

SMIC (0981)

Broader price hikes, rangebound GMs; Upgrade to Neutral

SMIC's 1Q GM came in slightly better than expected, supported by price hikes in selective applications including BCD, storage, analog, and power management. This momentum is expected to carry into 2Q, underpinning much stronger than expected 2Q revenue guidance (14–16% QoQ increase vs. market and our expectation of single digit growth). Into 2H, however, while AI related strength should persist, we see consumer side risk given early pull in during 1H and potential further demand deterioration as end-product pricing lifts to reflect higher memory costs. Given the broader than expected price increases but consumer demand risk in 2H, we upgrade the stock to Neutral with a Jun 27 PT of HK\$67. Further re rating would require a more concrete margin recovery path—such as broader price hikes sufficient to offset rising depreciation—while downside risk remains from weaker than expected consumer demand pressuring pricing.

- 1Q GM slightly better than expected on selective price hikes:** SMIC's 1Q26 revenue was largely in line with expectations, while gross margin came in 54bps/66bps above our/market estimates, primarily supported by ~2.5% QoQ ASP improvement. Management indicated a more constructive pricing environment and has negotiated price hikes (we believe 5–10%) with customers, with some already reflected in 1Q and more flowing through in 2Q. We believe the hikes are mainly driven by strong AI-peripheral demand and the ongoing localization trend, concentrated in products such as BCD, analog, power management, and storage—which cover around 40–50% of revenue.
- 2Q guidance better than expected, with broader price increases; 2H consumer demand still a swing factor:** SMIC guided 2Q revenue up 14–16% QoQ—well above market and our expectations of 2–7% sequential growth—driven primarily by pricing momentum on improved demand (AI peripherals and consumer products as AI squeezes out capacity). For 2H, we see risk that consumer demand could deteriorate further after end-product prices adjust to reflect higher memory costs. Meanwhile, upstream demand could soften as part of 1H strength may stem from pull-ahead activity in PC and smartphone products, with customers anticipating further memory price hikes and supply tightness. That said, AI-peripheral demand (e.g., power management) should remain robust into 2H, partially offsetting CE weakness and still delivering moderate sequential growth, in our view. All in all, we raise our 2026–27 earnings estimates by ~15% to factor in broader price increases and expect EPS to reach US\$13.63/US\$14.45 in 2026/27 (up 59%/6% YoY).

▲ Neutral

Previous: Underweight

0981.HK, 981 HK

Price (15 May 26): HK\$71.15

- ▲ Price Target (Jun-27): HK\$67.00**
 Prior (Dec-26): HK\$57.00

China

Technology and Telecoms

Gokul Hariharan ^{AC}

(852) 2800-8564

gokul.hariharan@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited/ J.P. Morgan Broking (Hong Kong) Limited

Jennifer Hsieh

(886-2) 2725-9868

jennifer.hsieh@jpmorgan.com

J.P. Morgan Securities (Taiwan) Limited

David Chou

(886-2) 2725-9618

david.chou@jpmorgan.com

J.P. Morgan Securities (Taiwan) Limited

Jason Chen

(886-2) 2725-9864

jason.bh.chen@jpmorgan.com

J.P. Morgan Securities (Taiwan) Limited

Subham Singhania

(91-22) 6157-3801

subham.singhania@jpmorgan.com

J.P. Morgan India Private Limited

Key Changes (FYE Dec)

| | Prev | Cur | Δ |
|-------------------------------|------|-------|-------|
| Adj. net income - 26E (\$ mn) | 945 | 1,091 | 15.5% |
| Adj. net income - 27E (\$ mn) | 998 | 1,157 | 16.0% |

Quarterly Forecasts (FYE Dec)

| Adj. net income (\$ mn) | 2025A | 2026E | 2027E |
|-------------------------|-------|-------|-------|
| Q1 | 188 | 197A | 220 |
| Q2 | 132 | 264 | 259 |
| Q3 | 192 | 316 | 317 |
| Q4 | 173 | 313 | 360 |
| FY | 685 | 1,091 | 1,157 |

Style Exposure

| Quant Factors | Current %Rank | Hist %Rank (1=Top) | | | |
|---------------|---------------|--------------------|----|----|----|
| | | 6M | 1Y | 3Y | 5Y |
| Value | 90 | 92 | 92 | 78 | 84 |
| Growth | 58 | 59 | 62 | 84 | 95 |
| Momentum | 59 | 16 | 4 | 94 | 31 |
| Quality | 87 | 85 | 89 | 83 | 92 |
| Low Vol | 91 | 95 | 93 | 47 | 97 |

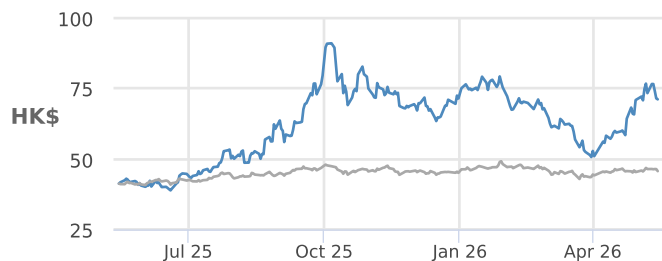
Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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- **GM recovery still constrained by depreciation:** While GM appears slightly stronger than our prior expectations, we still see no sign of meaningful recovery to the prior-cycle peak of 35–40% in 2021–22, given the rising depreciation burden (depreciation expense expected to increase ~30% YoY in 2026). As the company continues expanding capacity (40k+ annual additions in recent and coming years), elevated depreciation is unlikely to ease in the near term. We therefore expect GM to remain in the low-20s range over the coming 1–2 years. We believe a more concrete margin recovery path—such as broader price hikes sufficient to offset the depreciation increase—would be needed to further drive the stock.

Price Performance



— 0981.HK Price (HK\$)— HSI (rebased)

| | YTD | 1m | 3m | 12m |
|-----|-------|-------|------|-------|
| Abs | -0.4% | 20.0% | 1.1% | 72.5% |
| Rel | -1.7% | 19.9% | 3.4% | 61.8% |

Company Data

| | |
|-----------------------------|-------------|
| Shares O/S (mn) | 7,939 |
| 52-week range (HK\$) | 93.50-38.65 |
| Market cap (\$ mn) | 72,115 |
| Exchange rate | 7.83 |
| Free float (%) | 81.2% |
| 3M ADV (mn) | 71.66 |
| 3M ADV (\$ mn) | 587.3 |
| Volatility (90 Day) | 51 |
| Index | HSI |
| BBG ANR (Buy Hold Sell) | 25 5 3 |

Key Metrics (FYE Dec)

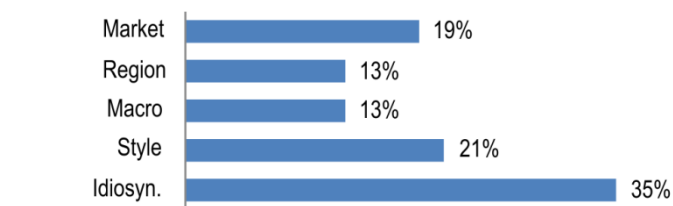
| \$ in millions | FY25A | FY26E | FY27E | FY28E |
|----------------------------|---------|---------|--------|--------|
| Financial Estimates | | | | |
| Revenue | 9,327 | 11,586 | 13,158 | 14,821 |
| Adj. EBIT | 1,110 | 1,423 | 1,556 | 2,216 |
| Adj. EBITDA | 4,920 | 6,359 | 7,418 | 8,193 |
| Adj. net income | 685 | 1,091 | 1,157 | 1,793 |
| Adj. EPS | 0.09 | 0.14 | 0.14 | 0.22 |
| BBG EPS | 0.09 | 0.13 | 0.17 | 0.21 |
| Cashflow from operations | 1,794 | 5,411 | 7,108 | 7,873 |
| FCFF | (5,503) | (3,345) | 108 | 873 |
| Margins and Growth | | | | |
| Revenue Growth Y/Y (%) | 16.2% | 24.2% | 13.6% | 12.6% |
| EBIT margin | 11.9% | 12.3% | 11.8% | 14.9% |
| EBIT Growth Y/Y (%) | 134.2% | 28.2% | 9.3% | 42.4% |
| EBITDA margin | 52.8% | 54.9% | 56.4% | 55.3% |
| EBITDA Growth Y/Y (%) | 33.1% | 29.2% | 16.7% | 10.4% |
| Net margin | 7.3% | 9.4% | 8.8% | 12.1% |
| Adj. EPS growth | 38.5% | 59.3% | 6.0% | 55.0% |
| Ratios | | | | |
| Adj. tax rate | 7.9% | 9.9% | 10.0% | 10.0% |
| Interest cover | NM | 211.1 | 161.5 | 520.8 |
| Net debt/Equity | 0.2 | 0.3 | 0.3 | 0.2 |
| Net debt/EBITDA | 1.4 | 1.5 | 1.3 | 1.1 |
| ROE | 3.3% | 5.0% | 5.0% | 7.3% |
| Valuation | | | | |
| FCFF yield | (7.6%) | (4.6%) | 0.1% | 1.2% |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/Revenue | 9.9 | 8.3 | 7.3 | 6.4 |
| EV/EBITDA | 18.8 | 15.0 | 12.9 | 11.6 |
| Adj. P/E | 106.2 | 66.7 | 62.9 | 40.6 |

Summary Investment Thesis and Valuation

We rate the stock N given the broader-than-expected price increases although consumer demand risk is likely to persist in 2H. SMIC's GM is still at a low 20% level with potentially no meaningful upside in the next several years. We believe the capped GM is weighed down by depreciation burden (up 30% YoY in 2026), while demand for Consumer Electronics is likely to deteriorate after end-product price adjustments to reflect higher memory prices. We believe a more concrete margin recovery path (e.g., broader price hikes sufficient to offset the depreciation increase) would be needed to drive re-rating.

Our Jun-27 PT of HK\$67 is based on ~2.8x Price/Book. This multiple reflects our concerns about lack of margin improvement and stagnant blended ASPs, despite improved mix. Our previous Dec-26 PT of HK\$57 was based on ~2.5x P/B.

Performance Drivers



| Factors | 6M Corr | 1Y Corr |
|------------------------------------|---------|---------|
| Market: MSCI Asia Pac ex JP | 0.57 | 0.42 |
| Region: China | 0.56 | 0.38 |
| Macro: | | |
| Emerging Central Bank Rate | -0.50 | -0.34 |
| Emerging Economies CPI(YoY) | -0.51 | -0.27 |
| HSI Volatility Index | -0.18 | 0.22 |
| Quant Styles: | | |
| LowVol | -0.56 | -0.54 |
| DivYld | -0.50 | -0.49 |
| Value | -0.43 | -0.48 |

Earnings review and Guidance

Table 1: SMIC – 1Q26 results snapshot

| US\$ million | 1Q26 | | | Variance | | Growth | |
|---------------------------|--------------|--------------|--------------|-----------------|---------------|-----------------|-----------------|
| | Actual | JPMe | BBG | vs. JPMe | vs. Consensus | Q/Q | Y/Y |
| Revenues | 2,505.5 | 2,496.0 | 2,514.0 | 0% | -0% | 1% | 11% |
| Gross profit | 503.6 | 488.3 | 488.7 | 3% | 3% | 5% | -0% |
| <i>GM (%)</i> | <i>20.1%</i> | <i>19.6%</i> | <i>19.4%</i> | <i>54 bps</i> | <i>66 bps</i> | <i>89 bps</i> | <i>-241 bps</i> |
| Reported Operating profit | 247.8 | 283.8 | 237.4 | -13% | 4% | -17% | -20% |
| <i>Reported OPM (%)</i> | <i>9.9%</i> | <i>11.4%</i> | <i>9.4%</i> | <i>-148 bps</i> | <i>45 bps</i> | <i>-211 bps</i> | <i>-389 bps</i> |
| Adjusted Operating profit | 147.8 | 183.8 | N.A. | -20% | N.A. | -26% | -29% |
| <i>Adjusted OPM (%)</i> | <i>5.9%</i> | <i>7.4%</i> | <i>N.A.</i> | <i>-146 bps</i> | <i>N.A.</i> | <i>-208 bps</i> | <i>-343 bps</i> |
| Net profit | 197.4 | 231.1 | 214.8 | -15% | -8% | 14% | 5% |
| EPS (US¢) | 2.47 | 2.89 | 2.68 | -15% | -8% | 14% | 5% |

Note: Adjusted operating profits exclude R&D funding and other operating income/expenses
Source: SMIC Quarterly Report (1Q26), Bloomberg Finance L.P. as of May 14, 2026, J.P. Morgan estimates

Table 2: SMIC – 2Q26 guidance vs. JPMe/consensus

| | Guidance | JPMe | Consensus |
|-------------------|---------------------------------|--------|-----------|
| Revenues (\$mn) | \$2856mn - \$2906mn (up 14-16%) | 2875.9 | 2711.0 |
| Gross margin (GM) | 20-22% | 21.7% | 20.7% |

Source: SMIC Quarterly Report (1Q26), Bloomberg Finance L.P. as of May 14, 2026, J.P. Morgan estimates

Forecast changes

Table 3: SMIC: Quarterly estimate revisions

| US\$ million | Revised | | | Prior | | | Change (%) | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|---------------|---------------|
| | 2Q26E | 3Q26E | 4Q26E | 2Q26E | 3Q26E | 4Q26E | 2Q26E | 3Q26E | 4Q26E |
| Revenues | 2,875.9 | 3,034.0 | 3,170.4 | 2,544.0 | 2,880.6 | 2,941.8 | 13% | 5% | 8% |
| Gross profit | 624.4 | 673.5 | 702.6 | 518.1 | 585.3 | 604.9 | 21% | 15% | 16% |
| <i>GM (%)</i> | <i>21.7%</i> | <i>22.2%</i> | <i>22.2%</i> | <i>20.4%</i> | <i>20.3%</i> | <i>20.6%</i> | <i>134bps</i> | <i>188bps</i> | <i>160bps</i> |
| Operating profit | 353.2 | 405.2 | 416.8 | 292.1 | 319.4 | 330.7 | 21% | 27% | 26% |
| <i>OPM (%)</i> | <i>12.3%</i> | <i>13.4%</i> | <i>13.1%</i> | <i>11.5%</i> | <i>11.1%</i> | <i>11.2%</i> | <i>80bps</i> | <i>227bps</i> | <i>191bps</i> |
| Non GAAP OP Profit | 253.2 | 305.2 | 316.8 | 192.1 | 219.4 | 230.7 | 32% | 39% | 37% |
| <i>Non GAAP OPM (%)</i> | <i>8.8%</i> | <i>10.1%</i> | <i>10.0%</i> | <i>7.6%</i> | <i>7.6%</i> | <i>7.8%</i> | <i>125bps</i> | <i>244bps</i> | <i>215bps</i> |
| Non GAAP EBITDA | 1,488.5 | 1,576.5 | 1,658.1 | 1,400.5 | 1,463.8 | 1,495.1 | 6% | 8% | 11% |
| <i>Non GAAP EBITDA Margin</i> | <i>51.8%</i> | <i>52.0%</i> | <i>52.3%</i> | <i>55.0%</i> | <i>50.8%</i> | <i>50.8%</i> | <i>-329bps</i> | <i>115bps</i> | <i>148bps</i> |
| Net profit | 264.1 | 316.5 | 313.3 | 222.9 | 250.8 | 240.2 | 19% | 26% | 30% |
| EPS (US¢) | 3.30 | 3.95 | 3.91 | 2.78 | 3.13 | 3.00 | 19% | 26% | 30% |
| Operating Assumptions | | | | | | | | | |
| Capacity ('000 wafers, 12" equ) | 1,466 | 1,490 | 1,532 | 1,430 | 1,526 | 1,532 | 3% | -2% | 0% |
| Shipment ('000 wafers, 12" equ) | 1,206 | 1,252 | 1,293 | 1,139 | 1,271 | 1,286 | 6% | -1% | 0% |
| Shipment utilization (%) | 82% | 84% | 84% | 80% | 83% | 84% | 263bps | 74bps | 41bps |
| Wafer ASP (US\$) | 2,229 | 2,265 | 2,293 | 2,081 | 2,119 | 2,138 | 7% | 7% | 7% |

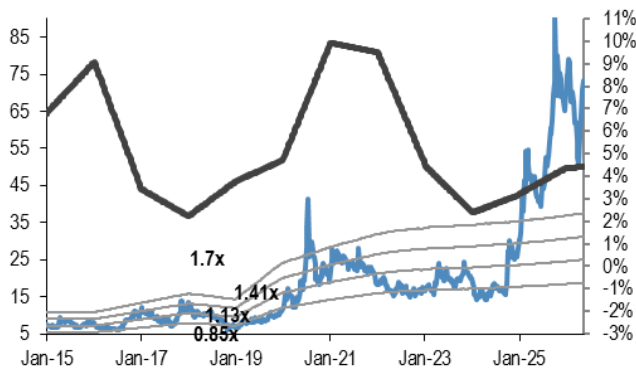
Source: J.P. Morgan estimates.

Table 4: SMIC: Annual estimate revisions

| US\$ million | Revised | | | Prior | | Change (%) | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|----------------|---------------|
| | 2026E | 2027E | 2028E | 2026E | 2027E | 2026E | 2027E |
| Revenues | 11,586 | 13,158 | 14,821 | 10,862 | 12,321 | 7% | 7% |
| Gross profit | 2,504 | 2,806 | 3,664 | 2,197 | 2,508 | 14% | 12% |
| <i>GM (%)</i> | <i>21.6%</i> | <i>21.3%</i> | <i>24.7%</i> | <i>20.2%</i> | <i>20.4%</i> | <i>139bps</i> | <i>97bps</i> |
| Operating profit | 1,423 | 1,556 | 2,216 | 1,226 | 1,318 | 16% | 18% |
| <i>OPM (%)</i> | <i>12.3%</i> | <i>11.8%</i> | <i>14.9%</i> | <i>11.3%</i> | <i>10.7%</i> | <i>100bps</i> | <i>112bps</i> |
| Non GAAP OP Profit | 1,023 | 1,156 | 1,816 | 826 | 918 | 24% | 26% |
| <i>Non GAAP OPM (%)</i> | <i>8.8%</i> | <i>8.8%</i> | <i>12.2%</i> | <i>7.6%</i> | <i>7.5%</i> | <i>123bps</i> | <i>133bps</i> |
| Non GAAP EBITDA | 5,959 | 7,018 | 7,793 | 5,775 | 6,645 | 3% | 6% |
| <i>Non GAAP EBITDA Margin</i> | <i>51.4%</i> | <i>53.3%</i> | <i>52.6%</i> | <i>53.2%</i> | <i>53.9%</i> | <i>-173bps</i> | <i>-60bps</i> |
| Net profit | 1,091 | 1,157 | 1,793 | 945 | 998 | 15% | 16% |
| EPS (US¢) | 13.63 | 14.45 | 22.39 | 11.80 | 12.46 | 15% | 16% |
| Operating Assumptions | | | | | | | |
| Capacity ('000 wafers, 12" equ) | 5,928 | 6,456 | 6,999 | 5,910 | 6,468 | 0% | 0% |
| Shipment ('000 wafers, 12" equ) | 4,868 | 5,310 | 5,792 | 4,824 | 5,320 | 1% | 0% |
| Shipment utilization (%) | 82% | 82% | 83% | 82% | 82% | 48bps | 0bps |
| Wafer ASP (US\$) | 2,228 | 2,317 | 2,393 | 2,102 | 2,162 | 6% | 7% |

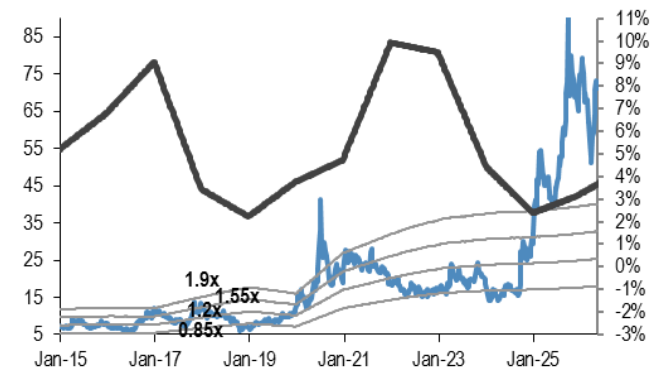
Source: J.P. Morgan estimates

Figure 1: SMIC – 12-month forward P/B bands (HK\$, x)



Source: Bloomberg Finance L.P. as of Feb 10, 2026 and J.P. Morgan calculations.

Figure 2: SMIC – Trailing P/B bands (HK\$, x)



Source: Bloomberg Finance L.P. as of Feb 10, 2026 and J.P. Morgan calculations.

Table 5: SMIC – Earnings model

| US\$ in millions, Year-end Dec | FY25 | | | | FY26E | | | | FY27E | | | | FY28E | | | | FY25 | FY26E | FY27E | FY28E |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | | | | |
| Sales | 2,247.2 | 2,209.1 | 2,381.8 | 2,488.7 | 2,505.5 | 2,875.9 | 3,034.0 | 3,170.4 | 2,996.6 | 3,200.8 | 3,398.3 | 3,562.7 | 3,399.4 | 3,677.2 | 3,818.1 | 3,926.2 | 9,327 | 11,586 | 13,158 | 14,821 |
| COGS | 1,741.3 | 1,759.3 | 1,859.0 | 2,010.6 | 2,001.9 | 2,251.6 | 2,360.5 | 2,467.8 | 2,399.9 | 2,529.7 | 2,672.5 | 2,750.5 | 2,648.7 | 2,749.6 | 2,848.6 | 2,909.9 | 7,370 | 9,082 | 10,353 | 11,157 |
| Depreciation&amortization | 865.6 | 878.8 | 995.9 | 1,069.8 | 1,088.1 | 1,235.2 | 1,271.3 | 1,341.2 | 1,454.6 | 1,462.1 | 1,450.8 | 1,495.3 | 1,521.2 | 1,487.4 | 1,467.6 | 1,500.9 | 3,810.0 | 4,936.0 | 5,862.9 | 5,977.0 |
| Gross profit | 505.9 | 449.8 | 522.8 | 478.1 | 503.6 | 624.4 | 673.5 | 702.6 | 596.7 | 671.1 | 725.8 | 812.3 | 750.7 | 927.6 | 969.5 | 1,016.3 | 1,956.6 | 2,504.1 | 2,805.8 | 3,664.1 |
| Operating expense | 196.3 | 299.1 | 171.7 | 179.5 | 255.8 | 271.1 | 268.4 | 285.8 | 269.6 | 312.1 | 318.4 | 350.3 | 338.9 | 354.4 | 364.9 | 390.4 | 846.7 | 1,081.1 | 1,250.3 | 1,448.6 |
| SG&A | 160.7 | 201.8 | 52.9 | 153.8 | 127.9 | 172.6 | 176.0 | 183.9 | 179.8 | 192.0 | 200.5 | 206.6 | 204.0 | 217.0 | 217.6 | 223.8 | 569.2 | 660.3 | 779.0 | 862.3 |
| R&D | 148.9 | 181.9 | 203.1 | 239.7 | 187.1 | 218.6 | 212.4 | 221.9 | 209.8 | 240.1 | 237.9 | 263.6 | 255.0 | 257.4 | 267.3 | 286.6 | 773.6 | 840.0 | 951.3 | 1,066.2 |
| Operating profit (EBIT) | 309.6 | 150.7 | 351.1 | 298.6 | 247.8 | 353.2 | 405.2 | 416.8 | 327.1 | 359.0 | 407.5 | 462.0 | 411.8 | 573.2 | 604.6 | 625.9 | 1,109.9 | 1,423.0 | 1,555.5 | 2,215.5 |
| Recurring operating profit* (ex-licensing) | 309.6 | 150.7 | 351.1 | 298.6 | 247.8 | 353.2 | 405.2 | 416.8 | 327.1 | 359.0 | 407.5 | 462.0 | 411.8 | 573.2 | 604.6 | 625.9 | 1,109.9 | 1,423.0 | 1,555.5 | 2,215.5 |
| Net Interest Income (expense) | 45.4 | 10.2 | 2.1 | -32.7 | -24.0 | 0.4 | 5.0 | -11.6 | -23.4 | -14.2 | 0.1 | -8.5 | -20.2 | -9.6 | 10.2 | 3.8 | -771.2 | -821.1 | -825.3 | -900.3 |
| Net other income (expense) | -5.7 | -0.5 | -16.1 | -39.4 | 31.5 | 28.8 | 30.3 | 31.7 | 30.0 | 32.0 | 34.0 | 35.6 | 34.0 | 36.8 | 38.2 | 39.3 | 734.5 | 913.3 | 911.0 | 1,032.8 |
| Pre-tax profit | 349.3 | 160.4 | 337.1 | 226.5 | 255.3 | 382.4 | 440.6 | 437.0 | 333.7 | 376.8 | 441.5 | 489.1 | 425.6 | 600.4 | 653.0 | 668.9 | 1,073.3 | 1,515.2 | 1,641.2 | 2,348.0 |
| Tax credit (expense) | -25.9 | -13.7 | -21.6 | -23.1 | -24.4 | -38.2 | -44.1 | -43.7 | -33.4 | -37.7 | -44.2 | -48.9 | -42.6 | -60.0 | -65.3 | -66.9 | -84.3 | -150.4 | -164.1 | -234.8 |
| Extraordinaries & Minority interest | -135.4 | -14.2 | -123.7 | -30.5 | -33.5 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -80.0 | -303.8 | -273.5 | -320.0 | -320.0 |
| Net profit | 188.0 | 132.5 | 191.8 | 172.9 | 197.4 | 264.1 | 316.5 | 313.3 | 220.4 | 259.1 | 317.4 | 360.2 | 303.1 | 460.4 | 507.7 | 522.0 | 685.1 | 1,091.4 | 1,157.1 | 1,793.2 |
| EPS (US\$) | 2.35 | 1.65 | 2.39 | 2.16 | 2.47 | 3.30 | 3.95 | 3.91 | 2.75 | 3.24 | 3.96 | 4.50 | 3.78 | 5.75 | 6.34 | 6.52 | 8.55 | 13.63 | 14.45 | 22.39 |
| Key assumption | | | | | | | | | | | | | | | | | | | | |
| Capacity ('000 wafers, 12" equ) | 1,298 | 1,322 | 1,364 | 1,412 | 1,439 | 1,466 | 1,490 | 1,532 | 1,547 | 1,583 | 1,634 | 1,691 | 1,691 | 1,739 | 1,769 | 1,799 | 5,397 | 5,928 | 6,456 | 6,999 |
| Shipment ('000 wafers, 12" equ) | 1,019 | 1,062 | 1,111 | 1,118 | 1,115 | 1,206 | 1,252 | 1,293 | 1,226 | 1,298 | 1,367 | 1,418 | 1,350 | 1,438 | 1,488 | 1,516 | 4,312 | 4,868 | 5,310 | 5,792 |
| Shipment utilization (%) | 78 | 80 | 81 | 79 | 77 | 82 | 84 | 84 | 79 | 82 | 84 | 84 | 80 | 83 | 84 | 84 | 80 | 82 | 82 | 83 |
| Wafer ASP (US\$) | 2,103 | 1,967 | 2,041 | 2,058 | 2,110 | 2,229 | 2,265 | 2,293 | 2,285 | 2,305 | 2,324 | 2,349 | 2,355 | 2,390 | 2,399 | 2,422 | 2,041 | 2,228 | 2,317 | 2,393 |
| Margins (%) | | | | | | | | | | | | | | | | | | | | |
| Gross | 22.5 | 20.4 | 22.0 | 19.2 | 20.1 | 21.7 | 22.2 | 22.2 | 19.9 | 21.0 | 21.4 | 22.8 | 22.1 | 25.2 | 25.4 | 25.9 | 21.0 | 21.6 | 21.3 | 24.7 |
| Operating | 13.8 | 6.8 | 14.7 | 12.0 | 9.9 | 12.3 | 13.4 | 13.1 | 10.9 | 11.2 | 12.0 | 13.0 | 12.1 | 15.6 | 15.8 | 15.9 | 11.9 | 12.3 | 11.8 | 14.9 |
| EBITDA | 52.3 | 46.6 | 56.6 | 55.0 | 53.3 | 55.2 | 55.3 | 55.5 | 59.5 | 56.9 | 54.7 | 54.9 | 56.9 | 56.0 | 54.3 | 54.2 | 52.8 | 54.9 | 56.4 | 55.3 |
| Net | 8.4 | 6.0 | 8.1 | 6.9 | 7.9 | 9.2 | 10.4 | 9.9 | 7.4 | 8.1 | 9.3 | 10.1 | 8.9 | 12.5 | 13.3 | 13.3 | 7.3 | 9.4 | 8.8 | 12.1 |
| Growth (% Q/Q) | | | | | | | | | | | | | | | | | | | | |
| Shipment | 15 | 4 | 5 | 1 | 0 | 8 | 4 | 3 | -5 | 6 | 5 | 4 | -5 | 7 | 3 | 2 | | | | |
| ASP | -9 | -6 | 4 | 1 | 3 | 6 | 2 | 1 | 0 | 1 | 1 | 1 | 0 | 2 | 0 | 1 | | | | |
| Sales | 2 | -2 | 8 | 4 | 1 | 15 | 5 | 4 | -5 | 7 | 6 | 5 | -5 | 8 | 4 | 3 | | | | |
| Gross profit | 1 | -11 | 16 | -9 | 5 | 24 | 8 | 4 | -15 | 12 | 8 | 12 | -8 | 24 | 5 | 5 | | | | |
| Operating profit | 44 | -51 | 133 | -15 | -17 | 43 | 15 | 3 | -22 | 10 | 14 | 13 | -11 | 39 | 5 | 4 | | | | |
| Net profit | 75 | -30 | 45 | -10 | 14 | 34 | 20 | -1 | -30 | 18 | 22 | 13 | -16 | 52 | 10 | 3 | | | | |
| EPS | 74 | -30 | 45 | -10 | 14 | 34 | 20 | -1 | -30 | 18 | 22 | 13 | -16 | 52 | 10 | 3 | | | | |
| Growth (% Y/Y) | | | | | | | | | | | | | | | | | | | | |
| Shipment | 28 | 13 | 18 | 26 | 9 | 14 | 13 | 16 | 10 | 8 | 9 | 10 | 10 | 11 | 9 | 7 | 21 | 13 | 9 | 9 |
| ASP | 3 | 5 | -6 | -11 | 0 | 13 | 11 | 11 | 8 | 3 | 3 | 2 | 3 | 4 | 3 | 3 | -3 | 9 | 4 | 3 |
| Sales | 28 | 16 | 10 | 13 | 11 | 30 | 27 | 27 | 20 | 11 | 12 | 12 | 13 | 15 | 12 | 10 | 16 | 24 | 14 | 13 |
| Gross profit | 111 | 70 | 18 | -4 | 0 | 39 | 29 | 47 | 18 | 7 | 8 | 16 | 26 | 38 | 34 | 25 | 35 | 28 | 12 | 31 |
| Operating profit | 12767 | 73 | 107 | 39 | -20 | 134 | 15 | 40 | 32 | 2 | 1 | 11 | 26 | 60 | 48 | 35 | 134 | 28 | 9 | 42 |
| Net profit | 162 | -19 | 29 | 61 | 5 | 99 | 65 | 81 | 12 | -2 | 0 | 15 | 38 | 78 | 60 | 45 | 39 | 59 | 6 | 55 |
| EPS | 161 | -20 | 28 | 60 | 5 | 99 | 65 | 81 | 12 | -2 | 0 | 15 | 38 | 78 | 60 | 45 | 38 | 59 | 6 | 55 |

Note: We have removed the impact of profit from licensing revenue and one-off disposal gains in the recurring operating profit field for like to like comparison.

Source: SMIC Quarterly Reports (1Q25-1Q26) and J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

SMIC (Neutral; Price Target: HK\$67.00)

Investment Thesis

We rate the stock N given the broader-than-expected price increases although consumer demand risk is likely to persist in 2H. SMIC's GM is still at a low 20% level with potentially no meaningful upside in the next several years. We believe the capped GM is weighed down by depreciation burden (up 30% YoY in 2026), while demand for Consumer Electronics is likely to deteriorate after end-product price adjustments to reflect higher memory prices. We believe a more concrete margin recovery path (e.g., broader price hikes sufficient to offset the depreciation increase) would be needed to drive re-rating.

Valuation

Our Jun-27 PT of HK\$67 is based on ~2.8x Price/Book. This multiple reflects our concerns about lack of margin improvement and stagnant blended ASPs, despite improved mix.

Risks to Rating and Price Target

Key upside risk is a meaningful breakthrough in yield rates for 7nm and below process technologies, which could lift overall ASPs and gross margins meaningfully.

Key downside risks include higher pricing pressure and worse-than expected customer demand.

SMIC (0981): Summary of Financials

| Income Statement - Annual | | | | | Income Statement - Quarterly | | | | |
|-------------------------------------|---------|---------|---------|----------|------------------------------|---------|---------|---------|---------|
| | FY24A | FY25A | FY26E | FY27E | 1Q26A | 2Q26E | 3Q26E | 4Q26E | |
| Revenue | 8,030 | 9,327 | 11,586 | 13,158 | Revenue | 2,505 | 2,876 | 3,034 | 3,170 |
| COGS | (6,582) | (7,370) | (9,082) | (10,353) | COGS | (2,002) | (2,252) | (2,360) | (2,468) |
| Gross profit | 1,448 | 1,957 | 2,504 | 2,806 | Gross profit | 504 | 624 | 674 | 703 |
| SG&A | (620) | (569) | (660) | (779) | SG&A | (128) | (173) | (176) | (184) |
| Adj. EBITDA | 3,697 | 4,920 | 6,359 | 7,418 | Adj. EBITDA | 1,336 | 1,588 | 1,677 | 1,758 |
| D&A | (3,223) | (3,810) | (4,936) | (5,863) | D&A | (1,088) | (1,235) | (1,271) | (1,341) |
| Adj. EBIT | 474 | 1,110 | 1,423 | 1,556 | Adj. EBIT | 248 | 353 | 405 | 417 |
| Net Interest | 249 | 25 | (30) | (46) | Net Interest | (24) | 0 | 5 | (12) |
| Adj. PBT | 860 | 1,073 | 1,515 | 1,641 | Adj. PBT | 255 | 382 | 441 | 437 |
| Tax | (130) | (84) | (150) | (164) | Tax | (24) | (38) | (44) | (44) |
| Minority Interest | (237) | (304) | (273) | (320) | Minority Interest | (33) | (80) | (80) | (80) |
| Adj. Net Income | 493 | 685 | 1,091 | 1,157 | Adj. Net Income | 197 | 264 | 316 | 313 |
| Reported EPS | 0.06 | 0.09 | 0.14 | 0.14 | Reported EPS | 0.02 | 0.03 | 0.04 | 0.04 |
| Adj. EPS | 0.06 | 0.09 | 0.14 | 0.14 | Adj. EPS | 0.02 | 0.03 | 0.04 | 0.04 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | | | | | |
| Payout ratio | 0.0% | 0.0% | 0.0% | 0.0% | | | | | |
| Shares outstanding | 7,977 | 8,009 | 8,009 | 8,009 | Shares outstanding | 8,009 | 8,009 | 8,009 | 8,009 |
| Balance Sheet & Cash Flow Statement | | | | | Ratio Analysis | | | | |
| | FY24A | FY25A | FY26E | FY27E | | FY24A | FY25A | FY26E | FY27E |
| Cash and cash equivalents | 6,430 | 5,876 | 5,586 | 6,173 | Gross margin | 18.0% | 21.0% | 21.6% | 21.3% |
| Accounts receivable | 840 | 1,433 | 1,807 | 2,030 | EBITDA margin | 46.0% | 52.8% | 54.9% | 56.4% |
| Inventories | 2,958 | 3,630 | 4,346 | 4,843 | EBIT margin | 5.9% | 11.9% | 12.3% | 11.8% |
| Other current assets | 4,555 | 4,686 | 5,145 | 5,185 | Net profit margin | 6.1% | 7.3% | 9.4% | 8.8% |
| Current assets | 14,784 | 15,625 | 16,884 | 18,231 | ROE | 2.4% | 3.3% | 5.0% | 5.0% |
| PP&E | 28,145 | 31,633 | 35,453 | 36,590 | ROA | 1.0% | 1.4% | 2.0% | 2.0% |
| LT investments | 6,208 | 4,993 | 4,638 | 4,638 | ROCE | 1.3% | 3.1% | 3.6% | 3.6% |
| Other non current assets | 24 | 20 | 20 | 20 | SG&A/Sales | 7.7% | 6.1% | 5.7% | 5.9% |
| Total assets | 49,161 | 52,271 | 56,994 | 59,479 | Net debt/equity | 0.1 | 0.2 | 0.3 | 0.3 |
| Short term borrowings | 2,926 | 2,593 | 4,306 | 4,306 | P/E (x) | 147.1 | 106.2 | 66.7 | 62.9 |
| Payables | 4,465 | 3,565 | 4,269 | 4,757 | P/BV (x) | 3.5 | 3.4 | 3.2 | 3.1 |
| Other short term liabilities | 1,368 | 659 | 615 | 655 | EV/EBITDA (x) | 23.8 | 18.8 | 15.0 | 12.9 |
| Current liabilities | 8,760 | 6,817 | 9,190 | 9,717 | Dividend Yield | 0.0% | 0.0% | 0.0% | 0.0% |
| Long-term debt | 8,038 | 9,995 | 10,701 | 11,501 | Sales/Assets (x) | 16.6% | 18.4% | 21.2% | 22.6% |
| Other long term liabilities | 494 | 439 | 418 | 418 | Interest cover (x) | NM | NM | 211.1 | 161.5 |
| Total liabilities | 17,292 | 17,251 | 20,309 | 21,637 | Operating leverage | 120.1% | 831.0% | 116.5% | 68.6% |
| Shareholders' equity | 20,614 | 21,440 | 22,535 | 23,692 | Revenue y/y Growth | 27.0% | 16.2% | 24.2% | 13.6% |
| Minority interests | 11,256 | 13,581 | 14,150 | 14,150 | EBITDA y/y Growth | 22.2% | 33.1% | 29.2% | 16.7% |
| Total liabilities & equity | 49,161 | 52,271 | 56,994 | 59,479 | Tax rate | 15.1% | 7.9% | 9.9% | 10.0% |
| BVPS | 2.58 | 2.68 | 2.81 | 2.96 | Adj. Net Income y/y Growth | (45.4%) | 39.0% | 59.3% | 6.0% |
| y/y Growth | 2.4% | 3.6% | 5.1% | 5.1% | EPS y/y Growth | (45.5%) | 38.5% | 59.3% | 6.0% |
| Net debt/(cash) | 4,534 | 6,711 | 9,422 | 9,634 | DPS y/y Growth | - | - | - | - |
| Cash flow from operating activities | 2,245 | 1,794 | 5,411 | 7,108 | | | | | |
| o/w Depreciation & amortization | 3,223 | 3,810 | 4,936 | 5,863 | | | | | |
| o/w Changes in working capital | (1,209) | (2,164) | (387) | (232) | | | | | |
| Cash flow from investing activities | (3,448) | (6,079) | (8,400) | (7,000) | | | | | |
| o/w Capital expenditure | (7,423) | (7,298) | (8,756) | (7,000) | | | | | |
| as % of sales | 92.4% | 78.2% | 75.6% | 53.2% | | | | | |
| Cash flow from financing activities | 1,196 | 3,731 | 2,698 | 480 | | | | | |
| o/w Dividends paid | 0 | 0 | 0 | 0 | | | | | |
| o/w Net debt issued/(repaid) | 1,414 | 1,623 | 2,420 | 800 | | | | | |
| Net change in cash | (7) | (554) | (291) | 588 | | | | | |
| Adj. Free cash flow to firm | (5,178) | (5,503) | (3,345) | 108 | | | | | |
| y/y Growth | 359.8% | 6.3% | (39.2%) | (103.2%) | | | | | |

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

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SMIC (0981) (0981.HK, 981 HK) Price Chart



| Date | Rating | Price (HK\$) | Price Target (HK\$) |
|-----------|--------|--------------|---------------------|
| 11-Aug-23 | N | 18.48 | 19 |
| 07-Feb-24 | N | 15.34 | 16.5 |
| 11-May-24 | N | 16.26 | 18 |
| 09-Aug-24 | N | 15.80 | 19.5 |
| 08-Nov-24 | N | 28.25 | 24 |
| 13-Feb-25 | UW | 47.95 | 32 |
| 11-Aug-25 | UW | 48.66 | 36 |
| 17-Nov-25 | UW | 73.50 | 57 |

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 24, 2010. All share prices are as of market close on the previous business day.

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