UOBKayHian

Company – Results | Greater China

Monday, 24 August 2026

ZTE Corporation (763 HK)

2Q26: Carrier Network Margin Miss Deepens Mix Drag; AI Server Business Remains Solid; Maintain HOLD

Highlights

- ZTE's 2Q26 revenue grew 11.5% yoy and 23.0% qoq to Rmb43.0b. Gross margins declined sharply by 7.7ppt yoy and 5.1ppt qoq to 23.2%, and net profit declined 44.6% yoy to Rmb1,442m (+10.1% qoq), below our expectations, primarily due to weak carrier network profitability.
- The margins deterioration seems structural for the next few years before 6G buildout takes off. Profitability will likely continue to remain weak.
- Maintain HOLD. Cut target price to HK$22.30.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	yoy (%)	qoq (%)
Revenue	38,585	34,988	43,037	11.5	23.0
Gross profit	11,921	9,893	9,991	(16.2)	1.0
OP income	1,658	1,571	691	(58.3)	(56.0)
Net profit	2,604	1,310	1,442	(44.6)	10.1
Margins (%)					
GPM	30.9	28.3	23.2	(7.7)	(5.1)
OPM	4.3	4.5	1.6	(2.7)	(2.9)
NPM	6.8	3.7	3.4	(3.4)	(0.4)

Source: ZTE, UOB Kay Hian

Analysis

- **2Q26 results missed as carrier network margins deteriorated sharply on mix changes.** 2Q26 revenue grew 11.5% yoy and 23.0% qoq to Rmb43.0b with sales primarily driven by the Government & Corporate (G&C) segment. Gross margins deteriorated 7.7ppt yoy and 5.1ppt qoq to 23.2%, due to a combination of: a) a sharp decline in carrier network profitability on intra-segment mix changes; and b) higher contribution from the G&C segment which has a significantly lower margin as well. Partially offset by lower opex ratio, operating income declined 58.3% yoy and 56.0% qoq to Rmb691m, and net profit was well below market estimates at Rmb1,442m, declining 44.6% yoy.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	121,299	133,895	155,478	176,864	198,845
EBITDA	12,045	7,567	6,596	9,090	10,288
Operating profit	7,403	3,215	3,361	5,648	6,880
Net profit (rep./act.)	8,425	5,618	4,876	6,753	7,716
EPS (Fen)	178.0	117.4	101.9	141.2	161.3
PE (x)	12.2	17.5	20.2	14.6	12.8
P/B (x)	1.7	1.7	2.0	2.2	2.3
EV/EBITDA (x)	10.0	14.9	17.6	13.0	11.7
Dividend yield (%)	1.7	1.7	1.5	2.1	2.4
Net margin (%)	6.9	4.2	3.1	3.8	3.9
Net debt/(cash) to equity (%)	31.7	20.7	31.0	37.2	44.1
Interest cover (x)	(28.0)	(14.2)	(209.9)	29.7	19.8
ROE (%)	12.0	7.6	7.1	11.3	13.8
Consensus net profit	-	-	5,942	6,970	7,897
UOBKH/Consensus (x)	-	-	0.82	0.97	0.98

Source: ZTE, Bloomberg, UOB Kay Hian

Analyst(s)

Johnny Yum
johnny.yum@uobkh.com
+852 2235 6760

Murphy Li
murphy.li@uobkh.com
+852 2826 4867

HOLD (Maintained)

Share Price	HK$23.86
Target Price	HK$22.30
Upside	-6.7%
Previous TP	HK$23.30

Stock Data

Sector	Information Technology
Bloomberg ticker	763 HK
Shares issued (m)	4,783
Market cap (HK$m)	114,128
Market cap (US$m)	14,632
3-mth avg daily t'over (US$m)	82.2

Price Performance (%)

52-week high/low				HK$46.46 / HK$21.52
1mth	3mth	6mth	1yr	YTD
(2.2)	0.3	(11.7)	(23.8)	(12.0)

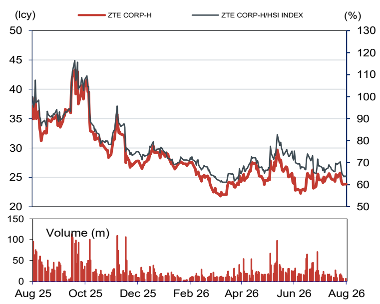
Major Shareholders (%)

Zhongxingxin	20.09

Balance Sheet Metrics

2026 NAV/Share (Rmb)Rmb)	10.74
2026 Net Debt/Share (Rmb)Rmb)	4.75

Price Chart



Source: Bloomberg

Company Description

ZTE Corporation develops and markets switches, access servers, videoconferencing systems, mobile communication systems, data communication devices, and optical communication devices.

- **Performance by segment in 1H26:** a) Carrier network revenue fell 9.4% yoy but recovered 14.3% hoh to Rmb31.8b in 1H26, which is already below expectations. On top of that, gross profit margin plunged 14.9ppt yoy and 3.9ppt hoh to 38.1%, as domestic telco capex remained weak, revenue mix shifted further towards overseas projects and non-core network sales for the domestic market, of which both carry a significantly lower margins; b) Government & Corporate revenue grew 43.5% yoy and 53.8% hoh to Rmb27.6b in 1H26, driven by AI-related sales. Notably, 1H26 gross profit margin improved meaningfully by 7.6ppt yoy and 2.0ppt hoh to 15.8%, benefitting from better scale and a higher proportion of spending towards higher-margin AI-server related business; and c) Consumer business revenue grew 8.1% yoy and 12.3% hoh to Rmb18.6b in 1H26, slightly ahead of our expectations, with gross profit margin edging up 0.6ppt yoy to 18.3% (-0.5ppt hoh).
- **Carrier network margins are guided to remain weak, and the decline is structural rather than competitive.** Carrier network gross profit margin is expected to be around 40% for the full year (1H26: 38.1%). However, the aforementioned overseas/non-core networking business mix shift will continue before the arrival of 6G, and this is likely to continue to suppress its profitability in the foreseeable future.
- **G&C remains the key growth driver, with momentum strengthening into 2H26 and 2027.** Servers now contribute about 80% of segment revenue, and management guided for 2H26 segment revenue to be at least flat hoh and likely better (1H26: Rmb27.6b, +43.5% yoy), with supernode products starting shipments in 2H26 and large-scale domestic deployment expected in 2027, underpinning strong segment growth from 2027 onwards. Segment gross profit margin (1H26: 15.8%) should stay on an uptrend, supported by stronger ASPs as upstream component cost inflation lifts server pricing, and by rising in-house developed component content over time.
- **For the consumer business,** management guided for 2026 revenue growth of 5-10% yoy with stable margins, underpinned by ASP increases (overseas gaming/feature phones are less price-sensitive, and home terminal prices are rising on memory costs), a cheaper memory inventory stockpile, and mix improvement from the higher-margin AI smart display.

Valuation/Recommendation

- **Maintain HOLD with target price trimmed to HK$22.30,** as we rollover to 2027F PE. Our target price is still based on 13.6x 2027F PE, 2SD below its five-year historical mean.

Earnings Revision/Risk

- We slash our 2026-28F net profit estimates by 34.3%/14.3%/12.4% to Rmb4,876m/Rmb6,753m/Rmb7,716m respectively, as we factor in a much lower margin for the carrier network business. This is partially offset by better cost controls, high sales from AI servers and consumer products, as well as better profitability for the non-carrier network business on price hikes and solid inventory managements.

Changes to 2026-28 estimates

Year to 31 Dec	--------- Old estimates -------			--------- New estimates --------			------- Differences (%) --------		
(Rmbm)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Revenue	148,930	168,506	186,367	155,478	176,864	198,845	4.4	5.0	6.7
Gross profit	43,679	47,574	52,729	41,142	46,326	52,017	(5.8)	(2.6)	(1.3)
Operating profit	6,298	7,133	8,374	3,361	5,648	6,880	(46.6)	(20.8)	(17.8)
Reported NP	7,427	7,880	8,809	4,876	6,753	7,716	(34.3)	(14.3)	(12.4)
GPM (%)	*29.3*	*28.2*	*28.3*	*26.5*	*26.2*	*26.2*	*(2.9)*	*(2.0)*	*(2.1)*
OPM (%)	*4.2*	*4.2*	*4.5*	*2.2*	*3.2*	*3.5*	*(2.1)*	*(1.0)*	*(1.0)*
NPM (%)	*5.0*	*4.7*	*4.7*	*3.1*	*3.8*	*3.9*	*(1.9)*	*(0.9)*	*(0.8)*

Source: ZTE, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	133,895	155,478	176,864	198,845
EBITDA	7,567	6,596	9,090	10,288
Deprec. & amort.	(4,352)	(3,235)	(3,442)	(3,408)
EBIT	3,215	3,361	5,648	6,880
Total other non-operating income	2,488	1,627	1,627	1,627
Associate contributions	373	373	373	373
Net interest income/(expense)	227	16	(190)	(348)
Pre-tax profit	6,303	5,377	7,458	8,532
Tax	(738)	(538)	(746)	(853)
Minorities	53	37	41	37
Net profit	5,618	4,876	6,753	7,716

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	13,422	13,208	12,907	12,560
Other LT assets	60,384	61,345	61,377	61,590
Cash/ST investment	25,482	30,145	27,867	25,619
Other current assets	118,451	118,014	129,572	141,281
Total assets	217,739	222,712	231,724	241,049
ST debt	3,629	3,629	3,629	3,629
Other current liabilities	75,631	94,235	107,370	120,738
LT debt	45,713	45,713	45,713	45,713
Other LT liabilities	17,126	17,126	17,126	17,126
Shareholders' equity	75,426	61,831	57,748	53,743
Minority interest	216	179	138	101
Total liabilities & equity	217,739	222,712	231,724	241,049

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	3,919	18,372	11,484	12,519
Pre-tax profit	6,303	5,377	7,458	8,532
Tax	(7,648)	(7,648)	(7,648)	(7,648)
Depreciation/amortization	4,352	3,235	3,442	3,408
Associates	(373)	(373)	(373)	(373)
Working capital changes	(7,769)	55	(4,810)	(4,905)
Non-cash items	9,055	17,726	13,415	13,506
Other operating cashflows	-	-	-	-
Investing	(6,876)	(11,759)	(12,072)	(12,420)
Capex (growth)	(3,893)	(4,321)	(4,463)	(4,622)
Investments	(1,422)	(5,720)	(5,720)	(5,720)
Proceeds from sale of assets	-	-	-	-
Others	(1,561)	(1,717)	(1,889)	(2,078)
Financing	530	(1,951)	(1,689)	(2,347)
Dividend payments	(4,368)	(1,951)	(1,689)	(2,347)
Issue of shares	-	-	-	-
Net proceeds from borrowings	5,473	-	-	-
Others/interest paid	(575)	-	-	-
Net cash inflow (outflow)	(2,427)	4,663	(2,278)	(2,249)
Beginning cash & cash equivalent	28,026	25,482	30,145	27,867
Changes due to forex impact	(117)	-	-	-
Ending cash & cash equivalent	25,482	30,145	27,867	25,619

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	30.3	26.5	26.2	26.2
Pretax margin	4.7	3.5	4.2	4.3
Net margin	4.2	3.1	3.8	3.9
ROA	2.6	2.2	2.9	3.2
ROE	7.6	7.1	11.3	13.8
Growth				
Turnover	10.4	16.1	13.8	12.4
Gross profit	(11.9)	1.6	12.6	12.3
Pre-tax profit	(31.7)	(14.7)	38.7	14.4
Net profit	(33.3)	(13.2)	38.5	14.3
Net profit (adj)	(33.3)	(13.2)	38.5	14.3
EPS	(34.0)	(13.2)	38.5	14.3
Leverage				
Debt to total capital	22.7	22.2	21.3	20.5
Debt to equity	65.4	79.8	85.4	91.8
Net debt to equity	20.7	31.0	37.2	44.1
Interest cover (x)	(14.2)	(209.9)	29.7	19.8