

Semiconductor Manufacturing International Corporation (SMIC)

August 18th 2025

Company Overview

Founded in 2000 (IPO 2004), Semiconductor Manufacturing International Corporation (SMIC) is the largest semiconductor foundry in China and the third-largest globally, following TSMC and Samsung Electronics. SMIC provides foundry services ranging from 350nm to 7nm process nodes, with 5nm technology currently under development. Its manufacturing capabilities are supported by multiple 8-inch and 12-inch wafer fabrication facilities located in Shanghai, Beijing, Tianjin, and Shenzhen.



20,200+ Employees



Headquartered in Shanghai



Key Clients

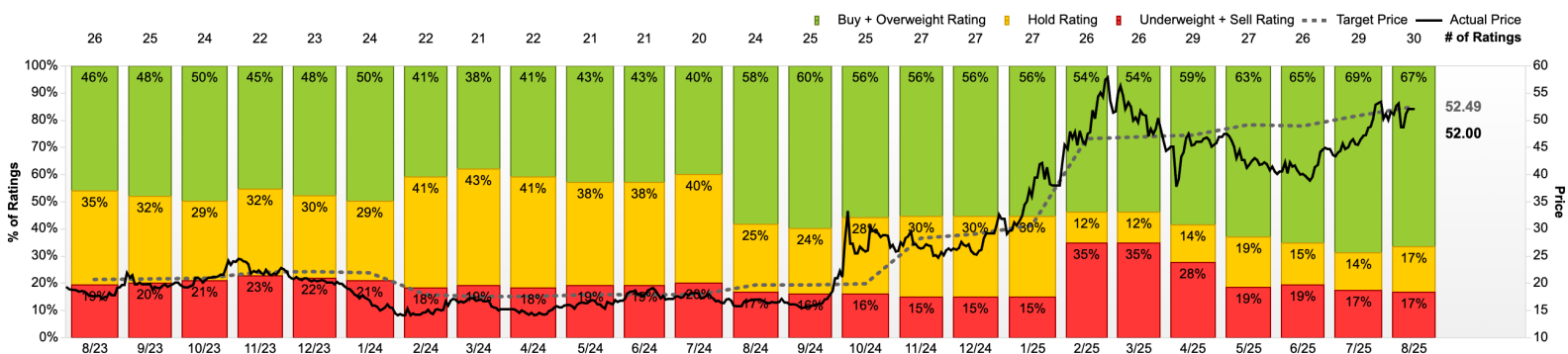
The company's national champion status secures policy-driven demand, preferential access to capital, and a protected operating environment insulated from many competitive pressures faced globally.

Investment Highlights

- **Undervalued Domestic Champion:** Despite a 2 chip generation technology gap vs. global peers, SMIC's entrenched position in China's protected, fast-growing market is not fully priced in.
- **Policy-Driven Demand Certainty:** As the national priority foundry, SMIC is directly integrated into China's \$140B AI and semiconductor self-sufficiency plan.
- **Capacity Leadership:** Leading domestic scale in both mature and advanced nodes, with ~30k wafers/month 7nm capacity and 5nm pilot production underway.
- **Strong Balance Sheet & CapEx Firepower:** \$13.1B cash reserves, negative net debt, and ability to fund multi-year fabrication expansion without leverage.
- **AI Sovereignty Flywheel:** Direct enabler of China's domestic AI hardware stack and Belt-and-Road "AI export model" ambitions.

Broker Outlook

Around two-thirds of analysts rate SMIC as Buy or Overweight, with support from major brokers including Jefferies, Citic Securities, DBS Bank, and China International Capital. Bullish target prices generally cluster between HK\$57–HK\$68, implying upside potential of roughly 9%–31% from current levels. Overall, market consensus leans positive, reflecting optimism over SMIC's growth outlook and earnings trajectory.

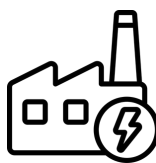


Industry Context - AI Sovereignty & the GPU Gap

China's semiconductor policy is built on the Four Pillars of AI Sovereignty:



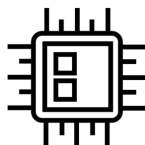
Policy: \$140B AI/digital infrastructure fund prioritising domestic fab expansion.



Power: Expanding national power capacity (25% green) to support high-compute AI clusters.



Tokens (Compute Demand): Explosive growth in AI inference workloads across consumer and enterprise markets.



Chips: SMIC's advanced-node ramp is central to substituting imported Nvidia GPUs.

Current Market Reality:

With a domestic GPU shortfall of ~1.2B units and structural import restrictions, every advanced-node wafer SMIC produces is in immediate demand sustaining >92% utilization and pricing stability.

Strategic Role in China's Semiconductor Plan

SMIC's significance extends beyond its market share, it is embedded in the national strategy for semiconductor independence. Around 84% of its revenue is derived from China, and it has become the preferred foundry for high-priority AI and HPC chip orders. The company's monthly 7nm capacity of approximately 30,000 wafers is scaling rapidly in 2025 to meet the surging demand from domestic GPU projects. Its integration into national five-year plans has afforded it unparalleled policy support, including direct state capital injections, low-interest loans, and expedited approvals for new fabrication facilities. This alignment with government objectives ensures SMIC is positioned not just as a commercial enterprise, but as a key instrument of industrial policy.

Advanced Node Expansion Amid Export Restrictions

- Dual Push on Mature Nodes: Growing 28nm/40nm/55nm share, with a 40% price cut on 28nm to aggressively capture market
- Domestic Toolchain Development: Partnering with Chinese lithography/etch/metrology suppliers to bypass US/EU restrictions
- Government-Backed CapEx & R&D: \$3.3B H1 2025 capex; R&D on N+3 "5nm" without EUV progressing
- Utilization Efficiency: Sustaining >92% fabrication utilization

Valuation & Competitiveness - Domestic Leadership

SMIC commands a dominant share of China's foundry market, outspending rivals like Hua Hong and capturing most policy-directed AI semiconductor orders.

- At ~20.8x EV/EBITDA vs. Hua Hong's ~15x, SMIC's premium reflects higher utilization, deeper government alignment, and exposure to advanced nodes unavailable to peers.
- Its scale and central government alignment place it as the default provider for national AI, cloud, and high-performance computing needs.
- While global leaders like TSMC maintain a 2-4 node technological lead, SMIC's technology gap is less relevant in its policy-protected, captive domestic market. This scarcity ensures full utilization and stable pricing, driving a justified premium to domestic peers throughout China's multi-year AI infrastructure cycle.

Financial Performance & Strengths (Q2 2025)

SMIC’s second-quarter results highlight the resilience of its operating model. Revenue came in at \$2.21B, up 16.2% year-on-year but slightly lower quarter-on-quarter due to product mix. Gross margin held firm at 20.4%, benefiting from high utilization and operational efficiencies. EBITDA stood at \$1.13B, representing a robust 51.1% margin.

Balance Sheet • Cash Position: 13.1B in reserves, negative net debt • CapEx Strength: Large, steady investments fund leading domestic scale • Moat: Outspending domestic rivals, capturing majority of policy-driven chip orders	Metric	Q2 2025 Result	Notes
	Revenue	\$2.21B	-1.7% QoQ, +16.2% YoY
	Gross Margin	20.40%	Above expectations; high utilization
	EBITDA	\$1.13B (51.1%)	Strong operational margin
	Net Income	\$132.5M	YoY decline from higher depreciation
	CapEx	\$1.89B	Focused on 7nm/12-inch fab expansion
	Cash Reserves	\$13.1B	Robust liquidity
	Utilization Rate	92.50%	Reflects tight fabrication output

Margins remained strong thanks to near-full fabrication utilization, allowing fixed costs to be absorbed effectively. The stability of domestic demand and the buffer of policy prioritization have further insulated the business from global pricing pressures

Integration into China’s AI Sovereignty Flywheel

SMIC is not just a chip producer, but the enabler of China’s AI ambitions:

- Makes “AI stack-in-a-box” export models possible for Belt-and-Road-aligned markets
- Leverages China’s energy surplus to run domestically manufactured chips at scale
- As SMIC’s N+3 5nm process enters pilot runs, it will unlock domestic GPU export potential to emerging markets, embedding Chinese AI infrastructure globally

Risks

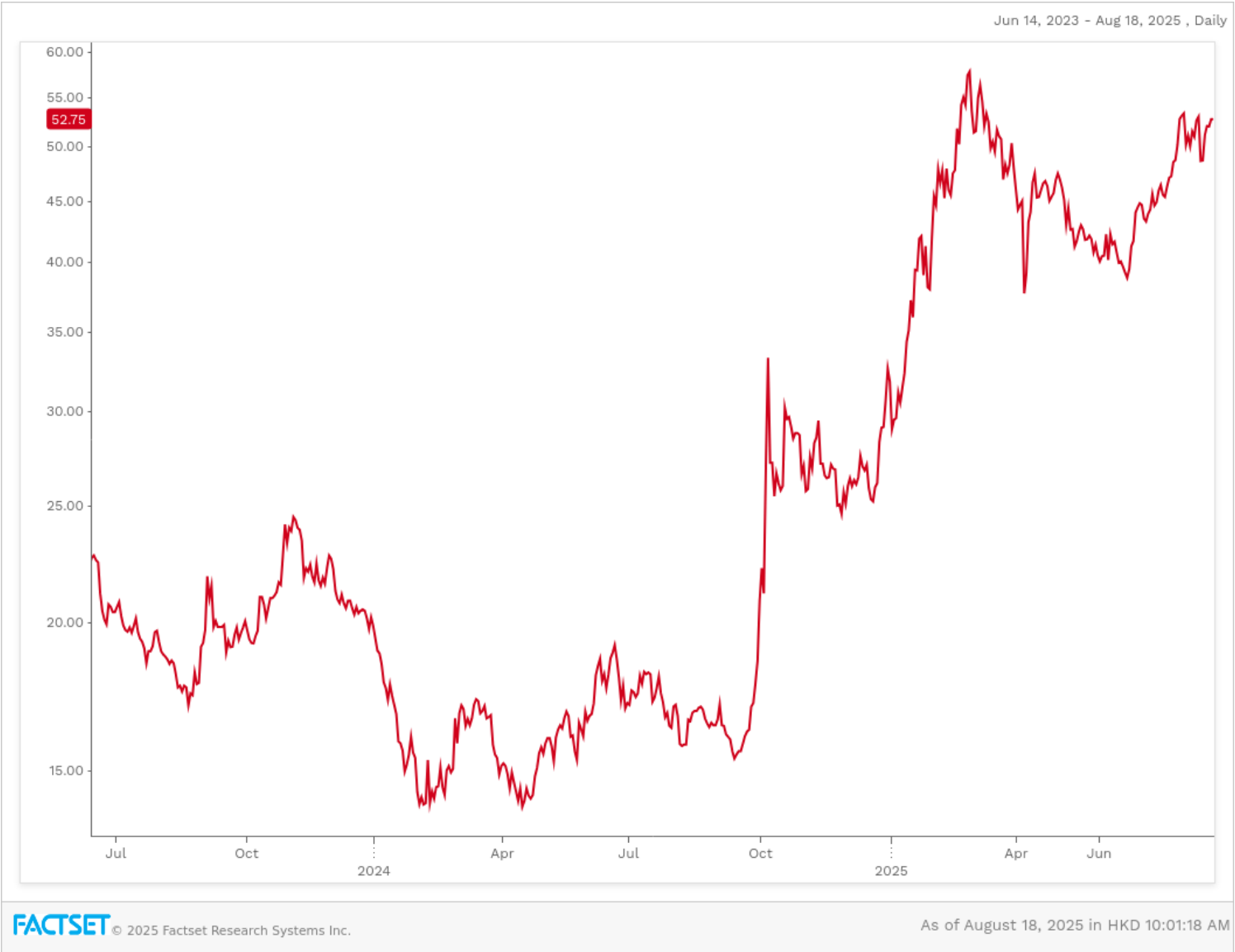
- Technology Gap: SMIC trails TSMC by 2–4 nodes, but the domestic demand is policy-insulated, and capacity is fully utilized regardless
- Geopolitical: Further sanctions could impede tool access, but China’s “Big Fund” and local supply chain investments strategically mitigate medium-term risk
- High Depreciation/Margin Pressure: Offset by state-backed funding cycles, which insulate cash flows and enable continued CapEx without leverage
- Capacity Oversupply: Closely monitored; healthy demand for both mature and advanced nodes keeps utilization high and inventory balanced

Conclusion

SMIC’s protected, policy-driven demand base, substantial government support, and unmatched domestic scale make it the central player in China’s AI and semiconductor strategy. The company’s premium valuation relative to domestic peers is underpinned by consistently high utilization rates, superior advanced-node capabilities, and deep integration into national objectives.

We expect SMIC to deliver multi-year capacity growth and earnings resilience, with catalysts including the 7nm ramp, the first 5nm pilot runs, the scaling of domestic GPU production, and the signing of AI export contracts to emerging markets. For investors seeking exposure to China’s AI sovereignty and semiconductor buildout, SMIC offers a uniquely leveraged position.

Appendix 1: SMIC has more than doubled across the last year



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