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UPDATE

*October 28, 2026 02:31 PM GMT*

## Suzhou TFC Optical Communication Co Ltd. | Asia Pacific

# Accelerated Revenue Growth in 3Q26 Implies Improving Component Supply

**AlphaSignals Earnings Reaction**

| **Unchanged** | **— In-line** | **— Largely unchanged** |
|---|---|---|
| Impact to our thesis | Financial results versus consensus | Direction of next 12-month consensus EPS |

Source: Company data, Morgan Stanley Research

## Key Takeaways

- 3Q26 revenue reached Rmb1,923 million, up 31.50% YoY and 28.37% QoQ. The faster revenue growth in 3Q26 implies that the component shortage is gradually easing.
- However, the high GP margin suggests that the active segment is not making a significant contribution.

**Other details:**

- **Gross margin reached 65.0% in 3Q26, a further improvement from 64.7% in 2Q26:** This implies that the active segment's contribution is still limited.
- **Net profit margin expanded to 45.7% in 3Q26** – up 701bps YoY from 38.7% in 3Q25.
- **Non-GAAP net profit** – Rmb879 million in 3Q26 (+55% YoY).
- **Operating cash flow** – Rmb1,462 million in 9M26 (+8.75% YoY). Operating cash flow grew more s;lowly slower than net profit as working capital expanded to support production ramp-up across domestic and overseas sites (including inventory buildup and supplier prepayments).

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**Suzhou TFC Optical Communication Co Ltd. (300394.SZ, 300394 CH)**

**Greater China Technology Hardware | China**

| | |
|---|---|
| **Stock Rating** | **Equal-weight** |
| **Industry View** | **In-Line** |
| Price target | Rmb265.00 |
| Up/downside to price target (%) | 32 |
| Shr price, close (Oct 28, 2026) | Rmb201.43 |
| 52-Week Range | Rmb375.00-100.81 |
| Sh out, dil, curr (mn) | 1,091 |
| Mkt cap, curr (mn) | Rmb219,725 |
| EV, curr (mn) | Rmb215,208 |
| Avg daily trading value (mn) | Rmb11,545 |

| **Fiscal Year Ending** | **12/25** | **12/26e** | **12/27e** | **12/28e** |
|---|---|---|---|---|
| EPS (Rmb)** | 1.85 | 3.16 | 4.39 | 5.70 |
| Prior EPS (Rmb)** | - | - | - | - |
| EPS (Rmb)§ | 2.82 | 3.38 | 4.90 | 6.82 |
| Revenue, net (Rmb mn) | 5,163 | 10,291 | 14,604 | 19,308 |
| EBITDA (Rmb mn) | 2,706 | 4,424 | 5,973 | 7,682 |
| ModelWare net inc (Rmb mn) | 2,017 | 3,443 | 4,785 | 6,221 |
| P/E | 78.2 | 63.8 | 45.9 | 35.3 |
| P/BV | 28.7 | 26.1 | 17.9 | 12.8 |
| RNOA (%) | 124.8 | 344.8 | 643.4 | 1,339.5 |
| ROE (%) | 50.7 | 62.5 | 56.9 | 50.7 |
| EV/EBITDA | 56.7 | 47.9 | 34.8 | 26.4 |
| Div yld (%) | 0.3 | 0.4 | 0.6 | 0.8 |
| FCF yld ratio (%)** | 0.9 | 1.7 | 2.3 | 3.0 |
| Leverage (EOP) (%) | (54.4) | (73.8) | (84.9) | (91.4) |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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# Results Summary

**Exhibit 1:** 3Q26 Results Review

| Rmb mn | 1Q25 | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2Q26 | 3Q26 | YoY% | QoQ% |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **945** | **1,511** | **1,463** | **1,245** | **1,330** | **1,498** | **1,923** | **31%** | **28%** |
| **Gross profit** | **501** | **746** | **785** | **754** | **753** | **968** | **1,251** | **59%** | **29%** |
| Operating expenses | -115 | -122 | -130 | -108 | -147 | -162 | -157 | 21% | -3% |
| Opearating income | 386 | 624 | 655 | 646 | 606 | 806 | 1,094 | 67% | 36% |
| Non-op | 9 | 15 | 3 | 6 | -32 | -3 | -68 | -2076% | 1900% |
| Tax& Minorities | -58 | -77 | -92 | -100 | -82 | -91 | -147 | 59% | 62% |
| **Net income** | **338** | **562** | **566** | **552** | **492** | **712** | **879** | **55%** | **23%** |
| | | | | | | | | | |
| **Key metrics %** | | | | | | | | | |
| **Gross margin** | 53.0% | 49.4% | 53.7% | 60.6% | 56.6% | 64.7% | 65.0% | 11.4% | 0.4% |
| Opex | 12.2% | 8.1% | 8.9% | 8.7% | 11.0% | 10.8% | 8.2% | -0.7% | -2.7% |
| Net margin | 35.7% | 37.2% | 38.7% | 44.3% | 37.0% | 47.5% | 45.7% | 7.0% | -1.8% |

Source: Company data, Morgan Stanley Research



# Valuation Methodology and Risks

**Suzhou TFC Optical Communication Co Ltd. (300394.SZ)**

Residual income model, probability-weighted 30% bull, 50% base, 20% bear - skew reflects expected timeline for large-scale CPO application.

Key assumptions:

- CoE and terminal growth rate: 10% and 3.5% across scenarios
- High-end transceivers demand CAGR in 2026-2028e: bull 46%, base 43%, bear 43%
- 2025-35e net profit CAGR: bull 34%, base 30%, bear 25%.

**Risks to Upside**

- Faster-than-expected optical engine adoption
- Stronger 800G and 1.6T ramp-up
- Later breakthrough in CPO
- Faster-than-expected LiDAR adoption
- Stronger-than-expected cloud capex growth

**Risks to Downside**

- Geopolitical tensions, delaying 800G and 1.6T optical engine development
- Slower telco and cloud capex
- New optical engine entrants
- Earlier breakthrough in CPO or other new technology
- Component shortage



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| | Coverage Universe | | Investment Banking Clients (IBC) | | | Other Material Investment Services Clients (MISC) | |
|---|---|---|---|---|---|---|---|
| Stock Rating Category | Count | % of Total | Count | % of Total IBC | % of Rating Category | Count | % of Total Other MISC |
| Overweight/Buy | 1599 | 43% | 455 | 48% | 28% | 783 | 44% |
| Equal-weight/Hold | 1563 | 42% | 394 | 42% | 25% | 763 | 43% |
| Not-Rated/Hold | 2 | 0% | 1 | 0% | 50% | 1 | 0% |
| Underweight/Sell | 570 | 15% | 96 | 10% | 17% | 227 | 13% |
| Total | 3,734 | | 946 | | | 1774 | |

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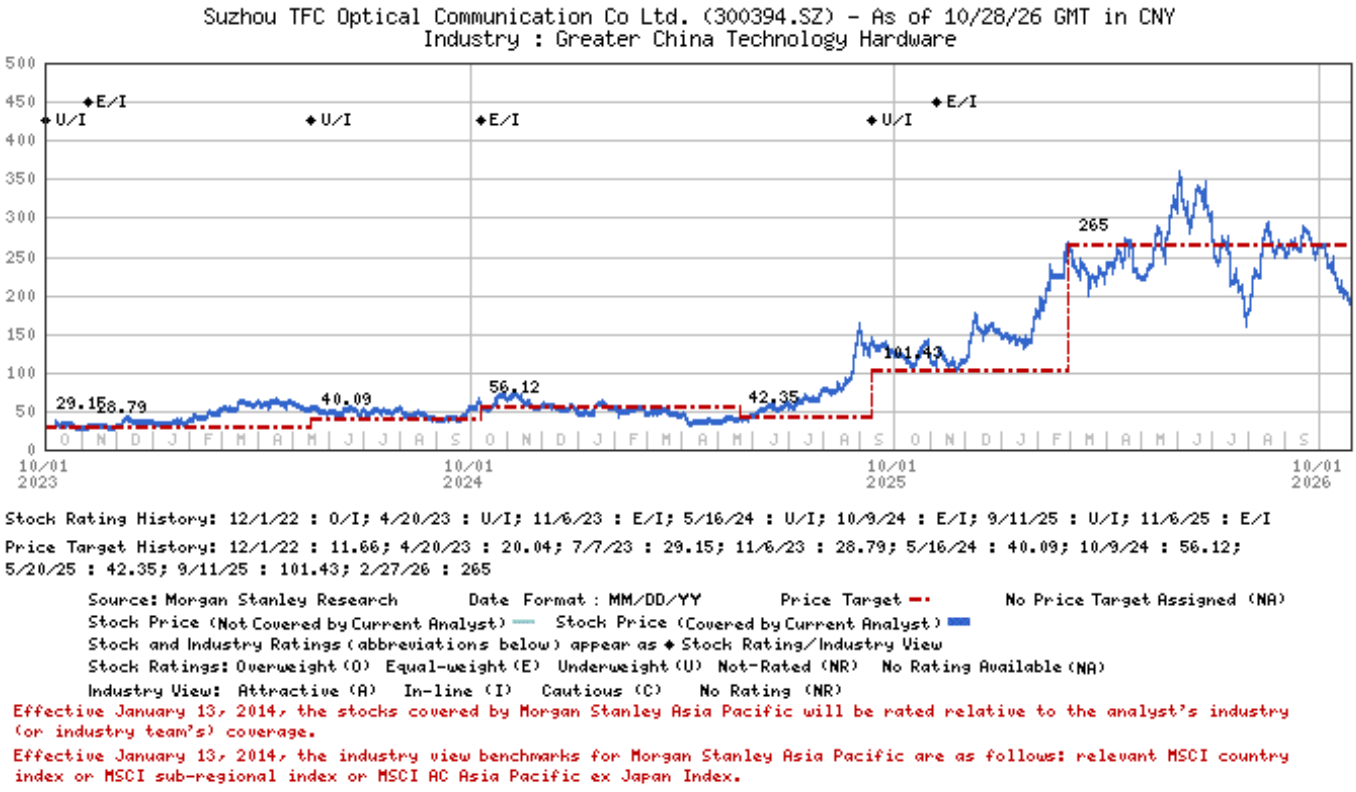
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## INDUSTRY COVERAGE: Greater China Technology Hardware

| COMPANY (TICKER) | RATING (AS OF) | PRICE* (10/28/2026) |
|---|---|---|
| **Andy Meng, CFA** | | |
| AAC Technologies Holdings (2018.HK) | O (01/29/2024) | HK$38.82 |
| Accelink Technologies Co. Ltd. (002281.SZ) | U (05/12/2022) | Rmb123.60 |
| BYD Electronics (0285.HK) | O (04/28/2023) | HK$22.54 |
| China TransInfo Technology Co Ltd (002373.SZ) | E (07/18/2023) | Rmb8.00 |
| Dahua Technology Co. Ltd. (002236.SZ) | E (12/12/2024) | Rmb14.47 |
| Eoptolink Technology Inc Ltd (300502.SZ) | O (02/27/2026) | Rmb256.79 |
| Genius Electronic Optical Co. Ltd. (3406.TW) | E (10/13/2026) | NT$1,330.00 |
| GoerTek Inc (002241.SZ) | E (08/14/2026) | Rmb23.20 |
| Gosuncn Technology Group Co Ltd (300098.SZ) | U (11/07/2022) | Rmb4.24 |
| HIKVision Digital Technology (002415.SZ) | E (12/12/2024) | Rmb34.15 |
| Largan Precision (3008.TW) | O (10/13/2026) | NT$6,335.00 |
| LianChuang Electronic Technology Co Ltd (002036.SZ) | U (06/12/2024) | Rmb5.67 |
| Lingyi Itech Guangdong Co (002600.SZ) | U (04/23/2025) | Rmb11.69 |
| Lingyi Itech Guangdong Co (1688.HK) | O (08/14/2026) | HK$5.03 |
| Luxshare Precision Industry Co., Ltd. (2475.HK) | O (08/14/2026) | HK$49.86 |
| Luxshare Precision Industry Co., Ltd. (002475.SZ) | O (10/24/2016) | Rmb49.70 |
| OFILM Group Co Ltd (002456.SZ) | U (06/12/2024) | Rmb6.30 |
| Q Technology (Group) Company Ltd (1478.HK) | U (03/23/2026) | HK$4.78 |
| Quectel Wireless Solutions Co Ltd (603236.SS) | E (10/09/2024) | Rmb71.46 |
| Shanghai Conant Optical Co Ltd (2276.HK) | O (04/10/2026) | HK$34.60 |
| Shenzhen Transsion Holdings Co Ltd (688036.SS) | E (03/23/2026) | Rmb54.41 |
| Sunny Optical (2382.HK) | E (03/23/2026) | HK$65.80 |
| Suzhou TFC Optical Communication Co Ltd. (300394.SZ) | E (11/06/2025) | Rmb201.43 |
| Wingtech Technology Co Ltd (600745.SS) | U (05/18/2026) | Rmb10.42 |
| Xiaomi Corp (1810.HK) | O (04/14/2021) | HK$25.62 |

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|---|---|---|
| Yangtze Optical Fibre and Cable JSC Ltd (601869.SS) | U (10/13/2021) | Rmb300.35 |
| Yangtze Optical Fibre and Cable JSC Ltd (6869.HK) | O (07/15/2026) | HK$111.60 |
| Yongxin Optics Co Ltd (603297.SS) | E (11/15/2022) | Rmb99.17 |
| Zhejiang Crystal-Optech Co Ltd (002273.SZ) | O (11/15/2022) | Rmb22.94 |
| Zhongji Innolight Co Ltd (300308.SZ) | O (09/07/2026) | Rmb636.30 |
| Zhongji Innolight Co Ltd (3308.HK) | O (09/07/2026) | HK$785.00 |
| ZTE Corporation (0763.HK) | O (06/04/2026) | HK$20.28 |
| ZTE Corporation (000063.SZ) | E (06/04/2026) | Rmb28.20 |
| **Derrick Yang** | | |
| Accton Technology Corporation (2345.TW) | O (06/06/2024) | NT$1,815.00 |
| Advantech (2395.TW) | O (01/20/2021) | NT$689.00 |
| AirTAC International (1590.TW) | O (04/16/2025) | NT$1,140.00 |
| Asia Vital Components Co. Ltd. (3017.TW) | O (07/30/2024) | NT$3,215.00 |
| AU Optronics (2409.TW) | E (02/10/2026) | NT$35.55 |
| Auras Technology Co Ltd (3324.TWO) | E (05/04/2023) | NT$1,435.00 |
| Bizlink (3665.TW) | O (03/10/2025) | NT$1,810.00 |
| BOE Technology (000725.SZ) | O (09/06/2019) | Rmb4.83 |
| Chenbro (8210.TW) | O (07/23/2025) | NT$781.00 |
| Chroma Ate Inc. (2360.TW) | O (10/05/2021) | NT$2,035.00 |
| Delta Electronics Inc. (2308.TW) | O (07/13/2017) | NT$1,550.00 |
| E Ink Holdings Inc. (8069.TWO) | E (08/10/2026) | NT$156.00 |
| Ennostar Inc (3714.TW) | U (09/23/2022) | NT$64.60 |
| Fositek Corp (6805.TW) | O (06/25/2025) | NT$2,460.00 |
| Hiwin Technologies Corp. (2049.TW) | O (03/30/2026) | NT$343.50 |
| Innolux (3481.TW) | E (04/07/2025) | NT$48.45 |
| King Slide Works Co. Ltd. (2059.TW) | O (11/08/2023) | NT$10,150.00 |
| Lens Technology (300433.SZ) | E (07/22/2020) | Rmb27.97 |
| Lite-On Technology (2301.TW) | E (01/15/2025) | NT$261.50 |
| TCL Corp. (000100.SZ) | E (04/07/2025) | Rmb4.51 |
| Tianma Microelectronics (000050.SZ) | U (01/24/2018) | Rmb5.76 |
| **Howard Kao** | | |
| Acer Inc. (2353.TW) | U (04/23/2025) | NT$32.70 |
| Asustek Computer Inc. (2357.TW) | U (11/16/2025) | NT$988.00 |
| Catcher Technology (2474.TW) | U (11/17/2025) | NT$199.00 |
| Compal Electronics (2324.TW) | U (04/23/2025) | NT$37.95 |
| Elite Material Co. (2383.TW) | O (09/14/2026) | NT$5,025.00 |
| FIT Hon Teng Ltd (6088.HK) | O (11/03/2025) | HK$3.72 |
| Foxconn Industrial Internet Co. Ltd. (601138.SS) | O (07/10/2019) | Rmb48.64 |
| Giga-Byte Technology Co. Ltd. (2376.TW) | E (11/16/2025) | NT$362.50 |
| Gold Circuit Electronics Ltd. (2368.TW) | O (10/06/2022) | NT$1,185.00 |
| Hon Hai Precision (2317.TW) | O (03/15/2024) | NT$251.50 |
| Inspur Electronic Information (000977.SZ) | E (08/28/2023) | Rmb56.03 |
| Kingboard Laminates Holdings Ltd. (1888.HK) | O (09/14/2026) | HK$40.30 |
| LandMark Optoelectronics Corporation (3081.TWO) | E (03/26/2026) | NT$2,580.00 |
| Lenovo (0992.HK) | O (07/10/2026) | HK$23.78 |
| Lotes Co. Ltd. (3533.TW) | O (10/27/2026) | NT$1,955.00 |
| Nan Ya PCB (8046.TW) | O (02/23/2026) | NT$1,300.00 |
| Pegatron Corporation (4938.TW) | E (03/25/2026) | NT$108.00 |
| Quanta Computer Inc. (2382.TW) | O (05/01/2023) | NT$330.00 |
| Shengyi Technology Co Ltd. (600183.SS) | E (05/26/2022) | Rmb102.49 |
| Shennan Circuits Co Ltd (002916.SZ) | E (08/24/2023) | Rmb280.04 |
| Unimicron (3037.TW) | O (02/23/2026) | NT$1,100.00 |
| Visual Photonics Epitaxy Co Ltd (2455.TW) | E (09/11/2023) | NT$512.00 |
| Wistron Corporation (3231.TW) | O (07/12/2023) | NT$194.50 |
| Wiwynn Corp (6669.TW) | O (11/10/2025) | NT$1,950.00 |

| | | |
|---|---|---|
| Yageo Corp. (2327.TW) | O (10/28/2025) | NT$547.00 |
| Zhen Ding (4958.TW) | ++ | NT$550.00 |
| **Irene Yen** | | |
| Co-Tech Development Corp. (8358.TWO) | O (09/14/2026) | NT$460.00 |
| Taiwan Union Technology Corporation (6274.TWO) | O (09/14/2026) | NT$1,375.00 |

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