Yuanjie Semiconductor Technology 688498.SS 688498 CH

EQUITY: TECHNOLOGY

Strong fundamentals with proactive expansion plan...

… but policy risk remains the biggest overhang

Action: Maintain Neutral but cut TP to CNY788; implying 14.4% upside

Yuanjie Semiconductor Technology (Yuanjie) reported 3Q26 results on 30 October after market close, recording a strong performance with 284% / 599% y-y revenue / earnings growth (+20% / down 2.5% q-q), likely driven by buoyant demand in the datacom optical chip market and market share gain from the optical transceiver customers, in our view. The company's GPM improved significantly (+21.8pp y-y and +1.4pp q-q) to 83.4% in 3Q26, which was driven by better product mix, higher yield and utilization rates, in our view. As a one of the key suppliers of CW (Continuous Wave) lasers, we think the company will continue to benefit from the strong 800G / 1.6T optical transceiver demand, and its 100G EML chip could become an emerging growth driver. Meanwhile, we noted market has high expectations from the company to achieve major breakthroughs in the future co-packaged optics market which is still exposed to high geopolitical risk. We raise our FY26F-28F revenue forecasts by 0.1-45.8% on stronger-than-expected capacity expansion of datacom CW / EML chips, and raise FY26-28F earnings forecast by 26.3-102.5% thanks to better product mix. However, we maintain our Neutral rating as we think the geopolitical risk remains a major overhang. We cut our TP to CNY788 (from CNY1,655), based on 30x FY27F EPS (previously 65x FY28F P/E) of CNY26.27, in line with the China A-share compound semi sector median P/E. The stock is trading at 26.2x FY27F EPS. We like InnoLight (300308 CH / 3308 HK, Buy) in China's optical communication sector.

Proactive capacity expansion for both CW and EML lasers to underpin solid growth in optical transceiver market

We think the company is proactively expanding its datacom laser chip capacity, in order to catch up with the surging demand from 800G / 1.6T Silicon Photonics transceivers. We think the company's CW laser chip will record a 78% revenue CAGR in FY26-28F, primarily driven by 70mW and 100mW CW lasers, which would represent ~80% of total revenue in FY28F. Meanwhile, management is confident about the technology progress in its 100G EML chip, although its major capacity is still allocated for CW lasers.

NPO / CPO market demand looks promising, but geopolitical risk is an overhang

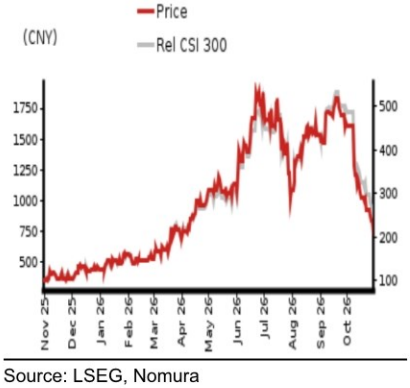
We believe the company is making good technological progress in high-power lasers (120mW+) and may become one of the first movers in the NPO market in 2027F. We also think there are strong headwinds for its global market expansion, due to geopolitical risks.

Year-end 31 Dec	FY25	FY26F		FY27F		FY28F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	601	1,803	2,435	4,157	6,061	7,863	7,870
Reported net profit (mn)	191	692	1,402	1,666	3,271	3,171	4,005
Normalised net profit (mn)	191	692	1,402	1,666	3,271	3,171	4,005
FD normalised EPS	1.53	5.56	11.26	13.38	26.27	25.47	32.17
FD norm. EPS growth (%)	–	262.5	634.2	140.7	133.4	90.3	22.4
FD normalised P/E (x)	449.3	–	61.2	–	26.2	–	21.4
EV/EBITDA (x)	1,506.6	–	229.1	–	98.7	–	78.1
Price/book (x)	36.8	–	23.1	–	12.6	–	8.3
Dividend yield (%)	0.0	–	0.2	–	0.5	–	0.6
ROE (%)	8.7	26.0	46.4	44.0	62.3	52.5	46.7
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Rating Remains	**Neutral**
Target price Reduced from CNY 1,655.00	**CNY 788.00**
Closing price 30 October 2026	**CNY 688.99**
Implied upside	**+14.4%**
Market Cap (USD mn)	57,335.6
ADT (USD mn)	848.4

Relative performance chart



Source: LSEG, Nomura

Research Analysts

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Production Complete: 2026-10-31 13:35 UTC

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Yuanjie Semiconductor Technology

Performance

(%)	1M	3M	12M		
Absolute (CNY)	-57.3	-32.2	91.9	M cap (USDmn)	57,335.6
Absolute (USD)	-57.0	-31.2	104.9	Free float (%)	72.2
Rel to CSI 300	-50.0	-21.1	106.1	3-mth ADT (USDmn)	848.4

Income statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	252	601	2,435	6,061	7,870
Cost of goods sold	-168	-252	-481	-1,366	-2,002
Gross profit	84	349	1,954	4,696	5,868
SG&A	-102	-154	-425	-1,106	-1,459
Employee share expense					
Operating profit	-18	195	1,529	3,590	4,408
EBITDA	29	253	1,661	3,841	4,836
Depreciation	-47	-58	-131	-252	-428
Amortisation					
EBIT	-18	195	1,529	3,590	4,408
Net interest expense	17	9	30	63	66
Associates & JCEs					
Other income	-15	10	10	10	10
Earnings before tax	-15	214	1,569	3,663	4,484
Income tax	9	-23	-168	-391	-479
Net profit after tax	-6	191	1,402	3,271	4,005
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	-6	191	1,402	3,271	4,005
Extraordinary items					
Reported NPAT	-6	191	1,402	3,271	4,005
Dividends	-17	-26	-188	-439	-538
Transfer to reserves	-23	165	1,213	2,832	3,467
Valuations and ratios					
Reported P/E (x)	–	449.3	61.2	26.2	21.4
Normalised P/E (x)	-13,905.5	449.3	61.2	26.2	21.4
FD normalised P/E (x)	–	449.3	61.2	26.2	21.4
Dividend yield (%)	0.0	0.0	0.2	0.5	0.6
Price/cashflow (x)	4,498.4	571.0	67.1	27.2	21.4
Price/book (x)	41.2	36.8	23.1	12.6	8.3
EV/EBITDA (x)	13,078.9	1,506.6	229.1	98.7	78.1
EV/EBIT (x)	–	1,950.8	248.8	105.6	85.7
Gross margin (%)	33.3	58.1	80.3	77.5	74.6
EBITDA margin (%)	11.5	42.0	68.2	63.4	61.5
EBIT margin (%)	-7.1	32.5	62.8	59.2	56.0
Net margin (%)	-2.4	31.7	57.6	54.0	50.9
Effective tax rate (%)	–	10.7	10.7	10.7	10.7
Dividend payout (%)	–	13.4	13.4	13.4	13.4
ROE (%)	-0.3	8.7	46.4	62.3	46.7
ROA (pretax %)	-1.9	14.0	65.6	92.2	70.1
Growth (%)					
Revenue	74.6	138.5	304.9	148.9	29.8
EBITDA	-13.1	768.8	556.9	131.3	25.9
Normalised EPS	-185.1	–	634.2	133.4	22.4
Normalised FDEPS	-185.1	–	634.2	133.4	22.4

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
EBITDA	29	253	1,661	3,841	4,836
Change in working capital	-45	-37	-264	-383	-440
Other operating cashflow	35	-66	-118	-309	-394
Cashflow from operations	19	150	1,279	3,150	4,003
Capital expenditure	-106	-409	-860	-1,548	-2,321
Free cashflow	-87	-259	419	1,602	1,681
Reduction in investments	0	0			
Net acquisitions					
Dec in other LT assets	0	0			
Inc in other LT liabilities	0	0			
Adjustments	-126	5	0	0	0
CF after investing acts	-213	-254	419	1,602	1,681
Cash dividends	-9	-43	-26	-188	-439
Equity issue	22	29	0	0	0
Debt issue	0	0	-6	0	0
Convertible debt issue					
Others	-24	-32	0	0	0
CF from financial acts	-10	-45	-31	-188	-439
Net cashflow	-222	-299	388	1,414	1,242
Beginning cash	1,344	1,121	822	1,211	2,625
Ending cash	1,121	822	1,211	2,625	3,867
Ending net debt	-1,120	-817	-1,211	-2,625	-3,867

Balance sheet (CNYmn)

As at 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & equivalents	1,121	822	1,211	2,625	3,867
Marketable securities					
Accounts receivable	136	297	594	1,070	1,712
Inventories	123	134	267	481	770
Other current assets	31	9	9	9	9
Total current assets	1,411	1,262	2,081	4,185	6,357
LT investments					
Fixed assets	575	829	1,547	2,833	4,716
Goodwill	16	14	14	14	14
Other intangible assets	145	472	472	472	472
Other LT assets					
Total assets	2,148	2,577	4,115	7,505	11,561
Short-term debt	2	6	0	0	0
Accounts payable	46	139	307	613	1,104
Other current liabilities	7	26	26	26	26
Total current liabilities	54	171	333	639	1,130
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	21	74	74	74	74
Total liabilities	75	245	407	714	1,204
Minority interest	0	0	0	0	0
Preferred stock					
Common stock	85	86	86	86	86
Retained earnings	1,987	2,246	3,622	6,705	10,271
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	2,073	2,332	3,708	6,791	10,357
Total equity & liabilities	2,148	2,577	4,115	7,505	11,561
Liquidity (x)					
Current ratio	26.16	7.38	6.26	6.55	5.63
Interest cover	–	–	–	–	–
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Per share					
Reported EPS (CNY)	-4.95c	1.53	11.26	26.27	32.17
Norm EPS (CNY)	-4.95c	1.53	11.26	26.27	32.17
FD norm EPS (CNY)	-4.95c	1.53	11.26	26.27	32.17
BVPS (CNY)	16.74	18.73	29.79	54.55	83.18
DPS (CNY)	0.14	0.21	1.51	3.53	4.32
Activity (days)					
Days receivable	177.1	131.5	66.8	50.1	64.7
Days inventory	286.0	185.7	152.2	100.1	114.4
Days payable	149.4	134.0	169.2	122.9	156.9
Cash cycle	313.7	183.3	49.8	27.2	22.1

Source: Company data, Nomura estimates

Company profile

Yuanjie Semiconductor Technology is a China-based company mainly engaged in optical laser chip products, including DFB / EML / CW lasers. The company supplies optical component products to AI cloud data center and telecom customers.

Valuation Methodology

Our TP of CNY788.00 is based on 30x 2027F EPS of CNY26.27, in line with China A share compound semi sector median P/E. The benchmark index is CSI300.

Risks that may impede the achievement of the target price

Downside risks include: (1) weaker-than-expected demand for optical transceiver market; (2) weaker-than-expected NPO / CPO penetration; (3) top customer's supply chain diversification; and (4) geopolitical risks. Upside risks include: (1) stronger-than-expected orders from global optical transceiver manufacturers; and (2) faster-than-expected expansion of production capacity.

ESG

Yuanjie Semiconductor Technology provides optical communication products to telecom network and data center customers. The manufacturing of optical lasers requires land, equipment and other materials, which may impact the environment, while factory automation may help to improve its environmental friendliness.

3Q26 results review

Yuanjie Technology reported 3Q26 results on 30 Oct. after the market close. Revenue / earnings grew 283.5% / 599.0% y-y (+20.0% / -2.5% q-q) in 3Q26, likely driven by buoyant demand in the datacom optical chip market and market share gain from the optical transceiver customers, in our view. The company's GPM improved significantly (+21.8pp y-y and +1.4pp q-q) to 83.4% in 3Q26, which was driven by better product mix, higher yield and utilization rates, in our view.

Fig. 1: Yuanjie – 3Q26 results review

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	y-y	q-q
	A	A	A	A	A	A	A	A	A	A	A		
Turnover	60	60	58	74	84	121	178	218	355	570	684	283.5%	20.0%
% chg yoy	72%	127%	82%	44%	41%	101%	207%	195%	321%	373%	284%		
COGS	(39)	(41)	(45)	(43)	(47)	(58)	(68)	(79)	(79)	(102)	(113)		
Gross Profit	21	19	13	31	38	62	110	140	276	468	570		
OPEX	(18)	(21)	(25)	(38)	(24)	(30)	(46)	(54)	(55)	(64)	(82)		
Operating Income (adjusted)	3	(2)	(12)	(7)	14	33	64	85	222	404	488	664.5%	21.0%
% chg yoy	-4096%	-70%	116%	-204%	317%	-1791%	-611%	-1362%	1523%	1142%	665%		
Finance Expense	5	5	4	3	3	5	3	(2)	1	(2)	(4)		
Pretax income	11	(2)	(15)	(9)	17	33	67	97	211	484	487	630.6%	0.7%
% chg yoy	-18%	-125%	-1933%	156%	57%	-1799%	-547%	-1154%	1151%	1346%	631%		
Tax	(0)	2	4	4	(3)	(2)	(7)	(12)	(32)	(56)	(70)		
Profit to shareholders	11	0	(11)	(6)	14	32	60	85	179	428	417	599.0%	-2.5%
% chg yoy	-11%	-97%	-649%	184%	36%	14667%	-628%	-1623%	1153%	1239%	599%		
EPS (Diluted)	0.12	0.00	(0.13)	(0.07)	0.17	0.37	0.69	0.99	2.09	3.43	3.35		
Ratio Analysis													
GPM	34.8%	32.0%	22.0%	42.1%	44.6%	51.7%	61.6%	64.0%	77.8%	82.1%	83.4%	21.8pp	1.4pp
OPEX	29.4%	35.2%	43.5%	51.2%	28.4%	24.7%	25.8%	24.9%	15.4%	11.2%	12.0%	-13.8pp	0.8pp
OPM	5.5%	-3.2%	-21.5%	-9.1%	16.2%	27.0%	35.8%	39.1%	62.4%	70.8%	71.4%	35.6pp	0.6pp
NPM	17.5%	0.4%	-19.5%	-7.5%	17.0%	26.5%	33.4%	39.0%	50.5%	75.0%	60.9%	27.5pp	-14.1pp

Source: Company data, Nomura research

Earnings forecast revisions

We raise our FY26-28F revenue forecasts by 0.1-45.8%, to reflect solid demand for CW lasers and EML chips. We also raise FY26-28F GPM forecasts by 6.8-14.1pp to reflect increasing proportion of high-power CW lasers with high margins and capacity ramp-up. As a result, our earnings forecasts rise by 26.3-102.5% for FY26-28F.

Fig. 2: Yuanjie — earnings forecast revisions

	2022	2023	2024	2025	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
	A	A	A	A	(NOM)	(NOM)	(NOM)	(OLD)	(OLD)	(OLD)	% diff	% diff	% diff
Turnover	283	144	252	601	2,435	6,061	7,870	1,803	4,157	7,863	35.1%	45.8%	0.1%
% chg yoy	22%	-49%	75%	139%	305%	149%	30%	200%	131%	89%			
COGS	(108)	(84)	(168)	(252)	(481)	(1,366)	(2,002)	(610)	(1,337)	(2,538)			
Gross Profit	175	60	84	349	1,954	4,696	5,868	1,192	2,820	5,326	63.9%	66.5%	10.2%
OPEX	(71)	(66)	(102)	(154)	(425)	(1,106)	(1,459)	(450)	(1,008)	(1,851)	-5.5%	9.7%	-21.2%
Operating Income (adjusted)	104	(6)	(18)	195	1,529	3,590	4,408	743	1,812	3,474	105.9%	98.1%	26.9%
% chg yoy	-11%	-106%	212%	-1192%	683%	135%	23%	280%	144%	92%			
Finance Expense	1	22	17	9	30	63	66	22	43	66			
Pretax income	110	18	(15)	214	1,569	3,663	4,484	775	1,865	3,550	102.5%	96.4%	26.3%
% chg yoy	1%	-84%	-184%	-1496%	634%	133%	22%	263%	141%	90%			
Tax	(10)	1	9	(23)	(168)	(391)	(479)	(83)	(199)	(379)			
Profit to shareholders	100	19	(6)	191	1,402	3,271	4,005	692	1,666	3,171	102.5%	96.4%	26.3%
% chg yoy	5%	-81%	-131%	3213%	634%	133%	22%	263%	141%	90%			
EPS (Diluted)	1.15	0.16	(0.05)	1.53	11.26	26.27	32.17	5.56	13.38	25.47			
Ratio Analysis													
GPM	61.9%	41.9%	33.3%	58.1%	80.3%	77.5%	74.6%	66.1%	67.8%	67.7%	14.1pp	9.6pp	6.8pp
OPEX	25.3%	45.8%	40.4%	25.6%	17.4%	18.2%	18.5%	24.9%	24.2%	23.5%	-7.5pp	-6.0pp	-5.0pp
OPM	36.7%	-4.0%	-7.1%	32.5%	62.8%	59.2%	56.0%	41.2%	43.6%	44.2%	21.6pp	15.6pp	11.8pp
NPM	35.5%	13.5%	-2.4%	31.7%	57.6%	54.0%	50.9%	38.4%	40.1%	40.3%	19.2pp	13.9pp	10.6pp

	2022	2023	2024	2025	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
By Market													
Telecom	237	133	202	206	228	251	303	228	251	303	0.0%	0.0%	0.0%
y-y growth	*98%*	*-44%*	*52%*	*2%*	*10%*	*10%*	*21%*	10%	10%	21%			
Datacom	45	5	48	393	2,206	5,809	7,565	1,574	3,904	7,558	40.2%	48.8%	0.1%
y-y growth	*648%*	*-89%*	*919%*	*719%*	*461%*	*163%*	*30%*	300%	148%	94%			
Others	1	7	2	1	1	2	2	1	2	2	0.0%	0.0%	0.0%
y-y growth	*n.a.*	*426%*	*-72%*	*-41%*	*20%*	*20%*	*20%*	20%	20%	20%			

Source: Company data, Nomura estimates

Our revenue forecasts are 14-59% higher than WIND consensus estimates, while our earnings forecasts are 43-87% higher, as we are more positive on the ASP and shipment growth of driven by sustained shortages of optical chips.

Fig. 3: Yuanjie - Nomura vs. consensus

CNY mn	FY2025	FY2026F			FY2027F			FY2028F		
	Actual	(NOM)	(CON)	diff	(NOM)	(CON)	diff	(NOM)	(CON)	diff
Revenue	601	2,435	2,141	14%	6,061	3,801	59%	7,870	5,459	44%
Pretax Profit	214	1,569	1,173	34%	3,663	1,963	87%	4,484	3,062	46%
Net Profit	191	1,402	982	43%	3,271	1,751	87%	4,005	2,428	65%
EPS	1.53	11.26	7.89	43%	26.27	14.06	87%	32.17	19.50	65%

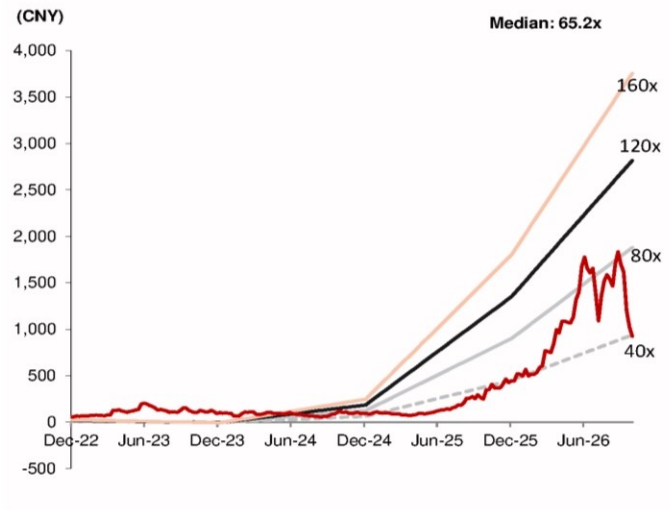
Source: Company data, WIND, Nomura estimates

Valuation and risks

Our new TP of CNY788 (CNY1,655 earlier) is based on 30x FY27F EPS (previously 65x FY28F P/E) of CNY26.27, in line with China A-share compound semi sector median P/E. The benchmark index is CSI300.

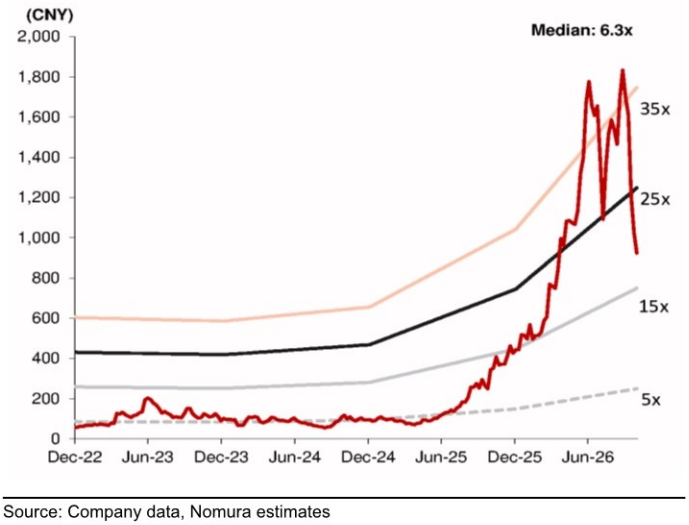
Downside risks include: (1) weaker-than-expected demand for the optical transceiver market; (2) weaker-than-expected NPO / CPO penetration; (3) top customer's supply chain diversification; and (4) geopolitical risks. Upside risks include: (1) stronger-than-expected orders from global optical transceiver manufacturers; and (2) faster-than-expected expansion of production capacity.

Fig. 4: Yuanjie Technology – 12-month-forward P/E bands



Source: Company data, Nomura estimates

Fig. 5: Yuanjie Technology – 12-month-forward P/B bands



Source: Company data, Nomura estimates

Appendix A-1

This report has been produced by Nomura International (Hong Kong) Ltd. (NIHK), Hong Kong.
See Disclaimers for Nomura Group entity details.

Analyst Certification

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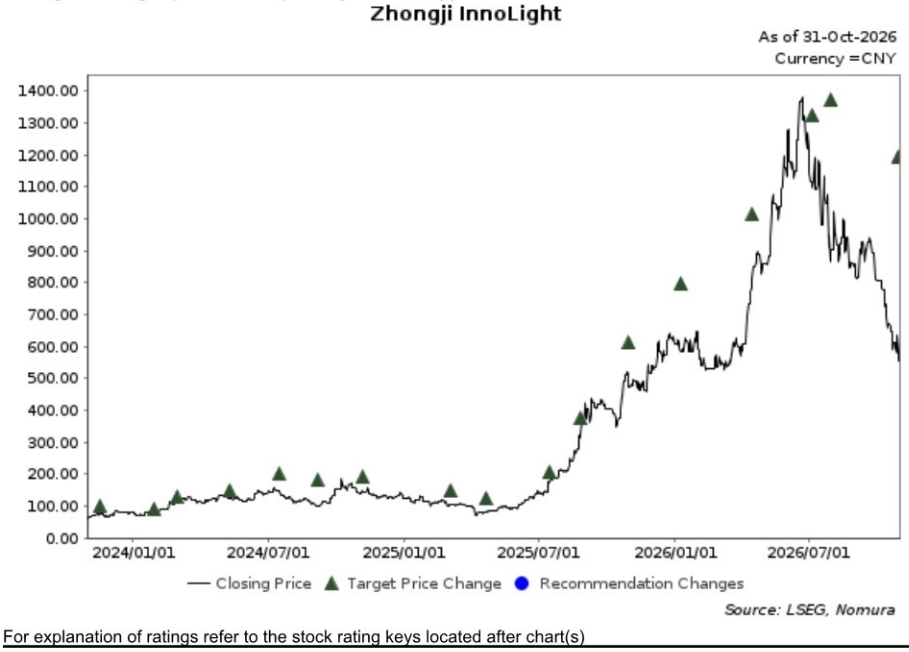
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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Zhongji InnoLight	300308 CH	CNY 553.00	30-Oct-2026	Buy	N/A	
Zhongji InnoLight	3308 HK	HKD 676.00	30-Oct-2026	Buy	N/A	
Yuanjie Semiconductor Technology	688498 CH	CNY 688.99	30-Oct-2026	Neutral	N/A	

Zhongji InnoLight (300308 CH) **CNY 553.00 (30-Oct-2026)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



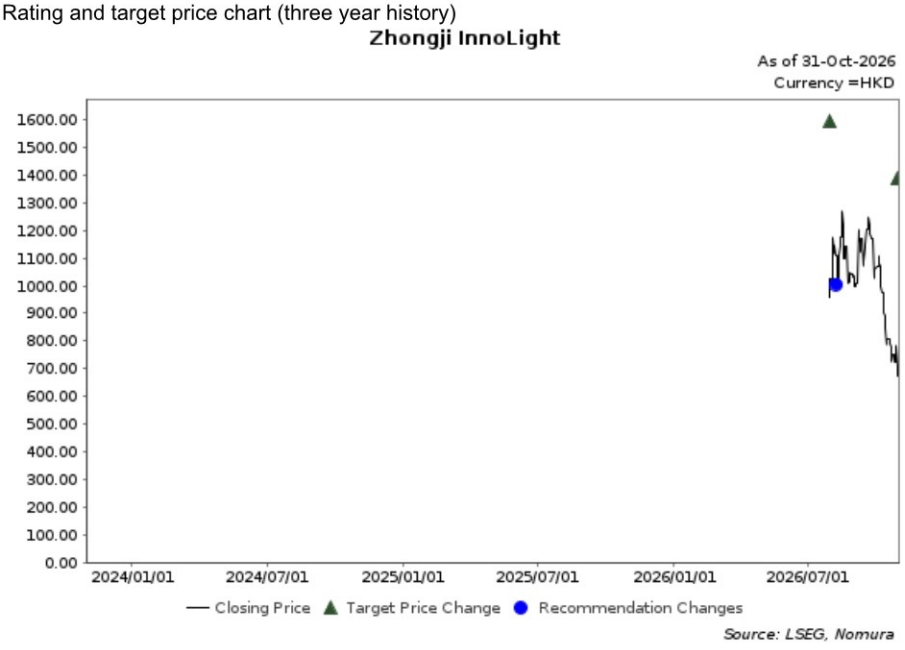
Date	Rating	Target price	Closing price
29-Oct-26		1,196.00	582.05
31-Jul-26		1,375.00	902.01
06-Jul-26		1,325.00	1,098.92
16-Apr-26		1,015.00	809.61
09-Jan-26		799.00	583.20
31-Oct-25		612.00	473.01
27-Aug-25		375.00	325.10
16-Jul-25		208.50	170.76
21-Apr-25		125.00	81.19
04-Mar-25		150.00	102.46
06-Nov-24		190.00	142.90
06-Sep-24		180.00	99.42
16-Jul-24		200.00	148.12
10-May-24		149.29	122.29
29-Feb-24		128.57	110.83
29-Jan-24		91.43	74.16
17-Nov-23		100.00	75.42

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of CNY1,196.00 is based on 18x 2027F EPS of CNY66.45, in line with China's optical communication sector median P/E. The benchmark index is CSI300 Index.
Risks that may impede the achievement of the target price Downside risks: 1) weaker-than-expected demand for high-end optical modules in both the datacom and telecom markets; 2) fierce competition in the 400G and 800G optical modules segments; 3) slower-than-expected product upgrades (i.e., 800G, 1.6T); and 4) escalated price war which may affect company's export to global customers.

Zhongji InnoLight (3308 HK) **HKD 676.00 (30-Oct-2026)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



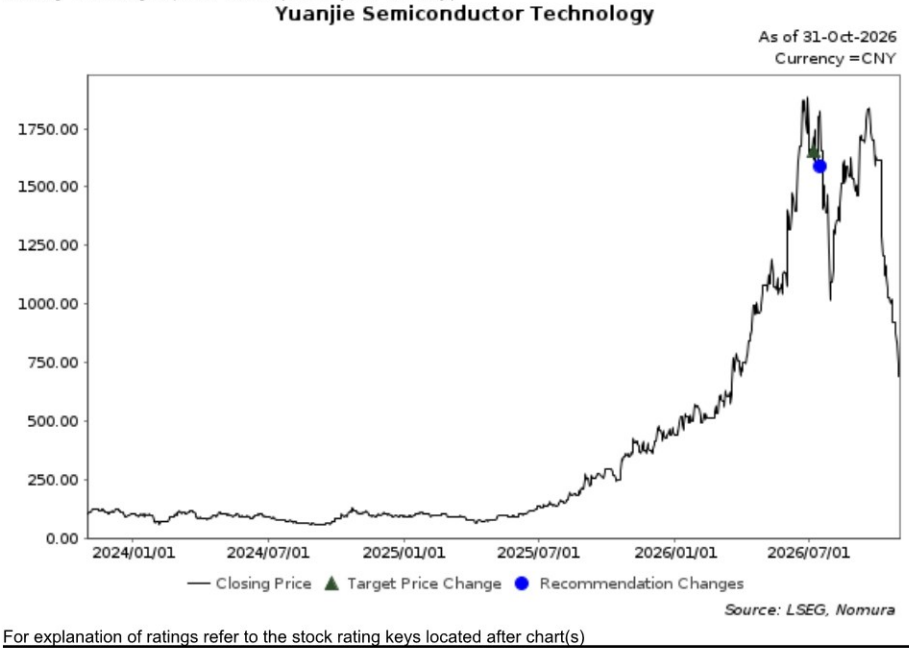
Date	Rating	Target price	Closing price
29-Oct-26		1,387.00	706.50
31-Jul-26	Buy		1,028.00
31-Jul-26		1,595.00	1,028.00

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD1,387.00 is based on 18x 2027F EPS of CNY66.45, in line with China's optical communication sector median P/E. The benchmark index is Hang Seng Index.
Risks that may impede the achievement of the target price Downside risks: 1) weaker-than-expected demand for high-end optical modules in both the datacom and telecom markets; 2) fierce competition in the 400G and 800G optical modules segments; 3) slower-than-expected product upgrades (i.e., 800G, 1.6T); and 4) escalated price war which may affect company's export to global customers.

Yuanjie Semiconductor Technology (688498 CH) **CNY 688.99 (30-Oct-2026)** Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
08-Jul-26	Neutral		1,617.00
08-Jul-26		1,655.00	1,617.00

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of CNY788.00 is based on 30x 2027F EPS of CNY26.27, in line with China A share compound semi sector median P/E. The benchmark index is CSI300.
Risks that may impede the achievement of the target price Downside risks include: (1) weaker-than-expected demand for optical transceiver market; (2) weaker-than-expected NPO / CPO penetration; (3) top customer's supply chain diversification; and (4) geopolitical risks. Upside risks include: (1) stronger-than-expected orders from global optical transceiver manufacturers; and (2) faster-than-expected expansion of production capacity.

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