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China Tech & APAC Internet Specialist Sales Commentary

Semiconductor • Tech Hardware • Internet

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JPM | China Tech & APAC Internet - China A-share sentiment, OpenAI ARR read-through

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Japan Extel voting is open! *Please drop our Japan team *****FIVE STARS***** if you find their work helpful. All the read-across I've shared on Japan MLCCs/Substrates/Kioxia/Nittobo/SPEs is rooted in the in-depth work of* ***Akinori Kanemoto, Mio Shikanai****, and* ***Junya Ayada****. Please find full analyst roster + voting how-to in these links*

China A-shares reopened yesterday..*. Early moves tracked the playbook (optical small caps down, mild rotation to large caps; PCB upstream/select tier-2s up), but sentiment soured fast and spilled into semis, decoupling price from fundamentals. Dongshan's call pushed back: FCC limits remain speculation; US customer discussions stayed on delivery. If a US-content/ BOM threshold lands, Dongshan's optical chips are just 1–2% of cost; peers without optical capacity face tighter US supply (~20–30% of global).*

OpenAI ARR "decline"… *The US$70bn vs ~US$50bn gap is mostly accounting (gross CSP revenue vs net after traffic fees), not demand rolling over. On either lens, QoQ ARR growth still screens ~70%. Read-through: Zhipu's year-end ARR target likely assumes gross CSP contribution too, so whether rev-share lands at (10% or 30%) shouldn't drive a target reset.*

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Detailed Highlights

CHINA A-SHARE REOPENS: SENTIMENT SWAMPS FUNDAMENTALS

The initial price action broadly matched expectations - optical: small caps down with a mild rotation back to large caps; PCB - upstream and selective tier-2s up. But the sentiment deteriorated fast, bleeding into semis and the broader tape, and the rest of the day's swings had little to do with fundamentals. Intraday, Dongshan hosted a management call to address FCC concerns. Key points clarified: 1) The specifics around potential FCC restrictions are still pure speculations; nothing is finalized on paper. Management met US customers this week and no one raised it - conversations stayed focused on timely delivery, 2) If a "US content as % of BOM" threshold ends up being the framework: for Dongshan, optical chips are only 1–2% of cost (with high margins). US content is mainly DSP, MCU, and passives. For peers without optical chip capacity, the pinch is bigger—US optical chip supply can only cover ~20–30% of global demand.

OPENAI ARR HEADLINE: AN ACCOUNTING APERTURE, NOT A DEMAND STORY

Overnight news around an OpenAI ARR "declined" from US$70bn tp US$50. is largely a methodology mismatch. The US$70bn ARR frame benchmarks Anthropic-style accounting: recognize cloud service provider (CSP) revenue gross and book the CSP take-rate as net, versus OpenAI's latest ~US$50bn number that reflects net revenue after traffic fees. Either way, OpenAI's QoQ ARR growth screens at ~70%. How we're aligning read-through to Zhipu: the year-end ARR target likely embeds CSP contribution on a gross basis as well, so whether the eventual rev-share is 10% or 30% shouldn't force an ARR target reset.

REGIONAL READ-THROUGHS:

- TSMC: 3Q sales exceed high end of guidance; GM to stay in mid-/high-60% range for FY26E (Gokul Hariharn, O/W PT NT $3300.0) TSMC's September revenue reached NT$512bn, down 0.6% MoM, but up 55% YoY. Preliminary 3Q26 sales came in at NT$1,494bn, up 18% QoQ, exceeding the high end of 3Q26 USD guidance (US$44.6bn-45.8bn) and running 2-3%

above JPMe/consensus. We attribute the outperformance to sustained demand for leading-edge wafers on robust datacenter AI momentum and a strong N2 ramp, albeit still capped by tight N3 capacity. On 3Q GM, we expect the company to reach the high end of guidance (JPMe 66.8% vs. guided 65-67%), underpinned by elevated N3/N5 UTR and price hikes, partially offset by N2 and overseas fab dilution and a stronger TWD in 2H26. Overall, we expect TSMC's 2026 revenue to grow 41% YoY in USD terms (44% in NT$ terms), exiting the year with GMs at ~66.9%. Looking ahead to the 3Q26 earnings call, we see the key watchpoints as: (1) continued strong demand for AI compute build-out, with tight leading-edge supply extending into 2028; (2) a more aggressive N3/N2 capacity expansion plan, with A14 production likely pulled forward, implying mild upside to 2026 capex; and (3) firm messaging on competitive positioning and leading-edge market share.

- China Consumer "Golden" Week reality check: Picky wallets, polarized spend (Jesse Xu): Golden Week looks more like "people moved, but wallets stayed picky" than a broad consumer re-acceleration, consistent with the fact that per-capita spend was not disclosed (at least not yet). Travel volumes were broadly stable, but the mix leaned toward value and outdoor experiences, with more traffic flowing to lower-tier and "hidden-gem" destinations. Cross-border recovery continued, with Hong Kong the clear monetization bright spot, while Macau saw strong footfall, but a weaker spending mix. Shopping signals were also selective: Hainan duty-free traffic improved, but spend per shopper looked softer, pointing to normalized demand, rather than a fresh surge. By category, VAT-invoice data suggest a solid holiday overall: Services led, and select goods categories (notably mobile/telecom and appliances) were strong, while movies lagged

Sector Key Newsflow

- **Tencent** Mulls $5 Billion Bond Offering as AI Push Ramps Up (Bloomberg)
- **Netease Cloud Music, Gamma** Agree to Multi-Year Partnership in China (MT Newswires)
- **Alibaba** in early talks on Spain data center power supply (China Daily)
- **SK Hynix's Solidigm** Said to Pick Banks for US IPO Next Year (Bloomberg)
- **GlobalFoundries** reaches agreement to establish U.S.-based supply of silicon interposers for advanced AI packaging (GLOBE NEWSWIRE)
- **US Suspends Visa Program for Tech Firms** Including Microsoft (Bloomberg)

Full Research Link

Company Note:

- **Software:** C3Q EPS Preview: Expect Continued Share Price Recovery; Infra S/W Led by Est. Revisions and App S/W Led by Re-rating; Favor MSFT, NOW, NET and SNOW; D/g HUBS- Samik Chatterjee(Link)
- **TSMC (2330 TT):** 3Q sales exceed high end of guidance; GM to stay in mid-/high-60% range for FY26E- Gokul Hariharan (Link)
- **Tata Consultancy Services (TCS IN):** First Take: In-line growth and margins, soft signings- Ankur Rudra (Link)
- **Info Edge (INFOE IN):**Recruitment billings momentum holds- Ankur Rudra (Link)
- **Garmin Ltd. (GRMN US):**Garmin Connect Tracker: September Download Softness Suggests a More Tepid 3Q26 Setup- Joseph Cardoso (Link)

Sector Note:

- **Software:** C3Q EPS Preview: Expect Continued Share Price Recovery; Infra S/W Led by Est. Revisions and App S/W Led by Re-rating; Favor MSFT, NOW, NET and SNOW; D/g HUBS- Samik Chatterjee(Link)

Save the Dates: J.P. Morgan Technology Events

Analyst Meetings & JPM Webinars

Title	Speaker / Sector Coverage	Format	Date/Time (HKT)	Registration
Jay Kwon	Korea Tech	Hong Kong	Oct- 5-9 (Mon-Thu)	Please Ask
Who wins in Fintech? (Japanese) - Japanese	Junko Yamamura, Games, Internet, Services	Virtual	Oct-14 (Wed) 15:45 HKT	Register Here
Who wins in Fintech?	Junko Yamamura, Games, Internet, Services	Virtual	Oct-14 (Wed) 16:15 HKT	Register Here
Liquidity Crosscurrents: Macro, Markets and Positioning with a Barbell Strategy in China Tech and Financials	Katherine Lei, Erin Zhang, Feng Zhu, Billy Feng	Virtual	Oct-19 (Mon) 16:00 HKT	Register Here
Ranjan, Samuel, Steven	ASEAN TMT & Digital Infra	Singapore; Hong Kong	Oct-26-27 (Mon-Tue); Oct-29-30 (Thu-Fri)	Please Ask

Corporate Access

Title	Speaker	Format	Date/Time (HKT)	Registration
Robosense Technology (2498 HK)	Head of IR	Shanghai	Oct-13 (Tue)	Register Here
Salesforce Inc (CRM US)	IR	Virtual	Oct-13 (Tue) 8:00 HKT	Register Here
Nanya Plastics Corporation (1303 TT) *	Management	Virtual	Oct-13 (Tue) 15:00 HKT	Register Here
Kingboard Laminates (1888 HK)	Sherman Kan, Head of Capital Markets	Virtual	Oct-15 (Thu) 10:00 HKT	Register Here
BE Semiconductor (BESI NA)	CEO	Virtual	Oct-27 (Tue) 16:00 HKT	Register Here
Delta Electronics (Thailand) Pcl (DELTA TB)	IR	Virtual	Oct-29 (Thu) 16:00 HKT	Register Here
ASMPT Ltd	CEO, CFO, Head of IR, IR	Hong Kong, Singapore	Oct-29 -30 (Thu-Fri) HK Nov-2 (Mon) SG	Register Here (Zoom)

Conferences & Tours

Title	Format	Date/Time (HKT)
J.P. Morgan AI Forum I Investing in Intelligence	Sydney	Oct-13-14 (Tue-Wed)
Taiwan PCB Tech Tour *FULL*	Taipei	Oct-21 (Wed)
APAC Technology, Innovation and Growth Conference (TIG)	Hong Kong	Nov-16-18 (Mon-Wed)
Japan Markets Forum (Save the date)	Four Seasons Hotel Tokyo Otemachi	Dec-01 (Tue)
China Opportunities Forum	Shenzhen	Jan-18-19 (Mon-Tue)
Thailand Forum	Bangkok	Jan-21-22 (Thu-Fri)

Catalyst Calendar (All in HKT)

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