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Telecom & Networking Equipment | North America

OCP Preview: A Look into Cloud DC Design Weather Patterns

OCP should provide greater clarity on directions of hyperscaler AI networking designs and the path toward NPO/CPO adoption. Given positive moves across the space in the past couple of weeks, more muted on stock moving impacts.

Key Takeaways

- Hyperscaler keynotes should provide greater clarity on how they are evolving architectures and what common ecosystem approaches they can foster.
- NPO/CPO remains a central debate following ECOC, with commercialization timelines / approaches being in focus.
- Expect continued networking innovation and product announcements, but limited near-term stock impact without more definitive customer commitments.
- Supply expansion, customer adoption and gross margin improvement remain key stock drivers. Continue to prefer KEYS, with LITE/COHR more sensitive to NPO/CPO.
- While event always presents some headline risk to stocks, particularly ANET, moves in stocks over past couple of weeks likely capture upside for now.

We will be attending the Open Compute Project (OCP) Conference in San Jose next week.

Hyperscaler discussions should provide greater clarity on next-generation AI networking architectures. The central theme of OCP is how hyperscalers can work to find some common solutions to challenges of moving to higher speed data center networks (power, cooling, cost, cabling, ecosystems, etc). While architectures are different across the hyperscalers, the event gives a sense of what architectural evolutions are taking place, from the mouth of the customers vs trade shows during the year from the perspective of the suppliers. We expect particular focus on architectures for scale-up networking, where there is the most evolutions taking place (see our Scale-Up Primer). We would expect active debates on interconnect fabrics, copper / optical tradeoffs, CPO / NPO timing / architectural approaches.

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Industry View **In-Line**

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Exhibit 1: Hyperscaler OCP Sessions

Ticker	Date	Time (PDT)	Session / Event Title (+ duration)	Speaker(s)	Room / Location
META	Wed, Oct 15	10:50-11:40	Sessions at Scale: Engineering AI Infrastructure for Hyperscale	Samuel Juchemann (Meta), Jeremy Kao (Meta)	Stadt Hall
MSFT	Tue, Oct 14	4:30-5:00 PM	Intelligent Interconnects: Scaling Azure Networking	Mr. Yegor Cherevatsky (CVP, Azure Hardware Infrastructure), Mr. Sergey Matkovskiy (Principal Hardware Engineering Lead, Microsoft)	Stadt Hall
ORCL		4:30-5:45PM	Scaling AI Infrastructure Responsibly: Private Cloud Sharing	Prashant Jhingran (VP, Compute and Core Infrastructure, Oracle Cloud Infrastructure)	Stadt Hall
GOOGL		11:10-11:50	Intelligent Interconnects: Powering the Hyperscale Era	Kenny Ranganathan (VP and Engineering Fellow, Google)	Stadt Hall
META	Wed, Oct 15	10:50-11:40	Validation Methodologies for RDMA Ecosystem	Manoj Wadekar (Meta), Tomasz Pribiło (Keysight)	Concourse 1 C/D/E
DELL		10:50-11:40	Lessons learned from OCP-ready AI racks and clusters	Mark Tuttle (Panduit), Richard Nakamura (Panduit), Ryan Jacobsen (Panduit), Jonathan Smith (Panduit)	Concourse 1 C/D/E
MSFT		10:05-10:35	Systems-level advancements in MTIA for High-Density Liquid-Cooled Data Center Racks in AI Infrastructure	Rocio Mijangos (Microsoft), Yuval Bachar (Microsoft)	Concourse 1 C/D/E
MSFT		10:50-11:40	Accelerating High Power Server Design Through Advanced Liquid Cooled Thermal Co-Simulation of ZRack and POPA	Ji Ding, Inc. (Independent), Steven Chen (Microsoft)	Stadt Hall 1 of 2
GOOGL		5:20-6:20	48V Powered Rack for Optimized Sustainable Energy	Yuhui Tian (Google), Jeff Neil (Google), Zhe Huang (Google), Yuan Ren (Google)	Concourse 1 C/D
MSFT		4:30-5:40	Multi-Wafer Packaging and Assembly Advancements for Large Multi-Chiplet Systems	Steven Hill (Microsoft), Mark Gerber (Microsoft)	Concourse 1 C/D/E
META/MSFT/GOOGL		11:20-11:50	Scale-Across Methodology: Powering Distributed AI Training and Reshaping Equipment Procurement	Jeff Tantsura (Nvidia), Tomasz Pribiło (Keysight), Yuval Bachar (Microsoft), Pavan Kumar Kamaraju (Nvidia)	Concourse 1 C/D/E
ORCL	Thu, Oct 16	10:50-11:40	Zero Touch 1.6T AI Scale-Out Fabrics: Are We Ready?	Kevin Paul (Oracle), Mike Fidler (Nvidia), Richard Graham (Nvidia), Michael Gathman (Oracle), Jonathan Smith (Panduit)	Concourse 1 C/D/E
MSFT/META		10:50	1.6 TB/s Open Memory-to-Accelerator Fabric	Frank Hunte (Microsoft), Manoj Wadekar (Meta)	Concourse 1 C/D/E
NVDA		10:50-11:40	Scale-out Networking Performance Evolution: Jitter Tolerance, Load Balancing, and Congestion Control in RDMA/RoCE	Hongqiang Zhang (Nvidia), Ziheng Chen (Nvidia), Yuval Shpigelman (Nvidia), Yan Zhuang (Nvidia)	Concourse 1 C/D/E
MSFT/META		10:50-12:40	Addressing memory challenges in Agentic AI and General Computer Systems: CXL's Role in Pooled, Tiered and Disaggregated Memory	Jinyan Liu (Microsoft), Sean Pearson (Microsoft), Manoj Wadekar (Meta), Siamak Tavallaei (Microsoft), Daniel Ellsworth (Microsoft), Gerd Zellweger (Meta), Desmond Lloyd (Microsoft), Grant Wallace (Microsoft)	Upper Level 2 C/D/E
META		1:20-2:10	Scale-Across Reliability: RAS Challenges Beyond the Rack	Vinod Devarajan (Nvidia), Ashok Bhat (Nvidia), Tomasz Pribiło (Keysight), Manoj Wadekar (Meta), Peter Onufryk (AMD)	Concourse 1 C/D/E
META		12:00-12:40	Reducing Unscheduled Downtime: Proactive Hardware Fault Prediction and Localization for AI Infrastructure	Jie Yu (Meta), Yin Huang (Meta), Mahesh Kallahalla (Meta), Hongyi Xie (Meta), Shrey Ajmera (Meta)	Concourse 1 C/D/E
MSFT/GOOGL/DELL		11:40-12:10	Scaling Memory Bandwidth Across Trillion-Parameter Models	Siva Kotamraju (Microsoft), Richard Graham (Nvidia), Ravi Kavasseri (Google), Ajit Mathews (Meta), Jeff Tantsura (Nvidia), Jonathan Smith (Panduit), Mike Fidler (Nvidia), and others invited	Upper Level 2 C/D/E

Source: Company data, Morgan Stanley Research

NPO/CPO commercialization timelines / architectural approaches what is in greatest focus. Following ECOC, where we heard growing confidence in initial NPO adoption around 2028 from suppliers, we expect OCP to provide greater clarity on hyperscaler design preferences and the path toward commercial deployment. Progress around the Open CPX MSA has helped establish a broader ecosystem of interoperable solutions, addressing some of the concerns around proprietary architectures raised earlier this year. Discussions around OpenCPX, XPO and external laser architectures should provide further insight into how NPO can bridge the transition from pluggables to full CPO, particularly as power and signal integrity constraints become more challenging. While the expanding opportunity remains encouraging for LITE and COHR, customers are still evaluating the trade-offs between performance, cost and serviceability, suggesting that multiple architectures could coexist and evolve over several generations.

Expect continued networking innovation, but less immediate impact on shares. Beyond optical packaging, OCP will feature discussions around Ethernet-based scale-up networking, optical circuit switching (OCS), higher-density switching and the role of power and cooling in supporting larger AI clusters. We expect multiple product, partnership and standards announcements across the conference, although many will likely reinforce trends already well understood by investors following OFC and ECOC. As discussed in our recent ECOC follow-up note, strong optical demand and longer-term content growth remain supportive, but the next leg of stock performance will depend more on incremental supply, customer adoption and gross margin improvement than technical announcements alone. ***We continue to prefer KEYS given its ability to benefit across different architectural outcomes, while LITE and COHR should remain particularly sensitive to incremental NPO/CPO developments.***

Valuation Methodology and Risks

Arista Networks (ANET.N)

Our $220 PT is based on 47x 27e PE (or ~40x 28e P/E) is a premium to networking peers given growth / hyperscale cycle / AI opportunity, but more in-line with optical / AI peers.

Risks to Upside

- Incremental wins for AI supports expectation of continued higher growth for longer
- Cloud investments remain elevated
- Scale up incremental opportunity
- Enterprise/campus share gains accelerate

Risks to Downside

- Customer concentration, specifically Microsoft and META
- New campus products struggle to gain traction
- Macro conditions get materially worse, particularly given tariffs/component costs.
- Cloud capex weakens

Coherent Corp (COHR.N)

~28x Base FY28e EPS (~$13.3). Multiple trades at premium to historical trading range given AI exposure, trading more in-line with AI comps.

Risks to Upside

- Pricing increases help gross margins
- 1.6T AI opportunity ramps faster than expected, benefitting margins
- Recovery in non-datacomm portions of business
- CPO / NPO ramps quicker than expected

Risks to Downside

- CPO / NPO delayed
- AI build out pause
- Competitive pressures in datacomm

Keysight Technologies Inc (KEYS.N)

Our base case valuation reflects ~32x on FY27 Base Case EPS of ~$13.30. Tariff impact removed, allowing stock to trade closer to 2x P/E/G.

Risks to Upside

- 6G spend begins sooner than expected
- AI demand broadens across portfolio
- A&D investment steps up materially globally
- Spirent accretive

Risks to Downside

- Elongated macro/demand headwinds, limits wireless/EISG rec



- Acquisitions falter
- Limited opex leverage as supply chain expenses pickup

Lumentum Holdings Inc (LITE.O)

25x CY28 P/E of ~$40. ~25x is a premium to historical trading range given AI growth outlook

Risks to Upside

- Datacom ramps and revenue mix more attractive vs. expectations
- OCS ramps quickly, bringing additional revenue / profitability source
- AI demand remains strong, causing EML business to outperform and drive profitability
- CPO / NPO ramp faster than expected

Risks to Downside

- EML pricing falls given oversupply on reduced AI demand
- CW takes share from EML
- Cloud Light hurts ability to improve margins
- Pushout in CPO timing