Huizhou Desay SV (002920 CH)

2Q26: Net Profit Up 22.3% yoy, Beating Our Estimate On Cost Control

Highlights

- DSV's 2Q26 net profit rose 22.3% yoy and 69.7% qoq to Rmb783m, beating our estimate.
- Overseas revenue rose 55.7% yoy and is now the only source of group growth.
- Growth drivers include over Rmb22b of new annualised orders and the Chengdu and Spanish plants.
- We raise 2026 net profit forecast by 3.9% to Rmb2,555m and cut 2027-28 by 4.0%/7.5% respectively.
- Maintain BUY and reduce target price from Rmb150.00 to Rmb135.00.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q26	yoy %	qoq %	1H26	yoy %	Old 2026F	yoy %	Comment
Revenue	8,406	7.0	29.4	14,901	1.8	37,441	15.0	Miss
Gross profit	1,635	3.3	35.3	2,843	(4.5)	6,927	11.6	Miss
Gross margin (%)	19.4	(0.7)	0.9	19.1	(1.2)	18.5	(0.6)	Beat
EBIT	899	16.2	77.9	1,404	1.0	3,178	7.0	In line
EBIT margin (%)	10.7	0.8	2.9	9.4	(0.1)	8.5	(0.6)	Beat
Net profit	783	22.3	69.7	1,245	1.8	2,461	0.3	Beat
Net profit – adj	749	14.3	57.5	1,225	6.3	2,461	2.0	Beat
Net margin (%)	9.3	1.2	2.2	8.4	0.0	6.6	(1.0)	Beat
Net margin – adj (%)	8.9	0.6	1.6	8.2	0.4	6.6	(0.8)	Beat

Source: Huizhou Desay SV, UOB Kay Hian

Analysis

- **2Q26 net profit beat our estimate but missed consensus.** Huizhou Desay SV's (DSV) 2Q26 net profit rose 22.3% yoy/69.7% qoq to Rmb783m. 1H26 net profit of Rmb1,245m accounts for 50.6% of our 2026 forecast (vs 49.8% a year ago), a beat, but made up just 44.1% of 2026 consensus estimate, a miss, on weak revenue.
- **Revenue missed; cut 2026-28 revenue growth estimates to 5%/12%/12% respectively.** Revenue rose 7.0% yoy/29.4% qoq to Rmb8,406m in 2Q26 and 1.75% yoy in 1H26 – this accounts for 39.8% of our Rmb37.44b estimate, vs 45.0% for 1H25. We cut 2026-28 revenue growth estimates from 15%/15%/15% to 5%/12%/12% respectively, resulting in revenue of Rmb34.19b/Rmb38.27b/Rmb42.88b, vs 1H26 revenue of Rmb14,901m. Our new 2026 revenue estimate implies 2H26 revenue of Rmb19,284m, up 8% yoy and 29% hoh.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	27,618	32,557	34,185	38,287	42,882
EBITDA	3,476	3,752	3,970	4,383	4,964
Operating profit	2,807	2,971	3,087	3,362	3,786
Net profit (rep./act.)	2,005	2,454	2,555	2,780	3,144
Net profit (adj.)	1,946	2,414	2,555	2,780	3,144
EPS (Fen)	361.1	411.1	428.1	465.8	526.8
PE (x)	25.1	22.0	21.2	19.5	17.2
P/B (x)	5.2	3.5	3.1	2.8	2.5
EV/EBITDA (x)	15.5	14.3	12.9	11.5	9.8
Dividend yield (%)	1.2	1.4	1.4	1.5	1.7
Net margin (%)	7.0	7.4	7.5	7.3	7.3
Net debt/(cash) to equity (%)	4.9	(0.4)	(14.2)	(19.1)	(23.9)
Interest cover (x)	17.8	140.7	n.a.	n.a.	n.a.
ROE (%)	22.1	19.3	15.7	15.2	15.4
Consensus net profit	-	-	2,826	3,287	3,868
UOBKH/Consensus (x)	-	-	0.90	0.85	0.81

Source: Huizhou Desay SV, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb90.64
Target Price	Rmb135.00
Upside	48.9%
Previous TP	Rmb150.00

Stock Data

Sector	Auto Parts
Bloomberg ticker	002920 CH
Shares issued (m)	596.8
Market cap (Rmbm)	54,098
Market cap (US$m)	7,462
3-mth avg daily t'over (US$m)	147.0

Price Performance (%)

52-week high/low: Rmb154.17/Rmb76.93

1mth	3mth	6mth	1yr	YTD
9.3	(13.7)	(26.1)	(17.0)	(24.7)

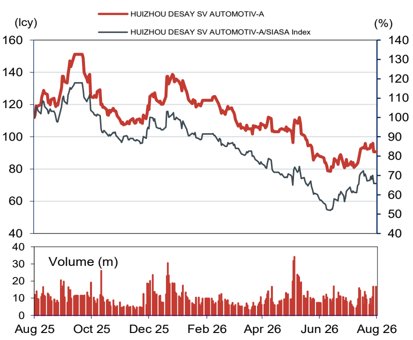
Major Shareholders (%)

Guangdong Desai Group Ltd.	26.3
Huizhou Innovation Investment Ltd.	20.2

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	27.2
FY26 Net Cash/Share (Rmb)	4.1

Price Chart



Source: Bloomberg

Company Description

Huizhou Desay SV manufactures and distributes automotive parts. The company produces vehicle infotainment systems, air conditioning controllers, driver information displays, driver assistance systems, and other products. It markets its products throughout China.

- **Overseas is the only source of growth.** Overseas revenue grew 55.7% yoy to Rmb1,617m in 1H26 at a 31.3% gross margin (+2.4ppt yoy), while domestic revenue dipped 2.4% yoy to Rmb13.28b during the period with gross margin of 17.6% (-2.1ppt yoy).
- **Revenue growth set to reaccelerate in 2027 on orders and overseas capacity.** New orders won in 1H26 carry annualised sales of over Rmb22b, up over 20% yoy. The fifth-generation AI cockpit platform is in volume production at Li Auto, with body zone controllers to reach volume delivery in 2H26, and the Chengdu and Spanish plants having opened in June and July.
- **Margins beat as R&D and selling expenses fell.** Gross margin slipped 0.7ppt yoy but rose 0.9ppt qoq to 19.4% in 2Q26, taking 1H26 gross margin to 19.1%, above our 18.5% gross margin assumption for full-year 2026. We keep 2026-28 gross margin assumption at 18.5%, as 2H is seasonally weaker (2H25: 18.0%). The beat came below the gross profit line - 2Q26 R&D expense fell 14.9% yoy to Rmb571m (6.8% of revenue against 8.5% in 2Q25), and 2Q26 selling expenses fell 37.6% yoy to Rmb61m (0.7% of revenue against 1.3% in 2Q25), lifting EBIT margin by 0.8ppt yoy/2.9ppt qoq to 10.7%. We cut 2026-28 R&D/revenue to 7.7%/8.0%/8.0% respectively and raise administrative expenses/revenue to 2.2%/2.1%/2.1%. The R&D cut is alarming, as R&D is crucial to competitiveness.
- **Impairment losses dragged 2Q26 earnings.** DSV booked a credit impairment loss of Rmb104m in 2Q26, up 311.8% yoy and against a Rmb153m write-back in 1Q26, plus an asset impairment loss of Rmb77m, up 2.9% yoy/80.0% qoq. The company registered Rmb49m in reversal of credit impairment loss and Rmb120m in asset impairment loss in 1H26, smaller than our estimate. We cut our 2026-28 estimates on credit impairment loss to Rmb10m/Rmb60m/Rmb65m and asset impairment loss to Rmb390m/Rmb400m/Rmb450m respectively.

Earnings Revision/Risk

- **We raise our 2026 net profit forecast by 3.9% to Rmb2,555m and cut our 2027-28 forecasts by 4.0%/7.5% to Rmb2,780m/Rmb3,144m respectively. The l**ower revenue growth in 2026 is more than offset by a lower impairment charge. Our 2026 net profit forecast implies 2H26 net profit of Rmb1,311m (+6.5% yoy/+5.3% hoh).
- **Risks:** A slower 2H26 domestic recovery, further OEM price pressure, and slippage in the Spanish plant ramp-up.

Valuation/Recommendation

- **Maintain BUY and cut target price from Rmb150.00 to Rmb135.00,** as we roll over the base year from 2026 to 2027 and lower our target PE multiple from 36x (1SD above historic mean) to 29x (on par with historic mean). The stock trades at 19.5x 2027F PE.

Share Price Catalyst

- Ramp-up of the Spain and Chengdu plants, new overseas orders, body zone controller deliveries, and 3Q26 results.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	32,557	34,185	38,287	42,882
EBITDA	3,752	3,970	4,383	4,964
Deprec. & amort.	(781)	(883)	(1,022)	(1,178)
EBIT	2,971	3,087	3,362	3,786
Total other non-operating income	(6)	0	0	0
Associate contributions	58	58	58	58
Net interest income/(expense)	(21)	(5)	18	36
Pre-tax profit	2,570	2,739	2,978	3,366
Tax	(97)	(164)	(179)	(202)
Minorities	(19)	(19)	(19)	(19)
Net profit	2,454	2,555	2,780	3,144
Net profit (adj.)	2,414	2,555	2,780	3,144

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	3,006	3,710	4,285	4,721
Other LT assets	3,406	3,410	3,404	3,380
Cash/ST investment	1,416	3,800	5,026	6,504
Other current assets	22,016	20,389	21,971	23,743
Total assets	29,845	31,310	34,686	38,348
ST debt	687	687	687	687
Other current liabilities	12,898	12,527	13,870	15,203
LT debt	255	255	255	255
Other LT liabilities	444	444	444	444
Shareholders' equity	15,418	17,234	19,248	21,558
Minority interest	145	164	183	203
Total liabilities & equity	29,845	31,310	34,686	38,348

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	2,884	4,629	3,474	3,777
Pre-tax profit	2,570	2,739	2,978	3,366
Tax	(97)	(164)	(179)	(202)
Deprec. & amort.	781	883	1,022	1,178
Associates	(58)	(58)	(58)	(58)
Working capital changes	(714)	855	(699)	(954)
Non-cash items	402	374	409	447
Other operating cashflows	0	0	0	0
Investing	(5,573)	(1,466)	(1,442)	(1,425)
Capex (growth)	(1,803)	(1,500)	(1,500)	(1,500)
Investments	(11,178)	-0	-0	-0
Others	7,408	34	58	75
Financing	3,374	(779)	(806)	(874)
Dividend payments	(693)	(779)	(806)	(874)
Proceeds from borrowings	1,303	400	400	400
Loan repayment	(1,171)	(400)	(400)	(400)
Others/interest paid	3,934	0	0	0
Net cash inflow (outflow)	695	2,384	1,225	1,478
Beginning cash & cash equivalent	721	1,416	3,800	5,026
Changes due to forex impact	11	0	0	0
Ending cash & cash equivalent	1,416	3,800	5,026	6,504

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.5	11.6	11.4	11.6
Pre-tax margin	7.7	7.7	7.3	7.4
Net margin	7.4	7.5	7.3	7.3
ROA	9.4	8.4	8.4	8.6
ROE	19.3	15.7	15.2	15.4
Growth				
Turnover	17.9	5.0	12.0	12.0
EBITDA	7.9	5.8	10.4	13.3
Pre-tax profit	22.4	6.6	8.7	13.0
Net profit	22.4	4.1	8.8	13.1
Net profit (adj.)	24.1	5.9	8.8	13.1
EPS	13.9	4.1	8.8	13.1
Leverage				
Debt to total capital	4.5	4.3	3.9	3.5
Debt to equity	8.8	7.9	7.0	6.3
Net debt/(cash) to equity	8.8	7.9	7.0	6.3
Interest cover (x)	140.7	589.8	(184.4)	(105.8)