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China Communications Infrastructure

Evaluating Potential FCC Regulatory Action & Impact on China Optics

CITI'S TAKE

Following our commentary on the Reuters report (4-Aug) about the US weighing a Chinese optical components ban, we examine the FCC's Covered List mechanism more closely. FCC 26-50 establishes the regulatory architecture, bifurcating the Covered List into producer-based and production location-based categories, and no enacted FCC rule currently restricts Chinese optical module exports to the US. We view a producer-based approach as unlikely, given Chinese vendors supply 60–70% of high-speed modules to US CSPs, and near-term alternatives appear insufficient given supply tightness. A production location-based restriction looks more plausible structurally – but we believe reported consideration of such an optical module ban is unlikely to evolve into a genuine near-term enforcement action, given supply-chain challenges.

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What has been enacted — FCC 26-50 formally bifurcates the Covered List into two mechanisms: **Producer/Provider-Based Approach** restricting named entities such as Huawei and ZTE regardless of production location, and **Production Location-Based Approach** restricting entire product categories made outside the US, currently covering UAS, routers, inverters, and advanced robots.

Optical transceivers are indirectly mentioned — Optical transceivers do not appear as a restricted product category in any enacted FCC rule. The only reference in FCC 26-50 is a passing mention as an illustrative example in the context of proposed hardware/software BOM disclosure requirements — not a restriction. The Reuters report is entirely separate from FCC 26-50 and reflects a draft proposal stage only.

Optical transceiver supply alternatives are limited — There may be a number of possible reasons for Trump administration officials to consider an optical transceivers ban, or to just highlight the possibility of such an enforcement action. But we estimate that a genuine restriction would eliminate the majority of optical transceivers supply to the US domestic AI buildout, with significant supply-chain consequences that US companies may not be ready to absorb within a short timeframe. We understand US optics companies are building highly automated local production lines, but this will take time to ramp and appears insufficient to fulfill upcoming AI demand.

Impact on covered names — DSBJ and **Eoptolink** face high exposure under Producer/Provider-Based and All-Foreign Location-Based approaches given their direct US optical transceiver exports, moderating only under a China-Only restriction as overseas capacity ramps; **TFC** remains most insulated as a passive component supplier with indirect impact only, in our view.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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The Enacted Framework: FCC 26-50 Formalizes Producer-Based and Location-Based Covered List

The FCC's equipment authorization framework has evolved through a series of formal actions, culminating in the Third Report and Order (FCC 26-50, adopted 22 July 2026). Two key mechanisms are now formally in force:

- **Producer/Provider-Based Covered List** — The original and established model in which named entities (for example Huawei, ZTE, etc.) and their subsidiaries/affiliates are prohibited from receiving new FCC equipment authorizations. The restriction follows the company, not the factory location. Based on the FCC's established Covered List general rules applied to other product categories, existing authorised models would likely be unaffected; only new models would be blocked.

- **Production Location-Based Covered List** — Rather than naming a specific company, this approach restricts an entire product category based on where it is made. Currently applied to Unmanned Aircraft System (UAS), UAS critical components, routers, power inverters, and advanced robotic devices **produced in a foreign country** — defined as any product not meeting the US domestic product standard (≥65% US-origin content, rising to 75% from 2029). Critically, under this standard, products made in Thailand, Vietnam, or Malaysia are as equally "foreign produced" as those made in China.

Optical Transceivers Are Indirectly Mentioned

Optical transceivers are **not mentioned as a restricted product category** in any enacted FCC rule to date. Their appearance in FCC 26-50 is limited to an illustrative reference in the context of ***proposed*** HBOM/SBOM (hardware/software bill of materials) disclosure requirements:

*"Should we instead just list out several critical components, such as modular transmitters and IoT modules, semiconductors, and **optical transceivers**?"*

Optical transceiver appears here only as ***an example of components that might be*** subject to future disclosure requirements, not as a restriction.

The enacted logic-bearing hardware component prohibition (which could theoretically capture modern high-speed optical modules containing DSPs and control chips) similarly only applies to components produced by entities already on the Covered List (for example Huawei); no major Chinese optical module company is currently listed.

The Reuters report (4-Aug) describing an optical module import ban is therefore entirely separate from FCC 26-50. The reported possible ban remains at draft/proposal stage, with no formal rule published.

Potential Pathways — Scenario Analysis

The following is a speculative analytical inference based on established FCC mechanisms. No formal optical transceivers rule exists as of 9 Aug 2026.

For possible Covered List inclusion of China optics names under FCC mechanisms:

If Producer/Provider-Based:

Specific companies such as Eoptolink and DSBJ would be named on the Covered List. Under the FCC's proposed broad "produced by" definition — covering entities exercising substantial control over design, development, manufacturing, or assembly — offshore subsidiaries in Thailand or Vietnam or Taiwan would likely still be captured. Relocating only final assembly would be insufficient. Adjustment space is minimal. Non-Chinese competitors (Japan, Korea, Europe) would be unaffected and would directly benefit. We view this pathway as unlikely in the near term at a moment when Chinese vendors collectively supply 60–70% of high-speed modules at major US CSPs, and US domestic alternatives cannot fill the gap within a meaningful timeframe.

If Production Location-Based — All Foreign Production:

All optical modules not meeting the US domestic content threshold would be restricted, regardless of whether they are made in China, Thailand, or Vietnam. This is a very restrictive scenario — offshore capacity strategies pursued by Eoptolink or DSBJ would provide no regulatory protection. However, the impact on US AI infrastructure buildout would also be severe, likely creating pressure for a broad exemption mechanism. In this case, there would be more automated production lines to be built in order to fulfill the production location requirement. Equipment or automation companies would benefit.

If Production Location-Based — China-Origin Only:

Offshore production would theoretically provide relief — but the degree of protection depends heavily on how "produced in a foreign country" vs. "produced in China" is ultimately defined. But the current enforced FCC 26-50 explicitly notes it is ***not adopting*** a simple last-substantial-transformation test; design, firmware, and supply chain control all relevant factors. This scenario offers the most room for discussion, but the definition question remains entirely unresolved.

We view Production Location-Based Restriction as the more plausible pathway if any action materialises, as it follows the established template of UAS, inverters and robots. However, we believe the probability of near-term enforcement is low given the following considerations:

- Chinese vendors supply most high-speed optical transceivers to US AI data centers; a genuine ban would directly impair the US AI infrastructure buildout, which the administration publicly champions.
- The FCC explicitly retains the ability to modify or shelve restrictions — and has done so before.
- The September and November 2026 US-China diplomatic calendar provides natural inflection points at which optical module restrictions could be raised amid negotiations about concessions on rare earths, agricultural purchases, or other bilateral priorities.

We summarise the differential impact on covered China optics names across three regulatory scenarios: **DSBJ** and **Eoptolink** face high exposure under both the Producer/Provider-Based and All-Foreign Location-Based scenarios, as they have significant optical transceivers business export to US. The impact will be moderate only under a China-Only Location restriction, as they have ramped up capacity overseas (such as Thailand). **TFC** is the most insulated across all scenarios, rated Moderate at worst, given it does not directly manufacture optical transceivers and any impact flows indirectly through downstream order softness from module customers.

Figure 1. Impact Summary for China Optics Names Across Scenarios

Company	Named Entity	All- Foreign Location	China- Only Location	Overseas Capacity%	Note
Eoptolink	High	High	Moderate	88.4%	Most capacity in Thailand
DSBJ	High	High	Moderate	30.3%	Ramping up Thailand Capacity
TFC	Moderate	Moderate	Low	0.3%	Not directly product optical transceivers, indirect impact from downstream order

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Source: Citi Research Estimates, Company Reports

Figure 2. Optical Components Capacity — Domestic vs. Overseas

Company	Domestic %	Overseas %	Overseas location	Note
Eoptolink	11.6%	88.4%	Thailand	Revenue by geography - FY2025
DSBJ	69.7%	30.3%	Taiwan/ Thailand	Capacity % based on optical transceiver facilities at end-FY2025. Company is expanding Thailand facility for optical transceiver products in 2026.
TFC	99.7%	0.3%	Thailand	Designed production capacity - FY2025. Expanding Thailand capacity for optical engine products in 2026

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Source: Citi Research, Company Reports

Dongshan Precision

(002384.SZ; Rmb195.27; 1; 07 Aug 26; 15:00)

Valuation

We use SOTP methodology to derive our TP of Rmb350. We apply (1) 15x 26E P/E to DSBJ's original biz (past 5-year average); (2) 20x 27E P/E to the optical transceiver biz, in-line with the optical transceiver names average fwd P/E; (3) 50x 27E P/E to the optical chip biz, in-line with the optical chip names' average fwd P/E; (4) 25x to the 27E AI-PCB biz, in-line with PCB names' average fwd P/E.

Risks

Key downside risks that could impede the stock from reaching our TP include: (1) slower-than-expected progress in modules FPC and share gain from overseas peers; (2) slower-than-expected Tesla business growth due to fierce competition in the China NEV market; (3) continued optoelectronic business loss due to weak demand and intensified competition; (4) increasing materials costs; and (5) US-China geopolitical risk.

Eoptolink Technology

(300502.SZ; Rmb420.95; 1; 07 Aug 26; 15:00)

Valuation

Our target price for Eoptolink of Rmb701 is based on 20.0x FY27E, set at -0.5SD the 5-year historical mean to reflect a strong 800G/1.6T cycle, ASIC and Scale-Up Opportunity at CSP customers on the one hand and CPO cannibalization at its key customer Nvidia on the other.

Risks

Downside risks that could impede the stock from reaching our target price include: 1) slower-than-expected data center investments, 2) lower-than-expected optical network capex by telcos and corporates/governments in China, 3) margin pressures due to price competition, 4) slower-than-expected expansion of new customers, 5) China-US tech disputes and 6) faster-than-expected CPO deployment.

Suzhou TFC Optical Communication

(300394.SZ; Rmb230.68; 1; 07 Aug 26; 15:00)

Valuation

Our target price for Suzhou TFC of Rmb419/share is based on 34.3x 27E P/E, at the five-year mean of the stock to factor in new CPO re-rate, partially offset by cannibalization of its 1.6T/800G business in 2027.

Risks

Downside risks that could impede the Suzhou TFC stock from reaching our target price include: 1) slower-than-expected new product development; 2) slower-than-expected AI development across the globe; 3) slower-than-expected AI infrastructure/data center investment; 4) China-US tech disputes, 5) EML or upstream components supply constraint, 6) rising competition, 7) delayed CPO deployment in scale-out and scale-up.

ZTE

(0763.HK; HK$24.7; 2; 07 Aug 26; 16:10)

Valuation

Our target price for ZTE of HK$25.40 is based on 15.0x 26E P/E, set at 1.5SD above its 5-year historical average for its second curve growth driver. We expect ZTE's revenue growth will be driven by new biz initiatives like AI server, other computing power-related products and consumer biz, which should offset the carrier network segment's weakness.

Risks

Downside risks for the ZTE stock to reach our target price include: 1) lower-than-expected computing infrastructure investment from Chinese telcos and cloud service providers; 2) faster-than-expected 5G BTS price decline; and 3) global market share pressure on ZTE due to US-China disputes. Upside risks that could lead to the stock trading above our TP include: 1) higher-than-expected computing infrastructure investment from Chinese telcos and cloud service providers; 2) Stabilizing 5G BTS price decline; and 3) settlement of the prior US bribery infringement.

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Appendix A-1

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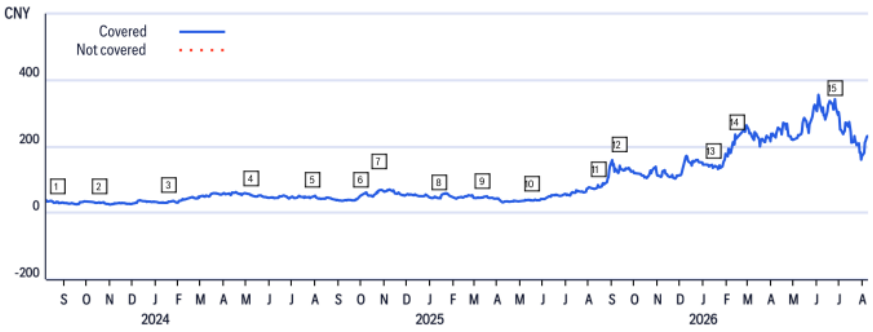
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IMPORTANT DISCLOSURES

Suzhou TFC Optical Communication (300394.SZ)

Ratings and Target Price History
Fundamental Research

Analyst: Kyna Wong



	Date	Rating	Target Price	Closing Price
1	24-Aug-23 19:43:34	1	*38.08	32.54
2	19-Oct-23 15:06:48	1	*39.36	29.96
3	21-Jan-24 18:52:58	1	*41.18	33.38
4	07-May-24 08:08:53	1	*67.42	53.02
5	29-Jul-24 03:37:15	1	*71.43	48.93

	Date	Rating	Target Price	Closing Price
6	07-Oct-24 20:25:22	1	*73.47	51.28
7	27-Oct-24 20:40:44	1	*91.84	67.81
8	13-Jan-25 10:22:26	1	*81.63	44.23
9	11-Mar-25 18:00:35	1	*71.43	45.69
10	16-May-25 15:07:25	1	*48.47	37.90

	Date	Rating	Target Price	Closing Price
11	13-Aug-25 14:24:12	1	*100.00	83.71
12	09-Sep-25 18:56:12	1	*140.00	119.95
13	14-Jan-26 03:30:29	1	*158.57	136.79
14	23-Feb-26 20:46:05	1	*318.57	222.56
15	24-Jun-26 06:10:55	1	*419.00	325.28

*Indicates Change

Rating/target price changes above reflect Eastern Time

Eoptolink Technology (300502.SZ)

Ratings and Target Price History
Fundamental Research

Analyst: Kyna Wong



	Date	Rating	Target Price	Closing Price
1	24-Aug-23 17:22:56	1	*28.52	23.93
2	23-Oct-23 14:03:04	*2	*18.83	17.05
3	11-Jan-24 05:38:30	*1	*29.29	23.42
4	12-May-24 21:34:55	1	*49.49	42.77
5	17-Jun-24 10:23:12	1	*67.86	56.37

	Date	Rating	Target Price	Closing Price
6	07-Oct-24 20:25:22	1	*89.29	66.31
7	11-Mar-25 18:00:35	1	*76.53	48.11
8	16-May-25 15:07:25	1	*91.33	60.51
9	14-Jul-25 11:28:09	1	*141.43	93.50
10	13-Aug-25 14:24:12	1	*229.29	168.97

	Date	Rating	Target Price	Closing Price
11	09-Sep-25 18:56:12	1	*337.14	225.23
12	23-Feb-26 20:46:05	1	*353.57	261.51
13	24-Jun-26 06:10:55	1	*701.00	555.30

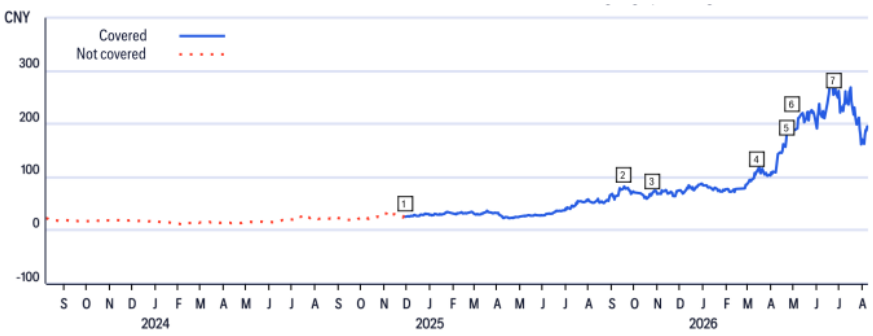
*Indicates Change

Rating/target price changes above reflect Eastern Time

Dongshan Precision (002384.SZ)

Ratings and Target Price History
Fundamental Research

Analyst: Karen Huang



	Date	Rating	Target Price	Closing Price
1	29-Nov-24 14:04:53	*1	*37.00	25.64
2	16-Sep-25 11:45:47	1	*99.00	79.71
3	26-Oct-25 22:42:41	1	*95.00	69.15
4	15-Mar-26 21:31:51	1	*148.00	110.93
5	21-Apr-26 21:40:41	1	*205.00	169.40
6	28-Apr-26 05:56:26	1	*225.00	183.90
7	24-Jun-26 06:10:55	1	*350.00	257.13

*Indicates Change

Rating/target price changes above reflect Eastern Time

ZTE (0763.HK)

Ratings and Target Price History
Fundamental Research

Analyst: Kyna Wong



	Date	Rating	Target Price	Closing Price
1	20-Aug-23 18:41:54	1	*29.30	24.65
2	11-Jan-24 05:38:30	1	*21.10	15.54
3	10-Mar-24 19:43:23	1	*20.30	17.92
4	27-May-24 00:33:18	1	*19.80	17.06
5	10-Apr-25 11:04:51	1	*27.50	21.15
6	14-Jan-26 03:30:29	*2	*29.20	29.36
7	08-Mar-26 15:51:45	2	*25.40	25.42

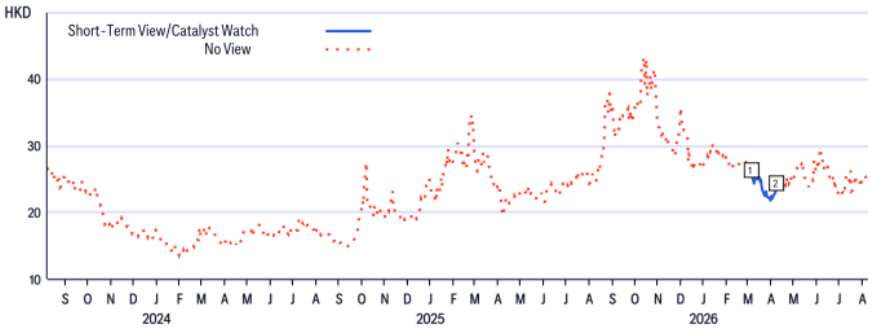
*Indicates Change

Rating/target price changes above reflect Eastern Time

ZTE (0763.HK)

Short-Term View/Catalyst Watch Research

Analyst: Kyna Wong



	Date	Action	Expected Direction	Duration	Closing Price
1	08-Mar-26 11:51:45	Add STV	Downside	30 Days	25.42
2	08-Apr-26 00:32:12	Remove STV	Downside	30 Days	23.40

CW - Catalyst Watch , STV - Short-Term View

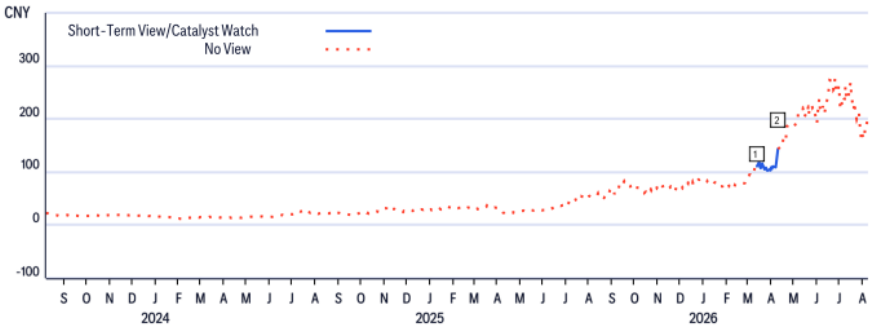
Rating/target price changes above reflect Eastern Time



Dongshan Precision (002384.SZ)

Short-Term View/Catalyst Watch Research

Analyst: Karen Huang



	Date	Action	Expected Direction	Duration	Closing Price
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2	12-Apr-26 23:02:07	Remove CW	Upside	30 Days	143.55

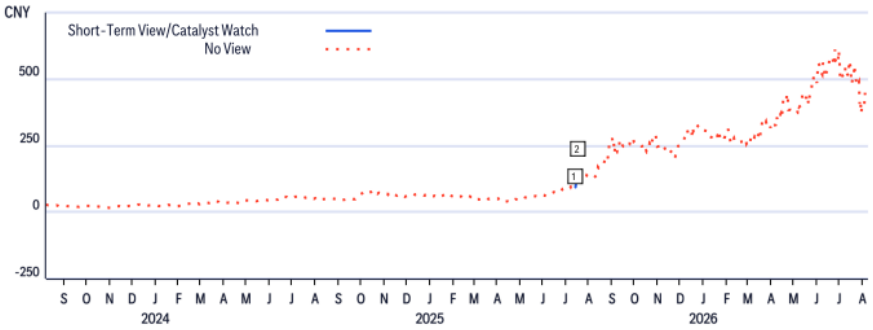
CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

Eoptolink Technology (300502.SZ)

Short-Term View/Catalyst Watch Research

Analyst: Kyna Wong



	Date	Action	Expected Direction	Duration	Closing Price
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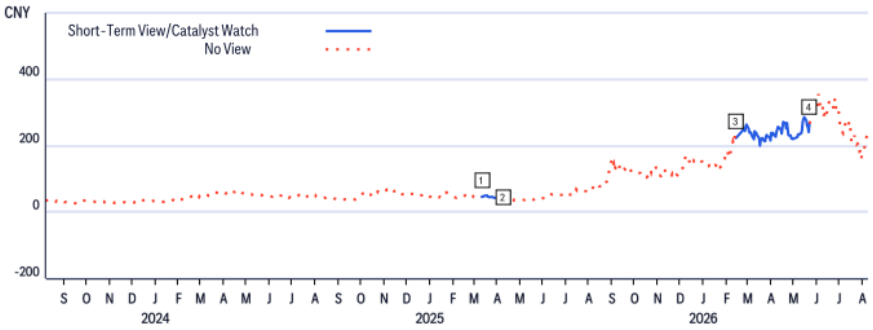
CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

Suzhou TFC Optical Communication (300394.SZ)

Short-Term View/Catalyst Watch Research

Analyst: Kyna Wong



	Date	Action	Expected Direction	Duration	Closing Price
1	11-Mar-25 14:00:35	Add CW	Upside	30 Days	45.69
2	08-Apr-25 02:38:08	Remove CW	Upside	30 Days	31.75
3	23-Feb-26 15:46:05	Add CW	Upside	90 Days	222.56
4	24-May-26 23:24:29	Remove CW	Upside	90 Days	266.07

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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