China PCB: Avary (002938.SZ) Chairman visit: Rising AI server and optical module PCB; Accelerated capacity expansion on strong demand

Chao Wang
+886(2)2730-4195 | kuan-chao.wang@gs.com
Goldman Sachs (Asia) L.L.C., Taipei Branch

Allen Chang
+852-2978-2930 | allen.k.chang@gs.com
Goldman Sachs (Asia) L.L.C.

Verena Jeng
+852-2978-1681 | verena.jeng@gs.com
Goldman Sachs (Asia) L.L.C.

Ting Song
+852-2978-6466 | ting.song@gs.com
Goldman Sachs (Asia) L.L.C.

We hosted a tour with the Chairman of Avary Holdings (002938.SZ, Not Covered) in Shenzhen recently. Key discussions included (1) the Optical module PCB growth outlook, (2) AI server PCB opportunities, (3) CCL cost, and (4) PCB capacity expansion. Overall, management is positive on the rising AI demand and PCB specification upgrades, and the company continues to expand the AI PCB capacity to capture incremental revenue opportunities from high-speed optical transceivers and AI servers. Mgmt. highlighted the company's accumulated experiences on mSAP (Modified Semi-Additive Process) and high-end HDI solutions, supporting clients' migration to new AI platforms with rising requirements.

Read across: Management's positive tone on AI PCB echoes our positive view on the AI infrastructure upcycle. We expect (1) PCB specification upgrades in AI servers and high-speed switches, (2) PCB and CCL dollar content increase in AI servers, (3) rising AI PCB and CCL demand globally, (4) AI PCB and CCL's higher ASP and margin compared to mainstream PCBs to benefit leading PCB and CCL players and support their strong earnings growth in the following years. **Buy:** ZDT, Victory Giant, WUS, Shengyi Tech, Shennan Circuits. **Read more:** Global PCB / CCL: TAM raised by 38% / 18% in 2027E.

Company profile: Avary (002938.SZ, Not Covered) is a subsidiary of ZDT, which holds a controlling majority stake at 70-80%. Avary operates various production sites under ZDT's platform, including mainland China, Taiwan, Thailand, and India. ZDT is the global leading PCB supplier (top 1 in market share in sales); it started its ABF substrate business from 2023 in Shenzhen, China, and has the highest ABF revenue exposure to the China market compared to all other ABF substrate suppliers.

Key takeaways

1. mSAP PCB capacity expansion: The company continues to ramp up the mSAP PCB production lines for optical transceiver clients, and mainly offers 800G/ 1.6T products. Management highlighted the company is the early entrant in mSAP technology. The company plans to continue expanding capacity of its mSAP production lines, supported by rising demand for 1.6T and above optical module demand from 2027 onwards. Management noted the company is also working with clients on PCB for NPO and 3.2T optical module products.

2. CCL cost: Overall management expects ASP of CCL to continue to increase due to strong demand. Mgmt. noted the company has built deep partnerships with

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upstream suppliers to secure supply. On PCB pricing strategy, management noted the company considers (1) upstream material cost, (2) clients' acceptance, and (3) the supply and demand situation for specific products.

