First Read

Hua Hong Semiconductor

2026 A-share Conference: Positive on further pricing increase

Equities

Hong Kong
Semiconductors

12-month rating	**Neutral**
12m price target	**HK$148.00**
Price (02 Sep 2026)	**HK$117.50**

RIC: 1347.HK **BBG:** 1347 HK

Trading data and key metrics

52-wk range	HK$215.20-45.68
Market cap.	HK$204b/US$26.0b
Shares o/s	1,738m (ORD)
Free float	27%
Avg. daily volume ('000)	40,141
Avg. daily value (m)	HK$6,127.2
Common s/h equity (12/26E)	US$9.16b
P/BV (12/26E)	3.3x
Net debt to EBITDA (12/26E)	NM

EPS (UBS, diluted) (US$)

	UBS	Cons.
12/26E	0.10	0.13
12/27E	0.14	0.19
12/28E	0.20	0.25

Confident about the structural demand outlook

Management attended the UBS China A-Share Conference. Investor attention mainly centered on: 1) pricing momentum and gross margin trajectory, 2) capacity expansion plans across 8" and 12" fabs, and 3) the sustainability of current demand strength compared with the previous upcycle. Management expressed high confidence in the structural demand outlook, noting that AI plays a much bigger role this time, providing greater certainty than the last cycle.

Optimistic pricing outlook

Management has strong conviction on further pricing increase, with ASP up 10-15% this year and a further increase expected in 2027 as the company believes undersupply will persist. Management estimates that pricing by end of this year will remain 10-15% below the 2022 peak, leaving room for upside. We expect gross margin to gradually improve in 2026/27E on higher pricing, though partially offset by higher depreciation costs as new 12" fabs are ramping up.

Ongoing capacity expansion

Currently, all fabs are running at full loading. Hua Hong plans to keep adding capacity for high-demand specialty platforms. Fab 9A will reach 83kwpm 12" by end of Q326; Fab 9B will install 10-20kwpm 12" by YE2026, and start to ramp from the beginning of 2027, targeting full capacity by 2029. While there is no room for 8" capacity expansion, Hua Hong will debottleneck to ensure better operational efficiency. Regarding the potential growth opportunity in optical communications, Hua Hong may consider allocating 20-30kwpm 8" equiv. capacity to SiPh over the next 2-3 years.

Valuation: Hua Hong-H price target of HK$148.00; Neutral

Our price target is based on 4.0x average 2027-28E BVPS.

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Highlights (US$m)	12/23	12/24	12/25	12/26E	12/27E	12/28E	12/29E	12/30E
Revenues	2,286	2,004	2,402	3,159	4,295	5,014	5,750	6,183
EBIT (UBS)	154	(156)	(143)	80	206	436	608	761
Net earnings (UBS)	280	58	55	186	296	412	480	566
EPS (UBS, diluted) (US$)	0.19	0.03	0.03	0.10	0.14	0.20	0.23	0.28
DPS (net) (US$)	0.03	0.00	0.00	0.01	0.01	0.02	0.02	0.00
Net (debt) / cash	3,486	2,261	1,703	57	(2,131)	(3,628)	(5,137)	(5,352)

Profitability/valuation	12/23	12/24	12/25	12/26E	12/27E	12/28E	12/29E	12/30E
EBIT (UBS) margin %	6.7	(7.8)	(5.9)	2.5	4.8	8.7	10.6	12.3
ROIC (EBIT) %	3.7	(2.9)	(2.1)	0.9	1.6	2.9	3.6	4.2
EV/EBITDA (UBS core) x	6.8	9.6	18.1	27.1	20.1	16.2	13.9	12.8
P/E (UBS, diluted) x	17.3	72.1	NM	NM	NM	74.4	63.9	54.1
Equity FCF (UBS) yield %	(5.7)	(55.6)	(11.3)	(7.9)	(6.7)	(6.2)	(4.7)	(1.7)
Dividend yield (net) %	0.8	0.0	0.0	0.1	0.1	0.1	0.2	0.0

Source: Company accounts, LSEG Eikon, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK$ 117.50 on 02-Sep-2026

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Forecast returns

Forecast price appreciation	26.0%
Forecast dividend yield	0.1%
Forecast stock return	26.1%
Market return assumption	8.5%
Forecast excess return	17.6%

Company Description

Hua Hong Semiconductor (Hua Hong) is the second-largest foundry (by capacity) in China dedicated to IC manufacturing at both 8-inch and 12-inch wafer fabs. Its first 12-inch fab began mass production in Q419. Most of its revenue is from China (82% of 2024 revenue), followed by North America (9%). Its major products include power discrete products, micro-controller units (MCUs) and smart cards.

Valuation Method and Risk Statement

We base our price target for Hua Hong on a P/BV multiple.
We believe Hua Hong faces a variety of downside risks, including: 1) cyclical demand for 8" wafers; any end-demand changes or technology migration could slow top-line growth; 2) increasing competition in higher-growth segments, such as MCUs and power discrete products; 3) high capital investment for 8" capacity expansion and the ramp of the new 12" fab; and 4) potential changes in government subsidies as a result of US-China trade negotiations.
Upside risks for Hua Hong include: 1) a persistent trailing-edge foundry shortage; 2) milder-than-expected competition in legacy 12" foundries, particularly in China; and 3) better-than-expected strength in China semiconductor localisation demand for MCU and analog semis.



Quantitative Research Review

UBS Global Research publishes a quantitative assessment of its analysts' responses to certain questions about the likelihood of an occurrence of a number of short term factors in a product known as the 'Quantitative Research Review'. The views for this month can be found below. Views contained in this assessment on a particular stock reflect only the views on those short term factors which are a different timeframe to the 12-month timeframe reflected in any equity rating set out in this note. For previous responses please make reference to (i) previous UBS Global Research reports; and (ii) where no applicable research report was published that month, the Quantitative Research Review which can be found at https://neo.ubs.com/quantitative, or contact your UBS sales representative for access to the report or the Quantitative Research Team on ubs-quant-answers@ubs.com. A consolidated report which contains all responses is also available and again you should contact your UBS sales representative for details and pricing or the Quantitative Research Team on the email above.

Hua Hong Semiconductor

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	4
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting tougher 3 = no change, 5 = getting better, N/A = no view)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	4
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	