28 Oct 2026 10:13:30 ET | 14 pages

Suzhou TFC Optical Communication (300394.SZ)

3Q26 Results Missed, GM Shows Resilience

CITI'S TAKE

TFC's 3Q26 revenue of Rmb1,923mn (+31% YoY and 28% QoQ) came in below CITIe/BBGe by 34%/24% and net profit of Rmb879mn (+55% YoY) is below CITIe by 16%, although beating BBGe by 11%, reaching the low-end of prior investor expectation of Rmb900mn. Gross margin of 65.0% running +15.0ppts/+15.4ppts above CITIe/BBGe, beating expectations. We believe there is a time gap of revenue recognition from chips supply improvement to production output, despite 200G EML chips supply improving in 3Q26. Looking forward, 4Q26 revenue could improve QoQ in both passive and active components, driven by new capacity for passive components, chips supply improvement for optical engines, gradual pickup of CPO components shipments, etc. We believe TFC's first-mover advantage in FAU, underpinned by industry-leading yield and production efficiency, remains the key moat protecting the company's gross margin level and supply chain position in CPO. Maintain Buy with new TP of Rmb306.

Buy	
Price (28 Oct 26 15:00)	Rmb201.430
Target price	Rmb306.000↓
from Rmb378.000	
Expected share price return	51.9%
Expected dividend yield	0.4%
Expected total return	52.3%
Market Cap	Rmb219,725M
	US$32,959M

Kyna Wong[AC]
Yiming Li, CFA
Kevin Chen
Karen Huang

3Q26 results — TFC's 3Q26 revenue of Rmb1,923mn (+31% YoY) and YoY) came in below CITIe/BBGe by 34%/24% and net profit of Rmb879mn (+55% YoY) is below CITIe by 16%, although beating BBGe by 11%. Gross margin of 65.0% running +15.0ppts/+15.4ppts above CITIe/BBGe on better efficiency and high loading for passive components as well as higher utilization and yield for active components. OP grew 30% QoQ and 67% YoY to Rmb1.08bn, 11%/8% below CITIe/BBGe. We believe there is a time gap of revenue recognition from chips supply improvement to production output, despite 200G EML chips supply improved in 3Q26. Inventory rose from Rmb0.9bn in 2Q26 to Rmb1.27bn, driven by strategic chip stockpiling.

4Q26 outlook & FCC risk — We expect 4Q26 revenue will be better QoQ in both passive and active components, driven by new capacity for passive components, chips supply improvement for optical engines, gradual pickup for CPO components shipment etc. We see TFC's passive components as only marginally exposed, though

Earnings Summary

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	1,344	2.425	31.2	83.1	28.0	37.5	0.2
2025A	2,017	2.590	6.8	77.8	28.4	42.5	0.3
2026E	3,071	3.282	26.7	61.4	27.4	45.4	0.4
2027E	8,427	7.713	135.0	26.1	14.1	71.2	1.0
2028E	15,287	13.992	81.4	14.4	7.7	69.1	3.5

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

Not for distribution in the People's Republic of China, excluding the Hong Kong Special Administrative Region and Qualified Foreign Institutional Investors.

FCC scope could widen as scale-up/CPO architectures mature from 2027E, warranting continued monitoring.

Model Update — We lower our 2026/27/28E revenue by 22%/22%/11% and net profit by 19%/19%/1%, reflecting a slower near-term revenue recognition pace and more conservative optical engine ramp up assumptions, partly offset by higher margin assumptions. We lower the TP to Rmb306 (from Rmb378), still based on 39.5x updated 2027E EPS (3-year average); maintain Buy.

300394.SZ: Fiscal year end 31-Dec

Price: Rmb201.430; TP: Rmb306.000; Market Cap: Rmb219,725m; Recomm: Buy

Profit & Loss (Rmbm)	2024	2025	2026E	2027E	2028E
Sales revenue	3,252	5,163	8,360	22,577	45,599
Cost of sales	-1,391	-2,377	-3,778	-11,192	-25,023
Gross profit	1,861	2,786	4,583	11,385	20,576
Gross Margin (%)	57.2	54.0	54.8	50.4	45.1
EBITDA (Adj)	**1,581**	**2,508**	**3,876**	**10,103**	**18,485**
EBITDA Margin (Adj) (%)	48.6	48.6	46.4	44.7	40.5
Depreciation	-118	-169	-137	-265	-651
Amortisation	-8	-9	-6	-7	-8
EBIT (Adj)	**1,456**	**2,330**	**3,733**	**9,832**	**17,826**
EBIT Margin (Adj) (%)	44.8	45.1	44.7	43.5	39.1
Net interest	91	31	-43	122	205
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	-11	-16	-124	-39	-45
Pre-tax profit	**1,535**	**2,344**	**3,566**	**9,915**	**17,986**
Tax	-192	-326	-494	-1,487	-2,698
Extraord./Min.Int./Pref.div.	1	0	-1	-1	-1
Reported net profit	**1,344**	**2,017**	**3,071**	**8,427**	**15,287**
Net Margin (%)	41.3	39.1	36.7	37.3	33.5
Core NPAT	1,344	2,017	3,071	8,427	15,287

Per share data	2024	2025	2026E	2027E	2028E
Reported EPS (Rmb)	2.425	2.590	3.282	7.713	13.992
Core EPS (Rmb)	2.425	2.590	3.282	7.713	13.992
DPS (Rmb)	0.500	0.700	0.760	2.084	7.007
CFPS (Rmb)	2.279	2.399	2.526	5.203	10.053
FCFPS (Rmb)	1.464	1.863	1.709	3.314	5.880
BVPS (Rmb)	7.184	7.082	7.364	14.330	26.260
Wtd avg ord shares (m)	554	777	934	1,091	1,091
Wtd avg diluted shares (m)	554	779	936	1,093	1,093

Growth rates	2024	2025	2026E	2027E	2028E
Sales revenue (%)	67.7	58.8	61.9	170.1	102.0
EBIT (Adj) (%)	83.9	60.0	60.2	163.4	81.3
Core NPAT (%)	84.1	50.1	52.2	174.4	81.4
Core EPS (%)	31.2	6.8	26.7	135.0	81.4

Balance Sheet (Rmbm)	2024	2025	2026E	2027E	2028E
Cash & cash equiv.	2,329	3,207	4,262	7,054	11,205
Accounts receivables	780	1,124	1,913	5,040	10,307
Inventory	350	457	1,294	3,833	8,570
Net fixed & other tangibles	1,092	1,472	2,003	3,708	7,500
Goodwill & intangibles	111	119	122	138	175
Financial & other assets	74	70	107	274	542
Total assets	**4,737**	**6,449**	**9,701**	**20,047**	**38,300**
Accounts payable	323	495	833	2,399	5,439
Short-term debt	0	0	0	0	0
Long-term debt	4	3	3	3	3
Provisions & other liab	423	439	825	2,006	4,204
Total liabilities	**751**	**937**	**1,661**	**4,408**	**9,646**
Shareholders' equity	3,980	5,506	8,033	15,631	28,645
Minority interests	6	7	7	8	9
Total equity	**3,986**	**5,513**	**8,040**	**15,639**	**28,654**
Net debt (Adj)	**-2,324**	**-3,204**	**-4,259**	**-7,051**	**-11,202**
Net debt to equity (Adj) (%)	-58.3	-58.1	-53.0	-45.1	-39.1

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	83.1	77.8	61.4	26.1	14.4
PB (x)	28.0	28.4	27.4	14.1	7.7
EV/EBITDA (x)	na	86.5	55.7	21.2	11.4
FCF yield (%)	0.7	0.9	0.8	1.6	2.9
Dividend yield (%)	0.2	0.3	0.4	1.0	3.5
Payout ratio (%)	21	27	23	27	50
ROE (%)	37.5	42.5	45.4	71.2	69.1

Cashflow (Rmbm)	2024	2025	2026E	2027E	2028E
EBITDA	1,581	2,508	3,876	10,103	18,485
Working capital	-197	-408	-939	-3,086	-5,034
Other	-121	-231	-573	-1,333	-2,467
Operating cashflow	**1,263**	**1,868**	**2,364**	**5,684**	**10,984**
Capex	-451	-418	-764	-2,064	-4,560
Net acq/disposals	94	153	0	0	0
Other	0	0	0	0	0
Investing cashflow	**-358**	**-265**	**-764**	**-2,064**	**-4,560**
Dividends paid	-674	-667	-544	-828	-2,273
Financing cashflow	**-782**	**-673**	**-544**	**-828**	**-2,273**
Net change in cash	**151**	**1,018**	**1,056**	**2,792**	**4,150**
Free cashflow to s/holders	**811**	**1,451**	**1,600**	**3,620**	**6,424**

For definitions of the items in this table, please click here.

Figure 1. 3Q26 Results Summary

	3Q26					2Q26		3Q25	
Rmb m	Actual	Citi est.	Diff.	BBG cons.	Diff.	Actual	QoQ	Actual	YoY
Revenue	1,923	2,914	-34%	2,532	-24%	1,498	28%	1,463	31%
Gross profit	1,251	1,457	-14%	1,257	0%	968	29%	785	59%
OPEX	174	243	-28%	87	101%	143	22%	141	24%
Operating profit	1,077	1,214	-11%	1,170	-8%	825	30%	644	67%
Pre-tax profit	1,026	1,238	-17%	784	31%	803	28%	658	56%
Net profit	879	1,052	-16%	792	11%	712	23%	566	55%
Ratio									
Gross margin	65.0%	50.0%	15.0ppts	49.6%	15.4ppts	64.7%	0.4ppts	53.7%	11.4ppts
OPEX to Sales ratio	9.1%	8.3%	0.7ppts	3.4%	5.6ppts	9.5%	-0.5ppts	9.6%	-0.6ppts
Operating margin	56.0%	41.7%	14.3ppts	46.2%	9.8ppts	55.1%	0.9ppts	44.0%	12.0ppts
Net margin	45.7%	36.1%	9.6ppts	31.3%	14.4ppts	47.5%	-1.8ppts	38.7%	7.0ppts

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: Company Reports and Citi Research Estimates

Figure 2. Model Update Summary

	2026E			2027E			2028E		
Rmb m	New	Old	Chg	New	Old	Chg	New	Old	Chg
Revenue	8,360	10,653	-22%	22,577	29,040	-22%	45,599	51,214	-11%
Gross profit	4,583	5,344	-14%	11,385	14,122	-19%	20,576	20,949	-2%
OPEX	850	897	-5%	1,553	1,927	-19%	2,750	3,021	-9%
Operating profit	3,733	4,447	-16%	9,832	12,195	-19%	17,826	17,928	-1%
Pre-tax profit	3,566	4,421	-19%	9,915	12,291	-19%	17,986	18,117	-1%
Net profit	3,071	3,792	-19%	8,427	10,447	-19%	15,287	15,399	-1%
Ratio (%)									
Gross margin	54.8	50.2	4.6ppts	50.4	48.6	1.8ppts	45.1	40.9	4.2ppts
OPEX to Sales ratio	10.2	8.4	1.7ppts	6.9	6.6	0.2ppts	6.0	5.9	0.1ppts
Operating margin	44.7	41.7	2.9ppts	43.5	42.0	1.6ppts	39.1	35.0	4.1ppts
Net margin	36.7	35.6	1.1ppts	37.3	36.0	1.4ppts	33.5	30.1	3.5ppts

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: Citi Research Estimates

Figure 3. Citi vs Consensus

	2026E			2027E			2028E		
Rmb m	Citi	BBG cons.	Diff	Citi	BBG cons.	Diff	Citi	BBG cons.	Diff
Revenue	8,360	9,238	-10%	22,577	15,266	48%	45,599	23,728	92%
Gross profit	4,583	4,907	-7%	11,385	7,946	43%	20,576	12,374	66%
OPEX	850	800	6%	1,553	1,172	33%	2,750	2,144	28%
Operating profit	3,733	4,107	-9%	9,832	6,775	45%	17,826	10,230	74%
Pre-tax profit	3,566	4,103	-13%	9,915	7,126	39%	17,986	10,725	68%
Net profit	3,071	3,573	-14%	8,427	6,163	37%	15,287	9,242	65%
Ratio (%)									
Gross margin	54.8	53.1	1.7ppts	50.4	52.1	-1.6ppts	45.1	52.1	-7.0ppts
OPEX to Sales ratio	10.2	8.7	1.5ppts	6.9	7.7	-0.8ppts	6.0	9.0	-3.0ppts
Operating margin	44.7	44.5	0.2ppts	43.5	44.4	-0.8ppts	39.1	43.1	-4.0ppts
Net margin	36.7	38.7	-1.9ppts	37.3	40.4	-3.0ppts	33.5	38.9	-5.4ppts

© 2026 Citigroup Inc. No redistribution without Citigroup's written permission.

Source: Citi Research Estimates, Bloomberg

Bull/Bear: Suzhou TFC Optical Communication

Rmb 348.000	Rmb 306.000	Rmb 155.000
▲73% Upside	▲52% Upside	▼23% Downside



Spread 96pp
Current Price and expected returns (upside/downside) as of 28 Oct 2026

BULL Assumptions

- 45.0x FY27E PE, +0.5 SD of its 5-year historical mean to account for better investor sentiment
- Higher-than-expected 800G/1.6T Optical Engines Shipment
- Higher-than-expected CPO Shipment

BASE Assumptions

- 39.5x FY27E PE, which is at its 3-year historical mean

BEAR Assumptions

- 20.0x FY27E PE, which is around 1SD below 5-year historical mean to account for weak investor sentiment
- Lower-than-expected 800G/1.6T Optical Engines Shipments
- Lower-than-expected CPO Shipments



Suzhou TFC Optical Communication

Company description

Founded in Suzhou in 2005 and listed on the China stock market in 2015, Suzhou TFC is a China-based company primarily engaged in the research, development, design, manufacturing, and sales of fiber-optic components. It provides both passive and active optical components including ceramic sleeves, TOSA/ROSA/BOSA receptacles, CNC precision metal parts, fiber optic adapters, fiber optic connectors, attenuator, Optical Engines, FAU which are mostly used in datacom networks such as AI clusters and Switch-To-Switch Interconnection, and datacenters. The company operates businesses in domestic and overseas markets.

Investment strategy

We rate Suzhou TFC shares as Buy. The company, a leading provider of integrated solutions for optical components, had three types of basic passive optical components: ceramic sleeves, fiber optic adapters, and receptacles before listing. It continues to expand its optical components product chain through a series of M&As after listing. AI GPU/Network and upgrades of AI infrastructure to 800G and 1.6T/3.2T SiPh will drive demand for high-speed light engine, in our view. The high-speed light engine could also be used in other emerging markets such as laser radar and medical testing. We believe light engine business could become an important driver for the company in the long-term, with the company's high-speed light engine products being certified by more customers. Meanwhile, its SiPh chip packaging and processing capabilities and fiber-related product like FAU, PM, MT should benefit in the era of co-packaged optics.

Valuation

Our target price for Suzhou TFC of Rmb306/share is based on 39.5x 27E P/E, at the 3-year mean of the stock to factor in new CPO re-rate, partially offset by cannibalization of its 1.6T/800G business in 2027.

Risks

Downside risks that could impede the Suzhou TFC stock from reaching our target price include: 1) slower-than-expected new product development; 2) slower-than-expected AI development across the globe; 3) slower-than-expected AI infrastructure/data center investment; 4) China-US tech disputes, 5) EML or upstream components supply constraint, 6) rising competition, 7) delayed CPO deployment in scale-out and scale-up.