Lumentum (LITE US)

Q4 earnings beat; optical momentum continues across multiple architectures

Lumentum released 4QFY26 results, with revenue up 25% QoQ/109% YoY to US$1.01bn, ahead of Bloomberg consensus of US$990mn and at the high end of mgmt.'s guidance. Non-GAAP GPM reached 50.4%, also above consensus, driven by a favorable mix, improved utilization and selective pricing. For 1QFY27, mgmt. guided revenue of US$1.225-1.275bn and non-GAAP OPM of 39.5-40.5%. We remain constructive as laser demand broadens across pluggable, NPO and CPO architectures. **Maintain BUY w/ TP lifted to US$1,230 based on an unchanged 35x FY28E P/E on greater margin expansion and enhancing product mix.**

- **Margin targets reached well ahead of planned revenue scale.** At OFC 2026 in March, mgmt. associated 49-52% GPM with a US$2bn quarterly revenue run-rate, yet the Company already delivered 50.4% GPM at just US$1.01bn revenue in Q4. The margin beat reflected both higher utilization and a richer laser mix and improving pricing. Importantly, CW laser economics have improved after die-size reduction, narrowing the margin gap versus EML. We believe this suggests earnings leverage is materializing earlier than revenue scale alone would imply. **We raise our revenue forecast in FY27/28E by 13/18% and non-GAAP GPM by 0.9/0.8ppt.**
- **NPO expands instead of replacing CPO opportunity.** Mgmt. views NPO as fully additive to CPO, with multiple customers adopting near-packaged architectures before eventual CPO migration. Initial NPO deployments are expected to use high-power lasers through ELS, while later designs may integrate mid-power lasers directly into optical engines. This broadens the Company's addressable laser content across architectures, while CPO demand remains intact and the company has already received its first ELS module order for 2HCY27 delivery.
- **Supply remains the key constraint across laser products.** EML demand continues to exceed supply, while 200G EML already exceeded 25% of EML revenue in Q4. Ultra-high-power laser demand has accelerated even faster, leaving the Company further behind customer demand despite capacity execution remaining on track. Meanwhile, SiPho adoption at 1.6T is creating incremental CW demand rather than simply replacing EML. We believe simultaneous tightness across EML, CW and UHP will continue to support pricing, utilization and sustained margin resilience.
- **Maintain BUY with TP adjusted to US$1,230, based on the same 35x FY28E P/E, at a premium to its peers' CY27E average as we see the Company as a purer AI optical player.** We see upside increasingly coming from both higher earnings conversion and a broader addressable market. The Company is monetizing AI optical growth through EML/CW in pluggables, UHP/ELS in CPO and NPO, while 1.6T transceivers and OCS add systems-level exposure. **Risks:** supply chain disruption, geopolitical uncertainties, etc.

Earnings Summary

(YE 28 Jun)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US$ mn)	1,645	3,014	6,678	10,778	14,697
YoY growth (%)	21.0	83.2	121.6	61.4	36.4
Gross margin (%)	34.7	46.0	52.1	52.8	52.3
Adjusted net profit (US$ mn)	146.4	782.3	2,225.4	3,583.5	4,849.0
YoY growth (%)	94.7	434.4	184.5	61.0	35.3
EPS (Adjusted) (US$)	2.06	8.67	21.82	35.13	47.54
P/E (Adjusted) (x)	399.1	94.6	37.6	23.4	17.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$1230.00**
(Previous TP	US$1070.00)
Up/Downside	**49.9%**
Current Price	**US$820.59**

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Stock Data

Mkt Cap (US$ mn)	63,841.9
Avg 3 mths t/o (US$ mn)	1,872.6
52w High/Low (US$)	1053.09/114.62
Total Issued Shares (mn)	77.8

Source: FactSet

Shareholding Structure

Blackrock	11.8%
Vanguard	11.5%

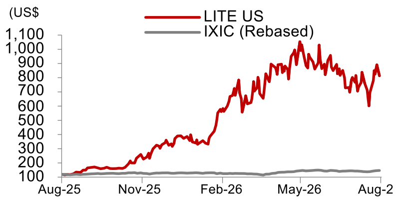
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	2.3%	1.7%
3-mth	-17.3%	-18.4%
6-mth	40.6%	20.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$mn	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**
Revenue	6,678	10,778	14,697	5,887	9,176	NA	13.4%	17.5%	NA
Gross profit (non-GAAP)	3,479	5,695	7,692	3,012	4,776	NA	15.5%	19.2%	NA
Net profit (non-GAAP)	2,225	3,583	4,849	1,827	2,969	NA	21.8%	20.7%	NA
EPS (non-GAAP)	21.8	35.1	47.5	18.8	30.6	NA	15.8%	14.8%	NA
GPM (non-GAAP)	52.1%	52.8%	52.3%	51.2%	52.0%	NA	0.9 ppt	0.8 ppt	NA
Net margin (non-GAAP)	33.3%	33.2%	33.0%	31.0%	32.4%	NA	2.3 ppt	0.9 ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBI estimates			Consensus			Diff (%)		
US$mn	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**
Revenue	6,678	10,778	14,697	6,152	9,373	12,199	8.5%	15.0%	20.5%
Gross profit (non-GAAP)	3,479	5,695	7,692	3,166	4,935	6,461	9.9%	15.4%	19.1%
Net profit (non-GAAP)	2,225	3,583	4,849	2,139	3,576	4,670	4.0%	0.2%	3.8%
EPS (non-GAAP)	21.8	35.1	47.5	20.8	32.6	44.6	4.8%	7.9%	6.7%
GPM (non-GAAP)	52.1%	52.8%	52.3%	51.5%	52.6%	53.0%	0.6 ppt	0.2 ppt	-0.6 ppt
Net margin (non-GAAP)	33.3%	33.2%	33.0%	34.8%	38.2%	38.3%	-1.4 ppt	-4.9 ppt	-5.3 ppt

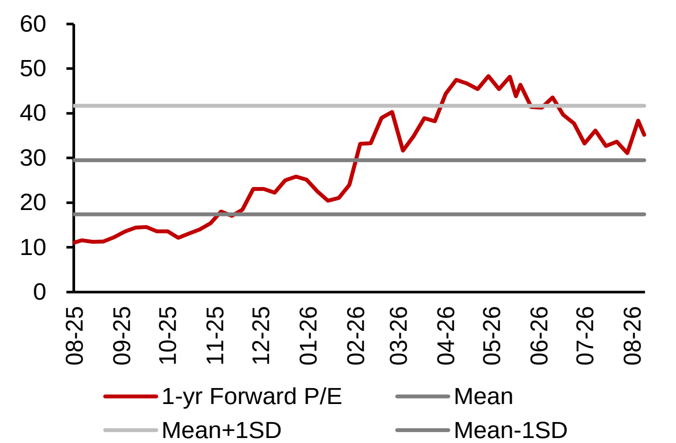
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: Peers table

		P/E (x)		EPS (US$)		GPM%	
Company	**Ticker**	**CY26E**	**CY27E**	**CY26E**	**CY27E**	**CY26E**	**CY27E**
Coherent	COHR US	48.2	32.9	6.82	10.00	39.9	41.0
Marvell	MRVL US	54.6	35.1	3.89	6.05	58.7	57.6
Applied Opto.	AAOI US	197.5	29.2	0.68	4.60	30.4	33.9
Fabrinet	FN US	33.5	28.0	15.68	18.78	12.3	12.4
Ciena	CIEN US	66.2	44.8	6.57	9.70	44.8	45.3
Sumitomo Elec.	5802 JT	15.7	17.0	0.88	0.80	20.2	21.3
Mitsubishi Elec.	6503 JT	25.2	21.2	1.47	1.74	32.6	33.5
	Average	***63.0***	***29.7***	***5.14***	***7.38***	***34.1***	***35.0***

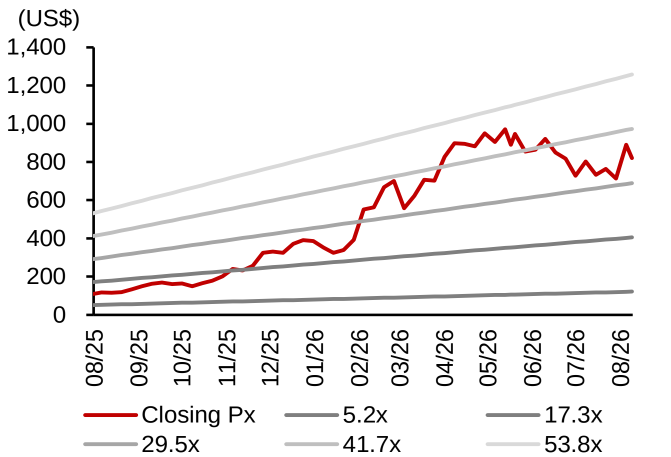
Source: Bloomberg consensus, CMBIGM

Figure 4: P/E chart



Source: Company data, CMBIGM estimates

Figure 5: P/E band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 28 Jun (US$ mn)						
Revenue	**1,359**	**1,645**	**3,014**	**6,678**	**10,778**	**14,697**
Cost of goods sold	910	1,074	1,627	3,199	5,083	7,005
Gross profit	**449**	**572**	**1,387**	**3,479**	**5,695**	**7,692**
Operating expenses	**411**	**411**	**490**	**899**	**1,545**	**2,135**
SG&A expense	151	155	185	301	555	768
R&D expense	260	256	305	598	991	1,367
Operating profit	**38**	**160**	**897**	**2,580**	**4,149**	**5,557**
Other income	43	15	40	86	142	250
Pre-tax profit	**80**	**175**	**937**	**2,665**	**4,292**	**5,807**
Income tax	5	29	155	440	708	958
After tax profit	**75**	**146**	**782**	**2,225**	**3,583**	**4,849**
Adjusted net profit	**75**	**146**	**782**	**2,225**	**3,583**	**4,849**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 28 Jun (US$ mn)						
Current assets	**1,590**	**1,717**	**4,162**	**6,012**	**9,631**	**14,796**
Cash & equivalents	437	521	2,044	2,594	4,852	8,689
Account receivables	195	250	520	1,095	1,626	2,163
Inventories	398	470	692	1,384	2,093	2,765
Prepayment	110	120	212	245	365	485
Contract assets	450	356	695	695	695	695
Non-current assets	**2,342**	**2,501**	**3,146**	**3,900**	**4,387**	**4,564**
PP&E	573	726	1,159	2,035	2,625	2,879
Right-of-use assets	73	28	29	29	29	29
Deferred income tax	11	210	531	531	531	531
Intangibles	618	465	327	205	102	26
Goodwill	1,056	1,061	1,069	1,069	1,069	1,069
Other non-current assets	13	11	30	30	30	30
Total assets	**3,932**	**4,219**	**7,308**	**9,912**	**14,018**	**19,360**
Current liabilities	**269**	**393**	**2,481**	**1,456**	**2,148**	**2,800**
Short-term borrowings	0	11	1,597	18	15	12
Account payables	126	225	567	976	1,496	1,976
Other current liabilities	77	111	238	326	441	556
Lease liabilities	13	11	14	14	14	14
Accrued expenses	52	35	65	122	182	243
Non-current liabilities	**2,705**	**2,691**	**183**	**1,461**	**1,452**	**1,443**
Long-term borrowings	2,503	2,563	41	1,319	1,310	1,301
Obligations under finance leases	43	24	20	20	20	20
Other non-current liabilities	159	105	122	122	122	122
Total liabilities	**2,975**	**3,084**	**2,664**	**2,917**	**3,600**	**4,243**
Share capital	0	0	0	0	0	0
Capital surplus	1,835	1,987	12,430	12,957	13,266	13,648
Retained earnings	(887)	(861)	(7,796)	(5,972)	(2,859)	1,459
Other reserves	9	9	10	10	10	10
Total shareholders equity	**957**	**1,135**	**4,644**	**6,995**	**10,417**	**15,117**
Total equity and liabilities	**3,932**	**4,219**	**7,308**	**9,912**	**14,018**	**19,360**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 28 Jun (US$ mn)						
Operating						
Profit before taxation	**(547)**	**26**	**(6,935)**	**1,824**	**3,114**	**4,318**
Depreciation & amortization	290	257	265	346	463	502
Tax paid	78	(218)	18	0	0	0
Others	203	62	7,482	(470)	(303)	(221)
Net cash from operations	**25**	**126**	**829**	**1,700**	**3,274**	**4,599**
Investing						
Capital expenditure	(133)	(231)	(517)	(1,100)	(950)	(680)
Acquisition of subsidiaries/ investments	(705)	0	(38)	0	0	0
Others	724	147	(299)	0	0	0
Net cash from investing	**(114)**	**(84)**	**(854)**	**(1,100)**	**(950)**	**(680)**
Financing						
Net borrowings	0	77	3,254	0	0	0
Proceeds from share issues	14	16	9	20	20	20
Share repurchases	0	0	0	0	0	0
Others	(347)	(51)	(1,716)	(69)	(86)	(102)
Net cash from financing	**(333)**	**42**	**1,548**	**(49)**	**(66)**	**(82)**
Net change in cash						
Cash at the beginning of the year	859	437	521	2,044	2,594	4,852
Others	(422)	84	1,523	551	2,258	3,837
Cash at the end of the year	**437**	**521**	**2,044**	**2,594**	**4,852**	**8,689**

GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 28 Jun						
Revenue	(23.1%)	21.0%	83.2%	121.6%	61.4%	36.4%
Gross profit	(41.2%)	27.3%	142.6%	150.9%	63.7%	35.1%
Operating profit	(88.9%)	323.5%	460.3%	187.6%	60.9%	33.9%
Adj. net profit	(76.1%)	94.7%	434.4%	184.5%	61.0%	35.3%

PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 28 Jun						
Gross profit margin	33.0%	34.7%	46.0%	52.1%	52.8%	52.3%
Operating margin	2.8%	9.7%	29.8%	38.6%	38.5%	37.8%
Adj. net profit margin	5.5%	8.9%	26.0%	33.3%	33.2%	33.0%

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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