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Global AI Trend Tracker

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EQUITY: TECHNOLOGY

What if US content reaches 65% of transceiver BOM cost?

Quick Note

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We have observed considerable volatility in China's optical communication stocks recently, following a Reuters report in early August on potential FCC (Federal Communications Committee) ban on Chinese optical transceivers (Reuters' *report*). We discussed in our previous report (*link*) that a lose-lose scenario would involve imposing ban on all new (next-gen) transceivers from Chinese suppliers. In recent days, many investors have been discussing a potential exception – that China's transceiver makers could still ship next-gen 3.2T transceivers to US customers if US components represent >65% of total BOM cost. If this scenario materializes, we believe it would be slightly more positive for the optical transceiver makers in China, which are primarily exposed to the US AIDC market. Business continuity for leading optical transceiver makers, i.e. InnoLight (300308 CH/ 3308 HK, Buy) and Eoptolink (300502 CH, Not rated), would not be meaningfully disrupted, although there is a risk of rising costs if they need to buy more US components.

800G/1.6T transceiver BOM cost analysis: "65% US content" is not an unrealistic goal to achieve, optical chips play a crucial role

We believe the discussion of a "65% US content" requirement for the optical transceiver industry is not without precedent, as the US government has imposed similar restrictions on the drone industry, where the "Buy the American standard" needs "US content" exceeding 65% (*link*). We note that China already has a well-established optical transceiver supply chain, and leading transceiver makers may hold more than 50% market share in 800G/1.6T transceivers. Meanwhile, some key components, i.e. DSP (Digital Signal Processor), are still dominated by US suppliers, and we think "65%" is not an unrealistic goal to achieve. Based on our estimates, optical lasers/chips, DSP, TIA (Transimpedance Amplifier)/driver chips, and PD (Photodiode) chips could make up 66%~72% of BOM costs of 800G EML/SiPh (Silicon Photonics) transceivers (*Fig. 1*) or 1.6T EML/SiPh transceivers (*Fig. 2*). Optical lasers/chips, which represent 14~23% of BOM costs, play a crucial role in meeting the "65% US content" threshold, in our view.

Supply-chain analysis: US players are better positioned for high-end chips, incumbent transceiver players may maintain leadership, but rising cost is a risk

If the "65% US content" rule is implemented, we believe US optical chip-makers might be better positioned in the high-end optical transceiver supply chain, with potential market share gains and more pricing power. The potential impact on non-US optical chip-makers remains unclear as there is no concrete information about the scope of the potential rules at this moment. For Chinese chip-makers such as Yuanjie Tech (688498 CH, Neutral), which was gaining tractions in the global market in the past 1-2 years, there would be more competitive pressure, in our view.

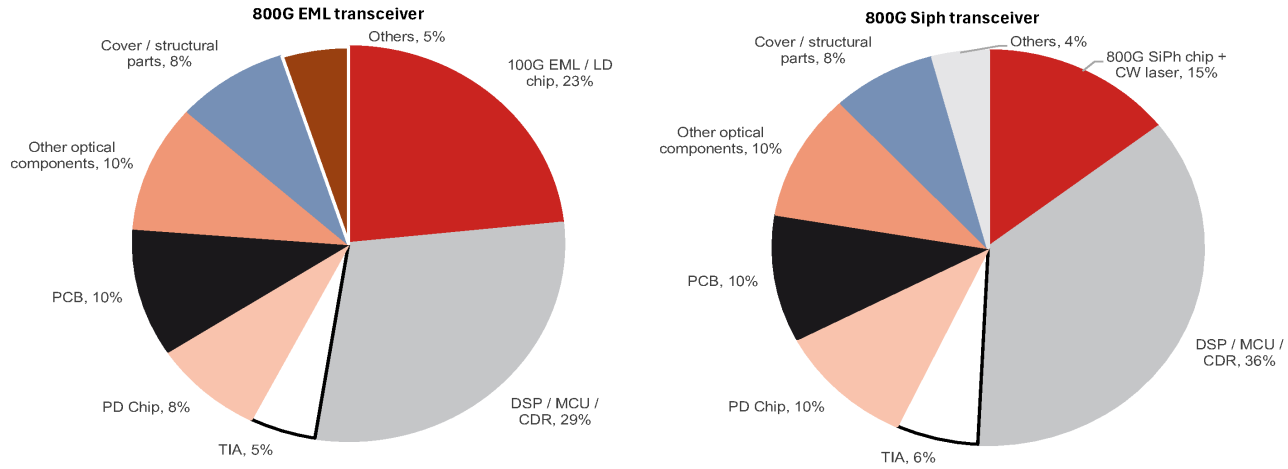
For the electronic chips and PD chips segment, where US companies such as Marvell (MRVL US, Not rated), Broadcom (AVGO US, Not rated), MACOM (MTSI US, Not rated) already play a leading role, we do not expect meaningful changes to the existing supply chain. For the passive optical components and PCB sectors, we do not expect much impact either as they represent a small percentage of total transceiver BOM costs and share a diversified global supply chain. We have listed the key players in the 800G/1.6T optical transceivers supply chain in *Fig. 3*.

For high-end transceiver products, we think incumbent optical transceiver makers such as InnoLight should be able to maintain its leadership, given its strong R&D capabilities and effective supply-chain management. However, if the key component market becomes more concentrated, supply shortages could lead to higher component costs, in our view.

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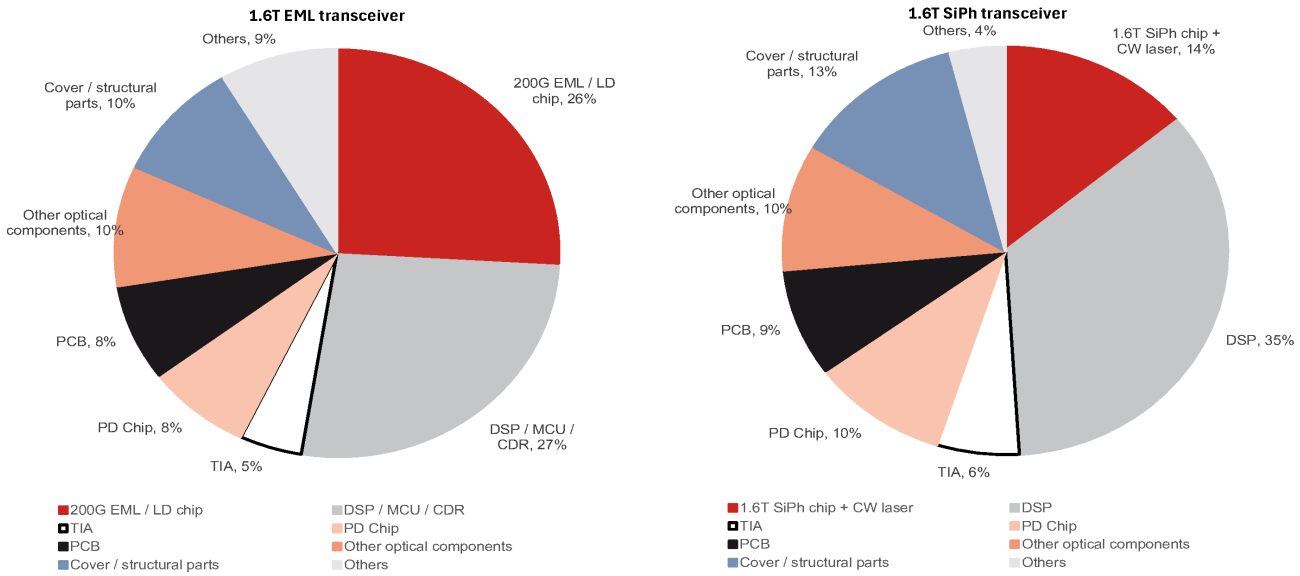
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Fig. 1: 800G transceiver BOM breakdown



Source: Company data, Nomura estimates

Fig. 2: 1.6T transceiver BOM cost breakdown



Source: Company data, Nomura estimates

Fig. 3: 800G / 1.6T transceiver key component suppliers

800G Component	US Suppliers	China Suppliers	Other Suppliers
800G EML / LD chip	Lumentum, Broadcom, Coherent	Yuanjie Tech, Source Photonics	Mitsubishi Elec, Sumitomo Elec
7nm or 5nm DSP	Marvell, Broadcom, Credo, Maxlinear	Sitrus Technology, Joywell Semi	N.A
TIA + Driver	Marvell, Broadcom, MACOM, Semtech	Youxun (优讯股份)	Mitsubishi Elec, Sumitomo Elec
800G PD Chip	MACOM	PHOGRAIN (芯思杰)	GCS
PCB	TTMI??	Shennan Circuits, Victory Giant	Unimicron, Zhen Ding
Other optical components	Coherent	TFC	Mitsubishi Elec, Sumitomo Elec
Cover / structural parts		CCTC	Murata, Kyocera
1.6T Component	**US Suppliers**	**China Suppliers**	**Other Suppliers**
200G EML / LD chip	Lumentum, Broadcom, Coherent	Source Photonics	Mitsubishi Elec, Sumitomo Elec
3nm DSP	Marvell, Broadcom	N.A	N.A
TIA + Driver	Marvell, Broadcom, MACOM, Semtech	N.A	Mitsubishi Elec, Sumitomo Elec
PD Chip	MACOM	N.A	GCS
PCB	TTMI??	Shennan Circuits	Unimicron, Zhen Ding
Other optical components	Coherent	TFC	Mitsubishi Elec, Sumitomo Elec
Cover / structural parts		CCTC	Murata, Kyocera

Source: Company data, Nomura estimates

Appendix A-1

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