

ZTE Corporation (H/A)

Upgrade to Buy: carrier softness well known, server take-off to drive re-rating

PO: 32.00 HKD | Price: 27.90 HKD

Upgrade to Buy from Neutral on server take-off

We upgrade ZTE-H/ZTE-A to Buy from Neutral, with new POs of HK\$32/CNY45. The server business saw robust expansion in 2024, as China telco/CSP orders took off. Though earnings may under pressure near term due to soft carrier business (~50% mix), we believe ZTE deserves a re-rating on (1) China IDCs' positive outlook, (2) share-gain potential amid increasing server demand, and (3) in-house CPU. After 10-20% correction from Feb, ZTE-H/ZTE-A trade still trades below the last peak in 1H23 (led by AI sentiment) and at a discount to China server peers. We see the valuation supported by China IDC's re-rating given market's rising confidence on server. Southbound shows a strong holding power for H-share at 53% and short interest percentage down to 10% vs Jan high point of 30%.

Server starts to shine, edge in in-house CPU

We see the market has been focusing on ZTE's server biz, and the soft carrier business is well flagged. Its server sales nearly doubled YoY to CNY10bn in 2024 (8% mix), led by breakthrough at China CSPs and rising delivery to telcos. ZTE also started shipment of AI server from 4Q24. We expect growth to remain robust into 2025-26, given CSPs' strong capex (BAT +64%/19% in 2025/26E) and China telcos' focus on IDC. ZTE is one of the few vendors in China that can provide both in-house CPU and system design. We believe this strengthens ZTE's competitiveness amid domestic replacement demand. Also, ZTE is well-regulated under the US's 10-year compliance supervision (till 2028), which provides the firm an edge in accessing advanced semi compared to other China peers.

Lift ZTE-H/ZTE-A POs to HK\$32/CNY45

We cut 2025-26E earnings by 12-17% to reflect the margin pressure and the soft carrier business. However, we lift ZTE-H's PO to HK\$32 (13x 2026E P/E) from HK\$21 (8x 2025E P/E), and lift ZTE-A's PO to CNY45 (20x 2026E P/E) from CNY31 (13x 2025E P/E). We roll over ZTE-H's/ZTE-A's valuation base to 2026 and apply a higher multiple of 13x/20x, matching the trading range seen during the last AI-driven market in 1H23.

Estimates (Dec) (CNY)	2023A	2024A	2025E	2026E	2027E
Net Income (Adjusted - mn)	9,326	8,425	9,397	10,854	12,572
EPS	1.95	1.76	1.96	2.27	2.63
EPS Change (YoY)	14.3%	-9.7%	11.5%	15.5%	15.8%
Dividend / Share	0.68	0.62	0.69	0.79	0.92
Free Cash Flow / Share	2.80	1.56	0.344	1.81	1.50
Valuation (Dec)					
P/E	13.0x	14.9x	13.3x	11.5x	9.9x
Dividend Yield	2.7%	2.4%	2.6%	3.0%	3.5%
EV / EBITDA*	3.0x	3.5x	3.2x	2.8x	2.5x
Free Cash Flow Yield*	68.0%	37.9%	8.3%	43.9%	36.5%

* For full definitions of *IQmethod*SM measures, see page 13.

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Refer to important disclosures on page 14 to 17. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

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Timestamp: 11 March 2025 04:30PM EDT

12 March 2025

Equity

Key Changes

(CNY)	Previous	Current
Inv. Opinion	C-2-7	C-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	HK\$21.00	HK\$32.00
2025E EPS	2.37	1.96
2026E EPS	2.58	2.27
2027E EPS	NA	2.63
2025E EBITDA (m)	15,628.4	13,002.8
2026E EBITDA (m)	16,787.8	14,619.0
2027E EBITDA (m)	NA	16,904.7

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Stock Data

Rating (H Share)	BUY
Rating (A Share)	BUY
Price (H Shr / A Shr)	27.90 HKD / 37.06 CNY
Price Objective	32.00 HKD / 45.00 CNY
Date Established	12-Mar-2025 / 12-Mar-2025
Investment Opinion	C-1-7 / B-1-7
52-Week Range	14.66 HKD- 35.45 HKD
52-Week Range	23.30 CNY- 44.66 CNY
Mkt Val / Shares Out (mn)	2,713 USD / 755.5
Market Value (mn)	21,079 HKD
Average Daily Value (mn)	183.32 USD
Free Float	100.0%
BofA Ticker / Exchange	ZTCOF / HKG
BofA Ticker / Exchange	SHZZF / SHZ
Bloomberg / Reuters	763 HK / 0763.HK
Bloomberg / Reuters	000063 CH / 000063.SZ
ROE (2025E)	12.6%
Net Dbt to Eqty (Dec-2024A)	17.5%

For acronyms, please refer to page 9

iQprofileSM ZTE Corporation (H/A)

Key Income Statement Data (Dec)	2023A	2024A	2025E	2026E	2027E
(CNY Millions)					
Sales	124,251	121,299	130,399	144,868	161,442
Gross Profit	51,601	45,988	47,118	51,016	55,576
Sell General & Admin Expense	(15,804)	(13,378)	(13,408)	(13,930)	(14,823)
Operating Profit	9,172	7,403	8,449	10,003	11,862
Net Interest & Other Income	1,031	1,827	1,800	1,800	1,800
Associates	NA	NA	NA	NA	NA
Pretax Income	10,203	9,230	10,249	11,803	13,662
Tax (expense) / Benefit	(962)	(874)	(852)	(949)	(1,091)
Net Income (Adjusted)	9,326	8,425	9,397	10,854	12,572
Average Fully Diluted Shares Outstanding	4,783	4,783	4,783	4,783	4,783

Key Cash Flow Statement Data

Net Income	9,326	8,425	9,397	10,854	12,572
Depreciation & Amortization	4,569	4,538	4,554	4,616	5,042
Change in Working Capital	(297)	4,364	(8,506)	(3,018)	(6,621)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	3,808	(5,847)	0	0	0
Cash Flow from Operations	17,406	11,480	5,446	12,451	10,993
Capital Expenditure	(4,005)	(4,015)	(3,800)	(3,800)	(3,800)
(Acquisition) / Disposal of Investments	(17,040)	(25,299)	0	0	0
Other Cash Inflow / (Outflow)	143	641	0	0	0
Cash Flow from Investing	(20,901)	(28,672)	(3,800)	(3,800)	(3,800)
Shares Issue / (Repurchase)	1,676	374	0	0	0
Cost of Dividends Paid	(4,836)	(5,419)	(2,951)	(3,292)	(3,802)
Cash Flow from Financing	7,372	(5,818)	(2,951)	(3,292)	(3,802)
Free Cash Flow	13,401	7,465	1,646	8,651	7,193
Net Debt	(25,405)	12,793	14,266	8,740	5,349
Change in Net Debt	7,223	22,734	1,306	(5,360)	(3,391)

Key Balance Sheet Data

Property, Plant & Equipment	13,372	14,178	14,581	17,351	18,480
Other Non-Current Assets	29,081	51,357	50,765	46,615	44,244
Trade Receivables	20,822	21,288	18,222	20,760	24,179
Cash & Equivalents	78,543	43,885	42,413	47,939	51,330
Other Current Assets	59,140	76,614	81,569	98,146	108,210
Total Assets	200,958	207,323	207,550	230,811	246,443
Long-Term Debt	42,576	44,059	44,059	44,059	44,059
Other Non-Current Liabilities	7,020	7,519	7,519	7,519	7,519
Short-Term Debt	10,562	12,620	12,620	12,620	12,620
Other Current Liabilities	72,468	70,016	67,756	79,496	86,358
Total Liabilities	132,627	134,213	131,953	143,693	150,555
Total Equity	68,331	73,110	75,597	87,118	95,888
Total Equity & Liabilities	200,958	207,323	207,550	230,811	246,443

iQmethodSM - Bus Performance*

Return On Capital Employed	9.9%	8.0%	8.1%	8.7%	9.2%
Return On Equity	14.6%	11.9%	12.6%	13.3%	13.7%
Operating Margin	7.4%	6.1%	6.5%	6.9%	7.3%
EBITDA Margin	11.1%	9.8%	10.0%	10.1%	10.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.9x	1.4x	0.6x	1.1x	0.9x
Asset Replacement Ratio	2.0x	1.9x	1.7x	1.7x	1.4x
Tax Rate (Reported)	9.4%	9.5%	8.3%	8.0%	8.0%
Net Debt-to-Equity Ratio	-37.2%	17.5%	18.9%	10.0%	5.6%
Interest Cover	2.9x	2.1x	3.0x	3.6x	4.2x

Valuation (A-share)

P/E	19.01x	21.04x	18.86x	16.33x	14.10x
Dividend Yield	1.84%	1.66%	1.86%	2.14%	2.48%
EV / EBITDA*	12.45x	14.33x	13.16x	11.70x	10.12x
Free Cash Flow Yield*	8.98%	5.00%	1.10%	5.80%	4.82%

* For full definitions of iQmethodSM measures, see page 13.

Company Sector

IT Hardware

Company Description

Established in 1985, ZTE designs, manufactures, installs and distributes carriers networks (wireless, wireline and optical & data communication systems), serves government/corporates with back-end equipment like server/switch etc, and also has exposure in consumer market like home connectivity and smartphone. ZTE is a major telecom equipment vendor in China and also a global vendor with solid momentum in emerging markets.

Investment Rationale

We have a Buy rating on ZTE and expect the company to be a key beneficiary amid China IDC upcycle. We believe ZTE deserves a re-rating on (1) China IDC's more positive outlook, (2) share gain potential amid increasing server demand, and (3) in-house CPU.

Key Changes (A-sh)

(CNY)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	31.00	45.00
2025E EPS	2.37	1.96
2026E EPS	2.58	2.27
2027E EPS	NA	2.63



Upgrade to Buy, lift POs

We upgrade ZTE-H/ZTE-A to Buy from Neutral with new POs of HK\$32/CNY45. The server business saw robust expansion in 2024 as China telco/CSP order finally took off. Although earnings could remain under pressure near term due to server margin dilution and the soft carrier business (~50% mix), we believe ZTE deserves a re-rating on (1) China IDCs' more positive outlook, (2) share-gain potential amid increasing server demand, and (3) in-house CPU.

After the 10-20% correction from February, ZTE-H/ZTE-A trade at 13x/19x 2025E P/E, below the last peak seen in 1H23 (led by AI sentiment) and at a discount to China server peers (Exhibit 7). We believe valuation will be supported by China IDC names' re-rating backed by the market's rising confidence in server demand, following potential acceleration of AI applications. Names like Inspur/UNIS/Sugon/Fiberhome all got re-rated, especially since Jan 2025, as DeepSeek is getting traction (Exhibit 5). Also, Southbound holding percentage of ZTE-H has risen to 53% (from <40% before Oct 2024) and short interest dropped to 10% (from Jan-Feb high level of 20-30%) (Exhibit 8, Exhibit 9).

We cut 2025-26E earnings by 12-17% to reflect the margin pressure and the soft carrier business. However, we lift ZTE-H's PO to HK\$32 (13x 2026E P/E) from HK\$21 (8x 2025E P/E). We lift ZTE-A's PO to CNY45 (20x 2026E P/E) from CNY31 (13x 2025E P/E). We roll over ZTE-H's/ZTE-A's valuation base to 2026 and apply higher multiples of 13x/20x (both at historical trading average since 2019), reflecting ZTE's server delivery and the market's more positive outlook on China IDC industry. The 13x/20x P/E also matches with ZTE-H's/ZTE-A's trading range seen during the last AI-driven market in 1H23. We change our valuation method for ZTE-A from using 60% premium to the multiple used for ZTE-H to using stock's historical trading average since 2019 (same method used for ZTE-H). We see the valuation gap between ZTE-A and ZTE-H becoming quite volatile since late 2023, and any material difference may overvalue or undervalue ZTE-A. We thus believe using the stock's own historical valuation trend is more suitable.

Exhibit 1: Earnings estimate change, 2025-26E

We cut 2025-26E earnings by 12-17%

(CNY mn)	2025E			2026E		
	New	Old	Diff (%)	New	Old	Diff (%)
Sales	130,399	129,912	0.4	144,868	139,677	3.7
Gross Profit	47,118	51,023	-7.7	51,016	54,570	-6.5
Gross margin	36.1%	39.3%	-3.1	35.2%	39.1%	-3.9
Operating income	8,449	10,869	-22.3	10,003	11,920	-16.1
Operating margin	6.5%	8.4%	-1.9	6.9%	8.5%	-1.6
Pretax income	10,249	12,469	-17.8	11,803	13,520	-12.7
Pretax margin	7.9%	9.6%	-1.7	8.1%	9.7%	-1.5
Net income	9,397	11,359	-17.3	10,854	12,340	-12.0
Net margin	7.2%	8.7%	-1.5	7.5%	8.8%	-1.3
EPS (CNY)	1.96	2.37	-17.3	2.27	2.58	-12.0

Source: BofA Global Research estimates

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Exhibit 2: BofAe-vs consensus, 2025-26E

Our earnings for 2025E is 5% below consensus we are model conservatively on margins, and 2026E estimate is 3% above consensus due to mainly to tax rate difference

(CNY mn)	2025E			2026E		
	BofAe	Consensus	Diff (%)	BofAe	Consensus	Diff (%)
Sales	130,399	131,480	-0.8	144,868	140,690	3.0
Gross Profit	47,118	50,191	-6.1	51,016	52,831	-3.4
Gross margin	36.1%	38.2%	-2.0ppt	35.2%	37.6%	-2.3ppt
Operating income	8,449	10,682	-20.9	10,003	11,446	-12.6
Operating margin	6.5%	8.1%	-1.6ppt	6.9%	8.1%	-1.2ppt
Pretax income	10,249	11,003	-6.9	11,803	11,739	0.6
Pretax margin	7.9%	8.4%	-0.5ppt	8.1%	8.3%	-0.2ppt



Exhibit 2: BofAe-vs consensus, 2025-26E

Our earnings for 2025E is 5% below consensus we are model conservatively on margins, and 2026E estimate is 3% above consensus due to mainly to tax rate difference

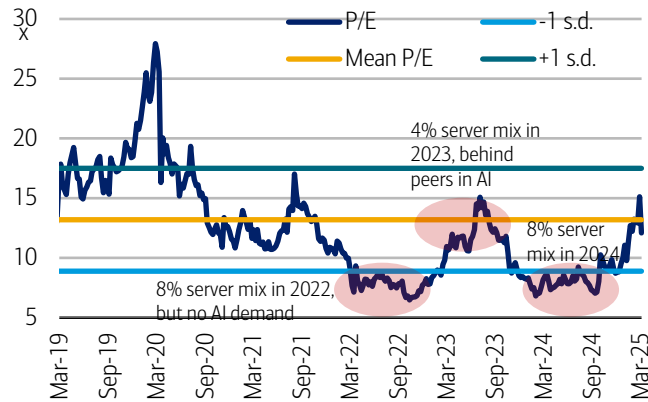
(CNY mn)						
Net income	9,397	2025E	9,901	-5.1	10,854	2026E
Net margin	7.2%		7.5%	-0.3ppt	7.5%	3.1
EPS (CNY)	1.96		2.07	-5.1	2.27	2.20
						3.1

Source: BofA Global Research estimates, Bloomberg consensus

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Exhibit 3: ZTE-H's 1-year forward P/E trend since 2019

The stock trades at slightly below -1 standard deviation

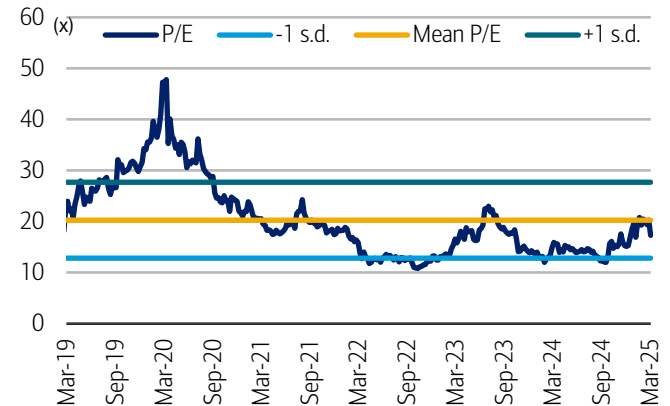


Source: BofA Global Research

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Exhibit 4: ZTE-A's 1-year forward P/E trend since 2019

The stock trades at slightly below -1 standard deviation

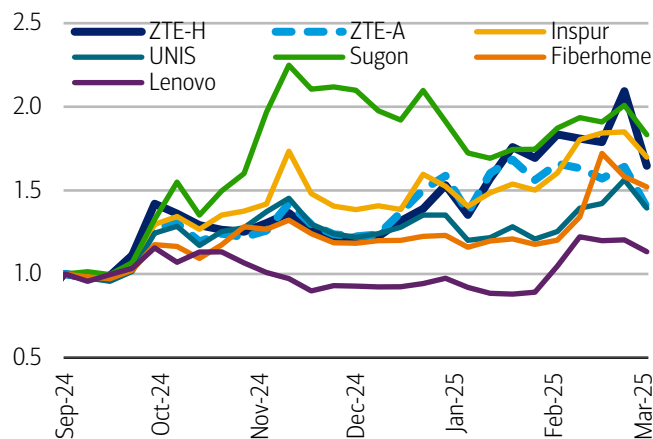


Source: BofA Global Research

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Exhibit 5: Relative performance of server peers' valuation trend since Sep 2024

ZTE-H/ZTE-A re-rated following major China server names' re-rating, especially from Jan 2025

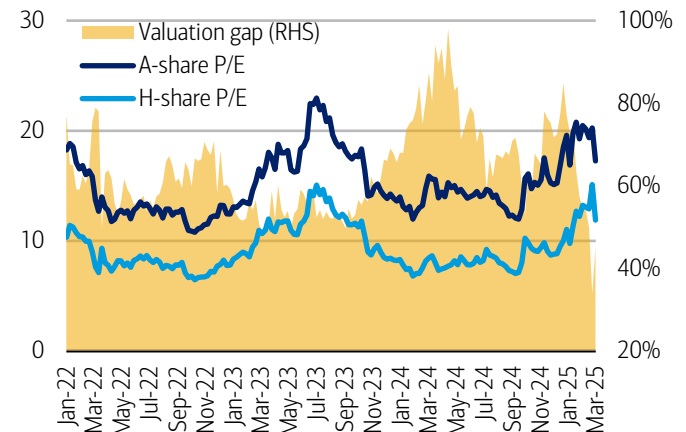


Source: BofA Global Research

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Exhibit 6: Valuation gap between ZTE-H and ZTE-A

Valuation gap became more volatile from 2024



Source: BofA Global Research

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Exhibit 7: Valuation comparison among networking equipment and server peers

ZTE-A/ZTE-H trades at a discount to majority of China peers, especially those who engage extensively in IDC industry (UNIS, Inspur, Sugon)

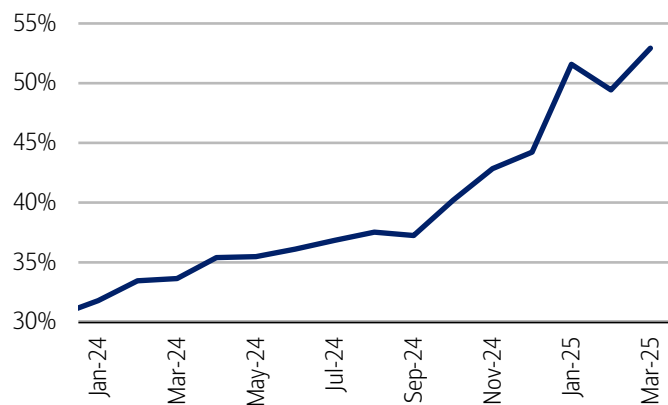
Ticker	Company	Server mix (24)	Share price (LC)	Mkt cap (US\$m)	EPS (LC)		P/E (x)		P/B (x)		Div. yield (%)		ROE (%)
					25E	26E	25E	26E	25E	26E	25E	26E	
000063 CH	ZTE-A	8%	37.1	23,343	1.96	2.27	18.9	16.3	2.3	2.0	1.8	2.1	12.6
763 HK	ZTE-H	8%	27.9	23,343	1.96	2.27	13.4	11.6	1.7	1.4	2.6	3.0	12.6
China peers													
600498 CH	Fiberhome	<5%	25.6	3,955	0.79	0.95	30.5	25.4	2.0	1.9	0.9	0.9	6.5
600522 CH	ZTT	0%	14.3	6,641	1.21	1.39	11.6	10.2	1.2	1.1	2.1	2.6	10.7
600487 CH	Hengtong	0%	16.3	5,427	1.37	1.62	11.6	9.8	1.2	1.1	1.2	1.5	10.9
000938 CH	UNIS	<60%	30.7	11,522	1.05	1.22	27.8	23.9	2.8	2.4	0.7	0.9	10.9
000977 CH	Inspur	100%	61.4	11,967	1.99	2.45	29.6	24.0	3.8	3.3	0.4	0.5	13.3
603019 CH	Sugon	100%	73.5	14,300	1.74	2.11	40.7	33.6	4.6	4.1	0.6	0.7	11.4
992 HK	Lenovo	20%	12.5	19,989	0.13	0.15	12.7	11.0	2.6	2.2	3.0	3.0	24.1
Average							25.3	21.2	2.6	2.3	1.0	1.2	10.6
Overseas peers													
NOK US	Nokia	0%	5.1	28,814	0.30	0.34	16.0	14.4	1.2	1.2	2.7	2.7	7.6
ERIC US	Ericsson	0%	8.4	28,175	0.46	0.51	17.1	15.4	2.7	2.5	3.1	3.1	16.3
Average							16.5	14.9	2.0	1.9	2.9	2.9	12.0

Source: Company data, BofA Global Research estimates, Bloomberg consensus

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Exhibit 8: Holdings via HK/Shenzhen stock connect for ZTE-H rose to over 50%+...

Holdings rose from below 40% before Oct 2024 to 31% in March 2025

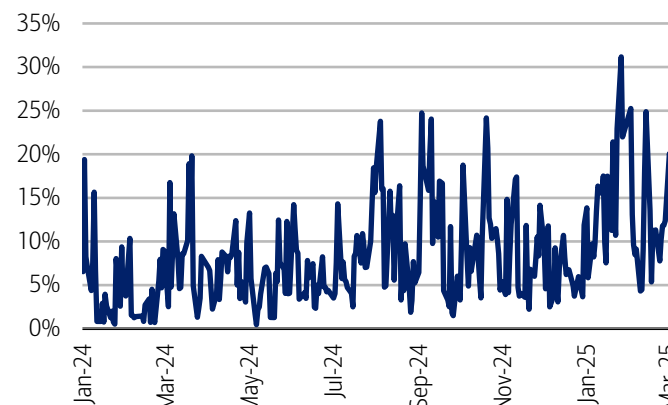


Source: Wind

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Exhibit 9: ...Short interest turnover% rose sharply during Jan 2025 but declined since Feb

Short interest turnover percentage dropped since Feb



Source: Bloomberg

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4Q24/2024 earnings review

ZTE's 4Q earnings missed BofAe/consensus by 69%/70% at CNY518mn (-76% QoQ, -65% YoY) due to slow carrier sales and soft margin. We note ZTE's quarterly financials could be quite volatile sometimes as the timing of revenue recognition of key projects and the types of projects recognized in a particular quarter (e.g., base station vs. server) could have material impact on the sales and margin profiles.

For full-2024, revenue missed BofAe/consensus slightly by 3%/4% due to the slower carrier business, which was partially offset by growing server/consumer business. Net income missed BofAe/consensus by 12%/13% due mainly to portfolio mix changes (more server contribution, esp. in 4Q), as well as competition at overseas projects.

Exhibit 10: 4Q24 earnings review

4Q net income missed BofAe/consensus by 69%/70% at CNY518mn (-76% QoQ, -65% YoY) due to slow carrier sales and soft margin

(CNY mn)	4Q23	3Q24	4Q24	QoQ %	YoY %	BofAe
Revenue	34,857	27,557	31,254	13.4%	-10.3%	34,323
Gross profit	12,561	11,120	9,579	-13.9%	-23.7%	13,402
Gross margin (%)	36.0%	40.4%	30.6%	-9.7	-5.4	39.0%
Operating Income	869	1,725	96	-94.5%	-89.0%	2,144
Operating margin (%)	2.5%	6.3%	0.3%	-6.0	-2.2	6.2%
Pre-tax Income	1,742	2,247	705	-68.6%	-59.5%	1,944
Pre-tax margin (%)	5.0%	8.2%	2.3%	-5.9	-2.7	5.7%
Net Income	1,485	2,174	518	-76.2%	-65.1%	1,652
Net margin (%)	4.3%	7.9%	1.7%	-6.2	-2.6	4.8%
EPS (CNY)	0.31	0.45	0.11	-76.2%	-65.1%	0.35

Source: Company data, BofA Global Research estimates, Bloomberg consensus



Exhibit 10: 4Q24 earnings review

4Q net income missed BofAe/consensus by 69%/70% at CNY518mn (-76% QoQ, -65% YoY) due to slow carrier sales and soft margin

(CNY mn)	4Q23	3Q24	4Q24	QoQ %	YoY %	BofAe
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Exhibit 11: 2024 earnings review

ZTE's 2024 earnings missed BofAe/consensus by 12%/13% at CNY8.4bn (-10% YoY) due to slower margin

(CNY mn)	2023	2024	YoY %	BofAe	Diff (%)	Consensus	Diff (%)
Revenue	124,251	121,299	-2.4%	124,368	-2.5%	126,761	-4.3%
Gross profit	51,601	45,988	-10.9%	49,811	-7.7%	50,874	-9.6%
Gross margin (%)	41.5%	37.9%	-3.6	40.1%	-2.1	40.1%	-2.2
Operating Income	9,172	7,403	-19.3%	9,451	-21.7%	10,290	-28.1%
Operating margin (%)	7.4%	6.1%	-1.3	7.6%	-1.5	29.2%	-23.1
Pre-tax Income	10,203	9,230	-9.5%	10,468	-11.8%	10,706	-13.8%
Pre-tax margin (%)	8.2%	7.6%	-0.6	8.4%	-0.8	30.4%	-22.8
Net Income	9,326	8,425	-9.7%	9,559	-11.9%	9,692	-13.1%
Net margin (%)	7.5%	6.9%	-0.6	7.7%	-0.7	27.5%	-20.6
EPS (CNY)	1.95	1.76	-9.7%	2.00	-11.9%	2.03	-13.1%

Source: Company data, BofA Global Research estimates, Bloomberg consensus

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Server starts to shine, edge in in-house CPU

We see the market has been focusing more on ZTE's server opportunity since late-2024, and the soft carrier momentum has been well flagged since early 2024. ZTE's server sales nearly doubled YoY to CNY10bn in 2024 (8% mix), led by its breakthrough at China CSPs (ByteDance/BAT, etc.) and rising delivery to telcos. ZTE also started shipment of AI server from end-2024. We believe growth will remain robust into 2025-26, backed by CSPs' strong cloud capex (BAT capex +64%/19% in 2025/26E) and China telcos' focus on datacenters. The company will report 1Q25 results in late Apr and we expect management to illustrate more positive guidance on server business.

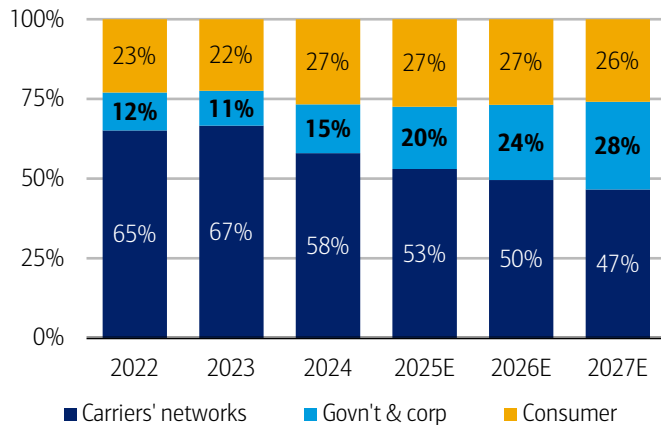
We also believe ZTE's in-house chipset capability will help strengthen its competitiveness and set a long-term positive, especially amid China's rising domestic replacement demand. ZTE is currently one of a few server vendors in China that can provide total solutions from chip (Zhufeng CPU, 7nm) to system. We see ZTE is well-regulated under US' 10-year compliance supervision (2018-28), which provides the firm an edge in accessing advanced semi compared to rest China peers. Sanecchip, ZTE's semis subsidiary has been developing in-house chipset for years and covers various networking equipment, set-top boxes, modems, Fiber-to-the-Room (FTTR) related products, as well as CPU. So far, 85-90% products are used in-house and are a key contributor behind ZTE's rising gross margin (GM) at carrier business. We see China telcos, who serve various enterprises, are key names in driving server domestic replacement, and ZTE is likely to be one of the key beneficiaries amid the trend.

We take note of local news reporting that ZTE is developing ASIC chips for ByteDance, which also partially drove company's valuation. We note ASIC design requires rich experience and usually takes years to enter mass production. Although the company did not confirm the news, we highlight that ZTE has been doing customized chips for its own products for years and also has similar delivery for China telcos. The rising needs of AI training/inferencing could bode well for ZTE's semi business in the long-term.



Exhibit 12: ZTE's sales breakdown by key business, 2022-27E

ZTE sells server to both carriers and enterprises, and we expect rising sales contribution from government/corporates business thanks to its server expansion

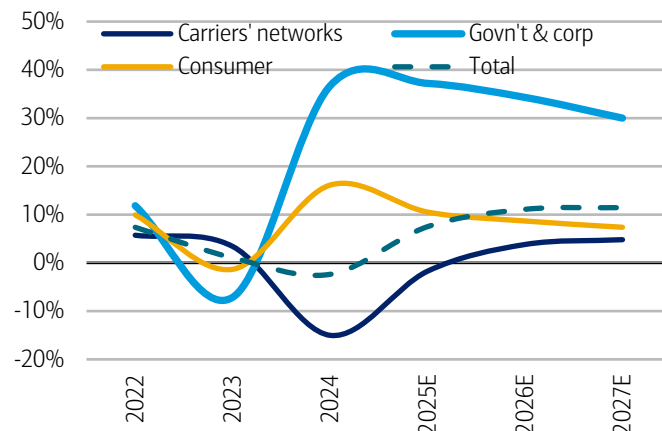


Source: Company data, BofA Global Research estimates

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Exhibit 13: ZTE's sales growth by key business, 2022-27E

Sales growth of government/corporates to speed up led by rising delivery at China CSPs



Source: Company data, BofA Global Research estimates

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Exhibit 14: BAT's capex trend, 2018-26E

The market expects BAT's capex to grow by 64%/19% in 2025/26

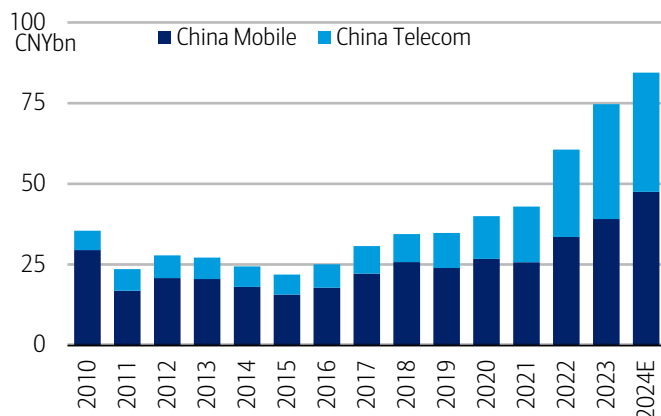
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E
Alibaba	34,005	31,315	35,716	44,174	48,357	23,897	75,887	110,804	139,675
Baidu	8,772	6,428	5,084	10,896	8,286	11,190	8,134	11,876	12,697
Tencent	22,184	27,122	39,417	31,006	23,205	21,365	21,365	50,349	54,358
Total	64,961	64,865	80,217	86,076	79,848	56,452	105,386	173,029	206,730
YoY									
Alibaba	48%	-8%	14%	24%	9%	-51%	218%	46%	26%
Baidu	84%	-27%	-21%	114%	-24%	35%	-27%	46%	7%
Tencent	83%	22%	45%	-21%	-25%	-8%	0%	136%	8%
Total	63%	0%	24%	7%	-7%	-29%	87%	64%	19%

Source: Bloomberg consensus

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Exhibit 15: China Mobile and China Telecom – IDC related capex, 2009-24E

Capex started growing since 2021, with rapid expansion in 2023-24E

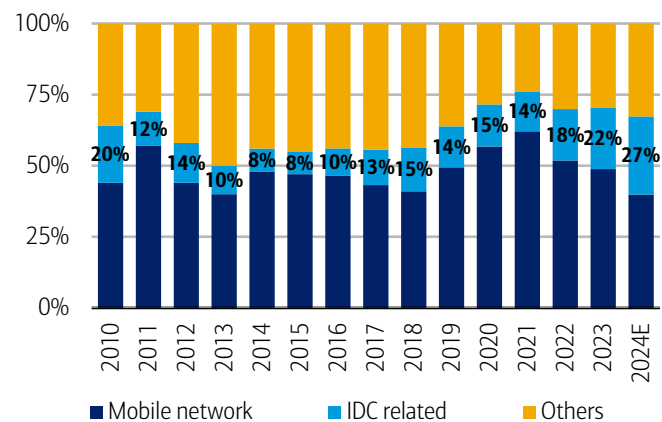


Source: Company data, BofA Global Research

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Exhibit 16: China Mobile's capex breakdown, 2010-24E

China Mobile's capex allocation towards IDC related has been rising rapidly since 2022



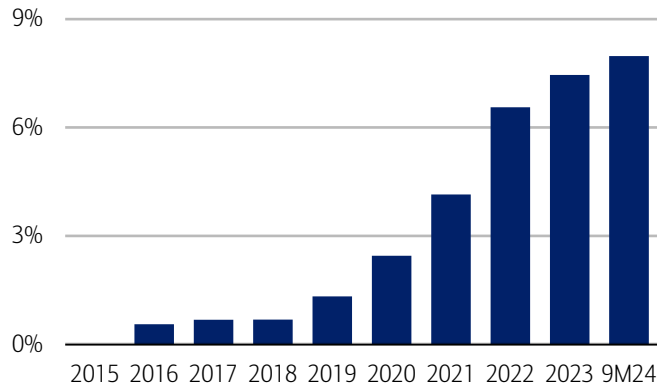
Source: Company data, BofA Global Research

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Exhibit 17: ZTE's x86 server market share in China, 2015-9M24

ZTE had a strong market share expansion since 2022, driven by domestic replacement demand and its delivery across telco/CSPs

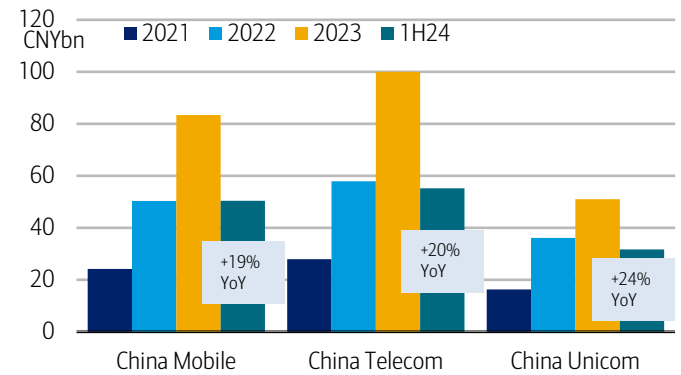


Source: IDC

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Exhibit 18: China telcos' cloud revenue trend, 2021-1H24

China telcos' cloud revenue maintained robust expansion in 1H24, with double-digit YoY growth



Source: Company data, BofA Global Research

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Exhibit 19: ZTE's quarterly income statement, 2023-27E

We model 16% earnings CAGR in 2025-27E

CNY mn	1Q24	2Q24	3Q24	4Q24	1Q25E	2Q25E	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	2023	2024	2025E	2026E	2027E
Sales	30,578	31,909	27,557	31,254	29,692	33,450	33,112	34,411	32,398	36,055	37,732	36,466	124,251	121,299	130,664	142,650	156,076
Gross profit	12,850	12,439	11,120	9,579	11,884	12,455	12,655	10,605	12,301	13,059	13,842	11,290	51,601	45,988	47,598	50,492	53,542
OP profit	3,006	2,576	1,725	96	2,412	2,454	3,086	935	2,517	2,856	3,730	751	9,172	7,403	8,887	9,854	10,915
Pretax profit	3,207	3,070	2,247	705	3,062	3,104	3,736	785	3,167	3,506	4,380	601	10,203	9,230	10,687	11,654	12,715
Net income	2,741	2,991	2,174	518	2,603	2,948	3,549	683	2,692	3,331	4,161	523	9,326	8,425	9,783	10,706	11,712
EPS (CNY)	0.57	0.63	0.45	0.11	0.54	0.62	0.74	0.14	0.56	0.70	0.87	0.11	1.96	1.76	2.05	2.24	2.45
Margins																	
Gross margin	42.0%	39.0%	40.4%	30.6%	40.0%	37.2%	38.2%	30.8%	38.0%	36.2%	36.7%	31.0%	41.5%	37.9%	36.4%	35.4%	34.3%
OP margin	9.8%	8.1%	6.3%	0.3%	8.1%	7.3%	9.3%	2.7%	7.8%	7.9%	9.9%	2.1%	7.4%	6.1%	6.8%	6.9%	7.0%
Pretax margin	10.5%	9.6%	8.2%	2.3%	10.3%	9.3%	11.3%	2.3%	9.8%	9.7%	11.6%	1.6%	8.2%	7.6%	8.2%	8.2%	8.1%
Net margin	9.0%	9.4%	7.9%	1.7%	8.8%	8.8%	10.7%	2.0%	8.3%	9.2%	11.0%	1.4%	7.5%	6.9%	7.5%	7.5%	7.5%
QoQ																	
Sales	-12%	4%	-14%	13%	-5%	13%	-1%	4%	-6%	11%	5%	-3%					
Gross profit	2%	-3%	-11%	-14%	24%	5%	2%	-16%	16%	6%	6%	-18%					
OP profit	246%	-14%	-33%	-94%	2423%	2%	26%	-70%	169%	13%	31%	-80%					
Pretax profit	84%	-4%	-27%	-69%	334%	1%	20%	-79%	303%	11%	25%	-86%					
Net income	85%	9%	-27%	-76%	402%	13%	20%	-81%	294%	24%	25%	-87%					
YoY																	
Sales	5%	1%	-4%	-10%	-3%	5%	20%	10%	9%	8%	14%	6%	1%	-2%	8%	9%	9%
Gross profit	-1%	-6%	-13%	-24%	-8%	0%	14%	11%	4%	5%	9%	6%	13%	-11%	4%	6%	6%
OP profit	-5%	5%	-35%	-89%	-20%	-5%	79%	878%	4%	16%	21%	-20%	6%	-19%	20%	11%	11%
Pretax profit	4%	3%	-6%	-60%	-5%	1%	66%	11%	3%	13%	17%	-23%	17%	-10%	16%	9%	9%
Net income	4%	6%	-8%	-65%	-5%	-1%	63%	32%	3%	13%	17%	-23%	15%	-10%	16%	9%	9%

Source: Company data, BofA Global Research estimates

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Acronyms

AI: artificial intelligence

ASIC: application specific integrated circuit

BAT: Baidu, Alibaba, Tencent

CPU: central processing unit

CSP: cloud service provider

