Regional Industry Focus

Technology

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Jan 2026

2026 outlook: Volatility, Validity, Value

- 2026 is anticipated to further extend the semiconductor upcycle, with semiconductor revenue growth of 32.6%/12.6% in 2026/27
- We foresee a longer memory cycle; prefer backend equipment makers and advanced packaging. Our pick: TSMC
- Premiumisation and increasing adoption of foldables to drive consumer tech upside. We like: BYDE, Sunny Optical, Lenovo, Lens Tech
- UMS and Frencken well positioned to benefit from semiconductor uptrend and firmer downstream recovery

2026: AI holds centre stage, leadership broadens. We expect continued market volatility, a broadening of market leadership, and rising skepticism around AI. The semiconductor upcycle appears prolonged and more stable, with industry revenue growth projected at a strong 32.6% in 2026 and 12.6% in 2027, following an estimated 21.0% expansion in 2025, according to Gartner. However, gains for early AI winners are likely to moderate. Any setbacks at major global AI players such as OpenAI could trigger near-term sell-offs, while potentially accelerating rotation into Chinese AI beneficiaries.

Longer memory cycle; prefer backend and advanced packaging. Across the value chain, we favour a prolonged memory upcycle into 2027/28, with 30%-40% y/y growth in DRAM and NAND revenue in 2026. Attention is shifting from front-end to backend equipment and advanced packaging, where earnings momentum and risk-reward are more attractive. TSMC remains a key beneficiary as foundry capex tilts toward advanced nodes and packaging.

Premiumisation and foldables drive consumer tech upside. BYD Electronics and Lens Technology are well positioned to ride on the foldables trend. Optic is entering a new upcycle, with margin recovery already evident at Sunny Optical and Largan Precision. AI PC is the next leg of value growth, benefiting leaders like Lenovo through premiumisation and higher average selling prices (ASPs). In servers, rising AI rack densities and China's push for self-sufficiency are tightening power and thermal constraints, benefiting Innoscience and BaTelab.

In Singapore tech, we favour UMS and Frencken, both leveraged to the semiconductor uptrend and a firmer downstream recovery.

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STOCKS

	Price LCY	Mkt Cap USDmn	12-mth Target LCY	Performance (%) 3 mth	12 mth	Rating
BYD Electronic	44.10	10,718	49.00	-16.7	-13.0	BUY
Frencken Group	1.44	480	1.92	-6.5	23.1	BUY
Lenovo Group	8.78	13,976	20.00	-25.0	-7.9	BUY
Lens Tech	26.42	25,206	na	-17.8	na	NR
Sunny Optical	63.85	8,970	110.00	-28.3	2.7	BUY
TSMC (USD)	318.68	1,652,835	346.00	4.6	53.9	BUY
UMS Integration	1.43	791	1.85	-4.0	36.2	BUY

Source: DBS, Bloomberg
Closing price as of 7 Jan 2026

Outlook for the key technology segment

Segment	Outlook Projection
Semiconductor	A longer and more stable upcycle
Memory	Longer upcycle, expect softer landing in end 2027/2028
Foundry	Node acceleration led by AI growth, China growth, packaging constraints
Equipment maker	Front-end resilient, back-end ready to outperform
Consumer Electronics	Smartphone: premiumisation and foldables drive the cycle PCs: AI PC mix supports value growth
Server/Power semiconductor	Power and cooling are emerging key bottlenecks in AI infrastructure

Source: DBS

ed: BM/ sa: SM, PY, CS

2026: An extension of 2025, with AI holding centre stage

Taking stock of our 2025 calls. Our projections for 2025 largely materialised, with key nuances. **AI** remained at the forefront, with winners broadening beyond Nvidia to include AMD and Broadcom. **Memory** entered a 'supercycle', outperforming on robust high-bandwidth memory (HBM) demand and a stronger recovery in conventional memory. **Equipment makers** benefitted from increased capex and AI tailwinds, further supported by the fading US-China trade tensions. While **automotive & industrials** experienced a lacklustre recovery from trough levels, **consumer** segments proved more resilient than expected despite prevailing tariff and inflation headwinds.

Our 2025 themes: Forecast vs. outcome

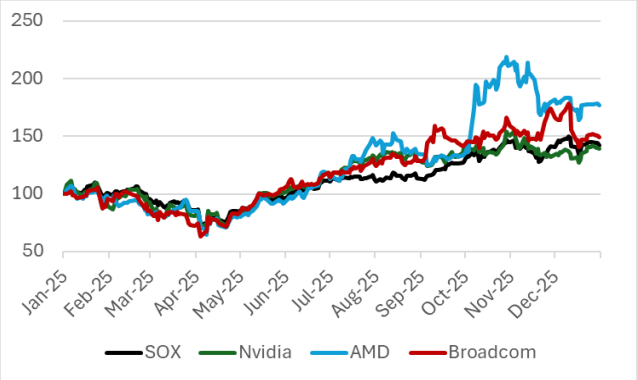
2025 themes	How it panned out
AI retained centre stage	Nvidia became the world's most valuable stock, driven by sustained AI/data centre (DC) momentum
Sustained memory growth, albeit with slower momentum	Sector entered 'supercycle' with market-leading YTD performances
Equipment makers walking a tightrope	Balance shifted to the upside as trade tensions did not materialise
L-shaped recovery for automotive and industrials	Lacklustre recovery was observed, reflected in still-subdued sentiment
Downstream consumer electronics as a compelling investment	Proved more resilient than expected, despite macroeconomic concerns

Source: DBS

2026: An extension of 2025. 2026 is poised to mirror the triumphs and turbulence of 2025, characterised by 1) persistent market volatility, 2) broadening of market leadership, and 3) AI skepticism – factors that are likely to remain at the forefront in 2026.

The semiconductor market remained resilient, despite a "wall of worry" throughout 2025. This included events such as the "DeepSeek shock" in January, US Liberation Day, the threat of 100% sector tariffs, and more recent concerns regarding an AI bubble. While the SOX Index delivered another spectacular year of returns (anchored by Nvidia's ascent to a USD4tn market capitalisation), we nevertheless anticipate a more cautious shift ahead. The broadening rally observed in 2025, alongside the relative underperformance of AI bellwether Nvidia, suggests that the "easy money" phase of indiscriminate buying is likely over, with active stock picking and positioning becoming increasingly important.

Shares of AI bellwether Nvidia underperformed amid robust AI/DC momentum in 2025



Source: DBS, Refinitiv

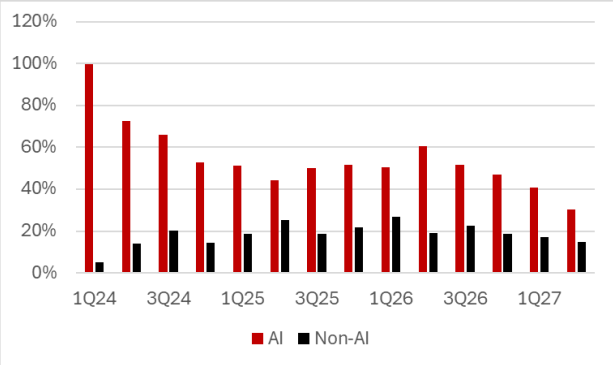
2026: AI holds centre stage

AI/DC: Execution risk trumps bubble fears. Close to three years into the ongoing AI boom, fundamentals continue to validate the bullish AI narrative, as AI-exposed semiconductor companies consistently deliver revenue and earnings growth that substantially outpaces their non-AI peers. In our view, the more pertinent near-term risk lies not in speculative bubble dynamics, but rather in execution – specifically, whether industry leaders can meet their ambitious targets regarding revenue goals, total addressable market (TAM) expansion, and projected revenue growth rates. **Broadcom's** sharp post-result sell-off is a clear illustration of instances where companies fail to deliver on, and align with, investors' lofty expectations.

OpenAI, a key factor shaping the AI plays. OpenAI is a central force shaping today's AI landscape, defining both the technological frontier and the commercial adoption of advanced AI through models that have become foundational tools for governments, enterprises, and developers worldwide. Its influence extends across industry, with major technology players such as Nvidia, AMD, and Broadcom maintaining strategic partnerships with OpenAI. As such, OpenAI's trajectory, particularly the success or strain of its large-scale fundraising and execution, has the potential to materially shape the direction and pace of global AI development. Conversely,

any meaningful setback at OpenAI could accelerate the relative rise of Chinese AI players such as Baidu, Alibaba, and Tencent, which operate within a largely self-contained domestic AI ecosystem.

AI stocks underpinned by elevated revenue growth outlook (y/y, %)



Source: DBS, VisibleAlpha. Data as of 5 Jan
AI stocks: NVDA, AVGO, MRVL, AMD; Non-AI stocks: 25 global semiconductor peers

Challengers to Nvidia's dominant position emerged throughout 2025, and we anticipate their intensity to increase in 2026. The debate is expected to shift toward the efficacy of Google's Tensor processing units (TPUs) (designed by Broadcom) versus Nvidia's graphics processing unit (GPU) dominance. This shift will occur alongside the emergence of cheaper and promising alternatives from AMD, and further technological and industry advancements, such as the transition from AI training to inference. The broadening of value creation across the AI stack should foster the emergence of more winners beyond Nvidia.

Beneficiaries broadening in the AI value chain

Company	Revenue targets
Nvidia	Combined USD500bn AI revenue for CY2025 and 2026
AMD	60% revenue CAGR for data centre segment over next 3-5 years
Broadcom	USD73bn in AI backlog to be delivered over the next 18 months

Source: DBS, Companies

Nvidia's great tussle. The volatility induced by Nvidia in 2H25 is likely to extend into 2026. While the broadening AI ecosystem poses a threat to its dominance, Nvidia's stellar execution, characterised by double-digit y/y revenue growth and superior margins, remains undeniable. However, we are also attentive to any signs of a potential stumble that could lead to widespread market volatility, given Nvidia's role as the primary sentiment proxy for the entire AI investment thesis alongside its systemic market importance, i.e., commanding >10% of the SOX Index and 8% of the S&P 500.

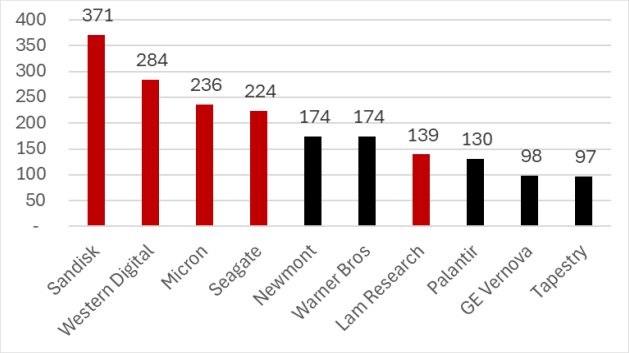
Balancing Nvidia's stellar execution with its status as world's largest stock

Period	Revenue (USD'bn)	y/y chg (%)	Guidance (USD'bn)	q/q chg (USD' bn)	Gross margins	Mkt Cap (USD' bn)
1Q24	7.2	n.m.	6.5	n.m.	66.8%	938
2Q24	13.5	101.5	11	4.5	71.2%	1,165
3Q24	18.1	205.5	16	5	75.0%	1,203
4Q24	22.1	265.3	20	4	76.7%	1,963
1Q25	26	261.1	24	4	78.9%	2,553
2Q25	30	122.2	28	4	75.7%	2,884
3Q25	35.1	93.9	32.5	4.5	75.0%	3,592
4Q25	39.3	77.8	37.5	5	73.5%	2,932
1Q26	44.1	69.6	43	5.5	71.3%*	3,396
2Q26	46.7	55.7	45	2	72.7%	4,378
3Q26	57	62.4	54*	9	73.6%	4,390
4Q26F	-	-	65	11	75.0%	4,532

*Source: DBS, Company *Excluding H20 export control impact*

Memory: This time is different. The shift in market leadership observed in 2025 is best exemplified by memory-related stocks, which significantly outperformed both the broader industry and the wider market. This outperformance is underpinned by a structural 'supercycle' that decouples the memory sector from its past boom-bust cycles. This is driven by explosive demand for AI-related HBM and a robust recovery in the conventional memory space. Micron's latest pivot to focus on the HBM market, following its exit from the crucial consumer business, clearly signals the future opportunities it perceives in AI and associated memory markets.

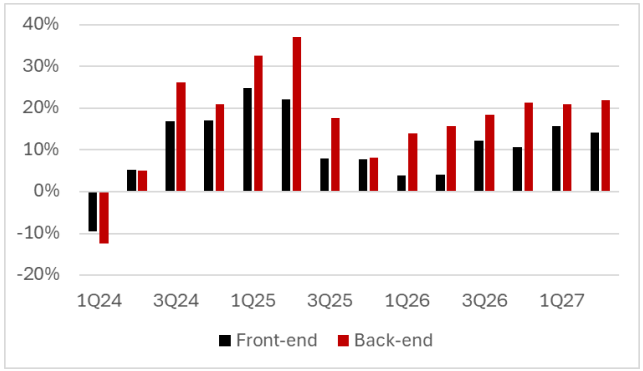
Memory stocks dominate S&P 500's top returns in 2025



Source: DBS, Bloomberg. Based on Bloomberg MOV function

Equipment: Back-end offers better value. We anticipate the bifurcation amongst equipment makers to narrow in 2026, with better relative value emerging in the back-end space. Meaningful re-rating has thus far been concentrated amongst front-end makers, especially those with higher leading-edge logic and memory exposure. However, more attractive valuations and outpacing revenue/earnings growth are expected to pique investor interest in back-end equipment makers. Teradyne is a case in point here, demonstrating a doubling of its share price since our earlier call in Jul 25.

Back-end equipment underpinned by stronger revenue growth outlook (%, y/y)



Source: DBS, VisibleAlpha. Data as of 5 Jan
Front-end: AMAT, Lam Research, ASML, KLAC, Tokyo Electron; Back-end: Teradyne, Advantest, BE Semi, KLIC, ASM Pacific

Consumer: Multi-pronged strategy ahead

The consumer segment is expected to enter 2026 with increased optimism, following a resilient 2025 despite tariffs and inflation fears. This outlook is anchored by two distinct catalysts: 1) specification-led upgrades are re-accelerating, driven by Apple's inaugural foldable iPhone which is anticipated to drive mainstream adoption as well as demand for high-margin components; and 2) the strategic inroads made by key consumer players (e.g., Lenovo, BYD Electronics) into China's AI server supply chain, which provides a strong secondary growth driver as domestic AI infrastructure scales.

In the server space, as AI rack densities increase and China advances towards self-sufficiency, power delivery and thermal management are becoming critical bottlenecks, boosting capex on gallium nitride (GaN) power devices, advanced power management integrated circuits (PMICs) and liquid cooling – areas where China's domestic ecosystem is increasingly well positioned.

Autos & Industrials: Stay selective amid uneven recovery. The divergence in YTD performance within the analog and microcontroller unit (MCU) segments is likely to persist into 2026, necessitating selective positioning. As the recovery of the automotive and industrials end markets continues to unfold in 2026, opportunities remain for beneficiaries (e.g., Analog Devices, Infineon) of rising AI adjacency – particularly in power management (e.g., GaN, PMICs) for AI infrastructure and edge computing applications. This trend is also reflected in their relatively stronger revenue and earnings growth projections.

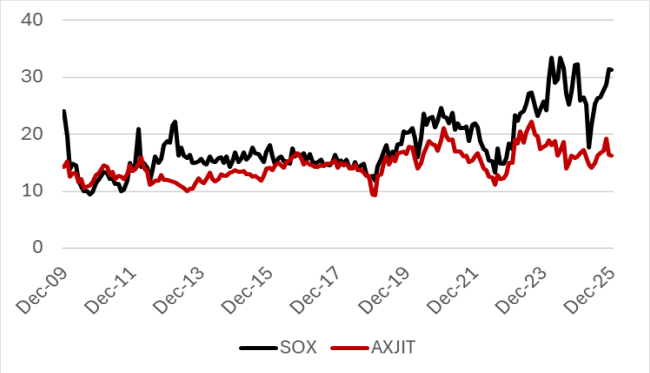
2025 performance amongst MCU/Analog players

Stock	YTD returns	12-mth forward growth (y/y)		Latest FY (% of revenue)	
		Revenue	Earnings	Industrials	Autos
Analog Devices	27.6%	18.4%	26.3%	45%	30%
Infineon	20.2%	11.5%	19.4%	40%	50%
Renesas	4.6%	5.5%	n.m.	15%	52%
Texas Instruments	-7.5%	8.0%	2.7%	34%	35%
STMicro	-7.6%	6.9%	58.9%	20%	46%
ONSEMI	-14.1%	0.6%	-3.1%	25%	55%

Source: DBS, Bloomberg, VisibleAlpha. Data as of 5 Jan

Asia Tech: From participation to leadership. We view Asia technology as a potential beneficiary amidst shifting leadership and active positioning. The narrowing performance gap between Asia ex-Japan technology and the SOX Index, as well as robust YTD gains for Asia technology names, clearly signals that the technology boom is no longer confined to the US – indicating huge scope for valuation catch-up. Leading-edge foundry and memory leaders in Asia occupy key positions in the global AI supply chain, with further potential impetus from China's drive towards high-value manufacturing and self-sufficiency.

12-mth forward PE valuations of SOX vs. AxJ Info Tech



Source: DBS, Bloomberg

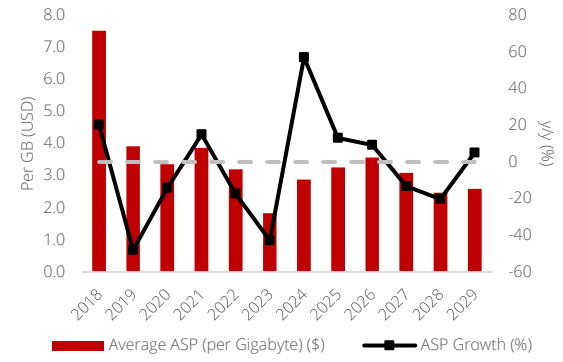
Memory: Longer memory upcycle, expect softer landing in end-2027/2028

AI demand sparks a stronger, more extended memory upcycle. The memory market is entering a stronger, structurally different upcycle, underpinned by surging AI-related demand for both DRAM, especially HBM, and NAND. Hard disk drive (HDD) shortages have exacerbated existing NAND supply tightness just as AI infrastructure solid state drive (SSD) demand accelerates, consequently pushing ASPs higher. Despite prevailing macroeconomic uncertainty, AI storage spending in 2026 is expected to lift NAND prices by 24%, driving 45% revenue growth to USD93.8bn, with this momentum anticipated to spill into 2027 as hyperscalers shift to all-flash architectures. DRAM remains the principal engine of this cycle, with memory spending forecast to rise by 20.2% in 2025 and 13.4% in 2026, according to Gartner. This growth is largely driven by manufacturers expanding HBM capacity amid severe supply constraints. Industry leaders such as Samsung and SK Hynix have maintained robust supply discipline by cutting wafer starts and delaying new capacity, measures that have accelerated inventory drawdowns and contributed to price stabilisation.

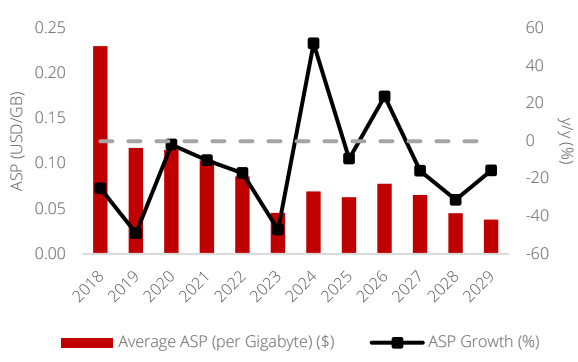
Memory capex takes the lead. NAND investment is also rising as suppliers respond to tightening supply conditions, with spending projected to grow 3.8% in 2025 to USD20.5bn and a further 21.4% in 2026 to USD24.8bn. DRAM capex is projected to surge 29.2% in 2025 to USD48.3bn and rise a further 10.2% in 2026 to USD53.2bn, reflecting the industry's multiyear race to secure HBM supply for AI accelerators. The growth in memory capex outpaces the overall semiconductor capex, which is forecast to increase by 7.2% in 2025 and 8.8% in 2026.

Expecting upcycle to turn in late 2027. The next memory downcycle, likely triggered by oversupply, is projected to commence only in late 2027, with spending flattening throughout 2027 before a sharp decline in 2028 and a subsequent recovery emerging in 2029. However, this cycle may diverge from traditional boom-bust patterns. Market sentiment has evolved to recognise HBM as a strategic enabler for AI performance, rather than merely a commoditised memory product. Furthermore, AI servers now require substantially more DRAM and NAND content compared to traditional cloud infrastructure. These structural shifts, combined with more robust supply discipline, could render memory pricing and profitability more resilient than in previous cycles.

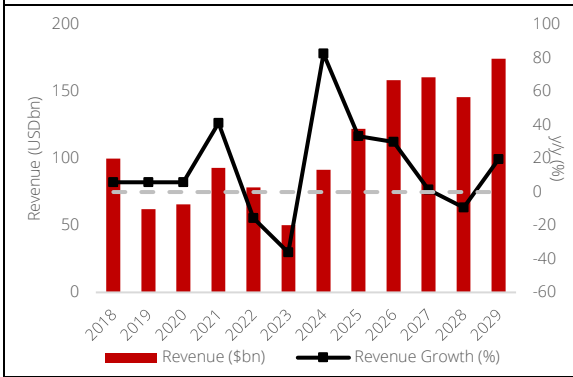
DRAM ASP trend



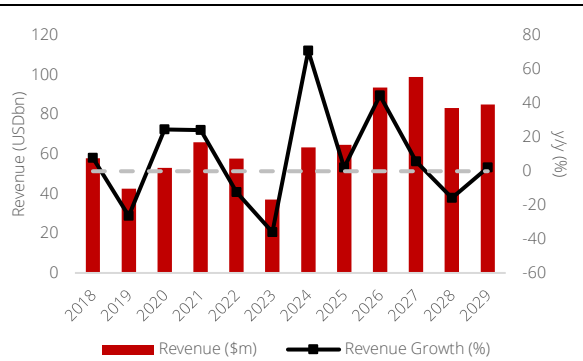
NAND ASP trend



DRAM revenue trend



NAND revenue trend



Source: Gartner; DBS

Source: Gartner; DBS

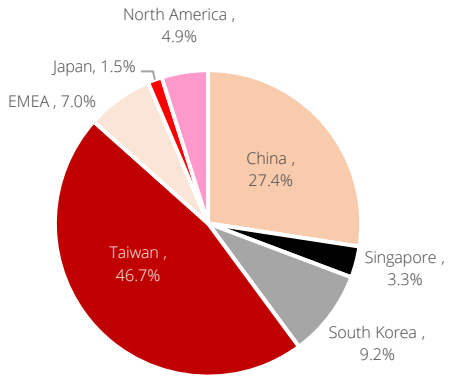
Foundry – AI growth, node acceleration, China growth, packaging constraints

AI demand shifts foundry growth towards leading edge and advanced packaging. From 2026 onward, the foundry segment will be increasingly shaped by AI, with growth tied primarily to AI accelerators, edge AI, and AI-enabled devices, rather than traditional smartphone or PC demand. Advanced-node capacity at 3nm and 2nm is expected to remain tight due to hyperscaler and accelerator requirements, while backend capacity for advanced packaging, such as chip on wafer on substrate (CoWoS), system on integrated chip (SoIC), and 2.5D/3D integration, continues to be a critical bottleneck. Node migration is also accelerating, with TSMC, Samsung, and Intel ramping their next-generation 2nm/gate-all-around field-effect transistor (GAAFET) nodes from 2025-2026. Adoption of these nodes is likely to be faster than the previous transition from 5nm to 3nm, driven by AI's imperative for performance-per-watt gains and system-level optimisation that integrates HBM and advanced packaging.

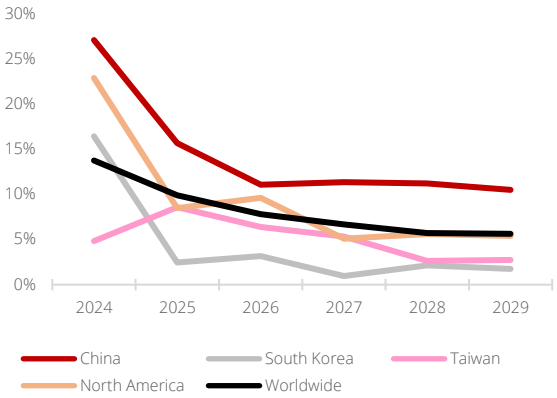
Advanced packaging bottlenecks take centre stage. Advanced packaging itself is emerging as a strategic chokepoint, with CoWoS-type capacity remaining a constraint in the industry and lead times stretching well into 2026. Foundries are increasingly embedding advanced packaging into their core offerings, shifting towards full-stack solutions that combine front-end silicon with backend integration. Correspondingly, capex is tilting heavily towards packaging expansion, particularly for TSMC. At the same time, reshoring and geo-diversification efforts are reshaping the industry's global footprint. Large government subsidies in regions such as the US, Japan, Korea, and Europe are accelerating new fab investments in these respective regions. This diversification, however, comes with structurally higher operating costs and margin pressure for offshore fabs.

China's mature-node surge reshapes global foundry dynamics. China's aggressive expansion in mature-node capacity is reshaping the competitive landscape, potentially displacing other players just as mature technologies – 28nm, 40nm, and 90nm – are regaining strategic importance for automotive, industrial, IoT, and power applications. With **SMIC** and **Hua Hong** driving a push toward semiconductor self-sufficiency, China now accounts for 27.4% of global foundry capacity, positioning it second only to Taiwan. Furthermore, it is projected to deliver the fastest capacity CAGR during 2024-2029, at 12% versus the global 7%. Meanwhile, foundry capex remains elevated and is increasingly weighted towards AI through 2027, driven by 2nm/GAAFET ramps, AI silicon demand, and advanced packaging investments. However, utilisation risks may emerge by 2027-2028 following a supply-heavy buildout, compounded by rising cost pressures as scaling efficiency weakens below 2nm. These challenges reinforce the growing importance of chiplet architectures, design-technology co-optimisation (DTCO), and advanced packaging as the next critical levers for cost and performance optimisation.

Foundry capacity by region, 2025



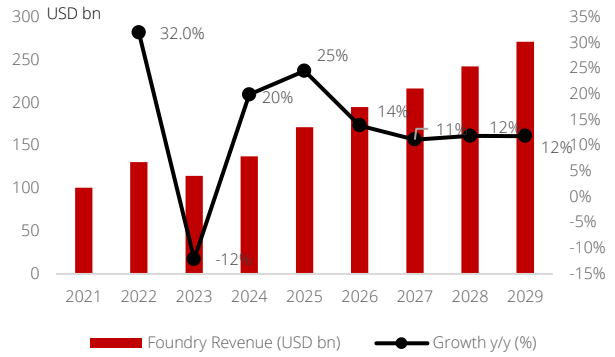
China leads global capacity growth



Source: Gartner; DBS

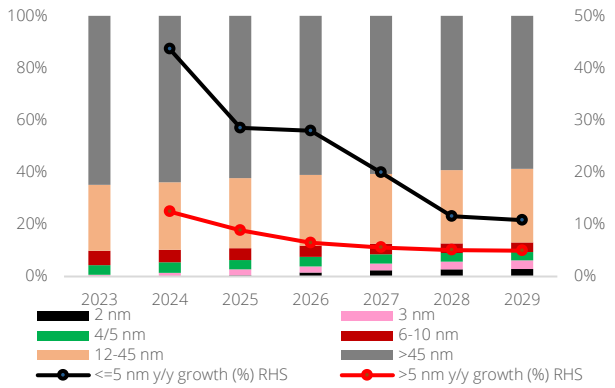
Overall, from 2026 onward, the foundry landscape will be defined by AI-centric growth, accelerated node transitions, packaging bottlenecks, global diversification, and higher structural costs. The key winners in this environment will be those capable of scaling 2nm production, expanding advanced packaging capabilities, and effectively integrating HBM, all while navigating geopolitical tensions and managing utilisation risks. TSMC remains the clear industry leader, commanding over 55% market share and demonstrating sustained yield leadership.

Foundry revenue vs. growth rate



Source: Gartner; DBS

Foundry capacity* by technology node

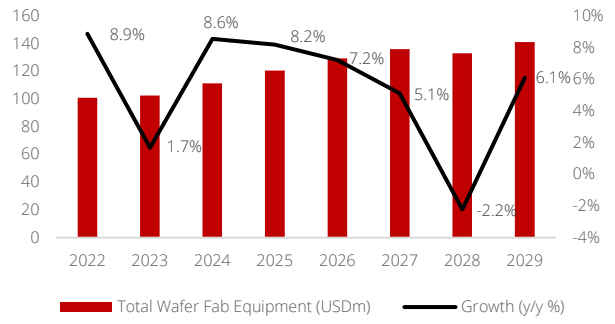


** based on 8-inch equivalent wafers*
Source: Gartner; DBS

Equipment makers: Front-end resilient, back-end ready to outperform

Front-end strength endures, but incremental upside shifts downstream. The semiconductor equipment outlook remains underpinned by strong secular demand, driven by AI compute, hyperscale data centre expansion, and an aggressive migration toward advanced nodes, coupled with continued supply chain diversification. These dynamics continue to support healthy wafer-fab equipment (WFE) spending, which is projected to register 7.2%/5.1% y/y growth in 2026/2027 before a mild cyclical correction in 2028. Front-end leaders have already realised substantial gains as investors factored in a multi-year node transition cycle and the concentration of capex at the leading edge. As a result, while structural demand for front-end tools remains intact, incremental upside from this segment is likely to be more moderated, with investor attention increasingly shifting toward segments offering fresher earnings momentum and more favourable risk-reward profiles.

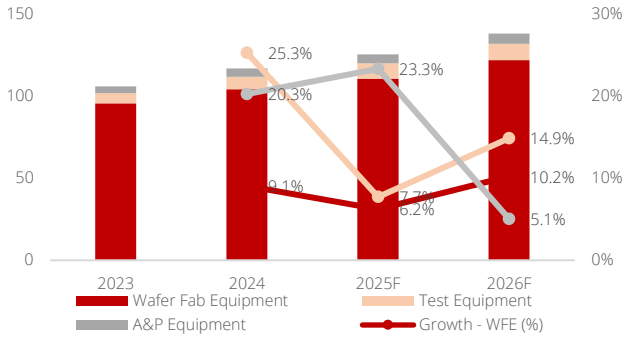
Total wafer fab equipment (USD bn)



Source: Gartner; DBS

Backend equipment as the next focused area. Backend equipment is emerging as the next structural growth lane as the industry shifts from pure node scaling to system-level optimisation. With chiplet-based architectures gaining traction across AI accelerators and CPUs, and HBM demand surging, advanced packaging and test tools are moving to centre stage, pushing outsourced semiconductor assembly and test (OSATs) and integrated device manufacturers (IDMs) to expand and upgrade capacity. The boom in HBM is also triggering a new investment cycle in burn-in, memory test, and thermal-stress equipment, where supply remains constrained. Together, these trends position backend equipment as the next strategic beneficiary of the semiconductor upcycle.

Equipment sales by segment

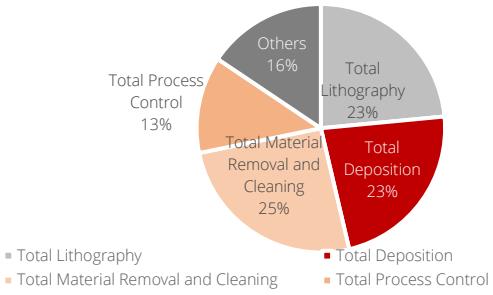


Source: SEMI; DBS

Risks persist, yet structural drivers remain intact. Several key swing factors continue to shape the medium-term outlook. Geopolitical uncertainty continues to affect equipment makers with exposure to China, where restrictions on advanced-node tools could potentially shift capex toward mature-node fabs and backend lines. Nevertheless, Asia Pacific continues to account for the largest share in terms of WFE spending. Meanwhile, regionalisation of chip manufacturing in the US, Europe, Japan, and Southeast Asia is broadening the geographic distribution of demand but simultaneously increasing the complexity of supply chains. Despite these inherent risks, the overall growth outlook remains positive, with ongoing technology transitions and packaging innovation providing sustained drivers for equipment expenditure.

Overall, front-end spending stays healthy across key segments – lithography, etch, deposition and process control. However, the next leg of growth is anticipated to shift to the backend, as system-level architecture emerges as the key performance driver. Advanced packaging and test solutions are poised to lead this next phase.

Semiconductor WFE revenue by major segment



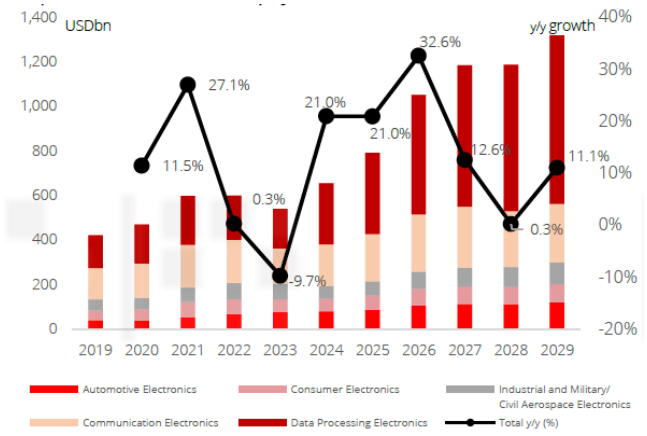
Source: Gartner; DBS

Semiconductor outlook: A longer, stable upcycle ahead

We remain constructive on the semiconductor sector and expect the current uptrend to extend longer than prior cycles. Our positive view is underpinned by several reinforcing drivers: (1) a prolonged memory upcycle, with memory representing roughly 25% of total semiconductor revenue and benefiting from tighter supply discipline and HBM-led demand; (2) accelerating AI-driven foundry growth, alongside an equipment cycle that is increasingly rotating toward backend technologies such as advanced packaging and test; (3) a broadening of AI-driven demand as late-cycle segments, including industrial and automotive, recover; (4) rising momentum in power semiconductors, particularly silicon carbide (SiC) and GaN, as electrification deepens; and (5) potential upside from consumer devices as replacement cycles improve.

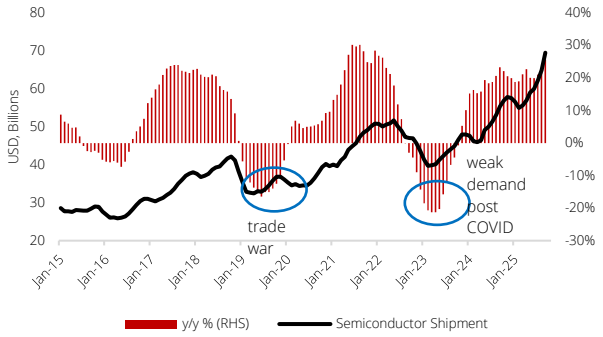
In terms of industry revenues, growth momentum remains intact. Following an estimated 21.0% rebound in 2025, global semiconductor revenue is projected to expand by a strong 32.6% y/y in 2026 and 12.6% y/y in 2027. This reinforces our view that the current cycle is both broader and more durable than previous upturns.

Expect semiconductor upcycle to continue



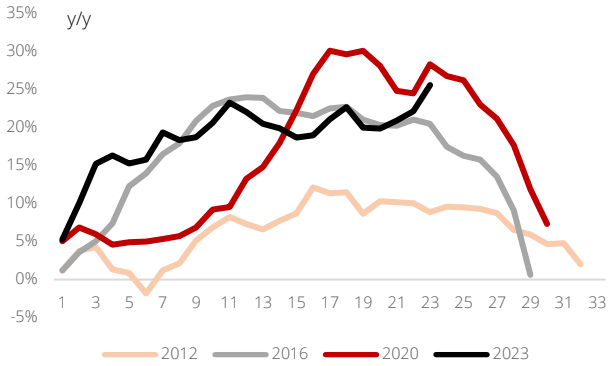
Source: Gartner; DBS

Global shipments – expecting longer uptrend



Source: SIA, CEIC; DBS

Upcycle duration (no. of months)



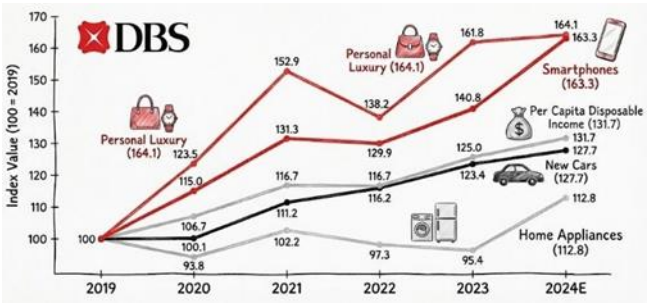
Source: SIA, CEIC; DBS

Consumer Electronics

Smartphone: Premiumisation and foldables drive the cycle

Smartphones: Mix, not units, is driving the next leg of growth. Despite macroeconomic headwinds, smartphones continue to function as an affordable luxury, characterised by structurally higher ASPs and a sustained three to four-year upgrade cycle, even as unit volumes remain below peak levels. Premiumisation, led by "Pro" models and higher-memory variants, now accounts for the majority of handset revenue, particularly in China, where smartphone spending has outpaced other consumer categories. Looking ahead, revenue growth is expected to be supported through 2026 by product mix and pricing rather than unit volumes, with upgrades still primarily driven by hardware improvements as on-device AI remains limited by power and battery constraints.

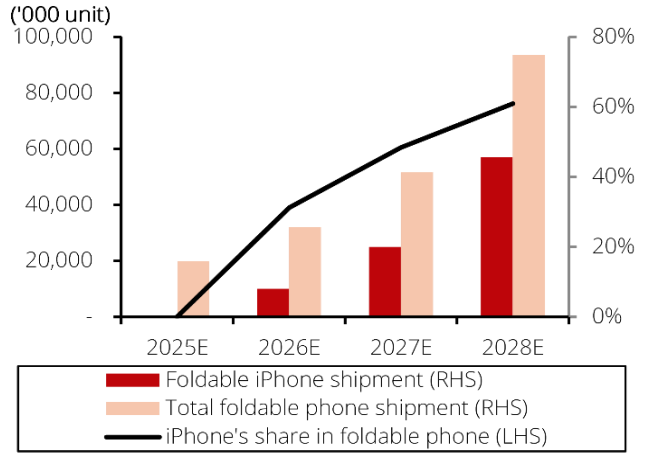
Market growth in luxury categories vs. disposable income (base=2019)



Source: National Bureau of Statistics, DBS

2026: A turning point for foldables. 2026 is poised to be a turning point for foldable smartphones, a segment that has remained niche, constituting ~1%-2% of global units. This limited adoption is attributable to high ASPs (~USD1,200+), durability concerns, and software optimisation gaps. Apple's anticipated foldable iPhone launch in Sep 2026 could serve as a key catalyst, with IDC estimating that it could capture >22% of global foldable unit shipments and ~34% of foldable revenue in its first year. We project foldable iPhone shipments of ~10mn/25mn/57mn units over 2026-28F, which is expected to lift foldables to ~7% of global smartphone units and ~34% of premium-market spending by 2028F. This development is also likely to accelerate adoption and enhance roadmap intensity across Samsung and China original equipment manufacturers (OEMs).

Foldable iPhone shipment and penetration forecast



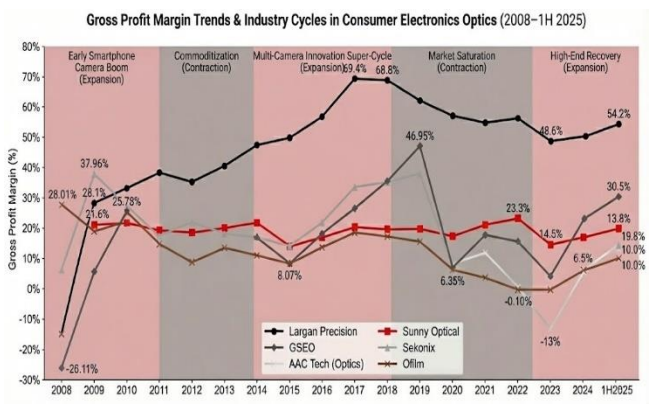
Source: Gartner, DBS

China suppliers positioned to capture the foldable upside. China's tech manufacturing ecosystem stands to be a key beneficiary of the foldable smartphone upcycle. First-generation foldable iPhones are expected to rely heavily on China-based suppliers for complex, high-precision components such as ultra-thin glass (UTG) processing, hinge mechanisms, titanium structural parts, and advanced thermal modules. Core suppliers like **Lens Technology** (which provides UTG and cover glass, hinge components) and **BYD Electronics** (titanium frames and chassis) are particularly well positioned as content value per device is expected to rise materially. We estimate that an Apple foldable device could carry ~USD200+ higher mechanical and material content versus a "slab" phone, driving bill of materials (BOM) inflation, enhancing operating leverage, and leading to share gains for suppliers with proven expertise in UTG yields, precision mechanics, and foldable integration as OEMs scale product quality and volume.

Optics: Early-cycle recovery to multi-year margin upcycle. The consumer electronics optics sector is entering a new upcycle following the 2018-22 downturn, with recovery evident in margin expansion at leading players such as **Sunny Optical** and **Largan Precision**, whose gross margins rebounded to ~20% and ~54%, respectively, in 1H25. The cycle is being driven by a fresh wave of "mega-spec" camera upgrades, including larger sensors, periscope telephoto lenses, multi-camera architectures, and foldable-driven optical complexity. These advancements are collectively lifting value per device and enhancing pricing

power for market leaders with scale. As utilisation normalises and product mix improves, we expect margins to trend back toward prior-cycle peaks by 2027, with Sunny well positioned through the recovery in high-end smartphones and structural growth in auto and augmented reality/virtual reality (AR/VR) optics.

Consumer electronics optics cycles



Source: DBS

PCs: AI PC mix supports value growth. PC demand is stabilising after the post-pandemic downturn, with 2025 shipments rebounding (by ~8%-9% y/y in Q3) and expectations of a multi-year refresh cycle extending into 2026-27, supported by the Windows 10 end-of-life and an ageing installed base (~485mn devices older than four years). The next leg of value growth will be driven by AI PCs, characterised by higher-performance neural processing units (NPUs) and larger memory configurations. Gartner forecasts AI PCs to exceed 50% of the market by 2026, positioning leaders such as Lenovo to benefit from premiumisation and higher ASPs.

However, rising DRAM and NAND prices pose a key margin test for 2026. Cost inflation is anticipated to exert pressure on shipments and margins most acutely in low to mid-tier smartphones and mainstream PCs, segments where pricing power is inherently limited. Counterpoint projects a decline of ~2.1% in smartphone shipments for 2026 due to increasing memory costs. In contrast, premium and scaled OEMs, such as Apple, Lenovo, and Dell, are better positioned to absorb cost pressure through product mix upgrades, enhanced procurement leverage, and superior pricing power, thereby allowing value growth to persist despite component inflation.

AI infrastructure (server) and power semiconductors

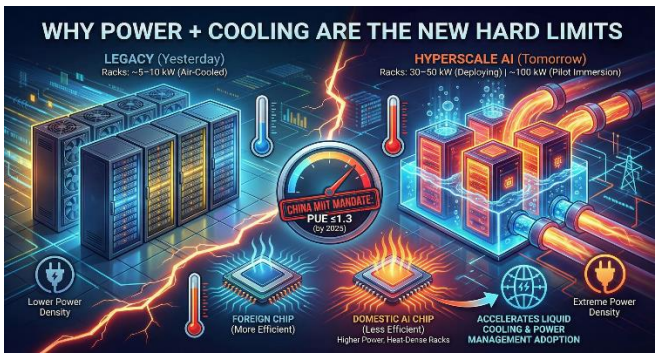
Domestic AI chips scale up, but the power efficiency gap persists. China's AI chip self-reliance drive is entering an execution phase, with US export curbs reducing the share of imported US GPUs in AI accelerator shipments from ~60% in 2024 to ~42% in 2025E. This has concurrently accelerated the adoption of domestic chips, led by Huawei's Ascend and other local platforms. While performance gaps are narrowing, the lower power efficiency of ~7nm domestic accelerators remains a critical constraint, requiring greater scale-out and driving higher data-centre power demand. As AI rack densities rise to 30-50 kW, power delivery and thermal management are becoming prohibitive bottlenecks, thereby boosting capex on **GaN power devices, advanced PMICs, and liquid cooling** – areas where China's domestic ecosystem is increasingly well positioned.

Key China and Nvidia AI chips Comparision

Company	Product	Launch Year	Node	FP16 (TFLOPS)	FP8/Int8 (TFLOPS)	DRAM Interface	Memory Size (GB)	Interconnect Bandwidth (GB/s)	TDP (W)	Power Efficiency FP16 (TFLOPS/W)
Nvidia	**H200**	**2023**	**4nm**	**1979**	**3,958**	**HBM3e**	**141**	**900**	**700**	**2.8**
Nvidia	H100	2022	4nm	990	1,979	HBM3	80	900	700	1.4
Nvidia	H20	2023	4nm	148	296	HBM3	96	900	400	0.4
Huawei	Ascend 910B	2023	7nm	320	640	HBM2e	64	392	400	0.8
Huawei	Ascend 910C	2025	7nm	800	1,600	HBM3	N/A	N/A	N/A	N/A
Cambricon	MLU370	2021	7nm	72	192	HBM2	24	N/A	150	0.5
Cambricon	MLU590	2024	7nm	256	512	HBM2e	N/A	N/A	N/A	N/A
Hygon	DCU III	2025	7nm	192	392	HBM2e	N/A	N/A	350	0.5
Enflame	Cloudblazer T20	2024	N/A	128	256	HBM2e	32	N/A	300	0.4
Enflame	Yunsui i20	2021	N/A	128	256	HBM2e	16	N/A	300	0.4
Alibaba	Pingtouge PPU	2024	7nm	345	N/A	HBM2e	96	700	400	0.4
Baidu	Kunlun P800	2023	7nm	128	N/A	N/A	96	N/A	350	0.4

Source: Tom's Hardware, CCTV.com, Globalfoundries, company, DBS

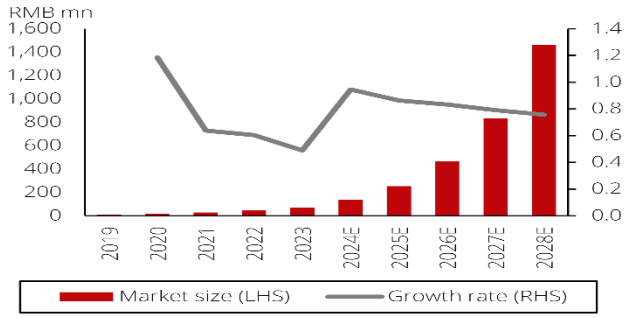
Power and cooling are the new constraints in AI infrastructure



Source: DBS

GaN + PMICs: Power delivery becomes the new bottleneck. GaN power devices are gaining rapid traction in data centres by delivering faster switching and lower losses than silicon MOSFETs, lifting power supply unit (PSU) efficiency to 96%+ in high-voltage-to-48V server architectures and supporting higher power density. The global data centre GaN power semiconductor market is projected to grow at ~81% CAGR during 2024-28E. China is emerging as a significant player in this domain, led by **Innoscience**, which is actively expanding 8-inch GaN capacity and stands as the sole China-based vendor qualified on **Nvidia**'s supplier list for next-generation 800V→48V data centre power architectures.

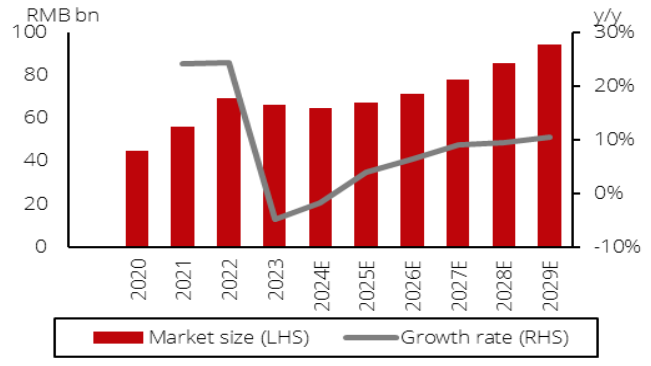
Global GaN power IC market (data centre, 2024-28E)



Source: F&S, DBS

In parallel, server PMICs—critical for regulating high currents at sub-1V rails via multiphase voltage regulator modules (VRMs)—are becoming increasingly localisable, as they can be manufactured on mature nodes without extreme ultraviolet (EUV) lithography. China's analog IC designers, such as **BaTelab**, **SG Micro**, and **Silergy**, are narrowing the gap, with China's PMIC localisation rate expected to rise toward ~40%-50% by 2030 (from <10% today), supported by strong domestic demand from data centres and automotive applications

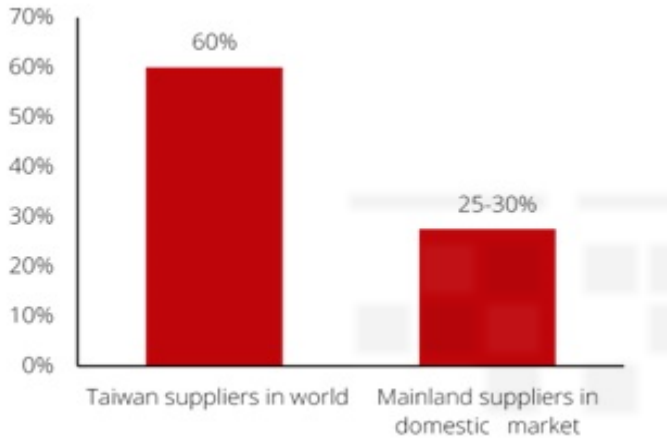
Global PMIC market (communications, 2025-29E)



Source: F&S, DBS

Liquid cooling: From optional to default. As AI rack densities exceed ~20-30 kW, liquid cooling is shifting from an optional feature to a default standard in China's new AI data centres. This includes direct-to-chip cooling becoming standard and immersion cooling being selectively adopted due to its superior energy efficiency (power usage effectiveness [PUE] <1.10 vs. ~1.30 for air cooling). The ecosystem is scaling rapidly, led by OEMs such as Lenovo, Inspur, and Huawei, alongside specialists like Envicool and Glanz, and system integrators such as BYD Electronics, which is supplying NVIDIA-certified liquid-cooling kits. With domestic AI accelerators driving higher thermal loads, liquid cooling is projected to be the default for new AI halls in 2025-26. This trend favours OEMs with strong thermal IP, supporting Lenovo's growing leadership, which is further reinforced by co-development efforts with Alibaba and a rising share in China's AI server market.

Global liquid cooling suppliers: Market share comparison

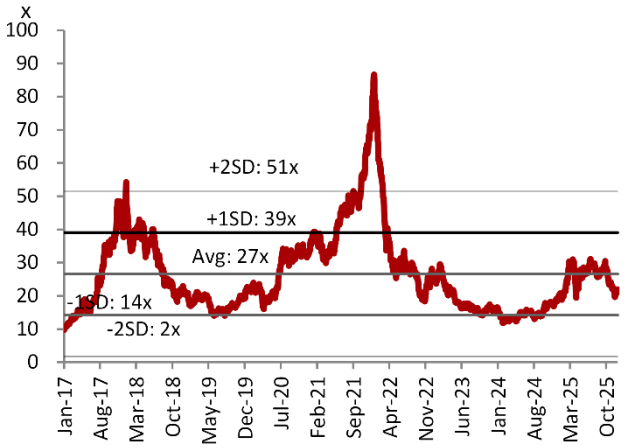


Source: DIGITIMES, DBS

Stocks

China consumer electronics' undemanding valuation: We focus on companies positioned at the nexus of the aforementioned trends – beneficiaries of both the premium consumer device cycle and the AI infrastructure boom – which are currently trading at attractive valuations relative to their growth prospects. The recent market pullback in 2H25 has left many hardware names trading at multi-year low multiples, thereby providing a favourable entry point ahead of the anticipated 2026 upcycle. All our picks exhibit robust earnings CAGR forecasts (>20%-30% over FY24-27F) yet are valued at mid-teens, representing a discount to historical averages. Below, we outline our top picks.

Consumer electronics sector valuation



Source: Thomson Reuters, DBS

Lenovo (992 HK) – BUY, TP HKD20
Lenovo is transforming from a PC leader into a key enabler of China's AI infrastructure surge. Its server business is riding on a "supercycle" of AI data centre expansion. Lenovo maintains deep partnerships with all major Chinese cloud players (e.g. co-developing systems with Alibaba and ByteDance) and possesses a technological edge in cooling solutions (Neptune liquid-cooling). Lenovo's AI server revenue demonstrated robust growth exceeding 60% y/y in the Sep quarter of 2025. We forecast this momentum to continue, projecting China's server market to reach USD140bn by 2029 and Lenovo's share to grow (expected >20% by 2028) as liquid-cooled racks become standard. This trajectory is expected to drive operating leverage within its Infrastructure Solutions Group (ISG), turning it sustainably profitable by FY27. Meanwhile, with leading AI PC penetration at 33%, Lenovo's PC business (still ~70% of revenue) provides cash flow stability and upside from an AI PC upgrade cycle (with Windows 11 and AI features spurring enterprise refresh; Lenovo plans for ~50% of its FY26 PCs to be AI-enabled). The company is also expanding its higher-margin services and solutions.
We maintain BUY with a TP of HKD20 (based on 13× FY3/27F EPS, in line with global peers). At the current price, Lenovo trades at only ~9x FY3/27F P/E, representing a significant discount considering its earnings are projected to rebound with a 31% CAGR over FY25-28F. Our TP implies substantial upside as the market prices in Lenovo's evolving profile from a low-margin PC maker to an AI data centre proxy. Key catalysts include continued big contract wins from cloud giants and sustained margin improvement in ISG.

BYDE (285 HK) – BUY, TP HKD49
BYDE is one of the few names strategically positioned to leverage both the 2026 premium smartphone upgrade cycle and China's AI infrastructure buildout. On the handset side, BYDE serves as a major Apple casing and structural component supplier and is reportedly a key beneficiary of Apple's Sep-26E foldable iPhone launch. This could result in ~RMB1,000 content per device, derived from four times the titanium components (vs. one frame in the iPhone 15/16 pro-series). This foldable-driven content uplift could increase BYDE's smartphone-component revenue by ~50% y/y in FY26. On the AIDC side, BYDE is scaling a differentiated "one-stop" offering - liquid cooling (GB200/GB300-qualified), rack-level power modules (48V/HVDC-ready), and optical modules (800G mass production; 1.6T in development). This offering supports a structurally better margin mix compared to legacy electronics manufacturing services (EMS).

We maintain BUY with a TP of HKD49, based on 14× FY2026F P/E. The stock currently trades at an undemanding multiple (9x FY26 PE) for a name transitioning from assembly to higher-value components and AIDC, despite a forecasted earnings CAGR of over 40% for FY24-27F. Near-term catalysts include foldable iPhone production ramp-up (2H26), incremental AIDC design wins, and a margin uplift driven by a richer product mix.

Sunny Optical (2382 HK) – BUY, TP HKD110
Sunny is our preferred proxy for the optics upcycle extending into 2026-28. As a top-tier lens and module supplier, it benefits from renewed "mega-spec" upgrades (larger sensors, periscope/folded optics, higher-end multi-camera designs) that are expected to raise ASPs and improve utilisation. After the 2022-23 downcycle, profitability is recovering: gross margin reached ~19% in

FY24 (up ~4ppt y/y), with scope for it to trend toward the mid-20s by FY27F as product mix normalises and pricing discipline improves. Sunny also offers structural growth beyond handsets; its automotive lens business (>15% of revenue) demonstrates strong momentum, and strategic investments in extended reality (XR) and light detection and ranging (LiDAR) create longer-dated optionality.
We rate the stock BUY, with a TP of HKD110, based on ~23× FY26F P/E. At ~14× FY26F P/E, after the recent correction, valuation is compelling versus an improving earnings trajectory (projected 14%/36% in FY26/27F). Catalysts include high-end spec wins in 2026 flagship devices (particularly with increased periscope penetration), continued margin recovery, and any incremental premium-platform supply chain upside.

Lens Tech (6613 HK) - NR (Potential Tgt: HKD33.2)
Lens Tech is the most direct content-leverage play for foldables within our coverage. It is central to the increasing BOM value for foldable devices, particularly through its UTG/advanced glass processing and hinge-related precision parts (industry reports cite up to ~60% share of hinge main-shaft components). We estimate that Apple's foldable iPhone could contribute ~USD70-90 in content per unit for Lens, thereby creating a meaningful revenue uplift as volumes ramp up from 2026-2028. Beyond Apple, Lens is embedded across China OEMs' foldable programmes and should benefit as foldables scale globally. Operating leverage is expected to improve as the mix shifts towards higher-value 3D/UTG products and utilisation normalises (with gross margins projected to recover from a ~13%-15% trough toward the high-teens by 2026-27F).

Lens currently trades at ~18× FY26F P/E, below its post-IPO and peer-cycle ranges. Our TP of HKD33.2 (based on ~23× FY26F; ~0.6× PEG on >40% earnings CAGR for FY24-27F) reflects the de-risking of foldable technology and anticipated mix-driven margin recovery. Key watch items include Apple foldable confirmation and qualification milestones, along with evidence of margin inflection as the UTG-related product mix scales.

Outside of the consumer electronics space, we also like TSMC, benefiting from the node acceleration, and also a key player in the advanced packaging space.

TSMC (2330 TT) – BUY, TP TWD2030

TSMC's technology leadership remains firmly intact, underpinned by a wide economic moat and its dominance in leading-edge nodes (3nm and below), which accounted for c.23% of 3Q25 revenue versus virtually none for peers. Continued R&D and capex investment is set to widen this gap, reinforcing cost competitiveness, pricing power, and resilience across cycles. Earnings have rebounded strongly post-FY23 and are on track for sustained growth, driven by AI, 5G, IoT, and EV demand, higher-value advanced nodes, and advanced packaging. Deep strategic partnerships with customers like Apple, Qualcomm, and NVIDIA further anchor long-term demand and growth.

In the Singapore technology space, our preferred names are UMS and Frencken. While much of the initial uplift from the SGD5bn Equity Market Development Programme (EQDP) seed fund has likely been realised, the Monetary Authority of Singapore (MAS)'s initiatives to strengthen the local equity market are structural rather than one-off, aimed at sustaining liquidity and investor participation over the longer term. Coupled with our expectation that the semiconductor uptrend will extend, and with a firmer recovery anticipated among downstream players, we remain constructive on the technology sector, albeit with a selective, bottom-up approach to stock picking.

UMS (UMSH SP) – BUY, TP SGD1.85
UMS's outlook remains upbeat, supported by multiple growth drivers: (1) A major production ramp-up and new product introductions (NPIs) for a new customer are set to meaningfully lift volumes. (2) Stable performance from key existing customers, including contributions from its new Tampines plant and a recently secured project. (3) Strong industry tailwinds, with the global semiconductor market forecast to grow 17.8% in 2025, and a further 17.8% and 9.3% in 2026 and 2027, according to Gartner. (4) UMS also stands as a second-order AI beneficiary, gaining from its exposure to leading semiconductor customers.

Frencken (FRKN SP) – BUY, TP SGD1.92
Frencken is well positioned to capitalise on the technology sector recovery, supported by its sound balance sheet and diversified portfolio. While the major semiconductor segment, which accounted for 46% of total revenue as at 3Q25, is on an uptrend, its other segments should deliver a steady performance. With its diverse exposure to multiple market segments and sound financial position, the group is well placed to continue benefitting from the recovery path ahead.

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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Dissemination Date: 9 Jan 2026 06:41:02 (SGT)

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