SMIC (0981.HK): AI demand to support advanced and mature nodes; Capacity expansion continues; Buy

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We are positive on SMIC's growth ahead, riding on the growing generative AI trend in China, which supports both mature nodes, such as analog and power ICs, and advanced nodes used for local AI chips. We also expect the rising localization trend, customers' continued supplier diversification and the company's capacity expansion to support growth. As highlighted in CHIPS IV, we expect China semiconductor capex to grow at 13% / 15% / 15% in 2026E-28E, driven by memory and advanced-node capacity expansion. We expect high utilization and improving ASP to partly offset rising depreciation from new capacity. Maintain Buy.

Generative AI to drive growth ahead: We expect the continued expansion of China's AI chip market to support demand for SMIC's advanced nodes. In addition to advanced-node demand from local AI chips, we see mature nodes supported by related AI demand, such as analog ICs and power semiconductors. Global-tier foundries allocating more capacity to AI and leading-edge processing nodes also offers opportunities for Chinese foundries to serve non-AI and mature-node demand.

Earnings revision: We keep our 2026E-27E estimates unchanged. We lower our 2028E-29E revenue estimates by 2% / 1%, mainly on more conservative advanced-node ASP assumptions. We expect a more gradual advanced-node ASP uplift as incremental capacity ramps up and the product and customer mix broadens, while continuing to expect advanced-node ASP to grow YoY on rising AI-related demand and continued product mix upgrade. We lower our 2028E-29E GM estimates by 1.6ppt / 0.8ppt and raise our opex ratio estimates by 0.3ppt / 0.1ppt, with the latter remaining largely unchanged. Overall, these revisions lead us to lower our 2028E-29E net income estimates by 14% / 7%.

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Exhibit 1: Earnings revision

	2026E			2027E			2028E			2029E		
(US$m)	New	Old	Diff	New	Old	Diff	New	Old	Diff	New	Old	Diff
Revenue	11,694	11,694	0%	14,392	14,392	0%	18,009	18,422	-2%	22,165	22,435	-1%
Gross profit	2,863	2,863	0%	3,905	3,905	0%	4,946	5,360	-8%	6,745	7,015	-4%
Operating income	1,731	1,731	0%	2,378	2,378	0%	2,893	3,307	-13%	4,158	4,428	-6%
Net income	1,408	1,408	0%	1,813	1,813	0%	2,219	2,579	-14%	3,123	3,349	-7%
EPS (US$)	0.18	0.18	0%	0.23	0.23	0%	0.28	0.32	-14%	0.39	0.42	-7%
Margins												
Gross margin	24.5%	24.5%	0ppts	27.1%	27.1%	0ppts	27.5%	29.1%	-1.6ppts	30.4%	31.3%	-0.8ppts
Operating margin	14.8%	14.8%	0ppts	16.5%	16.5%	0ppts	16.1%	17.9%	-1.9ppts	18.8%	19.7%	-1ppts
Net margin	12.0%	12.0%	0ppts	12.6%	12.6%	0ppts	12.3%	14.0%	-1.7ppts	14.1%	14.9%	-0.8ppts

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: SMIC P&L Summary

(US$m)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	2022	2023	2024	2025	2026E	2027E	2028E	2029E
Revenue	2,247	2,209	2,382	2,489	2,505	3,006	3,019	3,164	7,273	6,322	8,030	9,327	11,694	14,392	18,009	22,165
Gross profit	506	450	523	478	504	761	752	847	2,762	1,218	1,448	1,957	2,863	3,905	4,946	6,745
Operating expense	(196)	(299)	(172)	(180)	(256)	(226)	(271)	(379)	(926)	(860)	(975)	(847)	(1,132)	(1,527)	(2,053)	(2,587)
Operating income	310	151	351	299	248	534	481	468	1,836	358	473	1,110	1,731	2,378	2,893	4,158
Pre tax profit	349	160	337	227	255	810	482	481	2,214	1,187	859	1,073	1,753	2,269	2,744	3,958
Net income	188	132	192	173	197	479	395	394	1,818	903	493	685	1,408	1,813	2,219	3,123
EPS (US$)	0.02	0.02	0.02	0.02	0.02	0.06	0.05	0.05	0.23	0.11	0.06	0.09	0.18	0.23	0.28	0.39
Margins / ratio																
Gross margin	22.5%	20.4%	22.0%	19.2%	20.1%	25.3%	24.9%	26.8%	38.0%	19.3%	18.0%	21.0%	24.5%	27.1%	27.5%	30.4%
Opex ratio	-8.7%	-13.5%	-7.2%	-7.2%	-10.2%	-7.5%	-9.0%	-12.0%	-12.7%	-13.6%	-12.1%	-9.1%	-9.7%	-10.6%	-11.4%	-11.7%
Operating margin	13.8%	6.8%	14.7%	12.0%	9.9%	17.8%	15.9%	14.8%	25.2%	5.7%	5.9%	11.9%	14.8%	16.5%	16.1%	18.8%
Net margin	8.4%	6.0%	8.1%	6.9%	7.9%	15.9%	13.1%	12.5%	25.0%	14.3%	6.1%	7.3%	12.0%	12.6%	12.3%	14.1%
QoQ																
Revenue	2%	-2%	8%	4%	1%	20%	0%	5%								
Gross profit	1%	-11%	16%	-9%	5%	51%	-1%	13%								
Operating income	45%	-51%	133%	-15%	-17%	116%	-10%	-3%								
Pre tax profit	-2%	-54%	110%	-33%	13%	217%	-41%	0%								
Net income	75%	-30%	45%	-10%	14%	143%	-17%	0%								
EPS (US$)	75%	-30%	45%	-10%	14%	143%	-17%	0%								
YoY																
Revenue	28%	16%	10%	13%	11%	36%	27%	27%	34%	-13%	27%	16%	25%	23%	25%	23%
Gross profit	111%	70%	18%	-4%	0%	69%	44%	77%	65%	-56%	19%	35%	46%	36%	27%	36%
Operating income	12767%	73%	107%	40%	-20%	255%	37%	57%	32%	-81%	32%	134%	56%	37%	22%	44%
Pre tax profit	369%	-14%	39%	-36%	-27%	405%	43%	112%	20%	-46%	-28%	25%	63%	29%	21%	44%
Net income	162%	-19%	29%	61%	5%	262%	106%	128%	7%	-50%	-45%	39%	106%	29%	22%	41%
EPS (US$)	161%	-20%	28%	60%	5%	261%	106%	128%	7%	-50%	-46%	39%	105%	29%	22%	41%

Source: Company data, Goldman Sachs Global Investment Research

Valuation - SMIC (H): With the earnings estimate changes and valuation rollover, we maintain our 12-month target price at HK$153. We roll our valuation forward from 2028E to 2029E and continue to apply a discounted P/E method. Our 12-month TP is based on 66.7x 2029E P/E, versus 80.7x 2028E P/E previously, and discounted back to 2027E with an unchanged COE of 15.0%. Our target P/E is based on the relationship between peers' earnings growth and trading P/E, with the methodology unchanged.

Valuation - SMIC (A): We continue to base our A-share TP on a **196% A-H valuation premium**, with the methodology unchanged. Our valuation premium is derived from SMIC's average A-H valuation premium since January 2024. With our H-share TP unchanged, we maintain our **A-share 12-month target price at Rmb257.9. Maintain Buy.**

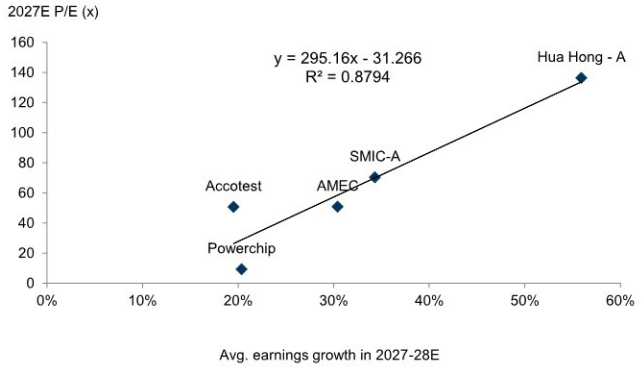
Exhibit 3: Discounted PE valuation: 12m TP of HK$153.0

(US$mn)	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E
Revenue	3,907	5,443	7,273	6,322	8,030	9,327	11,694	14,392	18,009	22,165	26,718
YoY	25%	39%	34%	-13%	27%	16%	25%	23%	25%	23%	21%
GM	23.6%	30.8%	38.0%	19.3%	18.0%	21.0%	24.5%	27.1%	27.5%	30.4%	30.9%
Gross profit	921	1,676	2,762	1,218	1,448	1,957	2,863	3,905	4,946	6,745	8,265
Opex	609	283	926	860	975	847	1,132	1,527	2,053	2,587	3,156
YoY	3%	-53%	227%	-7%	13%	-13%	34%	35%	34%	26%	22%
Opex ratio	15.6%	5.2%	12.7%	13.6%	12.1%	9.1%	9.7%	10.6%	11.4%	11.7%	11.8%
Operating profit	312	1,393	1,836	358	473	1,110	1,731	2,378	2,893	4,158	5,109
Non-op	425	448	378	830	386	-37	22	-109	-149	-200	-150
Pre-tax profit	737	1,840	2,214	1,187	859	1,073	1,753	2,269	2,744	3,958	4,959
Tax benefit (expense)	-68	-65	-16	-63	-129	-84	-211	-295	-357	-633	-793
Minority	-46	73	380	222	237	304	134	161	169	202	243
Net profit	**716**	**1,702**	**1,818**	**903**	**493**	**685**	**1,408**	**1,813**	**2,219**	**3,123**	**3,922**
EPS (US$)	**0.11**	**0.22**	**0.23**	**0.11**	**0.06**	**0.09**	**0.18**	**0.23**	**0.28**	**0.39**	**0.49**
YoY Growth	*131%*	*101%*	*7%*	*-50%*	*-46%*	*39%*	*105%*	*29%*	*22%*	*41%*	*26%*
2029E target P/E										66.7	
Target multiple x EPS										26	
Discounted back to 2026; TP (HK$)								**153.0**			
Implied P/E								87	71	50	
Implied P/B								6	6	5	
										47	

COE assumption	
Beta	1.8
Risk free	3.5%
Market risk premium	6.5%
COE	**15.0%**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: SMIC's global peers' P/E vs. EPS growth correlation



Note: Not covered company estimates are per LSEG consensus.

Source: Company data, LSEG, Goldman Sachs Global Investment Research

Exhibit 5: SMIC-H: 12M forward P/E



Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 6: SMIC-A: 12M forward P/E



Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

Price Target Risks and Methodology - SMIC

Valuation methodology: We are Buy rated on SMIC A/H. Our 12-m target price for the H-share is **HK$153.0** and is based on a 66.7x 2029E P/E, discounted back to 2027E with a COE of 15%. Our target multiple is based on SMIC's EPS growth relative to peers' P/E vs. EPS growth correlation. Our 12-m target price for the A-share is **Rmb257.9** and is based on a 196% premium over the H-share that is in line with the avg of SMIC's A/H premium since Jan 2024.

Key risks: 1) Weaker-than-expected demand in smartphones and consumer electronics; 2) Slower-than-expected product diversification and capacity expansions; and 3) Access to certain equipment/material supply may be restricted as the company is on the US BIS Entity List.

0981.HK	12m Price Target: **HK$153.00**	Price: **HK$47.06**	Upside: **225.1%**
688981.SS	12m Price Target: **Rmb257.90**	Price: **Rmb104.10**	Upside: **147.7%**

Buy

Market cap: HK$376.5bn / $48.0bn
Enterprise value: HK$555.3bn / $70.9bn
3m ADTV: HK$4.3bn / $550.2mn
China
Greater China Technology
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue ($ mn) New	**9,326.8**	**11,694.2**	**14,392.1**	**18,008.5**
Revenue ($ mn) Old	9,326.8	11,694.2	14,392.1	18,422.0
EBITDA ($ mn)	4,919.9	6,668.3	8,009.4	9,062.9
EPS ($) New	**0.09**	**0.18**	**0.23**	**0.28**
EPS ($) Old	0.09	0.18	0.23	0.32
P/E (X)	81.5	34.1	26.5	21.7
P/B (X)	2.6	2.1	1.9	1.8
Dividend yield (%)	0.0	0.0	0.0	0.0
CROCI (%)	7.5	8.7	8.9	8.6

	6/26	9/26E	12/26E	3/27E
EPS ($)	0.09	0.05	0.05	0.05

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 23 Oct 2026 close.

Disclosure Appendix

Reg AC

We, Allen Chang and Verena Jeng, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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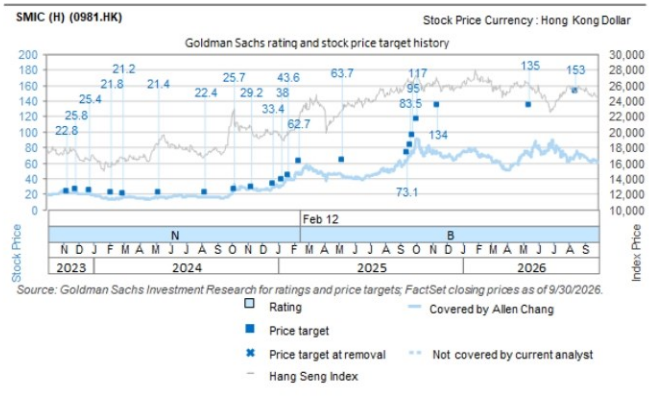
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Goldman Sachs Investment Research global Equity coverage universe

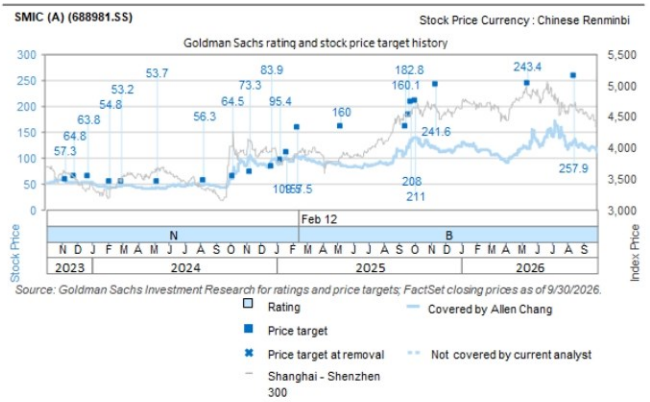
	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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Target price history table(s)

SMIC (A) (688981.SS)

Date of report	Target price (Rmb)	Closing price (Rmb)
15-Aug-26	257.90	132.87
15-May-26	243.40	119.02
14-Nov-25	241.60	118.18
05-Oct-25	211.00	140.13
26-Sep-25	208.00	132.27
22-Sep-25	182.80	128.92
15-Sep-25	160.10	108.66
10-May-25	160.00	85.83
12-Feb-25	157.50	104.32
22-Jan-25	109.50	100.24
09-Jan-25	95.40	91.32
23-Dec-24	83.90	95.18
10-Nov-24	73.30	100.30
06-Oct-24	64.50	59.99
12-Aug-24	56.30	48.78
10-May-24	53.70	42.99
02-Mar-24	53.20	48.51
06-Feb-24	54.80	44.97
26-Dec-23	63.80	51.85
28-Nov-23	64.80	54.55
10-Nov-23	57.30	54.39

SMIC (H) (0981.HK)

Date of report	Target price (HK$)	Closing price (HK$)
15-Aug-26	153.00	70.80
15-May-26	135.00	71.15
14-Nov-25	134.00	73.50
05-Oct-25	117.00	90.90
26-Sep-25	95.00	72.95
22-Sep-25	83.50	73.35
15-Sep-25	73.10	63.00
10-May-25	63.70	43.00
12-Feb-25	62.70	47.95
22-Jan-25	43.60	42.10
09-Jan-25	38.00	31.45
23-Dec-24	33.40	29.10
10-Nov-24	29.20	28.55
06-Oct-24	25.70	27.35
12-Aug-24	22.40	16.54
10-May-24	21.40	16.26
02-Mar-24	21.20	17.04
06-Feb-24	21.80	15.34
26-Dec-23	25.40	20.15
28-Nov-23	25.80	22.75
10-Nov-23	22.80	21.80

Price targets shown in table(s) are unadjusted for corporate actions.

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