廣發証券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED

Credo Technology (CRDO US)

Maintained **Buy**

Target price $227

Revenue inline, Retain $600m+ Optical Sales for FY27E

Maintain Buy and TP of $227: Credo delivered a F1Q27 revenue of $479mn (+115% YoY, +10% QoQ), largely inline with consensus of $477mn, while non-GAAP EPS came in at $1.20, slightly ahead of consensus $1.15. Non-GAAP gross margin printed 68%, down 30bps QoQ and at the midpoint of guidance range. The company guided F2Q27E revenue of $525-535mn, non-GAAP gross margin of 67%-69%, in-line with market consensus. Management highlighted surging AI-driven interconnect demand, expected >85% YoY total revenue growth for FY27E. Post-market shares traded down ~10%, driven by overly-elevated market expectations for optical revenue as well as investor concerns over long-term GM dilution stemming from the ramp-up of optical products. We forecast FY27E/28E EPS of $6.5/$11.4, respectively. Maintain Buy with TP of $227, based on 20x FY28E EPS.

AEC as the core growth pillar in near-term: AEC will still drive most of revenue expansion in FY1H27E, before optical portfolio gains meaningful traction in the second half. Management sees broadening adoption across both established hyperscalers and fast-growing neo-cloud operators, with rising design activity for next-generation 200G-per-lane and PCIe 6.0-ready AEC platforms. While AEC maintains its leading market position underpinned by vertical-integrated silicon-firmware stack, the business faces rising competitive threats alongside ongoing IP-licensing-related discussions with industry peers. Longer-term, management envisions AEC and optical solutions evolving toward a roughly 50/50 revenue mix, though optics will eventually address a larger total addressable market.

Maintain $600m+ optical revenue guidance for FY27E: The optical portfolio including ZeroFlap pluggable transceivers, optical DSPs and PICs targets >$600m total FY27E revenue, with meaningful volume ramp weighted toward FY2H27E. ZeroFlap transceivers inherit Credo's reliability-focused design philosophy to tackle link-flap pain-points for AI data centers, and will become the largest optical revenue contributor given its higher ASP. While, rising optical revenue mix will create consolidated gross-margin dilution pressure even as absolute profitability stays healthy. Credo's NPO OE, powered by DustPhotonics silicon-photonics, is slated for sampling in late FY27E with material revenue pushed to FY28E, subject to customer qualification risks.

Risks: 1) AI demand slowdown; 2) Programs ramp slower than expected; 3) Competition.

Profit forecast

	FY25	FY26	FY27E	FY28E	FY29E
Revenue (m)	437	1,335	2,640	4,428	5,972
Revenue YoY (%)	126.3	205.7	97.8	67.7	34.9
Net profit (m)	130	662	1,295	2,293	3,164
Net profit YoY (%)	792	409	96	77	38
EPS ($)	0.7	3.4	6.5	11.4	15.5
P/E	294.7	60.4	31.8	18.2	13.3
ROE (%)	19.1	32.1	38.8	40.5	35.7

Source: Company data, GF Securities (Hong Kong) Brokerage.

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Earnings Forecast

Earnings revision

By factoring results and guidance, we fine-tune our EPS estimates for FY27E/FY28E.

Figure 1: Earnings revision

USD m	FY26	FY27E		FY28E		Change (%)	
		Old	New	Old	New	FY27E	FY28E
Net sales	1,335	2,637	2,640	4,429	4,428	0%	0%
Gross profit	910	1,747	1,750	2,875	2,874	0%	0%
Operating profit	639	1,385	1,357	2,483	2,448	-2%	-1%
Pre-tax Income	669	1,425	1,389	2,527	2,492	-3%	-1%
Net profit	662	1,311	1,295	2,325	2,293	-1%	-1%
EPS ($)	3.4	6.5	6.5	11.4	11.4	0%	0%
Key ratios (%)							
Gross margin	68%	66%	66%	65%	65%		
Operating margin	48%	53%	51%	56%	55%		
Net profit margin	50%	54%	53%	52%	52%		

Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 2: Credo's P&L forecast

(USD m)	FY26	F1Q27	F2Q27E	F3Q27E	F4Q27E	FY27E	F1Q28E	F2Q28E	F3Q28E	F4Q28E	FY28E
Sales	**1,335**	479	614	722	825	**2,640**	956	1,045	1,180	1,247	**4,428**
COGS	**425**	153	206	246	284	**890**	335	366	415	437	**1,554**
Gross profit	**910**	326	408	476	541	**1,750**	621	679	764	810	**2,874**
Opex	**271**	95	98	99	101	**394**	103	106	108	110	**426**
Operating profit	**639**	231	310	376	439	**1,357**	518	573	657	700	**2,448**
Non-operating profit	**30**	8	8	8	8	**33**	11	11	11	11	**44**
Pre-tax profit	**669**	239	318	384	448	**1,389**	529	584	668	711	**2,492**
Income tax	**-8**	-3	-25	-31	-36	**-95**	-42	-47	-53	-57	**-199**
Net Income	**662**	236	293	354	412	**1,295**	486	537	614	654	**2,293**
Diluted EPS ($)	**3.4**	1.2	1.5	1.8	2.1	**6.5**	2.4	2.7	3.0	3.2	**11.4**
Diluted shares	**193**	198	199	200	201	**199**	201	202	202	203	**202**
Margin analysis											
Gross margin	**68.1%**	68.0%	66.4%	65.9%	65.6%	**66.3%**	64.9%	64.9%	64.8%	65.0%	**64.9%**
Operating margin	**47.8%**	48.2%	50.5%	52.1%	53.3%	**51.4%**	54.1%	54.8%	55.7%	56.2%	**55.3%**
Pre-tax margin	**50.1%**	49.8%	51.8%	53.2%	54.2%	**52.6%**	55.3%	55.9%	56.6%	57.0%	**56.3%**
Effective tax rate	**1.2%**	3.1%	3.1%	3.1%	3.1%	**6.8%**	15.0%	15.0%	15.0%	15.0%	**8.0%**
Growth (% YoY)											
Sales	**206%**	115%	129%	77%	89%	**98%**	100%	70%	63%	51%	**68%**
Operating profit	**554%**	240%	250%	186%	203%	**212%**	224%	185%	175%	159%	**180%**
Net income	**409%**	140%	129%	69%	82%	**96%**	106%	84%	74%	59%	**77%**
EPS	**386%**	130%	120%	65%	78%	**89%**	102%	81%	72%	57%	**75%**
Product mix (%)											
HiWire AECs	**89%**	88%	73%	67%	63%	**71%**	60%	60%	59%	61%	**60%**
DSP	**4%**	3%	3%	4%	4%	**4%**	4%	4%	4%	4%	**4%**
Line Card	**5%**	4%	3%	3%	3%	**3%**	2%	2%	2%	2%	**2%**
Optical transceiver	**0%**	0%	16%	21%	24%	**17%**	29%	29%	31%	29%	**30%**
PICs	**0%**	3%	3%	5%	5%	**4%**	4%	4%	4%	4%	**4%**
IP License	**2%**	1%	1%	1%	1%	**1%**	1%	1%	1%	1%	**1%**

Sources: Company data, GF Securities (Hong Kong) Brokerage

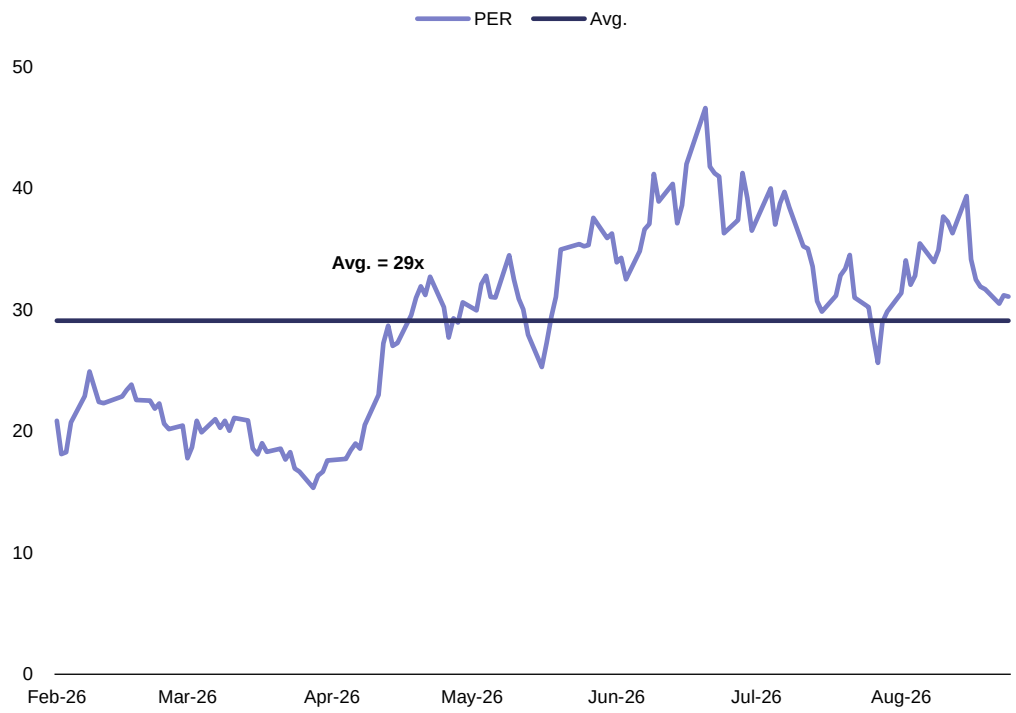
Valuation and Recommendation

Maintain Buy with TP of $227

We rate Credo Technology (CRDO US) at Buy and set our TP at $227, based on 20x our FY28E EPS estimate. We adopt P/E methodology as we believe the market now mainly focuses on the company's earnings outlook.

Credo's forward P/E valuation was volatile prior to this year, while traded at an average of 29x YTD. We derive our target price based on 20x P/E, which is lower than its mid-cycle level. From peers comparison, our target P/E of 20x is lower than its peers, but we think there may be upside driven by the ramp-up of optical business.

Figure 3: Credo's 12-month forward P/E



Sources: Company data, GF Securities (Hong Kong) Brokerage

Risks

1) AI demand slowdown; 2) Programs ramp slower than expected; 3) Competition.

Balance Sheet

USD mn

	FY25	FY26	FY27E	FY28E	FY29E
Current assets	**714**	**2,001**	**3,323**	**5,663**	**8,904**
Cash and cash equivalents	431	1,443	2,348	4,290	7,098
Inventory	90	251	312	408	552
Accounts Receivable	162	233	589	891	1,180
Other current assets	30	74	74	74	74
Non-current assets	**96**	**295**	**371**	**455**	**540**
Long-term equity investment	-	-	-	-	-
Fixed assets	64	102	146	198	252
Other long-term assets	32	193	225	257	289
Total assets	**809**	**2,296**	**3,694**	**6,117**	**9,444**
Current liabilities	**108**	**197**	**319**	**421**	**548**
Accounts Payable	56	107	220	338	457
Short-term borrowings	-	-	-	-	-
Other current liabilities	20	35	35	35	35
Non-current liabilities	**52**	**90**	**99**	**82**	**91**
Long-term Debt	-	-	-	-	-
Other non-current liabilities	20	35	35	35	35
Total liabilities	**128**	**232**	**354**	**456**	**583**
Total Equity	**682**	**2,064**	**3,340**	**5,662**	**8,861**
Share Capital	-	-	-	-	-
Additional Paid-in Capital	765	1,672	1,672	1,672	1,672
Retained earnings	-83	389	1,666	3,987	7,186
Minority interests	-	2	2	2	2
Total Liabilities & Equity	**809**	**2,296**	**3,694**	**6,117**	**9,444**

Income Statement

USD mn

	FY25	FY26	FY27E	FY28E	FY29E
Revenue	**437**	**1,335**	**2,640**	**4,428**	**5,972**
Cost of sales	153	425	890	1,554	2,127
Gross profit	**284**	**910**	**1,750**	**2,874**	**3,845**
Operating Expense	169	271	394	426	454
Operating profit	**115**	**639**	**1,357**	**2,448**	**3,391**
Interest Income	-	-	-	-	-
Interest Expense	-	-	-	-	-
Net other Non-op. Income/(Loss)	18	669	1,389	2,492	3,439
Pre-tax profit	**133**	**669**	**1,389**	**2,492**	**3,439**
Income tax	2	-1	52	142	205
Profit for the year	**130**	**662**	**1,295**	**2,293**	**3,164**
Minority interest	-	-	-	-	-
Net profit to ord. equity	**130**	**662**	**1,295**	**2,293**	**3,164**
EPS ($)	**0.7**	**3.4**	**6.5**	**11.4**	**15.5**

Cash Flow Statement

USD mn

	FY25	FY26	FY27E	FY28E	FY29E
Operating cash flow	**56**	**464**	**984**	**2,043**	**2,928**
Profit for the year (GAAP)	52	472	977	1,960	2,763
Depreciation & amortization	20	23	35	48	66
Change in working capital	-99	-186	-296	-295	-305
Others	83	155	268	329	404
Investing cash flow	**-36**	**205**	**-80**	**-100**	**-120**
Capex	-36	-60	-80	-100	-120
Change in investment	-	-	-	-	-
Others	-	-	-	-	-
Free cash flow	**20**	**405**	**904**	**1,943**	**2,808**
Financing cash flow	**2**	**378**	-	-	-
Change in Capital	-	385	-	-	-
Net Change in Debt	-	0	-	-	-
Others	2	-7	-	-	-
Exchange influence	-	-	-	-	-
Net increase in cash	**21**	**1,048**	**904**	**1,943**	**2,808**

Key Financial Ratios

	FY25	FY26	FY27E	FY28E	FY29E
Growth (%)					
Revenue growth	126.3	205.7	97.8	67.7	34.9
Operating profit growth	4126.9	453.8	112.4	80.4	38.5
Net profit growth	791.7	409.2	95.7	77.1	38.0
Profitability (%)					
Gross profit margin	65.0	68.1	66.3	64.9	64.4
Operating Profit Margin	26.4	47.8	51.4	55.3	56.8
Net profit margin	29.7	49.5	49.0	51.8	53.0
Key Ratio (%)					
ROA	16.1	28.8	35.0	37.5	33.5
ROE	19.1	32.1	38.8	40.5	35.7
Stability					
Gross debt/equity	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current Ratio	6.6	10.2	10.4	13.5	16.2
Quick Ratio	5.5	8.5	9.2	12.3	15.1
Net debt/equity	Net cash	Net cash	Net cash	Net cash	Net cash

Rating definitions Benchmark: Hang Seng Index (Hong Kong)

Company ratings	**Buy**	Stock expected to outperform benchmark by more than 10%
	Hold	Expected stock relative performance ranges between -10% and 10%
	Underperform	Stock expected to underperform benchmark by more than 10%

Sector ratings	**Positive**	Sector expected to outperform benchmark by more than 10%
	Neutral	Expected sector relative performance ranges between -10% and 10%
	Cautious	Sector expected to underperform benchmark by more than 10%

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