IT Hardware

2Q26 Results: With Sector-wide Shortages Now, Buy Execution Over Bottlenecks

Highlights

- Results for the quarter ended Jun 26 were mixed across the sector. Export-driven AI infrastructure players benefitted from sustained AI demand and capex expansion, while handset-exposed companies with significant exposure to low-end Android devices delivered weaker results as rising memory costs weighed on shipment volumes.
- AI-related players are better positioned to pass on these costs amid strong inelastic AI demand, while consumer electronic players continue to face volume and margin pressure.
- We prefer AI infrastructure and supply chain beneficiaries that face fewer supply constraints than bottleneck-driven names, including NVIDIA supply chain suppliers such as FII and domestic equipment leaders such as NAURA and Han's Laser. Maintain OVERWEIGHT.
- Forex was a common theme this quarter, as renminbi appreciation led to foreign exchange losses across a number of export-oriented names.

Analysis

- **Hyperscaler AI spending continues to accelerate.** Capex guidance for the top four hyperscalers has been revised upward by US$30b to around US$733b for 2026; and on the China side, Tencent and Baidu's post-results capex estimates were raised by 18.1%/48.0% respectively, according to Bloomberg consensus. Overall, Trendforce now expects the top nine hyperscalers to spend a total of US$922b in 2026, representing a yoy growth of 98%, before growing another 50% yoy by 2027. The sustained elevation in cloud capex guidance/expectations is primarily driven by robust demand for AI compute, although the component price hikes are now playing a huge role as well, notably with memory price now expected to contribute 47% of 2026's total AI capex, before further jumping to 68% by 2027, while other components, such as PCB, MLCC, CPU, GPU, are all seeing price hikes amid strong demand growth. As a result, NVIDIA's Vera Rubin rack is expected to surge to >US$7m, vs around US$3.8m in Grace Blackwell (GB) racks.

  Nevertheless, we believe that the fact that hyperscalers are still willing to pay for the price premium shows how inelastic AI demand is currently, and we expect the customers to employ more system or algorithm level optimisation to offset the hardware price hikes instead of slowing down investment plans in the near future.

Analyst(s)

Johnny Yum
johnny.yum@uobkh.com
+852 2235 6760

Murphy Li
murphy.li@uobkh.com
+852 2826 4867

OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
ASMPT	0522 HK	BUY	158.60	211.00
FII	601138 CH	BUY	63.69	89.50
Han's Laser	002008 CH	BUY	87.67	153.20
NAURA	002371 CH	BUY	638.17	930.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 4 Sep 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)
AI and semiconductors													
ASMPT	522 HK	BUY	158.60	211.00	33.0	Dec 2025	60.9	38.0	27.6	1.3	9.9	67	3.7
FII	601138 CH	BUY	63.69	89.50	40.5	Dec 2025	37.2	20.7	16.9	2.7	32.6	1264	6.2
Lenovo	992 HK	BUY	32.40	49.00	51.2	Mar 2026	35.3	24.9	12.7	1.2	29.9	402	11.9
NAURA	002371 CH	BUY	638.17	930.00	45.7	Dec 2025	83.8	53.5	40.6	0.2	20.7	463	15.0
Sunny Optical	2382 HK	BUY	70.50	106.00	50.4	Dec 2025	14.1	16.0	14.1	1.4	13.3	76	2.4
Han's Laser	002008 CH	BUY	87.67	153.20	74.7	Dec 2025	75.9	28.3	22.3	0.7	15.6	90	5.1
AAC Technologies	2018 HK	BUY	42.96	47.80	11.3	Dec 2025	17.2	16.3	14.3	0.9	10.0	50	1.9
Lens Technology-H	6613 HK	BUY	23.84	43.10	80.8	Dec 2025	25.7	21.8	16.0	2.3	8.4	7	12.7
Lens Technology-A	300433 CH	BUY	35.14	48.40	37.7	Dec 2025	43.4	36.8	27.1	1.4	8.4	175	20.6
ZTE	763 HK	HOLD	23.40	22.30	(4.8)	Dec 2025	17.2	19.8	14.3	1.5	7.1	18	1.7
Xiaomi	1810 HK	HOLD	28.44	26.20	(7.9)	Dec 2025	15.9	27.7	23.4	0.0	7.9	733	2.3
BYD Electronic	285 HK	SELL	25.16	14.50	(42.4)	Dec 2025	14.1	28.0	17.2	0.9	5.0	57	1.8

Source: Bloomberg, UOB Kay Hian

- **Vera Rubin drives the next AI infrastructure build cycle.** Vera Rubin remains on track for mass production in 2027, following initial 3Q26 production validation to early shipments in 4Q26. Architectural upgrades over GB platforms – specifically higher-density direct liquid cooling manifolds and 1.6T scale-out optical interconnects – are driving meaningful content per rack increases for hardware integrators like FII and Lenovo.
- **Enterprise refresh adds a second demand engine.** The upcoming Windows 10 end-of-life is catalysing a broader enterprise hardware refresh cycle, while growing adoption of agentic AI is driving incremental investment in server infrastructure. As a result, demand for higher-specification, CPU-intensive traditional compute racks is accelerating, reigniting a higher-margin growth driver alongside AI rack deployments. Given that enterprise clients often yield a higher margin than Cloud Service Providers (CSP) clients, the pick-up in enterprise spending is positive for server OEMs on both volume and profitability – which are usually their IT infrastructure solution providers.
- **Consignment adoption reshapes ODM economics.** Faced with rising component costs, ODMs are increasingly adopting customer consignment models in place of traditional buy-and-sell arrangements, shifting short-term component cost risks to customers. Although this trend may reduce reported revenue by removing pass-through silicon costs, it structurally lifts gross margins and provides greater protection for bottom line profitability.
- **Data-centre readiness is setting the pace of AI deployment.** Infrastructure constraints – led by multi-year electric grid interconnect delays (3-7 years), long-count dark fibre builds (2-3 years), and lead times for facility-wide pumps and chillers (~1 year) – are delaying rack commissioning and revenue conversion despite strong underlying compute demand.
- **China's foundry capex spending is re-accelerating,** with CXMT now expected to register a 29.8% yoy capex growth in 2026, while YMTC is projected to kickstart the construction of Fab 4-6 from 2027 onwards immediately after the completion of Fab 3 by end-26. Also, given that mature node capacity is now running at >95%, Hua Hong last week announced a US$4.2b expansion plan for 55k wpm of specialty node capacity as well. The surging AI demand is now driving an acceleration in wafer fabrication equipment (WFE) spending, coupled with an acceleration in the import substitution trend which should continue to drive elevated growth for Chinese WFE suppliers through 2026-28.
- **Forex and rates remain key macro risks.** Continued renminbi appreciation (+4.1% ytd vs US$) is driving forex losses and weighing on net profit for domestic export-oriented hardware suppliers, while potential US rate hikes could increase hyperscaler funding costs and delay future AI infrastructure spending. That said, with a better base effect, we expect the forex impact to gradually reside going forward.

Valuation/Recommendation

- **Investment sentiment is shifting away from bottlenecks, with execution and supply chain security as the key focus.** Given the sheer scale of AI infrastructure buildout through the foreseeable future, almost all sub-segments of the supply chain are experiencing varying degrees of supply shortages, which makes bottleneck trades less meaningful now. Our discussion with investors shows that focus has been shifted towards the identification of names that have better execution, which helps them secure better supply, or sub-segments with fewer limitations that help the industry resolve the supply-side bottlenecks.
- **Foxconn Industrial Internet (601138 CH/BUY/Rmb89.50).** We remain constructive on FII given its dominant share (>50%) as NVIDIA's primary VR NVL72 rack ODM partner. The company continues to benefit from robust demand for AI rack systems, with order visibility extending into 2027, as well as NVIDIA's solid execution and capabilities to secure the most upstream

supply. Beyond its core hyperscaler customers, FII is actively targeting NeoCloud and sovereign cloud providers, expanding its customer base beyond the US to a more global footprint. We also see further earnings upside from rising content per rack, driven by increasing server complexity. Combined with growing ASIC server exposure, FII remains one of our preferred AI infrastructure beneficiaries. Maintain BUY with a target price of Rmb89.50 based on 23.7x 2027F PE, pegged to 2SD above the historical average mean.

- **ASMPT (522 HK/BUY/HK$211.00) remains a direct beneficiary of the AI-driven advanced packaging investment cycle.** As foundries, memory suppliers and OSATs accelerate capacity expansion to support demand, spending on advanced packaging infrastructure continues to rise. With top positions in TCB, hybrid bonding, high-precision die attachment and photonics, ASMPT is increasingly leveraged to industry-wide packaging intensity rather than any single end customer or technology node. Looking beyond 2027, structural transitions – including the evolution of HBM architectures, the mass implementation of CPO at scale, and the commercial adoption of panel-level packaging – should provide additional growth vectors beyond the current AI server buildout cycle. Maintain BUY, with a target price of HK$211.00 based on 2027F P/B of 4.6x, pegged to 3SD above its 10-year historical forward mean.
- **NAURA (002371 CH/BUY/Rmb930.00): China's localisation drive and multi-node capacity expansion continue to reinforce domestic WFE demand.** With extreme ultraviolet (EUV) access restricted, Chinese fabs are extending deep ultraviolet (DUV) based nodes through multi-patterning, lifting demand for front-end tools used in advanced-node fabrication. Demand for specialty process technologies remains robust, with SMIC and Hua Hong operating at 94% and 103% utilisation, respectively, prompting further capacity additions and equipment investments across China's leading foundries. We also expect memory makers to remain a key growth driver, with continued capacity expansion at CXMT and YMTC driven by tight memory supply and domestic localisation. Maintain BUY with a target price of Rmb930.00 based on 59.0x 2027F PE, pegged to 1.5SD above the five-year historical forward mean.
- **Han’s Laser (002008 CH/BUY/Rmb153.20): AI PCB complexity fuels equipment demand.** As mainboard layer counts scale from 28-34 in Blackwell to over 40 in Rubin and even above 100 in Feynman, multi-pass lamination, sub-25µm registration tolerances, and micro via drilling create severe yield drag and throughput bottlenecks. Thus, fabricators are increasing capex to expand production capacity, directly benefitting specialised equipment providers like Han's Laser through its subsidiary Han's CNC across mechanical/laser drilling, laser direct imaging exposure, and automated optical inspection. Maintain BUY with a target price of Rmb153.20 based on 39.9x 2027F PE, pegged to 1SD above its historical mean.