EQUITY RESEARCH

SMIC (00981.HK)

Capacity expansion slows, while product mix begins to improve

China | Semiconductor

20 Oct 2025

Financial performance

In the first half of 2025, the company achieved revenue of $4.5 billion (USD, same below), a year-on-year increase of 22.0%. The gross profit margin was 21.4%, up 7.6 percentage points year-on-year. Profit before tax was $510 million, a year-on-year increase of 95.0%. Net profit attributable to the parent company was $320 million, a year-on-year increase of 35.6%.

In the second quarter of 2025, the company achieved revenue of $2.2 billion, a quarter-on-quarter decrease of 1.7%. This was primarily due to a 6.4% quarter-on-quarter decrease in ASP, while the number of wafers sold increased by 4.3% quarter-on-quarter to 2.39 million 8-inch equivalent wafers, mainly driven by inventory replenishment. By application segment, management stated that the revenue contributions from smartphones, computers & tablets, consumer electronics, connectivity & wearables, and industrial & automotive were 25%, 15%, 41%, 8%, and 11%, respectively. The company's automotive electronics product shipments continued steady growth, with primary revenue contributions coming from automotive-grade chips such as analog/power management, image sensors, logic-embedded memory, and controllers. The overall automotive segment grew 20% quarter-on-quarter in Q2. The revenue contribution from 8-inch and 12-inch wafers was 24% and 76%, respectively. The absolute revenue from 8-inch wafers increased by 7% quarter-on-quarter, with capacity utilization outperforming peers. The company's gross profit margin for Q2 was 20.4%, down 2.1 percentage points quarter-on-quarter, mainly due to decreased ASP caused by production volatility and product mix changes. Capacity utilization was 92.5%, up 2.9 percentage points quarter-on-quarter, with utilization rates for both 8-inch and 12-inch wafers improving further. As of the end of Q2, the company's monthly capacity reached 991,000 8-inch equivalent wafers. Profit before tax was $160 million, a quarter-on-quarter decrease of 54.1%. Net profit attributable to the parent company was $130 million, a quarter-on-quarter decrease of 29.5%.

The company guides for Q3 2025 revenue to increase by 5%-7% quarter-on-quarter, expecting both shipment volume and ASP to rise, reflecting an improving product mix alongside capacity expansion. The gross margin is guided between 18% and 20%, flat with the Q2 guidance, mainly due to increased depreciation from new capacity, though the improved product mix enhances profitability. Affected by the industry's traditional slow season, inventory was built up in the first three quarters to support customer demand pull-ins. Although customer confidence remains strong, the pace of urgent orders and demand pull-ins is expected to slow somewhat in Q4. Management indicated that as the company overall remains in a state of tight supply, the slowdown in shipment pace will not significantly impact capacity utilization. Based on the above, and assuming no major changes in the external environment, the company's full-year target remains to exceed the average of comparable peers.

Investment thesis

Based on SMIC's recent slower capacity expansion pace and management's more conservative outlook for 2H25E and 3Q25E revenue, we adjust the company's 2025-2027 revenue forecasts to $9.2 billion / $10.4 billion / $12.0 billion, respectively. We forecast net profit attributable to the parent company to be $687 million / $888 million / $1.133 billion for 2025/2026/2027, corresponding to EPS of $0.09 / $0.11 / $0.14. Overall, as a leading player in the foundry segment, we believe the company's reasonable valuation is slightly above one standard deviation of its historical average NTM P/B ratio, at 1.8x 2025 forecasted P/B. This corresponds to a target price of HKD 87 per share. We adjust our rating to 'Accumulate'.

Accumulate

CMP HKD 73.9

(Closing price as of 16 Oct 2025)

Target HKD 87.0 (+17.7%)

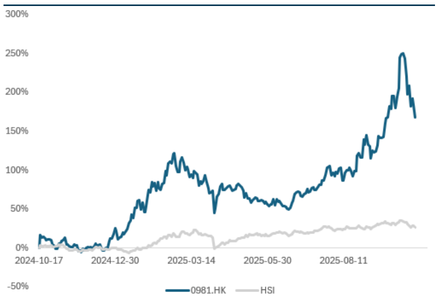
COMPANY DATA

O/S SHARES (MN) :	8,000
MARKET CAP (HKD BN) :	560,000
52 - WK HI/LO (HKD):	93.50/24.15

SHARE HOLDING PATTERN, %

Datang Holdings	14.09%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY23	FY24	FY25E	FY26E
Revenue	6,322	8,030	9,165	10,440
Net profit	1,125	730	1,018	1,315
Diluted EPS	0.11	0.06	0.09	0.11
P/E ratio, x	1.61	1.58	1.53	1.48
P/B ratio, x	85.07	155.82	111.75	86.51
Dividend Yield, %	0	0	0	0

Source: Company reports, Phillip Securities Est.

Research Analyst

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Exchange rate: HKD/USD=7.77

Risk factors

1) Tightening of U.S. export controls; 2) Lower-than-expected ramp-up of capacity at the Wuxi wafer fab; 3) Weaker-than-expected increase in ASP.

Financials

Key Financial Data

Dec Y/E	FY23	FY24	FY25E	FY26E	FY27E
Valuation Ratio					
P/E ratio	85.1	155.8	111.8	86.5	67.8
Dividend Yield, %	0.00%	0.00%	0.00%	0.00%	0.00%
Per share data					
EPS	0.11	0.06	0.09	0.11	0.14
BVPS	6.0	6.1	6.3	6.5	6.7
Growth & Margin					
Growth					
Revenue Growth	-13.09%	27.02%	14.14%	13.91%	14.54%
Gross Profit Growth	-55.91%	18.91%	33.13%	19.32%	24.94%
EBIT Growth	-46.37%	-27.61%	39.43%	29.19%	27.66%
Net Profit Growth	-48.82%	-35.11%	39.43%	29.19%	27.66%
Margin					
Gross Profit Margin	19.26%	18.03%	21.03%	22.03%	24.03%
EBIT Margin	2.35%	2.20%	5.30%	7.38%	10.38%
Net Profit Margin	17.80%	9.09%	11.11%	12.59%	14.04%
Key Ratios					
ROE	2.93%	1.55%	2.09%	2.61%	3.21%
ROA	1.89%	1.01%	1.37%	1.71%	2.11%

Consolidated Statement of Profit or Loss

Dec Y/E, USD mn	2023	2024	2025E	2026E	2027E
REVENUE	6,322	8,030	9,165	10,440	11,958
Cost of services	(5,104)	(6,582)	(7,238)	(8,140)	(9,085)
Gross profit	1,218	1,448	1,928	2,300	2,874
Selling, administrative and general expenses	860	974	1,115	1,203	1,305
Operating profit	358	474	813	1,098	1,568
Finance costs	(209)	(297)	(327)	(327)	(327)
Profit before income tax and share of results of equity investees	148	177	486	771	1,242
Income tax expenses	(63)	(130)	(181)	(233)	(298)
Share of results of equity investees	29	29	29	29	29
Net profit	1,125	730	1,018	1,315	1,679
Profit attributable to:					
– Equity holders of the Company	903	493	687	888	1,133
– Non-controlling interests	222	237	331	427	546

Consolidated Statement of Financial Position

Dec Y/E, USD mn	FY23	FY24	FY25E	FY26E	FY27E
Current assets					
Accounts receivable	1,170	1,430	1,507	1,716	1,966
Cash and cash equivalents	6,215	3,703	1,280	(43)	(1,353)
Inventory	2,736	2,705	2,974	2,899	3,236
Others	3,514	3,492	3,506	3,504	3,501
Total current assets	13,635	11,330	9,267	8,077	7,349
Non-current assets					
PPE	23,945	28,383	29,785	30,044	30,305
Others	10,207	10,142	10,152	10,159	10,146
Total non-current assets	34,152	38,525	39,937	40,203	40,451
Total Assets	47,787	48,735	50,226	51,875	53,605
Current liabilities					
Accounts payable	3,728	3,967	4,164	4,683	5,227
Others	3,874	3,505	3,725	3,701	3,644
Total current liabilities	7,602	7,472	7,889	8,385	8,871
Non-current liabilities					
Long-term debt	8,335	8,418	8,418	8,418	8,418
Others	1,005	1,001	1,002	1,003	1,002
Total non-current liabilities	9,340	9,419	9,420	9,421	9,420
Total liabilities	16,942	16,891	17,310	17,806	18,291
Equity attributable to equity holders of the Company	20,116	20,953	21,862	22,850	23,927
Non-controlling interests	10,730	10,890	11,054	11,220	11,388
Total equity	30,846	31,844	32,916	34,070	35,315
Total liabilities and equity	47,787	48,735	50,226	51,875	53,605

Consolidated Statement of Cash Flow

Dec Y/E, USD thousand	2023	2024	2025E	2026E	2027E
CFO	3,358	4,641	4,747	5,224	5,324
Net profit	1,125	730	1,018	1,315	1,679
Depreciation and Amortization	2,667	3,352	3,179	2,919	2,944
Change in working capital	2,848	5,100	4,991	5,913	5,664
Others	(3,282)	(4,542)	(4,442)	(4,922)	(4,963)
CFI	(6,208)	(7,265)	(7,469)	(7,042)	(7,334)
Short term and long term investment,net	1,423	366	200	665	412
Purchase of property, equipment and intangible assets	(7,630)	(7,630)	(7,669)	(7,707)	(7,745)
CFF	2,466	430	601	782	971
Cash paid for distribution of dividends	0	0	0	0	0
Cash received from financing	2,466	430	601	782	971
Effect of exchange rate changes on cash	(335)	(318)	(302)	(287)	(273)
Net Change in Cash	(383)	(2,194)	(2,121)	(1,036)	(1,038)
Cash, CE and Restricted cash at Beg	6,933	6,215	3,703	1,280	(43)
Cash, CE and Restricted cash at Y/E	6,215	3,703	1,280	(43)	(1,353)

Current Price as of: Oct 16

Source： PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20%upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20%downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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