Morgan Stanley | RESEARCH

UPDATE

October 28, 2026 02:59 PM GMT

Universal Scientific Ind. (Shanghai) | Asia Pacific

Optical progress, but near-term margin pressure persists

AlphaSignals Earnings Reaction

Unchanged
Impact to our thesis

Modest upside
Financial results versus consensus

Largely unchanged
Direction of next 12-month consensus EPS

4Q profitability remains under pressure: Management guides revenue to grow 15-20% Y/Y indicating 6% QoQ decline, and OPM to decline ~1.8ppt Y/Y, reflecting last year's land-disposal gain, higher material costs and RMB appreciation.

3Q26 earnings beat: Revenue was Rmb19.54bn, +40% Q/Q, +19% Y/Y, 2% above MSe; GM improved 0.7ppt Q/Q to 8.9%, roughly in line with MSe; net profit was Rmb715mn, 5% above MSe.

Optical milestones becoming clearer: Chengdu is targeting OE capacity of 120k units/month by November, while the Vietnam 100k units/month optical module line should be ready in 4Q. External laser sources are being sampled with two North American customers, with initial capacity of 50k units/month targeted as early as 1Q27, and better revenue visibility in 2H27. Detachable FAU offers a long-term opportunity from 2028.

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the 2027 Extel Asia Research Survey. Voting opens 10 November 2026.

Universal Scientific Ind. (Shanghai) (601231.SS, 601231 CG)

Greater China Technology Semiconductors | China

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	Rmb39.30
Up/downside to price target (%)	78
Shr price, close (Oct 28, 2026)	Rmb22.02
52-Week Range	Rmb49.38-19.71
Sh out, dil, curr (mn)	2,389
Mkt cap, curr (mn)	Rmb52,604
EV, curr (mn)	Rmb42,516

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (Rmb)**	0.84	1.02	1.52	1.93
Prior EPS (Rmb)**	-	-	-	-
EPS (Rmb)§	0.78	0.96	1.47	2.02
Revenue, net (Rmb mn)	59,195	67,516	81,766	90,924
EBITDA (Rmb mn)	3,301	3,938	5,530	6,882
ModelWare net inc (Rmb mn)	1,853	2,446	3,620	4,602
P/E	35.9	21.5	14.5	11.4
P/BV	3.3	2.3	2.0	1.8
RNOA (%)	16.5	21.6	33.3	35.9
ROE (%)	10.3	11.8	16.3	18.4
EV/EBITDA	17.7	10.5	7.3	5.6
Div yld (%)	1.4	1.7	2.5	12.4
FCF yld ratio (%)	1.0	3.5	2.9	6.2

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decision.

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report.**

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and trading securities held by a re



Leverage (EOP) (%)	(50.3)	(52.1)	(49.6)	(51.2)

framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates

Valuation Methodology and Risks

Universal Scientific Ind. (Shanghai) (601231.SS)

Base case, residual income model. We assume a cost of equity of 9.5%, an intermediate growth rate of 14.0% and a terminal growth rate of 4.0%.

Risks to Upside

- Market share gains in EMS and overall expansion of the IoT market.
- Stronger SiP end demand with high adoption for new applications.

Risks to Downside

- Newer technology in SiP, against which USI cannot compete with its current capabilities and cost structure.
- Market share losses in EMS and overall shrinkage of the IoT market.
- Weaker SiP end demand with very low adoption for new applications.