TFC Optical (300394.SZ)

1.6T optical engines sequential ramp-up, CPO scale-out/ scale-up opportunities; TP raised to Rmb436; Buy

300394.SZ	12m Price Target: **Rmb436.00**	Price: **Rmb326.30**	Upside: **33.6%**

BUY

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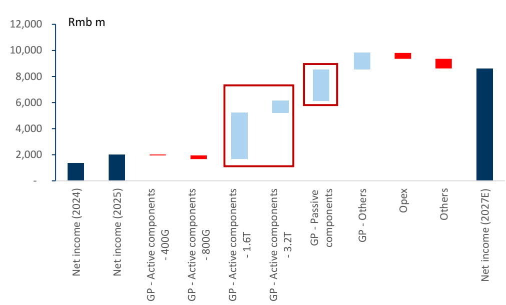
We are positive on TFC Optical and raise TP to Rmb436 to reflect (1) rising GS estimates on global optical modules TAM (Report link), and TFC as a key OE (Optical Engine) supplier, (2) incremental revenues from CPO scale-out and scale-up optical market (Report link), and (3) gradual expansion of optical module assembly business with higher content value. Following the 7% QoQ growth in 1Q26, we expect to see sequential QoQ growth ahead on improving optics chips supply and 1.6T products ramp up. We remain constructive on TFC Optical with its capabilities of offering a total solution (optical engine, FAU, ELS, optical module assembly etc.), benefiting from the growing optical module market and incremental CPO scale-out/ scale-up opportunities. Maintain Buy.

Exhibit 1: 1.6T/ 3.2T Optical engine and passive components as key drivers in 2025-28E
Waterfall chart in 2025-28E



Source: Company data, Goldman Sachs Global Investment Research

Rising optical module volume estimates: We recently raised 800G and above optical module volume TAM by 14%/ 29%/ 33% in 2026-28E (report link) to reflect rising demand driven by the AI server infrastructure cycle, and expect 800G/1.6T optical shipment volume at 34m/26m units in 2026E, growing to 45m/46m in 2027E, with 3.2T shipment ramping up to 13m units in 2027E. We view TFC

Key Data

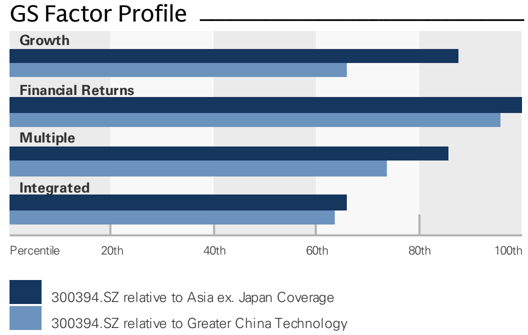
Market cap: Rmb253.7bn / $37.3bn
Enterprise value: Rmb250.6bn / $36.8bn
3m ADTV: Rmb12.9bn / $1.9bn
China
Greater China Technology
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn) New	**5,163.4**	**10,546.7**	**15,472.9**	**20,540.0**
Revenue (Rmb mn) Old	5,517.5	9,664.8	13,069.0	–
EBITDA (Rmb mn)	2,434.1	5,057.7	7,558.6	9,936.7
EPS (Rmb) New	**2.60**	**5.58**	**8.44**	**11.09**
EPS (Rmb) Old	2.67	5.20	7.24	–
P/E (X)	42.4	58.5	38.7	29.4
P/B (X)	15.5	31.2	21.0	14.7
Dividend yield (%)	0.9	0.7	1.0	1.4
CROCI (%)	80.8	107.1	109.4	113.9

	3/26	6/26E	9/26E	12/26E
EPS (Rmb)	0.63	0.97	1.90	2.08

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

BUY

TFC Optical (300394.SZ)

Rating since Dec 17, 2025

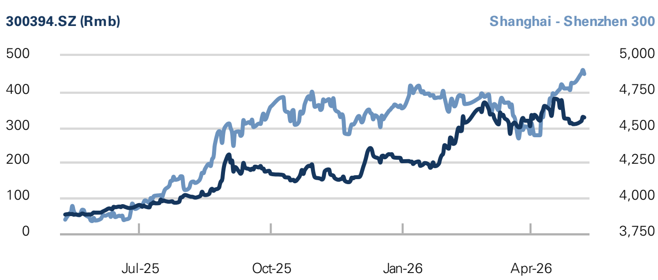
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	42.4	58.5	38.7	29.4
P/B (X)	15.5	31.2	21.0	14.7
FCF yield (%)	1.7	0.7	2.2	2.8
EV/EBITDAR (X)	33.9	49.5	32.8	24.6
EV/EBITDA (excl. leases) (X)	33.9	49.5	32.8	24.6
CROCI (%)	80.8	107.1	109.4	113.9
ROE (%)	42.5	63.7	65.1	58.9
Net debt/equity (%)	(54.3)	(38.3)	(49.3)	(55.1)
Net debt/equity (excl. leases) (%)	(54.3)	(38.3)	(49.3)	(55.1)
Interest cover (X)	1,956.7	4,066.3	6,107.9	8,037.0
Days inventory outst, sales	28.5	43.5	52.4	53.3
Receivable days	67.3	67.3	70.0	70.0
Days payable outstanding	62.8	79.0	81.0	81.0
DuPont ROE (%)	36.6	53.4	54.4	50.1
Turnover (X)	0.8	1.0	1.1	1.0
Leverage (X)	1.2	1.3	1.2	1.2
Gross cash invested (ex cash) (Rmb)	2,836.0	5,501.3	6,829.9	8,743.0
Average capital employed (Rmb)	2,283.2	3,761.1	5,554.6	6,914.7
BVPS (Rmb)	7.09	10.44	15.51	22.16

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	58.8	104.3	46.7	32.7
EBITDA growth	55.7	107.8	49.4	31.5
EPS growth	49.7	114.8	51.3	31.4
DPS growth	49.7	114.9	51.3	31.4
EBIT margin	44.8	46.3	47.4	47.0
EBITDA margin	47.1	48.0	48.9	48.4
Net income margin	39.1	41.1	42.4	42.0

Price Performance



	3m	6m	12m
Absolute	29.0%	86.5%	497.8%
Rel. to the Shanghai - Shenzhen 300	22.9%	79.1%	372.7%

Source: FactSet. Price as of 8 May 2026 close.

Income Statement (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	5,163.4	10,546.7	15,472.9	20,540.0
Cost of goods sold	(2,377.1)	(5,041.3)	(7,371.1)	(9,961.8)
SG&A	(209.0)	(289.3)	(383.8)	(487.2)
R&D	(266.6)	(336.6)	(388.4)	(446.6)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**2,434.1**	**5,057.7**	**7,558.6**	**9,936.7**
Depreciation & amortization	(123.4)	(178.2)	(229.1)	(292.3)
EBIT	**2,310.7**	**4,879.5**	**7,329.5**	**9,644.4**
Net interest inc./(exp.)	80.1	56.3	46.8	46.8
Income/(loss) from associates	(1.4)	–	–	–
Pre-tax profit	**2,343.9**	**4,891.7**	**7,368.3**	**9,683.2**
Provision for taxes	(326.2)	(557.0)	(810.5)	(1,065.2)
Minority interest	(0.4)	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**2,017.3**	**4,334.7**	**6,557.8**	**8,618.1**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**2,017.3**	**4,334.7**	**6,557.8**	**8,618.1**
EPS (basic, pre-except) (Rmb)	**2.60**	**5.58**	**8.44**	**11.09**
EPS (diluted, pre-except) (Rmb)	**2.60**	**5.58**	**8.44**	**11.09**
EPS (basic, post-except) (Rmb)	**2.60**	**5.58**	**8.44**	**11.09**
EPS (diluted, post-except) (Rmb)	**2.60**	**5.58**	**8.44**	**11.09**
DPS (Rmb)	1.04	2.23	3.38	4.44
Div. payout ratio (%)	40.0	40.0	40.0	40.0

Balance Sheet (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	2,996.7	3,110.1	5,945.2	9,495.3
Accounts receivable	1,123.9	2,765.9	3,169.0	4,709.4
Inventory	457.2	2,056.5	2,386.3	3,618.1
Other current assets	270.7	361.5	461.5	559.5
Total current assets	**4,848.4**	**8,294.0**	**11,962.1**	**18,382.4**
Net PP&E	1,115.2	1,511.1	1,677.5	1,721.3
Net intangibles	89.8	40.8	38.4	(2.3)
Total investments	9.3	9.3	9.3	9.3
Other long-term assets	386.6	386.6	386.6	386.6
Total assets	**6,449.3**	**10,241.9**	**14,073.8**	**20,497.3**
Accounts payable	495.1	1,687.2	1,584.4	2,837.0
Short-term debt	1.7	1.7	1.7	1.7
Short-term lease liabilities	–	–	–	–
Other current liabilities	412.2	412.2	412.2	412.2
Total current liabilities	**909.0**	**2,101.1**	**1,998.3**	**3,250.9**
Long-term debt	–	–	–	–
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	27.6	27.6	27.6	27.6
Total long-term liabilities	**27.6**	**27.6**	**27.6**	**27.6**
Total liabilities	**936.6**	**2,128.7**	**2,025.9**	**3,278.5**
Preferred shares	–	–	–	–
Total common equity	5,506.0	8,106.8	12,041.5	17,212.3
Minority interest	**6.4**	**6.4**	**6.4**	**6.4**
Total liabilities & equity	**6,449.3**	**10,241.9**	**14,073.8**	**20,497.3**
Net debt, adjusted	(2,995.0)	(3,108.4)	(5,943.6)	(9,493.7)

Cash Flow (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Net income	2,017.3	4,334.7	6,557.8	8,618.1
D&A add-back	123.4	178.2	229.1	292.3
Minority interest add-back	0.4	–	–	–
Net (inc)/dec working capital	(278.8)	(2,049.3)	(835.6)	(1,519.6)
Other operating cash flow	5.9	–	–	1.0
Cash flow from operations	**1,868.2**	**2,463.6**	**5,951.3**	**7,391.7**
Capital expenditures	(417.5)	(616.3)	(493.0)	(394.4)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	153.0	–	–	–
Cash flow from investing	**(264.5)**	**(616.3)**	**(493.0)**	**(394.4)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(806.9)	(1,733.9)	(2,623.1)	(3,447.2)
Inc/(dec) in debt	(39.9)	–	–	–
Other financing cash flows	261.3	0.0	0.0	0.0
Cash flow from financing	**(585.5)**	**(1,733.9)**	**(2,623.1)**	**(3,447.2)**
Total cash flow	**1,018.2**	**113.4**	**2,835.2**	**3,550.1**
Free cash flow	1,450.7	1,847.3	5,458.3	6,997.3

Source: Company data, Goldman Sachs Research estimates.

Optical as a key supplier of optical engine, benefiting from optical module growth with its capacity expansion.

Incremental opportunities CPO solution: We analyze CPO scale-out/ scale-up opportunities across different server rack configurations (report link) and our high-end estimates imply CPO TAM (incl. OE, FAU, ELS, Fiber cable, Shufflebox etc.) is at US$97bn in total in 2026-28E, supported by clients' demand on short distance connection and higher bandwidth. TFC Optical has started the scale-out OE and FAU business, and we expect the company to benefit from the incremental dollar content increase of NPO and CPO scale-out and scale-up solution.

Earnings revision: We factor in TFC Optical 4Q25/ 1Q26 earnings, raise 2026/ 27E earnings by 7%/ 17% mainly on higher revenues, and introduce 2028E estimates. We revise up revenues to reflect (1) higher optical engines and passive component revenues on rising optical module estimates, (2) expanding module assembly business, and (3) incremental revenues CPO scale-out and scale-up solution.

Exhibit 2: Earnings revision

	2026E			2027E			2028E		
NT$m	Old	New	Diff %	Old	New	Diff %	Old	New	Diff %
Revenues	9,665	10,547	9%	13,069	15,473	18%		20,540	
GP	5,090	5,505	8%	7,044	8,102	15%		10,578	
OP	4,485	4,880	9%	6,282	7,329	17%		9,644	
Net income	4,044	4,335	7%	5,626	6,558	17%		8,618	
Margins									
GM	52.7%	52.2%		53.9%	52.4%			51.5%	
OPM	46.4%	46.3%		48.1%	47.4%			47.0%	
NM	41.8%	41.1%		43.0%	42.4%			42.0%	

Source: Company data, Goldman Sachs Global Investment Research

Valuation: We change the valuation methodology from near-term P/E to discounted P/E methodology to capture the company's long-term growth, which is in line with our Greater China Tech coverage. Our 2030E target P/E of 29x is derived from the correlation between peers P/E and forward year NI YoY. We apply the 29x target P/E to 2030E EPS and discount it back to 2027E with a COE of 11%. The new TP is at Rmb436 (vs. previously at Rmb271). Our TP-implied 2027E P/E is at 41x, which is within the stock's historical average and average +1std forward trading P/E range.

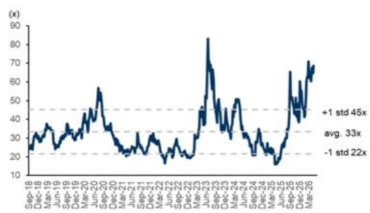
Exhibit 3: TFC Optical discounted P/E

Rmb mn	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	**1,196**	**1,939**	**3,252**	**5,163**	**10,547**	**15,473**	**20,540**	**26,291**	**32,864**	**40,423**	**48,507**
Rev YoY %	*16%*	*62%*	*68%*	*59%*	*104%*	*47%*	*33%*	*28%*	*25%*	*23%*	*20%*
Gross margin	51.6%	54.3%	57.2%	54.0%	52.2%	52.4%	51.5%	51.5%	51.5%	51.4%	51.4%
Gross profit	618	1,053	1,861	2,786	5,505	8,102	10,578	13,540	16,925	20,777	24,933
Opex	**214**	**261**	**418**	**476**	**626**	**772**	**934**	**1,116**	**1,231**	**1,191**	**1,235**
Opex ratio	18%	13%	13%	9%	6%	5%	5%	4%	4%	3%	3%
OP income	**403**	**792**	**1,442**	**2,311**	**4,880**	**7,329**	**9,644**	**12,424**	**15,694**	**19,587**	**23,698**
OPM	*34%*	*41%*	*44%*	*45%*	*46%*	*47%*	*47%*	*47%*	*48%*	*48%*	*49%*
Non-op gains	48	49	93	33	12	39	39	39	39	39	39
Pre-tax profit	**451**	**841**	**1,535**	**2,344**	**4,892**	**7,368**	**9,683**	**12,463**	**15,733**	**19,625**	**23,737**
Tax expense	46	111	192	326	557	811	1,065	1,371	1,731	2,159	2,611
Minority interest	2	(0)	(1)	0	-	-	-	-	-	-	-
Net profit	**403**	**730**	**1,344**	**2,017**	**4,335**	**6,558**	**8,618**	**11,092**	**14,002**	**17,467**	**21,126**
YoY	32%	81%	84%	50%	115%	51%	31%	29%	26%	25%	21%
EPS	1.54	1.71	0.89	1.07	5.54	10.60	15.09	19.42	24.51	30.58	36.99
2030 Target P/E									29.0x		
12M target price (HK$)						**436**					
TP implied P/E						**41**	**29**				

COE assumption	
Beta	1.20
Risk free	3.5%
Market risk premium	6.5%
COE	**11%**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: TFC Optical 12M forward P/E



Source: Refinitiv Eikon

Exhibit 5: TFC Optical P&L Summary

Rmb m	2023	2024	2025	2026E	2027E	2028E	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E
Income statement														
Revenue	1,939	3,252	5,163	10,547	15,473	20,540	945	1,511	1,463	1,245	1,330	1,931	3,606	3,679
Gross profit	1,053	1,861	2,786	5,505	8,102	10,578	501	746	785	754	753	974	1,829	1,949
OP income	792	1,442	2,311	4,880	7,329	9,644	386	624	655	646	606	831	1,644	1,798
Pretax income	841	1,535	2,344	4,892	7,368	9,683	395	639	658	651	574	846	1,659	1,813
Net income	730	1,344	2,017	4,335	6,558	8,618	338	562	566	552	492	753	1,476	1,613
EBITDA	879	1,563	2,434	5,058	7,559	9,937	417	655	686	677	651	876	1,689	1,843
EPS, diluted (Rmb)	0.94	1.73	2.60	5.58	8.44	11.09	0.44	0.72	0.73	0.71	0.63	0.97	1.90	2.08
Ratios														
R&D to rev	7.4%	7.1%	5.2%	3.2%	2.5%	2.2%	6.5%	4.2%	5.1%	5.3%	6.6%	4.3%	2.7%	1.9%
Opex ratio	13.5%	12.9%	9.2%	5.9%	5.0%	4.5%	12.2%	8.1%	8.9%	8.7%	11.0%	7.4%	5.1%	4.1%
Tax rate	13.2%	12.5%	13.9%	11.4%	11.0%	11.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Margins														
Gross margin	54.3%	57.2%	54.0%	52.2%	52.4%	51.5%	53.0%	49.4%	53.7%	60.6%	56.6%	50.4%	50.7%	53.0%
Operating margin	40.8%	44.3%	44.8%	46.3%	47.4%	47.0%	40.9%	41.3%	44.8%	51.9%	45.6%	43.0%	45.6%	48.9%
Pretax margin	43.4%	47.2%	45.4%	46.4%	47.6%	47.1%	41.8%	42.3%	45.0%	52.3%	43.2%	43.8%	46.0%	49.3%
Net margin	37.6%	41.3%	39.1%	41.1%	42.4%	42.0%	35.7%	37.2%	38.7%	44.3%	37.0%	39.0%	40.9%	43.9%
YoY														
Revenue	62%	68%	59%	104%	47%	33%	29%	83%	74%	45%	41%	28%	147%	195%
Gross profit	70%	77%	50%	98%	47%	31%	23%	51%	59%	62%	50%	3[illegible]	[illegible]	[illegible]
OP income	96%	82%	60%	111%	50%	32%	26%	63%	71%	75%	57%	3[illegible]	[illegible]	[illegible]
Pretax income	86%	83%	53%	109%	51%	31%	22%	52%	77%	55%	45%	3[illegible]	[illegible]	[illegible]
Net income	81%	84%	50%	115%	51%	31%	21%	50%	76%	50%	46%	3[illegible]	[illegible]	[illegible]

Source: Company data, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - TFC Optical

We are Buy rated on TFC Optical with a 12-month target price of Rmb4 based on a 29x discounted 2030E P/E (discounted back to 2027E).

Key downside risks: 1) slower-than-expected demand; 2) geopolitical issues could lead to supply chain disruptions; 3) slower-than-expected CPO adoption; 4) weaker-than-expected market share position in the 1.6T/ 3.2T cycle.