

ZTE Corporation (763 HK)

3Q26: Operating Profit Dragged Down By Weak Margins And High Operating Expenses

Highlights

- 3Q26 revenue rose 34% yoy to Rmb38.8b and reported net profit surged 395% yoy to Rmb1.3b, 6%/30% above consensus, but operating profit missed by 79% on higher operating expenses.
- 4Q26 should remain flattish qoq as weak domestic telco offsets renewed sequential growth in compute; 2027 looks like another year of moderate growth, led by overseas telco and compute businesses.
- Maintain HOLD and cut target price to HK\$19.20 as we lower our 2026-28 net profit estimates by 6.3%/13.8%/4.8% respectively.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	yoy (%)	qoq (%)
Revenue	28,967	43,037	38,813	34.0	(9.8)
Gross profit	7,489	9,991	9,534	27.3	(4.6)
OP income	(565)	691	88	n.m.	(87.3)
Net profit	264	1,442	1,307	394.5	(9.4)
Margins (%)					
GPM	25.9	23.2	24.6	(1.3)	1.3
OPM	(2.0)	1.6	0.2	2.2	(1.4)
NPM	0.9	3.4	3.4	2.5	0.0

Source: ZTE, UOB Kay Hian

Analysis

- Revenue beat but operating profit missed.** Revenue grew 34.0% yoy but fell 9.8% qoq to Rmb38,813m, beating consensus by 5.8%. Gross margin remained low at 24.6% (-1.3ppt yoy, +1.3ppt qoq), in line with consensus. Operating profit dropped 87.3% qoq to Rmb88m, missing consensus by 79.3% due to higher-than-expected operating expenses. Reported net profit rose 394.5% yoy but fell 9.4% qoq to Rmb1,307m, beating consensus by 30.2%, supported by Rmb501m in fair-value gains on trading financial assets. This translates to a core net profit of RMB593m, down 53.8% qoq, although it turned positive versus the same period last year.
- Compute-related revenue moderated sequentially** by around 5.2% qoq to Rmb17b in 3Q26, due to a high-base effect, as 2Q26's delivery also included orders from 1Q26 that were pushed back into the quarter amid memory supply shortages. Note that ZTE Corporation (ZTE) has stocked up on ample memory supplies as seen in the Rmb18b sequential increase in inventory in 3Q26, as the company expects further price hikes going forward. This also means that order deliveries should be much smoother going forward.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	121,299	133,895	155,478	176,864	198,845
EBITDA	12,045	7,567	5,533	7,603	9,602
Operating profit	7,403	3,215	2,298	4,161	6,194
Net profit (rep./act.)	8,425	5,618	4,567	5,823	7,344
EPS (Fen)	178.0	117.4	95.5	121.7	153.5
PE (x)	9.8	14.0	17.2	13.5	10.7
P/B (x)	1.4	1.3	1.6	1.7	1.9
EV/EBITDA (x)	10.0	14.9	20.8	15.6	12.6
Dividend yield (%)	2.1	2.2	1.7	2.2	2.8
Net margin (%)	6.9	4.2	2.9	3.3	3.7
Net debt/(cash) to equity (%)	31.7	20.7	28.8	37.9	45.9
Interest cover (x)	(28.0)	(14.2)	(5.0)	(15.4)	83.8
ROE (%)	12.0	7.6	6.6	9.7	13.3
Consensus net profit	-	-	5,857	6,811	7,489
UOBKH/Consensus (x)	-	-	0.78	0.85	0.98

Source: ZTE, Bloomberg, UOB Kay Hian

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HOLD (Maintained)

Share Price	HK\$19.10
Target Price	HK\$19.20
Upside	0.5%
Previous TP	HK\$22.30

Stock Data

Sector	Information Technology
Bloomberg ticker	763 HK
Shares issued (m)	4,784
Market cap (HK\$m)	91,366
Market cap (US\$m)	11,714
3-mth avg daily t'over (US\$m)	26.3

Price Performance (%)

52-week high/low			HK\$42.44 / HK\$18.39	
1mth	3mth	6mth	1yr	YTD
(14.9)	(22.2)	(21.2)	(52.7)	(29.5)

Major Shareholders (%)

Zhongxingxin	20.09
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Balance Sheet Metrics

2026 NAV/Share (Rmb)	11.72
2026 Net Debt/Share (Rmb)	28.78

Price Chart



Source: Bloomberg

Company Description

ZTE Corporation develops and markets switches, access servers, videoconferencing systems, mobile communication systems, data communication devices, and optical communication devices.

- **4Q26 to remain flattish sequentially as domestic telco business remains sluggish.** By segment, we understand that the overall telco business was flattish qoq, but the mix had remained weak as the segment was primarily driven by a 30% growth in the overseas business which has lower margins, while the higher margin domestic business remained on a low-teens % downtrend. On the other hand, compute-related products should see a resumption in sequential growth (vs slight decline in 3Q26 on the back of a high base), while consumer electronics is expected to maintain stable growth as well. Overall, revenue and gross margins in 4Q26 should remain flattish, although some year-end expenses and costs may impact the bottom line at the operating/non-op expense level.
- **2027 will seemingly be another year of moderate growth** as the domestic telco business remains sluggish while the overseas telco business outperforms. Government and corporate (ie compute-related) business are expected to continue delivering robust growth with moderate margin expansion, and consumer products should register stable growth.

Valuation/Recommendation

- **Maintain HOLD with a lower target price of HK\$19.20**, still based on 13.6x 2027F PE, 2SD below its five-year historical mean.

Earnings Revision/Risk

- We cut our 2026-28 net profit estimates by 6.3%/13.8%/4.8% to Rmb4,567m/Rmb5,823m/Rmb7,344m, respectively, leaving our revenue forecasts unchanged, primarily reflecting lower gross margin assumptions and higher operating expense and interest rate assumptions.

Changes To 2026-28 Estimates

Year to 31 Dec	Old estimates			New estimates			Differences (%)		
(Rmbm)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	155,478	176,864	198,845	155,478	176,864	198,845	-	-	-
Gross profit	41,142	46,326	52,017	39,768	45,547	51,531	(3.3)	(1.7)	(0.9)
Operating profit	3,361	5,648	6,880	2,298	4,161	6,194	(31.6)	(26.3)	(10.0)
Reported NP	4,876	6,753	7,716	4,567	5,823	7,344	(6.3)	(13.8)	(4.8)
GPM (%)	26.5	26.2	26.2	25.6	25.8	25.9	(0.9)	(0.4)	(0.2)
OPM (%)	2.2	3.2	3.5	1.5	2.4	3.1	(0.7)	(0.8)	(0.3)
NPM (%)	3.1	3.8	3.9	2.9	3.3	3.7	(0.2)	(0.5)	(0.2)

Source: ZTE, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	133,895	155,478	176,864	198,845
EBITDA	7,567	5,533	7,603	9,602
Deprec. & amort.	(4,352)	(3,235)	(3,442)	(3,408)
EBIT	3,215	2,298	4,161	6,194
Total other non-operating income	2,488	2,199	1,627	1,627
Associate contributions	373	373	373	373
Net interest income/(expense)	227	462	270	(74)
Pre-tax profit	6,303	5,333	6,431	8,120
Tax	(738)	(800)	(643)	(812)
Minorities	53	34	35	35
Net profit	5,618	4,567	5,823	7,344

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	3,919	19,431	9,979	11,873
Pre-tax profit	6,303	5,333	6,431	8,120
Tax	(7,648)	(7,648)	(7,648)	(7,648)
Depreciation/amortization	4,352	3,235	3,442	3,408
Associates	(373)	(373)	(373)	(373)
Working capital changes	(7,769)	(93)	(4,746)	(4,873)
Non-cash items	9,055	18,978	12,873	13,239
Other operating cashflows	-	-	-	-
Investing	(6,876)	(11,759)	(12,072)	(12,420)
Capex (growth)	(3,893)	(4,321)	(4,463)	(4,622)
Investments	(1,422)	(5,720)	(5,720)	(5,720)
Proceeds from sale of assets	-	-	-	-
Others	(1,561)	(1,717)	(1,889)	(2,078)
Financing	530	(1,951)	(1,583)	(2,023)
Dividend payments	(4,368)	(1,951)	(1,583)	(2,023)
Issue of shares	-	-	-	-
Net proceeds from borrowings	5,473	-	-	-
Others/interest paid	(575)	-	-	-
Net cash inflow (outflow)	(2,427)	5,720	(3,676)	(2,570)
Beginning cash & cash equivalent	28,026	25,482	31,203	27,526
Changes due to forex impact	(117)	-	-	-
Ending cash & cash equivalent	25,482	31,203	27,526	24,956

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	13,422	13,208	12,907	12,560
Other LT assets	60,384	61,345	61,377	61,590
Cash/ST investment	25,482	31,203	27,526	24,956
Other current assets	118,451	118,663	129,941	141,511
Total assets	217,739	224,419	231,751	240,617
ST debt	3,629	3,629	3,629	3,629
Other current liabilities	75,631	94,735	107,654	120,916
LT debt	45,713	45,713	45,713	45,713
Other LT liabilities	17,126	17,126	17,126	17,126
Shareholders' equity	75,426	63,035	57,483	53,123
Minority interest	216	181	146	111
Total liabilities & equity	217,739	224,419	231,751	240,617

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	30.3	25.6	25.8	25.9
Pretax margin	4.7	3.4	3.6	4.1
Net margin	4.2	2.9	3.3	3.7
ROA	2.6	2.0	2.5	3.1
ROE	7.6	6.6	9.7	13.3
Growth				
Turnover	10.4	16.1	13.8	12.4
Gross profit	(11.9)	(1.8)	14.5	13.1
Pre-tax profit	(31.7)	(15.4)	20.6	26.3
Net profit	(33.3)	(18.7)	27.5	26.1
Net profit (adj)	(33.3)	(18.7)	27.5	26.1
EPS	(34.0)	(18.7)	27.5	26.1
Leverage				
Debt to total capital	22.7	22.0	21.3	20.5
Debt to equity	65.4	78.3	85.8	92.9
Net debt to equity	20.7	28.8	37.9	45.9
Interest cover (x)	(14.2)	(5.0)	(15.4)	83.8

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