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China Communications Infrastructure

Read-across from 3Q26 US CSP capex and China AI optics results

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CITI'S TAKE

Top-4 US CSPs' 3Q26 aggregate quarterly capex of $207bn (+84% YoY) is largely in line with expectations but with significant divergence: Amazon materially exceeded Citi forecasts, while Google, Meta and Microsoft undershot by 9–14%. Aggregate capex is likely to moderate sequentially in 4Q26, largely reflecting quarterly phasing and Amazon's outsized 3Q spending rather than weakening AI demand. Citi's US TMT team trimmed its CY26 capex estimate by 1.5% to US$742bn but raised CY27/CY28 forecasts by 5.0%/6.0% to US$1,168bn/US$1,451bn, implying still-strong growth of 57%/24%. Management commentary across all four CSPs also points to a meaningful spending step-up in 2027. We view the softer 4Q trajectory as a potential near-term sentiment overhang for Chinese optical names, but the stronger 2027 outlook reinforces medium-term demand visibility, particularly for high-speed 800G/1.6T optics. Post 3Q26 results, 2027 demand expectation stays largely unchanged, with improving visibility to 2028 outlook.

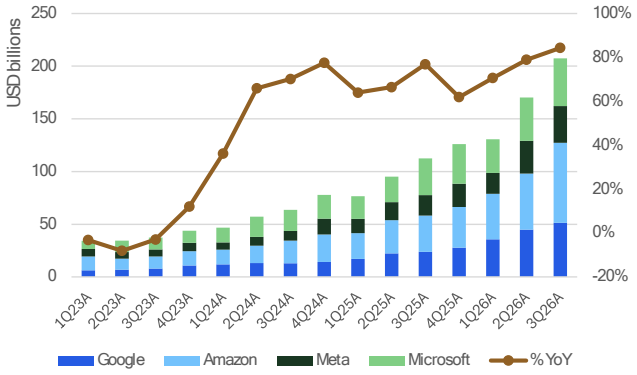
Top-4 US CSPs' 3Q26 aggregate capex in line

All four hyperscalers reported strong 3Q capex aggregate of $207bn (+84% YoY), in line with CITIe, but mainly due to AMZN's outsized 3Q spending. Amazon reported fastest capex growth of 121% YoY, amounting to $76bn, 30% higher than CITIe $58.4bn, and maintained its 2026 capex guidance of ~$220bn and signalled significant more spending in 2027. Google reported $51.4bn (+114% YoY) capex, 8.8% below CITIe $58.3bn. Google maintained its FY26 capex guidance of $195–205bn and flagged a further significant step-up in 2027. Meta posted $34.9bn (+80% YoY) capex, 14.3% below CITIe $40.7bn, and further raised the low end of CY26 guidance to $135–145bn (from $130 -145bn). Management cited improving compute capacity flexibility as new products (Muse, Vibes, Enterprise Platform) scale. MicroSoft posted slowest capex growth of +30% YoY, amounting to $45.2bn, 11.4% below CITIe $51bn. Management guided accelerating capex in 2027, confidence that current AI demand signals remain durable. Aggregating Citi forecasts, the top four US CSPs' capex reach $742bn/$1,168bn/$1,451bn in 2026/27/28E (+ 81%/57%/24% YoY, -1.5/+5.0%/+6.0% vs prior update of $754bn/$1112bn/$1369bn). (*Continued*)

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

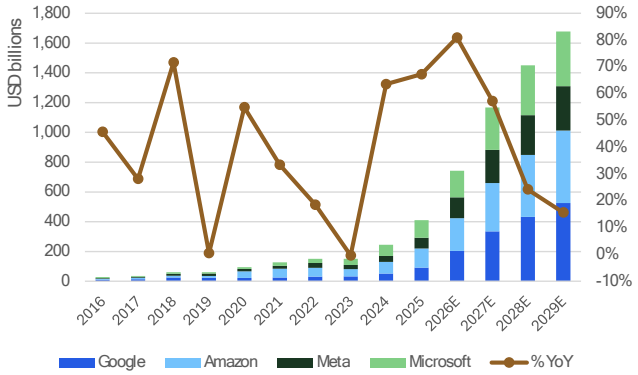
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Figure 1. Top-4 US CSP Capex (quarterly)



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Source: Company Reports and Citi Research Estimates

Figure 2. Top-4 US CSP Capex Annual Forecasts



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Source: Company Reports and Citi Research Estimates

Key takeaways from China AI optics 3Q26 results

Most of China AI optics supply chain missed our earnings expectation in 3Q26 except DSBJ, EverProX and Accelink. 4Q26 is likely to be a better quarter than 3Q26 given: (1) DSP constraint to be easing with certain players; (2) 1.6T optical transceivers shipment to improve QoQ; and (3) certain delayed shipment/production to be recognized in 4Q26 revenue (e.g., TFC, Eoptolink). Among our covered companies, the majority of the US AI optics chain reported three-digit YoY growth for revenue in 3Q26 except Eoptolink/TFC, with an operational lag, and DSBJ, on the high-base of legacy business. In a sequential basis, T&S reported over 50% growth on potentially new capacity and customer ramping, most of optics supply chain reported 20-30% QoQ growth—except Eoptolink, on a components shortage and the Thailand flood impact. For 2027/28 outlook, CSP customer demand remains strong, with some supply chains seeing orders already covering 2027E, with firm POs and no order cuts or guidance downgrades to date; 800G/1.6T demand is expected to keep growing rapidly, with 1.6T shipment growth rate expected to outpace 800G in 2027E. We believe there is no new revision on 2027 demand outlook post results, while there is certain CSP provided 2028E demand guidance showing further growth, with more CSPs expected to provide 2028E guidance between late this year and 1Q27E. Next-generation products CPO or 2.4T/NPO/XPO are expected to ramp gradually from 2H27E, but some supply chains see NPO to have limited volume emerging in 2028.

Figure 3. 3Q26 China Optics Results

3Q26 NP	vs. CitiE	vs. Cons.	4Q26 Guid.
Innolight	Missed	Missed	GM can stay at a stably high level; Tax rate 13-14%
Eoptolink	Missed	Missed	FY rev Rmb50bn (implied Rmb18bn 4Q26 rev)
TFC Optical	Missed	Beat	Both passive and active to grow QoQ
DSBJ	In-line	Above	1.6T shipments to scale from 4Q26
T&S	Missed	Missed	N/A
EverProX	Beat	N/A	N/A
Accelink	Beat	Beat	N/A

3Q26 Rev	% YoY	% QoQ	vs. CitiE/cons.
Innolight	172%	25%	Slight below
Eoptolink	80%	-13%	Massively below
TFC Optical	31%	28%	Way below
DSBJ	74%	20%	Largely in-line
T&S	161%	53%	Way above
EverProX	128%	33%	Way above
Accelink	54%	32%	Above

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Source: Citi Research, Company Reports, Bloomberg, Visible Alpha

Next catalysts or events to update

We are hosting Citi China Investor Conference 2026 during 11-13 November in Shenzhen, with several optical communication supply chains to attend, including DSBJ, CIG, Ligent, Lightelligence, Hengtong Optic, Luxshare, and Time Interconnect. We will also visit a Thailand factory for Ligent and O-Net (privately held passive optical component manufacturer). Overall, the valuation of optical transceiver companies is undemanding given FCC overhang, but fundamental remains solid, reiterate Buy rating for Innolight, DSBJ, Eoptolink, TFC, Ligent.

Companies Mentioned:

Accelink Technologies (002281.SZ; Rmb102.44; 2; 02 Nov 26; 15:00) | Dongshan Precision (002384.SZ; Rmb92.2; 1; 02 Nov 26; 15:00) | Eoptolink Technology (300502.SZ; Rmb191.48; 1; 02 Nov 26; 15:00) | EverProX Technologies (300548.SZ; Rmb124.08; 2; 02 Nov 26; 15:00) | Innolight (3308
02 Nov 26; 16:10) | Innolight (300308.SZ; Rmb550.0; 1; 02 Nov
Technologies, Inc (9856.HK; HK$19.33; 1H; 02 Nov 26; 16:10) | S
Communication (300394.SZ; Rmb141.75; 1; 02 Nov 26; 15:00)

