-13.6%	62	0.17x	0.15x	0.80x	0.72x	2.2%	2.3%
PICC Group	1339 HK	BUY	8.00	7.05	13.5%	312	0.47x	0.43x	0.92x	0.83x	3.7%	4.3%
PICC P&C	2328 HK	BUY	23.60	17.66	22.3%	393	n.a	n.a	1.27x	1.19x	4.6%	4.8%
ZhongAn Online	6060 HK	BUY	23.00	15.37	49.6%	26	n.a	n.a	0.97x	0.95x	0.0%	0.0%
Sunshine Group	6963 HK	NR	n.a	3.62	n.a	42	0.30x	0.27x	0.60x	0.57x	6.1%	6.6%
						Average	0.41x	0.38x	0.96x	0.88x	4.1%	4.2%
Regionals:												

AIA	1299 HK	BUY	94.0	58.2	61.7%	847	1.44x	1.26x	2.45 x	2.20 x	2.4%	2.6%
Prudential	2378 HK	BUY	125.0	65.9	89.7%	287	0.99x	0.87x	1.97 x	1.82 x	1.8%	2.1%
Average							1.22x	1.07x	2.21 x	2.01 x	2.1%	2.4%

Source: Bloomberg, CMBIGM estimates| Note: stock price data quoted by market close on Nov 28, 2025; earnings forecasts on Sunshine Group (6963 HK, NR) is based on Bloomberg consensus.

■ Strengthened policy support

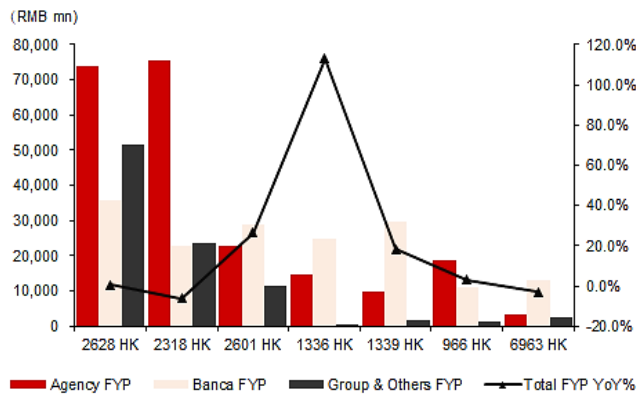
On the backdrop of a strategic transition period entering the "Fifteenth Five-Year Plan", we remain constructive on China's commercial insurance to play a pivotal role in improving social security as well as serving the needs of real economy. The keywords for 2026E, as we expect, could be disciplined oversight, risk prevention, and quality-driven growth, for which key measures include 1) implementation of the revised new Insurance Law; 2) tightening tiered supervision from large-sized to small-and medium-sized institutions; 3) filling discipline, to align actual pricing with regulatory-filed commission rates; and 4) prioritizing sustainable underwriting over scale by de-emphasizing KPIs on premium, etc. Looking ahead, we expect the future growth of the China insurance sector to be fueled by a supportive policy environment and opportunities from aging population and enhancing awareness on personal health management. Top players are likely to win more market shares.

■ Life insurance: a full pivot to participating product sales in 2026E.

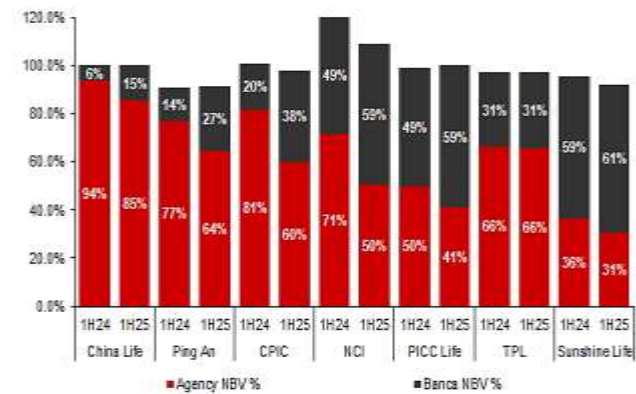
Given the decline of market interest rates, the IAC lowered the benchmark pricing rate by 14bps to 1.99% in July 2025, followed by the reductions of the pricing rates for traditional, participating (PAR), and universal life products by 50bps/25bps/50bps to 2.0%/1.75%/1.0%. The narrowed gap of PIR between traditional and participating insurance products could signal the regulators' aim to shift the focus to PAR products to mitigate the spread loss risk. We expect to see a full pivot to participating product sales in 2026E, as traditional products with locked IRR of less than 2% tend to be less appealing to customers compared with PAR policies, which offer a 25bp lower guaranteed rate but potential upside from the variable components.

With strengthened capital market expectations, if taking an illustration rate for participating life insurance of 3.5%-4.0% and a fulfillment rate of 70%, we estimate that the clients' ROI could achieve 2.61%-2.85%, significantly higher than the guaranteed rate for traditional life. We believe this reduction of liability cost induced by the product shift could underpin a rise in NBV margin. In 2026E, we expect the sector's NBV to sustain a boost by margin increase.

The commission restructuring for agency channel was implemented within the year. So far, the "unified reporting and sales" rules have been implemented across distribution channels. We believe regulators are guiding the industry to shift from the reliance on spread income to improvement on mortality and expense margins, which would further boost NBV margin, yet lead to near-term pressure on premium income. In 2025, agency FYP declined while the agency scale has largely stabilized across top peers, which reaffirms the trend to high-quality growth. Unlike agency, bancassurance channel rapidly expanded in 2025, thanks to the easing branch cooperating limit and commission restructuring policies. By 1H25, total bancassurance FYP of the seven H-share listed life insurers grew 66% YoY to RMB 166bn, among which NCI/China Life/CPIC Life/Ping An Life's elevated 150%/111%/96%/75% YoY. Total bancassurance NBV of the listed seven was more than doubled to RMB 25bn in 1H25, lifting the channel's new business margin (FYP basis) on average to 17.4%, up 2.3pct YoY.

Figure 2: 1H25 FYP by distribution for H-share listed insurers


Source: Company data, CMBIGM

Figure 3: 1H25 NBV mix by agency and bancassurance


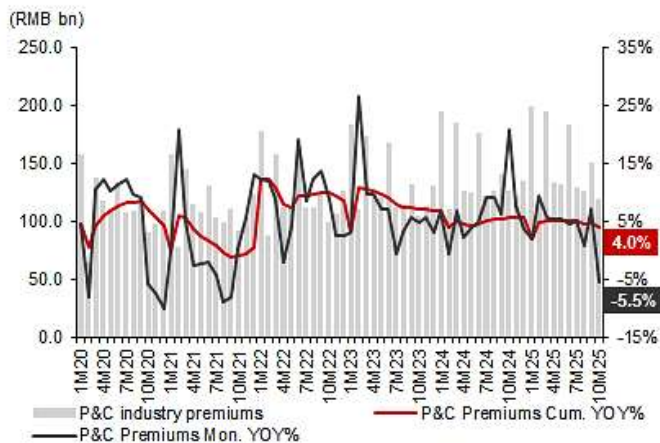
Source: Company data, CMBIGM

Looking into 2026E, we expect to see a more balanced development between agency and bancassurance channels, alongside a cross-sector transition to participating product sales. Despite short-term headwinds on agency FYP, the channel will continue to be a strategic proposition for top insurers, given its edge on cross-selling diversified and complex product suites, maintaining high-net-worth (HNW) client relationships, and expanding to new client base with extensions to state-owned banks, leading joint-stock and city commercial banks. Regarding competitive landscape, we believe that top insurers are capable of consolidating Group resources to leverage on brand recognition and capital advantages to secure shares.

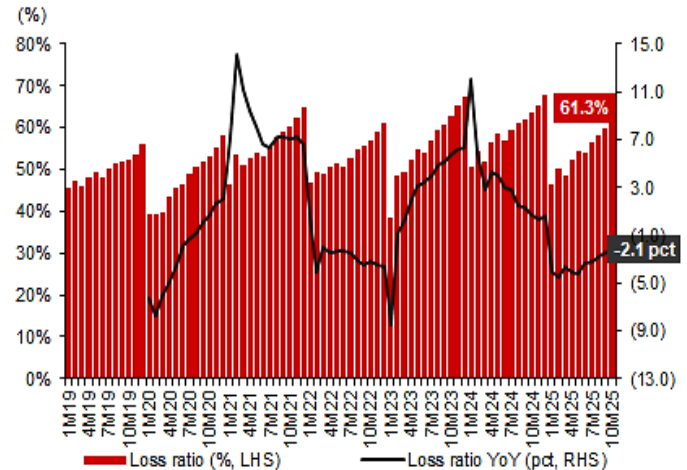
■ P&C Insurance: non-auto CoR could noticeably improve; auto insurance overseas expansion constructs a second growth curve.

In Oct 2025, the NFRA expanded the commission restructuring to non-auto lines of the P&C insurers which took effect on Nov.1. The rules require P&C insurance players to align actual prices with regulatory-filed actuarial assumptions, and tighten filling discipline to prioritize sustainable underwriting over scale. Given that the rules primarily target on high-net-loss commercial lines, i.e. liability, engineering, and corporate property insurance, we expect the sector's non-auto UW profitability to enjoy ample upside in 2026E, as the aggressive channel incentives are restricted leaving room for margin expansions. PICC P&C's auto insurance expansion to overseas markets opened up headroom for future premium growth, for which the company targeted a 30% mix from the overseas sales. Over years, auto premium income growth paced down from 5% to 3.2% as of end-Oct 2025. We trim our auto premium growth forecast to 4% in 2026E considering the phase-out of domestic vehicle sales subsidies, and expect PICC P&C's auto insurance expansion to set the stage for the entire industry to go global alongside Chinese automakers.

Under the proposed framework, high-risk lines are key focus of filing discipline and expense controls. Specifically, commercial property insurance requires to be re-filed by Dec 1, 2025, work safety liability insurance and employer's liability insurance require to be re-filed by Jan 1, 2026 and Feb 1, 2026, with other non-auto P&C products re-filed by Dec 31, 2026. Given this, we expect the key beneficiaries could be top insurers including PICC P&C, Ping An P&C, and CPIC P&C given their leverage on repricing and data resources to lead in building the industry's co-insurance model. We revise the FY25E/26E COR forecasts for PICC P&C to 96.6%/96.2%, for Ping An's to 97.0%/96.7% and for CPIC's to 97.5%/97.4% respectively.

Figure 4: P&C industry premium and cum. YoY% & mon. YoY%


Source: NFRA, CMBIGM

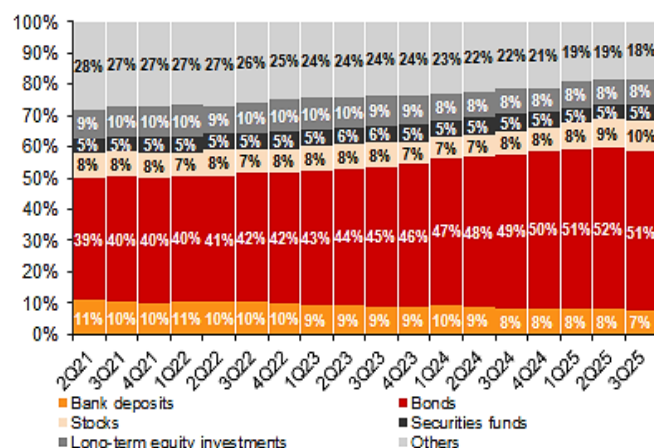
Figure 5: P&C industry loss ratio (%) and YoY change


Source: NFRA, CMBIGM

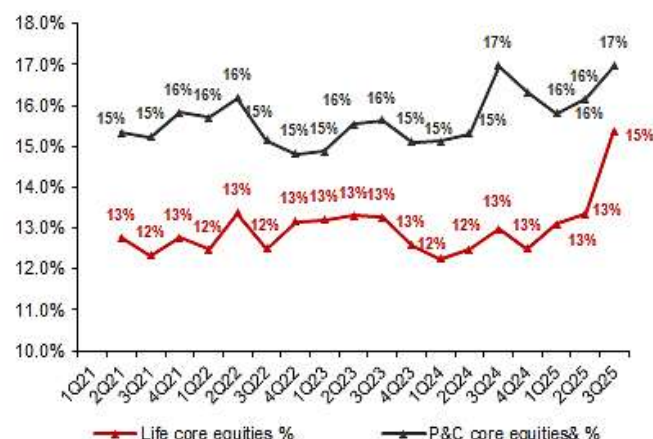
■ Investment: increasing equity allocation enhances earnings upside potential.

We see trends of rising balance of equity investments in third quarter driven by outperformed A share markets. In 3Q25, the CSI 300/SHCOMP index each increased 17.9%/12.7% QoQ, which fueled the strength of insurance portfolio funds into open-market equity investments, incl. stocks and equity funds. According to the data of NFRA, the balance of fund allocation to stocks, equity funds, long-term equity investments, and bonds all increased in 3Q25 with the rise in stocks striking the highest among all asset classes. By 9M25, total life and P&C's investment in stocks and equity funds reached 14.9% of total portfolio funds, up 2.6 pct from year-start, and the balance of LTV reached 7.6% of total funds, up 0.2 pct from FY24. We think the increasing equity investment of insurance funds could be a sustainable trend amid prolonged low interest rate environment. From a strategic asset allocation perspective, high-dividend stocks (HDY) will continue to be the core strategy, given its stability to boost the insurers' net investment income, and the proposition to TPL stocks could steadily rise to enrich the insurer's total and comprehensive investment income. In 3Q25, we notice the exposure to TPL stocks for China's five listed insurers has been significantly strengthened.

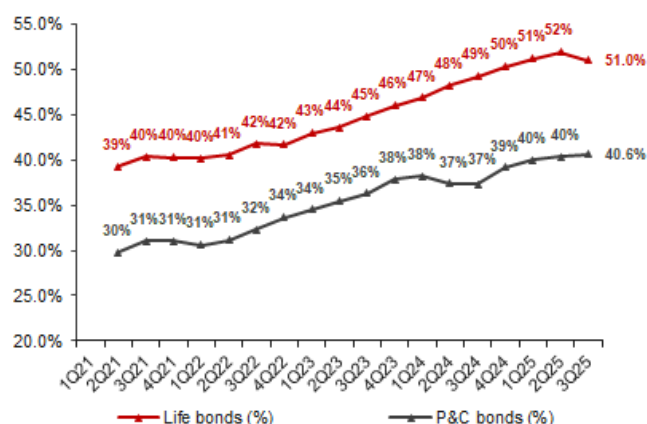
In 1H25, TPL stock exposure for NCI and China Life was 80.2%/77.4%, the highest among peers, which contributed to their robust 3Q25 net profit growth of 88%/92% driven by the A-share rally. Looking into 2026E, we expect to see continuous insurance fund inflows into capital market, with high-yield stocks as the base and increasing exposure to growth stocks. As of 1H25, the mix of stocks and equity funds of the seven H-share listed insurers resulted at 11%-18%, still below the regulatory cap of 30%. If assuming 30% of future premiums to flow into the A-share market, we estimate that the incremental fund inflows from the state-owned insurers could reach RMB 870-950bn during the three year period of FY25-FY27E.

Figure 6: Life insurance funds asset allocation mix (%)

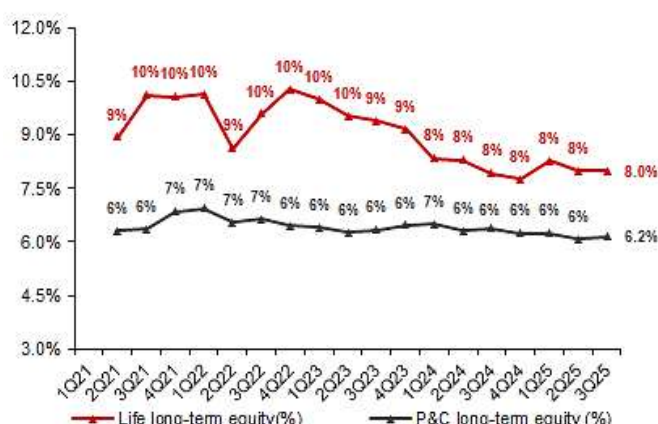
Source: NFRA, CMBIGM

Figure 7: Core equity mix of Life and P&C insurers (%)

Source: NFRA, CMBIGM | Note: core equity incl. stock and equity fund.

Figure 8: Bond investment mix of Life and P&C insurers (%)

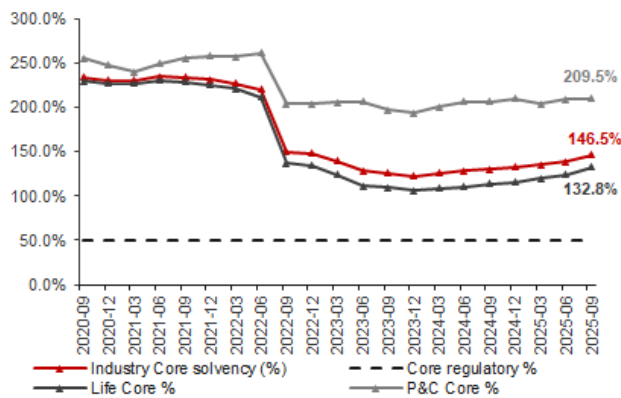
Source: NFRA, CMBIGM

Figure 9: Long-term equity (LTV) investment of Life and P&C

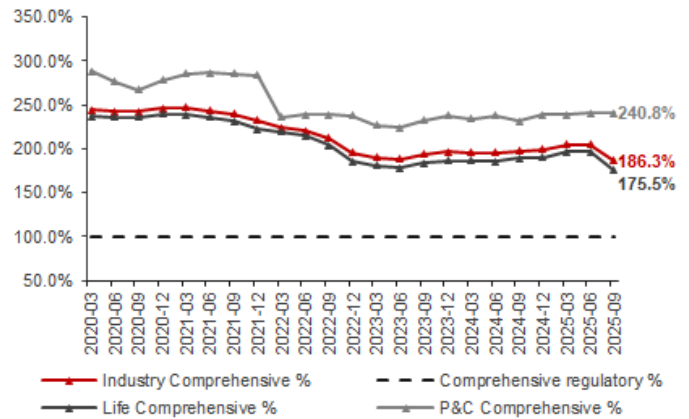
Source: NFRA, CMBIGM

■ Solvency & Capital supplement

Life core solvency ratio dropped in 3Q25, as a result of increasing equity investments in the quarter that reduced the insurers' core capital. The core solvency ratio of the industry was 134.3% in 3Q25, down 4.8pct/13.5 pct YTD/QoQ. Life core solvency ratio recorded at 118.9% in 3Q25, down 4.9pct/15.4 pct YTD/QoQ, and that of P&C insurers was 212.9%, up 3.7pct/1.7 pct YTD/QoQ. The decline in core solvency ratio was more evident in life than P&C insurers, as they increased more equity allocations.

Figure 10: Core solvency ratio for industry/life/P&C insurers

Source: NFRA, CMBIGM estimates

Figure 11: Comprehensive solvency ratio for industry/life/P&C

Source: NFRA, CMBIGM estimates

Debt financing sustained high demand with an annual peak seen in November. By Nov 28, 20 insurers issued capital supplement bonds and perpetual bonds with a total amount of RMB 74.2bn, slightly down from that of FY24. In November, six insurers raised RMB 15.6bn of bonds, making up 21% of total. We see the bond structure is tilting to perpetual rather than capital supplement bonds in FY25, for which capital supplement bonds amounted to RMB 24.2bn (32.6% mix) and perpetual bonds accounted for RMB 50.0bn (67.4% mix). Looking into 2026E, we anticipate that insurers will continue to enhance capital position through debt financing, in order to meet the needs of solvency requirements and business development while avoiding potential dilutive effects. The issuance of perpetual bonds could possibly outweigh that of capital supplement bonds, as the instrument could add to the insurer's tier-2 core capital, and thus boosting the core solvency ratios as requested by most life insurers.

Figure 12: The issuance of perpetual bonds and capital supplement bonds in FY25

Company name	Securities name	Type	of	Issuance	Maturity	Par rate	Value Date
中英人寿	25 中英人寿资本补充债 01	CSB		1.50	10.0	2.18	2025-01-10
财信吉祥	25 财信人寿资本补充债 01	CSB		1.00	10.0	2.55	2025-01-13
交银人寿	25 交银人寿永续债 01	Perps		2.70	5.0	2.20	2025-02-25
泰康养老	25 泰康养老永续债 01	Perps		2.00	5.0	2.48	2025-02-26
泰康人寿	25 泰康人寿永续债 01	Perps		6.00	5.0	2.35	2025-02-27
平安人寿	25 平安人寿永续债 01	Perps		13.00	5.0	2.35	2025-03-03
中韩人寿	25 中韩人寿资本补充债 01	CSB		1.40	10.0	2.80	2025-03-17
太平人寿	25 太平人寿永续债 01	Perps		9.00	5.0	2.40	2025-03-21
招商信诺	25 招商信诺永续债 01	Perps		1.00	5.0	2.30	2025-03-25
工银安盛	25 工银安盛永续债 01	Perps		7.00	5.0	2.44	2025-03-27
阳光人寿	25 阳光人寿永续债 01	Perps		5.00	5.0	2.75	2025-03-28
财信吉祥人寿	25 财信人寿资本补充债 02	CSB		1.50	10.0	2.75	2025-09-26
中银三星人寿	25 中银三星人寿永续债 01	Perps		3.00	5.0	2.75	2025-09-30
中国人寿	25 中国人寿财险资本补充债 01	CSB		4.50	10.0	2.15	2025-11-03
中邮人寿	25 中邮人寿永续债 01	Perps		1.27	5.0	2.30	2025-11-05
英大泰和	25 英大泰和人寿资本补充债 01	CSB		2.50	10.0	2.30	2025-11-13
中财再保险	25 中财再保险资本补充债 01	CSB		4.00	10.0	2.20	2025-11-17
紫金财产	25 紫金财险资本补充债 01	CSB		0.50	10.0	2.20	2025-11-20
平安财险	25 平安产险资本补充债 01	CSB		6.00	10.0	2.15	2025-11-20
招商局仁和人寿	25 招商局仁和人寿资本补充债 01	CSB		1.30	10.0	2.40	2025-11-21

Source: Wind, Company data, CMBIGM | Note: the bond issuance data quoted by market close on Nov 28, 2025.

■ Recommendations

The sector is currently trading at 0.2-0.6x FY26E P/EV and 0.6-1.2x FY26E P/B with a yield of 2.2%-6.3%. We expect the sector's earnings in 4Q25 to benefit from a low base of insurance service results due to the decline in market interest rates in fourth quarter last year. Key catalysts include: 1) the jumpstart sales performance on PAR products in 4Q25-1Q26E; 2) A-share market performance and a rising 10yr China's govt. bond yield. We expect the new business sales for top insurers to grow in double-digit during the 2026 jumpstart, with PAR products likely to sustain customers' underwriting interests. Maintain OVERWEIGHT (unchanged) to the sector, and recommend BUY on key insurers including:

1) China Life (2628 HK, BUY, TP: HK\$31.0) – expect on 4Q25 earnings turnaround, and outperformed NBV growth supported with balanced underwriting structure;

2) Ping An (2318 HK, BUY, TP: HK\$75.0) – AM drag eased; expect Life CSM release to turn profit in 2H26E, which can fuel the sustainable growth of Life OPAT;

3) PICC P&C (2328 HK, BUY, TP: HK\$23.6) – Leveraging on the growth narrative of non-auto COR improvement and auto insurance overseas expansions;

4) AIA (1299 HK, BUY, TP: HK\$89.0) – Leading regional player to pioneer in China Growth Strategy.



China Property & PM

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OUTPERFORM

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Sustained volume contraction and price falls

Sales outlook: further volume contraction and price decline

As the incremental 2025 policy easing fell short of expectations, housing demand has experienced a further deterioration. We forecast total primary and secondary home sales for 2025E to decline 6% YoY to RMB 14.78 tn. New home sales/secondary home sales are projected to drop 11% /flat YoY to RMB 7.53 tn (GFA sold: -9%; ASP: -3%)/ RMB 7.25 tn (GFA sold: +15%; ASP: -13%). For 2026E, total housing demand (primary & secondary combined) are forecast to decline 8% to RMB 13.55 tn. New home sales are expected to decline 6% to RMB 7.09 tn (GFA: -5%; ASP: -1%), based on factors like increased land acquisitions by key developers and assumptions of measured 1Q policy easing and continued purchase of unsold houses by government ([Figure 23](#)). Secondary home sales are projected to decline 11% to RMB 6.46 tn (GFA sold: +5%; ASP: -15%), primarily weighed by prices. We expect secondary home prices to decline further, mainly due to supply-side pressure such as rising near-new home supply in tier-1 cities and banks' bulk disposal of property assets, which will significantly weigh on market prices.

Investment theme 1: Re-rating of ecosystem builders & service providers for the secondary market

Amid declining overall demand and the shift in business model, the existing stock market's dominance will strengthen. Key investment themes in 2026 are: 1) Re-rating of service providers: As the existing market deepens its dominance, property management's role in asset pricing becomes more critical, driving its re-rating. Its perpetual fee-based area and stable cash flow offer defensive value. Recommend to focus on: CR MixC (1209 HK), Greentown Service (2869 HK), Poly Property Services (6049 HK), Binjiang Service (3316 HK). 2) Builders of the transaction ecosystem for secondary market: Beneficiaries of rising turnover and lifecycle extension opportunities (renovation, leasing). Industry consolidation favors leaders, and we recommend to eye on KE Holdings (BEKE US).

Investment theme 2: Developers balancing operations & development with quality resources

For heavy asset players, we should focus on their risk resilience and growth flexibility. 1) Enterprises with balanced development-operations: targets with strong commercial asset operation capabilities demonstrate significant counter-cyclical resilience amid shrinking real estate development. Defensively, retail assets are supported by rigid consumption, with operating income less affected by cycles. For growth, retail will benefit from consumption recovery ahead of development if the macroeconomy stabilizes. Financing-wise, high-quality retail assets with stable cash flow and clear collateral value are more likely to secure incremental financing in the tight environment, strengthening liquidity advantages. 2) For development business, focus on targets with "reasonable land acquisition intensity + excellent land acquisition quality" ([Figure 3](#)).

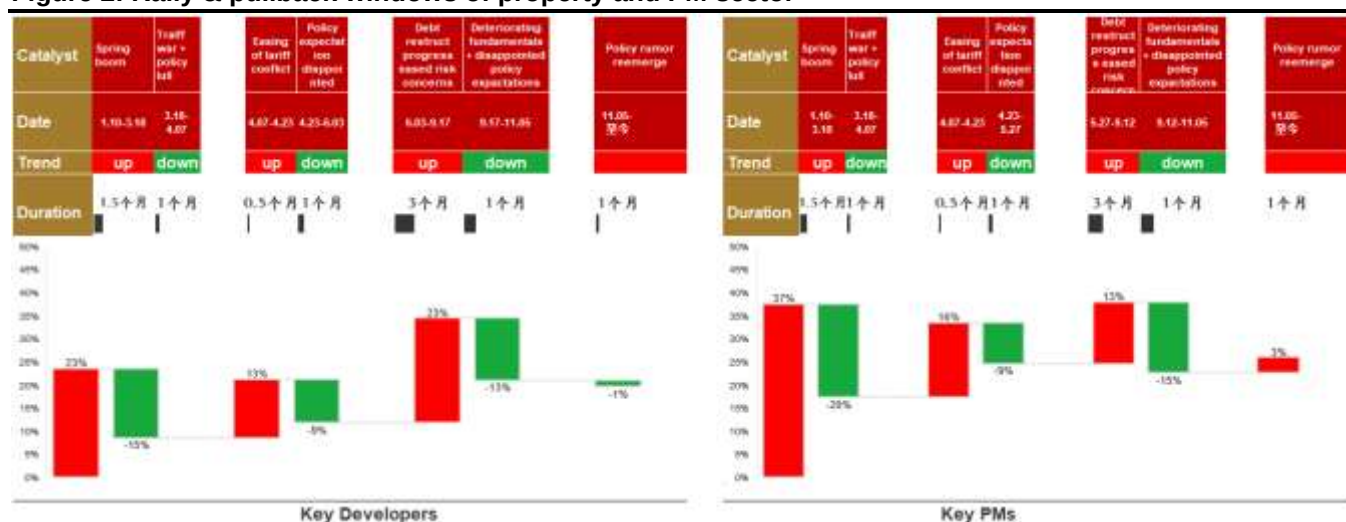
Focus Charts

Figure 1: Property sales forecast

Property sales value (RMB tn)	2022	2023	2024	2025E	2026E	2027E
Primary market	10.96	10.30	8.49	7.53	7.09	7.08
YoY	-33%	-6%	-18%	-11%	-6%	0%
Secondary market	5.50	7.10	7.24	7.25	6.46	6.63
YoY	-21%	29%	2%	0%	-11%	3%
Combined	16.46	17.40	15.73	14.78	13.55	13.71
YoY	-29%	6%	-10%	-6%	-8%	1%

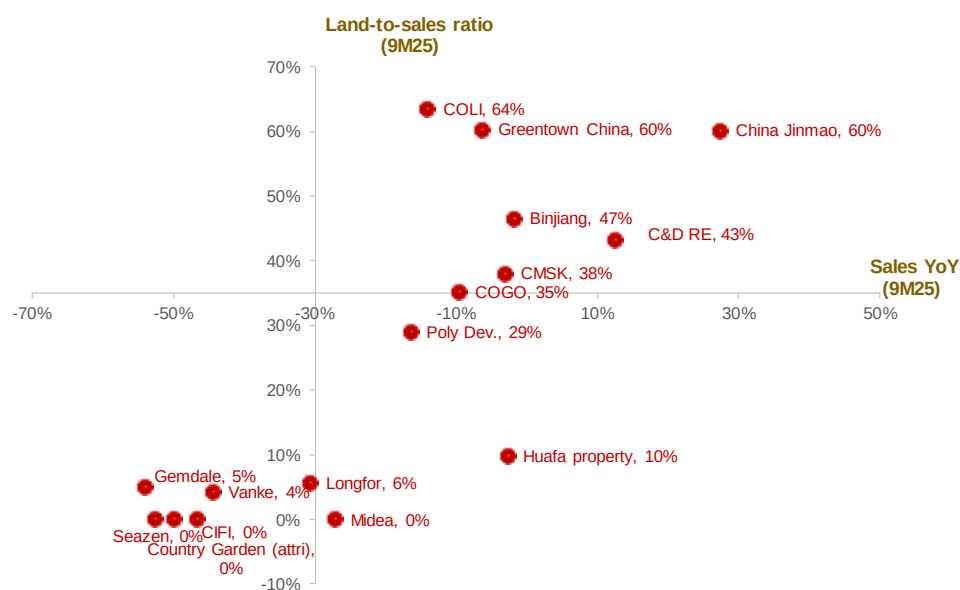
Source: NBS, Beike, CMBIGM estimates

Figure 2: Rally & pullback windows of property and PM sector



Source: Wind, CMBIGM

Figure 3: Land-to-sales ratio of Key developers (9M25)



Source: Company data, CRIC, CMBIGM

Investment theme: focus on value re-appraisal of existing market players

Against the backdrop of declining industry volume and business model transformation, the dominance of the existing property market will further strengthen. For 2026, sector investments should prioritize enterprises with absolute capabilities in existing-property operations and services. Within the heavy-asset segment, developers adopting concurrent development-operations models and possessing high-quality resource reserves will have greater potential to outperform in market.

■ Theme 1: Value re-appraisal of ecosystem builders and service providers in the existing market

7) PM service providers

The essence of property management lies in the perpetual operation of fee-based areas, with its stable cash flow and high dividend payout highlighting defensive attributes during downturn. Crucially, in the era of existing-stock development, PM quality directly impacts resident experience and asset value preservation – decisive factors for developer brand reputation and future sales (particularly in upgrade markets). Thus, PM companies with high service quality, efficient digital operations, and robust cost control will undergo continuous value re-appraisal as the existing-stock era evolves, positioning them as long-term beneficiaries through cycles e.g., CR MixC (1209 HK), Greentown Service (2869 HK), Poly Property Services (6049 HK), Binjiang Service (3316 HK).

8) Leading transaction platforms

In 2026, secondary property transaction volume will continue to exceed new home sales, becoming the dominant force in integrated property transactions. KE Holdings (BEKE US), as China's undisputed secondary market leader, structurally benefits from: (i) transaction scale support via rising industry turnover rates; and (ii) lifecycle extension opportunities across existing properties, including renovation, leasing, and other value-added services. Against progressive industry consolidation, leaders' market share capture effect will intensify, demonstrating cycle-resistant capabilities well beyond sector averages.

■ Theme 2: Heavy-asset segment - Prioritize risk resilience and high-quality resource reserves

1) Developers balancing development and operations: defensive and growth attributes of commercial assets

Targets with strong commercial asset operation capabilities demonstrate notable counter-cyclical resilience amid persistent development business contraction (e.g., Longfor Group [960 HK]). Defensive merits: Retail assets benefit from consumption rigidity, delivering relatively cycle-resilient operating income and avoiding earnings collapse. Growth potential: Retail operations capture benefits from consumption recovery ahead of development businesses during macroeconomic recovery. Financing edge: Premium retail assets secure incremental funding due to stable cash flow and clear collateral value.

2) Pure developers targeting premium sellable resource reserves

With shrinking development volume, competition shifts from "scale expansion" to "resource premium." Suggest to pay attention to companies that consistently secure high-quality sellable resources, screened by reasonable land acquisition intensity. Avoiding liquidity risks while maintaining steady land bank replenishment. Premium land bank quality: Targets prime core-city locations with robust profitability and guaranteed sell-through. Such players gain market share during corrections through premium-asset sales.

Sales outlook: further volume contraction, deepening price decline

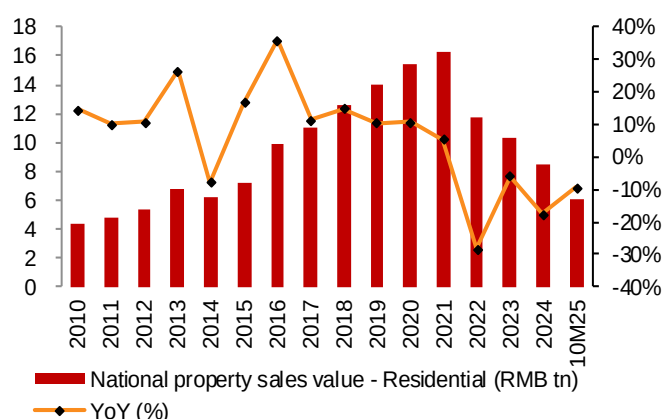
As the incremental 2025 policy easing fell short of expectations, housing demand has experienced a further deterioration. We project total primary and secondary residential sales for full-year 2025 to decline 6% YoY to RMB14.78tn. New home sales volume will drop 11% YoY to RMB7.53tn (GFA sold -9%; ASP: -3%), while secondary home sales remain flat YoY at RMB7.25tn (GFA sold: +15%; ASP: -13%). Total combined sales for full-year 2026 are forecast to contract further by 8% to RMB13.55tn, and new home sales may show a narrowed decline of 6% to RMB7.09tn (GFA sold: -5%; ASP: -1%). The projection is based on factual land acquisition recovery among key developers and assumptions of measured 1Q policy easing plus ongoing purchase-unsold houses programs ([Figure 23](#)). Secondary home sales are expected to turn negative, declining 11% to RMB6.46tn (GFA sold: +5%; ASP: -15%) primarily pressured by price erosion. We attribute this secondary price deterioration primarily to supply-side pressure including near-new housing inventory releases in tier-1 cities and banks' bulk disposal of property assets, which will significantly weigh on market prices.

2025 review: policy implementation underwhelms, demand pressure persists

■ New home market contraction continues

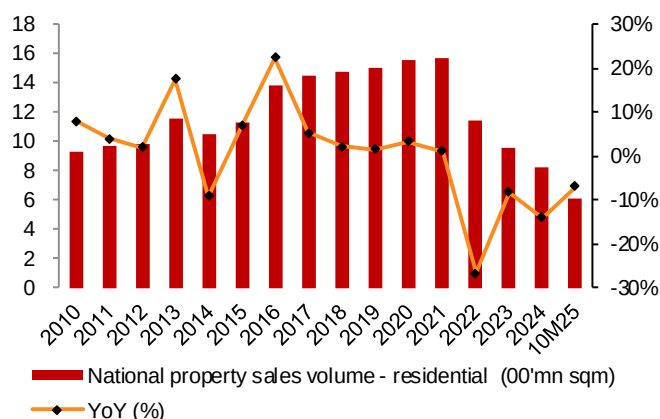
NBS data shows national residential property sales totaled RMB6.07tn (-9.4% YoY) in January-October 2025, with GFA sold at 603 million sqm (-7.0% YoY). While the data narrowed significantly from 2024 declines (sales value: -17.6%; GFA sold: -14.1%), new home sales continued to shrink amid slow economic recovery and weak household income expectations. Demand-side policies throughout the year showed diminishing marginal effects versus major stimulus periods in 2024 (May 17/Sep 24). Affected by high base last year, standalone new home sales volume plunged 26.1% YoY in October with GFA sold down 20.8%, indicating a ~7% price reduction.

Figure 4: National property sales value



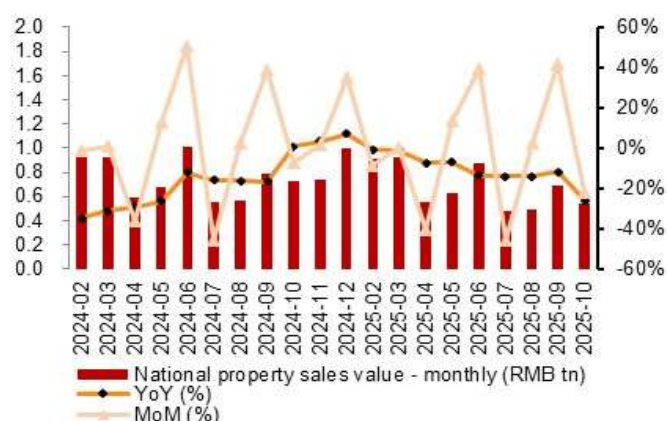
Source: NBS, CMBIGM

Figure 5: National property sales volume (GFA sold)



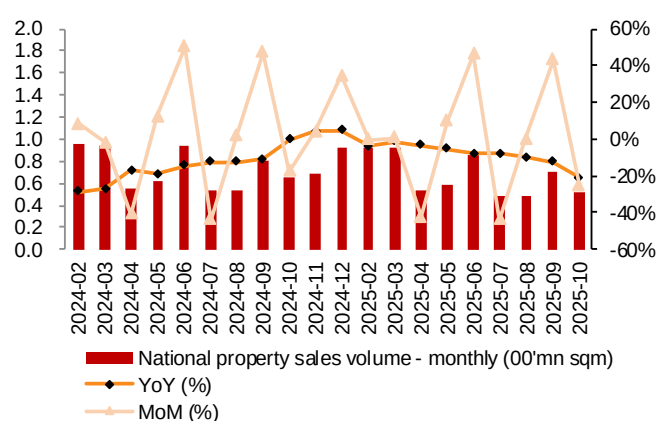
Source: NBS, CMBIGM

Figure 6: National property sales value - monthly



Source: NBS, CMBIGM

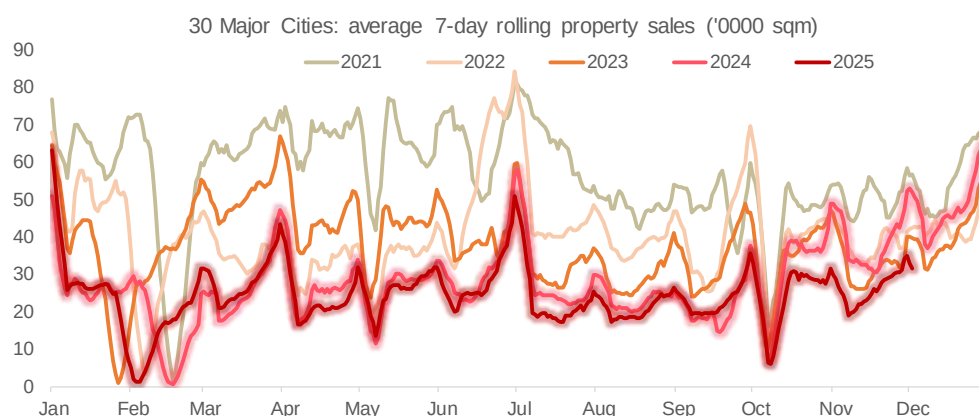
Figure 7: National property sales volume - monthly



Source: NBS, CMBIGM

Based on our tracked high-frequency (online registration) data, as of 30 November 2025, new home sales area across 30 major cities fell 20% YoY in November (improving from -27% in October) and gained 6% MoM. Year-to-November (11M25) sales declined approximately 11%.

Figure 8: New home sales in 30 major cities – Daily (As of 30 Nov 2025)



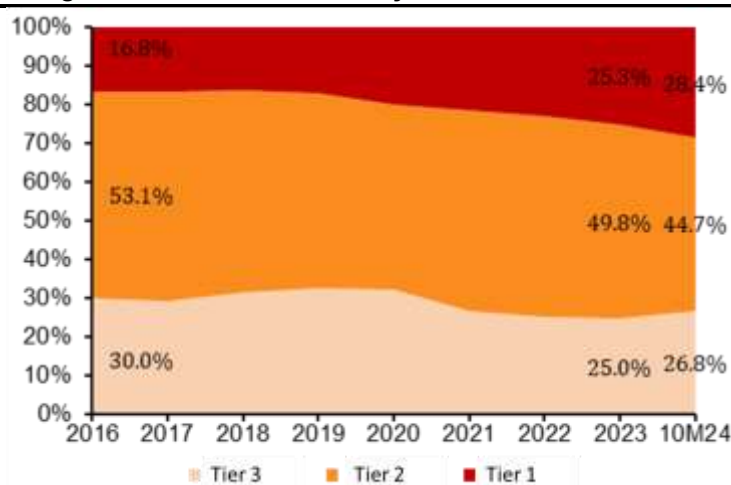
YoY 同比 - new home							MoM 月环比		2025
	25 vs 24	vs 23	vs 22	vs 21	vs 20	vs 19			
Jan - Feb	1%	-39%	-47%	-60%	-19%	-49%	Feb		-23%
Mar	2%	-46%	-21%	-57%	-21%	-47%	Mar		70%
Apr	-12%	-46%	-30%	-66%	-52%	-60%	Apr		-24%
May	-3%	-40%	-25%	-59%	-54%	-54%	May		16%
Jun	-8%	-26%	-50%	-53%	-54%	-49%	Jun		17%
Jul	-19%	-32%	-50%	-67%	-68%	-64%	Jul		-30%
Aug	-10%	-32%	-48%	-57%	-66%	-60%	Aug		0%
Sep	7%	-28%	-44%	-52%	-65%	-59%	Sep		2%
Oct	-27%	-29%	-31%	-44%	-57%	-54%	Oct		1%
Nov	-20%	-20%	-32%	-49%	-58%	-55%	Nov		6%
1Q25	1%	-42%	-38%	-59%	-20%	-48%	WoW 周环比		
2Q25	-8%	-38%	-38%	-60%	-54%	-54%			
3Q25	-8%	-31%	-47%	-59%	-66%	-61%			
YTD	-11%	-35%	-40%	-57%	-54%	-55%			
							2025 Nov 30		20%

Source: Wind, CMBIGM

■ Tier structure shifts toward dumbbell shape

China has entered a new demographic era marked by a declining population and a stabilization of urban growth. High-tier cities maintain population inflows due to industrial advantages and economic resilience, supporting relatively stable price expectations. Among 30 key cities, tier-1 cities' share of residential unit sales rose from 16.8% in 2016 to 25.3% in 2023, climbing further to 29.0% by October 2025. Tier-2 cities' share declined consistently during 2016-2023 while tier-3 showed a reverse trend in 2024. Its share increased from 25% in 2023 to 26.4% by Oct 2025, forming a dumbbell-shaped distribution featuring rising tier-1/-3 concentration and declining tier-2 proportion. We attribute this primarily to: (1) less price bubble accumulation in tier-3 cities than higher-tier cities, leaving limited downside after significant adjustments; (2) unemployed workers returning hometowns amid slow economic recovery. This trend may persist in 2026.

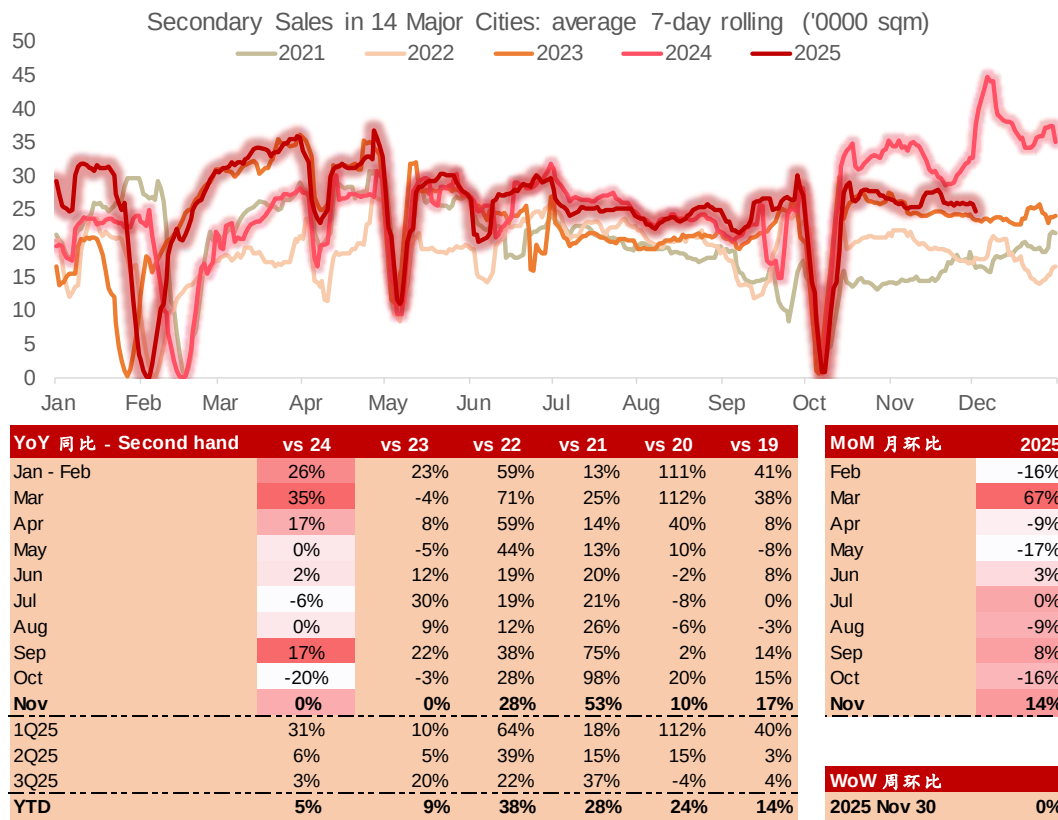
Figure 9: Housing units sold in different city tiers



Source: Wind, CMBIGM

■ Secondary market continues trading volume for price

Secondary market performance continued its 2024 momentum in 2025, persistently outperforming new homes. Our high-frequency data tracking shows that as of 30 November 2025, 14-city secondary transaction area maintained 5% growth ytd despite last year's high base, with November transactions recording +14% MoM and flat YoY. The outperformance in the secondary market primarily stems from: 1) weak long-term market confidence driving more owners to cash out early, increasing property supply; 2) competitive pricing pressure from rising listings making secondary homes relatively affordable; 3) buyers' delivery risk concerns toward new homes amid private developer defaults, coupled with diminishing quality confidence toward SOE developers amid cost-cutting initiatives, shifting demand to secondary market; 4) consumption downgrade intensifying buyer focus on housing utility over investment value, where secondary homes offer well-established neighborhood; 5) local stimulus packages targeting secondary transactions which operate with higher transaction efficiency and policy responsiveness.

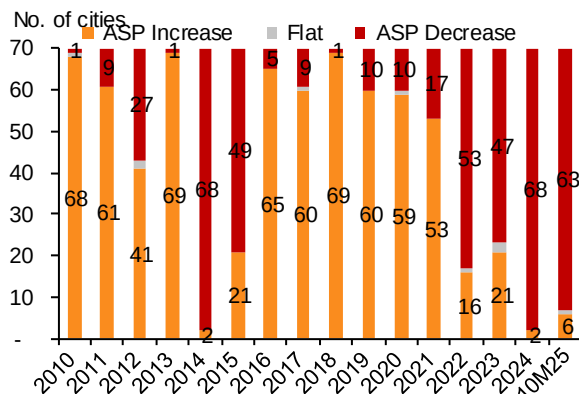
Figure 10: Secondary home sales in 14 cities – daily (As of 30 Nov 2024)

Source: Wind, CMBIGM

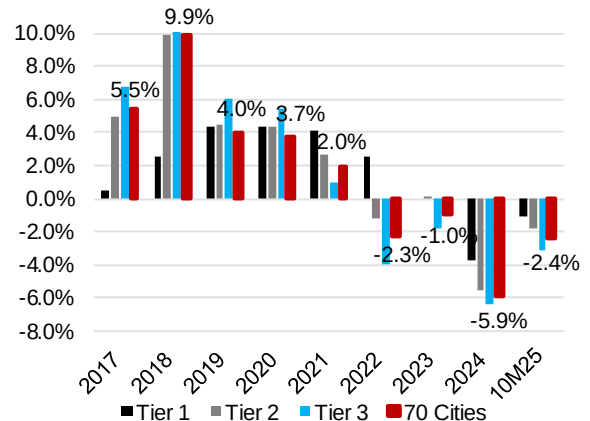
■ Home price: new home price showed a narrowed decline, secondary prices dipped into red

1) New home price declined moderately versus last year, tier 1-2 near stabilization

Per NBS data, new home prices fell sequentially in 64 of 70 major cities in October 2025, maintaining >50 declines since May. Cumulatively during Jan-Oct 2025, prices fell in 63 cities versus just 6 gainers (vs. 2 gainers in 2024). Overall, 70-city new home prices cumulatively dropped 2.4% by Oct-2025, narrowing significantly from -5.9% in 2024. Tier 3 cities remained the main drag (-3.1%), while tier-1 (-1.1%) and tier-2 (-1.8%) cities showed substantially milder declines than 2024 (-3.8%/-5.5%), approaching stabilization.

Figure 11: New home price change in 70 cities

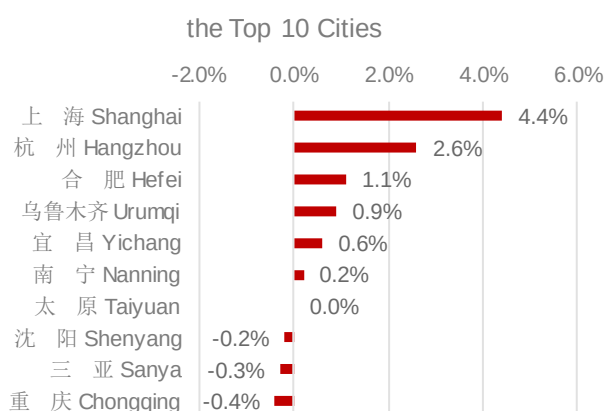
Source: NBS, CMBIGM

Figure 12: New home price in 70 cities - annual

Source: NBS, CMBIGM

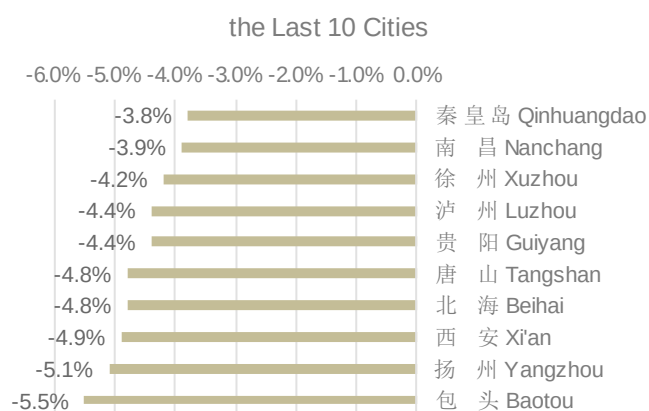
Among city performers (see chart below), four out of the top 10 cities recorded price increases in Jan-Oct 2025 (vs. two in 2024). The bottom ten saw declines of 3%-6%—half the rate of corresponding period last year.

Figure 13: New home price changes (Jan-Oct 2025)



Source: NBS, CMBIGM

Figure 14: New home price changes (Jan-Oct 2025)



Source: NBS, CMBIGM

Figure 15: New home price changes by city (10M25)

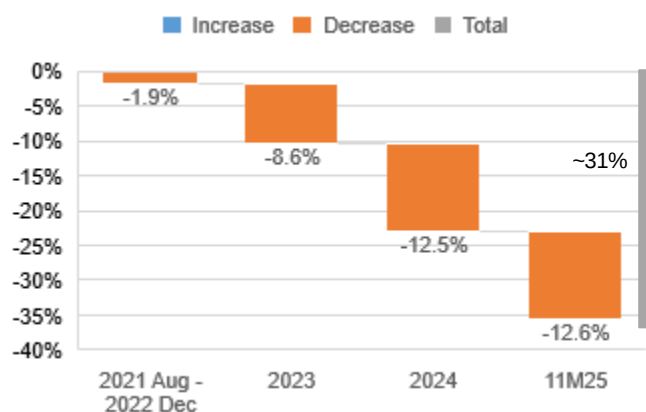
New home price declines in 10M25				10M25 New Home					
Tier 1 一线	Tier 2 二线	Tier 3 三线	70 Cities 70城						
-1.10%	-1.80%	-3.10%	-2.40%						
Beijing 北京	Tianjin 天津	Shijiazhuang 石家庄	Taiyuan 太原	Hohhot 呼和浩特	Shenyang 沈阳	Dalian 大连	Changchun 长春	Harbin 哈尔滨	Shanghai 上海
-1.40%	-2.10%	-3.20%	0.00%	-3.20%	-0.20%	-0.90%	-2.50%	-1.60%	4.40%
Nanjing 南京	Hangzhou 杭州	Ningbo 宁波	Hefei 合肥	Fuzhou 福州	Xiamen 厦门	Nanchang 南昌	Jinan 济南	Qingdao 青岛	Zhengzhou 郑州
-2.70%	2.60%	-0.60%	1.10%	-1.70%	-2.20%	-3.90%	-2.00%	-1.40%	-3.50%
Wuhan 武汉	Changsha 长沙	Guangzhou 广州	Shenzhen 深圳	Nanning 南宁	Haikou 海口	Chongqing 重庆	Chengdu 成都	Guiyang 贵阳	Kunming 昆明
-2.90%	-0.70%	-3.70%	-3.10%	0.20%	-3.70%	-0.40%	-3.50%	-4.40%	-2.60%
Xi'an 西安	Lanzhou 兰州	Xining 西宁	Yinchuan 银川	Urumqi 乌鲁木齐	Tangshan 唐山	Qinhuangdao 秦皇岛	Baotou 包头	Dandong 丹东	Jinzhou 锦州
-4.90%	-3.00%	-2.50%	-3.40%	0.90%	-4.80%	-3.80%	-5.50%	-2.90%	-2.70%
Jilin 吉林	Mudanjiang 牡丹江	Wuxi 无锡	Yangzhou 扬州	Xuzhou 徐州	Wenzhou 温州	Jinhua 金华	Bengbu 蚌埠	Anqing 安庆	Quanzhou 泉州
-2.90%	-2.10%	-3.00%	-5.10%	-4.20%	-3.40%	-2.10%	-3.10%	-3.00%	-1.50%
Jiujiang 九江	Ganzhou 赣州	Yantai 烟台	Jining 济宁	Luoyang 洛阳	Pingdingshan 平顶山	Yichang 宜昌	Xiangfan 襄阳	Yueyang 岳阳	Changde 常德
-3.10%	-2.40%	-3.50%	-2.90%	-2.60%	-0.80%	0.60%	-3.50%	-3.60%	-3.00%
Huizhou 惠州	Zhanjiang 湛江	Shaoguan 韶关	Guilin 桂林	Beihai 北海	Sanya 三亚	Luzhou 泸州	Nanchong 南充	Zunyi 遵义	Dali 大理
-2.30%	-2.40%	-1.70%	-2.80%	-4.80%	-0.30%	-4.40%	-2.90%	-2.20%	-3.80%

Source: NBS, CMBIGM

2) Secondary home prices continued to decline

Data from Bingshan BigData showed that secondary prices have declined sequentially for over four years since August 2021. By 30 November 2025, national 100-city prices dropped 31% cumulatively without stabilization signs. The decline in Nov 2025 was approximately 12.6% (annualized), in line with 2024's 12.5% downturn.

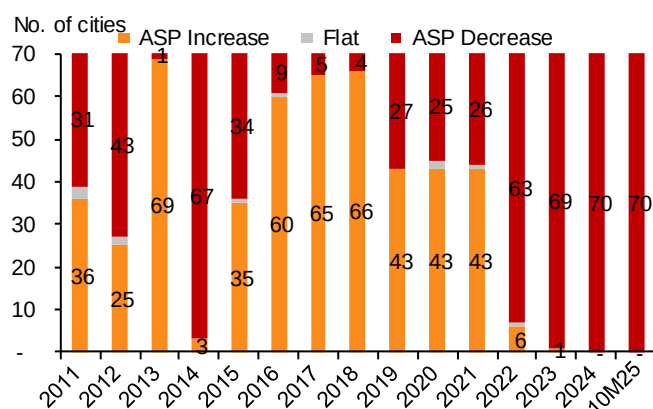
Figure 16: Second hand home price change (from the last peak in Aug 2021)



Source: Bingshan Big Data, CMBIGM

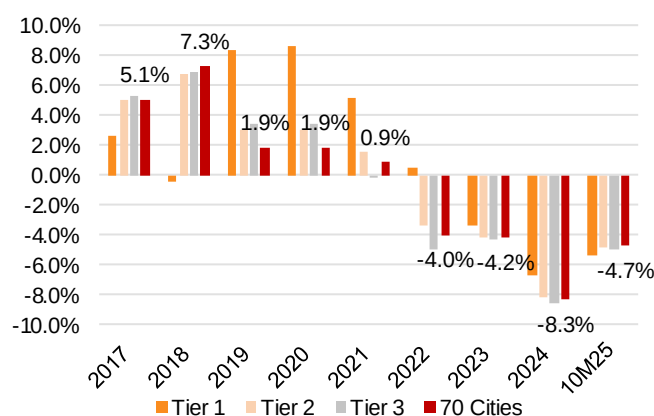
Year-to-date, secondary prices fell more sharply than new homes. Per NBS, 70 cities had cumulative price drops in Jan-Oct 2025 (same as 2023). Overall secondary prices in 70 cities cumulatively fell 7.7%, extending -4.2% decline in 2023. Tier-1/tier-2/tier-3 cities recorded cumulative drops of -7.4%/-7.6%/-7.7% by Oct-2025, all of which were significantly worse than 2023.

Figure 17: Second-hand home price annual change – in 70 cities



Source: NBS, CMBIGM

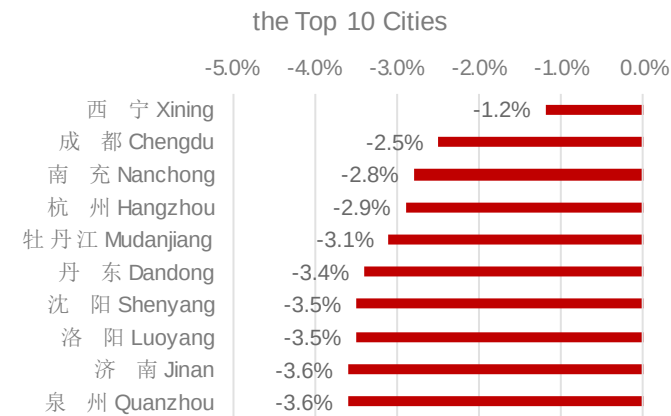
Figure 18: Second-hand home price in 70 cities - annual



Source: NBS, CMBIGM

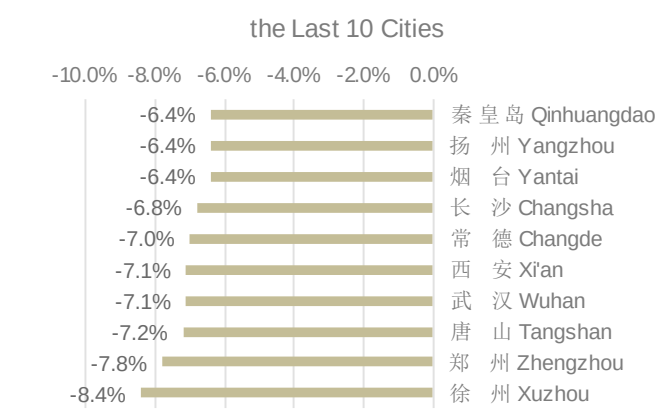
Among 70 cities (see chart below), Xining led with only a 1.2% cumulative decline in Jan-Oct 2025. Xuzhou trailed with an 8.4% slump.

Figure 19: Second-hand home price change (Jan-Oct 2025) – Top 10



Source: NBS, CMBIGM

Figure 230: Second-hand home price change (Jan-Oct 2025) - Last 10



Source: NBS, CMBIGM

Figure 21: Secondary residential price changes by city (10M25)

Tier 1 一線				Tier 2 二線				Tier 3 三線				70 Cities 70城				2nd-hand home price declines in 10M25				10M25 2nd Hand Home			
-5.3%				-4.8%				-4.9%				-4.7%											
Beijing	Tianjin	Shijiazhuang	Taiyuan	Beijing	Tianjin	Shijiazhuang	Taiyuan	Beijing	Tianjin	Shijiazhuang	Taiyuan	Beijing	Tianjin	Shijiazhuang	Taiyuan	Harbin	Shanghai	Harbin	Shanghai	Harbin	Shanghai	Harbin	Shanghai
北 京	天 津	石 家 庄	太 原	北 京	天 津	石 家 庄	太 原	北 京	天 津	石 家 庄	太 原	北 京	天 津	石 家 庄	太 原	哈 爾 濱	上 海	哈 爾 濱	上 海	哈 爾 濱	上 海	哈 爾 濱	上 海
-6.10%	-3.70%	-4.40%	-3.80%	-6.10%	-3.70%	-4.40%	-3.80%	-6.10%	-3.70%	-4.40%	-3.80%	-6.10%	-3.70%	-4.40%	-3.80%	-4.30%	-4.70%	-4.30%	-4.70%	-4.30%	-4.70%	-4.30%	-4.70%
Nanjing	Hangzhou	Ningbo	Hefei	Nanjing	Hangzhou	Ningbo	Hefei	Nanjing	Hangzhou	Ningbo	Hefei	Nanjing	Hangzhou	Ningbo	Hefei	Qingdao	Zhengzhou	Qingdao	Zhengzhou	Qingdao	Zhengzhou	Qingdao	Zhengzhou
南 京	杭 州	寧 波	合 肥	南 京	杭 州	寧 波	合 肥	南 京	杭 州	寧 波	合 肥	南 京	杭 州	寧 波	合 肥	青 島	鄭 州	青 島	鄭 州	青 島	鄭 州	青 島	鄭 州
-6.40%	-2.90%	-5.70%	-5.50%	-6.40%	-2.90%	-5.70%	-5.50%	-6.40%	-2.90%	-5.70%	-5.50%	-6.40%	-2.90%	-5.70%	-5.50%	-4.20%	-7.80%	-4.20%	-7.80%	-4.20%	-7.80%	-4.20%	-7.80%
Wuhan	Changsha	Guangzhou	Shenzhen	Wuhan	Changsha	Guangzhou	Shenzhen	Wuhan	Changsha	Guangzhou	Shenzhen	Wuhan	Changsha	Guangzhou	Shenzhen	Guiyang	Kunming	Guiyang	Kunming	Guiyang	Kunming	Guiyang	Kunming
武 漢	長 沙	廣 州	深 圳	武 漢	長 沙	廣 州	深 圳	武 漢	長 沙	廣 州	深 圳	武 漢	長 沙	廣 州	深 圳	貴 陽	昆 明	貴 陽	昆 明	貴 陽	昆 明	貴 陽	昆 明
-7.10%	-6.80%	-5.80%	-3.90%	-7.10%	-6.80%	-5.80%	-3.90%	-7.10%	-6.80%	-5.80%	-3.90%	-7.10%	-6.80%	-5.80%	-3.90%	-4.30%	-5.90%	-4.30%	-5.90%	-4.30%	-5.90%	-4.30%	-5.90%
Xi'an	Lanzhou	Xining	Yinchuan	Xi'an	Lanzhou	Xining	Yinchuan	Xi'an	Lanzhou	Xining	Yinchuan	Xi'an	Lanzhou	Xining	Yinchuan	Dandong	Jinzhou	Dandong	Jinzhou	Dandong	Jinzhou	Dandong	Jinzhou
西 安	蘭 州	西 寧	銀 川	西 安	蘭 州	西 寧	銀 川	西 安	蘭 州	西 寧	銀 川	西 安	蘭 州	西 寧	銀 川	丹 東	錦 州	丹 東	錦 州	丹 東	錦 州	丹 東	錦 州
-7.10%	-4.40%	-1.20%	-4.90%	-7.10%	-4.40%	-1.20%	-4.90%	-7.10%	-4.40%	-1.20%	-4.90%	-7.10%	-4.40%	-1.20%	-4.90%	-3.40%	-4.20%	-3.40%	-4.20%	-3.40%	-4.20%	-3.40%	-4.20%
Jilin	Mudanjiang	Wuxi	Yangzhou	Jilin	Mudanjiang	Wuxi	Yangzhou	Jilin	Mudanjiang	Wuxi	Yangzhou	Jilin	Mudanjiang	Wuxi	Yangzhou	Xuzhou	Wenzhou	Xuzhou	Wenzhou	Xuzhou	Wenzhou	Xuzhou	Wenzhou
吉 林	牡 丹 江	無 錫	揚 州	吉 林	牡 丹 江	無 錫	揚 州	吉 林	牡 丹 江	無 錫	揚 州	吉 林	牡 丹 江	無 錫	揚 州	徐 州	溫 州	徐 州	溫 州	徐 州	溫 州	徐 州	溫 州
-4.10%	-3.10%	-4.30%	-6.40%	-4.10%	-3.10%	-4.30%	-6.40%	-4.10%	-3.10%	-4.30%	-6.40%	-4.10%	-3.10%	-4.30%	-6.40%	-8.40%	-4.90%	-4.20%	-4.10%	-6.10%	-3.60%	-8.40%	-4.90%
Jiujiang	Ganzhou	Yantai	Jining	Jiujiang	Ganzhou	Yantai	Jining	Jiujiang	Ganzhou	Yantai	Jining	Jiujiang	Ganzhou	Yantai	Jining	Luoyang	Indingsha	Luoyang	Indingsha	Luoyang	Indingsha	Luoyang	Indingsha
九 江	贛 州	煙 台	濟 寧	九 江	贛 州	煙 台	濟 寧	九 江	贛 州	煙 台	濟 寧	九 江	贛 州	煙 台	濟 寧	洛 陽	平 頂 山	洛 陽	平 頂 山	洛 陽	平 頂 山	洛 陽	平 頂 山
-4.60%	-4.60%	-6.40%	-5.50%	-4.60%	-4.60%	-6.40%	-5.50%	-4.60%	-4.60%	-6.40%	-5.50%	-4.60%	-4.60%	-6.40%	-5.50%	-3.50%	-5.00%	-3.70%	-5.90%	-4.20%	-7.00%	-3.50%	-5.00%
Huizhou	Zhanjiang	Shaoguan	Guilin	Huizhou	Zhanjiang	Shaoguan	Guilin	Huizhou	Zhanjiang	Shaoguan	Guilin	Huizhou	Zhanjiang	Shaoguan	Guilin	Beihai	Sanya	Luzhou	Nanchong	Zunyi	Dali	Beihai	Sanya
惠 州	湛 江	韶 關	桂 林	惠 州	湛 江	韶 關	桂 林	惠 州	湛 江	韶 關	桂 林	惠 州	湛 江	韶 關	桂 林	北 海	三 亞	瀘 州	南 充	遵 義	大 理	北 海	三 亞
-6.30%	-4.90%	-3.80%	-5.00%	-6.30%	-4.90%	-3.80%	-5.00%	-6.30%	-4.90%	-3.80%	-5.00%	-6.30%	-4.90%	-3.80%	-5.00%	-5.20%	-5.00%	-5.20%	-2.80%	-4.20%	-4.10%	-5.20%	-5.00%

Source: NBS, CMBIGM

FY26 Outlook: 2026 outlook: further volume contraction, continued price decline

■ High base effect at end-2025

As stated earlier, the high base effect from November-December 2024 (driven by the Sep-24 policy package) diminishes marginal policy effectiveness in 2025, and overall easing strength below expectations underpin our forecast for full-year 2025 total primary and secondary residential sales to decline 6% YoY to RMB14.78tn. Within this, new home sales are projected at RMB7.53tn (-11% YoY), translating into GFA sold of 745mn sqm, -9% YoY; and ASP down 3% to RMB10,206/sqm. Secondary home sales remained flat YoY at RMB7.25tn which represent a +15% YoY rise in GFA sold to reach 750mn sqm and -13% YoY in ASP to RMB9,669/sqm, being the first time reaching sub-RMB10,000/sqm level.

Figure 22: Property sales growth forecast

Sales (RMB bn)	2022	2023	2024	2025E	2026E	2027E
Primary	10.96	10.30	8.49	7.53	7.09	7.08
YoY	-33%	-6%	-18%	-11%	-6%	0%
Secondary	5.50	7.10	7.24	7.25	6.46	6.63
YoY	-21%	29%	2%	0%	-11%	3%
Combined	16.46	17.40	15.73	14.78	13.55	13.71
YoY	-29%	6%	-10%	-6%	-8%	1%
Volume ('00 mn sqm)	2022	2023	2024	2025E	2026E	2027E
Primary	10.33	9.48	8.14	7.45	7.08	7.08
YoY	-34%	-8%	-14%	-9%	-5%	0%
Secondary	3.84	5.59	6.52	7.50	7.87	8.49
YoY	-21%	46%	17%	15%	5%	8%
Combined	14.17	15.07	14.66	14.95	14.95	15.57
YoY	-29%	6%	-3%	2%	0%	4%
ASP (RMB/sqm)	2022	2023	2024	2025E	2026E	2027E
Primary	10,610	10,864	10,419	10,106	10,005	10,005
YoY	2%	2%	-4%	-3%	-1%	0%
Secondary	14,328	12,698	11,107	9,669	8,219	7,808
YoY	n.a.	-11%	-13%	-13%	-15%	-5%
Combined	11,617	11,545	10,725	9,887	9,065	8,807
YoY	n.a.	-1%	-7%	-8%	-8%	-3%

Source: NBS, BEKE, CMBIGM estimates

■ 2026 new home decline to narrows secondary sales turn negative

Looking into 2026, our base case assumes: 1) Measured demand stimulus deployed by end-Q1 (e.g., tax cuts, subsidized mortgages, tier-1 purchase restrictions relaxation); 2) Per CMB International Macro forecasts: 50bps RRR cut and 10bps LPR reduction in Q1, followed by another 10bps LPR cut in Q3; 3) Affordable housing programs in key cities marginally absorbing new home demand (<0.5% sales impact based on current plans); 4) Minimal near-term sales impact from purchase-reserve initiatives; 5) Near-new home supply diverting new home demand.

We forecast primary and secondary residential sales in 2026 to contract 8% yoy to RMB13.55tn: New home sales decline to narrow to -6% at RMB7.09tn (GFA sold: -5% to 708mn sqm; ASP: -1% to RMB10,005/sqm); secondary home sales growth to turn negative, dropping 11% to RMB6.46tn (GFA sold growth slows to +5% from 2025's +15%, reaching 787mn sqm; ASP down 15% to RMB8,219/sqm). Secondary ASP pressure primarily stems from tier-1 near-new home inventory releases and banks' bulk disposal of property assets. (See our positive/negative case scenarios in below table.)

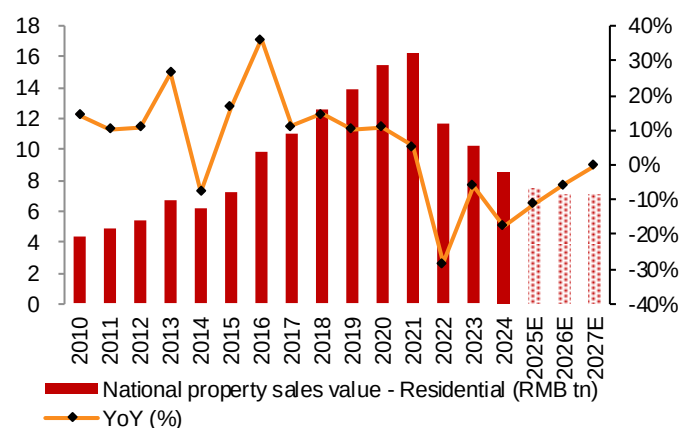
Figure 23: Forecast for 2026 Property sales by scenario

RMB tn	Positive case	Base case	Negative case
Primary market	7.32	7.09	6.81
YoY	-3%	-6%	-12%
Secondary market	7.03	6.46	6.16
YoY	-3%	-11%	-15%
Combined	14.36	13.55	12.98
YoY	-3%	-8%	-12%

Scenario	Positive case	Base case	Negative case
Demand - side policies:	Measured demand stimulus deployed before CNY (e.g., tax cuts, subsidized mortgages, tier-1 purchase restrictions relaxation)	Measured demand stimulus deployed by end-1Q (e.g., tax cuts, subsidized mortgages, tier-1 purchase restrictions relaxation)	no demand stimulus policies
Monetary policies:	More RRR/LPR cut than base case	Per CMB International Macro forecasts: 50bps RRR cut and 10bps LPR reduction in Q1, followed by another 10bps LPR cut in Q3;	Less RRR/LPR cut than base case
The demand diversion of increasing supply of affordable housing:	The impact on annual sales is negligible.	The impact on annual sales is within 0.5%.	The impact on annual sales is above 0.5%.
Purchase unsold new home inventory support by re-lending facilities:	There is certain progress of implementation, contributing 5% to sales in 2026.	It still takes time to implement and the impact on sales is negligible.	It still takes time to implement and the impact on sales is negligible.
The demand diversion of increasing supply of near-new house inventory to be released:	The impact on annual sales is negligible.	A few demand diversion	Certain demand diversion

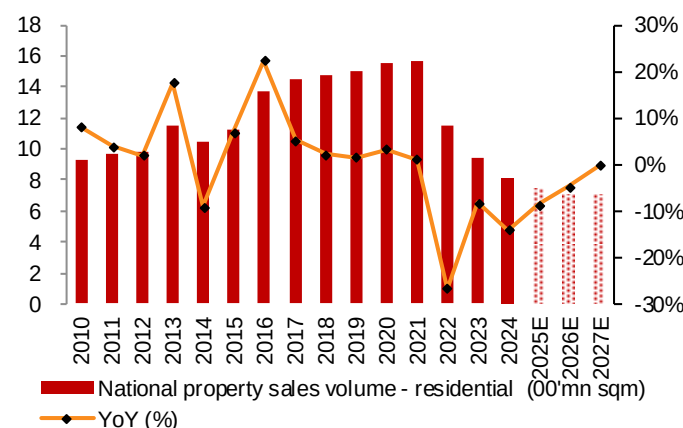
Source: NBS, BEKE, CMBIGM estimates

Figure 24: National property sales value estimation

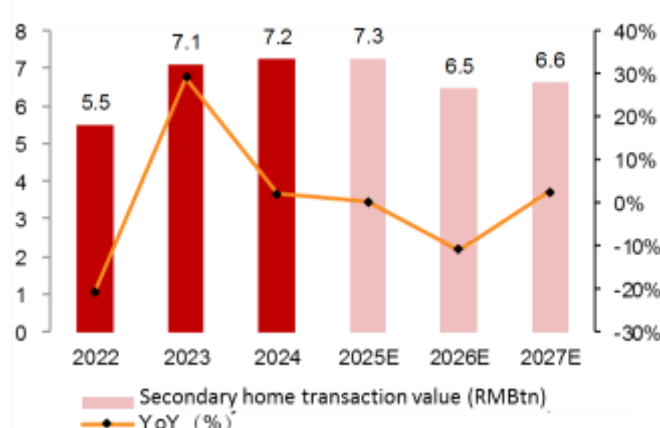


Source: NBS, CMBIGM estimates

Figure 25: National property sales volume estimation



Source: NBS, CMBIGM estimates

Figure 26: Secondary home market transaction value

Source: BEKE, CMBIGM estimates

Real estate investment forecast

Figure 27: Estimation of key indicators in property market

	2026E	YoY	2025E	YoY	2024	YoY	
Property GFA sold (mn sqm)	847	-5%	890	-9%	974	-13%	Key Developers land acquisition intensity is recovering. New home price decline narrowed
Property sales (RMB bn)	8,072	-6%	8,571	-11%	9,675	-17%	
New starts (mn sqm)	529	-10%	589	-20%	739	-23%	Decline following the property sales
Property investment (RMB bn)	551	-9%	605	-18%	737	-28%	Debt restructuring progress is positive on completion
GFA completion (mn sqm)	7,732	-9%	8,474	-16%	10,028	-11%	New starts, completion and land purchase continue to decline but with a slower pace

Source: NBS, CMBIGM estimates

■ New starts

New starts GFA fell 19.8% YoY in Jan-Oct 2025, reflecting lingering liquidity amid worsening sales. We forecast 2025/2026 starts change to be -20%/-10% YoY.

■ Completion

Completions declined 16.9% YoY in Jan-Oct 2025. Given seasonally high completion volumes in November to December (typically 2x and 5-6x monthly averages), we project full-year 2025 completions to drop ~18%. For 2026, whitelist-support policies and debt-restructuring efforts may provide support, forecast at -9% YoY.

■ REI

REI fell 14.7% YoY in Jan-Oct 2025, with full-year decline projected at -16%. For 2026:

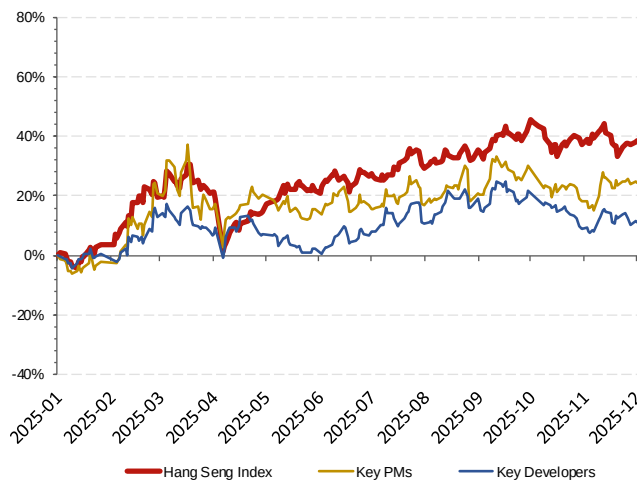
New starts showed a moderate decline (-10%), although their weight in REI shrank. The decline in completion narrowed. Land acquisition costs (volume/value both contracting) likely fall faster than starts/completions, further reducing its contribution in REI.

We estimate 2025/2026 REI growth at -16%/-9% YoY.

Sector Performance

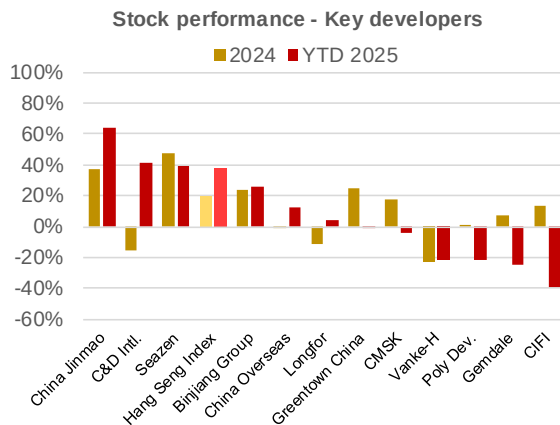
As of 2 December 2025, our tracked key heavy-asset property targets (15 stocks) averaged +11.2% returns, while key light-asset targets (15 stocks) averaged +24.3%, both materially underperforming the Hang Seng Index (+38.5%). Among developers, outperformers centered on "distressed turnaround plays" and state-owned enterprises gaining market share steadily. Property management outperformers mainly comprised firms backed by stable parent companies.

Figure 28: Property and PM stocks vs. Hang Seng Index



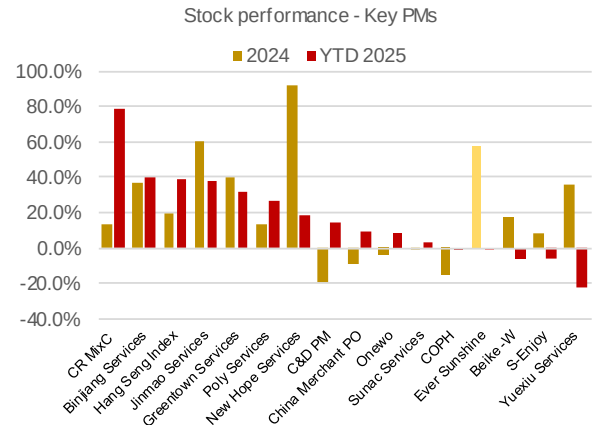
Source: Wind, CMBIGM

Figure 29: Stock performance - key developers



Source: Wind, CMBIGM (As of 2 December 2025)

Figure 30: Stock performance - key PMs



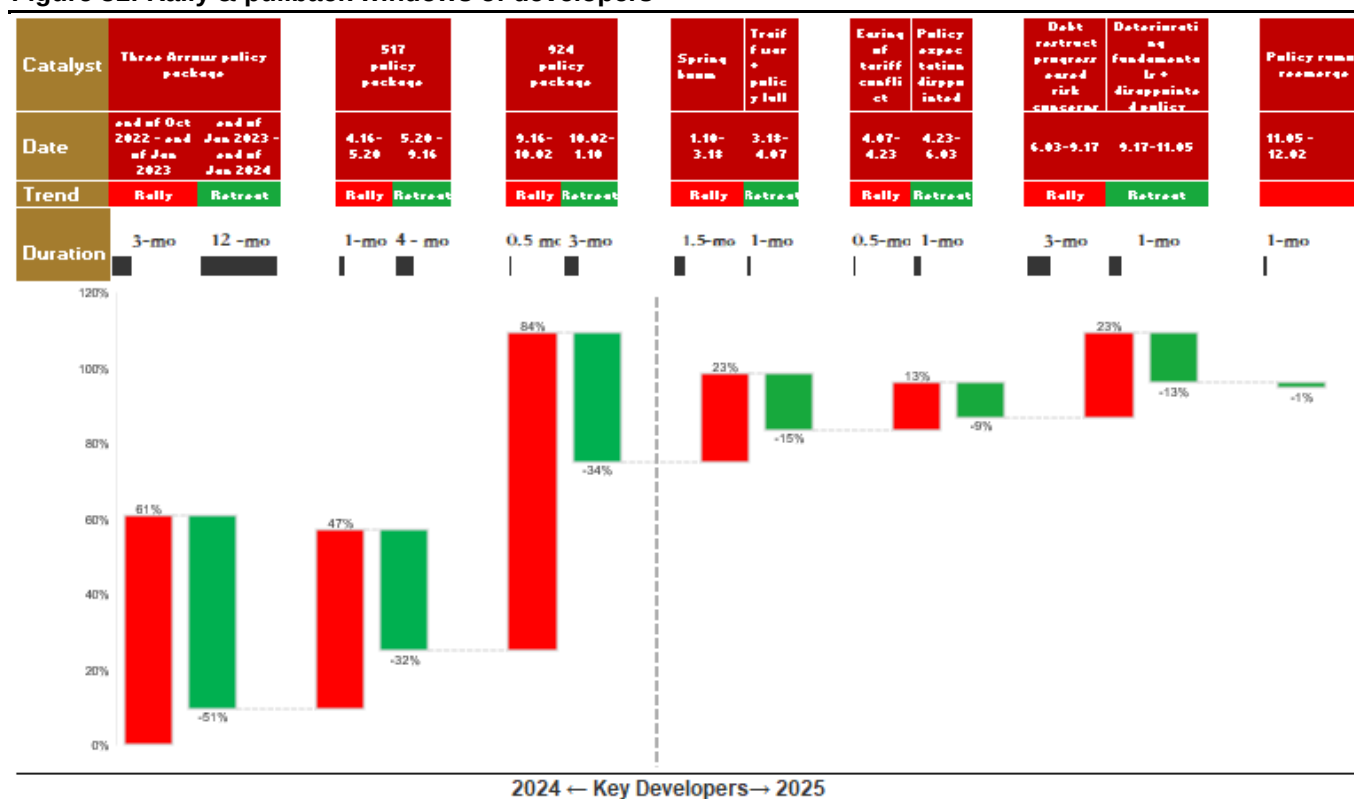
Source: Wind, CMBIGM (As of 2 December 2025)

■ Policy-driven valuation recovery windows in 2022-2024

Three policy-driven valuation recovery windows emerged: Three Arrows (Oct 2022), 517 Policy Package (May 2024), and 924 Policy Package (Sep 2024). Price movement magnitude and duration across these windows are illustrated in [Figures 31-32](#). Our key observations are: Rally cycles shortened progressively—from 3 months (Three Arrows) to 1 month (517) to half a month (924). Drawdown cycles also compressed sharply—from 1 year (Three Arrows) to ~4 months (517) and ~3 months (924). This trend continued through 2025, with three rapid rally-correction windows occurring over similarly abbreviated timelines.

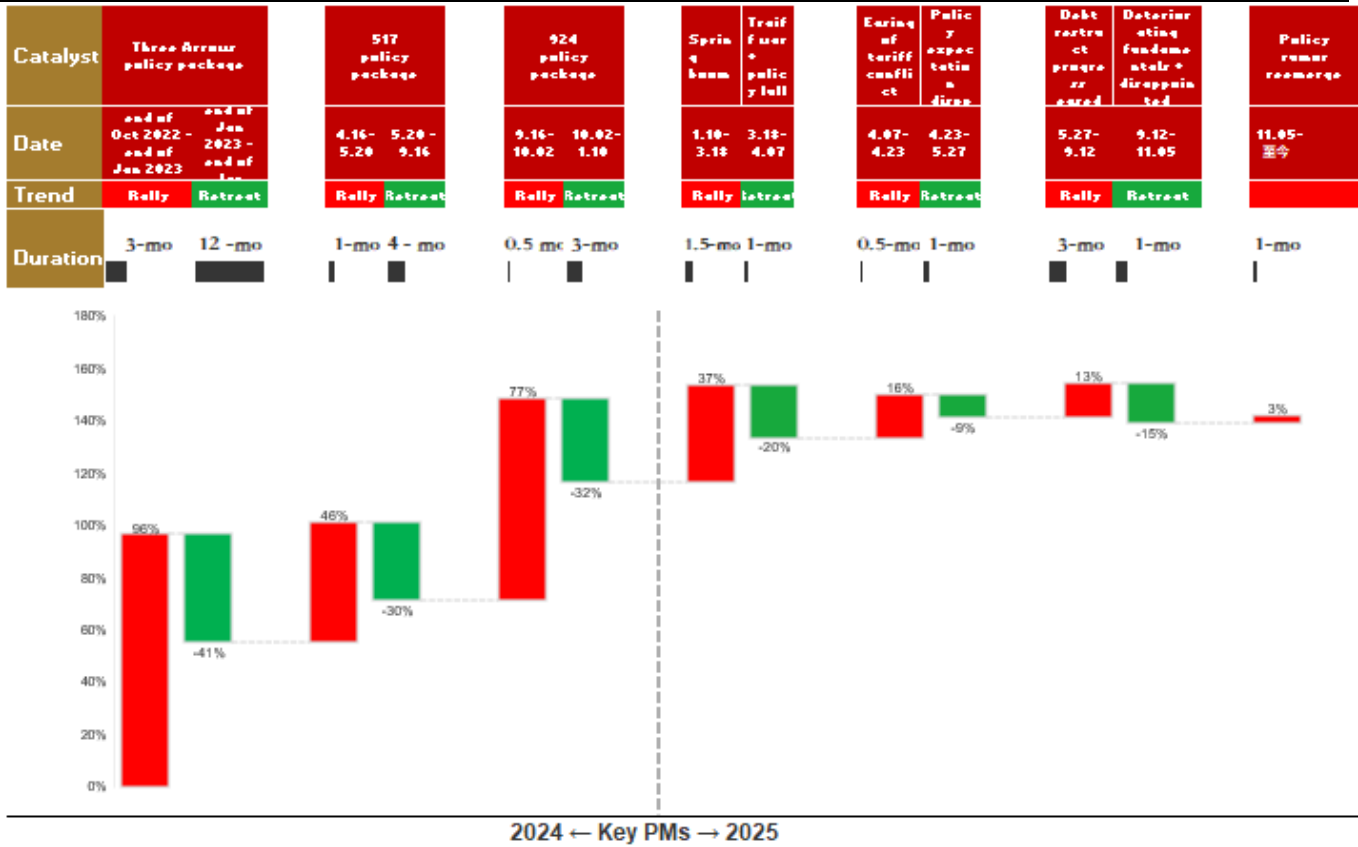
Our Interpretation: 1) Abbreviated cycle durations reflect shifting market conviction about the sector's long-term trajectory. Investors increasingly accept that the sector is shifting toward steady, lower-growth health, recognizing neither fundamental conditions nor policy intent supports a return to prior high-growth cyclicity. 2) Each drawback phase showed smaller declines than preceding rallies, indicating sustained upward valuation recalibration. While consensus expects a prolonged recovery, each policy package incrementally accelerates bottom identification, fueling sequential valuation resets (wherein drawdowns consistently lag behind rallies).

Figure 31: Rally & pullback windows of developers



Source: Wind, CMBIGM (as of 2 December 2025)

Figure 32: Rally & pullback windows of key PMs



Source: Wind, CMBIGM (as of 2 December 2025)

Investment theme

Amid industry-wide demand contraction and business model transition, the dominance of the existing property market will intensify. For 2026, sector investments should target companies with absolute capabilities in existing-property operations/services. Within the heavy-asset segment, developers adopting concurrent development-operations models with high-quality resource reserves will have better outperformance potential. We recommend to focus on:

■ Theme 1: Value re-appraisal of ecosystem builders and service providers in the existing market

1) PM service providers

The essence of property management lies in the perpetual operation of fee-based areas, with its stable cash flow and high dividend payout highlighting defensive attributes during downturn. Crucially, in the era of existing-stock development, PM quality directly affects resident experience and asset value preservation – decisive factors for developer brand reputation and future sales (particularly in upgrade markets). Thus, PM companies excelling in service quality, efficient digital operations, and robust cost control will undergo continuous value re-appraisal as the existing-stock era evolves, positioning them as long-term beneficiaries through cycles (e.g., CR MixC (1209 HK), Greentown Service (2869 HK), Poly Property Services (6049 HK), Binjiang Service (3316 HK)).

2) Leading transaction platforms

In 2026, secondary property transaction volume will continue to exceed new home sales, becoming the dominant force in integrated property transactions. KE Holdings (BEKE US), as China's undisputed secondary market leader, structurally benefits from: (i) transaction scale support via rising industry turnover rates; and (ii) lifecycle extension opportunities across existing properties, including renovation, leasing, and other value-added services. Against progressive industry consolidation, leaders' market share capture effect will intensify, demonstrating cycle-resistant capabilities well beyond sector averages.

■ Theme 2: Heavy-asset segment - prioritize risk resilience and high-quality resource reserves

3) Developers balancing development and operations: defensive and growth attributes of commercial assets

Targets with strong commercial asset operation capabilities demonstrate notable counter-cyclical resilience amid persistent development business contraction (e.g. Longfor Group [960 HK]). Defensive merits: Retail assets benefit from consumption rigidity, delivering relatively cycle-resilient operating income and avoiding earnings collapse. Growth potential: Retail operations capture consumption recovery dividends ahead of development businesses during macroeconomic recovery. Financing edge: Premium retail assets secure incremental funding due to stable cash flow and clear collateral value.

4) Pure developers targeting premium sellable resource reserves

With shrinking development volume, competition shifts from "scale expansion" to "resource premium." Suggest to watch firms consistently securing high-quality sellable resources, screened by reasonable land acquisition intensity: Avoids liquidity risks while maintaining steady land bank replenishment. Premium land bank quality: Targets prime core-city locations with robust profitability and guaranteed sell-through. Such players gain market share during corrections through premium-asset sales.

Risks

Greater-than-expected macroeconomic slowdown, policy easing below expectations, steeper asset price corrections etc.

Valuation

Figure 33: Valuation comps - developers

Company	Ticker	Last Price	Mkt Cap	P/E (x)			P/B (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield	
		(LC)		25E	26E	27E	25E	26E	27E	25E	26E	27E	24A	24A	25E
COLI	0688.HK	13.18	18,535	8.4 x	7.9 x	7.5 x	0.3 x	0.3 x	0.3 x	(0.0)	5.8	6.1	39%	4.6%	4.7%
Poly Developments	600048.SH	6.53	11,048	20.4 x	17.9 x	14.5 x	0.4 x	0.4 x	0.4 x	(23.3)	13.9	23.2	40%	2.6%	2.0%
CMSK	001979.SZ	9.24	11,775	19.8 x	17.7 x	15.8 x	0.8 x	0.7 x	0.7 x	NA	NA	12.1	52%	2.1%	2.2%
China Jinmao	0817.HK	1.42	2,465	15.2 x	13.1 x	11.0 x	0.3 x	0.3 x	0.3 x	7.6	16.5	19.6	54%	2.1%	3.6%
Longfor	0960.HK	10.04	9,084	12.5 x	11.3 x	9.5 x	0.4 x	0.4 x	0.4 x	(50.7)	10.7	18.7	20%	3.5%	1.8%
C&D International	1908.HK	15.97	4,597	6.8 x	6.3 x	5.8 x	0.9 x	0.9 x	0.8 x	(0.6)	7.8	9.4	47%	7.5%	7.5%
Binjiang Group	002244.SZ	10.02	4,407	10.7 x	9.8 x	9.0 x	1.0 x	0.9 x	0.9 x	14.2	9.2	9.1	10%	0.8%	1.0%
Huafa	600325.SH	4.53	1,762	25.0 x	17.8 x	13.0 x	0.6 x	0.6 x	0.6 x	NA	NA	NA	NA	NA	1.2%
Greentown China	3900.HK	9.10	2,969	16.6 x	11.9 x	8.6 x	0.6 x	0.6 x	0.5 x	(20.8)	39.1	38.8	48%	3.6%	3.2%
Midea RE	3990.HK	4.33	799	8.8 x	7.2 x	5.7 x	1.1 x	1.0 x	0.8 x	(131.3)	22.4	26.0	NA	NA	7.6%
COGO	0081.HK	2.29	1,047	18.0 x	11.9 x	9.3 x	0.2 x	0.2 x	0.2 x	(56.8)	50.9	28.5	35%	4%	2%
Average				14.1 x	12.3 x	10.6 x	0.5 x	0.5 x	0.5 x	(12.6)	9.7	14.3	37%	3.3%	3.2%

Source: Company data, Wind, CMBIGM estimates (as of 5 December 2025)

Figure 34: Valuation comps - PMs

Company	Ticker	Last Price	Mkt Cap	P/E (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield		PEG
		(LC)		25E	26E	27E	25E	26E	27E	24A	24A	25E	26E
CR MixC	1209.HK	45.24	13,268	22.8 x	20.2 x	18.1 x	13.3	12.9	12.0	134%	5.1%	4.1%	1.6
Onew o	2602.HK	20.24	3,038	14.7 x	12.7 x	11.3 x	27.0	15.7	13.0	196%	10.3%	45.0%	0.8
Country Garden Services	6098.HK	6.54	2,810	11.8 x	10.3 x	9.4 x	(6.7)	14.0	10.1	55%	4.9%	6.4%	0.7
Poly Services	6049.HK	35.00	2,488	11.3 x	10.6 x	9.9 x	5.9	6.7	6.9	50%	4.2%	3.8%	1.6
COPH	2669.HK	4.91	2,072	9.0 x	8.3 x	7.7 x	7.6	8.1	8.5	36%	3.7%	4.3%	1.0
China Merchant PO	001914.SZ	11.31	1,695	12.8 x	11.4 x	10.4 x	11.2	12.2	10.6	30%	2.1%	2.7%	0.9
Greentown n Services	2869.HK	4.48	1,815	13.8 x	11.9 x	10.4 x	18.4	16.4	13.8	75%	4.5%	4.9%	0.7
Binjiang Services	3316.HK	24.56	872	9.7 x	8.6 x	7.6 x	15.9	13.4	12.4	70%	6.1%	7.1%	0.6
Yuexiu Services	6626.HK	2.50	483	7.4 x	6.4 x	5.7 x	30.9	16.3	12.3	74%	7.3%	7.1%	0.4
C&D PM	2156.HK	2.65	480	9.0 x	8.0 x	7.2 x	16.3	12.5	11.5	58%	5.7%	6.6%	0.6
Ever Sunshine	1995.HK	1.76	391	6.1 x	5.8 x	5.2 x	(5.2)	4.6	11.8	62%	10.5%	10.6%	1.3
Jinmao Services	0816.HK	2.92	339	6.2 x	5.8 x	5.3 x	4.4	7.2	7.8	41%	6.2%	6.4%	0.8
New Hope Services	3658.HK	1.98	207	6.3 x	5.8 x	5.4 x	3.2	7.3	8.8	57%	8.7%	9.0%	0.8
E-star CM	6668.HK	1.38	180	8.1 x	8.1 x	7.7 x	1.4	0.9	4.9	80%	9.5%	9.6%	NA
Average				16.5 x	14.7 x	13.1 x	11.9	12.4	11.2	103%	5.4%	8.7%	1.2
BEKE-W	2423.HK	44.44	20,021	37.9 x	27.4 x	21.3 x	(8.2)	38.7	28.7	73%	2.1%	1.8%	0.7
Greentown n Management	9979.HK	3.07	789	9.6 x	8.9 x	7.8 x	(27.4)	8.0	13.3	59%	8.5%	7.5%	1.1
Average				36.9 x	26.7 x	20.7 x	(8.9)	37.5	28.1	72%	2.3%	2.0%	0.7

Source: Company data, Wind, CMBIGM estimates (as of 5 December 2025)



Sector Top Picks

- ❖ **China Internet & Software** – Tencent (700 HK), Alibaba (BABA US), Kuaishou (1024 HK)
- ❖ **US Internet & Software** – Microsoft (MFST US), Alphabet (GOOG US)
- ❖ **China Semiconductors** – Innolight (300308 CH), Shengyi Tech (600183 CH), Naura Technology (002371 CH), BaTeLab (2149 HK)
- ❖ **China Technology** – Luxshare (002475 CH), FIT Hon Teng (6088 HK), AAC Tech (2018 HK)
- ❖ **China Consumer Staples** – CR Beverage (2460 HK)
- ❖ **China Consumer Discretionary** – Guoquan Food (2517 HK), Luckin Coffee (LKNCY US)
- ❖ **China Automobiles** – Geely Automobile (175 HK), Zenergy (3677 HK)
- ❖ **China Healthcare** – 3SBio (1530 HK), Gushengtang (2273 HK)
- ❖ **China Capital Goods/Uranium** – Zoomlion (1157 HK/000157 CH), Weichai Power (2338 HK/000338 CH)
- ❖ **China Insurance** – Ping An (2318 HK), China Life (2628 HK), AIA Group Ltd. (1299 HK), PICC P&C (2328 HK)
- ❖ **China Property** – CR MixC Lifestyle (1209 HK)

*Pricing for companies below as of 26 Dec 2025 close

Tencent (700 HK)

Solid fundamentals; AI drives business growth across segments

Tencent has established solid competitive edges in SNS/gaming/advertising, and AI continues to empower its businesses across different segments. Looking ahead to FY26E, we anticipate multiple drivers to underpin the company's business growth: 1) evergreen games maintain steady performance, while highly-anticipated new titles like *Honor of Kings: World* are expected to drive incremental gaming revenue; 2) AI-empowerment combined with rising ad load rates on Weixin Video Account will propel ad revenue growth ahead of the industry average; 3) AI cloud revenue will sustain rapid growth. Supported by Tencent's robust competitive moats and operating leverage, we forecast its FY26 adjusted operating profit to grow by 11% YoY. Tencent currently trades at c.17x FY26 Non-IFRS PE (15x PE excluding strategic investments). Our SOTP-based target price is HK\$760.0, representing 22x FY26E Non-IFRS PE.

■ **Expect solid revenue and earnings growth in FY26E.** We project Tencent's total revenue to grow by 9% YoY in FY26, driven by: 1) games revenue to grow by 8% YoY, driven by stable performance of evergreen titles and incremental contributions from new titles such as *Honor of Kings: World* and *Ni Zhan: Future*; overseas gaming revenue to maintain rapid growth on the back of strong performance from studios such as Supercell. 2) Marketing revenue to grow by 16% YoY, primarily driven by AI-empowered ad solutions (which boost ad inventory, conversion rates and eCPM) and higher ad load rates on Video Account. 3) FBS revenue to increase by 7% YoY, led by growth in AI cloud services and e-commerce service fees; the recovery of fintech business will hinge on improvements in the overall consumer environment. We expect FY26 non-IFRS operating margin to expand by c.1ppt YoY, with the pace of margin improvement moderating, mainly due to slower growth in high-margin gaming and ad segments as well as increased investments in AI-related initiatives.

■ **Eyes on AI, games, ads, and ecommerce development.** For 2026, potential catalysts include: 1) Continued AI empowerment of core businesses to drive revenue growth in advertising, cloud and gaming; AI-native applications such as Yuanbao and ima are experiencing rapid user expansion through the Weixin ecosystem and gradually exploring potential monetization opportunities. 2) Launch of major new games including *Honor of Kings: World* and *Ni Zhan: Future* to drive gaming revenue growth. 3) Rapid development of Weixin commercial ecosystem, with sustained strong growth in Weixin Video Account advertising and e-commerce.

■ **Competitive moats underpin profit growth.** Our SOTP-derived target price is HK\$760.0, consisting of HK\$335.3/38.6/150.4/103.4/30.9 for games/SNS/marketing/FBS/cloud and HK\$19.1/82.2 for net cash/strategic investments. Excluding strategic investments, Tencent currently trades at 15x FY26E Non-IFRS PE. Given Tencent's robust competitive advantages, high certainty of profit growth and positive progress in AI initiatives, the company remains one of our top picks in the sector.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	609,015	660,257	751,126	816,768	872,160
Adjusted net profit (RMB mn)	157,688.0	222,703.0	258,251.5	285,556.5	306,627.9
EPS (Adjusted) (RMB)	16.66	23.96	27.82	31.23	34.05
Consensus EPS (RMB)	16.66	23.96	27.02	30.35	33.72
P/E (x)	47.9	29.1	23.9	22.4	20.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$760.00
Up/Downside 26.0%
Current Price HK\$603.00

China Internet

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Stock Data

Mkt Cap (HK\$ mn) 5,475,178.9
Avg 3 mths t/o (HK\$ mn) 9,867.0
52w High/Low (HK\$) 677.50/366.00
Total Issued Shares (mn) 9079.9

Source: FactSet

Shareholding Structure

MIH TC 23.1%
Advance Data Services Limited 7.7%

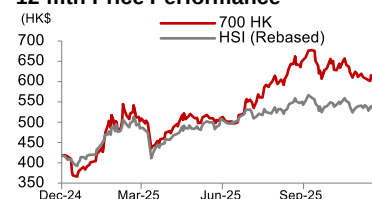
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.5%	-3.2%
3-mth	-7.2%	-4.8%
6-mth	17.7%	11.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	554,552	609,015	660,257	751,126	816,768	872,160
Cost of goods sold	(315,806)	(315,906)	(311,011)	(326,952)	(350,727)	(373,129)
Gross profit	238,746	293,109	349,246	424,174	466,041	499,031
Operating expenses	(127,919)	(133,035)	(141,147)	(182,758)	(191,124)	(199,725)
Selling expense	(29,229)	(34,211)	(36,388)	(40,561)	(43,289)	(44,480)
Admin expense	(106,696)	(103,525)	(112,761)	(136,705)	(147,835)	(155,244)
Others	8,006	4,701	8,002	(5,492)	0	0
Operating profit	110,827	160,074	208,099	241,416	274,917	299,306
Share of (losses)/profits of associates/JV	(16,129)	5,800	25,176	22,799	5,700	5,700
Interest income	8,592	13,808	16,004	15,784	4,128	4,539
Interest expense	(9,352)	(12,268)	(11,981)	(3,860)	(3,941)	(3,756)
Pre-tax profit	85,346	153,606	221,294	260,355	276,676	301,250
Income tax	(21,516)	(43,276)	(45,018)	(49,384)	(54,775)	(59,566)
After tax profit	63,830	110,330	176,276	210,971	221,902	241,684
Minority interest	(466)	(2,832)	(2,394)	(4,499)	(4,991)	(5,427)
Net profit	63,364	107,498	173,882	206,471	216,911	236,257
Adjusted net profit	115,649	157,688	222,703	258,251	285,557	306,628
Gross dividends	20,256	28,485	27,965	44,928	42,183	0

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	565,989	518,446	496,180	564,959	662,271	840,724
Cash & equivalents	156,739	172,320	132,519	183,330	260,355	430,362
Account receivables	45,467	46,606	48,203	52,311	55,176	57,150
Inventories	2,333	456	440	1,041	1,110	1,161
Prepayment	76,685	88,411	101,044	104,532	115,982	112,422
ST bank deposits	104,776	185,983	192,977	200,089	207,315	214,653
Financial assets at FVTPL	27,963	14,903	12,913	13,559	14,237	14,948
Other current assets	152,026	9,767	8,084	10,098	8,097	10,027
Non-current assets	1,012,142	1,058,800	1,284,815	1,390,684	1,500,698	1,589,900
PP&E	53,978	53,232	80,185	138,753	191,056	220,955
Deferred income tax	29,882	29,017	28,325	33,311	33,711	37,856
Investment in JVs & assos	252,715	261,665	297,415	310,388	323,743	337,470
Intangibles	161,802	177,727	196,127	233,433	268,302	299,987
Financial assets at FVTPL	206,085	211,145	204,999	204,999	204,999	204,999
Other non-current assets	307,680	326,014	477,764	469,799	478,886	488,634
Total assets	1,578,131	1,577,246	1,780,995	1,955,643	2,162,969	2,430,624
Current liabilities	434,204	352,157	396,909	373,972	405,630	424,341
Short-term borrowings	22,026	55,698	61,508	57,065	60,913	64,489
Account payables	92,381	100,948	118,712	98,054	110,105	111,349
Tax payable	13,488	17,664	16,586	17,558	18,458	19,244
Other current liabilities	299,955	171,693	194,503	195,695	210,554	223,659
Lease liabilities	6,354	6,154	5,600	5,600	5,600	5,600
Non-current liabilities	361,067	351,408	330,190	409,171	422,744	432,245
Long-term borrowings	163,668	155,819	146,521	212,455	218,829	220,799
Bond payables	148,669	137,101	130,586	131,810	132,428	132,738
Deferred income	3,503	3,435	6,236	13,078	14,029	14,925
Other non-current liabilities	45,227	55,053	46,847	51,827	57,458	63,783
Total liabilities	795,271	703,565	727,099	783,143	828,374	856,586
Retained earnings	705,981	813,911	892,030	1,080,535	1,282,279	1,516,295
Other reserves	15,410	(5,320)	81,518	7,118	(37,522)	(37,522)
Total shareholders equity	721,391	808,591	973,548	1,087,653	1,244,757	1,478,773
Minority interest	61,469	65,090	80,348	84,847	89,838	95,265
Total equity and liabilities	1,578,131	1,577,246	1,780,995	1,955,643	2,162,969	2,430,624

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	85,346	153,606	221,294	260,355	276,676	301,250
Depreciation & amortization	61,216	59,008	56,213	63,281	88,313	110,977
Tax paid	(21,516)	(43,276)	(45,018)	(49,384)	(54,775)	(59,566)
Change in working capital	(18,472)	19,233	21,881	(27,663)	12,527	15,882
Others	39,517	33,391	4,151	14,002	27,627	29,671
Net cash from operations	146,091	221,962	258,521	260,591	350,368	398,214
Investing						
Capital expenditure	(5,651)	(23,893)	(76,760)	(82,624)	(93,928)	(87,216)
Acquisition of subsidiaries/ investments	59,711	(105,332)	(183,983)	(19,765)	(28,747)	(37,598)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(158,931)	4,064	138,556	(76,532)	(81,556)	(85,345)
Net cash from investing	(104,871)	(125,161)	(122,187)	(178,921)	(204,231)	(210,159)
Financing						
Net borrowings	6,407	19,445	(107)	68,668	17,370	12,967
Proceeds from share issues	995	1,070	1,932	0	0	0
Others	(67,355)	(103,088)	(178,319)	(99,527)	(86,483)	(31,015)
Net cash from financing	(59,953)	(82,573)	(176,494)	(30,859)	(69,113)	(18,048)
Net change in cash						
Cash at the beginning of the year	167,966	156,739	172,320	132,519	183,330	260,355
Exchange difference	7,506	1,353	359	0	0	0
Cash at the end of the year	156,739	172,320	132,519	183,330	260,355	430,362
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(1.0%)	9.8%	8.4%	13.8%	8.7%	6.8%
Gross profit	(2.9%)	22.8%	19.2%	21.5%	9.9%	7.1%
Operating profit	(58.2%)	44.4%	30.0%	16.0%	13.9%	8.9%
Net profit	(71.0%)	69.7%	61.8%	18.7%	5.1%	8.9%
Adj. net profit	(6.6%)	36.4%	41.2%	16.0%	10.6%	7.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	43.1%	48.1%	52.9%	56.5%	57.1%	57.2%
Operating margin	20.0%	26.3%	31.5%	32.1%	33.7%	34.3%
Adj. net profit margin	20.9%	25.9%	33.7%	34.4%	35.0%	35.2%
Return on equity (ROE)	8.3%	14.1%	19.5%	20.0%	18.6%	17.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.2	0.2	0.2	0.2	0.1	(0.0)
Current ratio (x)	1.3	1.5	1.3	1.5	1.6	2.0
Receivable turnover days	29.9	27.9	26.6	25.4	24.7	23.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	81.9	47.9	29.1	23.9	22.4	20.3
P/E (diluted)	83.2	48.7	29.5	24.3	22.8	20.6
P/B	7.2	6.4	5.2	4.5	3.9	3.2

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

Alibaba (BABA US)

Strong cloud biz growth, with AI application monetization poised to gain traction

We reaffirm our positive view on Alibaba, driven by: 1) strong growth prospects for cloud computing revenue, driven by rising adoption of AI-related products and growing digitalization demand; 2) stable development outlook for e-commerce business, underpinned by the cross-selling effect brought by the increasing penetration of "Quanzhantui" and the rapid expansion of instant retail business. The fast growth of instant retail is expected to enhance user stickiness and drive better customer management revenue (CMR) prospects in the medium to long term. Endowed with strong technological capabilities and abundant AI application scenarios, Alibaba is poised to drive its long-term revenue and profit growth through its two strategic business pillars: "Consumption" and "AI + Cloud". In our view, Alibaba remains one of the key beneficiaries of the AI investment theme. Our SOTP-based TP is US\$206.4, translating into 23.4x/18.1x FY27/FY28E P/E (non-GAAP).

■ **Synergies between e-commerce and instant retail gradually emerging.** Instant retail investments have generated synergistic effects for Alibaba's core e-commerce business: 1) the expanded user scale and improved user engagement have contributed incremental gains to CMR; 2) cross-selling in categories such as fresh produce, healthcare and supermarkets could drive sustained revenue growth. We anticipate that the losses of the instant retail business will narrow significantly QoQ in 3QFY26, thereby boosting the profitability of Alibaba China E-commerce Group (ACEG). We forecast the Group's overall revenue to grow by 4%/12% YoY in FY26/27E, with the lower growth rate in FY26E mainly attributable to the high base effect from the spin-off of offline retail business. Meanwhile, we forecast Alibaba's adjusted EBITA to change by -35%/+46% YoY. We expect the profitability to rebound along with the situation that instant retail business entering into a more mature stage.

■ **Alibaba Cloud: strong growth momentum expected to continue.** Cloud Intelligence Group (CIG) recorded 34.5% YoY revenue growth in 2QFY26, representing a further notable acceleration QoQ. Benefiting from the revenue growth of the public cloud business and rising demand for AI-related cloud products, we expect Alibaba Cloud to sustain its robust revenue growth. Over the past four quarters, the company has cumulatively invested approximately RMB120bn in Capex for AI and cloud infrastructure development. The company remains committed to its three-year Capex plan of RMB380bn, while indicating that the spending scale may be further increased given the current strong customer demand. We believe this will underpin the robust revenue growth of its cloud business. We forecast cloud revenue to achieve a FY26-28E CAGR of 31%.

■ **Strong cloud business growth poised to drive valuation re-rating.** Our SOTP-based target price is US\$206.4 per ADS, with the valuations of ACEG/International Digital Commerce Group/CIG/All Others standing at US\$86.7/12.9/81.5/14.6 respectively. Strategic investments are valued at US\$10.7 after a 30% holding discount. We believe that the further acceleration of cloud revenue growth and steady expansion of CMR remain the key drivers of the company's stock price. Meanwhile, backed by abundant application scenarios, the disclosure of incremental monetization from AI applications is also likely to serve as a catalyst. Alibaba remains one of our top picks for 2026.

BUY (Maintain)

Target Price US\$206.40
Up/Downside 35.6%
Current Price US\$152.24

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Stock Data

Mkt Cap (US\$ mn)	363,853.6
Avg 3 mths t/o (US\$ mn)	1,637.7
52w High/Low (US\$)	189.34/80.53
Total Issued Shares (mn)	2390.0

Source: FactSet

Shareholding Structure

JPMorgan	2.3%
Parufam Limited	0.8%

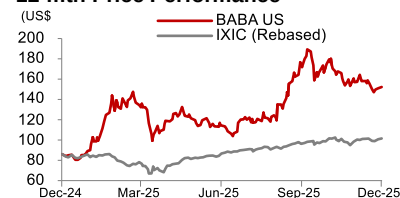
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.4%	-5.0%
3-mth	-11.4%	-15.7%
6-mth	33.6%	14.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Mar)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	941,168	996,347	1,036,665	1,162,388	1,287,557
YoY growth (%)	8.3	5.9	4.0	12.1	10.8
Net profit (RMB mn)	79,741.0	129,470.0	116,479.2	132,854.8	174,144.2
Adjusted net profit (RMB mn)	158,359.0	158,095.0	106,432.1	150,523.1	192,427.5
YoY growth (%)	10.0	(0.2)	(32.7)	41.4	27.8
EPS (Adjusted) (RMB)	62.77	67.31	45.89	65.55	84.65
Consensus EPS (RMB)	na	65.41	49.17	67.29	82.28
P/E (x)	33.8	19.4	21.2	18.4	13.9

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Revenue	868,687	941,168	996,347	1,036,665	1,162,388	1,287,557
Cost of goods sold	(549,695)	(586,323)	(598,285)	(603,339)	(673,023)	(745,496)
Gross profit	318,992	354,845	398,062	433,326	489,366	542,062
Operating expenses	(218,641)	(241,495)	(257,157)	(337,863)	(343,137)	(340,173)
SG&A expense	(145,679)	(157,126)	(188,260)	(269,533)	(268,512)	(258,799)
R&D expense	(56,744)	(52,256)	(57,151)	(65,310)	(70,906)	(77,253)
Others	(16,218)	(32,113)	(11,746)	(3,020)	(3,720)	(4,120)
Operating profit	100,351	113,350	140,905	95,463	146,228	201,889
Interest income	(11,071)	(9,964)	20,759	47,687	26,735	29,356
Interest expense	(5,918)	(7,947)	(9,596)	(9,984)	(10,614)	(11,757)
Other income/expense	5,823	6,157	3,387	3,317	3,720	4,120
Pre-tax profit	89,185	101,596	155,455	136,482	166,069	223,609
Income tax	(15,549)	(22,529)	(35,445)	(28,661)	(39,026)	(55,902)
Others	(8,063)	(7,735)	5,966	6,220	5,812	6,438
After tax profit	65,573	71,332	125,976	114,041	132,855	174,144
Minority interest	7,210	8,677	4,133	0	0	0
Others	(274)	(268)	(639)	2,438	0	0
Net profit	72,509	79,741	129,470	116,479	132,855	174,144
Adjusted net profit	143,991	158,359	158,095	106,432	150,523	192,427
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Current assets	697,966	752,864	674,049	761,483	821,466	912,943
Cash & equivalents	193,086	248,125	145,487	279,596	321,883	395,998
Restricted cash	36,424	38,299	43,781	43,781	43,781	43,781
Prepayment	137,072	143,536	202,175	155,500	173,196	190,558
Financial assets at FVTPL	331,384	322,904	282,606	282,606	282,606	282,606
Non-current assets	1,055,078	1,011,965	1,130,178	1,352,863	1,504,606	1,671,453
PP&E	176,031	185,161	203,348	430,748	561,685	707,642
Investment in JVs & assos	207,380	203,131	210,169	223,427	236,277	249,753
Intangibles	46,913	26,950	20,911	26,243	29,232	32,211
Goodwill	268,091	259,679	255,501	255,501	255,501	255,501
Financial assets at FVTPL	245,737	220,942	356,818	356,818	356,818	356,818
Other non-current assets	110,926	116,102	83,431	60,127	65,094	69,528
Total assets	1,753,044	1,764,829	1,804,227	2,114,346	2,326,072	2,584,396
Current liabilities	385,351	421,507	435,346	400,526	453,048	510,168
Short-term borrowings	7,466	12,749	22,562	22,753	25,380	28,113
Tax payable	12,543	9,068	11,638	23,502	30,831	42,486
Other current liabilities	89,392	101,807	68,609	69,189	77,180	85,491
Accrued expenses	275,950	297,883	332,537	285,083	319,657	354,078
Non-current liabilities	244,772	230,723	278,775	279,674	292,075	304,972
Long-term borrowings	52,023	55,686	49,909	49,909	49,909	49,909
Deferred income	3,560	4,069	4,536	4,574	5,103	5,652
Other non-current liabilities	189,189	170,968	224,330	225,191	237,063	249,411
Total liabilities	630,123	652,230	714,121	680,201	745,123	815,140
Share capital	1	1	1	1	1	1
Capital surplus	416,880	397,999	381,379	397,850	411,799	425,962
Retained earnings	599,028	597,897	645,478	923,187	1,056,042	1,230,186
Other reserves	(16,394)	1,375	(5,287)	2,511	2,511	2,511
Total shareholders equity	999,515	997,272	1,021,571	1,323,550	1,470,353	1,658,660
Minority interest	123,406	115,327	68,535	110,596	110,596	110,596
Total equity and liabilities	1,753,044	1,764,829	1,804,227	2,114,346	2,326,072	2,584,396

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar (RMB mn)						
Operating						
Profit before taxation	89,185	101,596	155,455	136,482	166,069	223,609
Depreciation & amortization	46,938	44,504	42,459	11,867	12,269	12,670
Tax paid	(15,549)	(22,529)	(35,445)	(28,661)	(39,026)	(55,902)
Change in working capital	13,482	(13,749)	(23,988)	93,959	33,402	39,009
Others	65,696	72,771	25,028	13,928	20,177	20,641
Net cash from operations	199,752	182,593	163,509	227,575	192,892	240,027
Investing						
Capital expenditure	(34,330)	(32,087)	(85,972)	(124,400)	(139,487)	(154,507)
Acquisition of subsidiaries/ investments	(22)	(842)	0	(6,000)	(6,708)	(7,100)
Net proceeds from disposal of short-term investments	(61,086)	71,426	23,395	0	0	0
Others	(40,068)	(60,321)	(122,838)	(7,038)	(7,038)	(7,038)
Net cash from investing	(135,506)	(21,824)	(185,415)	(137,438)	(153,233)	(168,645)
Financing						
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	11	843	10	0	0	0
Share repurchases	(74,746)	(88,745)	(86,662)	0	0	0
Others	9,116	(20,342)	10,437	191	2,628	2,733
Net cash from financing	(65,619)	(108,244)	(76,215)	191	2,628	2,733
Net change in cash						
Cash at the beginning of the year	227,353	229,510	286,424	189,268	279,596	321,883
Exchange difference	3,530	4,389	965	0	0	0
Cash at the end of the year	229,510	286,424	189,268	279,596	321,883	395,998
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Revenue	1.8%	8.3%	5.9%	4.0%	12.1%	10.8%
Gross profit	1.7%	11.2%	12.2%	8.9%	12.9%	10.8%
Operating profit	44.1%	13.0%	24.3%	(32.3%)	53.2%	38.1%
Net profit	17.0%	10.0%	62.4%	(10.0%)	14.1%	31.1%
Adj. net profit	0.3%	10.0%	(0.2%)	(32.7%)	41.4%	27.8%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Gross profit margin	36.7%	37.7%	40.0%	41.8%	42.1%	42.1%
Operating margin	11.6%	12.0%	14.1%	9.2%	12.6%	15.7%
Adj. net profit margin	16.6%	16.8%	15.9%	10.3%	12.9%	14.9%
Return on equity (ROE)	7.4%	8.0%	12.8%	9.9%	9.5%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
Net debt to equity (x)	(0.4)	(0.4)	(0.2)	(0.3)	(0.3)	(0.3)
Current ratio (x)	1.8	1.8	1.5	1.9	1.8	1.8
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Mar						
P/E	38.6	33.8	19.4	21.2	18.4	13.9
P/E (diluted)	38.8	34.1	19.9	21.9	19.0	14.4
P/B	2.8	2.7	2.5	1.9	1.7	1.5
P/CFPS	17.0	18.0	33.2	24.7	47.3	29.2

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

Kuaishou (1024 HK)

Positive Kling AI monetization progress; AI drove business growth

Kuaishou is one of our top picks in the AI application vertical. The company benefits from the development of AI applications across multiple segments: 1) Kling AI generated over RMB300mn in revenue in 3Q25, and we estimate its FY25 revenue to exceed US\$140mn, with strong growth momentum to persist in FY26E; 2) Online marketing business leverage AI models like OneRec to drive an incremental 4-5% growth in domestic online marketing services revenue in 3Q25; 3) E-commerce: the launch of the generative retrieval architecture OneSearch has enabled more accurate product matching, boosting 5% growth in shopping mall search order volume. We are upbeat on the company's sustained gains from AI empowerment and resilient profit growth, and forecast a 14% YoY increase in its adjusted net profit for FY26E. Our SOTP-based target price is HK\$88.0, representing a 15x FY26E Non-GAAP PE.

- **Core commercial businesses maintain healthy growth.** We forecast Kuaishou's total revenue to grow 8% YoY in FY26E, supported by the following: 1) Online marketing revenue to grow by 9% YoY, driven by continuous upgrades in content recommendation and advertising models. Additionally, the local services and content consumption sectors are poised to contribute incremental ad budgets. 2) Other revenue to grow by 13% YoY, primarily supported by healthy e-commerce GMV growth and incremental contributions from Kling AI revenue. 3) Live streaming revenue to increase by 3% YoY. On the earnings front, we expect FY26 adjusted net profit margin to expand by c.1 ppt YoY, mainly benefiting from operating leverage and optimized customer acquisition costs, partially offset by increased investments in AI-related initiatives.
- **Catalysts: AI application monetization and empowerment on core businesses.** Looking ahead to 2026, key potential catalysts include: 1) Continuous upgrade of Kling AI, alongside enhanced PUGC- and B-end monetization, could drive incremental AI application revenue. 2) Ongoing optimization of content recommendation and advertising models could boost traffic and improve the ROI of ad solutions. 3) Expansion of e-commerce product supply and scenarios could increase user repurchase frequency, driving e-commerce GMV growth.
- **Kling to support valuation upgrade.** Our SOTP-based target price of HK\$88.0 consists of HK\$8.2/29.3/44.3 for live streaming/online marketing/e-commerce, and HK\$6.1 for net cash. Kling AI is not yet included in our SOTP valuation. However, amid a recovery in investor risk appetite, Kling AI is likely to deliver incremental valuation contribution. Based on the 15-25x FY26 PS valuation of overseas AI creative application companies, Kling AI's implied valuation ranges from c.HK\$5-9 per share. Currently, the stock trades at 10.5x FY26E Non-GAAP PE. Given the company's robust profit growth outlook and AI application catalysts, we believe its current valuation remains attractive.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	113,470	126,898	142,060	153,692	164,578
Adjusted net profit (RMB mn)	10,271.0	17,716.0	20,777.9	23,730.9	26,740.8
EPS (Adjusted) (RMB)	2.38	4.12	4.85	5.54	6.24
Consensus EPS (RMB)	2.38	4.12	4.72	5.53	6.45
P/E (x)	38.8	16.3	13.8	12.0	10.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$88.00**
 Up/Downside **36.2%**
 Current Price **HK\$64.60**

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Stock Data

Mkt Cap (HK\$ mn)	278,103.0
Avg 3 mths t/o (HK\$ mn)	2,424.7
52w High/Low (HK\$)	91.85/38.80
Total Issued Shares (mn)	4305.0

Source: FactSet

Shareholding Structure

Tencent	15.8%
Su Hua	10.0%

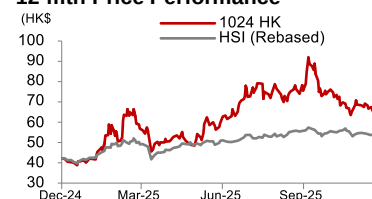
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.6%	-8.3%
3-mth	-17.3%	-15.2%
6-mth	8.0%	2.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	94,183	113,470	126,898	142,060	153,692	164,578
Cost of goods sold	52,051	56,079	57,606	63,785	67,498	70,415
Gross profit	42,131	57,391	69,292	78,275	86,193	94,163
Operating expenses	54,689	50,960	54,005	57,919	62,343	66,158
Selling expense	37,121	36,496	41,105	42,334	44,571	46,905
Admin expense	3,921	3,514	2,916	3,338	3,535	3,596
R&D expense	13,784	12,338	12,199	14,419	15,523	16,129
Others	137	1,388	2,215	2,172	1,286	472
Operating profit	(12,558)	6,431	15,287	20,355	23,851	28,005
Net Interest income/(expense)	166	539	236	(158)	119	70
Others	0	0	0	0	0	0
Pre-tax profit	(12,392)	6,970	15,523	20,197	23,970	28,075
Income tax	1,158	490	150	2,121	3,116	4,211
After tax profit	(13,551)	6,480	15,373	18,077	20,854	23,864
Net profit	(13,551)	6,480	15,373	18,077	20,854	23,864
Adjusted net profit	(5,751)	10,271	17,716	20,778	23,731	26,741

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	45,859	60,361	62,869	78,709	92,847	112,008
Cash & equivalents	13,274	12,905	12,697	23,846	35,053	50,239
Restricted cash	59	128	47	47	47	47
Account receivables	6,288	6,457	6,674	8,026	8,673	9,209
Prepayment	4,832	4,919	4,646	6,062	6,102	6,923
ST bank deposits	8,318	9,874	11,522	13,445	15,689	18,308
Financial assets at FVTPL	13,087	26,078	27,283	27,283	27,283	27,283
Non-current assets	43,449	45,935	77,004	90,932	99,436	109,041
PP&E	13,215	12,356	14,831	24,215	26,749	28,636
Right-of-use assets	10,806	10,399	8,891	8,481	8,362	8,441
Deferred income tax	5,095	6,108	6,604	6,604	6,604	6,604
Investment in JVs & assos	268	214	166	166	166	166
Intangibles	1,123	1,073	1,059	1,049	933	816
Financial assets at FVTPL	3,626	5,245	24,430	24,430	24,430	24,430
Other non-current assets	9,316	10,540	21,023	25,987	32,192	39,948
Total assets	89,307	106,296	139,873	169,641	192,282	221,050
Current liabilities	40,710	48,778	59,828	72,805	74,875	79,321
Account payables	22,868	23,601	27,470	33,694	34,729	36,651
Tax payable	936	1,222	873	977	1,057	1,132
Other current liabilities	13,430	20,628	27,809	34,570	35,551	37,961
Lease liabilities	3,475	3,327	3,676	3,563	3,538	3,576
Non-current liabilities	8,760	8,444	18,021	17,942	17,908	17,989
Long-term borrowings	0	0	11,100	11,100	11,100	11,100
Obligations under finance leases	8,721	8,405	6,765	6,557	6,511	6,582
Other non-current liabilities	39	39	11,256	11,385	11,397	11,408
Total liabilities	49,470	57,222	77,849	90,747	92,783	97,310
Share capital	0	0	0	0	0	0
Retained earnings	(263,883)	(257,491)	(242,164)	(224,087)	(203,233)	(179,370)
Other reserves	303,712	306,554	304,168	302,962	302,713	303,090
Total shareholders equity	39,830	49,063	62,004	78,875	99,480	123,720
Minority interest	8	11	20	20	20	20
Total equity and liabilities	89,307	106,296	139,873	169,641	192,282	221,050

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(12,392)	6,970	15,523	20,197	23,970	28,075
Depreciation & amortization	6,573	7,202	7,140	7,189	8,460	8,848
Tax paid	(990)	(1,223)	(1,021)	(1,887)	(3,024)	(4,125)
Change in working capital	1,234	4,859	7,510	10,217	1,328	2,975
Others	7,773	2,973	635	2,701	2,877	2,877
Net cash from operations	2,198	20,781	29,787	38,418	33,611	38,650
Investing						
Capital expenditure	(50,079)	(66,680)	(104,728)	(14,023)	(8,453)	(8,229)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	32,531	46,815	68,051	(6,887)	(8,449)	(10,375)
Net cash from investing	(17,548)	(19,865)	(36,677)	(20,910)	(16,902)	(18,604)
Financing						
Net borrowings	0	11,259	14,797	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(4,482)	(1,364)	6,714	(6,359)	(5,502)	(4,860)
Net cash from financing	(4,482)	(1,364)	6,714	(6,359)	(5,502)	(4,860)
Net change in cash						
Cash at the beginning of the year	32,612	13,274	12,905	12,697	23,846	35,053
Exchange difference	494	79	(32)	0	0	0
Cash at the end of the year	13,274	12,905	12,697	23,846	35,053	50,239
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.2%	20.5%	11.8%	11.9%	8.2%	7.1%
Gross profit	23.8%	36.2%	20.7%	13.0%	10.1%	9.2%
Operating profit	na	na	137.7%	33.2%	17.2%	17.4%
Net profit	na	na	137.2%	17.6%	15.4%	14.4%
Adj. net profit	na	na	72.5%	17.3%	14.2%	12.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	44.7%	50.6%	54.6%	55.1%	56.1%	57.2%
Operating margin	(13.3%)	5.7%	12.0%	14.3%	15.5%	17.0%
Adj. net profit margin	(6.1%)	9.1%	14.0%	14.6%	15.4%	16.2%
Return on equity (ROE)	(31.9%)	14.6%	27.7%	25.7%	23.4%	21.4%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.0)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.1	1.2	1.1	1.1	1.2	1.4
Receivable turnover days	24.4	20.8	19.2	20.6	20.6	20.4
Payable turnover days	160.4	153.6	174.1	192.8	187.8	190.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	38.8	16.3	13.8	12.0	10.5
P/E (diluted)	ns	38.8	16.3	13.8	12.0	10.5
P/B	6.2	5.1	4.0	3.2	2.5	2.0

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

Microsoft (MSFT US)

Still a top pick under the AI investment theme

We believe Microsoft continues to demonstrate robust revenue growth momentum in its cloud business, with the ongoing monetization of Copilot driving an increase in ARPU. In the short term, we remain unconcerned about the risk of over-investment related to AI, as the company's disclosed order backlog and contract value data point has demonstrated sustained strong near-term demand. Additionally, the gradual recognition of incremental contracts with OpenAI is expected to further bolster the revenue growth of its cloud business. Microsoft's AI-related investments have significantly driven revenue growth while exerting a milder-than-expected impact on profit margins, reflecting the company's sound business development and its ability to enhance operational efficiency. We forecast that the company's net profit will grow by 13.4% YoY in FY26, supported by steady revenue growth and margin improvements across the Productivity and Business Processes, and More Personal Computing segments, which in our view should drive stock price growth. Our DCF-based target price is US\$636.3, translating into 34.8x FY27E PE. Maintain BUY.

- **Over-investment risk likely still be limited in the short term.** Although Microsoft's capex maintains rapid growth (+75% YoY in 1QFY26), approximately half of such spending is still allocated to short-term assets (e.g., GPUs and CPUs) to meet incremental cloud business demand. Meanwhile, the company's commercial RPO is growing rapidly (+51% YoY in 1QFY26), with a relatively stable weighted average contract term of around 2 years. We believe this indicates strong demand and likely speaks to limited over-investment in the short term; robust investments could still support the rapid revenue growth of the cloud business, in our view. We forecast that the revenue CAGR of Microsoft's Intelligent Cloud segment will reach 25.1% during FY25–28E.
- **Steady monetization momentum of AI applications.** Driven by 6%/7% year-on-year growth in M365 commercial paid seats/subscribers and ARPU expansion, M365 commercial/consumer cloud business revenue rose by 17%/26% YoY in 1QFY26 (vs. 18%/20% in 4QFY25), reflecting the steady improvement in AI application monetization capabilities amid rising ARPU. The MAUs of Microsoft's Copilot suite of applications exceeded 150mn across commercial and consumer segments in 1QFY26. We believe the ARPU expansion trend is expected to continue throughout FY26, providing solid support for revenue and profit growth.
- **Impact of rising capex on profit margins could be controllable.** Although management expects Capex growth in FY26 to outpace that of FY25 (+58% YoY), implying total spending of at least US\$ 140 bn in FY26, we believe the impact of capital expenditures on profit margins is manageable. We forecast that Microsoft's FY26E operating margin will expand by 0.9 ppt YoY to 46.7%, with operating profit growing by 19% YoY to US\$ 153.3 bn. The key drivers include steady profit growth in the cloud business and gradual margin improvements in the Productivity and Business Processes segment. We believe such robust profit growth will provide strong support for the company's valuation.

BUY (Maintain)

Target Price US\$636.30
Up/Downside 30.5%
Current Price US\$487.71

US Internet & Software

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Stock Data

Mkt Cap (US\$ mn)	3,638,805.4
Avg 3 mths t/o (US\$ mn)	9,605.0
52w High/Low (US\$)	542.07/354.56
Total Issued Shares (mn)	7461.0

Source: FactSet

Shareholding Structure

Vanguard Group	8.9%
Blackrock	7.3%

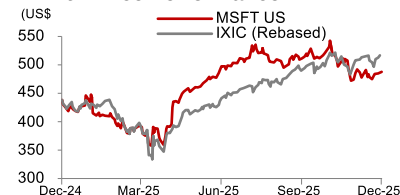
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.5%	-1.2%
3-mth	-4.6%	-9.2%
6-mth	-2.0%	-16.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 30 Jun)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	245,122	281,724	328,013	378,958	433,571
YoY growth (%)	15.7	14.9	16.4	15.5	14.4
Net profit (US\$ mn)	88,136.0	101,832.0	115,514.1	136,452.2	160,167.2
YoY growth (%)	21.8	15.5	13.4	18.1	17.4
EPS (Reported) (US\$)	11.86	13.70	15.54	18.35	21.53
Consensus EPS (US\$)	na	13.64	15.62	18.34	21.54
P/E (x)	41.1	35.6	31.4	26.6	22.7

Source: Company data, Bloomberg, CMBIGM estimates

Alphabet (GOOG US)

Full-stack AI strategy drives business growth

We observe that AI empowerment on Google outweighs the competitive pressure from AI vendors in the short term: 1) AI-empowered search products such as AI Overviews and AI Mode accelerated the growth of the paid clicks; 2) Surging demand for AI cloud combined with the strong cost-performance of TPU chips has driven accelerated revenue growth and improved operating margins for Google Cloud; 3) The Gemini 3 model has maintained its global SOTA status, fueling rapid user growth for Gemini applications. Benefiting from the robust growth of Google Cloud and core search business, we forecast the company's FY26 operating profit to grow 16% YoY. Our target price of US\$328.0 is based on 30x FY26 PE. Maintain BUY.

■ **AI continues to empower search and cloud businesses:** 1) AI drives growth in search volume and paid clicks: AI Overviews and AI Mode have lifted the YoY growth rate of paid clicks from 3% in 1H25 to 7% in 3Q25. DAUs of AI Mode surpassed 75mn in 3Q25, with consistent WoW usage growth since launch and queries doubled QoQ; 2) AI enhances ad conversion efficiency: Driven by AI-optimized ad performance, Google's search CPC rose 7% YoY in 3Q25. The global rollout of AI Max and Search in September generated over billions of incremental queries in 3Q25, emerging as the fastest-growing AI search ad product. 3) AI fuels Google Cloud revenue growth: Google Cloud backlog was up by 46% QoQ and 82% YoY to US\$155bn in 3Q25. Demand for Google's first-party AI models was especially strong, with revenue from products built on its generative AI models grew over 200% YoY in 3Q25. The company is now processing over 1,300tn monthly tokens across all surfaces, up from 980tn monthly tokens in Jul, with its first-party models processing c.300tn monthly tokens via direct API.

■ **Eye on several AI catalysts in FY26.** Looking ahead to 2026, potential catalysts include: 1) further upgrades of Gemini large model that enhances the user experience of products like AI Overview/Mode, driving growth in search volume and paid clicks; 2) Google's full-stack AI cloud strategy underpinned by AI infra advantages (cost-effective TPU v7) and model-layer strengths (Gemini 3 model), which will propel accelerated revenue growth for Google Cloud in FY26; 3) the strong capabilities of Gemini 3 and Nano Banana Pro models are expected to drive rapid user growth and monetization of the Gemini App; 4) potential opportunities for external sales of TPU chips.

■ **Profit growth remains resilient.** Although the substantial increase in FY25 capex (US\$91–93bn) will exert some pressure on the company's total expenses in FY26E, we believe Google can still sustain robust profit growth in FY26 (with operating up by 16% YoY), supported by the healthy expansion of its core search and cloud businesses.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	307,394	350,018	399,165	451,805	506,432
YoY growth (%)	8.7	13.9	14.0	13.2	12.1
Net profit (US\$ mn)	73,795.0	100,118.0	127,499.6	132,271.6	150,321.6
EPS (Reported) (US\$)	5.84	8.13	10.53	10.92	12.42
Consensus EPS (US\$)	5.84	8.13	9.90	10.79	12.35
P/E (x)	53.9	38.8	29.9	28.8	25.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$328.00
Up/Downside	4.1%
Current Price	US\$314.96

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Stock Data

Mkt Cap (US\$ mn)	3,813,535.7
Avg 3 mths t/o (US\$ mn)	5,677.8
52w High/Low (US\$)	323.64/146.58
Total Issued Shares (mn)	12108.0

Source: FactSet

Shareholding Structure

The Vanguard Group	4.1%
BlackRock	3.4%

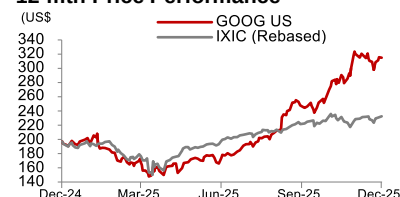
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-1.7%	-3.3%
3-mth	27.4%	21.3%
6-mth	80.6%	54.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	282,836	307,394	350,018	399,165	451,805	506,432
Cost of goods sold	(126,203)	(133,332)	(146,306)	(162,964)	(184,144)	(205,507)
Gross profit	156,633	174,062	203,712	236,201	267,661	300,925
Operating expenses	(81,791)	(89,769)	(91,322)	(107,517)	(118,825)	(129,140)
Selling expense	(26,567)	(27,917)	(27,808)	(28,189)	(29,819)	(31,399)
Admin expense	(15,724)	(16,425)	(14,188)	(20,841)	(18,524)	(19,244)
R&D expense	(39,500)	(45,427)	(49,326)	(58,488)	(70,482)	(78,497)
Others	0	0	0	0	0	0
Operating profit	74,842	84,293	112,390	128,683	148,837	171,785
Other income/expense	(3,514)	1,424	7,425	28,256	6,777	5,064
Pre-tax profit	71,328	85,717	119,815	156,940	155,614	176,849
Income tax	(11,356)	(11,922)	(19,697)	(29,440)	(23,342)	(26,527)
After tax profit	59,972	73,795	100,118	127,500	132,272	150,322
Net profit	59,972	73,795	100,118	127,500	132,272	150,322
Adjusted net profit	79,334	96,255	122,903	153,484	161,683	183,289

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	164,795	171,530	163,711	203,575	251,614	347,252
Cash & equivalents	21,879	24,048	23,466	57,175	98,824	188,071
Account receivables	40,258	47,964	52,340	58,495	64,885	71,276
Inventories	2,670	0	0	0	0	0
Financial assets at FVTPL	91,883	86,868	72,191	72,191	72,191	72,191
Other current assets	8,105	12,650	15,714	15,714	15,714	15,714
Non-current assets	200,469	230,862	286,545	356,963	438,921	502,618
PP&E	112,668	134,345	171,036	241,454	323,412	387,109
Right-of-use assets	14,381	14,091	13,588	13,588	13,588	13,588
Deferred income tax	5,261	12,169	17,180	17,180	17,180	17,180
Investment in JVs & assos	30,492	31,008	37,982	37,982	37,982	37,982
Intangibles	2,084	2,084	2,084	2,084	2,084	2,084
Goodwill	28,960	29,198	31,885	31,885	31,885	31,885
Other non-current assets	6,623	7,967	12,790	12,790	12,790	12,790
Total assets	365,264	402,392	450,256	560,538	690,535	849,869
Current liabilities	69,300	81,814	89,122	95,698	103,834	111,738
Account payables	5,128	7,493	7,987	8,718	9,655	10,559
Tax payable	0	0	0	0	0	0
Other current liabilities	12,278	13,013	14,838	15,991	17,187	18,384
Accrued expenses	51,894	61,308	66,297	70,989	76,992	82,794
Non-current liabilities	39,820	37,199	36,050	36,050	36,050	36,050
Long-term borrowings	14,701	13,253	10,883	10,883	10,883	10,883
Obligations under finance leases	12,501	12,460	11,691	11,691	11,691	11,691
Deferred income	599	911	911	911	911	911
Other non-current liabilities	12,019	10,575	12,565	12,565	12,565	12,565
Total liabilities	109,120	119,013	125,172	131,748	139,884	147,788
Capital surplus	68,184	76,534	84,800	61,007	50,596	51,705
Retained earnings	195,563	211,247	245,084	372,584	504,855	655,177
Other reserves	(7,603)	(4,402)	(4,800)	(4,800)	(4,800)	(4,800)
Total shareholders equity	256,144	283,379	325,084	428,790	550,651	702,082
Total equity and liabilities	365,264	402,392	450,256	560,538	690,535	849,869

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	71,328	85,717	119,815	156,940	155,614	176,849
Depreciation & amortization	15,287	11,946	15,311	21,390	28,734	37,590
Tax paid	(11,356)	(11,922)	(19,697)	(29,440)	(23,342)	(26,527)
Change in working capital	(2,235)	(3,845)	(8,406)	420	1,747	1,513
Others	18,471	19,850	18,276	25,984	29,411	32,967
Net cash from operations	91,495	101,746	125,299	175,294	192,164	222,391
Investing						
Capital expenditure	(31,485)	(32,251)	(52,535)	(91,808)	(110,692)	(101,286)
Acquisition of subsidiaries/ investments	(6,969)	(495)	(2,931)	0	0	0
Others	18,156	5,683	9,930	0	0	0
Net cash from investing	(20,298)	(27,063)	(45,536)	(91,808)	(110,692)	(101,286)
Financing						
Net borrowings	(1,196)	(760)	888	0	0	0
Share repurchases	(59,296)	(61,504)	(62,222)	(49,778)	(39,822)	(31,858)
Others	(9,265)	(9,829)	(18,399)	0	0	0
Net cash from financing	(69,757)	(72,093)	(79,733)	(49,778)	(39,822)	(31,858)
Net change in cash						
Cash at the beginning of the year	20,945	21,879	24,048	23,466	57,175	98,824
Exchange difference	(506)	(421)	(612)	0	0	0
Cash at the end of the year	21,879	24,048	23,466	57,175	98,824	188,071
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	9.8%	8.7%	13.9%	14.0%	13.2%	12.1%
Gross profit	6.8%	11.1%	17.0%	15.9%	13.3%	12.4%
Operating profit	(4.9%)	12.6%	33.3%	14.5%	15.7%	15.4%
Net profit	(21.1%)	23.0%	35.7%	27.3%	3.7%	13.6%
Adj. net profit	(13.2%)	21.3%	27.7%	24.9%	5.3%	13.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	55.4%	56.6%	58.2%	59.2%	59.2%	59.4%
Operating margin	26.5%	27.4%	32.1%	32.2%	32.9%	33.9%
Adj. net profit margin	28.0%	31.3%	35.1%	38.5%	35.8%	36.2%
Return on equity (ROE)	23.6%	27.4%	32.9%	33.8%	27.0%	24.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.4	2.1	1.8	2.1	2.4	3.1
Receivable turnover days	52.0	57.0	54.6	53.5	52.4	51.4
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	68.6	53.9	38.8	29.9	28.8	25.4
P/E (diluted)	69.1	54.3	39.2	30.2	29.1	25.6
P/B	16.1	14.0	11.9	8.9	6.9	5.4

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

Innolight (300308 CH)

A clear beneficiary of global AI infrastructure capex; remains our top pick in 2026

2025 has proven a standout year for optical transceiver suppliers with high AI exposure, with domestic industry leader Innolight delivering stellar 9M25 results: Revenue and net profit soared 44%/90% YoY, while 3Q25 gross margin expanded 9ppt to 43% from a year ago. Strong financials fueled a share price rally, with Innolight's stock surging 380%+ YTD as of Dec 11. Looking ahead to 2026, we double down on AI as one of our key themes, underpinned by an unabated AI infrastructure investment cycle and a sustained mix shift to higher-value solutions (i.e., 1.6T). We have a BUY rating on Innolight with a TP of RMB707, driven by an upgraded hyperscaler capex outlook.

- **Capex outlook: upward revisions in consensus continue.** The US Big Four hyperscalers (Google, Microsoft, Meta, Amazon) ramped capex aggressively: US\$230bn in 2024 (+55% YoY), US\$259bn in 9M25 (+65% YoY), with 2025 full-year capex projected by Bloomberg consensus to reach US\$367bn (+59% YoY). Bloomberg consensus points to another 35% YoY growth in 2026, pushing capex to US\$495bn. Despite a modest 14% consensus growth for 2027 and lingering AI bubble debates, we remain bullish that AI infrastructure investment will continue to grow, with upward revision potentials: 2025 Big Four capex growth consensus was 33% in Jan and revised to 59% in Nov. Historically, post-earnings quarterly adjustments have consistently lifted consensus estimates as spending visibility improves.
- **Supply chain capacity expansion underway.** Mgmt. previously flagged tight supply of key optical components such as EMLs (electro-absorption modulated lasers). Although we expect the tightness to continue into 2026, we believe Innolight is well prepared for the challenges, given capacity expansions of EMLs and rising SiPho adoptions: Lumentum to increase unit output by 40% over the coming quarters, despite already being sold out through long-term agreements with downstream leaders.
- **The US allowed the exports of Nvidia's H200 to China on Dec 8: A catalyst for next AI compute upcycle in China.** Per [Reuters](#), the H200 delivers ~6x the performance as H20, lifting the compute ceiling for Chinese hyperscalers. This should translate into structurally higher requirements for networking components, with Innolight and other leading domestic AI infra vendors standing out as key downstream beneficiaries of the higher compute baseline.
- **BUY on Innolight, with TP at RMB707, based on 28x 2026E P/E,** at a premium to historical 5-year avg (27x) given its absolute leadership in the optical transceiver industry. We have revise up our revenue forecasts by 14% for 2026 on higher consensus capex from previous updates (21% upward revision in November). We have also lift GPM to 46.2% (vs. prior 44.3%), given a favorable mix shift towards 1.6T and rising adoption of SiPho and margin resilience given persist tightness of supply chain. **Potential risks** include lower capex, geopolitical uncertainties, and lower price due to competition.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	10,718	23,862	38,054	83,794	112,154
YoY growth (%)	11.2	122.6	59.5	120.2	33.8
Gross margin (%)	33.0	33.8	42.0	46.2	46.3
Net profit (RMB mn)	2,173.5	5,171.5	10,950.3	27,774.1	38,357.3
YoY growth (%)	77.6	137.9	111.7	153.6	38.1
EPS (Reported) (RMB)	2.00	4.72	9.95	25.23	34.85
P/E (x)	313.5	132.8	63.0	24.8	18.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB707.00
Up/Downside 12.8%
Current Price RMB627.00

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Stock Data

Mkt Cap (RMB mn)	696,659.7
Avg 3 mths t/o (RMB mn)	18,149.7
52w High/Low (RMB)	639.80/71.99
Total Issued Shares (mn)	1111.1

Source: FactSet

Shareholding Structure

Shandong Zhongji Investment Holdings Co.	11.4%
Wang Weixiu	6.3%

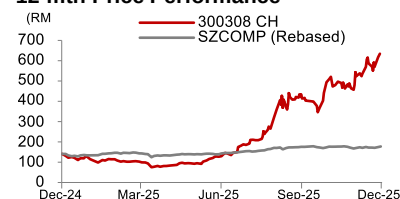
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	15.4%	10.4%
3-mth	51.6%	47.3%
6-mth	383.4%	288.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	9,642	10,718	23,862	38,054	83,794	112,154
Cost of goods sold	(6,816)	(7,182)	(15,796)	(22,060)	(45,109)	(60,218)
Gross profit	2,826	3,536	8,067	15,995	38,685	51,936
Operating expenses	(1,499)	(1,042)	(2,017)	(2,334)	(3,626)	(3,646)
Selling expense	(63)	(51)	(47)	(84)	(140)	(168)
SG&A expense	(598)	(558)	(879)	(1,032)	(1,474)	(1,707)
R&D expense	(767)	(739)	(1,244)	(1,535)	(2,281)	(2,730)
Others	(71)	306	153	317	270	960
Operating profit	1,327	2,494	6,050	13,661	35,059	48,290
Other income	28	2	5	7	16	22
Other expense	(4)	(4)	(2)	(8)	(18)	(24)
Pre-tax profit	1,352	2,492	6,052	13,660	35,057	48,287
Income tax	(118)	(285)	(681)	(2,040)	(5,597)	(7,709)
After tax profit	1,234	2,208	5,372	11,620	29,460	40,579
Minority interest	10	34	200	670	1,686	2,221
Net profit	1,224	2,174	5,171	10,950	27,774	38,357

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,587	11,319	18,196	30,189	62,685	101,898
Cash & equivalents	2,831	3,317	5,054	10,637	23,776	49,077
Account receivables	1,509	2,581	4,604	7,907	17,346	22,600
Inventories	3,888	4,295	7,051	10,475	19,185	27,009
Prepayment	64	59	80	111	245	328
Other current assets	1,295	1,067	1,407	1,058	2,134	2,884
Non-current assets	6,970	8,687	10,671	13,443	16,928	21,731
PP&E	3,217	3,948	5,820	6,429	8,089	10,452
Right-of-use assets	11	27	34	127	323	554
Deferred income tax	48	82	222	629	1,147	1,782
Intangibles	322	401	378	351	375	447
Goodwill	1,949	1,939	1,939	1,939	1,939	1,939
Other non-current assets	1,422	2,291	2,279	3,968	5,055	6,558
Total assets	16,557	20,007	28,866	43,633	79,614	123,629
Current liabilities	3,264	4,360	6,497	8,928	15,243	19,963
Short-term borrowings	385	62	1,426	598	1,099	1,088
Account payables	1,136	1,857	2,991	5,470	9,360	12,087
Tax payable	93	213	244	1,138	2,077	3,225
Other current liabilities	1,349	2,039	1,545	1,552	2,395	3,083
Contract liabilities	22	3	10	10	22	30
Accrued expenses	279	187	282	159	290	450
Non-current liabilities	1,224	872	2,076	2,657	4,042	5,735
Long-term borrowings	696	319	606	979	979	979
Bond payables	0	0	0	0	0	0
Deferred income	264	216	270	288	526	816
Other non-current liabilities	264	337	1,200	1,391	2,537	3,940
Total liabilities	4,488	5,232	8,573	11,586	19,285	25,698
Share capital	801	803	1,121	1,111	1,111	1,111
Retained earnings	3,893	5,870	10,624	20,892	47,165	82,098
Other reserves	7,251	7,589	7,388	8,216	8,538	8,987
Total shareholders equity	11,945	14,261	19,134	30,218	56,814	92,195
Minority interest	124	513	1,159	1,829	3,515	5,736
Total equity and liabilities	16,557	20,007	28,866	43,633	79,614	123,629

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,352	2,492	6,052	13,660	35,057	48,287
Depreciation & amortization	493	525	713	733	600	787
Tax paid	(118)	(285)	(681)	(2,040)	(5,597)	(7,709)
Change in working capital	291	(830)	(3,210)	(4,526)	(14,070)	(9,957)
Others	432	(6)	290	451	1,081	1,458
Net cash from operations	2,449	1,897	3,165	8,277	17,072	32,866
Investing						
Capital expenditure	(792)	(1,704)	(2,866)	(2,707)	(3,571)	(4,556)
Acquisition of subsidiaries/ investments	(5,967)	(3,971)	(2,725)	0	0	0
Net proceeds from disposal of short-term investments	5,167	4,435	2,619	0	0	0
Others	40	65	37	441	115	144
Net cash from investing	(1,553)	(1,176)	(2,935)	(2,266)	(3,456)	(4,411)
Financing						
Dividend paid	(233)	(207)	(399)	(620)	(1,237)	(3,040)
Net borrowings	(699)	(884)	1,685	(506)	500	(11)
Proceeds from share issues	33	(109)	246	696	0	0
Others	(742)	884	(40)	(0)	1	1
Net cash from financing	(1,641)	(316)	1,492	(430)	(735)	(3,051)
Net change in cash						
Cash at the beginning of the year	3,489	2,809	3,234	4,988	10,587	23,726
Exchange difference	64	20	39	(10)	(10)	(10)
Others	(745)	405	1,715	5,610	13,149	25,311
Cash at the end of the year	2,809	3,234	4,988	10,587	23,726	49,027
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	25.3%	11.2%	122.6%	59.5%	120.2%	33.8%
Gross profit	43.6%	25.1%	128.1%	98.3%	141.9%	34.3%
Operating profit	37.9%	87.9%	142.6%	125.8%	156.6%	37.7%
Net profit	39.6%	77.6%	137.9%	111.7%	153.6%	38.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	29.3%	33.0%	33.8%	42.0%	46.2%	46.3%
Operating margin	13.8%	23.3%	25.4%	35.9%	41.8%	43.1%
Return on equity (ROE)	10.4%	16.6%	31.0%	44.4%	63.8%	51.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.9	2.6	2.8	3.4	4.1	5.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	570.0	313.5	132.8	63.0	24.8	18.0
P/E (diluted)	570.0	318.0	135.4	63.0	24.8	18.0

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

Shengyi Tech (600183 CH)

AI super-cycle in full swing; BUY with TP of RMB90

Shengyi Technology (Shengyi) reported robust 3Q25 results. Revenue reached RMB7.9bn (+55%/+12% YoY/QoQ), with gross margin expanding sharply to 28.1% (vs. 22.9% in 3Q24 and 26.9% in 2Q25). Net profit surged 131%/18% YoY/QoQ to RMB1.0bn, lifting net margin to 12.8% (vs. 8.6%/12.2% in 3Q24/2Q25). The results underscore Shengyi's strategic positioning as a core AI infrastructure play. We expect the Company's revenue to grow 41%/38% YoY in 2025/26E, while NP to grow 102%/79% YoY. Reiterate BUY and raise our TP to RMB90, as we roll over our valuation period to 2026E and raise earnings forecast to reflect strong AI-driven momentum (a much stronger upcycle) and sustained margin improvement.

- **PCB: riding the AI server wave.** Subsidiary Shengyi Electronics (688183 CH, NR) delivered another record quarter, with PCB revenue hitting RMB3.1bn (+154%/+40% YoY/QoQ). Quarterly revenue nearly matched full-year 2023 level (RMB3.3bn), highlighting strong demand for high-layer count HDI boards used in AI servers. We see major hyperscalers continue to scale investment in AI infrastructure. As a key beneficiary, we forecast Shengyi Electronics' full-year PCB revenue near RMB10bn (more than doubled) this year, becoming the group's primary growth engine.
- **CCL: steady amid cost headwinds.** The CCL segment (incl. other) posted revenue of RMB4.9bn (+23% YoY, flat QoQ). While elevated copper prices (LME +15% since July) pose near-term pressure, we expect ASP increases to largely offset cost inflation. We project CCL revenue to grow 18% in 2025, bringing group revenue growth to ~41%.
- **Margins: structural upside from mix shift.** Group gross margin rose 2.5pp/2.3pp/1.3pp through the first three quarters of 2025, reaching 28.1% in 3Q. This reflects the PCB segment's rapid mix shift toward high-value HDI products (Shengyi Elec. GPM: 33.9% in 3Q, +9.0ppt/+3.1ppt YoY/QoQ). We expect further improvement in 4Q with potential price adjustments, and project 2025 group GPM of 27.3%.
- **BUY with TP of RMB90, based on 35x 2026E P/E, near +2SD above its 5-yr hist. forward P/E, given 1) Shengyi's structural positioning in the AI upcycle, and 2) PCB's rising earnings contribution and premium valuation vs. CCL.** We have raise our revenue forecast by 1%/16% for 2025/26E and NP forecasts by 5%/46%, reflecting the strong growth and significant margin improvements. Key risks include: slower-than-expected capacity ramp-up, intensified competition, geopolitical uncertainties, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	16,586	20,388	28,775	39,631	50,221
YoY growth (%)	(7.9)	22.9	41.1	37.7	26.7
Gross margin (%)	19.2	22.0	27.3	30.5	32.3
Net profit (RMB mn)	1,164.0	1,738.7	3,508.5	6,272.3	8,786.4
YoY growth (%)	(24.0)	49.4	101.8	78.8	40.1
EPS (Reported) (RMB)	0.50	0.74	1.44	2.58	3.62
P/E (x)	149.0	100.7	51.6	28.9	20.6
ROE (%)	8.5	12.0	21.6	32.6	38.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB90.00
Up/Downside 20.8%
Current Price RMB74.50

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Stock Data

Mkt Cap (RMB mn)	175,060.1
Avg 3 mths t/o (RMB mn)	2,639.5
52w High/Low (RMB)	74.50/21.72
Total Issued Shares (mn)	2349.8

Source: FactSet

Shareholding Structure

Guangdong Guangxin	24.4%
Holdings Group	
Dongguan Guohong	13.3%
Investment	

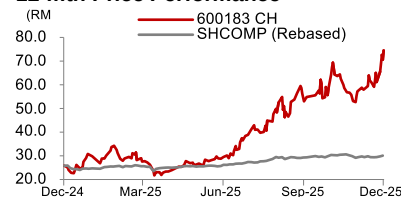
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	30.2%	27.3%
3-mth	40.6%	35.8%
6-mth	152.5%	119.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	18,014	16,586	20,388	28,775	39,631	50,221
Cost of goods sold	(14,045)	(13,395)	(15,895)	(20,923)	(27,547)	(33,991)
Gross profit	3,969	3,191	4,493	7,853	12,084	16,230
Operating expenses	(2,105)	(1,821)	(2,352)	(3,070)	(3,776)	(4,619)
Selling expense	(341)	(358)	(495)	(691)	(813)	(965)
Admin expense	(797)	(701)	(843)	(1,065)	(1,347)	(1,657)
R&D expense	(943)	(841)	(1,157)	(1,439)	(1,783)	(2,210)
Others	(24)	79	143	125	168	213
Operating profit	1,785	1,273	2,072	4,724	8,248	11,553
Other income	2	2	2	3	4	5
Other expense	(14)	(3)	(6)	(7)	(11)	(13)
Gain/loss on financial assets at FVTPL	(23)	(3)	(2)	18	27	42
Other gains/(losses)	(82)	(131)	(122)	(154)	(177)	(204)
EBIT	1,773	1,271	2,068	4,719	8,241	11,544
Interest income	56	49	29	23	39	75
Interest expense	(171)	(162)	(118)	(106)	(108)	(113)
Pre-tax profit	1,773	1,271	2,068	4,719	8,241	11,544
Income tax	(141)	(123)	(200)	(543)	(948)	(1,328)
After tax profit	1,632	1,149	1,868	4,177	7,293	10,217
Minority interest	101	(15)	129	668	1,021	1,430
Net profit	1,531	1,164	1,739	3,508	6,272	8,786

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	14,232	13,999	16,613	20,083	25,385	31,790
Cash & equivalents	3,095	2,756	2,004	2,586	5,217	9,741
Restricted cash	11	19	12	11	11	11
Account receivables	6,809	6,669	9,041	11,095	12,624	13,787
Inventories	4,084	4,271	5,119	5,886	6,944	7,584
Prepayment	24	33	132	117	161	204
Other current assets	210	251	304	388	428	464
Non-current assets	10,963	10,958	11,031	12,582	12,826	13,098
PP&E	7,866	9,064	8,635	8,911	8,996	9,007
Right-of-use assets	44	22	35	43	55	70
Deferred income tax	220	269	315	264	372	400
Investment in JVs & assos	671	783	836	969	1,010	1,033
Intangibles	2,128	666	1,095	2,305	2,147	2,167
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	25	30	11	20	134	307
Other non-current assets	10	124	103	70	112	113
Total assets	25,196	24,957	27,643	32,664	38,211	44,888
Current liabilities	7,377	7,297	9,849	10,858	11,361	12,687
Short-term borrowings	1,558	1,465	1,837	2,157	1,808	1,669
Account payables	3,984	4,152	5,968	7,241	7,970	9,091
Tax payable	50	82	113	234	215	287
Other current liabilities	1,237	1,072	1,172	250	252	257
Contract liabilities	20	92	232	228	314	398
Accrued expenses	529	435	528	747	802	985
Non-current liabilities	2,522	1,959	1,289	1,968	2,659	3,053
Long-term borrowings	1,175	806	558	1,137	1,667	1,899
Bond payables	800	500	0	0	0	0
Obligations under finance leases	39	21	32	34	42	48
Deferred income	108	118	113	109	142	159
Other non-current liabilities	400	515	586	688	807	947
Total liabilities	9,899	9,256	11,138	12,826	14,020	15,739
Share capital	2,327	2,355	2,429	2,429	2,429	2,429
Retained earnings	5,366	5,357	5,902	7,964	11,295	14,823
Other reserves	5,805	6,272	6,574	7,176	7,176	7,176
Total shareholders equity	13,498	13,983	14,905	17,570	20,901	24,429
Minority interest	1,798	1,717	1,600	2,268	3,290	4,720
Total equity and liabilities	25,196	24,957	27,643	32,664	38,211	44,888

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,632	1,149	1,868	4,177	7,293	10,217
Depreciation & amortization	726	835	870	887	952	1,011
Tax paid	4	(34)	(25)	147	12	108
Change in working capital	104	494	(1,798)	(1,384)	(1,835)	(660)
Others	354	300	542	225	5	234
Net cash from operations	2,820	2,743	1,456	4,052	6,428	10,909
Investing						
Capital expenditure	(1,534)	(1,109)	(926)	(2,395)	(906)	(1,074)
Acquisition of subsidiaries/ investments	377	64	47	93	106	121
Net proceeds from disposal of short-term investments	(36)	(116)	(55)	(192)	(86)	(132)
Others	(0)	(2)	(0)	2	(41)	(23)
Net cash from investing	(1,193)	(1,162)	(934)	(2,492)	(928)	(1,107)
Financing						
Dividend paid	(1,619)	(1,287)	(1,192)	(1,564)	(3,050)	(5,371)
Net borrowings	800	(935)	(281)	(28)	182	93
Proceeds from share issues	192	318	773	614	0	0
Others	(21)	(15)	(577)	0	0	0
Net cash from financing	(648)	(1,919)	(1,276)	(978)	(2,868)	(5,278)
Net change in cash						
Cash at the beginning of the year	2,105	3,095	2,756	2,004	2,586	5,217
Exchange difference	11	(1)	3	0	0	0
Others	979	(338)	(754)	582	2,631	4,523
Cash at the end of the year	3,095	2,756	2,004	2,586	5,217	9,741
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(11.1%)	(7.9%)	22.9%	41.1%	37.7%	26.7%
Gross profit	(27.0%)	(19.6%)	40.8%	74.8%	53.9%	34.3%
Operating profit	(46.2%)	(28.7%)	62.9%	127.9%	74.6%	40.1%
EBIT	(46.4%)	(28.3%)	62.7%	128.2%	74.6%	40.1%
Net profit	(45.9%)	(24.0%)	49.4%	101.8%	78.8%	40.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	22.0%	19.2%	22.0%	27.3%	30.5%	32.3%
Operating margin	9.9%	7.7%	10.2%	16.4%	20.8%	23.0%
Return on equity (ROE)	11.5%	8.5%	12.0%	21.6%	32.6%	38.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.6)	(0.6)	(0.4)	(0.2)
Current ratio (x)	1.9	1.9	1.7	1.8	2.2	2.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	112.9	149.0	100.7	51.6	28.9	20.6
P/E (diluted)	114.6	152.0	102.1	51.6	28.9	20.6

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

Naura Technology (002371 CH)

Intact long-term growth trajectory despite seasonal fluctuations; BUY

Naura delivered solid 2Q25 results with revenue of RMB7.9bn, up 22% YoY but down 3% QoQ, due to a high base in 1Q25 (the second-highest quarter in company history) that led to seasonal fluctuations. Gross margin contracted to 41.3% (-6.0ppt YoY, -1.7ppt QoQ), primarily on low margin from electronic Components segment. Net profit came in at RMB1.6bn (-2% YoY, +3% QoQ), while net margin improved to 20.5% (vs. 18.8% in FY24 and 19.3% in 1Q25), indicating operational resilience and cost discipline. We remain constructive on Naura's growth trajectory, forecasting revenue to grow by 32%/26% in 2025/26E, driven by its strategic role in China's semiconductor equipment localization effort. **BUY with a TP of RMB460.**

■ **A domestic semicap leader riding the localization tailwind.** We believe the growth of Naura's semiconductor equipment segment remains intact, with revenue exceeding RMB13bn in 1H25 (vs. RMB21bn+ in FY24, with an estimated market share of 5%+ domestically in our view). By product category, etching, deposition, thermal processing and cleaning equipment generated over RMB5bn, RMB6.5bn, RMB1bn, and RMB0.5bn, respectively in 1H25, per our estimates. These four categories accounted for 80%+ of total sales (vs. ~70% in 1H24) in 1H25. We estimate the semiconductor equipment sales increased by ~50% YoY in 1H25.

■ **Accelerated platform expansion through R&D and acquisition, which should enhance market penetration and profitability.** Naura has expanded into ion implantation market since March 2025 and introduced several 12-inch products. Meanwhile, the company has completed the acquisition of Kingsemi (688037 CH, NR), adding capabilities in coating/developing, bonding and cleaning equipment (Kingsemi's cleaning product sales were not included in Naura's 1H25 sales). Naura has obtained a 17.87% stake of Kingsemi, making it the largest shareholder, as of June 2025. We expect these efforts will drive strong semiconductor equipment sales growth of 47%/31% in 2025/26E, allowing Naura to gain market share through an expanded product portfolio while improving profitability from greater product synergies.

■ **BUY, with a TP of RMB460,** based on 35x rolled-over 2026E P/E, in line with the 5-year historical average. We view Naura as the best-positioned player in China's semicap market, supported by its broad product portfolio and the accelerating drive for supply chain localization. Key risks include: (1) weaker-than-expected domestic capex, (2) geopolitical headwinds and supply chain disruptions, and (3) intensifying competition.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	22,079	29,838	39,332	49,432	59,065
YoY growth (%)	50.3	35.1	31.8	25.7	19.5
Gross margin (%)	41.1	42.9	41.8	42.7	43.3
Net profit (RMB mn)	3,899.1	5,621.2	7,292.0	9,400.8	11,507.5
YoY growth (%)	65.7	44.2	29.7	28.9	22.4
EPS (Reported) (RMB)	5.45	7.83	10.11	13.03	15.95
P/E (x)	84.2	58.6	45.4	35.2	28.8
ROE (%)	17.7	20.3	21.2	22.3	22.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB460.00
Up/Downside 0.2%
Current Price RMB459.01

China Semiconductors

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Stock Data

Mkt Cap (RMB mn)	331,405.2
Avg 3 mths t/o (RMB mn)	3,384.8
52w High/Low (RMB)	481.42/277.85
Total Issued Shares (mn)	722.0

Source: FactSet

Shareholding Structure

Beijing Sevenstar Huadian	33.3%
Technology Gro	
Beijing Electronics Holding	9.4%

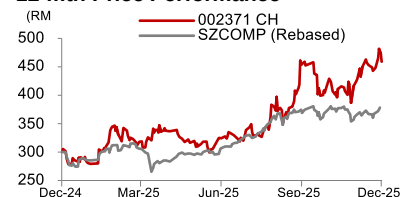
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	8.8%	4.1%
3-mth	1.4%	-1.5%
6-mth	41.5%	13.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	14,688	22,079	29,838	39,332	49,432	59,065
Cost of goods sold	(8,250)	(13,005)	(17,051)	(22,904)	(28,320)	(33,490)
Gross profit	6,438	9,075	12,787	16,428	21,112	25,574
Operating expenses	(3,571)	(4,627)	(6,260)	(8,305)	(10,639)	(12,748)
Selling expense	(135)	(167)	(178)	(214)	(245)	(263)
SG&A expense	(2,224)	(2,836)	(3,196)	(3,584)	(4,109)	(4,555)
R&D expense	(1,845)	(2,475)	(3,669)	(5,152)	(6,870)	(8,504)
Others	633	852	784	645	585	574
Operating profit	2,867	4,448	6,527	8,123	10,474	12,826
Other income	14	22	18	20	24	24
Other expense	(27)	(4)	(34)	0	0	0
Pre-tax profit	2,854	4,466	6,511	8,143	10,498	12,850
Income tax	(313)	(433)	(817)	(814)	(1,050)	(1,285)
After tax profit	2,541	4,033	5,694	7,329	9,448	11,565
Minority interest	188	134	72	37	47	58
Net profit	2,353	3,899	5,621	7,292	9,401	11,508

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	31,117	38,226	46,211	59,107	65,779	73,870
Cash & equivalents	10,435	12,451	12,347	15,113	16,129	17,643
Account receivables	2,995	3,767	6,045	8,395	10,024	12,307
Inventories	13,041	16,992	23,479	30,486	33,447	37,204
Prepayment	1,551	1,480	889	1,672	1,871	2,110
Other current assets	3,096	3,535	3,451	3,441	4,309	4,606
Non-current assets	11,434	15,399	19,498	26,687	30,235	34,372
PP&E	2,484	3,352	6,205	7,313	7,165	6,931
Right-of-use assets	147	215	224	107	15	(43)
Deferred income tax	363	450	707	889	995	1,122
Intangibles	2,003	2,547	4,703	8,841	9,751	10,906
Goodwill	18	27	38	60	60	60
Other non-current assets	6,419	8,808	7,622	9,476	12,250	15,397
Total assets	42,551	53,625	65,709	85,794	96,014	108,242
Current liabilities	15,770	19,083	23,482	34,797	35,246	36,130
Short-term borrowings	227	23	3	8,725	9,180	9,494
Account payables	5,592	6,117	10,165	11,170	9,779	8,572
Tax payable	130	209	383	536	599	676
Other current liabilities	1,841	3,418	5,492	6,399	6,770	7,336
Contract liabilities	7,198	8,317	6,214	7,231	8,092	9,123
Accrued expenses	782	999	1,225	737	825	930
Non-current liabilities	6,797	9,717	10,002	11,969	13,115	13,929
Long-term borrowings	3,740	5,835	3,946	4,469	4,749	4,527
Bond payables	0	0	0	0	0	0
Deferred income	2	4	1	10	10	10
Other non-current liabilities	3,055	3,877	6,055	7,489	8,355	9,391
Total liabilities	22,567	28,800	33,484	46,766	48,361	50,059
Share capital	529	530	534	722	722	722
Retained earnings	5,159	8,776	13,894	20,532	29,110	39,582
Other reserves	14,058	15,061	16,653	16,595	16,595	16,595
Total shareholders equity	19,746	24,367	31,082	37,848	46,426	56,898
Minority interest	238	458	1,144	1,180	1,228	1,285
Total equity and liabilities	42,551	53,625	65,709	85,794	96,014	108,242

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,854	4,466	6,511	8,143	10,498	12,850
Depreciation & amortization	552	730	1,071	1,204	1,799	2,032
Tax paid	(313)	(433)	(817)	(814)	(1,050)	(1,285)
Change in working capital	(4,424)	(3,409)	(6,364)	(6,548)	(6,512)	(7,017)
Others	603	1,012	1,173	(487)	(1,445)	(1,775)
Net cash from operations	(728)	2,365	1,573	1,498	3,291	4,805
Investing						
Capital expenditure	(1,409)	(1,980)	(2,046)	(1,853)	(2,247)	(2,420)
Acquisition of subsidiaries/ investments	(15)	(81)	(173)	0	0	0
Net proceeds from disposal of short-term investments	0	3	0	0	0	0
Others	1	0	8	(4,082)	289	296
Net cash from investing	(1,423)	(2,058)	(2,212)	(5,935)	(1,958)	(2,124)
Financing						
Dividend paid	(241)	(388)	(615)	(759)	(1,012)	(1,232)
Net borrowings	3,453	1,888	132	8,189	736	91
Proceeds from share issues	157	212	1,280	125	0	0
Others	(24)	(66)	(57)	(85)	(88)	(88)
Net cash from financing	3,345	1,647	740	7,471	(365)	(1,230)
Net change in cash						
Cash at the beginning of the year	9,031	10,261	12,229	12,336	15,058	16,074
Exchange difference	37	14	5	(313)	48	62
Others	1,194	1,954	102	3,036	968	1,452
Cash at the end of the year	10,261	12,229	12,336	15,058	16,074	17,589
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	51.7%	50.3%	35.1%	31.8%	25.7%	19.5%
Gross profit	68.7%	40.9%	40.9%	28.5%	28.5%	21.1%
Operating profit	131.9%	55.1%	46.7%	24.5%	28.9%	22.5%
Net profit	118.4%	65.7%	44.2%	29.7%	28.9%	22.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	43.8%	41.1%	42.9%	41.8%	42.7%	43.3%
Operating margin	19.5%	20.1%	21.9%	20.7%	21.2%	21.7%
Return on equity (ROE)	12.8%	17.7%	20.3%	21.2%	22.3%	22.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.0	2.0	2.0	1.7	1.9	2.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	138.9	84.2	58.6	45.4	35.2	28.8

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

BaTeLab (2149 HK)

Maintaining high profitability amid strategic shifts; Expect a stronger 2H25

BaTeLab reported 1H25 revenue of RMB292mn (record sales), largely flat at 0.4% YoY against a high base in 1H24 (RMB291mn, 42% YoY). The Company demonstrated strong profitability, with GPM holding firm at 51.8% (+0.5ppt YoY), while NP rose 14.9% YoY to RMB77mn (NPM up +3.3ppt YoY to 26.4%). 1H25 performance remained solid despite headwinds from tariffs and strategic distributor diversification, with the number of SKUs expanding to 850. BaTeLab remains one of our top convictions in the semiconductor universe. We are optimistic on its long-term growth prospect as it continues to build up its product portfolio and a robust IP/EDA design platform supporting the long-tail industrial market. We have a BUY rating on the stock with TP at HK\$93.

- **SKU expansion remains robust; R&D efficiency intact.** The Company added 130 new SKUs during 1H25 (vs. ~235/275 in FY23/24), bringing its total portfolio to 850. We maintain our forecast of 200+ new SKU adds annually, supporting long-term revenue growth and market penetration.
- **Strategic distributor rebalancing weighed on near-term sales but strengthens long-term resilience.** Mgmt. has proactively reduced reliance on top customer and diversified its distributor network. While this transition temporarily dampens sales growth due to customer realignment and results in higher inventories (up 21% YoY in 1H), it should help reduce geopolitical dependency and improves channel sustainability, in our view.
- **Demand recovery may be underway; Capacity constraints may cap near-term growth.** The industrial analog market is showing signs of recovery, supported by pricing actions by TI and ADI's improving industrial outlook. However, tight foundry capacity may limit 2H25 revenue upside. BaTeLab's prepayments rose by 50%+ YoY in 1H25, showing mgmt.'s efforts in securing capacity. We revise our 2025E revenue growth forecast to 16% YoY (from 25%) to reflect these constraints. Our NP forecast is less affected at RMB202mn, up 21% YoY (vs. prior RMB208mn) due to better operating efficiency.
- **Sustained high profitability.** BaTeLab's patterned wafer business model and in-house EDA platform continue to support its high margins. We expect GPM to remain 50%+ and NPM 26%+ in FY25/26E.
- **BUY on BaTeLab's strategic repositioning, scalable R&D model, and a potentially more secured supply chain strategy.** TP is HK\$93, based on 26.6x 2025E P/E, implying ~1x PEG (26% 2025-27E NP CAGR), which we feel comfortable and find attractive. The stock is currently trading at 11.3x/9.0x 2025/26E P/E. Potential risks: 1) slower SKU expansion, 2) change in relationship with its core customers, and 3) less capacity.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	464	579	672	841	1,046
YoY growth (%)	31.6	24.8	16.1	25.1	24.4
Gross margin (%)	55.4	53.0	52.4	52.4	52.4
Operating profit (RMB mn)	113.4	174.0	212.9	267.0	331.6
YoY growth (%)	15.2	53.4	22.4	25.4	24.2
Net profit (RMB mn)	109.2	166.6	201.9	255.0	318.9
YoY growth (%)	14.6	52.6	21.2	26.3	25.1
EPS (Reported) (RMB)	2.42	2.78	3.20	4.05	5.06
P/E (x)	15.0	13.1	11.3	9.0	7.2
ROE (%)	17.7	18.1	18.2	19.1	19.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$93.00
Up/Downside 130.9%
Current Price HK\$40.28

China Semiconductors

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Stock Data

Mkt Cap (HK\$ mn)	2,537.6
Avg 3 mths t/o (HK\$ mn)	4.4
52w High/Low (HK\$)	73.25/25.80
Total Issued Shares (mn)	63.0

Source: FactSet

Shareholding Structure

Asian Equity Special	10.0%
Opportunities	
Value Partners Group	9.5%

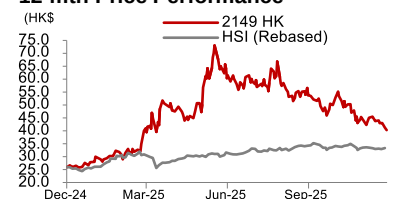
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.2%	-10.9%
3-mth	-28.8%	-26.9%
6-mth	-37.1%	-40.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	353	464	579	672	841	1,046
Cost of goods sold	(153)	(207)	(272)	(320)	(400)	(498)
Gross profit	199	257	307	352	441	549
Operating expenses	(101)	(144)	(133)	(140)	(174)	(217)
Admin expense	(22)	(26)	(32)	(35)	(44)	(54)
R&D expense	(85)	(119)	(129)	(127)	(154)	(187)
Others	6	2	28	22	24	25
Operating profit	98	113	174	213	267	332
Interest expense	(2)	(4)	(8)	(11)	(12)	(13)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	97	109	166	202	255	319
Income tax	(2)	0	1	0	0	0
After tax profit	95	109	167	202	255	319
Minority interest	0	0	0	0	0	0
Net profit	95	109	167	202	255	319

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	530	1,166	1,451	1,680	1,983	2,346
Cash & equivalents	163	551	636	825	974	1,141
Account receivables	67	69	52	59	65	72
Inventories	76	218	315	332	369	422
Prepayment	203	261	396	403	505	628
Other current assets	21	67	52	60	71	83
Non-current assets	66	105	158	181	212	248
PP&E	59	62	62	69	79	91
Right-of-use assets	3	7	4	6	8	9
Intangibles	0	0	1	1	1	1
Other non-current assets	3	35	91	105	124	147
Total assets	596	1,271	1,609	1,861	2,195	2,594
Current liabilities	195	427	602	649	728	807
Short-term borrowings	96	172	320	362	380	406
Account payables	96	249	278	283	342	394
Lease liabilities	4	7	4	5	5	6
Other non-current liabilities	5	6	2	2	3	3
Total liabilities	200	433	604	651	730	810
Share capital	45	60	60	63	63	63
Other reserves	351	778	945	1,147	1,402	1,721
Total shareholders equity	396	838	1,005	1,210	1,465	1,784
Minority interest	0	0	0	0	0	0
Total equity and liabilities	596	1,271	1,609	1,861	2,195	2,594

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	97	109	166	202	255	319
Depreciation & amortization	3	6	8	10	12	16
Change in working capital	(110)	(52)	(177)	(26)	(85)	(131)
Others	(22)	(33)	16	(10)	(16)	(21)
Net cash from operations	(31)	30	14	175	166	184
Investing						
Capital expenditure	(19)	(44)	(34)	(20)	(25)	(32)
Net proceeds from disposal of short-term investments	464	30	0	0	0	0
Others	(461)	(28)	(30)	0	0	0
Net cash from investing	(15)	(42)	(64)	(20)	(25)	(31)
Financing						
Net cash from financing	63	401	128	34	8	15
Net change in cash						
Cash at the beginning of the year	147	163	551	636	825	974
Exchange difference	0	(1)	8	0	0	0
Others	16	389	77	189	149	167
Cash at the end of the year	163	551	636	825	974	1,141
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	65.7%	31.6%	24.8%	16.1%	25.1%	24.4%
Gross profit	66.1%	29.0%	19.4%	14.8%	25.1%	24.4%
Operating profit	61.8%	15.2%	53.4%	22.4%	25.4%	24.2%
Net profit	67.2%	14.6%	52.6%	21.2%	26.3%	25.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	56.5%	55.4%	53.0%	52.4%	52.4%	52.4%
Operating margin	27.9%	24.5%	30.1%	31.7%	31.7%	31.7%
Return on equity (ROE)	27.4%	17.7%	18.1%	18.2%	19.1%	19.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.7	2.7	2.4	2.6	2.7	2.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	17.1	15.0	13.1	11.3	9.0	7.2

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

Luxshare (002475 CH)

Promising outlook in Apple upgrade cycle and Leoni/ODM synergies

We have raised TP to RMB75.55 to reflect our more positive view on iPhone 17/ foldable cycle, stronger synergy from Leoni/ODM integration, and AI server component pipeline (connectivity/thermal/power). We have raised FY25-27E EPS by 0-19% to reflect FY25 guidance, enhanced synergy and better margin. We expect Luxshare to deliver 27% earnings CAGR over 2025-27E, driven by 9%/54%/47% FY25-27E revenue CAGR from consumer electronics/automotive/communication segments. Trading at 24x/19x FY25/26E P/E, the stock's valuation is attractive in our view. Upcoming catalysts include iPhone 17 shipment, auto client wins, and AI server component ramp-up.

- **Beneficiary of Apple multi-product upgrade cycle.** With a full coverage of Apple's products (iPhone/Watch/AirPods/Mac/VisionPro), we believe Luxshare is well-positioned to benefit from strong execution and market share gains from Apple's new product cycle in iPhone 17/foldable/20th anniversary edition and smart home/AI glasses during 2026-27E
- **Synergies from consolidation of Leoni and Wingtech's ODM.** Mgmt. highlighted that the integration process has exceeded expectations: 1) original targets for Leoni (e.g. NP breakeven in 2025, GPM to reach corp. avg.) will be achieved at least one year earlier, and 2) vertical integration with Wingtech ODM will enhance competitiveness and boost exposure to non-Apple biz, particularly in PC segment targeting doubled sales over next three years.
- **Strong AI server product pipeline.** We believe Luxshare is making progress with design wins and share gains with core AI server products (high-speed connectivity/power/thermal). In particular, mgmt. remains confident that CPC will become mainstream connectivity solution in near term, and AC/DC products have achieved breakthrough with core customers.
- **Upbeat FY25E guidance on iPhone 17 and better GPM.** Luxshare guided FY25E NP growth of 24-29% YoY, mainly driven by new iPhone models and better profitability from Leoni and Wingtech assets. 3Q25 GPM at 12.8% (+1.1ppt YoY/0.8ppt QoQ) was a positive surprise, thanks to higher-margin auto/communications segments and strong execution of new acquisitions.
- **Multiple growth engines to drive re-rating; TP at RMB75.55.** We believe revenue mix shift to higher-growth, high-margin AI/auto segments along with stronger Apple upgrade cycle will boost re-rating. We have raised our TP to RMB75.55, based on 10-year hist. avg. 25x FY26E P/E for Apple cycle strength and strong execution of Leoni/ODM integrations.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	231,905	268,795	317,450	378,416	444,880
YoY growth (%)	8.4	15.9	18.1	19.2	17.6
Net profit (RMB mn)	10,952.7	13,365.7	17,074.9	21,492.9	27,554.9
EPS (Reported) (RMB)	1.54	1.86	2.40	3.02	3.87
YoY growth (%)	19.4	20.8	29.1	25.9	28.2
Consensus EPS (RMB)	na	na	2.35	2.93	3.57
P/E (x)	37.9	31.4	24.3	19.3	15.1
P/B (x)	5.9	4.9	4.1	3.4	2.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	17.0	17.2	18.3	19.1	20.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB75.55**
 Up/Downside **29.4%**
 Current Price **RMB58.40**

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Stock Data

Mkt Cap (RMB mn)	414,640.0
Avg 3 mths t/o (RMB mn)	8,463.9
52w High/Low (RMB)	70.20/28.68
Total Issued Shares (mn)	7100.0

Source: FactSet

Shareholding Structure

Luxshare Ltd	38.3%
HKEX	7.4%

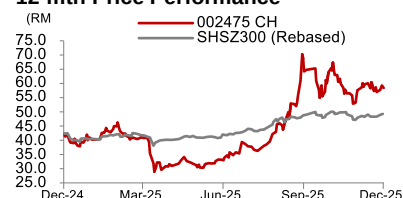
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	1.4%	-1.7%
3-mth	-9.1%	-11.2%
6-mth	77.1%	50.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	214,028	231,905	268,795	317,450	378,416	444,880
Cost of goods sold	(187,929)	(205,041)	(240,809)	(281,084)	(333,954)	(390,134)
Gross profit	26,100	26,864	27,985	36,366	44,462	54,746
Selling expense	(831)	(889)	(1,060)	(1,270)	(1,514)	(1,780)
Admin expense	0	0	0	0	0	0
SG&A expense	(5,076)	(5,543)	(6,352)	(8,095)	(9,082)	(10,677)
R&D expense	(8,447)	(8,189)	(8,556)	(10,793)	(12,866)	(14,681)
Others	(3,100)	(3,632)	(2,635)	(2,890)	(3,017)	(3,156)
Other income	602	825	993	1,270	1,514	1,780
Gain/loss on financial assets at FVTPL	14	210	(63)	(63)	(63)	(63)
Investment gain/loss	998	1,771	4,547	4,547	4,547	4,547
Other gains/(losses)	895	1,442	1,282	1,282	1,282	1,282
EBIT	11,154	12,860	16,142	20,353	25,262	31,998
Net Interest income/(expense)	(883)	(483)	503	553	609	670
Other income/expense	4	25	(33)	(33)	(33)	(33)
Pre-tax profit	11,158	12,885	16,109	20,320	25,229	31,965
Income tax	(667)	(642)	(1,530)	(2,032)	(2,523)	(3,196)
After tax profit	10,491	12,243	14,579	18,288	22,706	28,768
Minority interest	1,328	1,291	1,213	1,213	1,213	1,213
Net profit	9,163	10,953	13,366	17,075	21,493	27,555
Gross dividends	927	0	0	0	0	0

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	88,292	94,228	138,545	160,346	208,783	241,727
Cash & equivalents	19,367	33,620	48,360	60,013	92,249	113,041
Account receivables	26,993	23,766	32,911	34,724	45,766	48,738
Inventories	37,363	29,758	31,703	40,037	45,196	54,376
Prepayment	587	487	389	389	389	389
Financial assets at FVTPL	1,353	1,721	1,403	1,403	1,403	1,403
Other current assets	2,628	4,878	23,780	23,780	23,780	23,780
Non-current assets	60,092	67,764	85,282	82,541	80,282	78,423
PP&E	46,721	46,787	53,610	50,869	48,611	46,751
Deferred income tax	1,209	873	818	818	818	818
Investment in JVs & assos	2,440	4,482	7,601	7,601	7,601	7,601
Intangibles	2,696	2,663	2,791	2,791	2,791	2,791
Goodwill	1,730	1,729	1,886	1,886	1,886	1,886
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	5,297	11,230	18,576	18,576	18,576	18,576
Total assets	148,384	161,992	223,828	242,887	289,066	320,150
Current liabilities	74,631	74,835	113,875	115,859	140,545	144,074
Short-term borrowings	14,912	20,514	35,313	36,313	37,313	38,313
Account payables	50,302	46,401	65,966	66,951	90,637	93,166
Tax payable	0	0	0	0	0	0
Other current liabilities	7,050	5,590	9,584	9,584	9,584	9,584
Accrued expenses	2,368	2,330	3,011	3,011	3,011	3,011
Non-current liabilities	14,969	16,872	25,266	25,266	25,266	25,266
Long-term borrowings	9,205	12,039	19,620	19,620	19,620	19,620
Other non-current liabilities	5,764	4,833	5,646	5,646	5,646	5,646
Total liabilities	89,600	91,707	139,140	141,125	165,811	169,340
Share capital	7,100	7,148	7,236	7,236	7,236	7,236
Retained earnings	32,291	42,031	53,103	70,178	91,671	119,226
Other reserves	5,952	7,132	8,987	8,987	8,987	8,987
Total shareholders equity	58,784	70,285	84,687	101,762	123,255	150,810
Minority interest	45,343	13,975	15,360	15,360	15,360	15,360
Total equity and liabilities	148,384	161,992	223,828	242,887	289,066	320,150

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	11,158	12,885	16,109	20,320	25,229	31,965
Depreciation & amortization	7,800	10,320	10,908	9,742	9,258	8,860
Tax paid	(667)	(642)	(1,530)	(2,032)	(2,523)	(3,196)
Change in working capital	(6,612)	4,281	3,156	(9,163)	7,485	(9,623)
Others	381	119	(3,057)	(3,799)	(4,345)	(5,080)
Net cash from operations	12,728	27,605	27,117	17,100	37,627	26,122
Investing						
Capital expenditure	(13,584)	(11,387)	(12,111)	(7,000)	(7,000)	(7,000)
Acquisition of subsidiaries/ investments	(9,352)	(25,906)	(84,709)	0	0	0
Net proceeds from disposal of short-term investments	8,786	16,948	60,982	0	0	0
Others	824	786	182	0	0	0
Net cash from investing	(13,326)	(19,560)	(35,656)	(7,000)	(7,000)	(7,000)
Financing						
Dividend paid	1,797	2,531	3,717	0	0	0
Net borrowings	8,967	8,533	22,925	1,000	1,000	1,000
Proceeds from share issues	1,597	547	2,407	0	0	0
Others	(4,204)	(7,540)	(3,159)	553	609	670
Net cash from financing	8,156	4,070	25,890	1,553	1,609	1,670
Net change in cash						
Cash at the beginning of the year	8,922	17,312	29,684	48,360	60,013	92,249
Exchange difference	833	256	232	0	0	0
Cash at the end of the year	17,312	29,684	47,267	60,013	92,249	113,041
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	39.0%	8.4%	15.9%	18.1%	19.2%	17.6%
Gross profit	38.1%	2.9%	4.2%	29.9%	22.3%	23.1%
EBIT	36.6%	15.3%	25.5%	26.1%	24.1%	26.7%
Net profit	29.6%	19.5%	22.0%	27.8%	25.9%	28.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	12.2%	11.6%	10.4%	11.5%	11.7%	12.3%
Return on equity (ROE)	17.5%	17.0%	17.2%	18.3%	19.1%	20.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.2	1.3	1.2	1.4	1.5	1.7
Receivable turnover days	7.3	9.1	9.5	9.5	9.5	9.5
Inventory turnover days	6.5	6.1	7.8	7.8	7.8	7.8
Payable turnover days	3.9	4.2	4.3	4.3	4.3	4.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	45.3	37.9	31.4	24.3	19.3	15.1
P/B	7.1	5.9	4.9	4.1	3.4	2.8
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

FIT Hon Teng (6088 HK)

Strong AI revenue guidance in FY26-28E

FIT's 3Q25 revenue/net profit growth of 13%/9% YoY is largely in-line with prior guidance and our expectations, backed by AI server momentum, automobility synergy and record-high GPM at 23.5%. During the earnings call, mgmt. reiterated a positive 2025 outlook (high-single-digit revenue growth, GPM at 20%), and updated FY26-28E guidance, with 1) 2027-28E revenue growth of mid-20% (vs prior low-20%) and 2) AI/cloud revenue mix of "low/mid/high-20% in 2026/27/28E". Overall, we believe FIT is well positioned to benefit from share gains and AI server connectivity solutions upgrade, backed by its solid product pipeline and synergy with Hon Hai. Our TP of HK\$6.77 is based on 20x FY26E P/E. BUY.

- **3Q25 largely in-line with higher cloud/automobility revenue mix.** FIT's 3Q revenue/NP growth of 13%/9% YoY is largely in-line with prior guidance and our expectations, driven by strong AI product demand (+33% YoY) and automobility business (+116% YoY), offsetting smartphone/consumer weakness (-20%/flat YoY). In addition, we are encouraged by record-high GPM of 23.5% (vs 17.8%/21.7% in 2Q25/3Q24) thanks to higher revenue contribution of AI server/automobile businesses.
- **4Q25/2025 outlook: AI server rack ramp-up and One-Mobility synergy.** Mgmt. reiterated 2025 guidance of high-single-digit YoY revenue growth with GPM at ~20%, and provided details on 4Q25/2025 outlook: 1) Cloud/ datacenter to deliver high-20%/30%+ YoY in 4Q/FY25E on new AI server rack ramp-up and general server upgrade; 2) automobility to grow mid-double-digit/40% YoY in 4Q/FY25E; 3) consumer interconnects to stay flattish YoY on macro headwinds; 4) smartphone biz/system products to post high-teens decline/be flattish in 4Q/FY25E due to market weakness.
- **FY27-28E guidance: robust AI demand with strong product pipeline (CPC/CPO/backplane connectors, liquid cooling, 800V).** Mgmt. shared updates on AI product launches in CIOE/OCF, including 1) Connectors: 102.4Tbps CPO connectors, CPC 224G interconnect solution, 1.6T active/passive copper cables, 2) Cooling: 51.2T switch cooling and full-flow QD liquid cooling couplers, and 3) Power: 800V/±400V power busbar and 400A/100A AC whip connectors. Overall, mgmt. guided mid-20% YoY revenue growth in FY27/28E (vs. prior low-20%) and cloud/datacenter sales mix of low/mid/high-20% in FY26/27/28E, boosting profitability in the long run.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	4,196	4,451	4,883	5,859	7,103
YoY growth (%)	(7.4)	6.1	9.7	20.0	21.2
Net profit (US\$ mn)	129.6	154.3	190.7	309.5	424.4
YoY growth (%)	(23.8)	19.1	23.6	62.3	37.1
EPS (Reported) (US\$ cents)	1.82	2.17	2.68	4.35	5.97
Consensus EPS (US\$ cents)	na	na	2.82	3.78	4.56
P/E (x)	38.9	32.6	26.4	16.2	11.8
P/B (x)	2.1	2.0	1.9	1.7	1.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	5.4	6.3	7.4	10.9	13.3
Net gearing (%)	0.0	na	na	na	na

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$6.77
Up/Downside	23.2%
Current Price	HK\$5.50

China Technology

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Stock Data

Mkt Cap (HK\$ mn)	39,968.5
Avg 3 mths t/o (HK\$ mn)	388.0
52w High/Low (HK\$)	7.02/1.71
Total Issued Shares (mn)	7267.0

Source: FactSet

Shareholding Structure

Foxconn Far East Ltd	71.1%
Lu Sung-Ching	5.5%

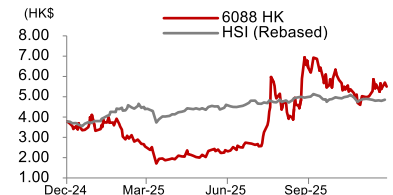
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.9%	14.2%
3-mth	-18.8%	-16.7%
6-mth	128.2%	116.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	4,531	4,196	4,451	4,883	5,859	7,103
Cost of goods sold	(3,763)	(3,388)	(3,573)	(3,887)	(4,619)	(5,548)
Gross profit	768	807	879	995	1,240	1,555
Selling expense	(93)	(105)	(131)	(146)	(164)	(199)
Admin expense	(130)	(191)	(242)	(283)	(316)	(384)
R&D expense	(296)	(308)	(330)	(347)	(404)	(490)
Others	58	61	152	78	94	114
Operating profit	307	263	327	297	449	596
Share of (losses)/profits of associates/JV	(46)	(50)	(58)	1	1	1
Interest expense	(14)	(33)	(48)	(43)	(37)	(30)
Pre-tax profit	248	179	221	254	413	566
Income tax	(78)	(50)	(66)	(64)	(103)	(141)
Minority interest	1	1	1	1	1	1
Net profit	170	130	154	191	310	424

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	2,764	3,112	3,160	3,436	4,823	6,105
Cash & equivalents	914	1,316	1,113	1,238	2,114	2,976
Account receivables	720	807	910	974	1,286	1,453
Inventories	967	802	904	992	1,190	1,443
ST bank deposits	66	4	42	42	42	42
Non-current assets	1,783	1,982	2,311	2,257	1,632	936
PP&E	753	900	1,191	1,137	512	(183)
Deferred income tax	131	126	132	132	132	132
Investment in JVs & assos	123	73	15	15	15	15
Intangibles	601	700	728	728	728	728
Other non-current assets	175	182	244	244	244	244
Total assets	4,547	5,094	5,470	5,693	6,455	7,042
Current liabilities	1,539	2,563	2,241	2,273	2,726	2,888
Short-term borrowings	453	1,383	904	904	904	904
Account payables	971	1,095	1,271	1,303	1,756	1,918
Tax payable	98	70	51	51	51	51
Other current liabilities	18	17	15	15	15	15
Non-current liabilities	661	93	746	746	746	746
Long-term borrowings	575	0	634	634	634	634
Obligations under finance leases	43	41	53	53	53	53
Other non-current liabilities	43	52	59	59	59	59
Total liabilities	2,200	2,656	2,987	3,019	3,472	3,634
Share capital	142	142	142	142	142	142
Other reserves	2,295	2,384	2,422	2,613	2,923	3,347
Total shareholders equity	2,347	2,437	2,483	2,674	2,983	3,408
Minority interest	2	3	10	10	10	10
Total equity and liabilities	4,547	5,094	5,470	5,693	6,455	7,042

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	248	179	221	254	413	566
Depreciation & amortization	232	220	509	954	1,025	1,095
Tax paid	(79)	(75)	(66)	(64)	(103)	(141)
Change in working capital	93	146	(29)	(120)	(58)	(257)
Others	63	103	(382)	0	0	0
Net cash from operations	556	574	253	1,025	1,276	1,262
Investing						
Capital expenditure	(113)	(243)	(800)	(900)	(400)	(400)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	47	(167)	325	0	0	0
Net cash from investing	(66)	(410)	(475)	(900)	(400)	(400)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(2)	(1)	0	0	0	0
Others	(268)	250	59	0	0	0
Net cash from financing	(270)	249	59	0	0	0
Net change in cash						
Cash at the beginning of the year	769	914	1,316	1,113	1,238	2,114
Exchange difference	(75)	(10)	0	0	0	0
Cash at the end of the year	914	1,316	1,113	1,238	2,114	2,976
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	0.9%	(7.4%)	6.1%	9.7%	20.0%	21.2%
Gross profit	14.1%	5.1%	8.9%	13.3%	24.6%	25.4%
Operating profit	74.0%	(14.4%)	24.3%	(9.1%)	51.1%	32.8%
Net profit	24.5%	(23.8%)	19.1%	23.6%	62.3%	37.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	16.9%	19.2%	19.7%	20.4%	21.2%	21.9%
Operating margin	6.8%	6.3%	7.3%	6.1%	7.7%	8.4%
Return on equity (ROE)	7.2%	5.4%	6.3%	7.4%	10.9%	13.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	na	0.0	na	na	na	na
Current ratio (x)	1.8	1.2	1.4	1.5	1.8	2.1
Receivable turnover days	0.0	0.0	0.0	0.0	0.0	0.0
Inventory turnover days	0.0	0.0	0.0	0.0	0.0	0.0
Payable turnover days	0.0	0.0	0.0	0.0	0.0	0.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	29.2	38.9	32.6	26.4	16.2	11.8
P/B	2.1	2.1	2.0	1.9	1.7	1.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

AAC Tech (2018 HK)

Solid outlook intact on AI-driven upgrade cycle in 2H25E

AAC's 1H25 revenue/NP (+18%/63% YoY) were in-line with our/consensus estimates on solid sale growth and one-off fair value gains (PSS), despite lower GPM at 20.7% (vs 21.5%/22.5% in 1H24/2H24) given seasonality and product transitions. Mgmt. guided a solid set of sales (2H growth higher than 1H growth) and GPM (FY25E GPM above FY24), which should ease investor concerns over GPM miss and demand uncertainties. We see AAC as the major beneficiary of AI-driven spec upgrade cycle (acoustics/optics/MEMS/VC), capturing opportunities in AI/foldable phones/AI glasses/robotics. Our SOTP-based TP of HK\$60.55 is based on 25.3x FY25E P/E. Near-term catalysts include AI phone/glasses launch, order wins and GPM recovery.

- **1H25 results in-line; optics GPM and VC the bright spots.** AAC's 1H25 revenue/NP grew 18%/63% YoY, driven by ED&PM/Optics/MEMs (+27%/20%/56% YoY), despite lower GPM at 20.7% on weaker acoustics GPM at 27.2% (vs 30.0%/30.4% in 1H24/2H24).
- **Solid 2H25E outlook: GPM recovery, acoustics/VC/optics/MEM spec upgrade.** We are positive on mgmt.'s upbeat guidance for 2025, which should ease market concerns on 2H GPM/demand. 1) Acoustics: new product MP will boost GPM rebound in 2H25E. 2) ED & PM: ED sales will grow 18-20% YoY in FY25E (VC up 3-4 times, NB/casing stable share), and EM will grow 15-20% YoY with GPM of 30%+. 3) Optics: sales to grow 20% YoY with GPM at 10-15% in FY25E, with plastic HLS GPM at 30%+, WLG shipment of 10-15mn/20mn in FY25/26E and HCM GPM at 4-6%; 4) MEMS & sensors: FY25E sales grew 100% YoY with GPM at 15-20%.
- **Recommend BUY on recent corrections; LT growth opportunities in AI/foldable SP/AI glasses/robotics.** On top of AI/foldable phone upgrade, we are positive on AAC's non-handset biz: 1) AR glasses (optical waveguide) project wins and target mass production in 2026; 2) auto PSS order win in domestic flagship SUV project (32 speakers) and client win in the EU; 3) drones/action cameras; 4) robotics dexterous hand mass production with multiple design wins.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	20,419	27,328	32,848	37,596	41,623
YoY growth (%)	(1.0)	33.8	20.2	14.5	10.7
Net profit (RMB mn)	740.4	1,797.2	2,514.6	3,186.9	3,734.6
YoY growth (%)	(9.9)	142.7	39.9	26.7	17.2
EPS (Reported) (RMB)	0.63	1.53	2.17	2.75	3.22
YoY growth (%)	(8.3)	143.8	41.6	26.7	17.2
Consensus EPS (RMB)	na	na	2.05	2.45	2.82
P/E (x)	55.4	22.7	16.1	12.7	10.8
P/B (x)	1.8	1.8	1.6	1.5	1.3
Yield (%)	28.7	68.9	97.6	150.0	175.8
ROE (%)	3.3	7.9	10.4	12.1	12.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$60.55**
 Up/Downside **56.9%**
 Current Price **HK\$38.60**

China Technology

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Stock Data

Mkt Cap (HK\$ mn) 46,242.8
 Avg 3 mths t/o (HK\$ mn) 207.5
 52w High/Low (HK\$) 53.85/32.60
 Total Issued Shares (mn) 1198.0

Source: FactSet

Shareholding Structure

Wu Chunyuan 21.9%
 Pan Zhengmin 19.5%

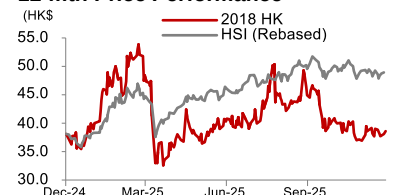
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.8%	4.1%
3-mth	-16.8%	-14.7%
6-mth	-6.1%	-11.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	20,625	20,419	27,328	32,848	37,596	41,623
Cost of goods sold	(16,850)	(16,967)	(21,286)	(25,469)	(28,686)	(31,530)
Gross profit	3,775	3,452	6,042	7,379	8,910	10,092
Selling expense	(448)	(443)	(670)	(797)	(902)	(999)
Admin expense	(1,036)	(978)	(1,270)	(1,506)	(1,748)	(1,956)
R&D expense	(1,546)	(1,573)	(2,022)	(2,301)	(2,820)	(3,122)
Operating profit	745	457	2,080	2,775	3,439	4,015
Other income	525	591	411	622	752	832
Other expense	0	0	0	0	0	0
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Investment gain/loss	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	(1)	(0)	(0)	0	0	0
Net Interest income/(expense)	(403)	(391)	(417)	(371)	(371)	(371)
Foreign exchange gain/loss	(6)	14	22	0	0	0
Other income/expense	0	152	(105)	0	0	0
Others	0	0	0	0	0	0
Pre-tax profit	861	823	1,990	3,026	3,820	4,476
Income tax	(231)	(252)	(227)	(574)	(726)	(850)
After tax profit	629	571	1,764	2,452	3,094	3,626
Minority interest	(192)	(170)	(34)	(63)	(93)	(109)
Net profit	821	740	1,797	2,515	3,187	3,735

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	17,116	16,527	20,902	21,454	35,110	35,356
Cash & equivalents	6,814	6,825	7,538	4,266	17,440	14,462
Account receivables	5,531	6,653	9,371	10,604	12,356	13,140
Inventories	4,401	2,992	3,938	6,529	5,260	7,698
ST bank deposits	341	21	6	6	6	6
Financial assets at FVTPL	0	3	3	3	3	3
Other current assets	28	33	47	47	47	47
Non-current assets	23,227	22,384	25,798	23,418	20,508	17,146
PP&E	19,302	18,070	17,884	15,504	12,594	9,232
Deferred income tax	228	204	414	414	414	414
Investment in JVs & assos	3	286	3	3	3	3
Intangibles	564	589	1,706	1,706	1,706	1,706
Goodwill	275	275	2,093	2,093	2,093	2,093
Financial assets at FVTPL	186	413	450	450	450	450
Other non-current assets	2,668	2,546	3,180	3,180	3,180	3,180
Total assets	40,343	38,911	46,700	44,872	55,618	52,501
Current liabilities	9,055	10,129	14,403	10,517	18,775	12,742
Short-term borrowings	1,833	1,464	1,728	1,728	1,728	1,728
Account payables	4,959	5,796	9,558	5,621	13,835	7,765
Tax payable	118	101	252	302	346	383
Other current liabilities	1,823	2,363	479	479	479	479
Lease liabilities	292	389	489	489	489	489
Contract liabilities	30	16	63	63	63	63
Non-current liabilities	9,093	6,410	9,180	9,180	9,180	9,180
Long-term borrowings	1,727	1,726	3,883	3,883	3,883	3,883
Bond payables	6,088	3,662	3,721	3,721	3,721	3,721
Obligations under finance leases	485	381	634	634	634	634
Other non-current liabilities	793	641	932	932	932	932
Total liabilities	18,148	16,540	23,583	19,697	27,955	21,922
Share capital	98	97	97	97	97	97
Other reserves	21,559	21,784	22,657	24,778	27,359	30,384
Total shareholders equity	22,196	22,371	23,117	25,175	27,663	30,580
Minority interest	539	490	362	300	207	98
Total equity and liabilities	40,343	38,911	46,700	44,872	55,618	52,501

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	861	823	1,990	3,026	3,820	4,476
Depreciation & amortization	2,776	2,843	0	0	0	0
Tax paid	(304)	(246)	(76)	(523)	(682)	(813)
Change in working capital	420	1,247	112	(7,761)	7,731	(9,292)
Others	619	(34)	3,176	5,010	5,202	5,365
Net cash from operations	4,372	4,633	5,203	(249)	16,071	(265)
Investing						
Capital expenditure	(625)	(1,141)	(2,657)	(2,258)	(1,920)	(1,632)
Acquisition of subsidiaries/ investments	(195)	(305)	0	0	0	0
Net proceeds from disposal of short-term investments	(131)	(213)	0	0	0	0
Others	(1,398)	148	(828)	0	0	0
Net cash from investing	(2,349)	(1,512)	(3,485)	(2,258)	(1,920)	(1,632)
Financing						
Dividend paid	(144)	(118)	(281)	(394)	(606)	(710)
Net borrowings	222	(376)	0	0	0	0
Share repurchases	(144)	(118)	(281)	(394)	(606)	(710)
Others	(1,373)	(2,559)	(462)	22	234	338
Net cash from financing	(1,439)	(3,171)	(1,025)	(765)	(977)	(1,081)
Net change in cash						
Cash at the beginning of the year	6,051	6,814	6,825	7,538	4,266	17,440
Exchange difference	178	61	0	0	0	0
Cash at the end of the year	6,814	6,825	7,538	4,266	17,440	14,462
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	16.7%	(1.0%)	33.8%	20.2%	14.5%	10.7%
Gross profit	(13.5%)	(8.6%)	75.0%	22.1%	20.7%	13.3%
Operating profit	(49.7%)	(38.7%)	354.9%	33.4%	23.9%	16.7%
Net profit	(37.6%)	(9.9%)	142.7%	39.9%	26.7%	17.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	18.3%	16.9%	22.1%	22.5%	23.7%	24.2%
Operating margin	3.6%	2.2%	7.6%	8.4%	9.1%	9.6%
Return on equity (ROE)	3.7%	3.3%	7.9%	10.4%	12.1%	12.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.9	1.6	1.5	2.0	1.9	2.8
Receivable turnover days	87.8	87.8	87.8	90.0	90.0	90.0
Inventory turnover days	88.6	88.6	88.6	75.0	75.0	75.0
Payable turnover days	84.7	84.7	84.7	70.0	70.0	70.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	50.8	55.4	22.7	16.1	12.7	10.8
P/E (diluted)	na	55.4	22.7	16.1	12.7	10.8
P/B	1.9	1.8	1.8	1.6	1.5	1.3
Div yield (%)	34.5	28.7	68.9	97.6	150.0	175.8

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

CR Beverage (2460 HK)

Market share decline narrowed; valuation turned attractive

Per Mashangying data, the company's packaged water market share decline narrowed by 0.23ppt/0.57ppt in Sep/Oct respectively, marking sustained gains since Aug. We expect operational pressure to ease in water biz and revenue contraction to moderate versus 1H25 levels. Capacity expansion progresses steadily, though positive results remain constrained by poor sales. Ongoing channel restructuring is likely to complete in 2026. We have a BUY rating on the stock with TP at HK\$12.90 (18x 2026E P/E). Valuation has turned attractive, and we suggest buying the dip.

- **Packaged water: market share decline start narrowing.** Per Mashangying data, C'estbon's market share had been declining yoy since Jan 2025, hitting its deepest contraction in Apr before gradually narrowing. The decline re-expanded in Jul-Aug before entering a recovery trajectory. Specifically, YoY decline narrowed by 0.23ppt/0.57ppt in Sept/Oct respectively, driving sequential share growth since Aug. Key rivals Nongfu Spring and Wahaha simultaneously recorded market share declines. We anticipate eased pressure on the company's water segment, projecting FY25E water biz revenue decline to moderate vs. 1H25 and beverage growth to accelerate marginally.
- **Capacity expansion on track; payback period may extend.** The company is executing its capacity expansion plan as scheduled: Wuyishan large-size production line commenced operations in 1H25, with two factories to come online in 2H25. The 2025 target of 60% self-owned capacity remains unchanged. We previously calculated that a 10% higher self-owned ratio is driving a 1.5-2ppt GPM improvement, but this benefit was muted by soft sales in 1H25. We believe that as consumption sentiment recovers and capacity expansion is back on track, positive impacts will gradually emerge over a longer horizon.
- **Channel reform weighs on ST earnings; benefits to emerge post FY26.** The company has launched in-depth channel reforms, including: 1) flattening distribution channels in tier-1 cities from 4 to 3 levels; 2) adding over 100 distributors dedicated for beverage products; 3) setting specialized distributors for e-commerce, catering, and emerging channels; and 4) dedicated distributors for lower-tier markets (counties/towns/villages). These initiatives, scheduled for completion by FY26, will deliver compounded benefits alongside ongoing capacity expansion, in our view.
- **BUY.** Our TP is HK\$12.9, based on 18x 2026E P/E. We think the valuation is attractive and suggest buying the dip. **Risks:** 1) greater-than-expected economic downturn; 2) slower-than-planned capacity expansion; 3) underwhelming channel reform results; 4) food safety incidents; 5) raw material price hikes, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	13,515	13,521	11,460	12,417	13,841
YoY growth (%)	7.1	0.0	(15.2)	8.3	11.5
Net profit (RMB mn)	1,329.3	1,636.7	1,201.9	1,400.0	1,580.5
YoY growth (%)	34.3	23.1	(26.6)	16.5	12.9
EPS (Reported) (RMB)	0.66	0.79	0.58	0.68	0.76
Consensus EPS (RMB)	na	na	0.70	0.82	0.93
P/E (x)	14.2	11.9	16.2	14.0	12.4
P/B (x)	2.6	1.6	1.6	1.5	1.4
Yield (%)	0.0	5.1	2.2	2.5	2.8
ROE (%)	21.3	18.0	10.5	11.7	12.1
Net gearing (%)	(30.1)	(50.4)	(41.0)	(40.0)	(40.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$12.85
Up/Downside	23.1%
Current Price	HK\$10.44

China Consumer Staples

Miao ZHANG

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Stock Data

Mkt Cap (HK\$ mn)	25,037.2
Avg 3 mths t/o (HK\$ mn)	34.8
52w High/Low (HK\$)	15.24/10.26
Total Issued Shares (mn)	2398.2

Source: FactSet

Shareholding Structure

CRH Beverage Ltd.	50.0%
Plateau Consumer Ltd.	33.4%

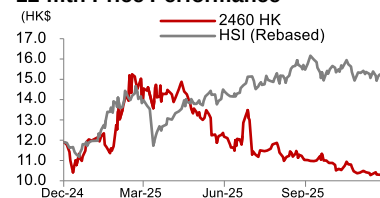
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	1.7%
3-mth	-5.3%	-2.9%
6-mth	-15.5%	-19.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	12,623	13,515	13,521	11,460	12,417	13,841
Cost of goods sold	(7,364)	(7,480)	(7,124)	(6,335)	(6,718)	(7,505)
Gross profit	5,259	6,035	6,397	5,125	5,699	6,336
Operating expenses	(4,192)	(4,449)	(4,407)	(3,862)	(4,164)	(4,566)
Selling expense	(3,878)	(4,087)	(4,058)	(3,554)	(3,839)	(4,210)
Admin expense	(265)	(301)	(296)	(262)	(276)	(301)
R&D expense	(49)	(62)	(53)	(45)	(49)	(55)
Operating profit	188	159	108	108	108	108
Other income	191	174	121	108	108	108
Other expense	(3)	(15)	(14)	0	0	0
EBITDA	1,554	2,206	2,655	2,153	2,565	2,941
Depreciation	(326)	(464)	(559)	(782)	(923)	(1,063)
EBIT	1,228	1,742	2,096	1,371	1,642	1,878
Interest income	149	194	168	202	189	189
Interest expense	(2)	(43)	(2)	(2)	(2)	(2)
Pre-tax profit	1,375	1,878	2,224	1,570	1,829	2,064
Income tax	(387)	(547)	(563)	(350)	(408)	(461)
After tax profit	989	1,331	1,661	1,220	1,421	1,604
Minority interest	1	(2)	(24)	(18)	(21)	(23)
Net profit	990	1,329	1,637	1,202	1,400	1,581
Adjusted net profit	990	1,344	1,674	1,202	1,400	1,581

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	7,630	5,558	11,961	10,600	10,973	11,611
Cash & equivalents	2,508	2,075	5,701	4,716	5,004	5,498
Account receivables	564	683	668	313	332	371
Inventories	588	377	504	483	549	655
ST bank deposits	292	2,297	4,947	4,947	4,947	4,947
Other current assets	3,679	126	141	141	141	141
Non-current assets	2,974	7,444	6,734	7,901	8,728	9,615
PP&E	2,008	4,810	5,924	7,037	7,815	8,658
Right-of-use assets	464	518	579	632	681	726
Other non-current assets	503	539	232	232	232	232
Total assets	10,605	13,002	18,694	18,501	19,701	21,225
Current liabilities	4,329	5,188	6,322	5,910	6,110	6,521
Short-term borrowings	0	0	6	6	6	6
Account payables	4,029	5,022	3,719	3,307	3,507	3,918
Tax payable	33	8	19	19	19	19
Other current liabilities	3	1	0	0	0	0
Lease liabilities	17	16	14	14	14	14
Contract liabilities	247	139	193	193	193	193
Non-current liabilities	380	441	511	511	511	511
Long-term borrowings	0	0	0	0	0	0
Deferred income	369	421	486	486	486	486
Total liabilities	4,709	5,629	6,833	6,421	6,621	7,032
Share capital	0	0	0	0	0	0
Capital surplus	5,574	6,903	11,300	11,300	11,300	11,300
Retained earnings	0	0	0	201	1,180	2,270
Other reserves	0	0	0	0	0	0
Total shareholders equity	5,574	6,903	11,300	11,501	12,480	13,571
Minority interest	322	470	561	579	599	623
Total equity and liabilities	10,605	13,002	18,694	18,501	19,701	21,225

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,375	1,878	2,224	1,570	1,829	2,064
Depreciation & amortization	326	464	559	782	923	1,063
Tax paid	(366)	(420)	(535)	0	0	0
Change in working capital	(275)	21	(679)	(36)	115	266
Others	144	318	373	0	0	0
Net cash from operations	845	1,718	1,393	1,966	2,458	2,933
Investing						
Capital expenditure	(723)	(2,251)	1,981	(1,950)	(1,750)	(1,950)
Net proceeds from disposal of short-term investments	10,347	5,864	(11,850)	0	0	0
Others	(9,622)	(5,703)	6,895	0	0	0
Net cash from investing	1	(2,090)	(2,974)	(1,950)	(1,750)	(1,950)
Financing						
Dividend paid	0	0	0	(1,001)	(421)	(490)
Net borrowings	(2)	(43)	24	0	0	0
Proceeds from share issues	na	na	5,298	na	na	na
Share repurchases	0	0	na	0	0	0
Others	(20)	(18)	(163)	0	0	0
Net cash from financing	(21)	(61)	5,160	(1,001)	(421)	(490)
Net change in cash						
Cash at the beginning of the year	1,683	2,508	2,075	5,701	4,716	5,004
Exchange difference	(0)	(0)	46	0	0	0
Cash at the end of the year	2,508	2,075	5,654	4,716	5,004	5,498
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	11.3%	7.1%	0.0%	(15.2%)	8.3%	11.5%
Gross profit	5.8%	14.8%	6.0%	(19.9%)	11.2%	11.2%
Operating profit	77.1%	(15.5%)	(32.4%)	0.2%	0.0%	0.0%
EBITDA	19.5%	41.9%	20.4%	(18.9%)	19.1%	14.7%
EBIT	19.5%	41.8%	20.3%	(34.6%)	19.8%	14.4%
Net profit	15.3%	34.3%	23.1%	(26.6%)	16.5%	12.9%
Adj. net profit	15.3%	35.8%	24.6%	(28.2%)	16.5%	12.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	41.7%	44.7%	47.3%	44.7%	45.9%	45.8%
Operating margin	1.5%	1.2%	0.8%	0.9%	0.9%	0.8%
EBITDA margin	12.3%	16.3%	19.6%	18.8%	20.7%	21.3%
Adj. net profit margin	7.8%	9.9%	12.4%	10.5%	11.3%	11.4%
Return on equity (ROE)	19.5%	21.3%	18.0%	10.5%	11.7%	12.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.5)	(0.4)	(0.4)	(0.4)
Current ratio (x)	1.8	1.1	1.9	1.8	1.8	1.8
Receivable turnover days	16.3	18.4	18.0	18.0	18.0	18.0
Inventory turnover days	29.2	18.4	25.8	27.8	29.8	31.8
Payable turnover days	199.7	245.1	190.5	190.5	190.5	190.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	19.0	14.2	11.9	16.2	14.0	12.4
P/E (diluted)	19.0	14.2	11.9	16.2	14.0	12.4
P/B	3.2	2.6	1.6	1.6	1.5	1.4
Div yield (%)	0.0	0.0	5.1	2.2	2.5	2.8

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

Guoquan Food (2517 HK)

A national at-home food expert to innovate at all fronts

- **Guoquan is the largest one-stop brand for at-home meal solutions in China.** Guoquan achieved retail sales of RMB11.1bn with 3% market share in 2022. The company offers a diversified product portfolio that spans eight major categories (hotpot, barbecue, beverages, single-serve meals, ready-to-cook meal kits, fresh food, Western cuisines, and snacks). Such a great variety can cater to diverse dining scenarios. In 2024, it generated about RMB 6.5bn in sales, RMB 230mn in profit with 10,150 stores in China.
- **Consumer-to-Factory Model: a number of advantages for customers (“quick delivery and convenience, good quality, great bargain and more varieties”), franchisees and suppliers.** Guoquan leverages its C2F model to deliver speed, quality, value and variety to the young and busy consumers (esp. in lower-tier cities) with over 700 SKUs (400 new SKUs per year). Backed by six specialized factories and top-tier suppliers, it ensures strict food safety and quality, as well as rapid delivery (available even past midnight). Guoquan's vertically integrated supply chain has made its selling prices roughly 10%/ 40%/ 80% below Meituan Xiaoxiang/ Yonghui/ Haidilao and helped it secure a clear leadership in hotpot, barbecue and set meal categories.
- **Persistent product innovation: Blockbuster set meals to attract traffic and aggressive category expansion to raise sales volume.** Guoquan's blockbuster set meals converted massive online traffic into offline visits, led by the viral “Ox trip freedom hotpot set” (sold 5mn units and generated RMB 500mn in just 7 months in 2024). In 2025, it has expanded into steaks, crayfish, beer, desserts and frozen treats to boost off-season sales, and planned upstream investments to lift product quality and lower costs.
- **Channel upgrades and expansion: Leveraging Douyin for new user acquisition, using membership program and store revamp to tap into new types of demand and boost frequency.** Guoquan has not only accelerated growth on Douyin since 2024, but also revamped the membership program (average spend and frequency lifted, members grew by 48% and prepaid card sales also grew by 37% to nearly RMB 1bn). Store upgrades also delivered strong returns, with 24-hour formats in higher-tier cities driving ~5% SSSG at low cost, and larger stores in lower-tier cities achieving 20%+ SSSG with faster payback from lower rents and staff costs.
- **We forecast 17% sales and 42% net profit CAGRs during FY24-27E with NP att. margin rising to 6.4% by FY27E.** Such growth will be underpinned by blockbuster product launches, channel expansion, category diversification, store upgrades across city tiers, and a revamped membership program that drives higher purchasing frequency, supported by stronger staff training to deepen customer retention. Margin expansion should come from an improving product mix, greater supply chain efficiency, higher self-production, scale benefits and operating leverage.
- **BUY with TP of HK\$ 4.80, based on 23x FY26E P/E.** In our view, Guoquan deserves a premium, because of: 1) its vertically integrated business model, 2) massive store network, 3) strong brand equity (in both products and channels) and 4) much faster sales growth (17% sales CAGR during FY24-27E). Hence, we apply a 23x FY26E P/E for Guoquan.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	6,094	6,470	7,764	9,036	10,301
YoY growth (%)	(15.0)	6.2	20.0	16.4	14.0
EBITDA (RMB mn)	339.4	284.3	613.0	831.5	9,183.9
Net profit (RMB mn)	263.4	241.2	423.7	553.5	679.1
EPS (Reported) (RMB cents)	8.94	8.37	14.85	19.40	23.81
YoY growth (%)	0.6	(6.3)	77.4	30.6	22.7
P/E (x)	35.9	38.3	21.6	16.5	13.5
EV/EBITDA (x)	25.4	29.8	13.2	9.6	0.9
Yield (%)	1.6	2.3	3.9	5.1	6.3
ROE (%)	9.0	7.5	13.0	16.1	18.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$4.80
Up/Downside	35.1%
Current Price	HK\$3.55

China Consumer Discretionary

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Stock Data

Mkt Cap (HK\$ mn)	9,793.4
Avg 3 mths t/o (HK\$ mn)	67.0
52w High/Low (HK\$)	4.29/1.67
Total Issued Shares (mn)	2758.7

Source: FactSet

Shareholding Structure

Mr. Yang Mingchao, Mr. Meng Xianjin & Mr	44.2%
IDG China	5.1%

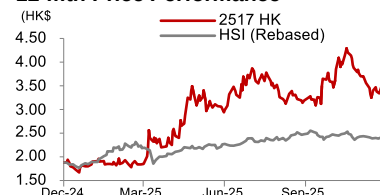
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-7.6%	-7.3%
3-mth	11.3%	14.2%
6-mth	15.3%	9.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	7,173	6,094	6,470	7,764	9,036	10,301
Cost of goods sold	(5,924)	(4,743)	(5,053)	(6,056)	(7,039)	(8,014)
Gross profit	1,249	1,351	1,417	1,708	1,997	2,287
Operating expenses	(1,031)	(1,085)	(1,120)	(1,252)	(1,389)	(1,536)
Selling expense	(625)	(579)	(664)	(748)	(845)	(949)
Admin expense	(404)	(497)	(454)	(497)	(535)	(577)
Others	(3)	(9)	(1)	(8)	(9)	(10)
Operating profit	339	371	323	562	732	898
Other income	98	73	(13)	66	79	98
Other gains/(losses)	(7)	(8)	(4)	(4)	(4)	(4)
EBITDA	316	339	284	613	832	9,184
EBIT	309	332	281	518	683	845
Interest income	23	32	39	40	46	49
Pre-tax profit	332	363	320	558	728	893
Income tax	(91)	(100)	(78)	(134)	(175)	(214)
After tax profit	230	240	231	410	535	657
Minority interest	(11)	(24)	(11)	(14)	(18)	(22)
Net profit	241	263	241	424	554	679
Adjusted net profit	241	263	241	424	554	679

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	2,409	2,875	3,268	3,526	3,881	4,280
Cash & equivalents	695	1,173	1,326	1,683	1,785	1,949
Restricted cash	42	64	89	89	89	89
Account receivables	134	54	234	191	248	282
Inventories	1,047	720	692	747	810	878
Prepayment	440	409	324	389	453	516
Other current assets	50	455	604	427	497	567
Non-current assets	1,672	1,776	1,483	1,625	1,751	1,862
PP&E	358	441	494	636	762	873
Right-of-use assets	152	136	151	151	151	151
Investment in JVs & assos	2	2	302	302	302	302
Intangibles	61	58	51	51	50	50
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	1,098	1,140	486	486	486	486
Total assets	4,081	4,652	4,751	5,151	5,632	6,142
Current liabilities	1,303	1,168	1,404	1,580	1,856	2,142
Short-term borrowings	95	72	64	64	64	64
Account payables	1,167	1,035	1,284	1,460	1,737	2,022
Tax payable	21	43	40	40	40	40
Other current liabilities	20	18	16	16	16	16
Lease liabilities	0	0	0	0	0	0
Non-current liabilities	88	105	82	82	82	82
Long-term borrowings	0	8	4	4	4	4
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	88	97	78	78	78	78
Total liabilities	1,391	1,273	1,487	1,662	1,939	2,224
Share capital	21	2,747	2,747	2,747	2,747	2,747
Retained earnings	0	0	(73)	(212)	(132)	(33)
Other reserves	2,573	515	470	819	925	1,029
Total shareholders equity	2,594	3,262	3,144	3,354	3,541	3,743
Minority interest	95	117	120	134	153	175
Total equity and liabilities	4,081	4,652	4,751	5,151	5,632	6,142

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	332	363	320	558	728	893
Depreciation & amortization	(16)	(24)	(35)	56	103	153
Tax paid	(1)	(24)	(95)	(134)	(175)	(214)
Change in working capital	257	(11)	99	275	24	50
Others	(287)	374	243	40	46	49
Net cash from operations	285	678	531	794	726	931
Investing						
Capital expenditure	(116)	(133)	(105)	(233)	(271)	(309)
Acquisition of subsidiaries/ investments	0	(123)	(264)	0	0	0
Net proceeds from disposal of short-term investments	1	3	4	0	0	0
Others	75	(295)	245	0	0	0
Net cash from investing	(40)	(548)	(120)	(233)	(271)	(309)
Financing						
Dividend paid	0	(5)	(151)	(200)	(348)	(455)
Net borrowings	13	(47)	(42)	0	0	0
Proceeds from share issues	0	424	0	0	0	0
Share repurchases	0	0	(73)	0	0	0
Others	20	(17)	2	(4)	(4)	(4)
Net cash from financing	33	355	(265)	(204)	(352)	(459)
Net change in cash						
Cash at the beginning of the year	418	695	1,173	1,326	1,683	1,785
Exchange difference	(0)	(7)	6	0	0	0
Others	277	486	146	357	102	163
Cash at the end of the year	695	1,173	1,326	1,683	1,785	1,949
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	81.2%	(15.0%)	6.2%	20.0%	16.4%	14.0%
Gross profit	251.5%	8.2%	4.9%	20.6%	16.9%	14.5%
Operating profit	na	9.4%	(12.9%)	73.8%	30.4%	22.6%
EBITDA	na	7.3%	(16.2%)	115.6%	35.6%	1,004.5%
EBIT	na	7.3%	(15.4%)	84.4%	31.9%	23.7%
Net profit	na	9.3%	(8.4%)	75.6%	30.6%	22.7%
Adj. net profit	na	9.3%	(8.4%)	75.6%	30.6%	22.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	17.4%	22.2%	21.9%	22.0%	22.1%	22.2%
Operating margin	4.7%	6.1%	5.0%	7.2%	8.1%	8.7%
EBITDA margin	4.4%	5.6%	4.4%	7.9%	9.2%	89.2%
Adj. net profit margin	3.4%	4.3%	3.7%	5.5%	6.1%	6.6%
Return on equity (ROE)	10.3%	9.0%	7.5%	13.0%	16.1%	18.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.2	0.4	0.4	0.5	0.5	0.5
Current ratio (x)	1.8	2.5	2.3	2.2	2.1	2.0
Receivable turnover days	3.8	5.6	8.1	9.0	10.0	10.0
Inventory turnover days	50.8	68.0	51.0	45.0	42.0	40.0
Payable turnover days	23.4	39.8	39.9	41.9	43.9	45.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	36.1	35.9	38.3	21.6	16.5	13.5
P/E (diluted)	36.1	35.9	38.3	21.6	16.5	13.5
P/B	3.2	2.6	2.7	2.5	2.4	2.3
P/CFPS	29.1	12.7	16.6	11.1	12.2	9.5
Div yield (%)	0.0	1.6	2.3	3.9	5.1	6.3
EV	8,863.7	8,623.4	8,473.9	8,116.8	8,014.4	7,851.1
EV/Sales	1.2	1.4	1.3	1.0	0.9	0.8
EV/EBIT	28.7	26.0	30.2	15.7	11.7	9.3
EV/EBITDA	28.0	25.4	29.8	13.2	9.6	0.9

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

Luckin Coffee (LKNKY US)

Still multiple growth drivers in FY26E

3Q25 results was a miss, but we believe that was mostly due to higher delivery costs. Even though it is negative on profit in the short run, the impact could be positive in the long run, as Luckin Coffee's customer retention is much higher than its peers (Cotti's SSSG in 3Q25 slowed down massively, based on our channel check, while that for Luckin Coffee is not only fast but stable). Moreover, we do understand the high base could kick in since 4Q25E and into FY26E, but Luckin Coffee is equipped with many company-specific growth drivers so that its SSSG should still be positive. All in all, given its undemanding valuation (15x FY26E P/E), we have a BUY rating with TP at US\$ 54.68.

■ **For 4Q25E, we expect sales growth to stay relatively fast and the drag from delivery costs to gradually ease.** On one hand, even though the SSSG in Oct 2025 was faster than Sep 2025, based on our channel check, we are conservative on SSSG in 4Q25E (forecasting only a HSD), because of the possibility of a scale-back in delivery subsidies as well as the increasingly high base. On the other hand, store expansion has started to accelerate since 3Q25 (partnership stores are even faster), and therefore we are still expecting a c. 40% sales growth in 4Q25E. Margin-wise, while we expect some delivery-related costs to stay, the magnitude could be less vs 3Q25. We are forecasting a c.15% net profit growth in 4Q25E.

■ **For FY26E, despite the high base, we are cautiously optimistic.** We agree that the high base in FY25E (induced by the delivery subsidies) could be an issue for the tea drinks and coffee sector in general in FY26E (for both SSSG and valuation of various listed companies). However, we think companies like Luckin Coffee are much more well-prepared than others. For example, on SSSG, while we are conservatively forecasting 2% in FY26E, we see quite a few drivers to deliver that growth, namely: 1) category expansion (Luckin Coffee could launch more non-coffee products like snacks, breakfast or even different types of food); 2) greater push on the star products (number of new SKUs increased to 30 in 3Q25 vs just 17 in 3Q24. While the popularity is not as high as the star products, we do see room for improvement, perhaps in FY26E); 3) marketing expenses as % of sales did decrease in 3Q25, and Luckin Coffee could ramp that up if needed; and lastly, 4) further boosting the sales and purchasing frequency of each customer (Luckin Coffee acquired about 34.5mn new transacting customers in 9M25, representing a 40%+ YoY growth). On the margin side, we are actually quite comfortable: 1) GP margin should still be able to improve (as we expect Luckin Coffee's efficiency and economies of scale to more than offset any overseas coffee bean price inflation), 2) delivery cost is likely to decrease YoY (from the platforms and major brands' point of view, we do think massive subsidies are only a short-term measures, and the value to sustain is marginally low), 3) headquarters cost as a % of total sales will continue to improve.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	24,903	34,475	49,975	61,053	69,426
YoY growth (%)	87.3	38.4	45.0	22.2	13.7
EBITDA (RMB mn)	3,630.2	4,728.1	6,808.6	8,674.4	10,202.1
Net profit (RMB mn)	2,847.9	2,931.7	4,021.7	5,113.8	6,032.3
EPS (Reported) (RMB)	1.12	1.15	1.57	1.99	2.33
YoY growth (%)	479.6	2.3	36.5	26.5	17.4
P/E (x)	26.7	26.1	19.1	15.1	12.9
EV/EBITDA (x)	3.4	2.6	1.8	1.3	1.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	34.9	25.8	26.7	26.0	23.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$54.68
Up/Downside	59.5%
Current Price	US\$34.28

China Consumer Discretionary

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Stock Data

Mkt Cap (US\$ mn)	10,918.2
Avg 3 mths t/o (US\$ mn)	64.1
52w High/Low (US\$)	43.03/24.12
Total Issued Shares (mn)	2548.0

Source: FactSet

Shareholding Structure

Centurium Capital	32.4%
Joy Capital	4.7%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-5.7%	-8.2%
3-mth	-10.0%	-14.6%
6-mth	-2.4%	-13.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **Store expansion was much faster than expected, and we expect the pace to stay fast in 4Q25E.** The Company has opened 3,008 new stores in 3Q25, representing a 37% YoY growth (much faster than the 31% in 2Q25) and the total store count has now reached 29,214 in 3Q25. As a result, we would not be surprised to see Luckin Coffee to raise its new openings target further to about 8,000 (vs initial target of 4,000 in the beginning of the year), and the total store count should exceed 30,000 by the end of FY25E.
- **3Q25 results have missed our and market's expectation, but mostly due to delivery related costs; the underlying is still very healthy and encouraging.** For 3Q25, Luckin Coffee sales increased by 50% YoY to RMB 15.3bn, better than CMBI/ BBG est. by 6%/ 9%. We believe that is because of: 1) acceleration in SSSG (to 14.4% in 3Q25, from 13.4% in 2Q25), 2) extremely robust delivery sales growth, 3) relatively faster sales growth from partnership stores (not only due to faster store expansion but also better sales per store growth) and 4) faster-than-expected store expansion. During the same period, net profit dropped by 2% YoY to RMB1.28 bn, missing CMBI/ BBG est. by 14%/ 15%, mainly caused by: 1) a surge in delivery expenses (accounted for 19% of total sales vs CMBI est. of 13.5%) and 2) higher-than-expected effective tax rate (at 30.5% vs CMBI est. of 27%). As a result, the store-level OP margin (for self-operated stores) dropped to 17.5% in 3Q25, vs 23.3% in 3Q24. However, we believe other elements of the underlying fundamentals are still quite encouraging. For example, GP margin was better than expected (at 63.8% vs CMBI est. of 62.5%), aided by a better product mix and economies of scale, even under the headwind of coffee bean price inflation. Moreover, other opex items including rental, D&A, marketing and G&A expenses, all improved YoY, in terms of % of total sales.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	13,293	24,903	34,475	49,975	61,053	69,426
Cost of goods sold	(5,179)	(10,892)	(14,115)	(18,991)	(23,017)	(25,965)
Gross profit	8,114	14,011	20,360	30,985	38,036	43,461
Operating expenses	(6,958)	(10,985)	(16,821)	(25,625)	(31,230)	(35,465)
Selling expense	(2,335)	(3,902)	(5,931)	(11,371)	(13,745)	(15,435)
Admin expense	(1,460)	(1,830)	(2,420)	(2,939)	(3,312)	(3,628)
Staff costs	(1,586)	(3,036)	(4,903)	(6,534)	(8,178)	(9,411)
Other rental related expenses	(900)	(1,482)	(2,541)	(3,292)	(4,114)	(4,853)
Others	(676)	(736)	(1,025)	(1,489)	(1,880)	(2,138)
Operating profit	1,241	3,134	3,627	5,486	6,980	8,239
Other income	0	0	0	0	0	0
Other gains/(losses)	(114)	(27)	67	100	122	139
EBITDA	1,548	3,630	4,728	6,809	8,674	10,202
EBIT	1,042	2,999	3,605	5,459	6,929	8,135
Interest income	85	109	89	126	174	244
Pre-tax profit	1,127	3,107	3,694	5,586	7,103	8,378
Income tax	(639)	(259)	(763)	(1,564)	(1,989)	(2,346)
After tax profit	488	2,848	2,932	4,022	5,114	6,032
Minority interest	(0)	0	0	0	0	0
Net profit	488	2,848	2,932	4,022	5,114	6,032
Adjusted net profit	488	2,848	2,932	4,022	5,114	6,032
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	6,037	7,600	10,705	13,995	18,508	23,478
Cash & equivalents	3,542	2,992	4,366	6,049	9,137	13,046
Restricted cash	0	464	1,128	1,128	1,128	1,128
Account receivables	211	295	550	612	748	850
Inventories	1,206	2,204	2,473	3,146	3,814	4,302
Prepayment	1,078	1,545	1,938	2,809	3,432	3,903
Other current assets	0	100	250	250	250	250
Non-current assets	4,443	10,692	12,394	14,793	16,589	18,548
PP&E	1,867	4,169	5,066	7,465	9,260	11,219
Right-of-use assets	2,004	5,187	5,937	5,937	5,937	5,937
Deferred income tax	208	350	272	272	272	272
Investment in JVs & assos	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	363	986	1,120	1,120	1,120	1,120
Total assets	10,480	18,292	23,099	28,788	35,096	42,026
Current liabilities	2,829	5,463	6,682	8,350	9,544	10,442
Short-term borrowings	0	0	300	300	300	300
Account payables	1,817	3,372	3,766	5,434	6,628	7,526
Tax payable	0	0	0	0	0	0
Other current liabilities	131	240	273	273	273	273
Lease liabilities	881	1,851	2,343	2,343	2,343	2,343
Non-current liabilities	1,024	3,115	3,364	3,364	3,364	3,364
Long-term borrowings	0	0	34	34	34	34
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	1,024	3,115	3,331	3,331	3,331	3,331
Total liabilities	3,853	8,578	10,047	11,714	12,908	13,806
Share capital	17,615	17,855	18,220	18,220	18,220	18,220
Retained earnings	(11,024)	(8,309)	(5,533)	(1,512)	3,602	9,635
Other reserves	36	168	366	366	366	366
Total shareholders equity	6,627	9,714	13,053	17,074	22,188	28,220
Minority interest	0	0	0	0	0	0
Total equity and liabilities	10,480	18,292	23,099	28,788	35,096	42,026

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,127	3,107	3,694	5,586	7,103	8,378
Depreciation & amortization	421	523	1,034	1,223	1,572	1,824
Tax paid	494	(142)	(763)	(1,564)	(1,989)	(2,346)
Change in working capital	0	0	(640)	61	(231)	(164)
Others	(2,023)	(588)	904	226	296	382
Net cash from operations	20	2,900	4,229	5,531	6,750	8,074
Investing						
Capital expenditure	(782)	(2,750)	(3,210)	(3,848)	(3,663)	(4,166)
Acquisition of subsidiaries/ investments	0	(100)	0	0	0	0
Net proceeds from disposal of short-term investments	3	2	0	0	0	0
Others	(19)	(599)	0	0	0	0
Net cash from investing	(798)	(3,447)	(3,210)	(3,848)	(3,663)	(4,166)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	63	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(2,340)	0	334	0	0	0
Net cash from financing	(2,276)	0	334	0	0	0
Net change in cash						
Cash at the beginning of the year	6,536	3,542	2,992	4,366	6,049	9,137
Exchange difference	77	7	15	0	0	0
Others	(3,071)	(558)	1,359	1,683	3,087	3,909
Cash at the end of the year	3,542	2,992	4,366	6,049	9,137	13,046
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	66.9%	87.3%	38.4%	45.0%	22.2%	13.7%
Gross profit	70.2%	72.7%	45.3%	52.2%	22.8%	14.3%
Operating profit	na	152.5%	15.7%	51.2%	27.2%	18.0%
EBITDA	na	134.5%	30.2%	44.0%	27.4%	17.6%
EBIT	152.5%	187.8%	20.2%	51.4%	26.9%	17.4%
Net profit	(15.6%)	483.3%	2.9%	37.2%	27.2%	18.0%
Adj. net profit	(15.6%)	483.3%	2.9%	37.2%	27.2%	18.0%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	61.0%	56.3%	59.1%	62.0%	62.3%	62.6%
Operating margin	9.3%	12.6%	10.5%	11.0%	11.4%	11.9%
EBITDA margin	11.6%	14.6%	13.7%	13.6%	14.2%	14.7%
Adj. net profit margin	3.7%	11.4%	8.5%	8.0%	8.4%	8.7%
Return on equity (ROE)	8.3%	34.9%	25.8%	26.7%	26.0%	23.9%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.5	0.4	0.4	0.4	0.4	0.5
Current ratio (x)	2.1	1.4	1.6	1.7	1.9	2.2
Receivable turnover days	5.8	3.7	4.5	4.5	4.5	4.5
Inventory turnover days	63.4	57.1	60.5	60.5	60.5	60.5
Payable turnover days	25.9	21.0	20.1	20.1	20.1	20.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	154.8	26.7	26.1	19.1	15.1	12.9
P/E (diluted)	154.8	26.7	26.1	19.1	15.1	12.9
P/B	11.5	7.9	5.9	4.5	3.5	2.8
P/CFPS	3,813.0	26.2	18.1	13.9	11.4	9.6
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV	12,148.3	12,242.0	12,114.4	11,946.9	11,586.6	11,113.6
EV/Sales	0.9	0.5	0.4	0.2	0.2	0.2
EV/EBIT	11.7	4.1	3.4	2.2	1.7	1.4
EV/EBITDA	7.8	3.4	2.6	1.8	1.3	1.1

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

Geely Automobile (175 HK)

We see margin lift potential in FY26E

We are of the opinion that Geely's sales volume growth could continue at least throughout FY26, given its current comprehensive NEV model line-up and well-received new models including the Galaxy M9, A7 and Zeekr 9X. We also expect these new models, along with rising NEV exports, to lift its margins in FY26. We believe Geely is well positioned among its peers with attractive valuation.

- **Still has room for new models, especially for medium-size SUVs.** Geely has found the key to NEV successful launches with almost all the recent new models being well received. Yet, it still has room for new models in 2026 to complete a comprehensive NEV model line-up, including a small BEV SUV, a compact BEV car, a medium-size BEV/PHEV SUV and a large-size PHEV SUV. We believe most of Geely's new models in 2026 would be focused on these subsegments.
- **Better product mix to lift margins in 4Q25 and FY26.** We are of the view that the QoQ GPM decline in 3Q25 could be short-lived, as high-margin new models, including the Zeekr 9X, Lynk & Co 900 and Galaxy M9 are to contribute more sales volume in 4Q25 and FY26. We project the sales volume of these three models combined to more than double YoY to 285,000 units in FY26 with a gross margin range of 20-31%. Therefore, we expect GPMs in 4Q25 and FY26 to be 17.1% and 17.8%, respectively.
- **Rising NEV exports to fuel sales volume, margins in FY26.** Geely's NEV exports accelerated from Aug 2025, with an average monthly volume of 13,700 units in Aug-Oct 2025, doubled from the average in Jan-Jul 2025, aided by the Galaxy Starship 7 and Zeekr 7X. We expect Geely's NEV exports to almost triple YoY to 0.3mn units in FY26, as more models are set to be sold abroad. These exports could also contribute higher GPM.
- **Earnings/Valuation.** We project Geely's sales volume in FY25-26 to be 3.08mn/3.42mn units, with about half of growth in FY26 from exports. We project its net profits to be RMB17.4bn/20.0bn/21.3bn in FY25-27E, respectively. We maintain our BUY rating and target price of HK\$25.00, based on 12x our FY26E P/E. Key risks include lower sales volume and/or gross margin than we expect, especially from new NEV models, as well as a sector de-rating.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	179,204	240,194	346,288	385,418	410,136
YoY growth (%)	21.1	34.0	44.2	11.3	6.4
Net profit (RMB mn)	5,308.4	16,632.4	17,441.9	20,025.4	21,311.1
YoY growth (%)	0.9	213.3	4.9	14.8	6.4
EPS (Reported) (RMB)	0.53	1.65	1.72	1.96	2.07
P/E (x)	28.9	9.2	8.9	7.8	7.4
P/B (x)	1.9	1.8	1.7	1.5	1.3
Yield (%)	1.3	2.0	4.5	5.1	5.4
ROE (%)	6.8	19.9	19.7	20.5	19.1
Net gearing (%)	(38.8)	(45.9)	(47.4)	(57.0)	(65.8)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$25.00
Up/Downside	47.8%
Current Price	HK\$16.92

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Stock Data

Mkt Cap (HK\$ mn)	171,210.0
Avg 3 mths t/o (HK\$ mn)	982.9
52w High/Low (HK\$)	20.44/13.42
Total Issued Shares (mn)	10118.8

Source: FactSet

Shareholding Structure

Mr. Li Shufu	41.2%
Others	58.8%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.2%	1.5%
3-mth	-8.3%	-5.9%
6-mth	0.7%	-4.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Report

["Geely Automobile \(175 HK\) - Solid earnings with more competitive models ahead" - 15 Aug 2025](#)

["Geely Automobile \(175 HK\) - Q225 earnings preview and 2H25 outlook" - 11 Jul 2025](#)

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	147,965	179,204	240,194	346,288	385,418	410,136
Cost of goods sold	(127,069)	(151,789)	(201,993)	(288,468)	(316,729)	(337,845)
Gross profit	20,896	27,415	38,201	57,820	68,689	72,291
Operating expenses	(10,398)	(14,675)	(17,275)	(20,117)	(26,353)	(27,944)
Selling expense	(8,228)	(11,832)	(13,283)	(20,123)	(21,735)	(23,037)
Admin expense	(3,327)	(4,210)	(4,897)	(6,219)	(7,170)	(7,640)
Others	1,157	1,367	905	6,225	2,553	2,733
Operating profit	10,497	12,740	20,926	37,703	42,337	44,346
Other expense	(1,489)	(646)	(1,747)	(1,317)	(801)	(496)
Other gains/(losses)	1,750	0	9,098	0	0	0
Share of (losses)/profits of associates/JV	651	599	969	2,052	2,049	2,169
EBITDA	13,551	13,570	28,347	36,725	42,991	45,434
Depreciation	8,318	8,203	9,393	14,528	17,521	18,924
EBIT	5,233	5,367	18,954	22,197	25,470	26,510
Interest income	931	961	1,243	887	1,311	1,596
Interest expense	(551)	(417)	(550)	(895)	(907)	(736)
Net Interest income/(expense)	380	544	692	(8)	404	860
Foreign exchange gain/loss	(79)	(126)	(1,619)	3,500	0	0
Pre-tax profit	4,682	4,950	18,404	21,302	24,563	25,775
Income tax	(32)	(15)	(1,604)	(3,561)	(4,008)	(3,895)
After tax profit	4,650	4,935	16,799	17,741	20,556	21,880
Minority interest	611	373	(167)	(299)	(530)	(569)
Net profit	5,260	5,308	16,632	17,442	20,025	21,311
Gross dividends	1,916	2,051	3,113	6,977	8,010	8,524

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	79,064	113,635	125,322	178,022	200,642	227,777
Cash & equivalents	33,341	35,746	40,865	59,105	68,754	87,163
Restricted cash	387	943	2,881	1,500	1,700	2,000
Account receivables	34,392	42,711	58,307	85,614	95,288	101,399
Inventories	10,822	15,422	23,078	31,613	34,710	37,024
Prepayment	0	0	0	0	0	0
Other current assets	121	18,813	191	191	191	191
Non-current assets	78,762	78,963	104,070	128,144	131,250	132,514
PP&E	32,201	27,351	26,384	40,181	36,915	33,372
Right-of-use assets	3,402	3,600	4,126	4,074	4,022	3,972
Deferred income tax	4,573	6,342	8,461	8,461	8,461	8,461
Investment in JVs & assos	14,235	15,703	31,424	31,138	33,321	35,487
Intangibles	22,548	23,920	28,751	40,610	44,447	46,883
Goodwill	61	34	34	34	34	34
Financial assets at FVTPL	0	0	0	0	0	0
Other non-current assets	1,742	2,013	4,890	3,646	4,049	4,304
Total assets	157,826	192,598	229,392	306,167	331,892	360,291
Current liabilities	68,953	96,824	127,200	184,957	195,386	208,293
Short-term borrowings	0	0	30	6,845	0	0
Account payables	65,481	87,398	125,379	176,321	193,595	206,502
Tax payable	773	774	960	960	960	960
Other current liabilities	2,143	7,898	28	28	28	28
Lease liabilities	557	754	803	803	803	803
Non-current liabilities	12,677	10,622	9,772	18,815	19,349	19,748
Long-term borrowings	2,758	2,840	414	7,414	7,414	7,414
Bond payables	6,000	2,600	3,500	3,500	3,500	3,500
Convertible bonds	0	0	0	0	0	0
Other non-current liabilities	3,919	5,182	5,858	7,900	8,435	8,834
Total liabilities	81,631	107,446	136,972	203,772	214,735	228,041
Share capital	184	184	184	186	187	190
Other reserves	74,947	80,325	86,558	90,298	104,359	118,710
Total shareholders equity	75,130	80,509	86,742	90,483	104,546	118,900
Minority interest	1,065	4,643	5,678	11,911	12,612	13,350
Total equity and liabilities	157,826	192,598	229,392	306,167	331,892	360,291

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,682	4,950	18,404	21,302	24,563	25,775
Depreciation & amortization	8,318	8,203	9,393	14,528	17,521	18,924
Tax paid	(2,082)	(2,307)	(3,499)	(3,561)	(4,008)	(3,895)
Change in working capital	5,672	11,238	9,316	18,203	4,445	4,447
Others	(571)	259	(7,107)	(249)	(1,221)	(2,096)
Net cash from operations	16,018	22,342	26,507	50,222	41,301	43,154
Investing						
Capital expenditure	(10,337)	(15,322)	(13,314)	(17,435)	(18,286)	(17,979)
Acquisition of subsidiaries/ investments	(2,831)	(1,570)	6,958	(21,370)	(1,000)	(1,000)
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	1,037	748	(2,775)	(8,995)	1,992	2,259
Net cash from investing	(12,130)	(16,145)	(9,132)	(47,799)	(17,294)	(16,720)
Financing						
Dividend paid	(1,788)	(1,916)	(2,120)	(3,113)	(6,977)	(8,010)
Net borrowings	4,603	(4,237)	(3,386)	13,815	(6,845)	0
Proceeds from share issues	0	0	1,322	0	0	0
Others	(1,490)	3,389	(9,112)	5,115	(536)	(15)
Net cash from financing	1,325	(2,764)	(13,297)	15,817	(14,358)	(8,025)
Net change in cash						
Cash at the beginning of the year	28,014	33,341	35,746	40,865	59,105	68,754
Exchange difference	114	(1,029)	1,040	0	0	0
Cash at the end of the year	33,341	35,746	40,865	59,105	68,754	87,163
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	45.6%	21.1%	34.0%	44.2%	11.3%	6.4%
Gross profit	20.0%	31.2%	39.3%	51.4%	18.8%	5.2%
Operating profit	4.1%	21.4%	64.3%	80.2%	12.3%	4.7%
EBITDA	14.6%	0.1%	108.9%	29.6%	17.1%	5.7%
EBIT	6.1%	2.6%	253.2%	17.1%	14.7%	4.1%
Net profit	8.5%	0.9%	213.3%	4.9%	14.8%	6.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	14.1%	15.3%	15.9%	16.7%	17.8%	17.6%
Operating margin	7.1%	7.1%	8.7%	10.9%	11.0%	10.8%
EBITDA margin	9.2%	7.6%	11.8%	10.6%	11.2%	11.1%
Return on equity (ROE)	7.3%	6.8%	19.9%	19.7%	20.5%	19.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)	(0.7)
Current ratio (x)	1.1	1.2	1.0	1.0	1.0	1.1
Receivable turnover days	88.7	91.1	96.2	94.0	94.0	94.0
Inventory turnover days	31.2	37.2	41.8	40.0	40.0	40.0
Payable turnover days	193.2	217.3	233.4	230.0	230.0	230.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	29.1	28.9	9.2	8.9	7.8	7.4
P/E (diluted)	29.5	29.1	9.3	8.9	7.8	7.4
P/B	2.0	1.9	1.8	1.7	1.5	1.3
P/CFPS	9.6	6.9	5.8	3.1	3.8	3.6
Div yield (%)	1.3	1.3	2.0	4.5	5.1	5.4

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

Zenergy (3677 HK)

Minimal legacy burden, operational efficiency, improving client mix to drive sales, profit

Zenergy has a much lower legacy burden than most of its peers as a latecomer in lithium-ion battery manufacturing. That, along with management's priority to enhance manufacturing efficiency through standardized cells and platform-based packs, has become its competitive edge. We believe a possible battery price hike in 2026 could also be a positive catalyst for Zenergy.

■ **Battery sales outlook still solid with enough growth room for Zenergy given its low base.** Frost & Sullivan projects the 5-year CAGR of 29% for China's EV battery installation in 2024-2029E. The lingering overcapacity issue in China's battery market may dent Zenergy's margins less than peers, as its flexible manufacturing lines with standardized cells and diversified electrochemistry help it better meet EV makers' demand. Although CATL and BYD combined account for about 70% of China's EV battery market, leaving limited growth room for small players, we are of the view that such industry landscape is not a big concern for Zenergy now, as it only takes up about 2%. We project a CAGR of 48.3% for Zenergy's EV battery sales volume in 2024-2027E, which would only translate into a market share of 2.2%/2.8%/3.2% in 2025-2027E, respectively.

■ **Diversified and improving client mix to lift sales, margins in FY25-27E.** Zenergy has turned profitable since 2H24 and achieved industry-leading gross margins (17.2% in 2H24 and 17.9% in 1H25) with top 5 clients making up more than 80% of revenue. While greater economies of scale and high capacity utilization rate are likely to extend to at least FY26E based on the current model pipeline, new clients including GAC Toyota, VW and SAIC Motor will not only fuel Zenergy's sales, but also lift its margins. While Leapmotor continues to be a significant revenue contributor in FY25-27E given its rapid sales growth outlook, we project foreign brands to account for about half of Zenergy's revenue in FY27E.

■ **Earnings/Valuation.** We project Zenergy's revenue to rise 50%/76%/48% YoY with gross margins of 18.2%/18.9%/19.0% in FY25-27E, respectively, which could lead to net profits of RMB569mn/1,307mn/1,880mn in FY25-27E. Our target price of HK\$18.00 is based on 22x our FY27E P/E. We believe such valuation is justified given its peers median FY27E P/E of 17.4x and Zenergy's higher profit growth outlook.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	4,162	5,130	7,668	13,491	19,986
YoY growth (%)	26.5	23.3	49.5	75.9	48.1
Gross margin (%)	5.0	14.6	18.2	18.9	19.0
Net profit (RMB mn)	(589.9)	91.0	569.2	1,306.7	1,879.8
YoY growth (%)	na	na	525.4	129.5	43.9
EPS (Reported) (RMB cents)	(30.84)	3.93	22.60	51.14	73.43
P/S (x)	4.6	3.7	2.5	1.4	1.0
P/E (x)	ns	192.4	33.5	14.8	10.3
ROE (%)	(16.3)	1.7	8.5	16.0	19.2
Net gearing (%)	21.7	12.8	8.1	(10.1)	(27.7)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$18.00
Up/Downside 114.5%
Current Price HK\$8.39

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Stock Data

Mkt Cap (HK\$ mn)	21,046.3
Avg 3 mths t/o (HK\$ mn)	40.4
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	2508.5

Source: FactSet

Shareholding Structure

Ms. Cao Fang and concert parties	46.2%
Others	53.8%

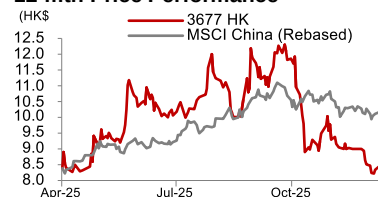
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.4%	-6.8%
3-mth	-23.6%	-18.7%
6-mth	-21.0%	-27.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	3,290	4,162	5,130	7,668	13,491	19,986
Cost of goods sold	(3,581)	(3,953)	(4,382)	(6,273)	(10,947)	(16,192)
Gross profit	(290)	208	748	1,394	2,544	3,794
Operating expenses	(1,409)	(714)	(839)	(993)	(1,421)	(1,840)
Selling expense	(20)	(58)	(36)	(45)	(83)	(113)
Admin expense	(241)	(259)	(301)	(360)	(455)	(580)
R&D expense	(329)	(424)	(556)	(622)	(930)	(1,197)
Others	(819)	27	54	34	47	50
Operating profit	(1,699)	(506)	(91)	401	1,123	1,954
Share of (losses)/profits of associates/JV	1	(25)	302	327	339	352
EBITDA	(1,404)	(117)	821	1,423	2,318	3,350
Depreciation	218	334	530	613	771	959
Other amortisation	76	79	79	83	84	86
EBIT	(1,698)	(531)	212	728	1,462	2,306
Interest expense	(33)	(73)	(133)	(159)	(156)	(133)
Pre-tax profit	(1,731)	(604)	79	569	1,307	2,173
Income tax	11	15	12	0	0	(293)
After tax profit	(1,720)	(590)	91	569	1,307	1,880
Minority interest	0	0	0	0	0	0
Net profit	(1,720)	(590)	91	569	1,307	1,880

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	4,671	4,355	5,732	7,883	11,354	16,015
Cash & equivalents	936	2,034	2,199	2,660	3,466	5,243
Restricted cash	1,035	472	1,060	1,000	800	800
Account receivables	326	1,147	1,623	2,206	3,992	5,749
Inventories	1,013	614	679	962	1,650	2,218
Financial assets at FVTPL	1,163	0	0	811	1,035	1,464
Other current assets	198	88	171	244	412	541
Non-current assets	5,780	9,775	9,862	11,253	12,549	13,441
PP&E	4,707	5,619	5,704	6,563	7,595	8,447
Right-of-use assets	303	257	226	668	866	755
Investment in JVs & assos	65	3,351	3,467	3,572	3,681	3,893
Intangibles	549	491	423	361	296	220
Goodwill	1	1	1	1	1	1
Other non-current assets	154	55	40	88	111	124
Total assets	10,451	14,131	15,594	19,136	23,904	29,456
Current liabilities	5,288	6,150	6,497	7,660	11,238	15,020
Short-term borrowings	579	694	1,246	1,200	800	800
Account payables	3,012	3,416	3,743	4,984	8,248	11,534
Tax payable	24	0	0	0	0	0
Other current liabilities	1,493	1,968	1,463	1,303	1,718	2,059
Lease liabilities	34	27	30	86	112	95
Contract liabilities	145	45	15	86	360	532
Non-current liabilities	2,690	3,234	3,200	3,981	3,823	3,687
Long-term borrowings	2,310	2,841	2,769	3,069	2,569	2,269
Other non-current liabilities	380	392	432	913	1,254	1,418
Total liabilities	7,978	9,384	9,697	11,641	15,061	18,707
Share capital	1,882	2,256	2,387	2,552	2,558	2,561
Other reserves	591	2,491	3,510	4,943	6,284	8,187
Total shareholders equity	2,473	4,747	5,897	7,495	8,843	10,749
Minority interest	0	0	0	0	0	0
Total equity and liabilities	10,451	14,131	15,594	19,136	23,904	29,456

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,731)	(604)	79	569	1,307	2,173
Depreciation & amortization	294	414	609	695	855	1,044
Tax paid	(5)	(24)	(0)	0	0	(293)
Change in working capital	1,323	64	(1,012)	270	1,592	1,503
Others	1,472	435	(37)	(68)	(93)	(122)
Net cash from operations	1,354	284	(361)	1,466	3,661	4,305
Investing						
Capital expenditure	(2,708)	(814)	(625)	(1,520)	(1,820)	(1,820)
Acquisition of subsidiaries/ investments	(240)	0	0	0	0	0
Net proceeds from disposal of short-term investments	(1,147)	1,169	0	(800)	(200)	(400)
Others	81	(53)	(150)	292	315	232
Net cash from investing	(4,013)	303	(775)	(2,028)	(1,705)	(1,988)
Financing						
Net borrowings	2,886	1,221	1,369	1,500	300	500
Proceeds from share issues	2,415	5	1,000	989	15	8
Others	(2,478)	(715)	(1,071)	(1,466)	(1,465)	(1,047)
Net cash from financing	2,824	511	1,298	1,023	(1,150)	(539)
Net change in cash						
Cash at the beginning of the year	767	936	2,034	2,199	2,660	3,466
Exchange difference	4	0	3	0	0	0
Cash at the end of the year	936	2,034	2,199	2,660	3,466	5,243
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	119.5%	26.5%	23.3%	49.5%	75.9%	48.1%
Gross profit	na	na	259.0%	86.3%	82.5%	49.2%
Operating profit	na	na	na	na	179.8%	73.9%
EBITDA	na	na	na	73.4%	62.9%	44.6%
EBIT	na	na	na	244.0%	100.9%	57.7%
Net profit	na	na	na	525.4%	129.5%	43.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	(8.8%)	5.0%	14.6%	18.2%	18.9%	19.0%
Operating margin	(51.6%)	(12.2%)	(1.8%)	5.2%	8.3%	9.8%
EBITDA margin	(42.7%)	(2.8%)	16.0%	18.6%	17.2%	16.8%
Return on equity (ROE)	(77.2%)	(16.3%)	1.7%	8.5%	16.0%	19.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.4	0.2	0.1	0.1	(0.1)	(0.3)
Current ratio (x)	0.9	0.7	0.9	1.0	1.0	1.1
Receivable turnover days	36.2	100.6	115.5	105.0	108.0	105.0
Inventory turnover days	103.3	56.7	56.5	56.0	55.0	50.0
Payable turnover days	307.1	315.4	311.7	290.0	275.0	260.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	192.4	33.5	14.8	10.3
P/E (diluted)	ns	ns	192.4	33.7	14.9	10.3
P/B	5.2	3.1	3.0	2.5	2.2	1.8
P/CFPS	9.5	50.9	ns	13.0	5.3	4.5
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

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

3SBio (1530 HK)

The journey of globalization has just begun

3SBio reported 1H25 revenue of RMB4.4bn, down 0.8% YoY, primarily due to a slowdown of TPIAO but partially offset by strong growth in the alopecia franchise. During the period, attributable net profit rose 24.6% YoY to RMB1.1bn, thanks to a 49% YoY reduction in finance costs. While legacy products remain under pressure, a number of new drugs are expected to launch in 2025–2026E, including 608 (IL-17A) and 613 (IL-1 β) etc., which should help drive product sales. In addition, we believe 707 (PD-1/VEGF) has the potential to become a global blockbuster. Pfizer is expected to aggressively advance 707's global clinical development, potentially initiating Phase 3 trials for 707 both as monotherapy and in combination with chemotherapy, in our view. Pfizer is also likely to explore combination regimens involving 707 and PDL1V (PD-L1 ADC), Padcev (Nectin-4 ADC), and SV (IB6 ADC). We believe the initiation of global trials for 707 could serve as a key catalyst for 3SBio's earnings upside.

■ **Expected Pfizer to accelerate global development of 707.** The drug has already entered a Ph3 trial in first-line NSCLC in China, and Phase 2 data in mCRC is scheduled to be presented at ESMO in October. During its 2Q25 earnings call, Pfizer's mgmt indicated that they plan to announce global Ph3 development strategies for 707 later in 2025E, following the initiation of execution. Additionally, Pfizer is preparing to launch Phase 1 or 2 combination studies of 707 with its ADCs. Given Pfizer's strong clinical execution capabilities, we believe 707 has the potential to outpace competing assets in clinical development, particularly in colorectal cancer and in combination studies with ADCs.

■ **More innovative pipelines entering global development stage.** 1) 705 (PD-1/HER2) entered Ph2 in HER2+ solid tumor in China. 2) 706 (PD-1/PD-L1) has obtained IND clearance in China and the US, and initiated Ph2 trials in GI cancers and NSCLC in China. 3) First-in-class pipelines SPGL008 (B7-H3 Ab/ IL-15 fusion protein) and SSS59 (MUC17/CD3/CD28) entered Ph1 in solid tumors in China, both featuring proprietary engineering to enhance efficacy and safety. For example, SPGL008 employs an attenuated IL-15 to reduce toxicity. SSS59 lowers CD3 affinity to mitigate cytokine release, while boosting CD28 signaling to preserve T-cell activation. We expect further clinical readouts across these pipelines. With differentiated MOA and leading global development timelines, these pipelines may offer meaningful out-licensing potential and reinforce 3SBio's global innovation strategy.

■ **Alopecia franchise sustains growth while TPIAO under pressure.** Sales of alopecia franchise reached RMB690mn (+24% YoY) in 1H25. The minoxidil foam formulation launched last year successfully drove sales growth of Mandi. However, TPIAO revenue declined 4.2% YoY to RMB2.4bn, amid rising competition from TPO-RAs and NRDL regulation pressure. Given its large revenue base, TPIAO may remain under pressure.

■ **Maintain BUY.** We remain positive on 707's global potential given the strong clinical trial execution of Pfizer and the promising combination potential with Pfizer's ADCs. We maintain our target price largely unchanged at HK\$37.58 based on an 11-year DCF model.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	7,816	9,108	17,528	9,557	9,883
YoY growth (%)	13.8	16.5	92.4	(45.5)	3.4
Net profit (RMB mn)	1,586.3	2,217.5	9,295.2	2,699.6	2,830.6
YoY growth (%)	(16.9)	39.8	319.2	(71.0)	4.9
EPS (Reported) (RMB)	0.64	0.86	3.80	1.09	1.14
P/E (x)	36.8	27.1	6.1	21.5	20.5
Net gearing (%)	(0.4)	(13.1)	(29.5)	(33.2)	(36.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$37.58
Up/Downside	45.2%
Current Price	HK\$25.88

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Stock Data

Mkt Cap (HK\$ mn)	62,947.0
Avg 3 mths t/o (HK\$ mn)	785.1
52w High/Low (HK\$)	35.90/5.69
Total Issued Shares (mn)	2432.3

Source: FactSet

Shareholding Structure

TMF (Cayman) Ltd.	22.8%
Decade Sunshine	19.6%

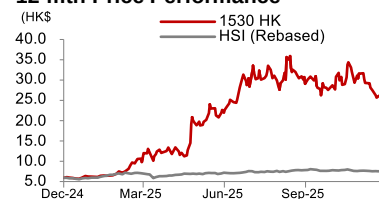
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-15.0%	-14.7%
3-mth	-15.8%	-13.6%
6-mth	15.5%	9.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	6,866	7,816	9,108	17,528	9,557	9,883
Cost of goods sold	(1,194)	(1,174)	(1,280)	(1,326)	(1,355)	(1,384)
Gross profit	5,672	6,642	7,828	16,202	8,203	8,499
Selling expense	(2,581)	(3,006)	(3,351)	(3,356)	(3,473)	(3,663)
Admin expense	(393)	(481)	(502)	(559)	(555)	(565)
R&D expense	(694)	(795)	(1,327)	(1,155)	(1,145)	(1,139)
Others	413	(139)	(89)	309	340	380
Operating profit	2,417	2,221	2,560	11,442	3,371	3,512
Share of (losses)/profits of associates/JV	(34)	(30)	349	0	0	0
Net Interest income/(expense)	(103)	(212)	(191)	(106)	(79)	(60)
Pre-tax profit	2,280	1,978	2,718	11,336	3,292	3,452
Income tax	(371)	(392)	(501)	(2,040)	(593)	(621)
Minority interest	(7)	37	127	52	54	62
Net profit	1,909	1,586	2,218	9,295	2,700	2,831

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,751	9,193	9,347	13,749	14,847	16,204
Cash & equivalents	2,152	2,611	2,143	6,304	7,339	8,660
Account receivables	1,312	1,095	1,305	1,189	1,259	1,302
Inventories	713	778	795	804	810	817
Prepayment	505	1,132	741	1,090	1,076	1,062
Financial assets at FVTPL	4,861	3,303	3,769	3,769	3,769	3,769
Other current assets	208	274	594	594	594	594
Non-current assets	12,258	14,432	14,866	15,330	15,728	16,060
PP&E	4,114	4,692	4,993	5,335	5,660	5,970
Intangibles	1,578	1,554	1,685	1,825	1,915	1,955
Goodwill	4,140	4,199	4,253	4,253	4,253	4,253
Other non-current assets	2,426	3,986	3,935	3,917	3,900	3,883
Total assets	22,009	23,625	24,213	29,079	30,575	32,264
Current liabilities	1,844	3,728	5,464	3,101	2,691	2,380
Short-term borrowings	413	2,112	2,244	1,744	1,344	1,044
Account payables	250	212	180	175	178	182
Tax payable	112	33	50	50	50	50
Other current liabilities	1,069	1,371	2,990	1,132	1,119	1,104
Non-current liabilities	4,801	3,384	713	713	713	713
Long-term borrowings	1,902	1,463	38	38	38	38
Bond payables	0	1,226	0	0	0	0
Deferred income	423	412	390	390	390	390
Other non-current liabilities	2,477	283	285	285	285	285
Total liabilities	6,645	7,111	6,176	3,814	3,404	3,093
Share capital	0	0	0	0	0	0
Other reserves	9,468	10,752	12,942	20,119	21,971	23,909
Total shareholders equity	12,926	14,034	15,436	22,613	24,465	26,403
Minority interest	2,438	2,480	2,600	2,652	2,706	2,768
Total equity and liabilities	22,009	23,625	24,213	29,079	30,575	32,264

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,280	1,978	2,718	11,336	3,292	3,452
Depreciation & amortization	398	351	413	386	402	417
Tax paid	(346)	(471)	(506)	(2,040)	(593)	(621)
Change in working capital	31	(162)	566	(878)	(73)	(45)
Others	(228)	386	11	(149)	(208)	(266)
Net cash from operations	2,134	2,083	3,201	8,654	2,821	2,936
Investing						
Capital expenditure	(975)	(704)	(963)	(850)	(800)	(750)
Others	(2,748)	(641)	(394)	255	286	326
Net cash from investing	(3,723)	(1,345)	(1,358)	(595)	(514)	(424)
Financing						
Dividend paid	(417)	(225)	(555)	(2,773)	(794)	(831)
Net borrowings	1,928	1,188	(1,264)	(500)	(400)	(300)
Others	(748)	(1,316)	(434)	(626)	(79)	(60)
Net cash from financing	763	(353)	(2,253)	(3,899)	(1,272)	(1,190)
Net change in cash						
Cash at the beginning of the year	2,868	2,152	2,611	2,143	6,304	7,339
Exchange difference	109	75	(59)	0	0	0
Cash at the end of the year	2,152	2,611	2,143	6,304	7,339	8,660
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	7.6%	13.8%	16.5%	92.4%	(45.5%)	3.4%
Gross profit	7.5%	17.1%	17.9%	107.0%	(49.4%)	3.6%
Operating profit	22.5%	(8.1%)	15.3%	346.9%	(70.5%)	4.2%
Net profit	17.3%	(16.9%)	39.8%	319.2%	(71.0%)	4.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	82.6%	85.0%	86.0%	92.4%	85.8%	86.0%
Operating margin	35.2%	28.4%	28.1%	65.3%	35.3%	35.5%
Return on equity (ROE)	15.2%	11.8%	15.0%	48.9%	11.5%	11.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.0)	(0.1)	(0.3)	(0.3)	(0.4)
Current ratio (x)	5.3	2.5	1.7	4.4	5.5	6.8
Receivable turnover days	71.5	56.2	48.1	48.1	48.1	48.1
Inventory turnover days	214.5	231.6	224.3	221.3	218.3	215.3
Payable turnover days	73.3	71.7	55.9	55.9	55.9	55.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	29.8	36.8	27.1	6.1	21.5	20.5
P/E (diluted)	31.4	37.4	27.6	6.1	21.5	20.5
P/B	3.7	3.4	3.1	2.2	2.1	1.9
Div yield (%)	0.4	1.0	1.0	4.9	1.4	1.5

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

Gushengtang (2273 HK)

Initiating scaled overseas expansions to accelerate growth in 2026

Gushengtang has recently completed the acquisition of 100% equity interest in DA ZHONG TANG in Singapore, securing 14 Traditional Chinese Medicine (TCM) clinics, marking the Company's inception of scaled overseas expansion. The Company plans to further increase the number of clinics in Singapore while targeting to expand into additional markets such as Hong Kong and Malaysia. We anticipate that overseas markets will contribute revenue of RMB200-300mn in 2026, which will effectively support the Company's overall earnings growth. Meanwhile, China's domestic policy environment has stabilized and is expected to further benefit leading players in TCM service market. Gushengtang's large-scale share repurchases and dividend payout within the year underscore its Mgmt.'s confidence in business growth. We believe Gushengtang will return to a high-growth trajectory in 2026, enhancing its leading position in TCM services.

■ **Landmark acquisition in Singapore to initiate scaled overseas business expansion.** Gushengtang has recently completed the 100% acquisition of DA ZHONG TANG in Singapore, adding 14 offline TCM clinics covering core business districts and residential communities across Singapore. DA ZHONG TANG generated revenue of ~SGD8mn (~RMB50mn) in 2024, with a YoY growth rate exceeding 5% as of 2025. Gushengtang previously acquired Singapore's Baozhongtang in 2024 (currently with monthly revenue of SGD160-170k per store) and formed a strategic partnership with 1doc, Singapore's integrated digital healthcare platform, in Oct 2025. Leveraging Gushengtang's strengths in TCM internal medicine diagnosis and treatment, as well as its mature supply chain system, we expect substantial room for growth in DA ZHONG TANG's revenue and profitability. Gushengtang plans to acquire an additional 10-20 clinics in Singapore in the future, targeting to become the largest TCM service brand by market share locally by 2026. Furthermore, Gushengtang intends to enter markets including Hong Kong (planning to add 20 clinics through acquisitions) and Malaysia in 2026 to further expand its overseas business network. Based on this rapid overseas expansion plan, we project the Company's overseas revenue to reach RMB200-300mn in 2026, with significant growth potential in the long run.

■ **Stabilizing domestic policies to favor the expansion of leading players in TCM service.** After medical market in WuXi underwent rigorous regulatory inspections, Gushengtang managed to expand its market share in the region through high-standard compliance capabilities. In Oct 2025, revenue from Wuxi region surged by over 40% YoY, with a profit margin of 26%, which exceeded the Company's average. In addition, volume-based procurement (VBP) rules for TCM decoction pieces have been further optimized: Grade A tertiary hospitals may report reduced or zero quantities of procurement volume when using high-quality decoction pieces, reflecting the recognition of differentiated pricing for high-quality products in VBP policies. Gushengtang is exempt from participating in decoction piece VBP schemes and enjoys a medical insurance policy of "premium quality for premium price" for TCM decoction pieces. While maintaining healthy growth under strict compliance standard, Gushengtang is seizing current market opportunities to acquire domestic targets at favorable valuations, continuously expanding its offline network.

■ **Sustained enhancement of shareholder returns.** From Jul 1 to Nov 17, 2025, Gushengtang repurchased shares with value totalling HK\$232mn, significantly exceeding the HK\$85mn repurchased in 1H25. The total number of shares repurchased within the year represented 4.5% of the total issued shares at the beginning of the year. The Company has obtained an additional HK\$300mn share repurchase authorization from its Board in early Nov.

BUY (Maintain)

Target Price HK\$44.95
Up/Downside 56.2%
Current Price HK\$28.78

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Stock Data

Mkt Cap (HK\$ mn)	7,013.9
Avg 3 mths t/o (HK\$ mn)	44.9
52w High/Low (HK\$)	44.80/26.25
Total Issued Shares (mn)	243.7

Source: FactSet

Shareholding Structure

Zhiliang Tu	35.1%
Foresight Funds	8.3%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.8%	-3.5%
3-mth	-7.5%	-5.1%
6-mth	-14.7%	-19.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Additionally, mgmt. has committed to maintaining a 50% dividend payout ratio going forward. Being confident in the Company's business growth, the Company founder increased his share positions by HK\$8.17mn on Nov 17 and has accumulated 6 rounds of share purchases totalling over 3mn shares since the Company's listing in HKEX.

- **Maintain BUY.** Considering the impact of the macro economy, we have revised down our forecasts on Gushengtang, projecting its revenue to grow at 11.3%/ 21.9%/ 24.0% and adjusted net profit to increase at 11.9%/ 23.8%/ 26.3% in 2025E/ 26E/ 27E, respectively. Our DCF-based target price is HK\$44.95 (WACC: 10.2%, terminal growth: 3.0%). The current stock price corresponds to a 2026E adjusted PE of 10.8x. The Company's attractive valuation and shareholder return make it our top pick in the healthcare services sector.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	2,323	3,022	3,363	4,099	5,081
YoY growth (%)	43.0	30.1	11.3	21.9	24.0
Adjusted net profit (RMB m)	305	400	448	555	701
YoY growth (%)	51.7	31.4	11.9	23.8	26.3
EPS (Adjusted) (RMB)	1.28	1.64	1.94	2.40	3.03
Consensus EPS (RMB)	na	na	1.73	2.13	2.60
P/E (Adjusted) (x)	20.2	15.8	13.4	10.8	8.6

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	1,625	2,323	3,022	3,363	4,099	5,081
Cost of goods sold	(1,125)	(1,623)	(2,113)	(2,296)	(2,778)	(3,418)
Gross profit	500	700	909	1,067	1,321	1,663
Operating expenses	(284)	(390)	(528)	(569)	(691)	(854)
Selling expense	(207)	(281)	(369)	(380)	(459)	(564)
Admin expense	(100)	(155)	(185)	(203)	(243)	(301)
Others	24	46	26	14	11	11
Operating profit	216	310	382	498	630	809
Share of (losses)/profits of associates/JV	1	0	(1)	0	0	0
Net Interest income/(expense)	(18)	(26)	(18)	(15)	(16)	(17)
Pre-tax profit	199	284	363	483	614	792
Income tax	(15)	(31)	(56)	(75)	(96)	(123)
After tax profit	184	253	307	408	519	668
Net profit	184	253	307	408	519	668
Adjusted net profit	201	305	400	448	555	701
Gross dividends	na	90	118	204	259	334

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	1,360	1,838	1,813	1,654	1,816	2,074
Cash & equivalents	994	1,301	1,116	1,034	1,116	1,267
Account receivables	89	180	269	184	225	278
Inventories	105	153	179	189	228	281
Prepayment	136	156	195	195	195	195
Other current assets	35	48	52	52	52	52
Non-current assets	1,254	1,542	1,844	2,024	2,203	2,381
PP&E	71	110	142	148	152	153
Right-of-use assets	268	334	390	369	350	331
Goodwill	817	985	1,133	1,333	1,533	1,733
Other non-current assets	98	114	179	174	169	164
Total assets	2,614	3,379	3,656	3,677	4,019	4,454
Current liabilities	554	708	763	970	1,236	1,524
Short-term borrowings	18	16	8	208	408	608
Account payables	164	287	308	314	381	468
Other current liabilities	314	328	367	367	367	367
Lease liabilities	57	77	81	81	81	81
Non-current liabilities	337	365	517	517	517	517
Long-term borrowings	53	0	92	92	92	92
Obligations under finance leases	223	277	328	328	328	328
Other non-current liabilities	62	88	96	96	96	96
Total liabilities	891	1,073	1,280	1,487	1,753	2,040
Share capital	0	0	0	0	0	0
Retained earnings	1,721	2,428	2,612	2,855	3,151	3,517
Other reserves	0	(123)	(236)	(666)	(886)	(1,106)
Total shareholders equity	1,721	2,305	2,376	2,190	2,265	2,411
Minority interest	1	1	0	1	2	2
Total equity and liabilities	2,614	3,379	3,656	3,677	4,019	4,454

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	199	284	363	483	614	792
Depreciation & amortization	108	120	151	120	121	122
Tax paid	(5)	(14)	(38)	(75)	(96)	(123)
Change in working capital	(50)	(40)	(140)	83	(14)	(19)
Others	30	60	116	55	52	50
Net cash from operations	281	410	452	666	678	822
Investing						
Capital expenditure	(37)	(76)	(89)	(100)	(100)	(100)
Acquisition of subsidiaries/ investments	(109)	(173)	(117)	(200)	(200)	(200)
Net proceeds from disposal of short-term investments	(29)	2	31	0	0	0
Others	(3)	(16)	(92)	0	0	0
Net cash from investing	(178)	(264)	(267)	(300)	(300)	(300)
Financing						
Net borrowings	(18)	(55)	84	200	200	200
Proceeds from share issues	0	480	0	0	0	0
Share repurchases	na	(94)	(133)	(430)	(220)	(220)
Others	(120)	(173)	(326)	(219)	(275)	(351)
Net cash from financing	(138)	158	(375)	(449)	(295)	(371)
Net change in cash						
Cash at the beginning of the year	1,031	994	1,301	1,116	1,034	1,116
Exchange difference	(1)	3	5	0	0	0
Cash at the end of the year	994	1,301	1,116	1,034	1,116	1,267
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	18.4%	43.0%	30.1%	11.3%	21.9%	24.0%
Gross profit	(19.5%)	40.1%	29.9%	17.4%	23.8%	25.9%
Operating profit	na	43.5%	23.2%	30.5%	26.5%	28.3%
Net profit	na	37.8%	21.4%	32.8%	27.2%	28.8%
Adj. net profit	28.1%	51.7%	31.4%	11.9%	23.8%	26.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	30.7%	30.1%	30.1%	31.7%	32.2%	32.7%
Operating margin	13.3%	13.3%	12.6%	14.8%	15.4%	15.9%
Adj. net profit margin	12.4%	13.1%	13.2%	13.3%	13.5%	13.8%
Return on equity (ROE)	11.2%	12.6%	13.1%	17.9%	23.3%	28.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.5	2.6	2.4	1.7	1.5	1.4
Receivable turnover days	18.2	21.2	27.1	20.0	20.0	20.0
Inventory turnover days	29.6	29.0	28.7	30.0	30.0	30.0
Payable turnover days	66.6	52.8	50.7	51.3	50.0	50.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	32.6	24.4	20.6	14.7	11.6	9.0
P/E (diluted)	33.8	25.1	20.6	14.7	11.6	9.0
P/B	3.5	2.7	2.7	2.7	2.7	2.5
P/CFPS	21.3	15.0	14.0	9.0	8.9	7.3
Div yield (%)	na	1.5	1.9	3.4	4.3	5.6

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

Zoomlion (1157 HK/000157 CH)

Full range of products to expand globally

We expect large-size mining machinery in overseas as well as emerging markets as key growth areas in 2026E. In China, we see an early stage of recovery for crane machinery and an ongoing upcycle for earth-moving machinery. We believe Zoomlion will fully benefit from all these themes given its full range of product offerings, emerging market focus and expansion of global capacity. On the other hand, Zoomlion has already launched 3 types of humanoid robots (currently performing tasks in factories), and is on track to achieve mass production. Our TP for Zoomlion A/H is RMB12.0/HK\$9.2, based on 2026E target P/E multiple of 18.6x for A-share and 30% discount for H-share. Our target P/E is based on the five-year average historical P/E of 13.7x plus 1SD, in order to reflect Zoomlion's emerging market expansion story with full range of product offerings. Maintain **BUY**.

- **Mining equipment is a structural growth driver.** We highlighted in our 2026 outlook report that mining equipment is an attractive area for Chinese machinery players. Zoomlion's mining equipment (including mining excavators, mining trucks and aftermarket services) revenue accounts for 6-7% of total revenue at present, and we expect such contribution will increase to 15% over the coming few years.
- **Strong recovery of non-earth-moving machinery sales in Nov.** Based on our understanding, domestic demand for crane and concrete machinery continued to see meaningful recovery in Nov, while earth-moving's growth remained solid. We estimate Zoomlion's domestic machinery sales growth to be 20-30% YoY in Oct-Nov, accelerating from 13% YoY in 3Q25. On the overseas front, we believe the sales growth has also remained strong in Oct-Nov.
- **Key risks:** (1) lack of sustainable recovery of non-earth-moving machinery demand in China; (2) slowdown of overseas demand; (3) decline in mining capex.

Earnings Summary - 1157 HK

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	47,075	45,478	51,347	58,703	66,030
YoY growth (%)	13.1	(3.4)	12.9	14.3	12.5
Adjusted net profit (RMB mn)	3,550.0	3,521.0	4,672.7	5,320.3	5,986.3
EPS (Reported) (RMB)	0.43	0.42	0.57	0.65	0.73
YoY growth (%)	54.9	(1.3)	33.4	13.9	12.5
Consensus EPS (RMB)	na	0.00	0.58	0.69	0.81
P/E (x)	15.7	15.9	11.9	10.5	9.3
P/B (x)	1.0	1.0	1.0	1.0	0.9
Yield (%)	4.7	4.4	5.6	6.3	7.1
ROE (%)	6.9	7.1	8.5	9.3	10.1
Net gearing (%)	8.1	18.9	22.7	22.5	21.8

Source: Company data, Bloomberg, CMBIGM estimates

	1157 HK	000157 CH
	BUY	BUY
	Maintain	Maintain

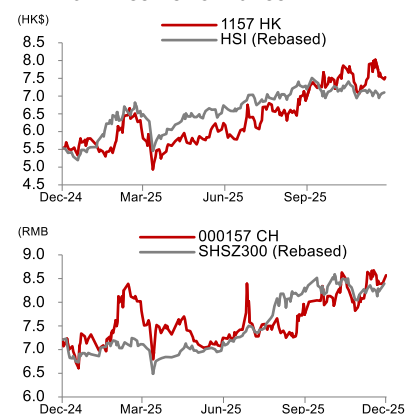
TP	HK\$9.20	RMB12.00
Prior TP	HK\$9.20	RMB12.00
Up/Downside	22.7%	40.0%
Current Price	HK\$7.5	RMB8.6

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12-mth Price Performance



Source: FactSet

Stock Performance

	1157 HK		000157 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	2.9%	3.4%	5.2%	-0.3%
3-mth	8.4%	9.7%	10.0%	5.9%
6-mth	21.2%	14.2%	18.9%	2.7%

Source: FactSet

Stock Data

(LC)	1157 HK	000157 CH
Mkt Cap (mn)	11864.73	60812.96
Avg 3 mths t/o (mn)	64.24	595.31
52w High	8.02	8.67
52w Low	4.94	6.61
Issued Shares (mn)	1581.965	7096.028

Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	41,631	47,075	45,478	51,347	58,703	66,030
Cost of goods sold	(32,543)	(34,109)	(32,668)	(36,749)	(41,865)	(46,978)
Gross profit	9,088	12,966	12,810	14,598	16,837	19,052
Selling expense	(2,635)	(3,557)	(3,721)	(4,210)	(4,814)	(5,414)
Admin expense	(2,846)	(3,068)	(3,155)	(3,132)	(3,522)	(3,962)
R&D expense	(2,507)	(3,441)	(2,769)	(2,824)	(3,170)	(3,500)
Other income	982	935	1,162	1,023	973	923
Other gains/(losses)	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	130	153	84	91	92	94
EBITDA	3,116	4,980	5,401	6,713	7,626	8,465
Depreciation	1,034	1,145	1,074	1,259	1,321	1,366
EBIT	2,082	3,835	4,327	5,454	6,304	7,099
Interest income	989	914	653	771	688	682
Interest expense	(689)	(630)	(681)	(789)	(792)	(795)
Net Interest income/(expense)	300	284	(28)	(18)	(104)	(113)
Pre-tax profit	2,512	4,272	4,383	5,527	6,293	7,080
Income tax	(86)	(457)	(374)	(608)	(692)	(779)
Minority interest	(79)	(265)	(488)	(246)	(280)	(315)
Net profit	2,426	3,815	4,009	4,919	5,600	6,301
Adjusted net profit	2,347	3,550	3,521	4,673	5,320	5,986
Gross dividends	2,694	2,777	2,603	3,271	3,724	4,190

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	73,602	78,006	74,478	85,440	83,849	96,939
Cash & equivalents	13,791	13,606	12,155	9,620	9,381	9,389
Account receivables	33,962	32,033	32,400	39,345	39,462	46,648
Inventories	14,203	22,504	22,564	26,770	26,680	29,951
ST bank deposits	1,708	2,265	1,565	1,565	1,565	1,565
Financial assets at FVTPL	4,011	1,767	1,622	1,622	1,622	1,622
Other current assets	5,927	5,831	4,172	6,519	5,140	7,764
Non-current assets	49,915	52,819	49,234	61,707	55,922	66,520
PP&E	13,903	17,364	20,577	23,730	24,623	24,971
Deferred income tax	1,907	2,303	2,637	2,637	2,637	2,637
Investment in JVs & assos	4,476	4,497	4,484	4,575	4,667	4,761
Intangibles	1,926	1,988	2,019	1,957	1,793	1,629
Goodwill	2,562	2,641	2,580	2,580	2,580	2,580
Financial assets at FVTPL	2,263	2,669	2,017	2,017	2,017	2,017
Other non-current assets	22,878	21,357	14,920	24,211	17,605	27,925
Total assets	123,517	130,825	123,712	147,147	139,771	163,459
Current liabilities	48,393	49,996	42,987	64,106	54,401	75,512
Short-term borrowings	11,018	7,377	10,837	10,937	11,037	11,137
Account payables	35,259	40,513	29,763	50,782	40,977	61,988
Tax payable	107	154	310	310	310	310
Other current liabilities	2,009	1,952	2,077	2,077	2,077	2,077
Non-current liabilities	18,185	21,698	20,923	20,923	20,923	20,923
Long-term borrowings	10,962	14,922	15,412	15,412	15,412	15,412
Other non-current liabilities	7,223	6,776	5,511	5,511	5,511	5,511
Total liabilities	66,578	71,694	63,910	85,029	75,324	96,435
Total shareholders equity	54,705	56,371	57,101	59,171	61,220	63,482
Minority interest	2,234	2,760	2,701	2,947	3,227	3,542
Total equity and liabilities	123,517	130,825	123,712	147,147	139,771	163,459

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,512	4,272	4,383	5,527	6,293	7,080
Depreciation & amortization	1,034	1,145	1,074	1,259	1,321	1,366
Tax paid	(436)	(401)	(1,003)	(608)	(692)	(779)
Change in working capital	(2,015)	(2,837)	(3,410)	(1,820)	(1,897)	(2,440)
Others	856	113	430	(73)	12	19
Net cash from operations	1,951	2,292	1,474	4,286	5,036	5,246
Investing						
Capital expenditure	(1,027)	(1,727)	(3,902)	(4,200)	(2,000)	(1,500)
Acquisition of subsidiaries/ investments	(191)	0	0	0	0	0
Others	2,259	1,870	1,648	671	688	682
Net cash from investing	1,041	143	(2,254)	(3,529)	(1,312)	(818)
Financing						
Dividend paid	(2,777)	(2,694)	(2,777)	(2,603)	(3,271)	(3,724)
Net borrowings	2,751	319	3,950	100	100	100
Proceeds from share issues	(1,556)	(1,085)	(54)	0	0	0
Others	(912)	816	(1,798)	(789)	(792)	(795)
Net cash from financing	(2,494)	(2,644)	(679)	(3,292)	(3,963)	(4,419)
Net change in cash						
Cash at the beginning of the year	13,190	13,791	13,606	12,155	9,620	9,381
Exchange difference	103	24	8	0	0	0
Cash at the end of the year	13,791	13,606	12,155	9,620	9,381	9,389
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(38.0%)	13.1%	(3.4%)	12.9%	14.3%	12.5%
Gross profit	(42.7%)	42.7%	(1.2%)	14.0%	15.3%	13.2%
EBITDA	(61.5%)	59.8%	8.5%	24.3%	13.6%	11.0%
EBIT	(71.1%)	84.2%	12.8%	26.0%	15.6%	12.6%
Net profit	(62.2%)	57.3%	5.1%	22.7%	13.9%	12.5%
Adj. net profit	(62.8%)	51.3%	(0.8%)	32.7%	13.9%	12.5%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	21.8%	27.5%	28.2%	28.4%	28.7%	28.9%
EBITDA margin	7.5%	10.6%	11.9%	13.1%	13.0%	12.8%
Adj. net profit margin	5.6%	7.5%	7.7%	9.1%	9.1%	9.1%
Return on equity (ROE)	4.4%	6.9%	7.1%	8.5%	9.3%	10.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.0	0.1	0.2	0.2	0.2	0.2
Current ratio (x)	1.5	1.6	1.7	1.3	1.5	1.3
Receivable turnover days	413.2	343.9	329.6	325.0	312.0	305.0
Inventory turnover days	155.4	196.4	251.8	245.0	233.0	220.0
Payable turnover days	403.0	405.4	392.6	400.0	400.0	400.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	24.3	15.7	15.9	11.9	10.5	9.3
P/B	1.1	1.0	1.0	1.0	1.0	0.9
Div yield (%)	4.6	4.7	4.4	5.6	6.3	7.1

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

Weichai Power (2338 HK/000338 CH)

Expect HDT engines growth to slow in 2026E; Eyes on backup power for data centres

We expect HDT industry demand growth to slow to 3% YoY in 2026E (from 21% in 2025E), due to the high base following the accelerated sales growth since mid-2025. That said, for Weichai, we expect the explosive growth of backup power engines for data centres will continue to gain traction. We forecast Weichai's total engine sales volume (all types) to grow 8%/3% in 2025E/26E along with margin expansion, driven by elevated HDT demand in 2026E and higher contribution from high-margin data centre engines. Maintain **BUY** with SOTP-based TP of RMB22.3/HK\$21.9 for A/H.

- **Weichai's engine sales have recovered since Aug.** According to CICEIA, Weichai's multi-cylinder engine sales (including HDT, construction machinery, other engines) grew 19%/39%/35% YoY in Aug/Sep/Oct, following fluctuating sales in 7M25. The recent acceleration was driven largely by HDT demand growth. In 10M25, Weichai's multi-cylinder engine sales grew ~5% YoY.
- **Data centre power engines: Still limited contribution but growing fast.** We estimate Weichai to deliver 1.2k units of backup power engines for data centers in 2025E (+3x YoY). We estimate this will contribute ~5% of Weichai's total net profit in 2025E. Given that Weichai has 3k units of backup power engine capacity at present, we forecast Weichai to deliver 2k units in 2026E (+67% YoY).
- **Key risks.** 1) High base of industry HDT sales in 2025; 2) lower-than-expected data centre backup power engine sales.

Earnings Summary - 2338 HK

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	213,958	215,691	231,484	241,016	247,613
YoY growth (%)	22.2	0.8	7.3	4.1	2.7
Adjusted net profit (RMB mn)	9,013.9	11,403.3	12,384.3	14,094.3	14,926.6
EPS (Reported) (RMB)	1.04	1.31	1.42	1.62	1.71
YoY growth (%)	85.6	25.4	8.6	13.8	5.9
Consensus EPS (RMB)	na	0.00	1.44	1.64	1.82
P/E (x)	16.6	13.2	12.2	10.7	10.1
P/B (x)	1.9	1.7	1.6	1.5	1.4
Yield (%)	3.0	4.2	4.5	5.1	5.4
Net gearing (%)	(62.0)	(38.8)	(51.2)	(66.6)	(79.4)

Source: Company data, Bloomberg, CMBIGM estimates

	2338 HK	000338 CH
BUY	BUY	
Maintain	Maintain	

TP	HK\$21.90	RMB22.30
Prior TP	HK\$21.90	RMB22.30
Up/Downside	14.1%	27.1%
Current Price	HK\$19.2	RMB17.6

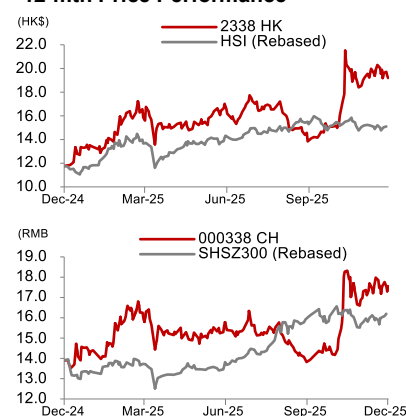
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12-mth Price Performance



Source: FactSet

Stock Performance

	2338 HK		000338 CH	
	Abs.	Rel.	Abs.	Rel.
1-mth	1.0%	1.5%	3.8%	-2.1%
3-mth	39.1%	40.8%	27.5%	35.9%
6-mth	15.8%	9.1%	12.6%	-1.9%

Source: FactSet

Stock Data

(LC)	2338 HK	000338 CH
Mkt Cap (mn)	37132.8	118883.7
Avg 3 mths t/o (mn)	308.4	1696.42
52w High	21.5	18.32
52w Low	11.76	13.51
Issued Shares (mn)	1934	6774

Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	175,158	213,958	215,691	231,484	241,016	247,613
Cost of goods sold	(144,011)	(168,842)	(167,305)	(178,243)	(184,378)	(189,424)
Gross profit	31,147	45,116	48,386	53,241	56,639	58,189
Operating expenses	(25,664)	(31,238)	(30,368)	(35,103)	(36,271)	(37,135)
Operating profit	5,482	13,878	18,018	18,138	20,367	21,054
Share of (losses)/profits of associates/JV	(144)	(13)	(45)	99	100	100
EBITDA	16,630	25,867	30,744	31,732	35,809	37,882
Depreciation	11,148	11,989	12,726	13,594	15,441	16,828
Interest income	2,359	2,818	3,781	2,529	3,060	3,665
Interest expense	(1,450)	(3,378)	(4,011)	(1,424)	(1,428)	(1,431)
Net Interest income/(expense)	909	(560)	(231)	1,105	1,632	2,234
Other income/expense	(162)	(154)	(421)	(463)	(482)	(495)
Pre-tax profit	6,086	13,151	17,322	18,878	21,617	22,894
Income tax	(403)	(1,940)	(3,044)	(3,398)	(3,999)	(4,235)
Minority interest	(778)	(2,198)	(2,874)	(3,096)	(3,524)	(3,732)
Adjusted net profit	4,906	9,014	11,403	12,384	14,094	14,927

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	168,484	197,925	184,750	202,652	207,557	242,466
Cash & equivalents	70,842	92,857	72,067	85,990	105,235	123,848
Account receivables	21,419	23,754	30,877	26,201	23,983	26,218
Inventories	33,374	37,930	35,675	44,412	32,370	46,513
Prepayment	1,473	1,691	1,368	1,287	1,206	1,125
Other current assets	41,378	41,693	44,762	44,762	44,762	44,762
Non-current assets	125,182	136,322	159,130	156,559	150,641	141,837
PP&E	37,892	44,073	47,301	45,787	41,014	33,440
Investment in JVs & assos	5,341	5,175	4,915	4,957	5,000	5,043
Intangibles	22,760	23,071	22,205	21,105	19,919	18,645
Goodwill	24,019	24,858	24,561	24,561	24,561	24,561
Other non-current assets	35,171	39,145	60,148	60,148	60,148	60,148
Total assets	293,666	334,247	343,879	359,210	358,198	384,303
Current liabilities	119,743	146,215	154,839	160,957	149,139	164,337
Short-term borrowings	15,824	16,949	22,772	22,872	22,972	23,072
Account payables	45,560	60,127	58,033	64,051	52,132	67,231
Other current liabilities	58,358	69,139	74,034	74,034	74,034	74,034
Non-current liabilities	69,813	75,346	67,081	67,081	67,081	67,081
Long-term borrowings	28,839	26,745	15,633	15,633	15,633	15,633
Other non-current liabilities	40,973	48,601	51,448	51,448	51,448	51,448
Total liabilities	189,555	221,561	221,921	228,039	216,220	231,419
Total shareholders equity	73,184	79,335	86,696	92,813	100,096	107,271
Minority interest	30,926	33,351	35,262	38,358	41,882	45,614
Total equity and liabilities	293,666	334,247	343,879	359,210	358,198	384,303

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,086	13,151	17,322	18,878	21,617	22,894
Depreciation & amortization	11,065	11,909	12,668	13,513	15,360	16,747
Tax paid	(403)	(1,940)	(3,044)	(3,398)	(3,999)	(4,235)
Change in working capital	(20,324)	6,089	(6,811)	1,958	2,341	(1,279)
Others	1,227	(1,738)	5,959	1,406	1,409	1,412
Net cash from operations	(2,350)	27,471	26,094	32,358	36,728	35,538
Investing						
Capital expenditure	(5,242)	(4,633)	(2,824)	(10,900)	(9,400)	(7,900)
Acquisition of subsidiaries/ investments	(309)	(156)	(584)	0	0	0
Others	(2,995)	(947)	(25,503)	56	57	57
Net cash from investing	(8,545)	(5,737)	(28,911)	(10,844)	(9,343)	(7,843)
Financing						
Dividend paid	(3,930)	(4,175)	(7,769)	(6,267)	(6,811)	(7,752)
Net borrowings	12,842	(969)	(5,289)	100	100	100
Proceeds from share issues	1,676	92	0	0	0	0
Others	(5,736)	(7,977)	(780)	(1,424)	(1,428)	(1,431)
Net cash from financing	4,852	(13,029)	(13,838)	(7,591)	(8,139)	(9,083)
Net change in cash						
Cash at the beginning of the year	75,043	70,842	92,857	72,067	85,990	105,235
Exchange difference	1,841	13,310	(4,135)	0	0	0
Cash at the end of the year	70,842	92,857	72,067	85,990	105,235	123,848
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(13.9%)	22.2%	0.8%	7.3%	4.1%	2.7%
Gross profit	(21.3%)	44.8%	7.2%	10.0%	6.4%	2.7%
Operating profit	(59.6%)	153.1%	29.8%	0.7%	12.3%	3.4%
EBITDA	(31.2%)	55.5%	18.9%	3.2%	12.8%	5.8%
Adj. net profit	(47.0%)	83.8%	26.5%	8.6%	13.8%	5.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	17.8%	21.1%	22.4%	23.0%	23.5%	23.5%
Operating margin	3.1%	6.5%	8.4%	7.8%	8.5%	8.5%
EBITDA margin	9.5%	12.1%	14.3%	13.7%	14.9%	15.3%
Adj. net profit margin	2.8%	4.2%	5.3%	5.3%	5.8%	6.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.6)	(0.4)	(0.5)	(0.7)	(0.8)
Current ratio (x)	1.4	1.4	1.2	1.3	1.4	1.5
Receivable turnover days	41.3	38.5	46.2	45.0	38.0	37.0
Inventory turnover days	82.3	77.1	80.3	82.0	76.0	76.0
Payable turnover days	107.9	114.2	128.9	125.0	115.0	115.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	30.8	16.6	13.2	12.2	10.7	10.1
P/B	2.1	1.9	1.7	1.6	1.5	1.4
Div yield (%)	1.5	3.0	4.2	4.5	5.1	5.4

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

Ping An (2318 HK)

AM drag eased; expect improving business quality across-the-board in FY26E

Ping An's 3Q25 earnings beat drove an upward revision on its full-year earnings estimate. We raise our FY25E-27E EPS forecasts post 3Q25 results by 9%/4%/5% to RMB 8.03/8.31/9.17 (previous: RMB 7.39/8.02/8.71) to reflect the Group's improving business quality across-the-board, esp. or the profit turnaround in AM and Fintech segments. OPAT of the Group's core business lines, i.e. L&H, P&C, and Ping An Bank increased steadily, with the L&H's OPAT ticking up 1.9%/0.6% YoY in 9M/3Q25 to RMB79bn (68% mix). NBV rose 46.2% YoY to RMB 35.7bn in 9M25, translating into a 58.3% YoY lift in 3Q25. Driven by resilient NBV upticks and improving operating variances, we expect the CSM release to return back to a positive growth trajectory in 2H26E, which could bolster L&H OPAT uptrend in the long run. The drags on the AM segment progressively eased, indicating the Group's continued de-risking process starting to bear fruit. In 3Q25, AM net loss reduced to RMB 69mn which trimmed from a net loss of RMB 3.6bn in 3Q24, supporting the segment's profit turnaround to RMB2.7bn by 9M25 (vs. 9M24: a loss of RMB 2.3bn). We look forward to an earnings recovery in Fintech segment in FY26E given strengthened intra-Group synergies. Maintain BUY, with TP at HK\$75, implying 0.7x FY26E P/EV and 1.1x FY26E P/B.

■ **3Q financial highlight:** 1) Group OPAT rallied 15.2% YoY to RMB38.5bn in 3Q25, marking a step-up from 2.4%/4.9% YoY in 1Q/2Q25. OPAT of the three core segments increased 2.6% YoY in 3Q25, of which L&H/P&C/PAB OPAT was up 0.6%/26.2%/down 2.8% YoY. 2) Group NPAT rose 45.4% YoY to RMB 64.8bn in 3Q25. If excluding one-off impact of non-operating items (-RMB 9.3bn), the NPAT would surge 82% YoY to RMB 68.6bn in 3Q25. 3) NAV rose 6.2% from year-start to RMB 986.4bn; and if added back distributed dividends amounted to RMB 46.8bn, the growth would further tick up to 11.3% from year-start (CMBI est).

■ **Consistent stock allocation strategy focusing on OCI.** In 9M25, NIY/CIY was 2.8%/5.4% (unannualized), down 0.3pct/up 1.0pct YoY. The strong stock market performance in 3Q was the key earnings driver, in our view. Ping An owns a lower mix of TPL stocks (vs. OCI) compared to peers, for which by 1H25, the insurer's OCI/TPL mix was 65%/35% vs. China Life's 23%/77% and NCI's 20%/80%. The consistent high-yield strategy could benefit for robust long-term investment returns.

■ **Valuation:** The stock is trading at FY25E 0.7x FY25E P/EV and 1.0x FY25E P/B, with an average 3yr forward ROE at 13.4% and a yield of 4.8%. Our SOTP-based TP of HK\$75 implies 0.7x FY26E P/EV and 1.1x FY26E P/B. Key risks include heightened equity market volatilities; prolonged low interest rate environment; weaker-than-expected jumpstart sales, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (RMB mn)	115,572	163,433	168,653	169,491	186,603
EPS (Reported)(RMB)	4.84	7.16	8.02	8.30	9.16
Consensus EPS (RMB)	na	na	7.52	7.93	8.78
P/B (x)	1.2	1.2	1.0	0.9	0.8
P/Embedded value (x)	0.8	0.8	0.7	0.6	0.6
Dividend yield (%)	4.2	4.4	4.6	4.7	5.0
ROE (%)	9.7	13.9	14.1	13.0	13.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$75.00
Up/Downside 13.3%
Current Price HK\$66.20

China Insurance

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 (852) 3900 0805
 nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,205,502.0
Avg 3 mths t/o (HK\$ mn)	2,283.8
52w High/Low (HK\$)	66.20/40.80
Total Issued Shares (mn)	18210.0

Source: FactSet

Shareholding Structure

Charoen Pokphand Group	13.0%
Company Ltd	
UBS Group AG	9.6%

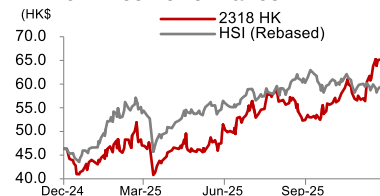
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.0%	15.4%
3-mth	26.7%	30.0%
6-mth	28.7%	22.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Related reports:

- [3Q earnings beat; improving business quality with catalysts across-the-board worth to expect](#), Oct 31, 2025
- [1H25 a mixed bag: NBV beat while OPAT in line](#), Aug 28, 2025
- [1Q25 NBV stayed robust lifting L&H OPAT back to positive growth](#), Apr 28, 2025
- [Life OPAT awaits for longer time to turnaround](#), 24 Mar, 2025
- [Robust 3Q doubled in NBV and earnings growth](#), 23 Oct, 2024
- [2Q NBV stabilized against a high base: expect to see Group OPAT turnaround](#), Aug. 27, 2024
- [Expect \\$3.5bn CB dilutive effect to be short-term](#), Jul. 17, 2024

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Insurance revenue	525,981	536,440	551,186	565,628	590,713	625,100
Insurance service expenses	(422,221)	(440,178)	(449,102)	(461,761)	(484,421)	(513,429)
Net expenses from reinsurance contracts held	(4,314)	(3,731)	(3,601)	(2,976)	(1,448)	(1,536)
Insurance service results	99,368	92,301	98,127	100,281	104,198	109,453
Net finance (expenses)/income from insurance contracts	(99,933)	(123,959)	(172,662)	(177,777)	(194,819)	(216,008)
Net finance (expenses)/income from reinsurance contracts	564	542	960	163	0	0
Interest income	115,933	118,503	123,627	156,295	173,552	196,638
Net investment income	(2,311)	33,324	161,074	122,142	135,628	153,669
Other gains/(losses) from changes in fair value	(13,300)	(9,940)	(19,814)	5,209	(1,817)	(3,307)
Net investment results	953	18,470	93,185	106,032	112,544	130,993
Net interest income from banking operations	131,096	118,947	93,913	95,056	101,445	104,170
Net interest income/(expenses) from non-banking operations	(22,698)	(24,346)	(19,405)	(21,489)	(22,899)	(24,778)
Loan loss provisions	(64,168)	(62,833)	(56,245)	(65,506)	(68,780)	(68,626)
Other fee and commission income/(expenses)	(9,928)	(8,773)	(7,841)	(7,878)	(7,958)	(7,901)
Other income	60,652	68,804	65,191	73,044	78,432	84,269
Other expenses	(107,779)	(123,515)	(122,417)	(134,058)	(143,017)	(152,510)
Foreign exchange gains/losses	3,144	120	380	842	31	31
Other results	36,301	14,210	(638)	(10,399)	(14,573)	(18,269)
Profit before tax	146,787	126,415	187,195	192,485	198,969	219,055
Income taxes	(7,518)	(10,843)	(23,762)	(23,833)	(29,477)	(32,452)
Net profit	139,269	115,572	163,433	168,653	169,491	186,603
Net profit attributable to shareholders	111,008	85,665	126,607	141,022	145,985	161,055

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	774,841	804,077	1,018,027	1,158,151	1,211,649	1,267,515
Balances with central bank and statutory deposits	336,294	329,531	344,608	360,375	424,149	499,209
Intangible assets	99,411	99,078	97,263	98,659	97,877	97,101
Investments in associates and joint ventures	280,793	258,877	185,514	161,147	164,386	167,690
Property	53,657	50,401	48,603	45,587	43,097	40,744
Investment property	114,763	121,406	119,158	128,115	143,284	160,976
Reinsurance contract assets	20,615	22,215	26,084	30,016	34,127	38,648
Loans and advances to customers	3,242,258	3,320,110	3,294,053	3,502,463	3,723,869	4,207,972
Fixed maturity investments	4,729,856	4,976,779	5,912,846	6,590,252	7,412,630	8,375,243
Equity investments	1,073,763	1,130,853	1,328,664	1,499,630	1,719,297	1,978,910
Derivative financial assets	29,278	44,978	68,698	38,498	42,444	46,795
Deferred tax assets	89,321	101,337	122,012	126,607	121,594	116,778
Other assets	165,090	323,775	392,297	833,119	1,235,986	2,605,810
Total assets	11,009,940	11,583,417	12,957,827	14,572,619	16,374,388	19,603,392
LIABILITIES						
Due to banks and other financial institutes	923,088	963,718	838,183	1,199,145	1,259,103	1,322,058
Customer deposits and payables to brokerage customers	3,431,999	3,534,539	3,710,167	3,970,031	4,130,420	4,297,289
Insurance contract liabilities	3,671,177	4,159,801	4,984,795	5,613,762	6,382,668	7,228,146
Obligations under repurchase agreements	271,737	241,803	462,292	539,425	594,716	655,674
Derivative financial instruments	39,738	44,531	74,937	46,521	47,456	48,410
Deferred tax liabilities	14,217	14,148	13,977	8,653	8,319	7,999
Current tax liabilities	16,076	7,117	14,970	33,091	232,472	1,633,143
Other liabilities	1,455,807	1,388,743	1,553,225	1,682,870	2,135,101	2,708,859
Total liabilities	9,823,944	10,354,453	11,653,115	13,093,498	14,790,255	17,901,578
EQUITIES						
Share capital	18,280	18,210	18,210	18,210	18,210	18,210
Reserves	268,724	263,752	221,594	272,855	271,919	270,823
Retained profits	593,183	622,050	693,797	789,917	887,763	998,273
Total shareholders' equity	869,191	899,011	928,600	1,075,981	1,172,891	1,282,305
Non-controlling interests	316,805	329,953	376,112	403,139	411,243	419,509
Total equity	1,185,996	1,228,964	1,304,712	1,479,120	1,584,133	1,701,813
Total liabilities & equity	11,009,940	11,583,417	12,957,827	14,572,619	16,374,388	19,603,392

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	2.40	2.48	2.61	2.72	2.83	2.97
EPS (Reported)	8.80	4.84	7.16	8.02	8.30	9.16
Consensus EPS	na	na	na	7.52	7.93	8.78
Group embedded value/share (HK\$)	77.89	76.34	78.12	85.05	92.73	101.55
VNB/share (HK\$)	1.58	1.71	2.20	2.17	2.32	2.49
No. of shares basic	18,280	18,210	18,210	18,210	18,210	18,210
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	13.2%	9.7%	13.9%	14.1%	13.0%	13.1%
Return on life embedded Value	7.3%	7.7%	7.5%	7.8%	7.9%	7.8%
VNB margin (FYP APE basis)	24.2%	23.7%	26.0%	24.0%	24.3%	24.5%
Combined ratio	100.3%	100.7%	98.3%	97.0%	96.7%	96.4%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/Embedded value (x)	0.9	0.8	0.8	0.7	0.6	0.6
P/B (x)	1.1	1.2	1.2	1.0	0.9	0.8
Dividend yield (%)	4.0	4.2	4.4	4.6	4.7	5.0

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

China Life (2628 HK)

Low base for 4Q earnings; expect strong FY26E NBV growth led by bancassurance

BUY (Maintain)

Target Price HK\$31.00
Up/Downside 9.0%
Current Price HK\$28.44

China Insurance

Nika MA

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nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	803,856.6
Avg 3 mths t/o (HK\$ mn)	1,623.7
52w High/Low (HK\$)	28.80/12.72
Total Issued Shares (mn)	28265.0

Source: FactSet

Shareholding Structure

Ping An Insurance (Group) Company	8.3%
BlackRock, Inc.	5.9%

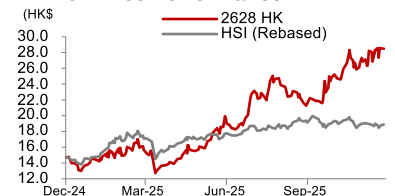
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.5%	6.8%
3-mth	33.8%	37.2%
6-mth	42.9%	35.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: KPMG

Related reports:

- [3Q net earnings almost doubled on a high base](#), Nov 3, 2025
- [2Q earnings dip could be short-term; DPS uptrend a bright spot](#), Sep 3, 2025
- [Profit beat; net asset turned to positive growth for improved asset-liability matching](#), May 2, 2025
- [4Q slowdown as expected; DPS exceeded >50%](#), Mar 28, 2025
- [4Q net profit could decline despite better capital market](#), Jan 27, 2025 ([link](#))
- [3Q NPAT boosted by net fair value gains; expect resilient full-year NBV upswing](#), 5 Nov, 2024

China Life has a low base of earnings in 4Q24 mainly dragged by a sharp decline in spot interest yield, i.e. China's government bond yield fell 51bps to 1.68% by end-FY24, which adversely impacted the insurer's insurance service results (-136% YOY to a loss of RMB 9.1bn in 4Q24). And yet, we believe the interest rate shock in 4Q last year is unlikely to occur this year, and with increased proportion of equity investments, the insurer's net earnings could outperform on dual strengths in underwriting and investment, in our view. NBV jumped 41.8% like-for-like in 9M25, doubling from 20.3% in 1H25, and we estimate 3Q NBV could more than double on a LFL basis, bolstered by both strong FYP increase (+53% YoY) in 3Q25 and margin expansion. In 4Q25E, new products launched following the PIR cut in Sep 2025 could further strengthen NBV margin, with strong bancassurance NBV uptick likely to sustain. We have lifted our FY25E NBV growth forecast to 38% YoY. BUY, with our TP at HK\$31, implying 0.5x/0.4x FY25E/26E P/EV and 1.1x/1.0x FY25E/26E P/B.

- **Catalysts:** 1) The 4Q25 jumpstart sales initiated with continued product shift towards participating products starting in early Oct. In 9M25, the proportion of FYRP from floating-yield products rose over 45pct YoY, marking a significant progress in continued transition towards par. For FY26E, we expect the par transition to further deepen across the industry, and China Life could benefit from its balanced UW structure; 2) the trend of increasing allocation to open-market equity investments, incl. stocks and funds, will likely sustain. In 9M25, the insurer has invested over RMB380bn into the open-market equities, of which the increment in 3Q amounted to RMB 230bn. We expect to see a more balanced mix of TPL vs. OCI stocks as of year-end.

- **Valuation:** The stock is trading at FY25E 0.5x FY25E P/EV and 1.1x FY25E P/B, with the average 3yr forward ROE of 22% and a yield over 4%. We have raised our TP to HK\$31 post-3Q results, and raised our FY25E-27E EPS forecasts to RMB 6.03/4.41/4.95 taking into account the outstanding 3Q net earnings (+91.5% YoY) to RMB 126.9bn. The current price target implies 0.5x/0.4x FY25E/26E P/EV and 1.1x/1.0x FY25E/26E P/B.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (RMB mn)	47,547	108,940	174,220	127,281	142,806
EPS (Reported)(RMB)	1.63	3.78	6.03	4.41	4.95
Consensus EPS (RMB)	na	na	3.91	3.77	4.10
P/B (x)	1.5	1.4	1.1	1.0	0.9
P/Embedded value (x)	0.6	0.5	0.5	0.4	0.4
Dividend yield (%)	1.7	2.5	4.0	4.1	4.2
ROE (%)	9.7	21.7	29.5	18.3	18.4

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Insurance revenue	182,578	212,445	208,161	210,756	217,950	226,777
Insurance service expenses	(131,614)	(150,353)	(180,544)	(160,920)	(166,369)	(173,065)
Net expenses from reinsurance contracts held	2,155	(288)	378	764	792	826
Insurance service results	53,119	61,804	27,995	50,600	52,373	54,538
Net finance (expenses)/income from insurance contracts	(148,700)	(127,923)	(209,952)	(295,723)	(214,917)	(252,800)
Net finance (expenses)/income from reinsurance contracts	583	616	671	336	0	0
Interest income	0	122,994	120,958	136,499	158,523	182,868
Net investment income	175,360	(9,375)	176,461	288,342	136,168	163,419
Credit impairment losses	(3,150)	1,217	(1,404)	422	465	511
Net investment results	24,093	(12,471)	86,734	129,876	80,239	93,999
Other income	8,944	10,603	10,970	11,329	11,895	12,490
Other expenses	(15,212)	(18,131)	(18,363)	(19,723)	(20,709)	(21,744)
Other results	(11,131)	(12,836)	(11,593)	(11,817)	(11,178)	(10,887)
Profit before tax	70,060	44,576	115,213	181,592	133,980	150,322
Income taxes	(1,948)	2,971	(6,273)	(7,372)	(6,699)	(7,516)
Net profit	68,112	47,547	108,940	174,220	127,281	142,806
Net profit attributable to shareholders	66,680	46,181	106,935	170,551	124,736	139,950

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
ASSETS						
Cash and amount due from banks and other financial institutions	524,100	433,014	469,015	521,256	607,721	701,982
Balances with central bank and statutory deposits	6,333	6,520	6,591	4,930	5,748	6,639
Investments in associates and joint ventures	262,488	258,760	302,077	305,098	308,149	311,230
Property	56,369	55,190	55,587	55,081	55,480	55,885
Investment property	13,193	12,753	12,319	13,304	15,511	17,917
Reinsurance contract assets	24,096	25,846	30,738	35,136	39,779	44,957
Financial investments:	3,878,185	4,798,898	5,735,564	6,763,895	7,885,882	9,109,030
At amortised cost:	na	211,349	196,754	205,523	239,615	276,781
At fair value through other comprehensive income:	na	2,882,174	3,630,712	4,305,686	5,028,563	5,818,522
At fair value through profit or loss:	na	1,705,375	1,908,098	2,252,686	2,617,703	3,013,727
Deferred tax assets	46,126	24,431	40,026	94,127	221,353	520,542
Other assets	71,584	37,369	32,124	(42,701)	(509,791)	(1,113,204)
Cash and cash equivalents	127,594	149,305	85,505	111,357	129,829	149,966
Total assets	5,010,068	5,802,086	6,769,546	7,861,482	8,759,660	9,804,945
LIABILITIES						
Insurance contract liabilities	4,266,947	4,859,175	5,825,026	6,658,483	7,538,418	8,519,597
Borrowings	12,774	12,857	12,758	0	0	0
Obligations under repurchase agreements	148,958	216,851	151,564	283,686	198,277	138,582
Deferred tax liabilities	272	0	147	1,078	1,078	1,078
Current tax liabilities	238	309	237	95	38	15
Bonds payable	34,997	36,166	35,194	35,568	35,568	35,568
Other liabilities	170,749	189,506	223,212	222,815	255,029	292,424
Total liabilities	4,635,095	5,315,052	6,248,298	7,201,726	8,028,409	8,987,264
EQUITIES						
Share capital	28,265	28,265	28,265	28,265	28,265	28,265
Reserves	99,033	145,933	119,033	104,028	80,869	54,110
Retained profits	238,723	302,895	362,377	514,884	608,248	720,016
Total shareholders' equity	366,021	477,093	509,675	647,177	717,382	802,391
Non-controlling interests	8,952	9,941	11,573	12,579	13,868	15,290
Total equity	374,973	487,034	521,248	659,756	731,251	817,681
Total liabilities & equity	5,010,068	5,802,086	6,769,546	7,861,482	8,759,660	9,804,945

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	0.49	0.43	0.65	1.04	1.06	1.09
EPS (Reported)	2.36	1.63	3.78	6.03	4.41	4.95
Consensus EPS	na	na	na	3.91	3.77	4.10
Group embedded value/share (HK\$)	43.54	44.60	49.57	56.26	60.66	65.71
VNB/share (HK\$)	1.27	1.45	1.19	1.64	1.84	2.03
No. of shares basic	28,265	28,265	28,265	28,265	28,265	28,265
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	17.3%	9.7%	21.7%	29.5%	18.3%	18.4%
Return on asset (ROA)	1.4%	0.9%	1.7%	2.3%	1.5%	1.5%
Return on life embedded Value	3.8%	3.6%	12.6%	14.9%	9.8%	10.0%
VNB margin (FYP APE basis)	17.8%	17.5%	21.4%	0.0%	0.0%	0.0%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/Embedded value (x)	0.7	0.6	0.5	0.5	0.4	0.4
P/B(x)	1.9	1.5	1.4	1.1	1.0	0.9
Dividend yield (%)	1.9	1.7	2.5	4.0	4.1	4.2

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

AIA Group Ltd. (1299 HK)

China Growth Strategy on track to boost an optimistic outlook with a growth narrative

AIA's 3Q25 VONB outpaced market expectations, rising 25% YoY (CER) to US\$ 1,476mn with key operating markets incl. HK, Mainland China, ASEAN and India all achieving double-digit VONB growth. Margin expansion sustained in 3Q (+5.7 pct) on top of the strength in 1H25 (+3.9pct) driven by a favorable shift in product mix. In 1H25, AIA announced the highlighted China Growth Strategy, for which the company targets a 40% CAGR for VONB in FY25-30E for the new regions entered post-2019 (currently: 9 regions) with an aim to expand 1-2 new regions per year. In 3Q25, VONB of the nine regions doubled with the mix of AIA China VONB rising to 11% (1H25: 8%). If excl. the four new regions that launched operations in 1H25, the five developing geographies grew VONB by 35% YoY in 3Q, outpacing that of AIA China by 27% YoY (CER basis). AIA HK's VONB was up by 40% YoY, supported by strong momentum of both the domestic market and mainland Chinese visitors (MCVs). We think the China Growth Strategy will help retain traction in the market on the insurer's long-run VONB uptrend. BUY, with our TP at HK\$89.0 which implies 1.6x/1.4x FY25E/26E P/EV.

■ **Catalysts ahead:** 1) The regulatory approvals on AIA China's geographical expansion plan (so far the company maintains its target of 1-2 regions per year); 2) AIA HK's new business sales momentum against the backdrop of the new tax regime under the CRS reporting for domestic residents' overseas income. We think long-term savings insurance products could be a promising tool catering to the global wealth allocation for mainland Chinese, and thus boosting demands from the MCVs and domestic market. 3) AIA India's VONB contribution and potential efforts on product enhancements; 4) rising appeals from the Southbound to focus on the insurer's China growth strategy.

■ **Valuation:** The stock is trading at 1.5x FY25E P/EV or 2.5x FY25E P/B, with dividend yield at 2.3%. We expect the total shareholder return to arrive at 4.6% in FY25E (2.3% dividend + 2.2% buybacks), with the next round of share buyback to be announced in Mar 2026 during the earnings call. So far, we believe the market has been more convinced to the growth story of AIA, rather than view it as a high-yield stock. The China Growth Strategy (40% CAGR of VONB in FY25-30E) could lead to a new growth narrative to boost share price uptrend in our view.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (US\$ mn)	3,781	6,853	6,658	6,376	7,034
EPS (Reported)(US\$)	0.54	0.60	0.67	0.75	0.84
Consensus EPS (US\$)	na	na	0.66	0.73	0.83
P/B (x)	3.0	2.9	2.5	2.3	2.0
P/Embedded value (x)	1.8	1.7	1.5	1.3	1.1
Dividend yield (%)	1.9	2.1	2.3	2.5	2.8
ROE (%)	14.5	16.2	16.7	16.8	16.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$89.00
Up/Downside 6.9%
Current Price HK\$83.25

China Insurance

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 nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	898,517.3
Avg 3 mths t/o (HK\$ mn)	1,925.3
52w High/Low (HK\$)	84.15/49.95
Total Issued Shares (mn)	10793.0

Source: FactSet

Shareholding Structure

JPMorgan Chase & Co.	7.8%
Bank of New York Mellon Corp.	7.1%

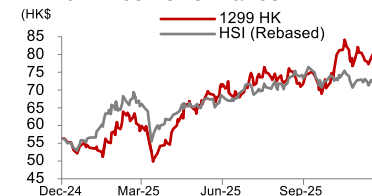
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.0%	5.4%
3-mth	16.8%	19.9%
6-mth	16.3%	10.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PwC

Related reports:

- 1H25 review: Resilient VONB uptrend with optimistic outlook on China Growth Strategy, Aug 22, 2025
- Decent VONB growth across ex-China markets; buybacks to complete faster than expected, May 2, 2025
- 新业务价值增长具备韧性，新一轮回购计划提升股东回报至 6%，Mar 18, 2025
- Robust VONB growth in-line; new buyback of US\$1.6bn implying 6% total S/H returns, Mar 18, 2025
- FY24 preview: OPAT back to growth trajectory; resilient VNB despite modest slowdown in 2H, Feb 24, 2025
- 1H24 VNB beat with margin recovery; expect total >US\$7bn cash returns to shareholders in FY24, Aug 26, 2024

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Insurance revenue	16,319	17,514	19,314	21,434	23,591	26,034
Contracts not measured under PAA:	14,524	15,107	16,361	17,925	19,380	20,981
Contracts measured under PAA	1,795	2,407	2,953	3,509	4,211	5,053
Insurance service expenses	(10,434)	(12,104)	(13,205)	(14,316)	(15,797)	(17,489)
Contracts not measured under PAA:	(8,869)	(9,775)	(10,256)	(10,842)	(11,819)	(12,715)
Contracts measured under PAA	(1,565)	(2,329)	(2,949)	(3,315)	(3,978)	(4,774)
Net expenses from reinsurance contracts held	(419)	(286)	(418)	(468)	(515)	(569)
Insurance service results	5,466	5,124	5,691	6,649	7,279	7,977
Net finance (expenses)/income from insurance contracts	31,122	(10,512)	(6,743)	(10,257)	(11,185)	(12,226)
Net investment results	3,597	3,581	3,528	3,527	3,727	3,950
Other expenses	(1,512)	(1,451)	(1,439)	(1,426)	(1,469)	(1,513)
Other results	(1,438)	(1,472)	(1,455)	(1,476)	(1,521)	(1,566)
Income taxes	(1,050)	(1,007)	(1,119)	(1,585)	(1,719)	(1,866)
Net profit	3,365	3,781	6,853	6,658	6,376	7,034
Net profit attributable to shareholders	3,331	3,764	6,836	6,630	6,351	7,006

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
ASSETS						
Intangible assets	3,277	3,615	3,478	3,699	3,773	3,849
Investments in associates and joint ventures	2,056	1,331	1,710	1,753	1,824	1,898
Property	2,844	4,058	4,447	4,551	4,643	4,736
Investment property	4,600	4,504	4,570	4,673	4,861	5,058
Insurance contract assets	2,037	1,457	972	1,021	1,072	1,125
Reinsurance contract assets	5,763	6,047	5,730	6,017	6,317	6,633
Financial investments:	232,711	248,958	272,151	294,629	318,863	345,083
At amortised cost:	6,353	5,888	6,169	6,679	7,228	7,822
At fair value through other comprehensive income:	86,060	88,612	98,289	106,407	115,159	124,629
At fair value through profit or loss:	140,298	154,458	167,693	181,543	196,476	212,632
Deferred tax assets	229	301	549	521	532	542
Current tax recoverable	117	207	219	148	151	154
Other assets	4,524	4,316	3,527	4,906	5,004	5,105
Cash and cash equivalents	8,020	11,525	8,101	8,762	9,477	10,250
Assets in disposal group held for sale	4,293	0	0	0	0	0
Total assets	270,471	286,319	305,454	330,679	356,517	384,433
LIABILITIES						
Insurance contract liabilities	181,851	203,271	221,412	253,695	281,335	311,365
Investment contract liabilities	9,092	9,170	6,967	7,836	8,639	9,525
Borrowings	11,206	11,800	13,329	15,037	16,578	18,278
Obligations under repurchase agreements	1,748	3,461	4,616	5,174	5,384	5,601
Derivative financial instruments	8,638	8,035	8,615	7,054	7,339	7,636
Provisions	153	174	202	219	228	237
Deferred tax liabilities	3,409	3,204	4,116	4,649	4,837	5,032
Current tax liabilities	467	387	220	424	441	459
Other liabilities	4,264	4,887	4,909	(8,198)	(17,108)	(27,338)
Liabilities in disposal group held for sale	4,111	0	0	0	0	0
Total liabilities	225,323	244,725	264,641	286,180	307,994	331,149
EQUITIES						
Share capital	14,171	14,176	14,183	14,205	14,229	14,255
Retained profits	46,499	44,333	44,691	46,419	48,137	50,308
Total shareholders' equity	44,672	41,111	40,490	44,117	48,081	52,775
Non-controlling interests	476	483	323	382	442	509
Total equity	45,148	41,594	40,813	44,499	48,524	53,284
Total liabilities & equity	270,471	286,319	305,454	330,679	356,517	384,433

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	0.20	0.21	0.22	0.25	0.27	0.30
EPS (Reported)	0.54	0.54	0.60	0.67	0.75	0.84
Diluted EPS	0.54	0.54	0.60	0.67	0.75	0.84
Consensus EPS	na	na	na	0.66	0.73	0.83
Group embedded value/share (HK\$)	5.85	5.94	6.40	7.18	8.18	9.35
VNB/share (HK\$)	0.26	0.36	0.44	0.52	0.60	0.69
No. of shares basic	11,781	11,362	10,793	10,479	10,254	10,051
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	12.8%	14.5%	16.2%	16.7%	16.8%	16.8%
Return on asset (ROA)	1.1%	1.4%	2.3%	2.1%	1.8%	1.9%
Return on life embedded Value	(1.8%)	6.7%	11.3%	14.9%	16.2%	16.3%
VNB margin (FYP APE basis)	57.0%	52.6%	54.5%	57.1%	57.9%	58.9%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/Embedded value (x)	1.8	1.8	1.7	1.5	1.3	1.1
P/B	2.8	3.0	2.9	2.5	2.3	2.0
Div yield (%)	1.8	1.9	2.1	2.3	2.5	2.8
Div payout (%)	36.6	38.4	37.7	36.9	36.4	35.9

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

PICC P&C (2328 HK)

Eye on auto insurance overseas expansion and non-auto CoR improvement

BUY (Maintain)

Target Price HK\$23.60
Up/Downside 42.2%
Current Price HK\$16.60

China Insurance

Nika MA

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Stock Data

Mkt Cap (HK\$ mn)	369,217.2
Avg 3 mths t/o (HK\$ mn)	513.1
52w High/Low (HK\$)	19.37/11.56
Total Issued Shares (mn)	22242.0

Source: FactSet

Shareholding Structure

JPMorgan Chase & Co	8.5%
The Capital Group	7.1%

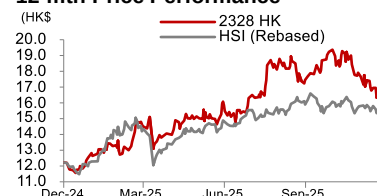
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.3%	-7.0%
3-mth	-3.7%	-1.2%
6-mth	3.2%	-2.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Related reports:

- [1. PICC P&C \(2328 HK\) - 3Q25 review: dual strength in underwriting and investment income](#), Nov 4, 2025
- [2. PICC P&C \(2328 HK\) - Robust 1H delivery of CoR; overseas expansion yields to a second growth trajectory](#), Sep 1, 2025
- [3. PICC P&C \(2328 HK\) - 1Q25 CoR outperformed](#), Apr 15, 2025
- [4. PICC P&C \(2328 HK\) - Optimized CoR guidance beat expectations](#), Apr 1, 2025
- [5. PICC P&C \(2328 HK\) - 3Q CoR miss dragged by non-auto claims](#), Oct 31 2024

PICC P&C's 3Q25 results indicated a dual strength in UW and investment results, which underpinned the period's earnings uptrend. We have lifted our FY25E-27E EPS forecasts by 11%/6%/6% to RMB 1.86/1.94/2.17 post 3Q25 results to bake in investment outperformance and CoR improvement led by stringent expense control. UW CoR improved 2.1pct YoY to 96.1% in 9M25, with auto/non-auto CoR down by 2.0pct/2.5pct YoY to 94.8%/98.0% respectively, outpacing major peers. We expect FY25E COR to reach 96.6%, well meeting the year-start guidance of less than 97%. Driven by prudent expense management in both auto and non-auto lines, we expect the insurer's COR to continue improving with a trimmed expense ratio more than offsetting the rise in claims ratio. We have revised our auto/non-auto CoR forecasts to 95.1%/99.0% (vs. previous: 95.8%/99.0%), and expect further non-auto COR improvement in FY26E upon the execution of comprehensive non-auto insurance rectifications launched in Nov 2025. For auto insurance, the insurer guided a clear target to achieve 30% of premiums from overseas markets by 2030E, which for now contributed only a low-single digit. We see overseas expansion of auto insurance as a second growth curve of the Group to unleash long-run premium upside. BUY, with our TP at HK\$23.6, implying 1.7x/1.6x FY25E/26E P/B.

- **Improved COR led by prudent expense control.** Given proactive expense ratio control and an optimized UW structure tilted toward household NEVs, we have trimmed our auto CoR estimate to 95.1% (previous: 95.8%) post 3Q25 results. Auto premium growth paced down to 3.1% YoY in 9M25, mainly due to the easing retail auto sales momentum, which propelled us to lower the insurer's annual auto premium growth forecast to 3.2% YoY (vs. previous: 4.0%). Our non-auto CoR forecast in FY25E remained at 99% (unchanged), as we think the comprehensive rectifications that took effect on Nov 1, 2025 could possibly exert limited impact on full-year COR performance. In contrast, we think more observable improvement on the non-auto CoR to materialize in FY26E.
- **Eye on auto & non-auto execution.** Looking ahead, we think investors will eye on the progress and incremental premiums of auto insurance from overseas markets, and execution of the three high-loss non-auto lines, i.e. commercial property insurance (refiled by Dec 1, 2025), work safety liability insurance (to refile by Jan 1, 2026), employer liability insurance (to refile by Feb 1, 2026), and all other non-auto lines (to refile by Dec 31, 2026).
- **Valuation/Key risks.** The stock is trading at 1.2x/1.1x FY25E/26E P/B with an average 3yr forward ROE at 15% and a yield of 5.0%. Our TP based on P/B-ROE is at HK\$23.6, which implies 1.7x/1.6x FY25E/26E P/B. Key risks incl. weaker-than-expected retail auto sales momentum, deteriorated CoR, prolonged low rate and increased stock market volatilities.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Net profit (RMB mn)	24,566	32,161	41,307	43,118	48,155
EPS (Reported)(RMB)	1.11	1.45	1.86	1.94	2.17
Consensus EPS (RMB)	na	na	1.84	1.93	2.10
P/B (x)	1.4	1.3	1.2	1.1	1.0
Dividend yield (%)	3.3	3.6	5.0	5.2	5.8
ROE (%)	10.8	13.0	15.2	14.7	15.2

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Insurance revenue	424,355	457,203	485,223	501,808	522,645	549,006
Insurance service expenses	(395,965)	(431,991)	(465,392)	(471,956)	(489,870)	(512,339)
Net expenses from reinsurance contracts held	(5,993)	(6,142)	(5,451)	(4,829)	(4,781)	(4,733)
Insurance service results	22,397	19,070	14,380	25,023	27,995	31,934
Net finance (expenses)/income from insurance contracts	(9,333)	(10,127)	(9,901)	(9,231)	(9,166)	(9,073)
Net finance (expenses)/income from reinsurance contracts	1,301	1,246	1,234	1,163	1,151	1,140
Interest income	20,180	11,710	11,860	12,399	13,306	14,334
Net investment income	(3,706)	4,077	15,118	14,985	13,117	13,924
Credit impairment losses	(500)	(423)	911	19	0	0
Net investment results	7,942	6,483	19,222	19,334	18,407	20,324
Other income	1,064	195	254	184	194	203
Other expenses	(1,818)	(2,203)	(1,763)	(2,147)	(2,255)	(2,367)
Foreign exchange gains/losses	759	111	(8)	(105)	(107)	(109)
Other results	(1,000)	(3,048)	(2,710)	(3,151)	(3,284)	(3,422)
Profit before tax	34,021	28,035	38,015	48,822	50,962	56,915
Income taxes	(4,912)	(3,469)	(5,854)	(7,515)	(7,844)	(8,761)
Net profit	29,109	24,566	32,161	41,307	43,118	48,155
Net profit attributable to shareholders	29,164	24,585	32,173	41,322	43,137	48,177

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
ASSETS						
Investments in associates and joint ventures	58,085	62,601	67,129	74,876	82,998	92,352
Property	30,332	29,527	29,825	31,316	32,882	34,526
Investment property	7,440	7,576	7,234	8,325	9,229	10,269
Insurance contract assets	611	2,885	1,713	1,799	1,889	1,983
Reinsurance contract assets	36,827	38,891	40,506	42,531	44,658	46,891
Financial investments:	405,001	450,381	499,896	574,770	638,777	710,765
At amortised cost:	113,790	126,192	136,060	154,124	171,288	190,591
At fair value through other comprehensive income:	154,285	180,142	243,771	285,718	317,536	353,321
At fair value through profit or loss:	140,730	144,047	120,065	134,928	149,954	166,853
Loans and advances to customers	73,657	57,785	77,156	65,949	71,782	79,871
Deferred tax assets	12,083	10,139	8,392	8,812	9,252	9,715
Other assets	27,176	27,312	27,022	28,373	29,792	31,281
Cash and cash equivalents	21,250	16,526	19,370	16,697	18,174	20,222
Total assets	672,462	703,623	778,243	853,448	939,432	1,037,875
LIABILITIES						
Insurance contract liabilities	351,254	371,829	401,837	401,445	411,332	428,046
Investment contract liabilities	1,741	1,736	1,731	1,818	1,908	2,004
Obligations under repurchase agreements	41,690	40,037	39,642	40,435	41,244	42,068
Current tax liabilities	3,446	8	0	0	0	0
Bonds payable	8,097	8,365	20,433	21,455	22,527	23,654
Lease liabilities	1,484	1,316	1,301	1,366	1,434	1,506
Other liabilities	43,145	46,007	52,619	102,800	156,929	212,196
Liabilities in disposal group held for sale	450,857	469,319	517,622	569,363	635,425	709,529
EQUITIES						
Share capital	22,242	22,242	22,242	22,242	22,242	22,242
Reserves	196,471	209,178	235,682	156,069	159,227	162,450
Retained profits	79,782	78,496	82,057	103,008	119,578	140,456
Total shareholders' equity	218,713	231,420	257,924	281,318	301,047	325,149
Non-controlling interests	2,892	2,884	2,698	2,766	2,960	3,197
Total equity	221,605	234,304	260,622	284,085	304,008	328,346
Total liabilities & equity	672,462	703,623	778,244	853,448	939,432	1,037,875

PER SHARE DATA	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
DPS	0.48	0.49	0.54	0.74	0.78	0.87
EPS (Reported)	1.31	1.11	1.45	1.86	1.94	2.17
Consensus EPS	na	na	na	1.84	1.93	2.10
No. of shares basic	22,242	22,242	22,242	22,242	22,242	22,242
No. of shares diluted	22,242	22,242	22,242	22,242	22,242	22,242
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Return on equity (ROE)	13.5%	10.8%	13.0%	15.2%	14.7%	15.2%
Return on asset (ROA)	4.5%	3.6%	4.3%	5.1%	4.8%	4.9%
Combined ratio	96.6%	97.8%	98.8%	96.6%	96.2%	95.6%
Loss ratio	69.4%	70.6%	73.0%	73.5%	73.0%	72.6%
Expense ratio	27.2%	27.2%	25.8%	23.1%	23.2%	23.0%
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/B (x)	1.5	1.4	1.3	1.2	1.1	1.0
Dividend yield (%)	3.2	3.3	3.6	5.0	5.2	5.8
Dividend payout (%)	36.5	44.2	37.3	40.0	40.0	40.0

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

CR MixC Lifestyle (1209 HK)

Rising contribution from core business; maintain BUY

The shopping mall business has become the Company's core pillar of profit, demonstrating outperforming operating capabilities compared with peers. 9M25 retail sales grew 20-25% YoY (vs. national retail sales +3.0%), while retail sales during the Golden Week holiday surged 25% YoY (vs. Shanghai's key commercial districts +10.2%). We expect the segment's profit contribution mix to rise by 5ppts to ~60% in FY25E. We roll forward our valuation base year to 2026, with a TP of HK\$51.84. Maintain BUY.

- **Shopping mall segment: operating capability far exceeded peers.** With gross profit contribution of 56.3% in 1H25, the shopping mall segment has become a core pillar of profit. The segment's retail sales rose 20-25% YoY in 9M25 (SSSG: +10-15%), with the 14 luxury malls exceeding this growth rate, all significantly outperforming national retail growth (+3.0%). During the Golden Week, the Company's overall retail sales increased 25% YoY (SSSG: low-double-digit growth) with the luxury malls up 20% YoY, markedly stronger than Shanghai's key commercial districts (+10.2%). For 3rd party expansion, eight projects were completed by end-October, with the annual target of 10 projects. We expect the segment to report revenue/GPM growth of 18%/27% in 2025, driven by a 5.9ppt GPM increase to 78.5%, further lifting profit contribution by 5ppts to ~60%.
- **Residential PM: accelerating third-party expansion.** The segment targets ~RMB1.0bn in annualized contract value from third-party projects for FY25E, achieving nearly RMB0.8bn by September. Factoring in the withdrawal of ongoing low-quality projects (~13mn sqm in 1H25) and collection rate challenges in the current economic climate, we expect FY25E consolidated managed GFA to grow ~6% YoY. Residential segment revenue/gross profit rose 6.5%/1.7% YoY respectively, with GPM mainly denoted by VAS.
- **100% pay-out ratio.** Following the 100% dividend payout in FY23/24/1H25, we project the ratio to maintain in FY25E with a dividend yield of 4.4%, which is appealing compared to SOE peers.
- **Maintain BUY with TP of HK\$51.84,** primarily driven by a +5% revision of target P/E multiple to 23x coupled with valuation rolled to FY26E. The 5% revision in multiple reflects stronger-than-expected performance from the premium-priced retail segment which resulted in an increase in profit contribution mix. The Company's superior earnings growth among peers, diversified operation, and attractive dividend yield are cementing its edge among SOE peers. Maintain BUY. **Risks:** 1) economic slowdown exceeding expectations; 2) third-party expansion fell short of estimates; 3) receivables impairment.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	14,767	17,043	18,154	19,698	21,172
YoY growth (%)	22.9	15.4	6.5	8.5	7.5
Net profit (RMB mn)	2,928.7	3,629.4	4,186.5	4,681.3	5,169.5
EPS (Reported) (RMB)	1.28	1.59	1.83	2.05	2.26
YoY growth (%)	32.8	23.9	15.3	11.8	10.4
Consensus EPS (RMB)	na	na	1.79	2.03	2.28
P/E (x)	30.8	24.8	21.5	19.2	17.4
P/B (x)	5.6	5.5	6.3	6.1	5.9
Yield (%)	1.2	1.6	4.5	5.1	5.6
ROE (%)	19.4	22.4	27.2	32.1	34.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$51.84
Up/Downside	18.5%
Current Price	HK\$43.74

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Stock Data

Mkt Cap (HK\$ mn)	99,858.4
Avg 3 mths t/o (HK\$ mn)	206.5
52w High/Low (HK\$)	46.12/27.30
Total Issued Shares (mn)	2283.0

Source: FactSet

Shareholding Structure

China Resources Inc.	72.3%
Free float	27.7%

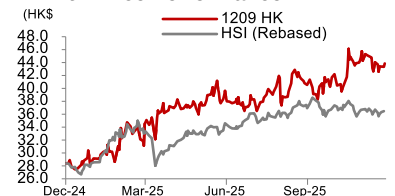
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.4%	-1.1%
3-mth	7.7%	10.5%
6-mth	10.5%	4.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	12,016	14,767	17,043	18,154	19,698	21,172
Cost of goods sold	(8,405)	(10,073)	(11,433)	(11,636)	(12,447)	(13,200)
Gross profit	3,611	4,694	5,609	6,519	7,251	7,972
Operating expenses	(619)	(668)	(602)	(747)	(812)	(875)
Selling expense	(151)	(285)	(291)	(210)	(226)	(240)
Admin expense	(1,053)	(950)	(975)	(1,021)	(1,098)	(1,169)
Others	585	567	664	483	511	535
Operating profit	2,992	4,027	5,008	5,772	6,439	7,097
Other income	580	577	705	483	511	535
Other gains/(losses)	5	(10)	(40)	0	0	0
Share of (losses)/profits of associates/JV	1	3	3	3	3	3
Net Interest income/(expense)	(87)	(117)	(116)	(111)	(108)	(106)
Others	2,407	3,460	4,344	5,288	5,928	6,563
Pre-tax profit	2,906	3,912	4,895	5,664	6,334	6,994
Income tax	(693)	(969)	(1,165)	(1,348)	(1,507)	(1,665)
After tax profit	2,213	2,943	3,730	4,316	4,826	5,329
Minority interest	(7)	(14)	(101)	(130)	(145)	(160)
Net profit	2,206	2,929	3,629	4,186	4,681	5,170
Gross dividends	1,002	1,098	1,468	4,064	4,559	5,047

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	15,839	19,518	16,480	14,128	15,064	15,999
Cash & equivalents	12,593	11,580	9,599	9,809	10,398	11,003
Restricted cash	130	67	2,707	99	99	99
Account receivables	1,558	1,996	2,383	2,520	2,734	2,939
Inventories	148	203	242	244	261	277
Prepayment	1,410	1,621	1,449	1,355	1,470	1,581
Financial assets at FVTPL	0	0	0	0	0	0
Non-current assets	9,999	8,265	12,659	12,861	13,064	13,267
PP&E	569	552	615	837	1,059	1,282
Right-of-use assets	103	112	87	87	87	87
Deferred income tax	125	117	143	143	143	143
Investment in JVs & assos	2	4	7	7	7	7
Intangibles	1,470	1,574	1,364	1,344	1,324	1,304
Other non-current assets	3,367	3,804	4,161	4,161	4,161	4,161
Total assets	25,838	27,783	29,140	26,989	28,128	29,266
Current liabilities	8,040	8,340	9,058	9,084	9,720	10,316
Short-term borrowings	0	0	0	0	0	0
Account payables	1,339	1,546	1,723	1,685	1,803	1,912
Tax payable	118	235	331	331	331	331
Lease liabilities	100	152	133	133	133	133
Contract liabilities	1,832	2,172	2,302	2,428	2,634	2,832
Accrued expenses	4,651	4,121	4,534	4,473	4,784	5,074
Non-current liabilities	3,473	3,408	3,386	3,386	3,386	3,386
Obligations under finance leases	2,302	2,267	2,175	2,175	2,175	2,175
Deferred income	14	13	10	10	10	10
Other non-current liabilities	765	906	1,024	1,024	1,024	1,024
Total liabilities	11,512	11,747	12,444	12,470	13,106	13,701
Total shareholders equity	14,280	15,948	16,500	14,323	14,827	15,368
Minority interest	46	88	196	196	196	196
Total equity and liabilities	25,838	27,783	29,140	26,989	28,128	29,266

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,906	3,912	4,895	5,664	6,334	6,994
Depreciation & amortization	235	275	356	120	120	120
Tax paid	(651)	(735)	(974)	(1,348)	(1,507)	(1,665)
Change in working capital	(237)	(120)	468	(20)	289	265
Others	(362)	(291)	(486)	0	0	0
Net cash from operations	1,891	3,042	4,259	4,416	5,235	5,715
Investing						
Capital expenditure	(121)	(582)	(392)	(380)	(380)	(380)
Others	0	0	(2,541)	0	0	0
Net cash from investing	(1,064)	(1,827)	(2,964)	(114)	(87)	(63)
Financing						
Dividend paid	(963)	(2,090)	(3,052)	(4,064)	(4,559)	(5,047)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	0	0	28	0	0	0
Net cash from financing	(1,936)	(2,228)	(3,277)	(4,064)	(4,559)	(5,047)
Net change in cash						
Cash at the beginning of the year	13,698	12,593	11,580	9,571	9,809	10,398
Exchange difference	3	1	1	0	0	0
Cash at the end of the year	12,593	11,580	9,599	9,809	10,398	11,003
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	35.4%	22.9%	15.4%	6.5%	8.5%	7.5%
Gross profit	30.9%	30.0%	19.5%	16.2%	11.2%	9.9%
Operating profit	23.9%	34.6%	24.4%	15.3%	11.6%	10.2%
Net profit	27.9%	32.8%	23.9%	15.3%	11.8%	10.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	30.1%	31.8%	32.9%	35.9%	36.8%	37.7%
Operating margin	24.9%	27.3%	29.4%	31.8%	32.7%	33.5%
Return on equity (ROE)	15.7%	19.4%	22.4%	27.2%	32.1%	34.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.0	2.3	1.8	1.6	1.5	1.6
Receivable turnover days	6.4	7.3	7.7	7.7	7.7	7.7
Inventory turnover days	47.3	49.3	50.7	50.7	50.7	50.7
Payable turnover days	58.2	56.0	52.9	52.9	52.9	52.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	40.8	30.8	24.8	21.5	19.2	17.4
P/B	6.3	5.6	5.5	6.3	6.1	5.9
Div yield (%)	1.1	1.2	1.6	4.5	5.1	5.6
EV	14,279.7	15,948.2	16,500.4	14,323.5	14,826.7	15,368.5
EV/Sales	1.2	1.1	1.0	0.8	0.8	0.7

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

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