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China Technology

Solid MLCC price hike, with limited impact on downstream cost: Takeaways from supply chain chat

We hosted an industry expert call and a fireside chat with Fenghua (000636 CH, Not Covered) to understand recent MLCC pricing and supply-demand dynamics in the China market. The MLCC price hike is solid, especially for the spot market; however, with much lower (2-3%) bill-of-material (BOM) exposure, the overall MLCC cost impact is limited for downstream, in our view. However, we remain cautious on consumer electronic applications, especially the Android smartphone supply chain, with weakening demand from 2Q26 onward; we prefer the iPhone supply chain, thanks to stronger-than-expected volume, a more favorable model mix and a new iPhone debut. Luxshare and Cowell are our top picks in downstream.

- **Key takeaways:** (1) MLCC suppliers are running at almost full utilization (>90% for international and >80% for domestic suppliers) due to limited capacity additions since 2019; (2) spot market prices are up 250-300% YTD, while contract pricing remains less aggressive, with price increases for select products and supply skewed to high-ASP portfolios; (3) server demand is driving the cycle, with 2026 server MLCC (volume) demand estimated at ~2.5x 2025; lower yield of server MLCC (e.g. 45-65%, vs. normal product at 85-95%) could further weigh on shortages; (4) high-end supply is concentrated among Japanese and Korean manufacturers prioritizing AI server-grade products, while low-end availability is tightening due to speculation and spillover effects; and (5) Mainland Chinese players are positioned to benefit from spillover in non-AI high-capacitance orders.

- **Supply chain impact:** We estimate that MLCC accounts for about 2-3% of total BOM for most consumer electronic applications, such as smartphones. Despite weakening demand and rising memory cost, an MLCC price hike of about 20% (to avoid potential supply disruption) has a limited impact and is well accepted by end users. Meanwhile, our recent checks suggest recovering demand for automotive and industry applications in 2Q26; this could support price hikes for non-AI high-capacitance products, which benefit from spillover the most, in our view.

- **Stock picks:** Despite a limited cost impact from MLCC price hikes, we remain cautious on consumer electronics, especially for the Android smartphone supply chain. We prefer the iPhone supply chain thanks to stronger-than-expected volume, a more favorable model mix and a new iPhone debut. Luxshare and Cowell are top beneficiaries, in our view, and both are rated OW.

Technology

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See page 2 for analyst certification and important disclosures, including non-US analyst disc