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IDEA

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Greater China Semiconductors | Asia Pacific

China WFE: Stronger for Longer

We see China WFE TAM growing 23% each year in 2027/28, with sustained memory investment and accelerating localization supporting continued share gains for domestic WFE vendors.

China WFE growth remains robust into 2027-28. We forecast China WFE spending of US$45.6bn/US$55.8bn/US$68.6bn in 2026/27/28, implying 9%/23%/23% YoY growth, with China at 28%/25%/27% of global WFE (See Shane Brett's 3Q'26 WFE update: 2026/27 Bull Case is the Base Case). Growth is increasingly memory-led, as domestic DRAM and NAND manufacturers add capacity and localize key process steps. Into 2028, advanced-node logic expansion could add another leg of growth, broadening the WFE opportunity beyond memory.

Memory expansion remains intact, but timing is becoming more fluid. We forecast YMTC capacity additions of 100kwpm in both 2027 and 2028, while its IPO filing supports sustained WFE intensity: Rmb20.8bn of the planned Rmb33bn fundraising is earmarked for mass-production-line upgrades. For CXMT, we forecast 100kwpm of additions in both 2027 and 2028. Our latest supply-chain checks suggest the planned CXMT Lingang expansion could be deferred, shifting more front-end capacity to Hefei. We view this mainly as a timing and location shift rather than a change in medium-term expansion ambitions.

MATCH Act presents an underappreciated risk but could accelerate localization. If enacted, the bipartisan MATCH Act (link) would seek to align allied controls on chokepoint tools, including DUV immersion lithography, and restrict equipment exports, servicing and technical support to covered Chinese fabs including CXMT and YMTC. This could constrain fab ramps. However, with domestic WFE localization at only ~25% in 2026, tighter restrictions could accelerate qualification of domestic etch, deposition and cleaning tools, supporting stronger share gains for local WFE vendors.

Remain OW on Naura, AMEC and ACMR. We lower our price targets for Naura to Rmb788 and ACMR to US$115, given heavy R&D expenses. We lower our price target for AMEC to Rmb428, given the previous share split. Despite potential fab-expansion timing risks, we remain constructive on localization. Naura remains our preferred broad-based beneficiary given exposure across deposition, etch, and thermal processing. AMEC should benefit from rising memory localization. For ACMR, we remain positive on memory demand and broader adoption of ECP and other non-cleaning tools.

With this report, Henry Zhao assumes primary coverage of Naura Technology Group Co Ltd (002371.SZ), ACM Research (ACMR.O), and Advanced Micro-Fabrication Equipment Inc (688012.SS).

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GREATER CHINA TECHNOLOGY SEMICONDUCTORS

Asia Pacific Industry View	**Attractive**

WHAT'S CHANGED

NAURA Technology Group Co Ltd (002371.SZ) Price Target	From Rmb818.00	To **Rmb788.00**
ACM Research Inc (ACMR.O) Price Target	From US$130.00	To **US$115.00**
Advanced Micro-Fabrication Equipment Inc (688012.SS) Price Target	From Rmb488.00	To **Rmb428.00**

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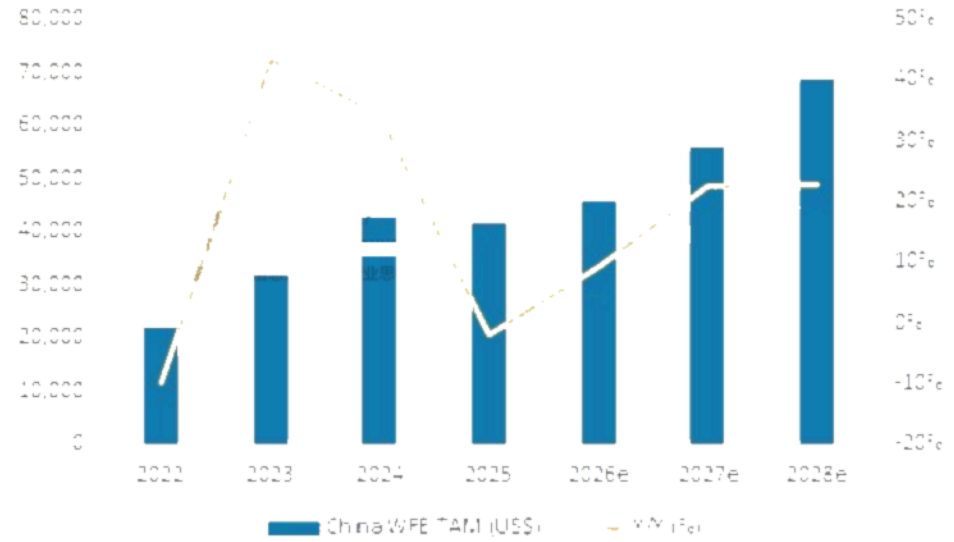
Memory-Led Expansion Meets Tighter Equipment Controls

China WFE enters a more memory-intensive phase of investment. We estimate China WFE TAM will grow 23% Y/Y to US$55.8bn in 2027 and another 23% to US$68.6bn in 2028, versus US$45.6bn in 2026. This implies nearly US$23bn of incremental WFE spending over 2026-28, with the investment mix increasingly shifting from the prior mature-node build-out toward memory and more advanced process technologies. We expect memory to drive much of the acceleration in 2027, while advanced-node logic capacity additions could become a more meaningful contributor in 2028, supporting sustained demand across deposition, etch, and cleaning equipment.

MATCH Act could materially broaden the scope of semiconductor equipment controls. The proposed bill would apply countrywide licensing requirements, with a presumption of denial, to "chokepoint" semiconductor tools that China cannot produce at sufficient scale and comparable capability. Covered equipment would include DUV immersion lithography, TSV deposition and etch, cryogenic etch and cobalt deposition tools, alongside selected items under ECCN 3B001/3B002. It would also designate all facilities operated by SMIC, Hua Hong, Huawei, CXMT and YMTC, including subsidiaries and affiliates, as covered facilities. Importantly, restrictions extend beyond equipment shipments to installation, calibration, repair, software/firmware updates, training, and other technical support.

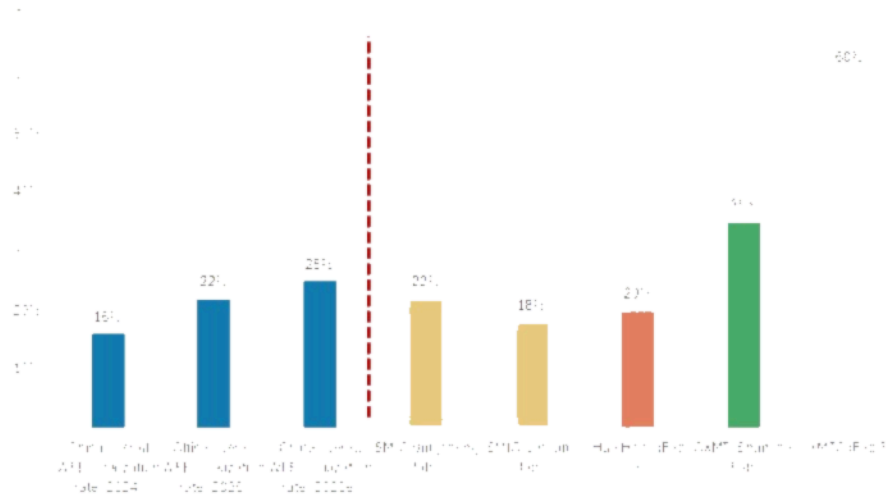
Our view: MATCH Act is a near-term execution risk, but a medium-term localization catalyst. We believe the market is not fully pricing the potential impact of tighter multilateral equipment controls on China's fab ramp schedules, particularly where critical foreign tools remain difficult to replace. This could introduce downside risk to WFE timing at memory and advanced-node fabs. However, with domestic WFE localization at only ~25% in 2026 by our estimates, further restrictions would likely increase the urgency of domestic tool qualification. We therefore see the policy as potentially negative for near-term fab execution, but supportive of faster share gains for domestic etch, deposition, and cleaning vendors.

Exhibit 1: We estimate China WFE TAM will reach US$69bn in 2028



Source: Company data, Morgan Stanley Research estimates.

Exhibit 2: China WFE localization rate for major projects



Source: Company data, Gartner, Morgan Stanley Research

China Memory: IPO Momentum Fuels Accelerated Capacity Expansion and Localization Upside

CXMT: Following its July 2026 STAR Market listing, CXMT has entered a new phase of scale and technology expansion. We see continued progress in Gen4B production, DDR5/ server DRAM qualification and HBM development, while DUV lithography remains the key external bottleneck. Our prior work assumed CXMT's total DRAM capacity would rise from 180kwpm in 2025 to 500kwpm by 2028, supported by 100kwpm of annual additions and a gradual shift toward higher-value products including HBM3E. Based on our latest industry checks, we now forecast incremental capacity additions of 100kwpm each year in 2026/27/28, respectively. We continue to view Hefei as the core front-end expansion base, while Lingang could be deferred, potentially shifting the timing rather than the medium-term scale of CXMT's capacity buildout.

YMTC (IPO filed): YMTC has completed its pre-IPO coaching and continues to progress toward an A-share listing, reinforcing our confidence in sustained capex and capacity expansion. We expect capacity additions of 35/100/100kwpm in 2026/27/28, respectively, as Fab 3 ramps and subsequent Fab 4/5 buildout progresses. Importantly, YMTC's IPO filing targets Rmb33bn of fundraising, including Rmb20.8bn for mass-production-line technology upgrades, providing additional visibility into continued WFE investment beyond greenfield capacity additions. We expect ongoing capacity expansion, technology migration and localization to support sustained equipment demand, particularly across etch, deposition, and cleaning.

Exhibit 3: CXMT may keep its capacity expansion strong in 2026

CXMT	2021	2022	2023	2024	2025	2026e	2027e	2028e
Capacity (kwpm - 8" equiv)	**113**	**128**	**275**	**338**	**405**	**675**	**900**	**1,125**
12-inch fabs	**50**	**57**	**122**	**150**	**180**	**300**	**400**	**500**
Hefei Phase 1 (12-inch)	50	52	100	100	100	100	100	100
Hefei Phase 2 (12-inch)	0	0	0	50	80	80	100	100
Beijing Phase 1 (12-inch)	0	5	22	0	0	120	120	120
Beijing Phase 2 (12-inch)	0	0	0	0	0	0	0	80
Shanghai Chuansha (12-inch)	0	0	0	0	0	0	80	100

Source: TrendForce, Morgan Stanley Research estimates

Exhibit 4: YMTC to ramp up capacity for Fab 3 and Fab 4 in 2027

YMTC	2021	2022	2023	2024	2025	2026e	2027e	2028e
Capacity (kwpm - 8" equiv)	**191**	**236**	**270**	**338**	**405**	**484**	**709**	**934**
12-inch fabs	**85**	**105**	**120**	**150**	**180**	**215**	**315**	**415**
Wuhan Fab1 (12-inch)	85	95	95	95	100	100	100	100
Wuhan Fab2 (12-inch)	0	10	25	55	80	100	100	100
Wuhan Fab3 (12-inch)	0	0	0	0	0	15	100	100
Wuhan Fab4 (12-inch)	0	0	0	0	0	0	15	100
Wuhan Fab5 (12-inch)	0	0	0	0	0	0	0	15

Source: TrendForce, Morgan Stanley Research estimates.

Risk Reward – NAURA Technology Group Co Ltd (002371.SZ)

Stronger for Longer, but R&D expenses may rise

PRICE TARGET Rmb788.00

We use a residual income model to value NAURA. Our base case assumptions are:

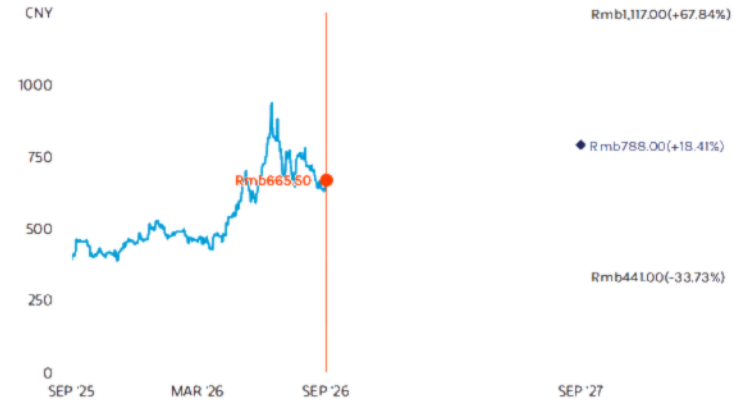
- WACC of 10.1%, derived from a risk-free rate of 2.0%, beta of 1.35 and a market risk premium of 6.0%.
- Intermediate growth rate of 15%, reflecting opportunities in domestic advanced node capacity expansion.
- Terminal growth rate of 5%.

Consensus Price Target Distribution Rmb510.70 Rmb877.73 Rmb1,380.00

MS PT

Mean Morgan Stanley Estimates

RISK REWARD CHART



Key: Historical Stock Performance Current Stock Price Price Target

OVERWEIGHT THESIS

- Chinese logic and memory foundries appear likely to maintain high capex in 2026 and 2027, which should help fuel NAURA's revenue growth.
- We view NAURA as a long-term beneficiary of China's semiconductor equipment localization trend. We believe its key customers will continue to expand capacity aggressively over the next few years.
- The company has acquired a 17.9% share in KingSemi, whose track, cleaning, and back-end equipment could complement NAURA's product portfolio.
- 2026e P/E is lower than its average P/E since 2016, which we view as appealing.

Consensus Rating Distribution

100% Overweight
0% Equal-weight
0% Underweight

MS Rating

Risk Reward Themes

Secular Growth: *Positive*
Technology Diffusion: *Positive*

here

BULL CASE Rmb1,117.00

102x 2026e P/E

1) >45% revenue CAGR in 2025-28, fueled by stronger-than-expected semi capex; 2) NAURA's domestic market share rises in 2026; and 3) gross margin improves to over 45% in 2026, thanks to scale effects and the company's technology competitiveness. Customers' capex also resumes a bullish trend.

BASE CASE Rmb788.00

72x 2026e P/E

1) 30% revenue CAGR in 2025-28, thanks to the robust capacity expansion plans of downstream fabs; 2) NAURA's domestic market share to increase gradually; and 3) gross margin to grow slightly through 2026-28.

BEAR CASE Rmb441.00

40x 2026e P/E

1) <15% revenue CAGR in 2025-28, owing to slower-than-expected capacity expansion plans by fabs; 2) NAURA's domestic market share is stable or even declines because of slower-than-expected R&D and slower cost reduction versus peers; and 3) gross margin falls below 35%, owing to the high bargaining power of its customers. Customers' capex also deteriorates more than expected.

Risk Reward – NAURA Technology Group Co Ltd (002371.SZ)

KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Sales to Memory Customers (Rmb, mn)	36,271	45,123	62,431	76,035
Sales to Front-end Logic Customers (Rmb, mn)	1,705	1,910	2,643	3,218
Sales to backend and others (Rmb, mn)	137	227	329	400

INVESTMENT DRIVERS

- Strong demand from China's semiconductor localization trend
- Production capacity expansion of domestic fabs

GLOBAL REVENUE EXPOSURE



100% Mainland China

here

MS ALPHA MODELS

4/5 MOST

3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected semi capex cycle in China
- Faster-than-expected R&D, leading to substantial market share increases for NAURA
- Tight production capacity in chips, leading to faster capacity expansion by fabs

RISKS TO DOWNSIDE

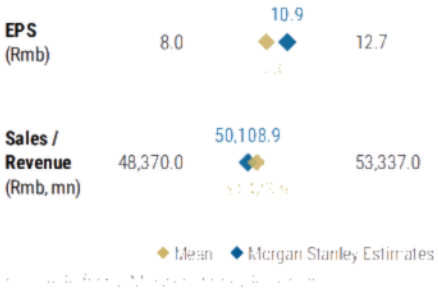
- Slowdown in China's semi capex cycle
- NAURA's market share declines
- Weakening demand in automotive, factory automation, and IoT, resulting in oversupply of chips

OWNERSHIP POSITIONING

Inst. Owners, % Active 86.8%

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



Naura: Earnings Estimate Revisions

We lower our 2026/27/28 EPS estimates 14%, 5%, and 6%: We remain constructive on NAURA's structural growth outlook, driven by rising domestic memory capacity and continued localization. However, we reduce our 2026/27/28 revenue estimates 2%/0%/1% mainly due to delivery delays from component procurement constraints in 2Q26. We raise our R&D expense assumptions to reflect heavier investment in new products and advanced process technologies, resulting in lower operating leverage. Accordingly, our 2026/27/28 operating profit estimates decline 18%/12%/13%, while EPS falls to Rmb10.93/17.71/22.27.

Exhibit 5: Naura. Estimate revisions

Rmb$ mn	New '2026E	Old '2026E	Diff.	New '2027E	Old '2027E	Diff.	New '2028E	Old '2028E	Diff.
Net sales	50,109	51,158	-2%	70,389	70,469	0%	85,875	86,805	-1%
Gross profit	20,319	21,187	-4%	29,764	30,244	-2%	36,391	37,417	-3%
Operating profit	7,185	8,811	-18%	11,828	13,483	-12%	14,896	17,123	-13%
Pretax Income	7,980	9,641	-17%	12,712	14,116	-10%	15,781	17,756	-11%
Net income	7,943	9,228	-14%	12,876	13,504	-5%	16,192	17,180	-6%
EPS for consensus	**10.93**	**12.71**	**-14%**	**17.71**	**18.60**	**-5%**	**22.27**	**23.67**	**-6%**
Margins									
Gross margin	40.5%	41.4%		42.3%	42.9%		42.4%	43.1%	
Operating margin	14.3%	14.3%		16.8%	16.2%		17.3%	16.9%	
Pretax margin	15.9%	16.0%		18.1%	17.1%		18.4%	17.6%	
Net margin	15.9%	14.9%		18.3%	16.5%		18.9%	17.3%	
Opex %	26.2%	27.1%		25.5%	26.7%		25.0%	26.2%	

Source: Morgan Stanley Research estimates

Naura: Valuation Methodology

We lower our price target to Rmb788 from Rmb818 to factor in our EPS estimate changes.

We continue to derive our price target via a residual income model. Key assumptions remain a WACC of 10.1% (beta of 1.35, cost of equity of 6%, and risk-free rate of 2%), medium-term growth rate forecast of 15% and terminal growth rate of 5.0%.

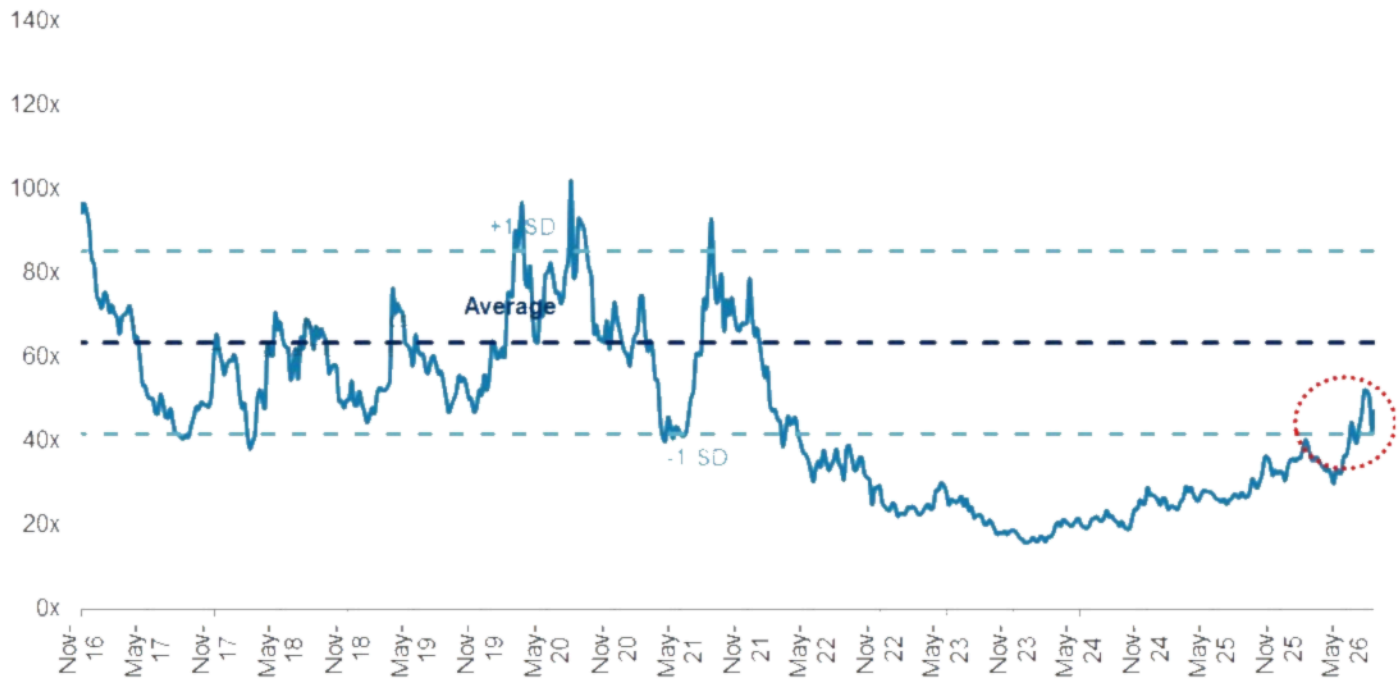
We lower our bull-case scenario value to Rmb1,117 from Rmb1,159, implying 102x 2026e P/E, and lower our bear-case value to Rmb441 from Rmb457, implying 40x 2026e P/E. The reductions are broadly in line with our lower price target and primarily reflect our revised earnings estimates following higher R&D expense assumptions and near-term delivery delays related to component procurement.

Exhibit 6: Naura: Residual income model

Rmb million	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E	2038E	2039E
Total Equity	**50,135**	**60,633**	**72,969**	**85,463**	**99,831**	**116,355**	**135,357**	**157,210**	**182,340**	**211,240**	**244,475**	**282,696**	**326,649**	**377,195**
Net Profit	**7,943**	**12,876**	**16,192**	**18,620**	**21,413**	**24,625**	**28,319**	**32,567**	**37,452**	**43,070**	**49,531**	**56,960**	**65,504**	**75,330**
ROAE	**16.9%**	**23.2%**	**24.2%**	**23.5%**	**23.1%**	**22.8%**	**22.5%**	**22.3%**	**22.1%**	**21.9%**	**21.7%**	**21.6%**	**21.5%**	**21.4%**
Residual Income	2,982	6,592	8,573	9,782	11,121	12,660	14,430	16,464	18,802	21,491	24,583	28,138	32,227	36,928
Spread	**6.8%**	**13.1%**	**14.1%**	**13.4%**	**13.0%**	**12.7%**	**12.4%**	**12.2%**	**12.0%**	**11.8%**	**11.6%**	**11.5%**	**11.4%**	**11.3%**
Ending Equity Capital	50,135	60,633												
PV of Forecast Period	97,306	112,085												
PV of Continuing Value	383,092	438,981												
Equity Value	**530,534**	**611,699**												
No. of Shares	725	725												
Implied Value	**732**	**844**												
Price Target (2H26-1H27)	**788**													

Source: Morgan Stanley Research estimates

Exhibit 7: Naura: Historical P/E band



Source: FactSet, Morgan Stanley Research (E) estimates

Naura: Financial Summary

Exhibit 8: Naura: Financial summary

Income Statement

Rmbmn (Years End Dec)	2025	2026E	2027E	2028E
Net sales	39,353	50,109	70,389	85,875
COGS	(23,571)	(29,790)	(40,625)	(49,484)
Gross profit	15,782	20,319	29,764	36,391
Operating expenses	(10,505)	(13,133)	(17,937)	(21,495)
Operating income	**5,277**	**7,185**	**11,828**	**14,896**
Non-operating income	568	795	884	884
Pre-tax income	5,845	7,980	12,712	15,781
Income tax	436	428	636	789
Minority Interest	113	391	800	1,200
Reported net Income	**5,522**	**7,943**	**12,876**	**16,192**
Adj.wtd.avg.shrs(m)	627	725	726	726
Reported EPS (Rmb)	**9.25**	**10.95**	**17.74**	**22.31**
EPS for consensus (Rmb)	**9.23**	**10.93**	**17.71**	**22.27**

Balance Sheet

Rmbmn (Years End Dec)	2025	2026E	2027E	2028E
Cash	17,337	20,424	21,180	25,779
Mkt Securities	42	42	42	42
AR/NR	9,402	10,428	14,649	17,871
Inventory	28,627	32,927	44,902	54,695
Other	3,912	3,912	3,912	3,912
Current Assets	**59,321**	**67,733**	**84,686**	**102,299**
Long-term investments	300	300	300	300
Fixed assets	7,568	7,568	7,568	7,568
Deffered assets	1,239	1,239	1,239	1,239
Other assets	21,372	21,372	21,372	21,372
Total Assets	**89,801**	**98,212**	**115,165**	**132,779**
S/T borrowings	319	319	319	319
AP/NP	15,544	17,748	24,203	29,481
Other ST liabilities	10,317	10,317	10,317	10,317
LT debt	12,973	12,973	12,973	12,973
Other LT liabilities	6,720	6,720	6,720	6,720
Common shares	725	725	725	725
Total Liabilities	**45,873**	**48,077**	**54,532**	**59,810**
Additional capital	17,966	17,966	17,966	17,966
Retained earning	18,802	25,009	35,507	47,843
Other shareholders' equity	6,436	6,436	6,436	6,436
Total Equity	**43,928**	**50,135**	**60,633**	**72,969**
Total Liab. & Shrhldr's Equity	**89,801**	**98,212**	**115,165**	**132,779**

E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company Data

Cash Flow Statement

Rmbmn (Years End Dec)	2025	2026E	2027E	2028E
Cashflow from Operations	**2,133**	**5,263**	**3,576**	**8,895**
Net profits	5,522	7,943	12,876	16,192
Depreciation	441	441	441	441
Working Capital Change	(1,537)	(3,121)	(9,741)	(7,737)
Other adjustments	(2,293)	0	0	0
Cashflow from Investing	**(3,929)**	**(441)**	**(441)**	**(441)**
Capex	(1,804)	(441)	(441)	(441)
Change of LT Investment	(234)	0	0	0
Change of ST Investment	(42)	0	0	0
Other adjustments	(1,849)	0	0	0
Cashflow from financing	**6,607**	**(1,736)**	**(2,378)**	**(3,856)**
Increase in L/T debt	9,027	0	0	0
Increase in S/T debt	316	0	0	0
Cash Dividend Paid	(1,682)	(1,736)	(2,378)	(3,856)
Issuance of stock	191	0	0	0
Other adjustments	(1,244)	0	0	0
Exchange rate adjustment	840	0	0	0
Net change in cash	**5,652**	**3,087**	**757**	**4,599**

Financial Ratios

	2025	2026E	2027E	2028E
Growth(%)				
Turnover	31.9	27.3	40.5	22.0
Operating profits	-10.9	36.2	64.6	25.9
Pretax profits	-10.2	36.5	59.3	24.1
Net profits	-1.6	43.8	62.1	25.7
EPS	-12.7	18.5	62.0	25.7
Margins (%)				
Gross Margin	40.1	40.5	42.3	42.4
Operating Margin	13.4	14.3	16.8	17.3
Pretax Margin	14.9	15.9	18.1	18.4
Net Profit	14.0	15.9	18.3	18.9
Return (%)				
ROAE	14.5	16.9	23.2	24.2
ROAA	7.1	8.4	12.1	13.1
Gearing (%)				
Net Debt/Equity	(38.7)	(40.1)	(34.4)	(34.9)
Liabilities/Equity	104.4	95.9	89.9	82.0
Ratios (X)				
Current ratio	2.3	2.4	2.4	2.5
Quick ratio	1.0	1.1	1.0	1.1
Others				
AR/NR Turnover (days)	76	76	76	76
Inventory Turnover (days)	403	403	403	403
AP Turnover (days)	217	217	217	217
Cash Conversion (days)	262	262	262	262

Risk Reward – ACM Research Inc (ACMR.O)

Back-end strength continues, OW

PRICE TARGET US$115.00

Base case, residual income model. Key assumptions: a 10.1% WACC (beta 1.35, risk-free rate 2%, and cost of equity of 6%), a medium-term growth rate of 13%, and a terminal growth rate of 4.0%. Dividend payout ratio is 80%, reflecting long-term shareholder payback with stronger cash flow.

Consensus Price Target Distribution US$75.00 US$166.00



RISK REWARD CHART

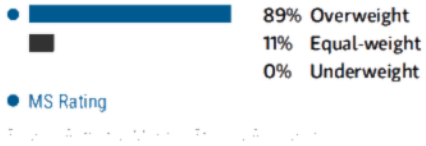


Key: Historical Stock Performance Current Stock Price Price Target

OVERWEIGHT THESIS

- We are positive on 2026 WFE demand from China given rising capex investments by Chinese logic and memory fabs.
- ACMR has a long-term revenue target of US$4.0bn, in view of increased confidence in new product cycles and opportunities in China. Its market share gain has been stronger than expected.
- ACMR's ECP could be key enablers for advanced packaging, where we have seen opportunities from clients other than mainland ones.
- PECVD and track tools are under customer qualification, targeting production-ready status by end-2026.
- We view our price target as justified by increasing Chinese foundry capex and ACMR's ongoing share gains.

Consensus Rating Distribution



Risk Reward Themes

Disruption:	*Positive*
Secular Growth:	*Positive*

here

BULL CASE US$182.00

64x 2026e P/E

Greater-than-expected equipment shipments from foundry players and memory customers: 1) ACMR's equipment continues to attract more aggressive end-demand with some market share gains from Chinese customers; 2) revenue rises at a >30% CAGR in 2025-28; 3) gross margin exceeds 50% in 2026; and 4) the US reduces restrictions on Chinese semis.

BASE CASE US$115.00

41x 2026e P/E

Strong equipment shipments and backlog orders from Chinese foundry players: 1) ACMR's equipment to continue to attract steady end-demand with some market share gains from Chinese customers; 2) a revenue CAGR of 27% in 2025-28; and 3) gross margin of 45.6% in 2026, up 1 .2ppt from 44.4% in 2025.

BEAR CASE US$40.00

14x 2026e P/E

Worse-than-expected equipment shipments from foundry players and memory customers: 1) ACMR's equipment is more affected by order cancellations, and the share gains with Chinese customers turn out to be slower; 2) revenue grows <5% in 2025-28; 3) gross margin drops further to <40% in 2026; 4) the US implements more restrictions on Chinese semis and ACMR's operations are affected.

Risk Reward – ACM Research Inc (ACMR.O)

KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Sales to Memory Customers (US$, mn)	341	397	465	542
Sales to Front-end Logic Customers (US$, mn)	265	300	348	406
Sales to backend and others (US$, mn)	295	475	729	909

INVESTMENT DRIVERS

- Successful ramp-up from key customers YMTC and CXMT
- Strong revenue growth and guidance
- Expanding gross margin

GLOBAL REVENUE EXPOSURE



MS ALPHA MODELS

5/5 **BEST** 24 Month Horizon

5/5 **MOST** 3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected equipment demand from China given faster capacity ramp-up
- Accelerating global semiconductor demand

RISKS TO DOWNSIDE

- Weaker-than-expected equipment demand from China given slower capacity ramp-up
- Decelerating global semiconductor demand

OWNERSHIP POSITIONING

Inst. Owners, % Active	47.5%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	33.6%

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



ACMR: Earnings Estimate Revisions

We cut our EPS estimates 11% for 2027 and 4% for 2028, leaving 2026 EPS unchanged: We maintain our 2026/27/28 revenue forecasts at US$1.17bn/US$1.54bn/US $1.86bn, as our demand assumptions remain intact. However, we now assume higher R&D expenses as ACMR accelerates development of new PECVD and Track platforms, which should weigh on near-term operating leverage. Accordingly, we lower our 2027/28 operating margin forecasts to 17.7%/20.6% from 19.0%/21.7%, driving EPS revisions to US $3.87/US$5.50 from US$4.38/US$5.75. We continue to view the increased R&D investment as supportive of ACMR's longer-term product expansion and addressable market growth.

Exhibit 9: ACMR: Estimate revisions

US$ mn	New '26E	Old '26E	Diff.	New '27E	Old '27E	Diff.	New '28E	Old '28E	Diff.
Net sales	1,172	1,172	0%	1,542	1,542	0%	1,857	1,857	0%
Gross profit	534	534	0%	712	712	0%	876	876	0%
Operating profit	184	184	0%	273	293	-7%	383	403	-5%
Pretax Income	294	294	0%	354	394	-10%	484	504	-4%
Net income	202	202	0%	278	314	-11%	395	413	-4%
EPS for consensus	**2.82**	**2.82**	**0%**	**3.87**	**4.38**	**-11%**	**5.50**	**5.75**	**-4%**
Margins									
Gross margin	45.6%	45.6%		46.2%	46.2%		47.2%	47.2%	
Operating margin	15.7%	15.7%		17.7%	19.0%		20.6%	21.7%	
Pretax margin	25.1%	25.1%		22.9%	25.5%		26.0%	27.1%	
Net margin	17.2%	17.2%		18.1%	20.4%		21.3%	22.2%	
Opex %	29.9%	29.9%		28.4%	27.1%		26.5%	25.4%	

Source: Morgan Stanley Research estimates

ACMR: Valuation Methodology

We cut our price target to US$115 from US$130: We factor in our EPS changes for 2026-28.

We derive our price target from a residual income model, with key assumptions unchanged, including a WACC of 10.1% (beta of 1.35, cost of equity of 6%, and risk-free rate of 2%), intermediate growth rate of 13%, terminal growth rate of 4.0% and dividend payout ratio of 80%.

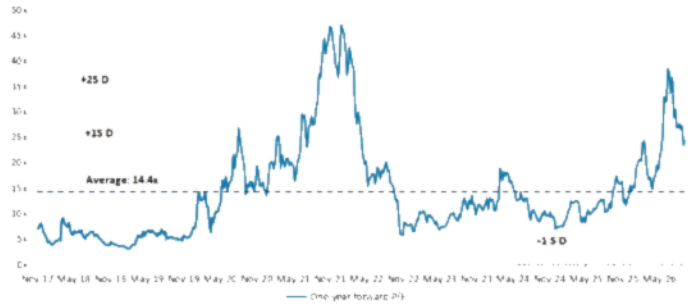
We lower our bull-case scenario value to US$182 from US$205, implying 64x 2026e P/E, and lower our bear-case value to US$40 from US$45, implying 14x 2026e P/E.The reductions are broadly in line with our lower price target and mainly reflect our revised earnings estimates following higher R&D expense assumptions for new PECVD and Track product development.

Exhibit 10: ACMR: Residual income model

US$million	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E	2038E
Total Equity	**2,106**	**2,327**	**2,390**	**2,461**	**2,541**	**2,632**	**2,735**	**2,851**	**2,982**	**3,129**	**3,297**	**3,486**	**3,699**
Net Profit	**202**	**278**	**315**	**355**	**402**	**454**	**513**	**579**	**655**	**740**	**836**	**945**	**1,068**
ROAE	**10.0%**	**12.6%**	**13.3%**	**14.7%**	**16.1%**	**17.5%**	**19.1%**	**20.8%**	**22.5%**	**24.2%**	**26.0%**	**27.9%**	**29.7%**
Residual Income	(2)	52	75	109	146	189	237	291	352	421	498	585	683
Spread	**-0.1%**	**2.4%**	**3.2%**	**4.5%**	**5.9%**	**7.4%**	**9.0%**	**10.6%**	**12.3%**	**14.1%**	**15.9%**	**17.7%**	**19.6%**
Ending Equity Capital	2,106	2,327											
PV of Forecast Period	1,217	1,512											
PV of Continuing Value	3,451	5,815											
Equity Value	**6,773**	**9,653**											
No. of Shares	71	72											
Implied Value	**95**	**134**											
Price Target (2H26-1H27)	**115**												

Source: Morgan Stanley Research estimates

Exhibit 11: ACMR: P/E band



Source: FactSet, Morgan Stanley Research estimates

ACMR: Financial Summary

Exhibit 12: ACMR: Financial summary

Income Statement

US$mn (Years End Dec)	2025	2026E	2027E	2028E
Net sales	901.3	1,171.5	1,541.9	1,857.4
COGS	(501.2)	(637.3)	(830.2)	(981.5)
Gross profit	400.1	534.2	711.7	875.9
Operating expenses	(290.6)	(350.2)	(438.4)	(492.6)
Operating income	**109.4**	**184.0**	**273.4**	**383.3**
Non-operating income	25.8	110.0	80.3	100.3
Pre-tax income	135.2	294.0	353.7	483.6
Income tax	13.3	30.0	35.4	48.4
Minority Interest	(27.8)	(62.2)	(40.0)	(40.0)
Reported net Income	**94.1**	**201.8**	**278.3**	**395.3**
Adj.wtd.avg.shrs(m)	64.1	67.4	67.9	67.9
Reported EPS (US$)	**1.47**	**2.98**	**4.10**	**5.82**
EPS for consensus (US$)	**1.39**	**2.82**	**3.87**	**5.50**

Balance Sheet

US$mn (Years End Dec)	2025	2026E	2027E	2028E
Cash	757.4	1,395.9	1,453.5	1,635.3
Mkt Securities	8.6	8.6	8.6	8.6
AR/NR	504.3	288.9	380.2	458.0
Inventory	702.6	394.6	514.1	607.7
Other	463.8	463.8	463.8	463.8
Current Assets	**2,436.7**	**2,551.8**	**2,820.2**	**3,173.4**
Long-term investments	66.0	66.0	66.0	66.0
Fixed assets	314.8	314.8	314.8	314.8
Deffered assets	29.4	29.4	29.4	29.4
Other assets	25.3	25.3	25.3	25.3
Total Assets	**2,872.2**	**2,987.3**	**3,255.7**	**3,609.0**
S/T borrowings	74.0	74.0	74.0	74.0
AP/NP	215.4	155.4	202.4	239.3
Other ST liabilities	456.2	456.2	456.2	456.2
LT debt	178.9	178.9	178.9	178.9
Other LT liabilities	17.0	17.0	17.0	17.0
Common shares	0.0	0.0	0.0	0.0
Total Liabilities	**941.7**	**881.6**	**928.7**	**965.6**
Additional capital	1,115.5	1,115.5	1,115.5	1,115.5
Retained earning	350.4	525.5	747.0	1,063.3
Other shareholders' equity	464.6	464.6	464.6	464.6
Total Equity	**1,930.5**	**2,105.6**	**2,327.0**	**2,643.4**
Total Liab. & Shrhldr's Equity	**2,872.2**	**2,987.3**	**3,255.7**	**3,609.0**

E = Morgan Stanley Research Estimates

Source: Morgan Stanley Research, Company Data

Cash Flow Statement

US$mn (Years End Dec)	2025	2026E	2027E	2028E
Cashflow from Operations	**(76.2)**	**666.0**	**115.4**	**261.5**
Net profits	94.1	201.8	278.3	395.3
Depreciation	0.8	0.8	0.8	0.8
Working Capital Change	(171.1)	463.4	(163.7)	(134.6)
Other adjustments	0.0	0.0	0.0	0.0
Cashflow from Investing	**135.9**	**(0.8)**	**(0.8)**	**(0.8)**
Capex	45.6	0.0	0.0	0.0
Change of LT Investment	0.0	0.0	0.0	0.0
Change of ST Investment	0.0	0.0	0.0	0.0
Other adjustments	90.3	(0.8)	(0.8)	(0.8)
Cashflow from financing	**(29.0)**	**(26.7)**	**(56.9)**	**(78.9)**
Increase in L/T debt	73.4	0.0	0.0	0.0
Increase in S/T debt	41.2	0.0	0.0	0.0
Cash Dividend Paid	(29.0)	(26.7)	(56.9)	(78.9)
Issuance of stock	0.0	0.0	0.0	0.0
Other adjustments	(114.6)	0.0	0.0	0.0
Exchange rate adjustment	291.8	0.0	0.0	0.0
Net change in cash	**322.4**	**638.5**	**57.7**	**181.8**

Financial Ratios

	2025	2026E	2027E	2028E
Growth(%)				
Turnover	15.2	30.0	31.6	20.5
Operating profits	-27.5	68.2	48.6	40.2
Pretax profits	-18.7	117.5	20.3	36.7
Net profits	-9.2	114.5	37.9	42.0
EPS	-10.7	102.8	37.6	42.0
Margins (%)				
Gross Margin	44.4	45.6	46.2	47.2
Operating Margin	12.1	15.7	17.7	20.6
Pretax Margin	15.0	25.1	22.9	26.0
Net Profit	10.4	17.2	18.1	21.3
Return (%)				
ROAE	6.2	10.0	12.6	15.9
ROAA	4.0	6.9	8.9	11.5
Gearing (%)				
Net Debt/Equity	(35.4)	(62.8)	(59.3)	(59.1)
Liabilities/Equity	48.8	41.9	39.9	36.5
Ratios (X)				
Current ratio	3.3	3.7	3.8	4.1
Quick ratio	1.7	2.5	2.5	2.7
Others				
AR/NR Turnover (days)	90	90	90	90
Inventory Turnover (days)	226	226	226	226
AP Turnover (days)	89			
Cash Conversion (days)	227			

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Risk Reward – Advanced Micro-Fabrication Equipment Inc (688012.SS)

Key memory foundry expansion play; OW

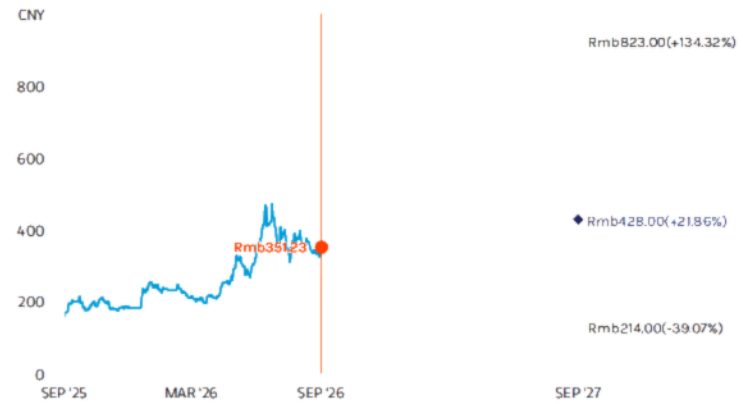
PRICE TARGET Rmb428.00

Base case, residual income model. We assume a 6.2% cost of equity, a medium-term growth rate of 14% and a terminal growth rate of 4.0%. We believe these assumptions are justified, given AMEC's structural position in the Chinese semiconductor equipment industry, allowing it to grasp opportunities coming from any fab expansions.

Consensus Price Target Distribution Rmb147.65 Rmb422.37 MS PT Rmb660.00

Mean Morgan Stanley Estimates

RISK REWARD CHART

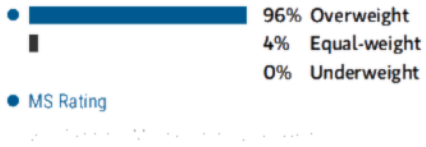


Key: Historical Stock Performance Current Stock Price Price Target

OVERWEIGHT THESIS

- We remain positive on AMEC's new orders signed with both advanced-node and memory clients in 2026 and localization trends.
- We believe AMEC is strategically positioned to benefit from China's demand for domestic etching equipment and deposition over the long run.
- AMEC continues to expand its pipeline, including critical wafer fab equipment like EPI tools, process control, etc. As well, AMEC has entered the CMP field by acquiring SiZone Tech.
- Our estimates and price target reflect heavy spending on R&D and investment income from Piotech; valuation still looks attractive.

Consensus Rating Distribution



Risk Reward Themes

Disruption:	*Negative*
Secular Growth:	*Positive*

here

BULL CASE Rmb823.00

136x 2027e P/E

AMEC rides China's semi localization wave with global market rebound: 1) Semi fab projects start to proliferate with substantial equipment demand; 2) shipments of AMEC's leading-edge equipment increase significantly; 3) all US export controls are lifted -- Chinese memory customers ramp up faster than expected and contribute significantly to AMEC's revenue; and 4) AMEC's margins start recovering with high-end product sale.

BASE CASE Rmb428.00

61x 2027e P/E

AMEC is a beneficiary of Chinese local semi demand; strong demand and capex in 2026: 1) Chinese localized semi fab capacity starts to proliferate with steady local equipment demand in the long run; 2) shipments of AMEC's leading-edge and memory equipment grow as expected; 3) AMEC's margins expand slightly to 39.9% in 2026.

BEAR CASE Rmb214.00

31x 2027e P/E

Global semi market weakens with limited expansion overseas: 1) Chinese localized semi fab projects slow with minimal equipment demand; 2) Chinese memory customers ramp up more slowly than expected and barely contribute to AMEC's revenue; and 3) AMEC's margins decline further due to stronger bargaining power of major fab clients.

Risk Reward – Advanced Micro-Fabrication Equipment Inc (688012.SS)

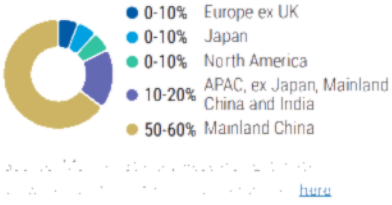
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
Revenue from Equipment for Etching (Rmb, mn)	9,419	12,194	17,845	21,433
Revenue from Equipment for MOCVD (Rmb, mn)	616	780	1,228	1,678
MOCVD business revenue Y/Y (%)	62.6	26.6	57.4	36.6

INVESTMENT DRIVERS

- Semi equipment industry demand
- Technology migration to more advanced nodes
- New projects driven by China's semi localization efforts

GLOBAL REVENUE EXPOSURE



MS ALPHA MODELS

4/5 MOST

3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected semi market
- Faster-than-expected product development
- Acceleration in China's local demand

RISKS TO DOWNSIDE

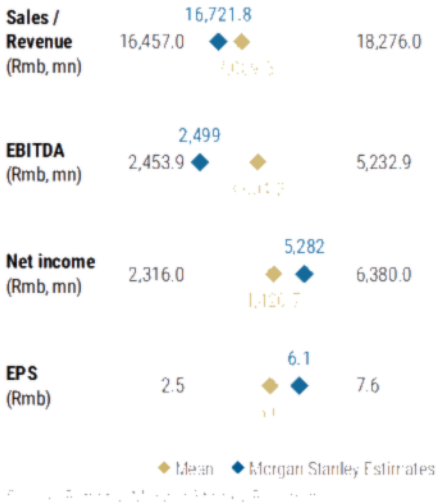
- Weak semi demand, leading vendors to compete on pricing
- Slower-than-expected product development
- Deceleration in China's local demand

OWNERSHIP POSITIONING

Inst. Owners, % Active 90.3%

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



AMEC: Earnings Estimate Revisions

We lower our EPS estimates 13%/10%/12% for 2026/27/28, due to share split: We raise our 2026/27/28 revenue forecasts by 1%/12%/12% given a stronger memory foundries capacity expansion outlook. Given operating leverage, we raise our 2026/2027/2028 operating margin forecasts to 14%/20.8%/23.2% from 13.9%/18.9%/21.5%. Due to the share split, our EPS estimates are revised to Rmb6.07/Rmb7.00/Rmb9.20.

Exhibit 13: AMEC: Estimate revisions

Rmb mn	New '26E	Old '26E	Diff.	New '27E	Old '27E	Diff.	New '28E	Old '28E	Diff.
Net sales	16,722	16,601	1%	25,591	22,897	12%	32,336	28,950	12%
Gross profit	6,666	6,617	1%	10,208	9,130	12%	12,860	11,509	12%
Operating profit	2,346	2,301	2%	5,320	4,337	23%	7,496	6,224	20%
Pretax Income	5,502	4,657	18%	7,120	5,337	33%	9,346	7,224	29%
Net income	5,282	4,374	21%	6,701	4,846	38%	8,815	6,582	34%
EPS for consensus	**6.07**	**6.99**	**-13%**	**7.00**	**7.74**	**-10%**	**9.20**	**10.51**	**-12%**
Margins									
Gross margin	39.9%	39.9%		39.9%	39.9%		39.8%	39.8%	
Operating margin	14.0%	13.9%		20.8%	18.9%		23.2%	21.5%	
Pretax margin	32.9%	28.1%		27.8%	23.3%		28.9%	25.0%	
Net margin	31.6%	26.3%		26.2%	21.2%		27.3%	22.7%	
Opex %	25.8%	26.0%		19.1%	20.9%		16.6%	18.3%	

Source: Morgan Stanley Research estimates

AMEC: Valuation Methodology

We lower our price target to Rmb428 from Rmb488: We factor in our EPS changes for 2026-28, mostly due to the share split.

We derive our price target from a residual income model, with key assumptions including a WACC of 6.2% (beta of 1.35, cost of equity of 3.1%, and risk-free rate of 2%), intermediate growth rate of 14%, terminal growth rate of 4.0% and dividend payout ratio of 20% (was 40%).

We lower our bull-case scenario value to Rmb823 from Rmb938, implying 118x 2027e P/E, and lower our bear-case value to Rmb214 from Rmb244, implying 31x 2027e P/E. The reductions are broadly in line with our lower price target due to earning estimate changes and the share split.

Exhibit 14: AMEC: Residual income model

Rmb million	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E	2038E
Total Equity	**28,131**	**34,959**	**43,901**	**52,307**	**61,889**	**72,813**	**85,266**	**99,463**	**115,647**	**134,096**	**155,129**	**179,107**	**206,441**
Net Profit	**5,402**	**6,828**	**8,943**	**10,195**	**11,622**	**13,249**	**15,104**	**17,218**	**19,629**	**22,377**	**25,510**	**29,081**	**33,152**
ROAE	**21.2%**	**21.6%**	**22.7%**	**21.2%**	**20.4%**	**19.7%**	**19.1%**	**18.6%**	**18.3%**	**17.9%**	**17.6%**	**17.4%**	**17.2%**
Residual Income	3,422	4,349	5,766	6,589	7,412	8,347	9,410	10,621	12,000	13,571	15,361	17,400	19,724
Spread	**15.1%**	**15.5%**	**16.5%**	**15.0%**	**14.2%**	**13.5%**	**12.9%**	**12.5%**	**12.1%**	**11.7%**	**11.5%**	**11.2%**	**11.0%**
Ending Equity Capital	28,131	34,959											
PV of Forecast Period	64,031	73,190											
PV of Continuing Value	273,306	309,811											
Equity Value	**365,467**	**417,960**											
No. of Shares	870	958											
Implied Value	**420**	**436**											
Price Target (2H26-1H27)	**428**												

Source: Morgan Stanley Research estimates

Exhibit 15: AMEC: P/E band



Source: FactSet, Morgan Stanley Research estimates

AMEC: Financial Summary

Exhibit 16: AMEC: Financial summary

Income Statement Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Net sales	12,385	16,722	25,591	32,336
COGS	(7,534)	(10,056)	(15,383)	(19,476)
Gross profit	4,850	6,666	10,208	12,860
Operating expenses	(3,452)	(4,320)	(4,888)	(5,364)
Operating income	**1,399**	**2,346**	**5,320**	**7,496**
Non-operating income	791	3,156	1,800	1,850
Pre-tax income	2,190	5,502	7,120	9,346
Income tax	126	160	356	467
Minority Interest	(47)	(60)	(64)	(64)
Reported net Income	**2,017**	**5,282**	**6,701**	**8,815**
Adj.wtd.avg.shrs(m)	625	870	958	958
EPS for consensus (NT$)	**3.23**	**6.07**	**7.00**	**9.20**

Balance Sheet Rmb mn (Years End Dec)	2025	2026E	2027E	2028E
Cash	5,997	9,226	10,611	15,131
Mkt Securities	792	792	792	792
AR/NR	2,047	2,358	3,608	4,559
Inventory	7,170	9,482	14,505	18,365
Other	2,928	2,928	2,928	2,928
Current Assets	**18,934**	**24,785**	**32,444**	**41,775**
Long-term investments	1,445	1,445	1,445	1,445
Fixed assets	2,829	3,095	3,515	4,087
Deffered assets	335	335	335	335
Other assets	6,303	4,705	4,705	4,705
Total Assets	**29,846**	**34,365**	**42,443**	**52,346**
S/T borrowings	0	0	0	0
AP/NP	1,856	2,360	3,610	4,571
Other ST liabilities	2,959	2,959	2,959	2,959
LT debt	730	730	730	730
Other LT liabilities	1,572	185	185	185
Common shares	626	626	626	626
Total Liabilities	**7,117**	**6,234**	**7,484**	**8,445**
Additional capital	15,042	15,042	15,042	15,042
Retained earning	6,922	12,324	19,152	28,094
Other shareholders' equity	139	139	139	139
Total Equity	**22,729**	**28,131**	**34,959**	**43,901**
Total Liab. & Shrhldr's Equity	**29,846**	**34,365**	**42,443**	**52,346**

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	**2,295**	**3,648**	**1,958**	**5,245**
Net profits	2,111	5,402	6,828	8,943
Depreciation	153	153	153	153
Working Capital Change	11	(1,907)	(5,023)	(3,850)
Other adjustments	20	0	0	0
Cashflow from Investing	**(2,105)**	**(419)**	**(572)**	**(726)**
Capex	(266)	(419)	(572)	(726)
Change of LT Investment	(7,628)	0	0	0
Change of ST Investment	6,891	0	0	0
Other adjustments	(1,101)	0	0	0
Cashflow from financing	**182**	**0**	**0**	**0**
Increase in L/T debt	9	0	0	0
Increase in S/T debt	0	0	0	0
Cash Dividend Paid	0	0	0	0
Issuance of stock	0	0	0	0
Other adjustments	173	0	0	0
Exchange rate adjustment	(31)	0	0	0
Net change in cash	**342**	**3,229**	**1,385**	**4,520**

Financial Ratios	2025	2026E	2027E	2028E
Growth(%)				
Turnover	36.6	35.0	53.0	26.4
Operating profits	4.1	67.7	126.8	40.9
Pretax profits	28.1	151.3	29.4	31.3
Net profits	24.8	161.9	26.8	31.6
EPS	24.2	88.2	15.2	31.6
Margins (%)				
Gross Margin	39.2	39.9	39.9	39.8
Operating Margin	11.3	14.0	20.8	23.2
Pretax Margin	17.7	32.9	27.8	28.9
Net Profit	16.3	31.6	26.2	27.3
Return (%)				
ROAE	9.5	20.8	21.2	22.4
ROAA	7.2	16.5	17.4	18.6
Gearing (%)				
Net Debt/Equity	(26.4)	(32.8)	(30.4)	(34.5)
Liabilities/Equity	31.3	22.2	21.4	19.2
Ratios (X)				
Current ratio	3.9	4.7	4.9	5.5
Quick ratio	1.7	2.2	2.2	2.6
Others				
AR/NR Turnover (days)	51	51	51	51
Inventory Turnover (days)	344	344	344	344
AP Turnover (days)	86	86	86	86
Cash Conversion (days)	310	310	310	310

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