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U.S. Weighs Ban on Chinese Optical Transceivers

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Reuters reported that the Trump administration is drafting a proposal to ban imports of new models of Chinese optical transceivers into the U.S., as part of broader efforts to secure AI infrastructure and reduce reliance on Chinese technology. While the policy direction is clear and consistent with the ongoing supply chain de-risking theme, several implementation details remain uncertain, including the definition of "new products", the scope of affected suppliers, and the pace of customer migration away from Chinese vendors. If implemented, we believe the proposal would reinforce the ongoing shift towards non-China optical transceiver suppliers and their manufacturing partners, further strengthening Southeast Asia's role in the global AI networking supply chain. Under our coverage, we see this as an incrementally positive read-through for NATGATE, given its established manufacturing relationships with three leading U.S. optical networking companies. While we remain cautious on near-term earnings pending the ramp-up of new optical programmes, the proposal reinforces the company's longer-term structural investment thesis, and we would revisit our valuation should there be further positive industry developments. INARI, meanwhile, also well positioned to benefit from the potential supply-chain realignment due to its sizeable optoelectronics exposure via Broadcom.

What is in the news?

According to Reuters, the Trump administration is drafting a measure that would prohibit imports of **new models of Chinese optical transceivers** into the U.S., with the Federal Communications Commission (FCC) expected to publish the proposal later this year. Optical transceivers are critical networking components that enable high-speed data transmission over fibre-optic cables, serving as a key building block for AI data centres and hyperscale cloud infrastructure. The proposed measure is aimed at strengthening the security of U.S. AI infrastructure by reducing the risk of data theft, malware installation and potential supply chain disruptions associated with Chinese-made networking equipment. The proposal would reportedly focus on new transceiver models, although it remains unclear whether existing products will also be affected. According to Reuters, the FCC is also expected to provide exemptions for non-Chinese suppliers, potentially accelerating procurement towards trusted vendors outside China. If implemented, the measure would represent another step in the U.S.' broader strategy to de-risk critical AI and semiconductor infrastructure by reducing reliance on Chinese technology across the networking supply chain.

What is clear?

De-risking AI Infrastructure to Accelerate Supply Chain Diversification. The policy direction is consistent with the U.S.' broader strategy to de-risk critical AI infrastructure and reduce reliance on Chinese technology across the supply chain. Optical transceivers have become increasingly strategic given their essential role in enabling high-speed connectivity within hyperscale AI data centres. Based on Reuters' report, the proposal is specifically aimed at Chinese-origin optical transceivers rather than the broader optical networking ecosystem. If implemented, we expect procurement to gradually shift towards established non-Chinese transceiver vendors that already possess the necessary customer qualifications and supply chain approvals, reinforcing the ongoing trend of supply chain diversification.

What remains unclear?

- **Definition of "new products":** It remains unclear what qualifies as a "new" transceiver model, and whether the restrictions will primarily target next-generation products such as 800G, 1.6T, NPO and CPO solutions, which are expected to be the key growth drivers for the optical transceiver industry over the next several years (exhibit 1).
- **Scope of "Chinese" suppliers:** It is unclear whether the measure applies only to products assembled in China, or whether it also covers Chinese-headquartered vendors manufacturing outside China.
- **Coverage across the supply chain:** The proposal has yet to clarify whether the restrictions will be limited to complete optical transceiver modules or extended to sub-components, optical engines and manufacturing services.
- **Pace of market share migration:** Given Chinese suppliers currently hold a dominant share of the global optical transceiver market (exhibit 2), the speed at which customers can requalify alternative suppliers and shift procurement remains uncertain.

Likely impact

Supply chain diversification continues to favour non-China optical suppliers. We view the proposal as incrementally positive for the non-Chinese optical supply chain, particularly established U.S. optical transceiver vendors such as Lumentum, Applied Optoelectronics (AAOI) and Coherent. As hyperscalers place greater emphasis on supply chain resilience and national security, procurement is likely to continue shifting towards trusted non-Chinese suppliers. Based on Kenanga's compilation (exhibit 3), Chinese vendors remain the dominant suppliers to major U.S. hyperscalers (likely accounting for >50% of the optical transceiver market), highlighting the significant scope for market share reallocation should procurement shift towards non-Chinese suppliers.While the transition could result in higher procurement costs as customers replace lower-cost Chinese vendors, we believe the strategic priority of securing AI infrastructure is likely to outweigh near-term cost considerations.

Southeast Asia stands to capture the downstream manufacturing benefits. Beyond the transceiver vendors themselves, we believe the more meaningful read-through lies further downstream in the manufacturing supply chain. Any incremental market share gains by Western optical players would ultimately require additional production capacity, benefiting their contract manufacturing partners. Importantly, this supply chain migration is already underway. Over the past several years, leading U.S. optical vendors have progressively diversified manufacturing into Southeast Asia, with Lumentum establishing Thailand as its primary regional manufacturing base and Coherent expanding production in Malaysia. We believe the proposed restrictions would reinforce this existing trend, further strengthening Southeast Asia's position as a trusted manufacturing hub for AI networking and optical communications.

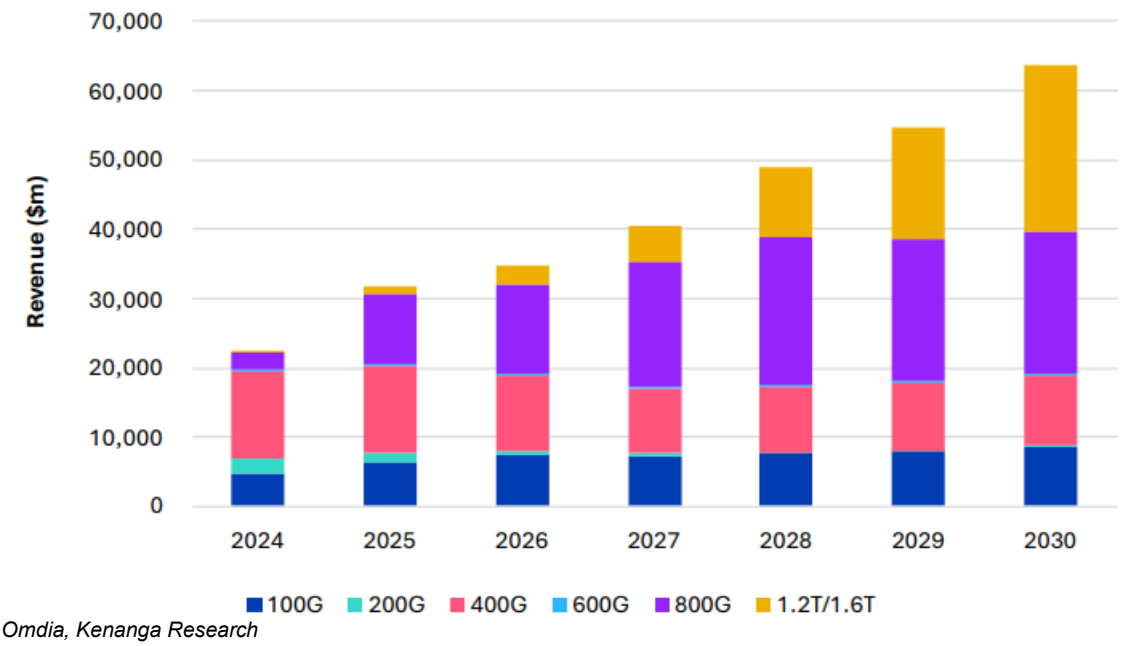
Our view: Positive read-through for NATGATE and INARI

NATGATE and INARI has exposure to leading U.S. optical customers. Under our coverage, we see this development as incrementally positive for NATGATE should the proposed restrictions eventually be implemented. During our recent site visit, management highlighted the company's continued investment in expanding its optical manufacturing capabilities, including advanced SMT, TOSA/ROSA/TROSA assembly, chip-on-carrier (CoC), chip-on-substrate (CoS), fibre attach and optical engine manufacturing. Importantly, we believe the ongoing capacity expansion suggests a certain level of customer commitments is already in place, thereby reducing utilisation risk. NATGATE is also an established manufacturing partner to several leading U.S. optical networking companies. Should these customers gain incremental market share as procurement gradually shifts away from Chinese suppliers, NATGATE could see a corresponding increase in manufacturing volumes and capacity utilisation.

INARI, meanwhile, could also benefit through its optoelectronics segment, which accounted for approximately 36% of group revenue in 3QFY26. Its exposure to Broadcom, a key supplier of optical and networking semiconductor solutions, as well as the Customer L, should provide further leverage to sustained growth in high-speed optical connectivity and any policy-driven supply-chain realignment

Proposal reinforces an existing structural investment thesis. In our view, the proposed restrictions do not create a new investment thesis but instead reinforce an existing structural trend of supply chain diversification away from China. Malaysia continues to strengthen its position as a trusted manufacturing hub for AI networking and optical communications, supported by an established semiconductor ecosystem and growing optical manufacturing capabilities. While we remain cautious on NATGATE's near-term earnings, as its two new optical customers have yet to commence mass production, we believe the market is inherently forward-looking. As such, we believe any further positive developments that accelerate supply chain diversification or improve the outlook for the optical networking industry could warrant a reassessment of NATGATE's valuation.

Exhibit 1: Next-generation 800G and 1.6T Modules to Drive the Next Leg of Optical Transceiver Growth



Source: Omdia, Kenanga Research

Exhibit 2: Evolution of the Global Top 10 Optical Transceiver Vendors (2010–2024)

2010	2018	2023	2024
Finisar (US)	Finisar (US)	Innolight (China)	Innolight (China)
Opnext (Japan)	Innolight (China)	Coherent (US)	Coherent (US)
Sumitomo (Japan)	Hisense (China)	Huawei (China)	Eoptolink (China)
Avago (US/Singapore)	Accelink (China)	Cisco (US)	Huawei (China)
Source Photonics (US)	FOIT (Avago) (US)	Accelink (China)	Cisco (US)
Fujitsu (Japan)	Lumentum/Oclaro (US)	Hisense (China)	Accelink (China)
JDSU (US)	Acacia (US)	Eoptolink (China)	Hisense (China)
Emcore (US)	Intel (US)	HG Genuine (China)	Marvell (US)
WTD (China)	AAOI (US)	Source Photonics (US)	HG Genuine (China)
NeoPhotonics (US)	Sumitomo (Japan)	Marvell (US)	Source Photonics (US)

Source: Light Counting, Kenanga Research

Exhibit 3: High Chinese Supplier Concentration Presents Meaningful Market Share Reallocation Potential

Company	Main Suppliers
NVIDIA	Innolight, Mellanox (Fabrinet), Coherent, Eoptolink
Google	Innolight, Eoptolink, Coherent, Lumentum
Amazon	Innolight, Eoptolink, AAOI, Fabrinet
Microsoft	Innolight, Coherent, Source Photonics, AAOI
Meta	Innolight, Eoptolink, Coherent, Source Photonics, CIG
Oracle	Innolight, Coherent, Eoptolink, Lumentum, AAOI
Cisco	CIG (JDM), Innolight, Coherent, Eoptolink
Huawei	Innolight, Accelink, HGTech, TFC, Hengtong Optic
Alibaba	Innolight, Accelink, HGTech

Source: Kenanga Research

Note: Chinese suppliers are highlight in red. Source Photonics (US-based) was acquired by the Chinese electronics manufacturer Suzhou Dongshan Precision Manufacturing in Sept 2025

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net. Div. Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	0.330	0.440	33.3%	409.0	Y	12/2026	(2.6)	2.0	-385.8%	-0.3%	N.A.	16.6	0.7	-16.6%	1.0	3.0%
FRONTKEN BHD	OP	5.16	5.10	-1.2%	9,354.8	Y	12/2026	12.8	13.9	31.9%	8.7%	40.4	37.2	7.2	19.1%	4.0	0.8%
INARI AMERTRON BHD	OP	2.21	2.72	23.1%	8,479.0	Y	06/2026	4.8	8.0	-28.1%	64.6%	45.7	27.8	3.0	5.9%	5.0	2.3%
KELINGTON GROUP BHD	OP	8.72	9.05	3.8%	7,696.6	Y	12/2026	21.4	24.5	29.1%	14.1%	40.7	35.6	9.9	27.5%	15.0	1.7%
LGMS BHD	OP	0.520	0.580	11.5%	237.1	Y	12/2026	2.9	3.6	30.4%	21.8%	17.8	14.6	1.8	10.5%	2.0	3.8%
MALAYSIAN PACIFIC INDUSTRIES	MP	46.72	43.70	-6.5%	9,315.9	Y	06/2026	104.7	134.1	35.6%	28.0%	44.6	34.9	4.2	9.7%	40.0	0.9%
NATIONGATE HOLDINGS BHD	MP	1.29	0.780	-39.5%	2,918.1	Y	12/2026	3.5	5.2	-20.1%	49.3%	37.0	24.8	2.8	7.6%	2.0	1.6%
OPPSTAR BHD	UP	0.585	0.430	-26.5%	378.2	Y	03/2027	1.2	2.0	-50.9%	58.2%	47.4	30.0	2.9	6.3%	0.0	0.0%
PIE INDUSTRIAL BHD	MP	1.62	1.51	-6.8%	622.1	Y	12/2026	5.9	8.4	0.4%	42.3%	27.4	19.3	0.9	3.5%	0.0	0.0%
SKP RESOURCES BHD	UP	0.315	0.270	-14.3%	480.9	Y	03/2027	2.5	3.5	-19.4%	42.0%	12.8	9.0	0.5	3.7%	0.0	0.0%
SKYECHIP BHD	OP	3.01	2.00	-33.6%	5,406.0	Y	03/2027	2.6	3.4	30.1%	32.1%	115.8	87.6	31.2	31.2%	70.0	23.3%
UNISEM (M) BHD	UP	4.52	3.81	-15.7%	7,750.5	Y	12/2026	5.6	11.7	44.4%	107.5%	80.3	38.7	3.3	3.5%	0.0	0.0%
UWC BHD	OP	6.45	7.00	8.5%	7,116.5	Y	07/2026	8.6	15.9	132.3%	86.3%	75.4	40.5	12.4	18.0%	0.0	0.0%
PENTAMASTER CORP BHD	MP	5.29	4.68	-11.5%	3,762.9	Y	12/2026	12.1	13.1	39.0%	8.1%	43.7	40.4	4.4	10.4%	2.0	0.4%
INFOMINA BHD	OP	1.50	1.90	26.7%	899.3	Y	05/2027	7.6	8.5	30.2%	11.6%	19.7	17.7	4.7	25.8%	3.0	2.0%
SECTOR AGGREGATE					64,826.7					14.1%	43.8%	50.2	34.9	6.0	11.1%		2.6%

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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