Morgan Stanley | RESEARCH

IDEA

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Cambrican Technology Corporation | Asia Pacific

2Q26 Preview: Delivery slippage clouds near-term upside; Keep OW

WHAT'S CHANGED		
Cambricon Technology Corporation (688256.SS)	**From**	**To**
Price Target	Rmb1,528.00	**Rmb1,408.00**

We trim our estimates and lower our PT to Rmb1,408 as MLU580/590 deliveries have lagged expectations. We maintain our OW rating, supported by the structural growth outlook for China's domestic AI accelerator market.

2Q26 preview: modest delivery slippage prompts a small estimate cut. We expect Cambricon to report 2Q26 revenue of Rmb3.8bn (up 31% Q/Q) and EPS of Rmb2.09. We lower our prior revenue estimate by 2%, as supply-chain checks indicate slower-than-expected MLU580/590 deliveries. We attribute the shortfall mainly to production ramp, memory availability, and system-level delivery timing, rather than weaker underlying demand. However, slower order-to-revenue conversion suggests supply-chain execution remains a near-term constraint.

The equity incentive plan appears more retention-oriented than a signal of earnings potential. Cambricon plans to grant 5mn restricted shares at Rmb750 per share to 945 employees, covering 85% of staff. Revenue targets range from Rmb10.8bn–13.5bn in 2026 to Rmb47.6bn–59.5bn in 2028, while adjusted net profit is required to reach Rmb9.2bn in 2027 and Rmb13.8bn in 2028. As these targets are meaningfully below market expectations, we do not view them as management guidance. Instead, the broad coverage and discounted grant price suggest the plan is primarily an employee-retention mechanism.

We remain constructive on China's domestic AI accelerator opportunity. We recently raised our 2030 China AI chip TAM forecast to US$91bn, implying a 23% CAGR over 2025–30 (see Raising China AI GPU TAM on recent geopolitical dynamics). WAIC 2026 (see our WAIC takeaways) also highlighted a shift in competition from standalone chips toward system-level scaling, with most vendors showcasing over 128-card SuperPod solutions. Prefill/decode disaggregation is also emerging as an important inference architecture, expanding the addressable market while raising requirements for system performance and software maturity.

Keep OW; lower PT to Rmb1,408. We cut our 2026/27/28E EPS by 6%/5%/8% to reflect slower deliveries and ongoing supply-chain uncertainty. Competition is also likely to intensify as peers launch new products in 2H26, testing Cambricon's relative performance and price-to-performance positioning. We nevertheless retain OW given the company's strategic position in China's domestic AI compute ecosystem and the structural growth outlook for local accelerator demand.

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Cambricon Technology Corporation (688256.SS, 688256 CG)

Greater China Technology Semiconductors | China

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	Rmb1,408.00
Up/downside to price target (%)	23
Shr price, close (Jul 29, 2026)	Rmb1,146.90
52-Week Range	Rmb1,620.00-449.66
Sh out, dil, curr (mn)	628
Mkt cap, curr (mn)	Rmb720,589.2
EV, curr (mn)	Rmb714,711.0
Avg daily trading value (mn)	Rmb13,346

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (Rmb)**	4.9	11.6	18.4	24.5
Prior EPS (Rmb)**	-	12.4	19.5	26.6
EPS (Rmb)§	-	10.5	16.9	27.0
Revenue, net (Rmb mn)	6,497.2	21,313.9	40,056.2	51,480.1

EBITDA (Rmb mn)	2,211.2	7,351.1	13,619.5	18,105.7
ModelWare net inc (Rmb mn)	2,059.2	6,859.4	11,641.7	15,447.5
P/E	186.8	96.9	62.2	46.9
P/BV	32.5	36.5	25.5	17.5
RNOA (%)	57.8	92.4	100.3	123.6
ROE (%)	37.9	57.9	64.0	54.5
EV/EBITDA	171.3	96.9	51.6	38.3
Div yld (%)	0.0	0.1	0.2	0.3
FCF yld ratio (%)**	0.8	0.4	1.5	1.7
Leverage (EOP) (%)	(49.6)	(44.0)	(61.2)	(66.6)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
** = Based on consensus methodology
e = Morgan Stanley Research estimates

AlphaSignals Earnings Preview

Focus KPI	Focus KPI Surprise	Likely impact to consensus EPS*
Cambricon Technology Corporation 688256.SS		
Revenue Q/Q growth	⬇ Likely downside surprise	⬇ Modest revision lower

*Likely impact to consensus EPS is for the next 12 months
Source: Company data, Morgan Stanley Research

China – AI accelerators: Localization gains traction amid robust AI infrastructure spending

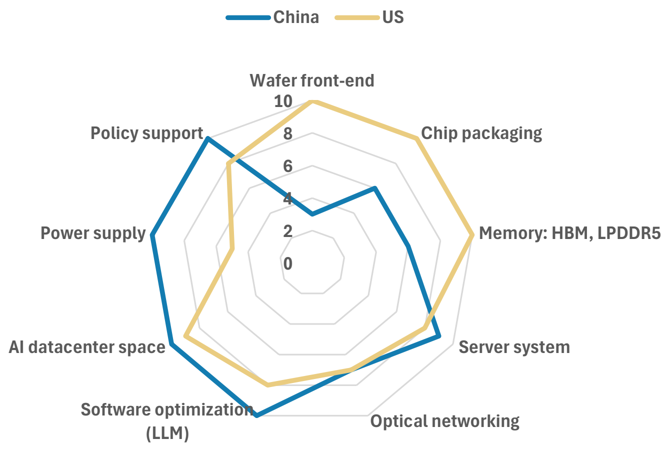
China's AI compute industry can be globally competitive, given strong system design and infrastructure

More broadly, we believe China's AI GPU race is no longer soley a chip-specification contest. While domestic silicon still trails the US by roughly two generations at the chip level, the effective gap is narrowing through multi-die design, advanced packaging, rack-scale system architecture, optical networking, and software-hardware co-optimization. This is why we think system-level competitiveness matters more than ever. In a market that is increasingly dominated by inference and utilization, vendors that deliver the most attractive real-world token economics at an acceptable software migration cost are likely to capture customer budgets, even without access to leading-edge process technology.

From an investment perspective, this leads to a simple conclusion: the sector should not be valued as a monolithic policy theme. Instead, investors should differentiate among vendors based on their ability to achieve shipment scale, ecosystem credibility, and pricing discipline, and those that may struggle to convert technical potential into durable revenues and margins. We therefore evaluate the group through a two-dimensional framework of economics × execution, combining TCO, token cost, TPS, and performance-per-dollar with qualitative factors such as foundry access, software ecosystem maturity, CSP relationships, and roadmap credibility. In our view, this framework remains the most effective way to distinguish likely long-term winners from those that may struggle to translate technical capabilities into sustainable revenue and margin growth as the industry consolidates.

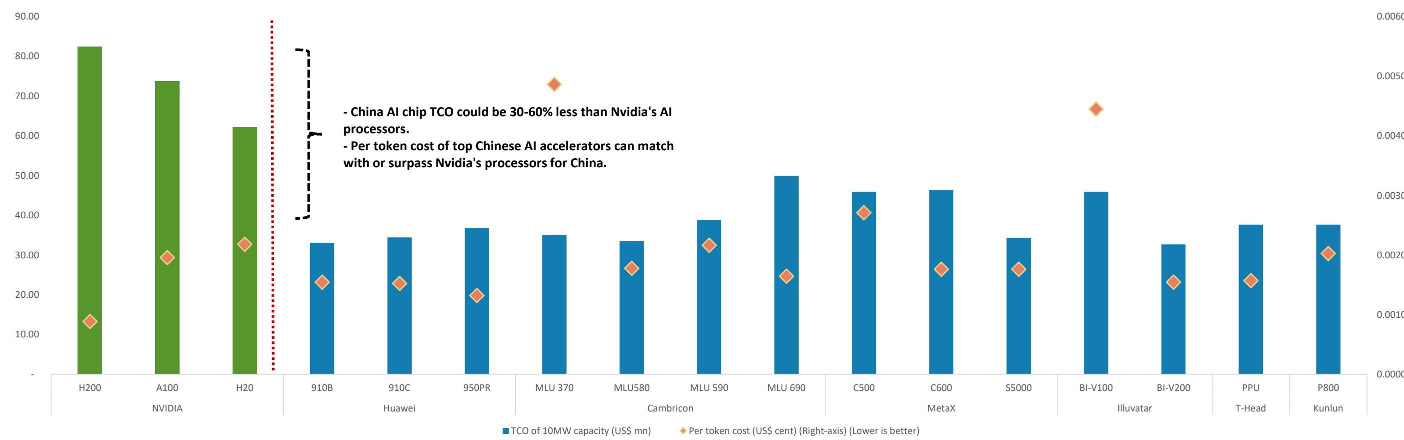
What has become clearer through our recent channel checks is that economics, not ideology, is driving adoption. At our China Summit, major LLM developers indicated they are willing to deploy local GPUs as long as token cost is competitive. This aligns with our core finding that domestic accelerators already offer materially lower TCO than Nvidia products available in China, and that leading Chinese chips can achieve broad cost-per-token parity in inference workloads. In other words, purchasing decisions are increasingly driven by deployment economics rather than absolute peak silicon performance. This matters because China's AI demand is becoming more inference-heavy, more recurring, and more utilization-driven, structurally favoring solutions optimized for cost efficiency, software adaptation, and availability rather than headline benchmark leadership.

Exhibit 1: Relative strengths of US and China AI industries



Source: Morgan Stanley Research

Exhibit 2: Domestic chips have lower TCO and comparable per token cost (AI LLM inference) vs. NVIDIA's processors for China



Source: Company data, Morgan Stanley Research estimates

China AI GPU TAM

China's AI GPU demand is concentrated among a small number of large buyer groups, whose capex decisions ultimately define the size of the addressable market.

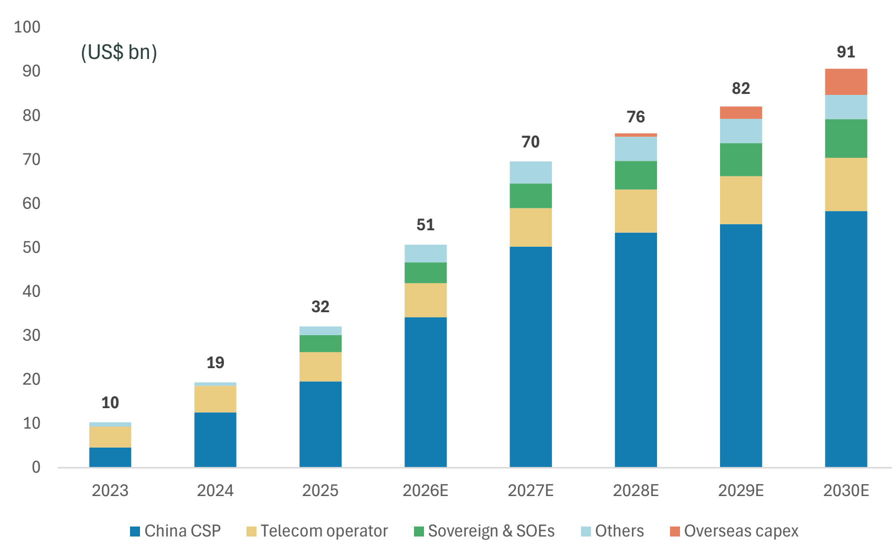
- The first group comprises China's CSPs – including ByteDance, Alibaba and Tencent – which procure AI chips both to train and run inference on proprietary models and to deploy AI infrastructure for external cloud customers.
- The second group includes China's telecom operators, SOEs and municipal governments – the so-called sovereign-AI buyers – where demand is driven by national AI infrastructure build-out, data sovereignty, and public-sector applications.
- AI start-ups (e.g., DeepSeek, MiniMax) and auto OEMs (e.g., Xpeng, Xiaomi) also procure AI chips, although their purchase volumes currently remain smaller than those of the first two groups.

We forecast China's AI chip TAM to reach US$91bn by 2030, up 36% from our previous estimate of US$67bn previously, implying a 23% CAGR over 2025-30. The upward revision is driven primarily by the following factors:

- We added a new category (China CSP's overseas AI data center using domestic GPUs). In the short term, China CSPs may turn to more GPU rental to fulfill the strong computing demand, while in the medium to longer term, we believe domestic Chinese AI GPUs could see adoption in overseas deployments. Accordingly, we assume no contribution from this category until 2027, but expect domestic GPUs to account for 3%/10%/20% of overseas AI infrastructure capex in 2028/29/30, respectively.
- Bytedance reportedly is planning to sharply increase its capital spending in 2026 and 2027 to strengthen its position in the domestic AI market and expand internationally – reports indicate 2027 capex could reach US$100 bn if economic and business conditions are favourable; we assume US$80bn (approximately Rmb542bn) in our model to remain conservative.
- We added Kingsoft Cloud to our database. Its capex increased significantly to Rmb3bn, with full-year 2026 capital investments projected to exceed Rmb15-20bn to meet explosive AI and cloud demand.
- We revised up sovereign and SOE-related TAM assumptions to US$9bn, up from US$7bn previously. Recent media reports (*Bloomberg*, Jun 9) indicated that China is considering up to Rmb2tn of investment over the next five years for building data centres across the country. While we have not yet seen detailed policy guidance, we believe SOEs and local governments are likely to increase spending on AI infrastructure over time.

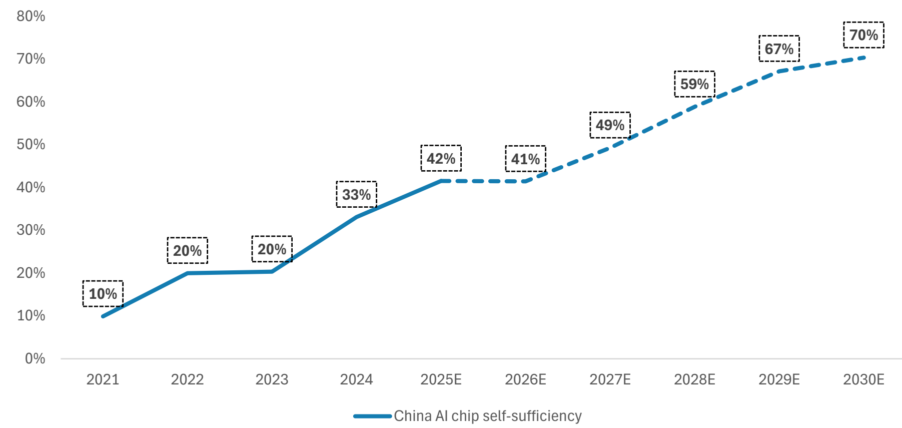
We expect China's AI chip self-sufficiency to rise from 42% in 2025 to 70% in 2030e. We expect leading-node capacity expansion and continued chip-performance improvement to drive domestic AI-chip revenue growth.

Exhibit 3: We expect China AI chip TAM to grow to US$91bn by 2030E



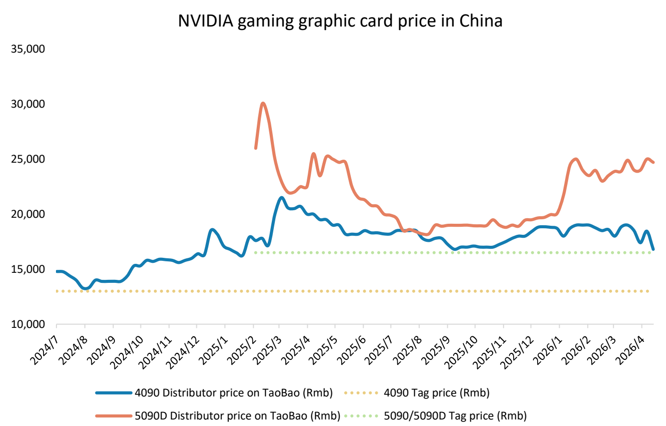
Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 4: We expect China AI chip self-sufficiency to reach 70% in 2030E



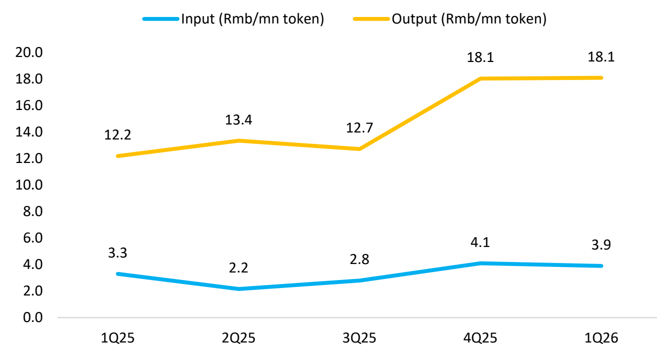
Source: Company data, Morgan Stanley Research (e) estimates

Exhibit 5: Nvidia's 5090 price continues to rise in China



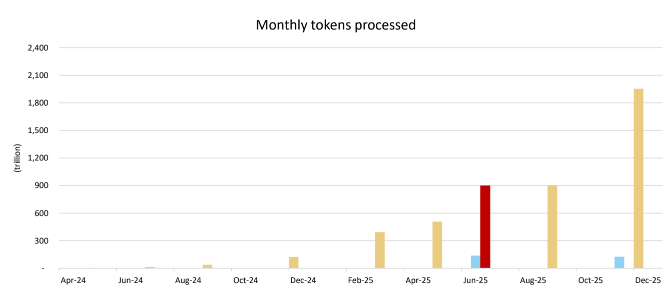
Source: Taobao, Morgan Stanley Research

Exhibit 6: Average token price for China's mainstream AI LLMs



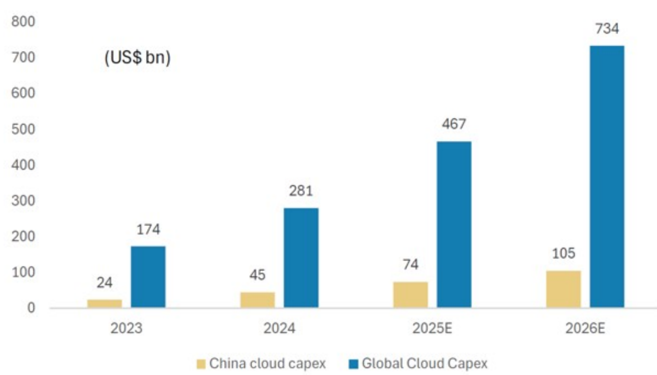
Source: Company data, Morgan Stanley Research

Exhibit 7: Surge in ByteDance (Volcano Engine/Doubao) tokens indicates high AI demand



Source: Company data, Morgan Stanley Research. ByteDance numbers represent monthly run-rate based on daily numbers.

Exhibit 8: Chinese CSP's capex will be a key demand driver for China's AI GPU



Source: Company data, Morgan Stanley Research (E) estimates

Earnings estimate revisions and quarterly financials

We lower our revenue forecasts by 2%/5%/8% for 2026, 2027 and 2028: This primarily reflects slower-than-expected deliveries of MLU580/590, as our supply-chain checks suggest that production ramp-up, component availability and system-level delivery remain less mature than we previously assumed. While underlying demand for domestic AI accelerators remains robust, we now expect a slower conversion of customer orders into recognized revenue, particularly through 2H26 and into 2027. With regard to profitability, we maintain our gross margin assumptions unchanged at 51%, 50% and 49% for 2026–28. As a result, we reduce our EPS estimates by 6%, 5% and 8% for 2026, 2027 and 2028, respectively.

Exhibit 9: Cambricon: Earnings estimate revisions

US$ mn	New '26	Old'26E	Diff.	New '27	Old'27E	Diff.	New '28	Old'28E	Diff.
Net sales	21,314	22,869	-7%	40,056	42,274	-5%	51,480	55,971	-8%
Gross profit	10,858	11,637	-7%	19,908	21,011	-5%	25,344	27,558	-8%
Operating profit	7,351	7,868	-7%	13,619	14,374	-5%	18,106	19,682	-8%
Pretax Income	7,258	7,776	-7%	13,696	14,451	-5%	18,173	19,750	-8%
Net income	6,859	7,332	-6%	11,642	12,283	-5%	15,448	16,788	-8%
EPS for consensus	**11.64**	**12.39**	**-6%**	**18.44**	**19.45**	**-5%**	**24.46**	**26.59**	**-8%**
Margins									
Gross margin	50.9%	50.9%		49.7%	49.7%		49.2%	49.2%	
Operating margin	34.5%	34.4%		34.0%	34.0%		35.2%	35.2%	
Pretax margin	34.1%	34.0%		34.2%	34.2%		35.3%	35.3%	
Net margin	32.2%	32.1%		29.1%	29.1%		30.0%	30.0%	
Opex %	16.5%	16.5%		15.7%	15.7%		14.1%	14.1%	

Source: Morgan Stanley Research (e) estimates

Exhibit 10: Cambricon: Quarterly financials

(Rmb mn)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E	2025	2026E	2027E	2028E
Total revenues	**1,111.4**	**1,769.2**	**1,726.8**	**1,889.8**	**2,884.7**	**3,777.4**	**5,678.2**	**8,973.6**	**6,497.2**	**21,313.9**	**40,056.2**	**51,480.1**
Q/Q Change	*12.4%*	*59.2%*	*-2.4%*	*9.4%*	*52.6%*	*30.9%*	*50.3%*	*58.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Y/Y Change	*4229.6%*	*4424.9%*	*1332.5%*	*91.0%*	*159.6%*	*113.5%*	*228.8%*	*374.8%*	*453.2%*	*228.0%*	*87.9%*	*28.5%*
Cost of Sales	**489.1**	**780.5**	**790.2**	**854.0**	**1,317.4**	**1,813.1**	**2,839.0**	**4,486.7**	**2,913.9**	**10,456.3**	**20,147.9**	**26,136.0**
Percent of Revenues	*44%*	*44%*	*46%*	*45%*	*46%*	*48%*	*50%*	*50%*	*45%*	*49%*	*50%*	*51%*
Gross Profit	**622.3**	**988.7**	**936.6**	**1,035.7**	**1,567.3**	**1,964.3**	**2,839.2**	**4,486.9**	**3,583.3**	**10,857.6**	**19,908.3**	**25,344.1**
Gross Margin	***1.0%***	***55.9%***	***54.2%***	***54.8%***	***54.3%***	***52.0%***	***50.0%***	***50.0%***	***55.2%***	***50.9%***	***49.7%***	***49.2%***
Incremental Margin	*47.9%*	*55.7%*	*NM*	*60.8%*	*53.4%*	*44.5%*	*46.0%*	*50.0%*	*54.8%*	*49.1%*	*48.3%*	*47.6%*
Total Opex	**330.0**	**338.0**	**355.2**	**593.7**	**372.6**	**672.4**	**953.9**	**1,507.6**	**1,616.9**	**3,506.5**	**6,288.8**	**7,238.4**
Percent of Revenues	*29.7%*	*19.1%*	*20.6%*	*31.4%*	*12.9%*	*17.8%*	*16.8%*	*16.8%*	*24.9%*	*16.5%*	*15.7%*	*14.1%*
R&D	272.6	269.3	300.9	508.0	324.0	604.4	851.7	1,346.0	1,350.8	3,126.2	5,607.9	6,414.7
Percent of Revenues	*24.5%*	*15.2%*	*17.4%*	*26.9%*	*11.2%*	*16.0%*	*15.0%*	*15.0%*	*20.8%*	*14.7%*	*14.0%*	*12.5%*
General & Adm Exp.	43.1	54.9	39.8	60.4	35.9	49.1	73.8	116.7	198.1	275.5	480.7	566.3
Percent of Revenues	*3.9%*	*3.1%*	*2.3%*	*3.2%*	*1.2%*	*1.3%*	*1.3%*	*1.3%*	*3.0%*	*1.3%*	*1.2%*	*1.1%*
Selling Expenses	14.4	13.7	14.6	25.4	12.6	18.9	28.4	44.9	68.0	104.8	200.3	257.4
Percent of Revenues	*1.3%*	*0.8%*	*0.8%*	*1.3%*	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*1.0%*	*0.5%*	*0.5%*	*0.5%*
Operating Income	**292.2**	**650.8**	**581.3**	**442.1**	**1,194.6**	**1,291.9**	**1,885.2**	**2,979.3**	**1,966.4**	**7,351.1**	**13,619.5**	**18,105.7**
Operating Margin	*26.3%*	*36.8%*	*33.7%*	*23.4%*	*41.4%*	*34.2%*	*33.2%*	*33.2%*	*30.3%*	*34.5%*	*34.0%*	*35.2%*
Total Non-operating Income (loss)	**63.1**	**31.6**	**(15.2)**	**13.5**	**(180.4)**	**30.5**	**20.7**	**36.4**	**93.0**	**(92.7)**	**76.2**	**67.4**
Profit Before Taxes	**355.4**	**682.4**	**566.1**	**455.5**	**1,014.2**	**1,322.5**	**1,906.0**	**3,015.7**	**2,059.4**	**7,258.4**	**13,695.7**	**18,173.2**
Percent of Revenues	*32.0%*	*38.6%*	*32.8%*	*24.1%*	*35.2%*	*35.0%*	*33.6%*	*33.6%*	*31.7%*	*34.1%*	*34.2%*	*35.3%*
Taxes	**0.1**	**(0.0)**	**(0.3)**	**1.1**	**1.1**	**1.3**	**95.3**	**301.6**	**0.9**	**399.3**	**2,054.4**	**2,726.0**
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.2%*	*0.1%*	*0.1%*	*5.0%*	*10.0%*	*0.0%*	*5.5%*	*15.0%*	*15.0%*
Total Net Income to Parent	**355.5**	**682.6**	**566.6**	**454.6**	**1,013.2**	**1,321.2**	**1,810.8**	**2,714.2**	**2,059.2**	**6,859.4**	**11,641.7**	**15,447.5**
Percent of Revenues	*32.0%*	*38.6%*	*32.8%*	*24.1%*	*35.1%*	*35.0%*	*31.9%*	*30.2%*	*31.7%*	*32.2%*	*29.1%*	*30.0%*
EPS for consensus (Rmb)	**0.8**	**1.6**	**1.3**	**1.1**	**2.4**	**2.1**	**2.9**	**4.3**	**4.9**	**11.6**	**18.4**	**24.5**

Source: Company data, Morgan Stanley Research (e) estimates

Lower price target to Rmb1,408 from Rmb1,528

We continue to derive our price target (our base case scenario value) using a residual income model. The reduction in our price target change reflects our EPS estimate revisions for 2026-28.

All other key valuation assumptions remain unchanged: cost of equity of 8.4% (beta of 1.06, risk-free rate of 2%, and risk premium of 6%), intermediate growth rate of 16%, and terminal growth rate of 6.0%.

We also lower our bull and bear case scenario values to Rmb2,660 and Rmb709, respectively, from Rmb2,887 and Rmb770, implying 2026e P/S of 72x and 19x, respectively.

Exhibit 11: Cambricon: Residual income model

Rmb million	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E	2038E
Total Equity	**18,203**	**28,344**	**41,292**	**52,034**	**64,496**	**78,951**	**95,719**	**115,170**	**137,733**	**163,906**	**194,267**	**229,485**	**270,338**
Net Profit	**6,859**	**11,642**	**15,448**	**17,919**	**20,786**	**24,112**	**27,970**	**32,445**	**37,636**	**43,658**	**50,643**	**58,746**	**68,146**
ROAE	**45.7%**	**50.0%**	**44.4%**	**38.4%**	**35.7%**	**33.6%**	**32.0%**	**30.8%**	**29.8%**	**28.9%**	**28.3%**	**27.7%**	**27.3%**
Residual Income	4,417	7,583	10,206	12,405	14,213	16,290	18,685	21,451	24,650	28,355	32,648	37,623	43,391
Spread	**37.3%**	**41.7%**	**36.0%**	**30.0%**	**27.3%**	**25.3%**	**23.7%**	**22.4%**	**21.4%**	**20.6%**	**19.9%**	**19.4%**	**18.9%**
Ending Equity Capital	18,203												
PV of Forecast Period	127,340												
PV of Continuing Value	743,644												
Equity Value	**889,186**												
No. of Shares	631												
Price Target	**1,408**												

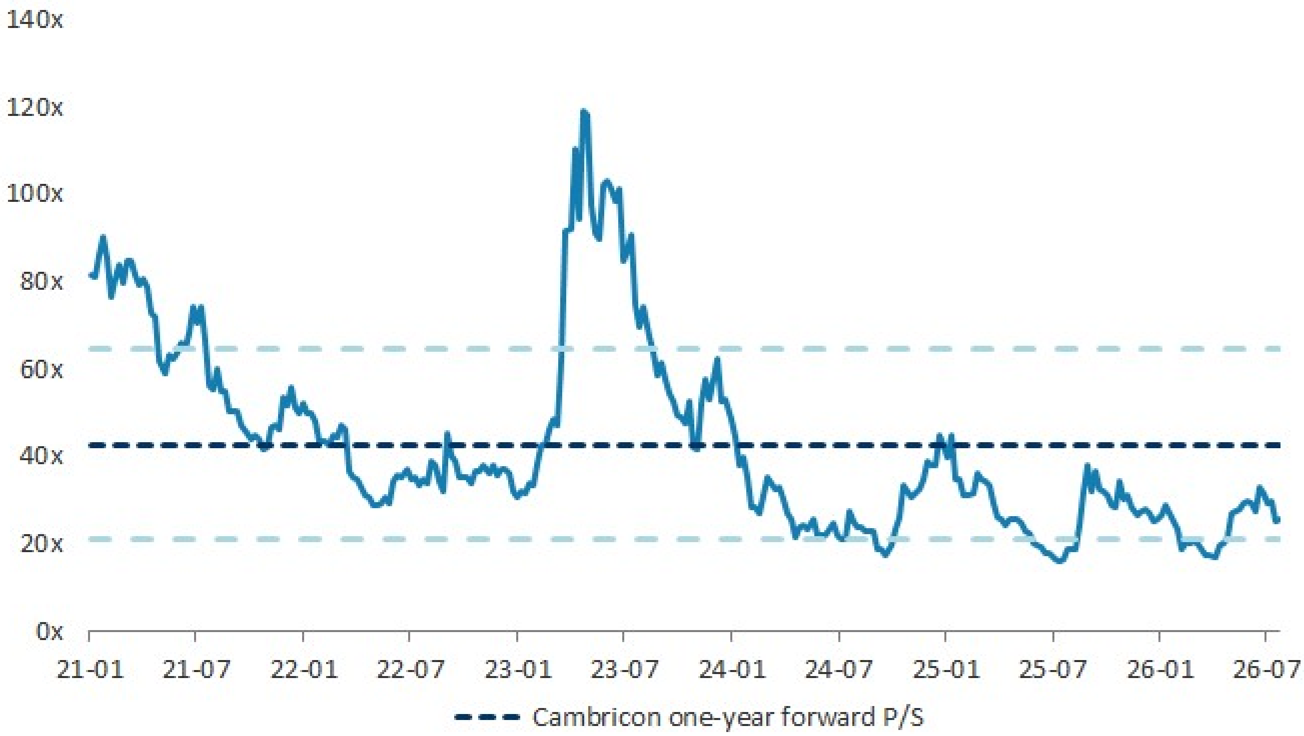
Source: Company data, Morgan Stanley Research (e) estimates

Relative valuation

We forecast an EPS CAGR of 96% for Cambricon over 2025–28, alongside a revenue CAGR of 99%, underpinned by sustained AI infrastructure investment and rapid domestic substitution of high-end AI chips.

Following our estimate revisions, the stock is currently trading at ~98x 2026e P/E and ~31x 2026e P/S. While elevated in absolute terms, we believe these multiples are justified by the company's strong growth profile, improving supply visibility, and strategic positioning as a key domestic AI chip supplier. In particular, volume ramp (MLU580) and a clear product roadmap (MLU690) should help enhance earnings visibility and longer-term growth. We therefore believe the stock warrants a premium valuation relative to peers.

Exhibit 12: Cambricon: One-year forward P/S trend



Source: Company data, FactSet, Morgan Stanley Research

Exhibit 13: Cambricon: One-year forward P/E trend

Source: Company data, FactSet, Morgan Stanley Research

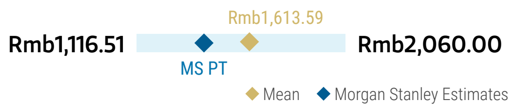
Risk Reward – Cambricon Technology Corporation (688256.SS)

Delivery slowdown while we are optimistic on long-term AI demand

PRICE TARGET Rmb1,408.00

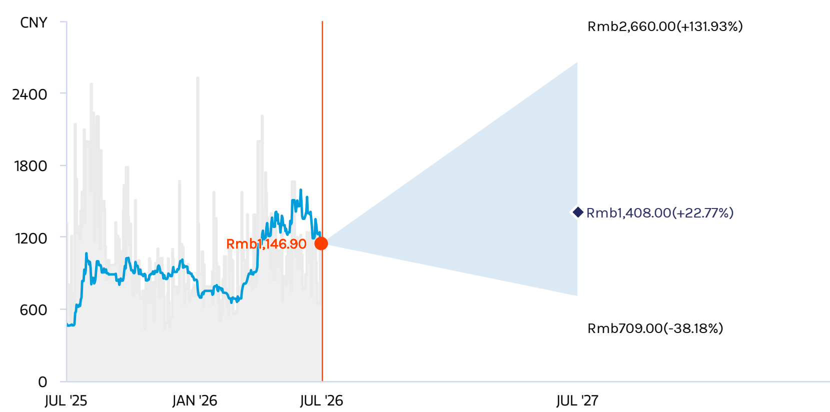
Key valuation assumptions underpinning our model include: an 8.4% cost of equity (derived from a beta of 1.06, risk-free rate of 2.0%, and equity risk premium of 6.0%), a long-term payout ratio of 40%, a medium-term growth rate of 16%, and a terminal growth rate of 6.0%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



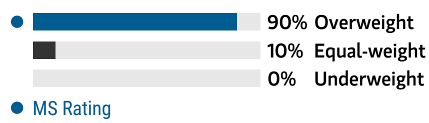
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Cambricon has deep engagement with major CSPs with proven product-market fit. MLU590 is widely deployed in SAD workloads, supporting strong order visibility as AI infrastructure scales.
- Domestic supply chain transition is underway, with production shifting to SMIC. Yields remain a challenge, but we expect gradual improvement through 2H26.
- Aggressive product roadmap, with next-generation MLU690 expected in 4Q26, potentially boosting performance ~2.2x and sustaining technology leadership.
- P/E and P/S multiples are elevated in absolute terms, but we believe they're justified by strong growth profile, improving supply visibility, and strategic positioning as a key domestic AI chip supplier.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Secular Growth:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE Rmb2,660.00

72x 2026e P/S

We assume (1) >130% revenue CAGR in 2025-28 driven by stronger-than-expected domestic generative AI infrastructure build-out and large-scale procurement of cloud training and inference chips; (2) sustained share gains in China's domestic high-performance AI chip market; (3) gross margin improves to over 55% in 2026 and 2027 thanks to production scale effects, mature technology iteration and optimized high-value product structure.

BASE CASE Rmb1,408.00

38x 2026e P/S

We assume (1) 99% revenue CAGR in 2025-28 driven by domestic generative AI infrastructure spending from CSP clients; (2) gross margin reaches 51% and 50% in 2026 and 2027 given lower selling prices due to products with smaller die size.

BEAR CASE Rmb709.00

19x 2026e P/S

We assume (1) <60% revenue CAGR in 2025-28 given slower-than-expected domestic AI capital expenditure and LLM commercialization progress; (2) market share loss in China's AI chip market, and failure to secure continuous mass orders from top-tier customers; and (3) gross margin falls below 40% in 2026 and 2027 due to fierce price competition, rising wafer fabrication costs and underutilized production capacity.

Risk Reward – Cambricon Technology Corporation (688256.SS)

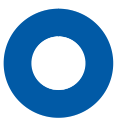
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Gross Profit (YoY) (%)	438.0	203.0	83.4	27.3

INVESTMENT DRIVERS

- CSP capex expansion
- Large model deployment growth
- Domestic substitution tailwind
- Product iteration (MLU roadmap)
- Software ecosystem improvement
- Policy support for AI chips
- New customer penetration
- Scaling of AI clusters

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected AI demand
- CSP order ramp-up
- Accelerating localization

RISKS TO DOWNSIDE

- Capacity and yield constraints
- Customer concentration risk
- Slower technology iteration

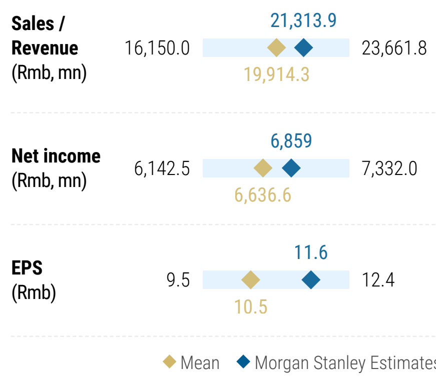
OWNERSHIP POSITIONING

Inst. Owners, % Active 88.6%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



Source: Refinitiv, Morgan Stanley Research

Cambricon: Financial Summary

Income Statement Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Net sales	6,497.2	21,313.9	40,056.2	51,480.1
COGS	2,913.9	10,456.3	20,147.9	26,136.0
Gross profit	3,583.3	10,857.6	19,908.3	25,344.1
Operating expenses	1,616.9	3,506.5	6,288.8	7,238.4
Operating income	**1,966.4**	**7,351.1**	**13,619.5**	**18,105.7**
Non-operating income	93.0	(92.7)	76.2	67.4
Pre-tax income	2,059.4	7,258.4	13,695.7	18,173.2
Income tax	0.9	399.3	2,054.4	2,726.0
Minority Interest	(0.7)	(0.4)	(0.4)	(0.4)
Reported net Income	**2,059.2**	**6,859.4**	**11,641.7**	**15,447.5**
Adj.wtd.avg.shrs(m)	419.6	576.6	628.3	628.3
Reported EPS (Rmb)	**4.9**	**11.7**	**18.5**	**24.6**
EPS for consensus (Rmb)	**4.9**	**11.6**	**18.4**	**24.5**

Balance Sheet Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cash	1,317.4	3,456.8	12,799.0	22,938.1
Mkt Securities	4,261.2	4,261.2	4,261.2	4,261.2
AR/NR	670.6	2,335.8	4,389.7	5,641.7
Inventory	4,943.5	8,594.2	8,280.0	10,740.8
Other	887.8	887.8	887.8	887.8
Current Assets	**12,080.4**	**19,535.7**	**30,617.6**	**44,469.5**
Long-term investments	299.7	299.7	299.7	299.7
Fixed assets	372.7	372.7	372.7	372.7
Intangible Assets	189.1	169.1	149.1	129.1
Other assets	495.8	595.8	695.8	795.8
Total Assets	**13,437.7**	**20,973.0**	**32,134.9**	**46,066.7**
S/T borrowings	0.0	0.0	0.0	0.0
AP/NP	1,115.9	2,291.8	3,312.0	4,296.3
Other ST liabilities	217.0	217.0	217.0	217.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	261.5	261.5	261.5	261.5
Total Liabilities	**1,594.5**	**2,770.3**	**3,790.5**	**4,774.9**
Common shares	421.7	421.7	421.7	421.7
Additional capital	11,270.3	11,270.3	11,270.3	11,270.3
Retained earning	(11.8)	6,347.7	16,489.3	29,436.9
Other shareholders' equity	163.0	163.0	163.0	163.0
Total Equity	**11,843.3**	**18,202.7**	**28,344.4**	**41,291.9**
Total Liab. & Shrhldr's Equity	**13,437.7**	**20,973.0**	**32,134.9**	**46,066.7**

E = Morgan Stanley Research Estimates
Source: Morgan Stanley Research, Company Data

Cash Flow Statement Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cashflow from Operations	**(498.5)**	**2,719.5**	**10,922.2**	**12,719.1**
Net profits	2,059.2	6,859.4	11,641.7	15,447.5
Depreciation	116.7	0.0	0.0	0.0
Working Capital Change	(3,126.6)	(4,140.0)	(719.5)	(2,728.4)
Other adjustments	452.2	0.0	0.0	0.0
Cashflow from Investing	**(4,142.0)**	**(80.0)**	**(80.0)**	**(80.0)**
Capex	(142.8)	0.0	0.0	0.0
Change of LT Investment	(53.1)	0.0	0.0	0.0
Change of ST Investment	(3,501.0)	0.0	0.0	0.0
Other adjustments	(445.1)	(80.0)	(80.0)	(80.0)
Cashflow from financing	3,986.0	(500.0)	(1,500.0)	(2,500.0)
Increase in L/T debt	0.0	0.0	0.0	0.0
Increase in S/T debt	(100.1)	0.0	0.0	0.0
Cash Dividend Paid	0.0	(500.0)	(1,500.0)	(2,500.0)
Issuance of stock	1,465.7	0.0	0.0	0.0
Other adjustments	2,620.4	0.0	0.0	0.0
Exchange rate adjustment	(0.0)	0.0	0.0	0.0
Net change in cash	**(654.6)**	**2,139.5**	**9,342.2**	**10,139.1**

Financial Ratios	2025	2026E	2027E	2028E
Growth(%)				
Revenue	453.2	228.0	87.9	28.5
Operating profits	NA	273.8	85.3	32.9
Pretax profits	NA	252.5	88.7	32.7
Net profits	NA	233.1	69.7	32.7
EPS	NA	138.5	58.3	32.7
Margins (%)				
Gross Margin	55.2	50.9	49.7	49.2
Operating Margin	30.3	34.5	34.0	35.2
Pretax Margin	31.7	34.1	34.2	35.3
Net Profit	31.7	32.2	29.1	30.0
Return (%)				
ROAE	23.8	45.7	50.0	44.4
ROAA	20.4	39.9	43.8	39.5
Gearing (%)				
Net Debt/Equity	(11.1)	(19.0)	(45.2)	(55.6)
Liabilities/Equity	13.5	15.2	13.4	11.6
Ratios (X)				
Current ratio	9.1	7.8	8.7	9.9
Quick ratio	1.5	2.3	4.9	6.3
Others				
AR/NR Turnover (days)	40.0	40.0	40.0	40.0
Inventory Turnover (days)	500.0	300.0	150.0	150.0
AP Turnover (days)	90.0	80.0	60.0	60.0
Cash Conversion (days)	450.0	260.0	130.0	130.0

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of June 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1544	42%	453	49%	29%	757	44%
Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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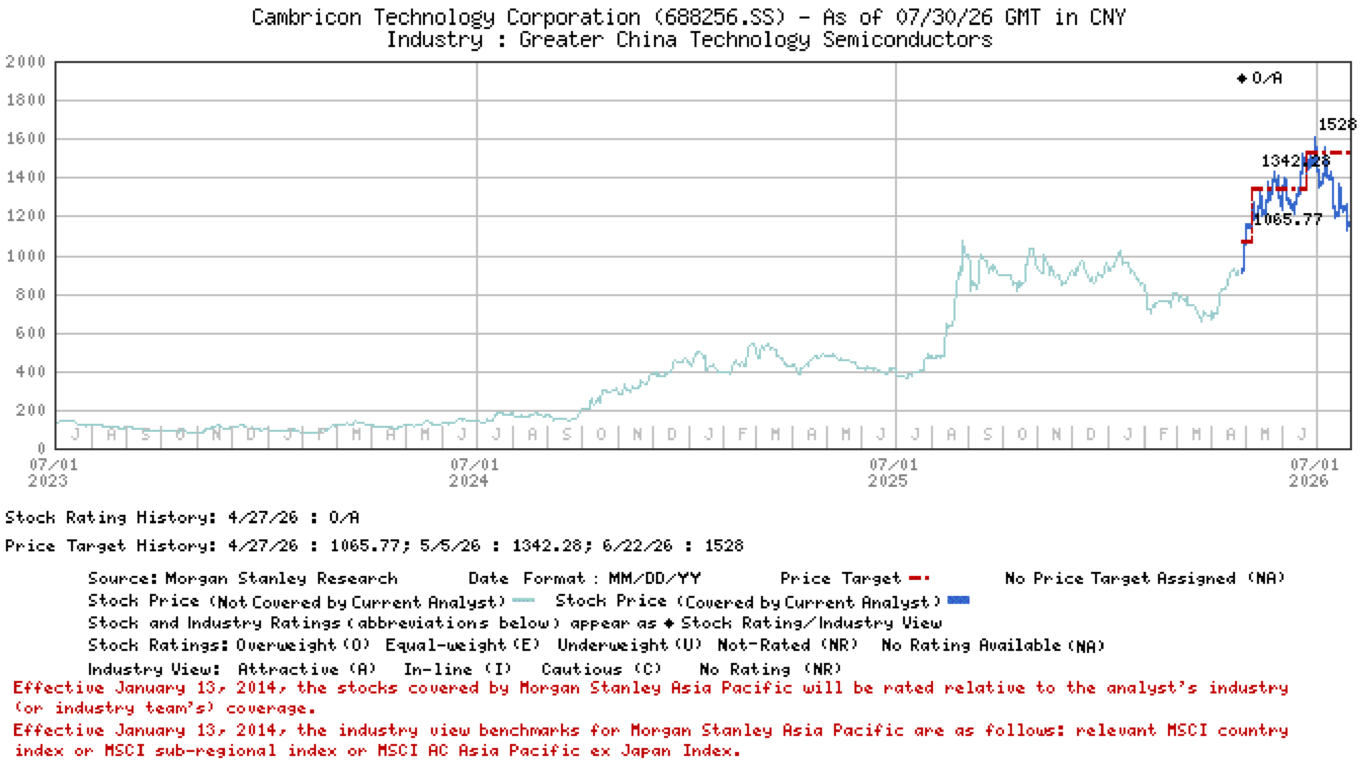
Stock Price, Price Target and Rating History (See Rating Definitions)



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INDUSTRY COVERAGE: Greater China Technology Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/29/2026)
Charlie Chan		
ACM Research Inc (ACMR.O)	O (03/07/2023)	US$65.30
Advanced Micro-Fabrication Equipment Inc (688012.SS)	O (11/06/2023)	Rmb360.00
Advanced Wireless Semiconductor Co (8086.TWO)	U (07/14/2025)	NT$106.50
Alchip Technologies Ltd (3661.TW)	O (05/14/2021)	NT$2,785.00
ASE Technology Holding Co. Ltd. (3711.TW)	O (09/15/2024)	NT$505.00
Cambricon Technology Corporation (688256.SS)	O (04/27/2026)	Rmb1,146.90
Global Unichip Corp (3443.TW)	O (06/24/2026)	NT$3,460.00
GlobalWafers Co Ltd (6488.TWO)	E (05/19/2026)	NT$864.00
Gudeng Precision (3680.TWO)	O (11/25/2025)	NT$385.00
Hua Hong Semiconductor Ltd (1347.HK)	E (03/12/2026)	HK$136.80
Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)	O (04/27/2026)	HK$442.00
King Yuan Electronics Co Ltd (2449.TW)	O (03/03/2023)	NT$203.50
Maxscend Microelectronics Co Ltd (300782.SZ)	U (01/11/2021)	Rmb68.01
MediaTek (2454.TW)	O (11/28/2025)	NT$3,235.00
MetaX Integrated Circuits (688802.SS)	E (04/27/2026)	Rmb705.99
Nanya Technology Corp. (2408.TW)	O (05/28/2026)	NT$328.00
NAURA Technology Group Co Ltd (002371.SZ)	O (11/06/2023)	Rmb706.39
OmniVision Integrated Circuits Group Inc (603501.SS)	E (11/17/2025)	Rmb91.69
Phison Electronics Corp (8299.TWO)	E (02/25/2026)	NT$1,515.00
SG Micro Corp. (300661.SZ)	E (11/03/2025)	Rmb100.74
Silergy Corp. (6415.TW)	U (05/19/2026)	NT$375.50
SMIC (0981.HK)	O (10/21/2025)	HK$67.20
TSMC (2330.TW)	O (02/07/2022)	NT$2,205.00
UMC (2303.TW)	O (05/19/2026)	NT$110.00
Vanguard International Semiconductor (5347.TWO)	E (01/14/2026)	NT$133.00
WIN Semiconductors Corp (3105.TWO)	U (07/14/2025)	NT$291.00
Daisy Dai, CFA		
ASMPT Ltd (0522.HK)	O (07/24/2025)	HK$136.90
China Resources Microelectronics Limited (688396.SS)	U (03/02/2026)	Rmb56.05

Empyrean Technology Co Ltd (301269.SZ)	E (01/17/2025)	Rmb90.00
Hangzhou Silan Microelectronics Co. Ltd. (600460.SS)	U (08/25/2025)	Rmb29.90
Hygon Information Technology Co., Ltd. (688041.SS)	O (07/03/2026)	Rmb284.00
Innoscience (2577.HK)	E (10/13/2025)	HK$39.48
JCET Group Co Ltd (600584.SS)	E (01/16/2026)	Rmb71.68
Shanghai Fudan Microelectronics (1385.HK)	O (03/07/2025)	HK$23.30
SICC Co Ltd (688234.SS)	O (03/20/2026)	Rmb90.39
StarPower Semiconductor Ltd (603290.SS)	E (05/14/2026)	Rmb82.45
Unigroup Guoxin Microelectronics Co Ltd (002049.SZ)	U (01/10/2023)	Rmb64.86
Universal Scientific Ind. (Shanghai) (601231.SS)	O (11/05/2025)	Rmb23.57
Yangjie Technology (300373.SZ)	O (06/10/2022)	Rmb87.60
Daniel Yen, CFA		
AP Memory Technology Corp (6531.TW)	O (07/11/2025)	NT$607.00
ASMedia Technology Inc (5269.TW)	U (10/03/2025)	NT$1,305.00
Aspeed Technology (5274.TWO)	O (06/09/2025)	NT$12,910.00
Egis Technology Inc (6462.TWO)	E (01/28/2026)	NT$91.80
Elan Microelectronics Corp (2458.TW)	O (10/03/2025)	NT$148.00
Espressif Systems (688018.SS)	O (05/15/2023)	Rmb97.28
GigaDevice Semiconductor Beijing Inc (603986.SS)	O (05/15/2025)	Rmb364.03
Macronix International Co Ltd (2337.TW)	O (09/18/2025)	NT$91.80
Montage Technology Co Ltd (6809.HK)	O (03/18/2026)	HK$269.60
Montage Technology Co Ltd (688008.SS)	O (03/18/2026)	Rmb207.50
Novatek (3034.TW)	U (02/04/2026)	NT$491.00
Nuvoton Technology Corporation (4919.TW)	U (11/10/2025)	NT$106.50
Parade Technologies Ltd (4966.TWO)	O (05/27/2026)	NT$561.00
Powerchip Semiconductor Manufacturing Co (6770.TW)	O (10/27/2025)	NT$49.55
Realtek Semiconductor (2379.TW)	E (01/30/2026)	NT$697.00
Shenzhen Goodix Technology Co Ltd (603160.SS)	U (07/14/2025)	Rmb52.59
Winbond Electronics Corp (2344.TW)	O (05/28/2026)	NT$118.50
WPG Holdings (3702.TW)	O (03/16/2026)	NT$105.50
WT Microelectronics Co. Ltd. (3036.TW)	O (01/27/2026)	NT$183.50
Duan Liu		
Dosilicon Co Ltd (688110.SS)	U (09/06/2024)	Rmb107.51
Shenzhen Longsys Electronics Co Ltd (301308.SZ)	E (02/25/2026)	Rmb329.63
Tiffany Yeh		
AllRing Tech Co. (6187.TWO)	O (09/23/2025)	NT$890.00
FOCI Fiber Optic Communications Inc (3363.TWO)	O (01/15/2025)	NT$485.50
Himax Technologies Inc (HIMX.O)	E (02/04/2026)	US$11.64
Hon Precision (7769.TW)	O (04/17/2026)	NT$5,620.00
MPI Corporation (6223.TWO)	O (04/17/2026)	NT$4,790.00
Silicon Motion (SIMO.O)	O (05/06/2024)	US$209.68
WinWay Technology Co Ltd (6515.TW)	O (04/17/2026)	NT$5,290.00

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