

China Semiconductor

OSAT sector: positive read-through from 2Q26 foundry earnings

Domestic foundries' record high 2Q26 sales and solid 3Q26 guidance indicate strong order book for downstream OSAT players into 2H26. Together with ongoing price hikes and product mix optimization, this should drive further margin upside for JCET into 2H26, while advanced-packaging capex lays the foundation for long-run growth, in our view. Meanwhile, despite margin pressure during a short-term product mix transition, we believe sales and GPM expansion of V-test are likely to accelerate in 2H26, thanks to the ramping volume of local fabricated AI chips. We rate JCET and V-Test OW.

- **Solid foundry demand as a leading indicator.** Both SMIC and Hua Hong delivered record quarterly revenue in 2Q26 and guided sustained 3Q26 growth, underpinned by shipment growth and price increases. Given production lead times, wafers shipped from foundries in 2Q-3Q26 typically convert into packaging/ testing demand 1-2 quarters later, making these prints a leading demand indicator for downstream players into 2H26.
- **OSATs to deliver further margin upside.** Domestic OSAT players reported strong preliminary 2Q26 results; JCET preliminarily reported net profit (excl. non-operating items) of Rmb560mn at the mid-point (up 112%/28% QoQ/YoY). We attribute this to robust AI-driven demand compounded by "local-for-local" localization, and better pricing flexibility amid rising raw material costs and supply tightness. Heading into 2H26, we expect further margin improvement driven by: 1) price increase upside and 2) tight supply enabling mix optimization.
- **V-Test's AI potential to ramp.** We recently initiated on V-Test ([link](#)) as a scarce pure-play to capture the domestic AI chip ramp into 2027/28E. We do not dispute the Capex/ depreciation concern, but pre-investment is necessary given extending lead-time for high-end testers. We forecast 2Q26 revenue/ net profit of Rmb570mn/92mn (up 63%/23% YoY), while margin improvement is likely modest in 2Q-3Q26 on rising depreciation, soft consumer electronics demand and engineering resources committed to debuting AI projects. However, large shipments of locally fabricated AI chips from late this year should unlock V-Test's revenue and margin growth potential from 4Q26 onwards; we model 59%/73% sales/earnings CAGRs over 2026-28E.
- **Stock picks.** Both JCET and V-Test are our preferred names but with distinct valuation frameworks. JCET is a margin-accretive story with catalysts from price hikes; while advanced-packaging investment reinforces the long-term narrative and supports a valuation re-rating. V-Test offers attractive risk/reward at a discounted valuation. We believe the volume ramp of locally fabricated AI chips from 2H26 could unlock operating leverage with accelerating sales and GPM expansion, which should close the valuation gap.

Semiconductors

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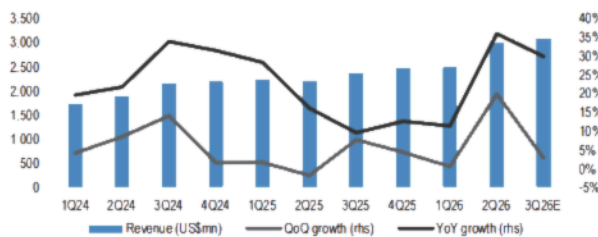
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Upstream foundry guidance as a leading demand indicator for downstream

Both SMIC and Hua Hong delivered strong 2Q26 results (above previous guidance) and provided resilient 3Q26 guidance, underpinned by shipment growth and price increases amid tightening supply.

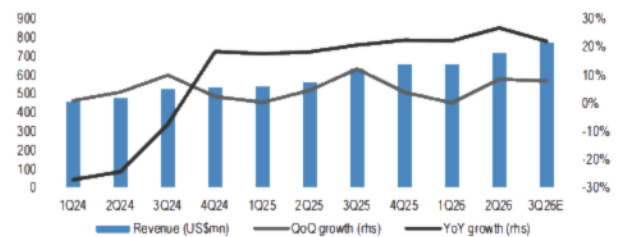
- Both SMIC and Hua Hong delivered record quarterly revenue in 2Q26, growing at 20%/36% and 9%/27% QoQ/YoY, respectively.
- 3Q26 guidance points to sustained momentum, implying roughly 3%/30% QoQ/YoY growth for SMIC and 8%/22% QoQ/YoY growth for Hua Hong (at the mid-point).

Figure 1: SMIC's quarterly revenue trend
US\$m, %



Source: SMIC (Public filings, 17 Aug 2025)

Figure 2: Hua Hong's quarterly revenue trend
US\$m, %

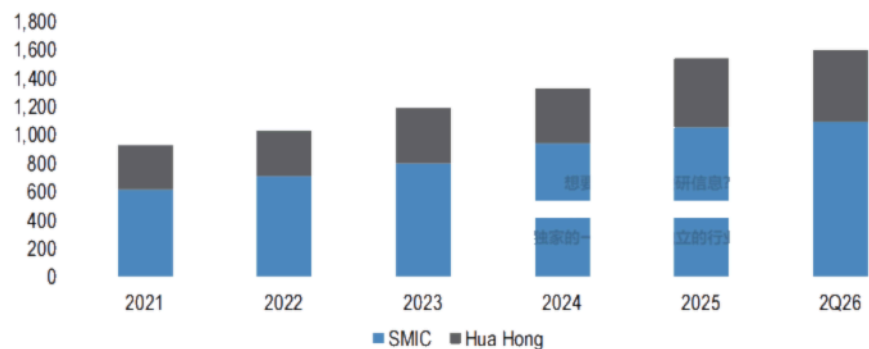


Source: Hua Hong (Public filings, 17 Aug 2025)

Given production lead times, we regard the strong 2Q26 prints and firm 3Q26 guidance as a leading demand indicator for downstream packaging and testing players heading into 2H26. Sustained foundry capex and capacity expansion further reinforce the solid demand outlook in the long run.

Figure 3: Monthly capacity of SMIC and Hua Hong (8" wafer equivalent)

k wafer per month



Source: SMIC, Hua Hong, (Public filings, 2021-2Q26).

We believe the key read-through is that wafers shipped from foundries in 2Q-3Q26 typically convert into packaging and testing demand one to two quarters later. Record foundry shipments, nearly full utilization and strong order backlogs therefore

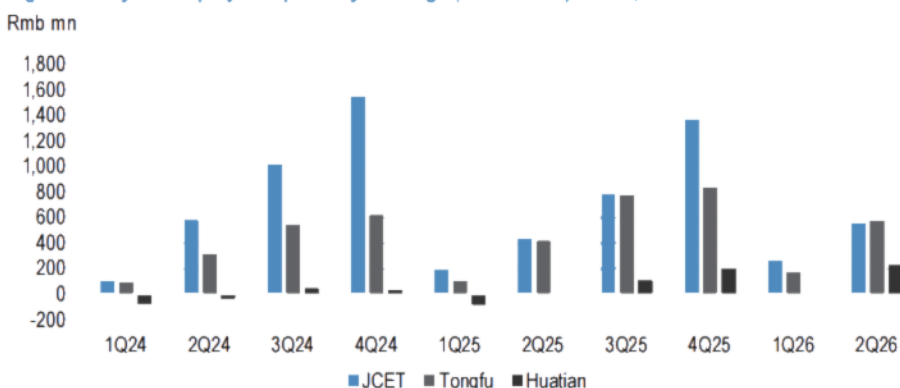
point to a well-filled order book for downstream OSAT and testing players into 2H26.

OSATs to deliver further margin upside into 2H26 post strong 2Q26 preliminary results

Domestic OSAT players reported strong preliminary 2Q26 results, and the strength holds even after stripping out significant one-off investment gains, which we believe are largely attributed to:

- Robust demand driven by AI and its spill-over effects, compounded by “local-for-local” demand, resulting in tight supply;
- Better flexibility to raise prices, given rising raw material costs and supply tightness.

Figure 4: Key OSAT players' quarterly earnings (excl. non-op items)



Source: JCET, Tongfu, Huatian, (financial reports, public filings, 1Q24-2Q26). Note: 2Q26 numbers are preliminary.

JCET preliminarily reported net profit (excl. non-op items) of Rmb560mn (at mid-point), achieving 112%/28% QoQ/YoY, despite heavy R&D expenses likely incurred for developing and ramping advanced package technologies. We believe such strong performance is largely attributable to solid demand and price hikes; we expect potential upside on pricing ahead ([link](#)), and OSATs' relatively short production lead times (versus foundry) could translate price increases into earnings more quickly. Heading into 2H26, we expect further margin improvement, driven by 1) price increase upside, and 2) tight supply enabling product mix optimization toward higher-value or larger-customer orders.

Meanwhile, key OSAT players such as JCET, Tongfu, SJ Semi and Forehope have successively announced record-level capex or new projects centered on 2.5D/3D advanced packaging, aligning with the ramp-up of the indigenous AI supply chain. We believe these investments lay the foundation for long-run growth, even though we do not expect meaningful near-term earnings contribution, given the heavy investment intensity and associated depreciation drag.

Table 1: Recent capacity expansion/ project announcements

Company	Announcement	Investment
JCET	2026 fixed-asset investment budget raised to ~Rmb10bn New high-end advanced packaging & testing fab in Shanghai Lingang "Oriental IC Port" (Jun 2026)	~Rmb10bn (2026 budget) Rmb7.8bn total
Tongfu	A-share private placement plan (Jan 2026, revised Apr 2026)	Up to ~Rmb4.4bn
SJ Semi	STAR Market IPO fundraising	Rmb11.4bn total project investment
Forehope	Phase II project (Ningbo) and convertible bond for multi-dimensional heterogeneous packaging	Rmb11.1bn Phase II; Rmb1.46bn CB-funded project

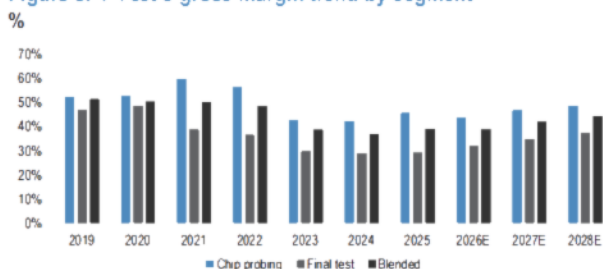
Source: JCET, Tongfu, SJ Semi, Forehope, (Public filings, 17 Aug 2026)

V-Test as third-party testing leader is best positioned for domestic AI chip ramp

We recently initiated coverage on V-Test ([link](#)), China's leading third-party testing house. We believe the company is uniquely positioned to capture the domestic AI chip ramp into 2027/28E, thanks to the superior elasticity of chip probe (CP) demand under dual-die designs and its higher exposure to the margin-accretive CP business.

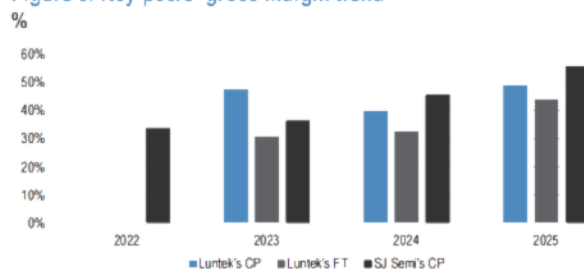
On the market's key concern around the heavy capex and depreciation burden, we do not dispute it. But V-Test must pre-invest to capture the upcoming AI opportunity, particularly as lead-time for high-end testing equipment continues to extend. Moreover, we expect rising AI chip exposure (carrying superior margins) to absorb the depreciation and ultimately lift the earnings profile. For instance, Lumentek (a key testing supplier to Huawei, private) and SJ Semi (an advanced-packaging pure-play, 688820 CH, Not Covered) have both demonstrated the attractive margin upside available in this business.

Figure 5: V-Test's gross margin trend by segment



Source: V-Test (Prospectus and historical annual reports, 2019-2025), J.P. Morgan estimates.

Figure 6: Key peers' gross margin trend

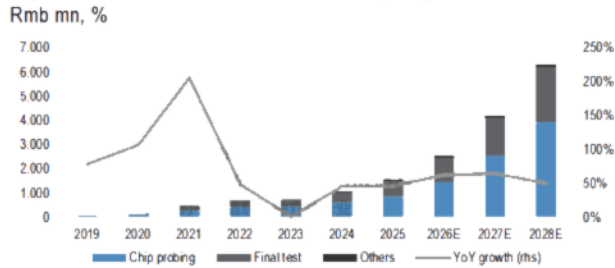


Source: Lumentek, SJ Semi, (Prospectus, 2022-2025).

That said, we expect that V-Test's near-term margin improvement is likely to remain muted in 2Q-3Q26, owing to 1) rapidly increasing depreciation, 2) softening consumer electronics demand, and 3) heavy resources committed to AI projects. Looking past this trough, with large shipments of locally fab AI chips set to ramp from late this year, we believe that V-Test is poised to unlock its potential and its margin profile should inflect from 4Q26 onwards. We expect 59% and 73% sales and earnings CAGRs, respectively, during 2026-28E.

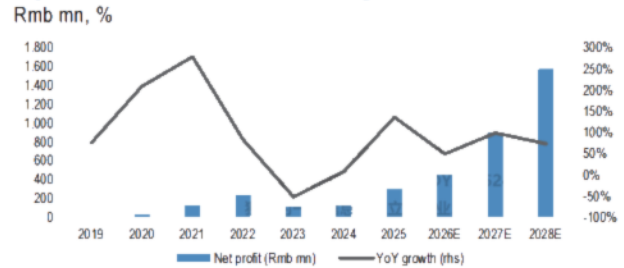


Figure 7: V-Test's revenue breakdown by segment



Source: V-Test (Prospectus and historical annual reports, 2019-2025), J.P. Morgan estimates.

Figure 8: V-Test's net profit and YoY growth



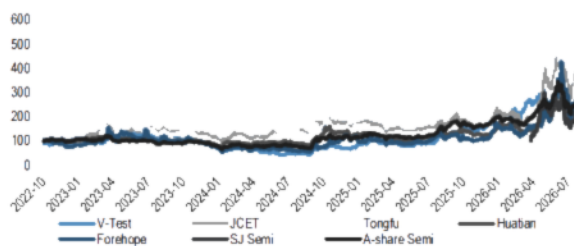
Source: V-Test (Prospectus and historical annual reports, 2019-2025), J.P. Morgan estimates.

JCET vs. V-Test as two distinct valuation frameworks

V-Test has rallied 27% YTD on improving utilization (vs. 55% for A-share Semi index), yet it trails the OSAT average gain of 96% YTD, largely reflecting greater pricing flexibility.

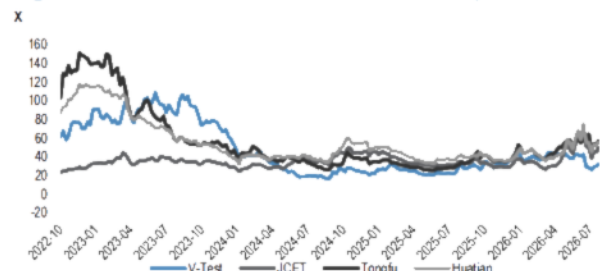
OSAT peers now trade at roughly one standard deviation above their historical mean, supported by pricing elasticity and growing market recognition of their AI chip exposure. V-Test, by contrast, remains at the lower band of its historical valuation range, constrained by limited price hikes and insufficient acceptance of its AI-driven growth narrative.

Figure 9: Share price performance comparison – A-share peers



Source: Wind (17 Aug 2026), J.P. Morgan estimates.

Figure 10: Historical forward P/E trend – A-share peers



Source: Wind (17 Aug 2026), J.P. Morgan estimates.

The question investors frequently ask is how to choose between JCET and V-Test, and we believe the two deserve different valuation frameworks.

JCET: Price hikes and margin improvement drive earnings, while the advanced packaging theme underpins valuation. The catalyst path is nearer-term and more visible: tight supply leads to price increases, which translate into margin expansion and earnings delivery, and advanced packaging investment reinforces the long-term narrative. JCET is trading at 42.1x 2027E PE, a 19% premium to the historical average. Our Dec-27 PT of Rmb110.0 is based on a 40x one-year forward P/E; OW.

V-Test: AI exposure supports both EPS growth and multiple expansion, with a cheap valuation offering attractive risk/reward. Near-term earnings are deliberately suppressed by pre-investment and depreciation, so the payoff is back-loaded to the

2H26-2027 domestic AI chip ramp. In effect, investors are paying a below-mean multiple for superior 73% earnings CAGR. V-Test is trading at 25.5x 2027E PE, a 17% discount to the historical average. Our Jun-27 PT of Rmb220.0 is based on a 30x one-year forward P/E; OW.

Table 2: China packaging and testing peer valuation comparison

Ticker	Company	Rating	Market cap (Rmb mn)	YTD perf.	2026 E	PE 2027 E	2028 E	2026 E	PB 2027 E	2028 E	2026 E	ROE 2027 E	2028 E	26-28 Earnings CAGR
600584.SH	JCET	OW	153,621	134%	68.2	42.1	31.4	5.1	4.6	4.1	8%	11%	14%	46%
688372.SH	V-TEST	OW	23,306	27%	50.8	25.5	14.6	5.3	4.5	3.6	12%	19%	27%	73%
688820.SH	*SJSEMI	NC	285,191	100%	247.4	153.7	111.9	14.1	12.9	11.7	6%	8%	36%	40%
002156.SZ	*TFME	NC	105,109	84%	66.4	52.6	46.4	6.2	5.7	5.1	9%	10%	15%	23%
002185.SZ	*HUA TIAN	NC	63,145	73%	63.7	51.3	41.5	3.4	3.2	3.0	6%	6%	17%	29%
688362.SH	*FHEC	NC	33,498	128%	161.3	104.6	72.0	11.7	10.3	8.8	7%	10%	22%	79%
Average					109.6	71.6	53.0	7.6	6.9	6.0	8%	11%	27%	48%

Source: J.P. Morgan estimates, * Wind consensus for Not Covered (NC) stocks. (Prices as of market close on 17 Aug 2026). Note: an interactive dashboard ([link](#)) to assist with the screening of the indigenous supply chain in China

Downside Risks to JCET's Rating and Price Target

- Worse-than-expected demand for smartphones and other consumer electronics.
- Raw material (substrates, etc.) supply shortages due to insufficient logistics.
- Intensifying competition in traditional packaging, impacting profitability.

Downside Risks to V-Test's Rating and Price Target

- Tester procurement restrictions impeding capacity expansion.
- Export controls affecting repatriation of chip testing from foundries outside of mainland China.
- Intensifying industry competition with lower equipment barrier supported by domestic ATE suppliers.
- Weaker-than-expected non-AI demand.

JCET - A (Overweight; Price Target: Rmb110.00)

Investment Thesis

We are confident about the company's long-term growth potential to capture surging AI demand domestically and globally, thanks to its technology leadership and global production sites. Meanwhile, high utilization and price hikes could mitigate near-term margin pressure from increasing depreciation. We model a 16%/46% sales/earnings CAGR during 2026-28.

Valuation

Our Dec-27 PT of Rmb110 is based on a 40x one-year forward P/E, close to +1STD the historical average valuation, to reflect upside potential from ramping the AI-related advanced package business.

Risks to Rating and Price Target

Downside risks include:

- Worse-than-expected demand for smartphones and other consumer electronics.
- Raw material (substrates, etc.) supply shortages due to insufficient logistics.
- Intensifying competition in traditional packaging, impacting profitability.

Upside catalysts include:

- Better-than-expected downstream demand to improve operating leverage.
- A faster-than-expected ramp-up or revenue generation of new business.
- A loosening of regulatory controls on leading-edge products.

Shanghai V-Test Semiconductor Tech. Co., Ltd. - A

(Overweight; Price Target: Rmb220.00)

Investment Thesis

V-Test is China's leading third-party chip testing vendor. It is uniquely positioned to capture the AI-driven inflection in domestic testing demand, thanks to its counter-cyclical capacity expansion skewed to high-end testers and superior customer portfolio. We currently model 59% sales and 73% earnings CAGRs over 2026-28E. We are Overweight.

Valuation

Our Jun-27 price target of Rmb220.00 is based on a 30x one-year forward P/E, which is close to its 3-year historical average and at a discount to key A-share OSAT peers, to reflect its relatively limited pricing flexibility in the near term.

Risks to Rating and Price Target

Downside risks include:

- Tester procurement restrictions impeding capacity expansion.
- Export controls affecting repatriation of chip testing from foundries outside of mainland China.
- Intensifying industry competition with lower equipment barrier supported by domestic ATE suppliers.
- Weaker-than-expected non-AI demand.