China Optical Fibre Industry

Peak earnings fears create buying opportunities

Equities

China Emerging

Telecommunications

Sara Wang
Analyst
sara.wang@ubs.com
+852-2971 7280

David Chow
Associate Analyst
david.chow@ubs.com
+852-3712 3512

Joshua Spector, CFA
Analyst
joshua.spector@ubs.com
+1-212-713 6188

James Cannon
Associate Analyst
james-p.cannon@ubs.com
+1-212-713 4057

Christopher Leonard
Analyst
chris.leonard@ubs.com
+44-20-7568 3958

Harunobu Goroh
Analyst
harunobu.goroh@ubs.com
+81-3-5208 6215

Oversupply concerns overdone

We assume coverage on China optical fiber industry. Sector share price has corrected by 37% since its June peak as investors are concerned on fiber production capacity expansion would result in a sharp decline in fiber price. We believe overcapacity risk is limited given 1) demand is increasingly driven by global data center roll-outs rather than local telecom capex budgets; 2) capacity expansion might take longer than expected given supply bottlenecks of key production equipment and customer verification; and 3) spec-up demand is increasingly benefiting leaders. We reiterate top pick YOFC-H.

Healthier pricing environment amid a shift in demand model

Historically, China's fiber demand was driven mainly by domestic telecom operator capex budgets, which could be disconnected from end-demand, resulting in oversupply. However, since 2026, global fiber demand is increasingly absorbing China's production capacity, evident by the convergence of fiber prices in China and overseas, vs. 20-40% discount historically. We expect global fiber demand volume to grow at 11% 2026-30E CAGR with data centers contributing 45%+ by 2030E, which should make demand more consumption-oriented and closely linked to AI build-outs, while diversifying the customer base from the three Chinese telcos to a broader mix of Chinese and global CSPs. Meanwhile, Chinese telcos are reallocating capex toward AI and computing networks, where ROI should be more attractive than in traditional telecom networks. As a result, telcos may be less focused on aggressive cost minimization, supporting a healthier fiber pricing environment over time, in our view.

Structural supply tightness in high-end fiber

Upstream preform capacity remains the key bottleneck, with Chinese manufacturers holding 60-70% of the global supply. Greenfield preform capacity expansion for established Chinese fiber manufacturers might take longer than the historical expansion timeline of 1.5-2 years, given equipment lead times have extended. New entrants and overseas manufacturers may require more than 2-3 years to ramp up effective supply. We expect the supply-demand balance to remain tight through at least 2027-28E. From 2028E onward, scaled-up deployments could provide another growth driver. Demand driven by AI infrastructure is shifting toward higher-specification fibers, whose supply should remain structurally tight, benefiting Chinese incumbents, which could win more LTAs from global CSPs and expand downstream into data center connectivity products.

Valuation: peak earnings fears create buying opportunities

Chinese optical fiber companies are trading at less than 1STD above their historical avg. NTM consensus P/E, while overseas optical fiber companies are trading higher, reflecting investor concerns about oversupply after potential capacity expansion and a potential earnings peak in 2027E. While we remain Neutral on YOFC-A which is valued in-line with global leaders, we reiterate Buy on YOFC-H as we believe H-A discount should narrow as offshore investors recognize YOFC's key position in the global AI supply chain.

Figure 1: UBS China optical fiber coverage

Company	Ticker	Rating		Price (LC)	Price Target (LC)		Up/downside	P/E		EPS CAGR
		Old	New		Old	New		2026E	2027E	2026-28E
YOFC (H)	6869 HK	Buy	Buy	190.5	290.0	330.0	73%	14.8	8.6	45%
YOFC (A)	601869 SS	Neutral	Neutral	456.6	310.0	510.0	12%	41.7	24.2	45%

Source: UBS estimates, price data as of Sept 22, 2026

This report has been prepared by UBS Securities Asia Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 17.**

UBS Research THESIS MAP

LEAST FAVORED

YOFC-H

PIVOTAL QUESTIONS

Q: Can data center demand continue to sustain fiber price at elevated levels?

Yes. Historically, fiber demand in China was primarily driven by domestic telecom operator procurement and was therefore largely budget-driven. Under this model, purchasing decisions were often tied to multi-year capex plans rather than actual end-demand, leading to periodic oversupply and pricing pressure across the industry. Going forward, we expect incremental demand growth to be mainly driven by global data center deployments, making fiber demand more consumption-oriented and closely linked to actual infrastructure build-outs. This shift should diversify the customer base from three Chinese telcos to a broader group of Chinese and global CSPs. At the same time, Chinese telcos themselves are reallocating capex toward computing networks and AI infrastructure, where returns on investment are likely to be more attractive than those generated by traditional telecom networks. As a result, we believe Chinese telcos will become less focused on aggressive cost minimization, supporting a healthier pricing environment for fiber suppliers over time.

Q: Will the industry enter another oversupply cycle following capacity expansion?

Not likely. We estimate that greenfield capacity expansion for established fiber manufacturers typically requires 1.5-2 years, which could extend to 2-3 years under the current tight supply environment given prolonged lead time for key equipment components. For new entrants, ramp-up and customer qualification may take more than 3 years. Meanwhile, AI-driven data center demand continues to accelerate, and we expect industry supply-demand conditions to remain tight through at least 2027-28. Beyond 2028, scale-up deployments could emerge as an additional growth driver. Importantly, demand across scale-out, scale-across and scale-up architectures is increasingly shifting toward higher-specification fibers, while new capacity from entrants is likely to be concentrated in standard telecom-grade G.652.D products. As a result, we expect supply of high-end data center fiber to remain structurally tight for the foreseeable future, which benefits industry leaders.

WHAT'S PRICED IN?

Chinese optical fiber companies are trading <1STD above historical average while global peers are trading above, which we believe has priced in concerns regarding oversupply in China. Meanwhile, YOFC-H discount to YOFC-A is wider than other dual-listed AI tech hardware names, reflecting H-share investors are discounting YOFC's potential penetration of global data center market.

UBSVIEW

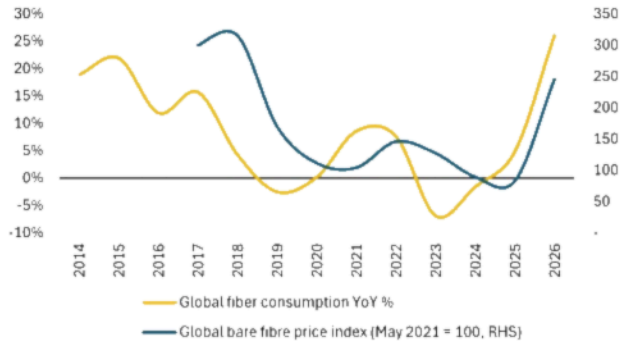
Market concerns remain centered on the risk of aggressive capacity expansion by leading fiber manufacturers leading to a rapid decline in pricing. However, we believe such concerns are overstated. The capacity expansion cycle is likely to be longer than in previous periods due to extended lead times for critical equipment components, while industry demand is increasingly shifting toward higher-specification products. As a result, we expect supply of high-end data center fiber to remain structurally tight and pricing to stay elevated. In this environment, leading fiber manufacturers with substantial preform capacity, proven technology capabilities and strong customer relationships should be well positioned to continue expanding market share while benefiting from favourable pricing and margin dynamics. Reiterate Buy and top pick YOFC-H.

EVIDENCE

China fiber prices used to be at significant discount to global prices, converged with global prices since 2026 (Figure 4), suggesting global demand is increasingly absorbing China fiber capacity. China fiber export value increased significantly since 2026 (Figure 7). In 2026, Chinese telcos' fiber tenders were postponed several times as vendors do not accept the procurement price significantly lower than market spot price. Latest China Mobile fiber tender was finalized at only 20% discount to spot price (Figure 15). Global customers are increasingly locking in fiber supply via LTAs (Figure 13).

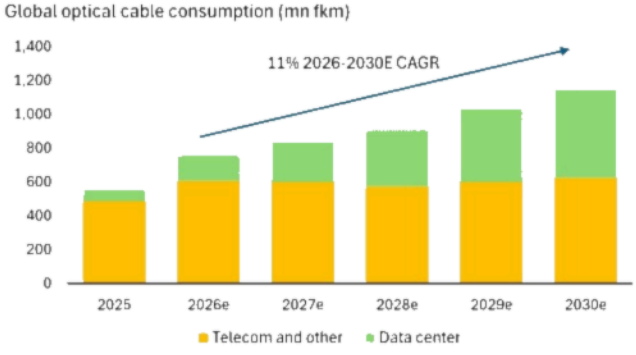
We forecast global optical fiber demand to grow at an approximately 11% CAGR over 2026-30E, driven primarily by data center demand (37% CAGR) and supported by telecom demand (5% CAGR). As a result, data centers are expected to account for more than 45% of total fiber demand by 2030E, up from just over 10% in 2025. At the same time, we expect industry production capacity utilization rates to remain elevated at above 90%, as meaningful new capacity additions are unlikely to materialize quickly. New entrants typically require two to three years to build and qualify capacity, and any initial expansion is likely to be concentrated in standard G.652.D fiber rather than higher-performance products. However, industry demand is shifting toward higher-specification fibers, including G.657.A1/A2, polarization-maintaining (PM) fiber and hollow-core fiber. We believe leading manufacturers with sufficient preform capacity, proven technology capabilities, and specialty fiber portfolios are well positioned to deliver sustained growth and decent profitability throughout the cycle.

Figure 2: Global fiber price surged from late 2025 driven by AI data center demand



Source: CRU, UBS Research

Figure 3: We expect data center to represent 45%+ of total global optical cable demand by 2030



Source: CRU, UBS estimates

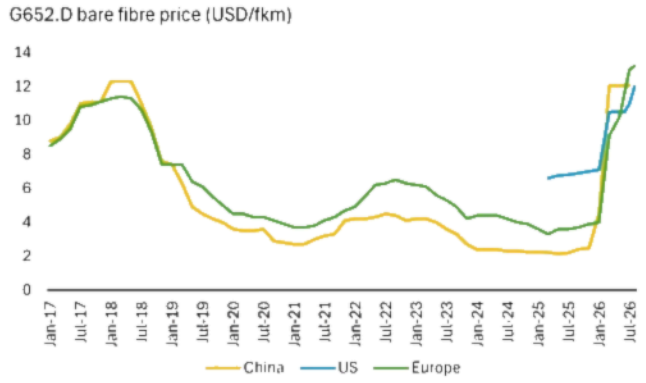
Demand: from local telecom to global AI TAM

Historically, China capacity is mainly servicing domestic telecom demand, and overseas fiber prices have traded at a substantial premium to China, as more than 90% of global optical fiber demand has been driven by the telecom sector. Given network sovereignty considerations, telecom infrastructure markets tend to be highly localized, with operators often requiring domestic content. The capacity expansion cycle triggered by the anticipated 5G rollout in 2019 led to substantial additions of optical cable manufacturing capacity in China. However, when the expected demand growth failed to fully materialize, the industry was left with significant excess capacity. Unlike other manufactured products, surplus fiber capacity could not be easily absorbed by overseas telecom markets due to domestic sourcing requirements and market access barriers. Consequently, China has experienced persistent oversupply, and domestic fiber prices have remained well below those in most overseas markets over the past several years.

China fiber capacity is increasingly absorbed by global AI demand, evidenced by that Chinese and overseas fiber prices converged since late 2025 (Figure 4). Both Chinese and global fiber prices have seen a meaningful increase driven by AI data center and drone demand, suggesting that global demand is increasingly absorbing China's production capacity (Figure 7). Going forward, demand is becoming less dependent on telecom capex budgets and increasingly driven by global AI rollouts. Chinese suppliers are securing a growing number of long-term supply agreements with hyperscale cloud service providers (CSPs), providing greater visibility into future demand and supporting capacity expansion decisions. This shift implies improving visibility on both demand trends and earnings sustainability for leading fiber suppliers. As pricing becomes increasingly anchored to global supply-demand fundamentals rather than China-specific telecom procurement dynamics, the industry could see more predictable profitability.

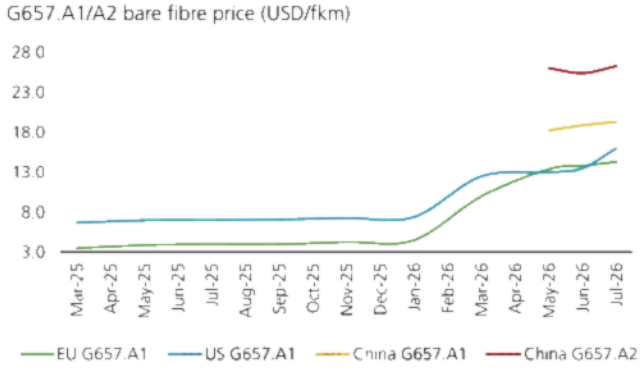
人在草木间

Figure 4: Chinese fiber price converged with global price since late 2025



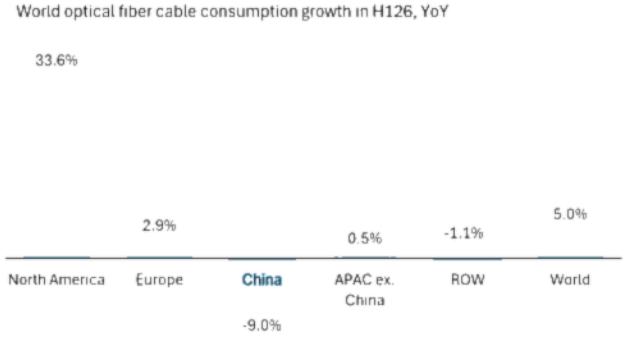
Source: CRU, UBS Research

Figure 5: Certain fiber prices are higher than overseas



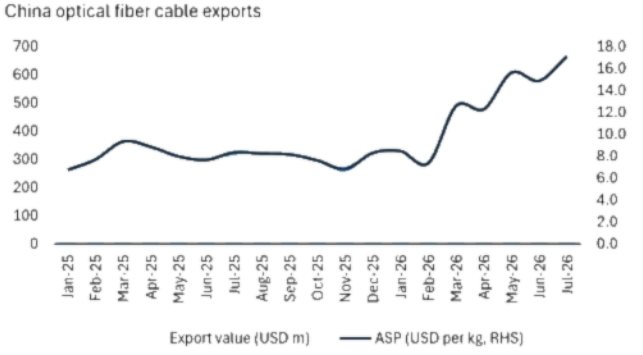
Source: CRU, UBS Research

Figure 6: US data center demand is the key driver of global fiber cable consumption



Source: CRU, UBS Research

Figure 7: China optical fiber cable exports value increased meaningfully since 2026



Source: China Custom, UBS Research

Global data center market: volume growth + product mix upgrade

We forecast global data center fiber demand to grow at a 2026-30E CAGR of 37%: We expect fiber demand from AI infrastructure to be driven primarily by:

- **Scale-out** (pod interconnection): **fiber content per GPU is increasing** (Figure 9) along with 1) bigger cluster size: cluster size >130k GPUs will require an additional optical layer, according to Corning; 2) GPU and ASIC bandwidth doubles every 2 years and needs more fibers to interconnect.
- **Scale-across** (data center interconnection): **both China** (Figure 11) **and the US** (Figure 10) **are developing new AI data center clusters**. Given the power-intensive nature of AI workloads, data centers are being deployed in locations with abundant and low-cost electricity, as well as access to renewable energy sources.
- **Scale-up** (GPU interconnection; 2028 and beyond): **this is a potential new opportunity** with optical fiber penetrating into racks and pods.

Higher volume together with product mix upgrades: As AI network architectures evolve, we anticipate a gradual product mix shift toward higher-value fiber specifications, including G.654.E and hollow-core for scale-across, and PM fiber for scale-up. This view is broadly consistent with Corning's latest outlook (Figure 12), which points to scale-out and scale-across deployments as the primary drivers of data-center-related growth through 2026-28, with scale-up becoming an incremental growth driver from 2028 onwards. As a result, we believe technology-leading fiber manufacturers are likely to benefit not only from higher volumes, but also from a sustained upgrade in product mix and profitability.

Figure 8: Various fiber types needed for different interconnection scenarios

AI network layer	Typical Reach	Primary Use Case	Key Fiber Type
Scale Up	<10-50m	GPU to GPU	PM Fiber
Scale Out	10-500m	Rack to rack	G.657.A1 / A2
Scale Across	>1km	Data center to data center	G.657.A1 / G.652.D
Scale Across	>500km	Long-haul transmission	G.654.E / Hollow-core Fiber

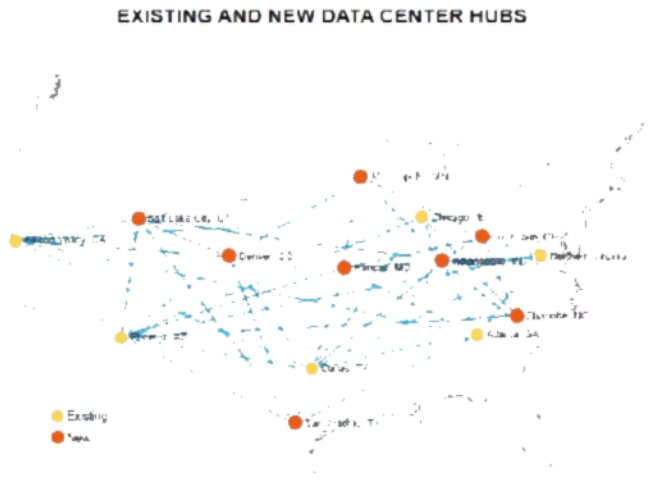
Source: UBS Research

Figure 9: Fiber and optics demand is likely to grow faster than GPU growth

Technical driver	Logic	Impact
Cluster Size Growth	Cluster size >130k GPUs will require an additional optical layer	+
Bandwidth Growth	GPU and ASIC BW doubles every 2 years, which is linked through lane rate and # lanes	= +
Scale-up Network	This is whole new optical opportunity	+ + +

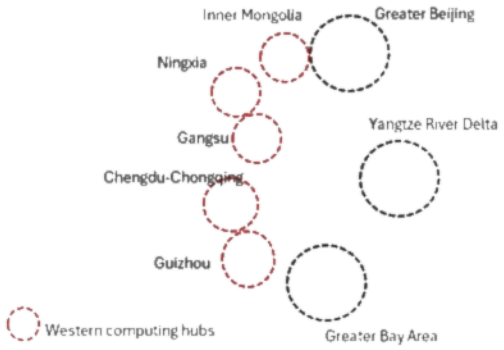
Source: Corning Q226 earnings presentation

Figure 10: US: new data center hubs creating need for additional fiber conduit



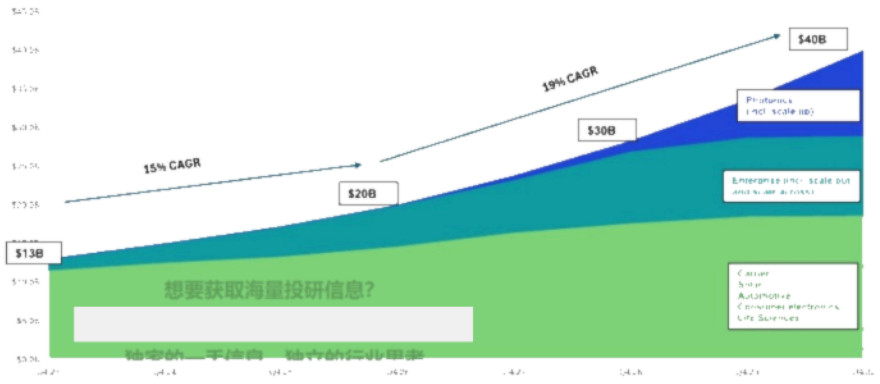
Source: Corning Incorporated. All Rights Reserved.

Figure 11: China: new computing hubs in Western China under "East Data West Computing" initiatives



Source: MIIT, UBS Evidence Lab

Figure 12: Corning's guidance on annualized sales run rate: meaningful growth driven by data center demand (scale up, out, across)



Source: Corning Q226 earnings presentation

Chinese suppliers tapping into global data center and/or downstream markets: both global CSPs and telecom operators are increasingly seeking to secure long-term fiber supply through multi-year contracts (Figure 13). At the same time, Chinese manufacturers remain the dominant suppliers of optical fiber, accounting for >60% of global production capacity. In our view, this positions leading Chinese players to gain further share in overseas markets if demand growth outpaces local supply additions. Beyond preform/fiber itself, we also see longer-term opportunities for Chinese vendors to move further downstream into higher-value products such as data center cabling and

connectivity products. For example, ZTT and Everprox (subsidiary of YOFC) announced long-term contracts of MPO products in 2026.

Figure 13: Companies are locking in fiber supply via long-term contracts

Fiber Supplier	Customer	Deal Terms	Announcement	Length	Details
Global					
Corning	Lumen Technologies	Not disclosed	Jul-24	2025–2026 (extension TBD)	Initial agreement reserved 10% of Corning fiber capacity for each of two years. Agreement extended and expanded per GLW 1Q26 earnings, but revised terms TBD
Corning	AT&T	~$1bn	Oct-24	Multi-year	Multi-year purchase agreement for GLW's Evolv portfolio of connectivity solutions, compliant with BABA/BEAD requirements for broadband network expansions.
Corning	Meta	Up to $6bn	Jan-26	Through 2030	Supply of fiber, cable & connectivity products for Meta AI data centers. Anchor agreement for Corning's new Hickory, NC cable facility.
Corning	Hyperscalers	~$6bn	Apr-26	Multi-year	2 additional offtake deals disclosed on GLW 1Q26 earnings, each on scale similar to META deal. Customers not disclosed
Corning	Nvidia	Up to ~$3.2bn	May-26	Multi-year	Multiyear commercial/tech partnership to scale US based production of fiber, connectivity and photonics. NVDA invested $500M with option to invest up to an additional ~$2.7B, baseloading GLW expansions to increase fiber capacity by 50% and connectivity capacity by 10x.
Furukawa (Lightera)	Nokia	Not disclosed	May-26	TBD	Collaboration to integrate Lightera components into Nokia Passive Optical Network technologies in Europe
Sterlite	Hyperscaler	~$1.11bn	May-26	Up to Mar 2029	Announced a Product Award Letter with an unnamed US hyperscaler for multiyear supply of optical connectivity worth >$1B.
Corning	Verizon	Multi-billion $	Sep-26	2027-2032	Supply of over 80mn miles of high-density optical fiber to meet surging demand of broadband expansion for homes and businesses while building the national long-haul backbone required by AI hyperscalers
China					
ZTT	Hyperscaler	Rmb1.5bn	Jun-26	1 year	Data center MPO optical cable and accessories
Everprox	Existing customer	Rmb4.5bn	Jul-26	Through 2030	To supply a portfolio of fiber-optic cable related products to an existing customer

Source: Company announcements

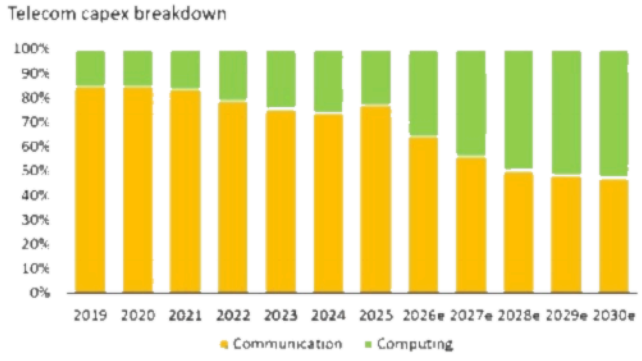
China telecom market: healthier price environment with stable demand

A meaningful capex mix shift towards AI: While we do not expect meaningful increase in Chinese telcos' capex, we believe capex intensity should remain largely stable with a mix shift towards network investments to support AI data center and cloud development. Fiber demand in previous cycles was largely tied to traditional telecom network rollouts. However, future demand is expected to be driven increasingly by computing-network infrastructure supporting AI workloads. This shift matters because AI-related investment is likely to generate better returns for Chinese telcos than the 4G/5G investment cycles. We estimate China telecom capex mix to shift from 65/35% telecom/computing network in 2026E to 50/50% in 2028E, driven by increasing investments in AI (Figure 14).

Telcos generate higher return from AI computing network, as we highlighted in our recent report. Unlike traditional telecom network investments, which are primarily aimed at serving consumer traffic, AI-related investments are increasingly driven by enterprise demand. Historically, the returns on telecom network investments have often fallen short of expectations due to SOE Chinese telcos' broader social responsibilities, such as universal coverage obligations and affordability considerations. In contrast, AI-related investments are focused on enterprise customers, where investment decisions are driven by commercial demand and return considerations.

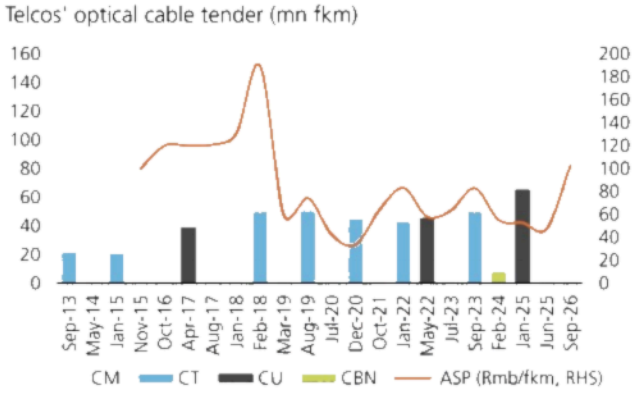
We see domestic telecom market shift from volume to value: Given the capex mix shift, Chinese telcos may become relatively less price-sensitive and place greater emphasis on network performance and delivery capability, which should ultimately support industry pricing and profitability. In 2026, Chinese telcos' fiber tender was postponed several times before being finalized, and the eventual tender price of recent China Mobile's tender ended up only 20% discount to prevailing spot market prices (Figure 15). We believe the domestic telecom fiber market is entering a structurally healthier phase, with fiber demand increasingly driven by computing network deployment needs rather than cyclical telecom capex. While procurement may trail peak 4G/5G levels, pricing should remain rational, supporting a stable addressable market and improved margins as the industry shifts from volume to value.

Figure 14: China telecom capex shifts towards AI data center and cloud



Source: Company data, UBS estimates

Figure 15: Telecom tender price recovered in 9M26



Source: Company data, UBS Research

Supply: incumbents remain disciplined; increasing entry barrier for new entrants

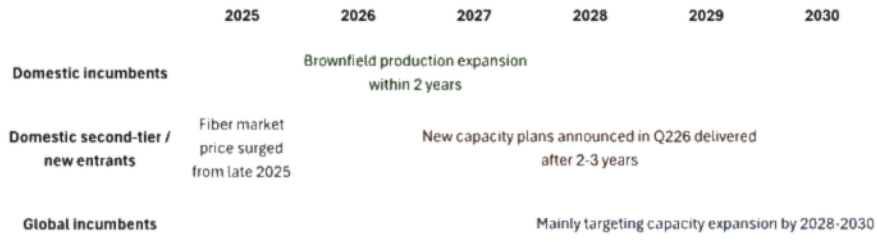
We expect the supply response to unfold in three phases.

- **First, by late 2026 to early 2027**, major Chinese manufacturers are likely to optimize and expand capacity within their existing facilities, which typically requires less than 1.5-2 years to implement. However, this type of brownfield expansion has inherent limitations and cannot be scaled indefinitely. Future greenfield projects could take longer.
- **Second, from late 2027 or 2028 onwards**, capacity additions announced by second-tier Chinese manufacturers in 2Q26 should begin to come online, broadly consistent with the industry's typical 2+ year construction timeline, which is likely delayed to 3 years as key equipment procurement lead times are prolonged and talent is highly sought after, in our view.
- **Finally, from late 2028 and beyond**, overseas capacity expansion is expected to materialize, given longer project lead times.

Capacity expansion plans among leading industry players remain relatively disciplined: Leading manufacturers generally possess proprietary equipment, proven process know-how and established customer relationships, giving them a clear ability to expand capacity and participate in next-generation fiber qualification programs. Importantly, their expansion plans have so far remained relatively disciplined, and we therefore assign a higher probability to announced capacity additions. Meanwhile, production capacity expansion plans are increasingly covered by new long-term agreements with customers, rather than speculation (Figure 13).

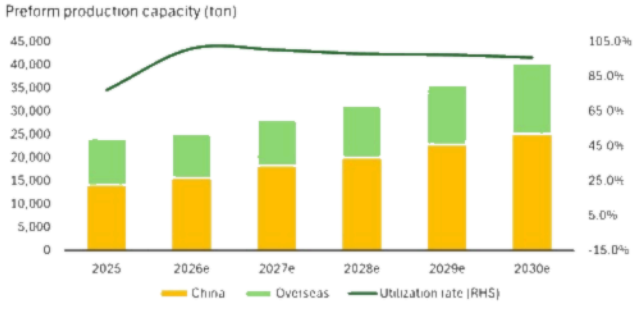
We apply a discount to capacity additions announced by new entrants: for example, Han's Laser and Hoshine Silicon, have adopted an aggressive approach toward optical fiber and preform investments. However, we believe equipment procurement, talent acquisition, process ramp-up, and customer qualification could become meaningful bottlenecks, resulting in actual capacity additions falling short of announced plans. When estimating effective industry capacity, we therefore apply a discount to capacity announced by newer players. We note that execution risks remain material, as evidenced by Lingyi's decision to terminate its proposed acquisition of Futong Group, highlighting the challenges of entering and scaling within the fiber supply chain.

Figure 16: Fiber manufacturers' production timeline



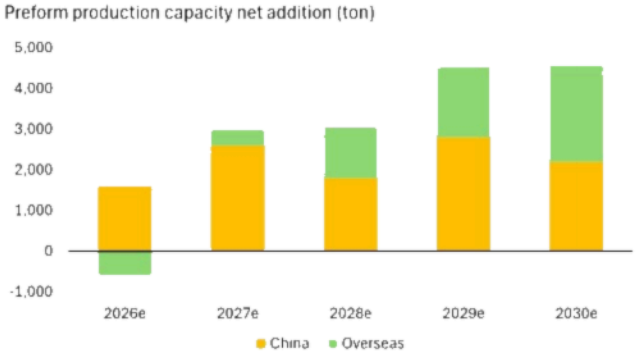
Source: UBS Research

Figure 17: We expect capacity utilization rate to remain elevated at 90%



Source: UBS estimates

Figure 18: China leads in production expansion in 2026-28 while overseas players likely to materialize capacity additions in 2028-30



Source: UBS estimates

Figure 19: Summary of recent and ongoing fiber capacity expansions

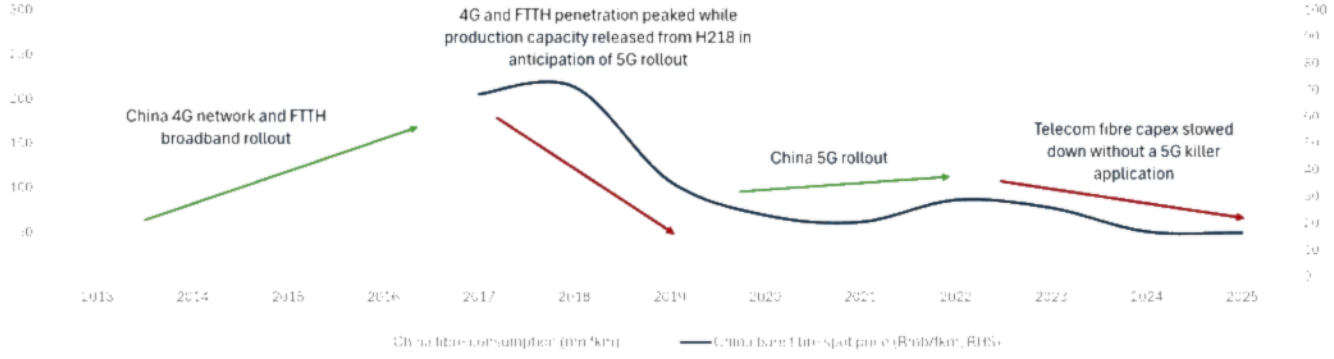
Company	Announcement	Project startup	Investment amount	Components	Comment
Global					
Corning	Jan-26			Cabling	New cable plant, expanded production across NC ops announced with META deal
Corning	May-26			Fiber and connectivity	Three new plants announced with NVDA agreement >50% increase in US fiber production capacity ~10x increase connectivity capacity
Fujikura (AFL)	Mar-24		$50mn	Cabling	Targeted to expand BABA compliant capacity
Fujikura	Aug-25	FYMar 2029	¥45bn	Fibre, SWR cable	
Fujikura	Mar-26	FYMar 2030	Up to ¥300B, split ¥260B in US and ¥40B in Japan	Fibre, SWR cable	Target to increase capacity up to ~3x at each mfg location in Japan and US
Furukawa Electric/Lightera		Dec-25		Cabling	
Furukawa Electric/Lightera		Feb-26		Cabling	Ultra high-fiber count cables, supporting up to 13,824f cable designs
Furukawa Electric/Lighter	Jun-26	Apr-28	¥5bn	Connectivity	Producing VSFF components under multi-source agreement with US Conec
STL	May-26		Up to $100mn	Connectivity	Expanding US connectivity solutions including terminated optical fiber cables
Prysmian	Aug-26		>US$1bn	Fiber and cabling	This investment is part of Prysmian's global commitment to more than double domestic optical cable and fiber capacity – including the glass preforming stage
China					
YOFC/Hengtong/ZTT		Late 2026 or early 2027		Preform and cabling	
FiberHome	Jul-26	in 2 years	Rmb1.6bn	Preform and cabling	Add annual capacity of 2mn fkm of multimode optical fiber and 173k fkm of specialty optical fiber; expand preform capacity by 600 tons

Source: Company announcements, UBS Research

From investment-driven to consumption-driven capacity expansion

An investment-driven demand model in the past: historically, domestic fiber demand was largely driven by telecom operators' traditional network investments and was therefore more investment-oriented than consumption-oriented. Operators often planned network deployment three to five years in advance, with procurement decisions driven by capex budgets and long-term demand forecasts rather than near-term end demand. This forward-looking planning framework encouraged aggressive industry-wide capacity expansion during upcycles, such as in 2018 due to expectations for 5G rollouts. However, when actual 5G demand fell short of expectations, telcos typically responded by pushing for lower procurement prices, creating significant pricing pressure and prolonged supply-demand imbalances across the industry.

Figure 20: China fiber price was muted over past five years as 5G use case fell short of expectation



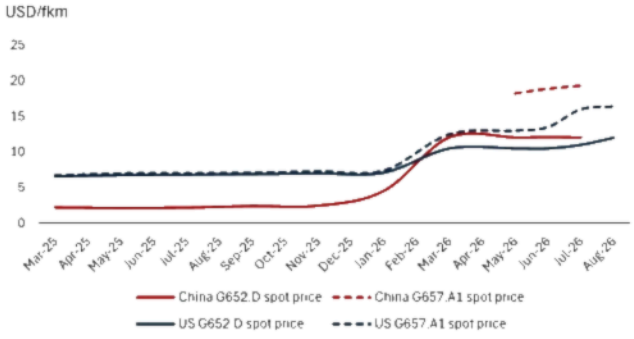
Source: CRU, UBS Research

The industry is now transitioning toward a more consumption-driven demand model, with incremental fiber demand increasingly linked to AI data center deployment and computing-network infrastructure, in our view. Fiber is typically procured and installed alongside data center construction, resulting in limited inventory build-up across the value chain. In addition, the pace of data center deployment, especially overseas, is constrained by factors beyond fiber availability, including power access, land availability, and regulatory approvals. This naturally limits the risk of speculative overbuilding. As a result, we observe that leading fiber manufacturers have so far adopted a disciplined approach to capacity expansion, with most new investments supported by long-term customer commitments and framework agreements. We therefore expect the current supply cycle to be considerably more rational than previous telecom-driven expansion cycles.

Spec-up should help reduce oversupply risks

Specification upgrades represent another important factor that could reduce the risk of future industry oversupply. Historically, telecom-driven demand was concentrated in relatively standardized G.652.D fiber, which lowered technical barriers and enabled new entrants to participate in previous expansion cycles. However, as AI-related demand becomes increasingly important, the market is shifting toward higher-specification products, including G.654.E fiber for scale-across architectures, G.657.A1/A2 fiber for scale-out interconnects, and potentially specialty fibers such as polarization-maintaining (PM) fiber for scale-up deployments and hollow-core fiber for ultra-low-latency long-distance transmission. These products typically require years of R&D investment, manufacturing know-how and customer qualification, creating significantly higher barriers to entry than conventional telecom fiber. New entrants typically require two to three years to build and qualify capacity, and any initial expansion is likely to be concentrated in standard G.652.D fiber rather than higher-performance products.

Figure 21: Increasing demand for high-end fiber deployed in data centers evidenced by higher G657.A1 price than G652.D



Source: CRU, UBS Research

Figure 22: AI is driving demand for advanced types of fiber to increase bandwidth and reduce latency

Fiber Type	Key Characteristics	Demand Driver
G.652.D	Industry standard, lowest cost	Traditional telecom capex
G.657.A1/A2	Bend insensitive, easier installation in confined spaces	Broadband penetration, data center rollouts
Multimode (OM1-OM5)	Ability to send multiple optical signals through one core. Can expand bandwidth in existing fiber lanes	Short reach data center, enterprise on premises network
G.654.E Ultra-Low-Loss	Lower attenuation and larger effective area than G.652.D	AI networking, cloud infrastructure, long-haul capacity upgrades
Multi-Core Fiber (MCF)	Multiple cores inside one fiber	Capacity scaling beyond conventional fiber limits
Hollow-Core Fiber (HCF)	Light travels through air rather than glass, reducing latency	Super low latency requirements

Source: UBS Research

High entry barriers for new entrants

Preform remains the key bottleneck of industry supply: we believe the industry's ability to add new supply is constrained by preform. While there are numerous fiber-drawing manufacturers in China, the number of companies with vertically integrated and self-sufficient preform manufacturing capabilities remains highly concentrated among the leading industry players. We believe preform manufacturing remains the key bottleneck and the primary source of competitive differentiation across the industry.

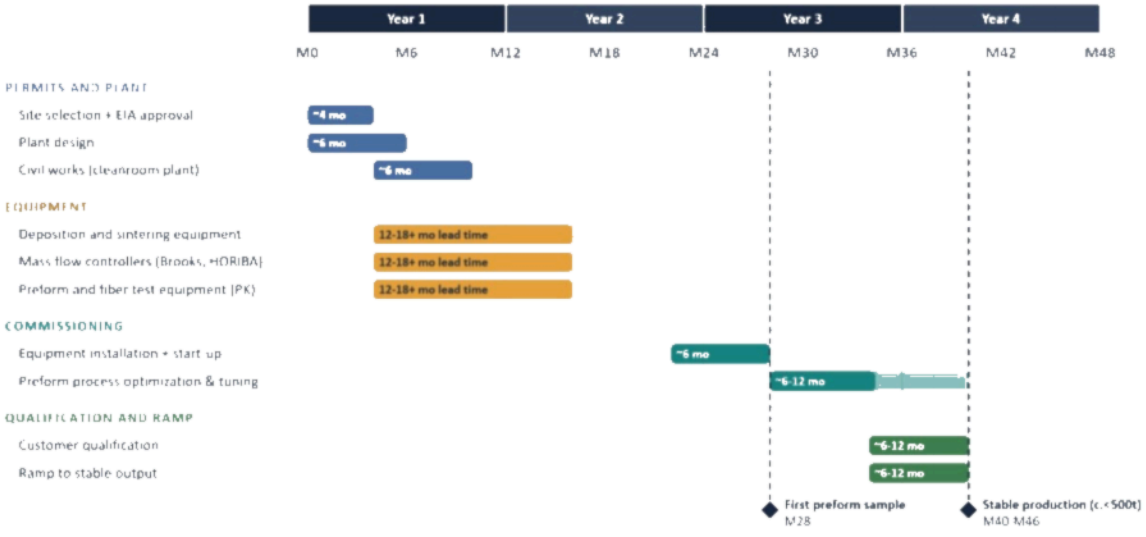
Preform manufacturing is highly experience-driven, with high yields and consistent quality requiring years of accumulated know-how and process optimization that cannot be easily replicated through capital investment alone. **We see multiple entry barriers for new entrants:**

1. **Leading Chinese fiber producers have largely developed their own proprietary equipment** over past decade, with manufacturing processes that are highly customized and often incompatible across companies. As a result, hiring engineers from established players is unlikely to enable a new entrant to replicate a

complete production system.

2. **Equipment procurement** itself has become a major bottleneck. For companies without in-house equipment capabilities, preform equipment needs to be sourced from overseas suppliers from S.Korea and the US, and lead times have already extended to more than one year amid strong industry demand. Even after equipment is delivered, installation, calibration and process optimization require considerable time. While leading incumbents may be able to ramp new lines within six months, it could take a new entrant at least one to two years to achieve stable production yields.
3. **New greenfield project** takes meaningful time to plan and build. As it requires the construction of highly specialized clean room facilities, making site preparation and plant construction another lengthy process. Completion of environmental approval procedures can also materially extend project timelines. Site preparation and plant construction alone typically take six months before equipment installation can begin.
4. **Scaling production** is also challenging after bringing initial capacity online. A new entrant may be able to establish 300 tonnes of preform capacity after one to two years of equipment procurement and installation, but expanding from 300 tonnes to more than 1,000 tonnes represents a significantly higher technological and operational hurdle.
5. **Customer qualification:** even after production begins, qualification by large customers typically requires at least six months, further delaying commercial shipments.

Figure 23: New entrants timeline for a greenfield production plant

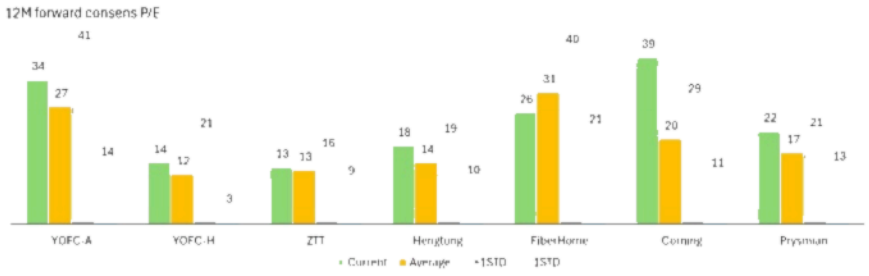


Source: UBS Research

Fiber price: sustainable and remains elevated in the near-term with widening differentiation from 2028E

We expect fiber pricing to remain elevated in the near term, supported by tight industry supply and strong demand. While capacity additions from second-tier manufacturers and new entrants may begin to emerge from 2028-2029E onwards, we believe any meaningful new supply will initially be concentrated in standard G.652.D products. As a result, pricing for conventional fiber could gradually diverge from higher-specification products such as G.657.A1/A2. At the same time, 2028-2029E is also expected to mark the beginning of broader scale-up optical deployments. This should drive demand toward higher-performance fiber solutions, including PM fiber and other specialty products, reinforcing the competitive advantages of leading manufacturers. We therefore expect technology leaders to maintain stronger growth, pricing power and profitability even as industry capacity gradually expands.

WHAT'S PRICED IN?



Source: LSEG. Price data as of Sept 22, 2026.

China optical fiber sector is trading <1STD above historical average while global peers are trading above.

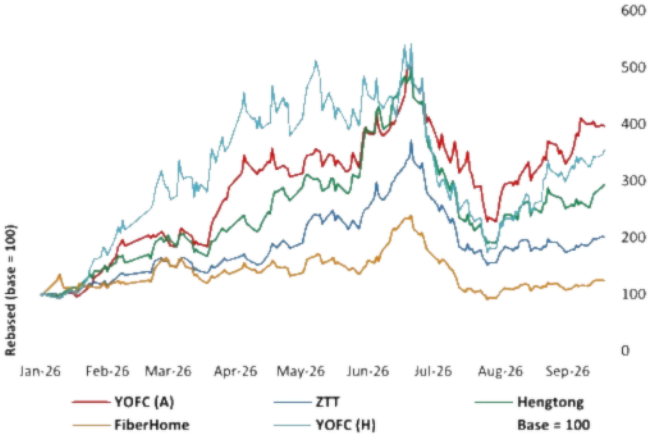
Share price correction reflects peak earnings concerns: The China optical fiber sector had rallied >300% to its June peak before correcting 37% but remains up 170% YTD while NTM consensus P/E has de-rated from 40-50x to 23x (+0.2STD above historical average) over the same period, compared to global peers such as Corning and Prysmian still traded well above 1STD above historical average. We see the valuation correction was driven by investor concerns on optical fiber oversupply, given a series of large capacity expansion announcements from new entrants, mirroring the pattern of previous upcycle ends. We see buy-side expectations of peak earnings in 2027E as potential capacity comes online thereafter.

Figure 25: China optical fiber sector YTD stock price performance



Source: LSEG. Price data as of Sept 22, 2026.

Figure 26: Sector index constituents YTD stock price performance



Source: LSEG. Price data as of Sept 22, 2026.

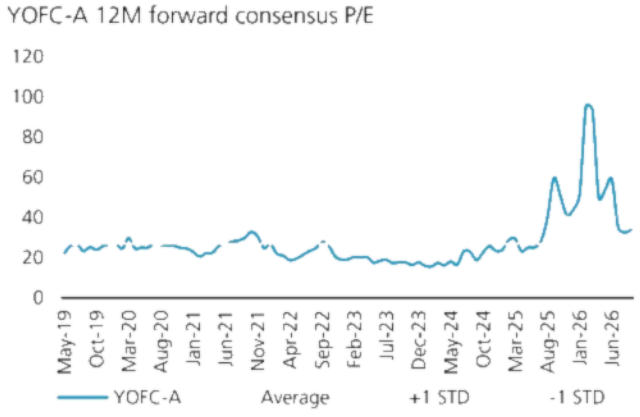
However, we expect upstream preform supply and demand to remain tight through 2028E, supported by robust AI data centre demand that in our view more than offsets slower telecom growth and potential tapering fiber-attached drone end-demand, which we assume in our base case from 2027E onwards. We view the traditional preform capacity announced by new entrants as ambitious. We estimate at least a three-year timeline for new greenfield investments before effective supply comes out, and at a materially smaller scale than planned, given the severity of the know-how and equipment bottlenecks involved. This should keep fiber prices higher for longer; we expect prices to continue rising through 2027E albeit at a slower pace.

Figure 27: China optical fiber sector comps

Company	Ticker	Price Currency	Share price	Market Cap (USD mn)	P/E		P/B		ROE		Revenue CAGR	EPS CAGR
					2026E	2027E	2026E	2027E	2026E	2027E	2026-28E	2026-28E
YOFC-H	6869.HK	HKD	190.50	19,574	14.8	8.6	6.0	3.8	50%	54%	33%	45%
YOFC-A	601869.SS	Rmb	456.60	56,754	41.7	24.2	16.7	10.6	50%	54%	33%	45%
ZTT*	600522.SS	Rmb	36.88	18,835	17.6	12.6	2.9	2.5	18%	20%	11%	17%
Hengtong*	600487.SS	Rmb	73.00	26,430	23.4	18.6	4.6	3.6	19%	22%	12%	16%
Fiberhome*	600498.SS	Rmb	43.51	8,956	32.3	24.1	3.1	2.8	9%	11%	18%	43%
Average				**27,744**	**28.7**	**19.9**	**6.8**	**4.9**	**24%**	**27%**	**19%**	**30%**
Corning	GLW.N	USD	158.98	136,943	56.3	36.4	10.3	11.1	23%	30%	20%	57%
Prysmian	PRY.MI	EUR	126.10	44,685	21.9	17.3	4.7	3.8	20%	23%	10%	21%
Furukawa Electric	5801.T	JPY	3901.00	17,506	37.3	33.0	6.6	5.7	18%	20%	10%	20%
Average				**66,378**	**38.5**	**28.9**	**7.2**	**6.9**	**20%**	**25%**	**13%**	**32%**

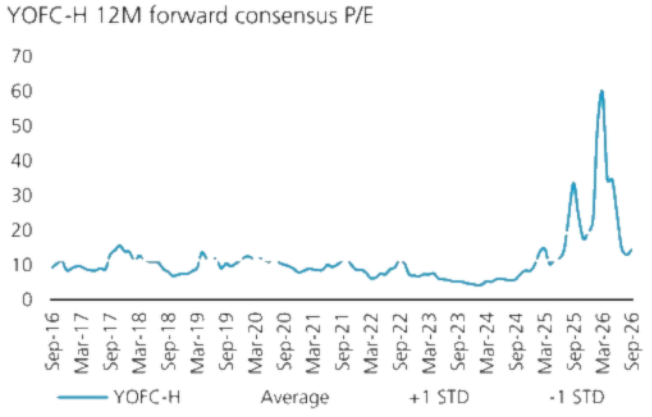
Source: LSEG. *Consensus estimates. Price data as of Sept 22, 2026.

Figure 28: YOFC-A PE band



Source: LSEG. Price data as of Sept 22, 2026.

Figure 29: YOFC-H PE band



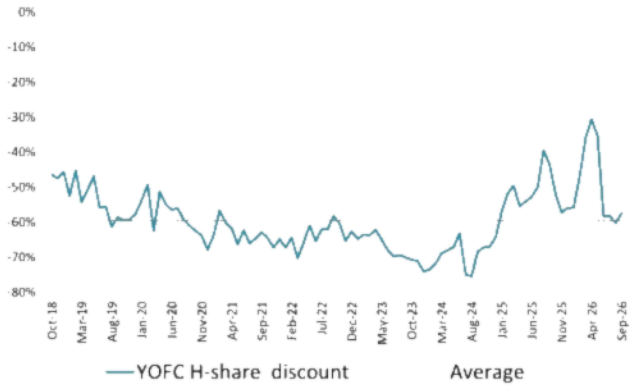
Source: LSEG. Price data as of Sept 22, 2026.

Meanwhile, we expect YOFC H-A discount to narrow: YOFC-A trades at 34x NTM consensus P/E, a 79% premium to domestic peers' average but close to U.S. leader Corning at 39x, which in our view A-share investors have priced fairly, reflecting YOFC's technological lead, product quality and greater optical fiber/interconnect product mix benefiting from AIDC demand relative to domestic peers.

YOFC-H trades at a -57% discount to the A-share while dual-listed AI beneficiaries across tech hardware trade mostly at an H premium. Optical interconnect (optical transceiver/module) and semi interconnect chip peers trade at a H-share premium while copper interconnect (AI PCB) peer trade at a meaningfully lower H-share discount than YOFC at -23%. We believe the divergence for YOFC suggests offshore investors are overly concerned about oversupply in optical fiber industry and thus peak earnings in 2027E while overlooking YOFC as a key player in the global AI supply chain. We also think H-share investors are discounting YOFC's potential geographical penetration of global AI data centre demand and strategic expansion into downstream high value-added connectivity products.

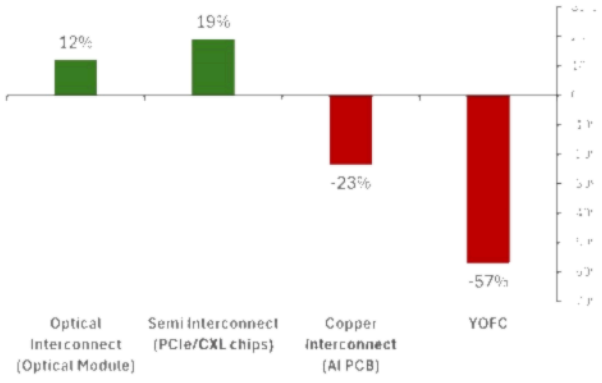
We maintain Buy on YOFC-H (price target HK$330, link) and Neutral on YOFC-A (price target Rmb510, link).

Figure 30: Historical YOFC-H discount to A-share



Source: LSEG. Price data as of Sept 22, 2026.

Figure 31: YOFC H-share discount compared to dual-listed tech sector peers (green = H-A premium)



Source. LSEG. Price data as of Sept 22, 2026.

Valuation Method and Risk Statement

Upside risks to the optical fiber/cable industry include: 1) higher-than-expected global AI demand growth; 2) government-backed digital infrastructure initiatives; 3) improving competitive dynamics; and 4) technology breakthrough accelerates demand for specialty fiber products.

Downside risks to the optical fiber/cable industry include: 1) weakening telcos capex; 2) slower-than-expected AI data center rollouts; 3) raw material cost volatility; and 4). faster-than-expected capacity expansion by competitors.

We value both YOFC (H) and YOFC (A) based on PE methodology.