IT Hardware – China

Takeaways From Taiwan Marketing Trip

Highlights

- Most investors on our Taiwan marketing trip broadly agreed with our preference for the defensive domestic WFE supply chain, but questioned memory exposure given CXMT's sensitivity to DRAM prices. Taiwan channel checks show no AI order cuts so far, although 2028 capex remains the key debate. On embodied AI, the main pushback was weaker Li-ion and EV capex, which is why we prefer Inovance and Estun over Shuanghuan Driveline. Maintain OVERWEIGHT; our sector picks are NAURA, CXMT and Inovance.

Analysis

- **Investors agreed with our preference for domestic WFE.** Most investors agreed with our call to position in the more defensive domestic WFE supply chain, but expressed concerns over the memory sector, primarily with CXMT, given its sensitivity on global DRAM prices. There is also a consensus that while HBM/server-related DRAM prices will remain strong, commodity/consumer electronics grade DRAM will likely reach a ceiling in 2027 and start to moderate in 2028, although we argue that CXMT and other leading players will continue to record elevated blended ASPs and margins given the higher mix of server-grade products.
- **On our recommendation to rotate into early beneficiaries of the embodied AI trend,** the key counterargument is deteriorating capex in the Li-ion battery and EV supply chains, which we had also highlighted as a risk that may lead to a slowdown in growth. This is why we prefer Inovance and Estun over Shuanghuan Driveline, given the latter's much higher exposure to EVs/autos. We also argue that players with export demand, higher exposure to 3C verticals, and margin expansion potential will be better positioned to weather the slowdown in automotive and Li-ion related capex.
- **There is also interest in other rotational plays, as some investors asked about potential opportunities in the consumer electronics sector.** Consumer electronics names are the key "AI losers" through 2026 and are treated as defensive plays throughout heavy fluctuations in the market. We generally advise revisiting in mid-27 when evidence of moderation in commodity DRAM prices becomes more apparent, and pointed to our expectations of a 10%/4.6% yoy decline in smartphone/PC shipment volume in 2027 as a sustained drag that may continue to relegate consumer supply chain names to pure short-term rotational plays.

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OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
CXMT	688825 CH	BUY	35.16	59.40
Inovance	300124 CH	BUY	52.66	75.00
NAURA	002371 CH	BUY	579.00	783.20

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 20 Nov 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (lcy m)	Price/ NAV ps (x)
IT Hardware													
ASMPT	522 HK	BUY	81.85	184.00	124.8	Dec 2025	31.4	18.4	14.1	2.7	12.7	34,329	1.9
FII	601138 CH	BUY	37.17	77.50	108.5	Dec 2025	21.7	12.3	9.0	4.6	32.9	738,176	3.5
Lenovo	992 HK	BUY	16.35	30.50	86.5	Mar 2026	12.6	6.8	5.4	2.4	50.6	200,803	2.1
NAURA	002371 CH	BUY	579.00	783.20	35.3	Dec 2025	76.0	57.0	38.5	0.2	17.9	419,678	9.4
CXMT	688825 CH	BUY	35.16	59.40	68.9	Dec 2025	1,128.8	14.1	6.6	0.0	51.2	2,386,805	8.2
Sunny Optical	2382 HK	BUY	58.50	106.00	81.2	Dec 2025	11.7	13.3	11.7	1.7	13.3	64,046	2.3
Han's Laser	002008 CH	BUY	45.25	106.90	136.2	Dec 2025	39.2	16.4	11.5	1.2	16.1	47,611	2.3
AAC Technologies	2018 HK	BUY	31.10	47.80	53.7	Dec 2025	12.5	11.8	10.3	1.2	10.0	37,273	0.8
Lens Technology-H	6613 HK	BUY	12.09	21.50	77.8	Dec 2025	13.0	18.4	9.7	2.7	5.1	60,018	0.9
ZTE	763 HK	HOLD	18.18	19.20	5.6	Dec 2025	13.3	16.4	12.9	1.8	6.6	86,959	1.5
Xiaomi	1810 HK	HOLD	27.64	25.90	(6.3)	Dec 2025	15.5	26.5	25.7	0.0	8.1	712,966	3.3
BYD Electronic	285 HK	SELL	17.81	14.50	(18.6)	Dec 2025	10.0	19.8	12.2	1.3	5.0	40,130	1.3
Industrial Automation													
Estun Automation	002747 CH	BUY	24.25	35.70	47.2	Dec 2025	469.7	91.2	59.7	0.0	9.2	23,469	9.5
Inovance	300124 CH	BUY	52.66	75.00	42.4	Dec 2025	28.2	25.1	22.1	1.0	14.3	142,531	3.6
Shuanghuan Driveline	002472 CH	BUY	35.45	52.00	46.7	Dec 2025	23.9	21.9	17.8	0.5	13.4	30,130	2.7

Source: Bloomberg, UOB Kay Hian

- **On broader AI demand in 2027-28,** channel checks in Taiwan indicate no order cuts from the supply chain, but some investors noted higher inventory at certain component suppliers, such as AI-server power supply units, which is one of the more concerning signs. That said, this may be due to a slower production ramp in Vera Rubin as a result of the previously known HBM4 shortage. They also see 2028 as the main concern, with the more bearish investors expecting a yoy decline in capex. This is hard to verify through channel checks as: a) it is too far away, and b) many of the risks are geopolitical and therefore unpredictable.
- **Retail and long-only funds are still holding on, but confidence is low.** The investors specialising in China/Hong Kong are generally more pessimistic on the AI-trade – a sentiment much closer to that of local investors. Their view is that the sell-down in Chinese AI hardware will last for a while as positions in the previously crowded trades such as the optical interconnect and PCB supply chains are still too high, and the incentive to sell remains strong. However, the investors with broader Asia Pacific/global coverage are generally more optimistic and are looking for opportunities to revisit, possibly sometime in 1Q27, into selected names such as broad-based beneficiaries like TSMC, and the ASIC supply chain. The long-only funds still have elevated positions in the market and are generally looking for any rebound to raise cash levels; retail investors are still buying aggressively, especially local tech ETFs. Overall, while sentiment in the Taiwan market is weak, it is still significantly better than in the A/H-share and US markets.

Valuation/Recommendation

- **NAURA (002371 CH/BUY/Rmb783.20)** is a key wafer fabrication equipment (WFE) supplier to Huawei's foundry and OSAT upstream supply chains, positioning it to benefit directly as domestic foundries and OSATs expand production capacity. It is a relatively defensive play in the current market, given its position to benefit from accelerating, policy-driven localisation demand. We maintain BUY with a target price of Rmb783.20, based on 52.1x 2027 PE, pegged to 1SD above its historical forward mean.
- **CXMT (688825 CH/BUY/Rmb59.40)** should continue to deliver solid fundamentals as the DRAM shortage is expected to persist, while the expected moderation in consumer electronics DRAM prices from 2028 will be offset by a richer mix, as server DRAM/HBM contributions pick up. Maintain BUY, with a target price of Rmb59.40 based on 11.2x 2027 PE, in line with the average valuation of global DRAM IDMs during previous upcycles.
- **Inovance (300124 CH/BUY/Rmb75.00),** the largest general automation component supplier in China, should remain defensive as more funds rotate into embodied AI plays. We expect its embodied AI-related sales to grow 10x to Rmb100m in 2027, and margins should recover over the next few quarters as the company passes component cost hikes on to its clients. Maintain BUY with a target price of Rmb75.00, based on 31.5x 2027 PE, pegged to 1SD below its five-year historical mean.
- **Estun (002747 CH/BUY/Rmb35.70)** should sustain its margin expansion, backed by robust overseas order growth and solid progress in embodied robots. Management expects the overseas Cloos business to generate a total of 200m euros in revenue in 2027, compared with our estimate of around 100m euros in 2026, and Estun has won a 30m euros order from Caterpillar that should start contributing to revenue in 2027. Maintain BUY with a target price of Rmb35.70, based on 11.9x 2027 P/B.

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