UOBKayHian

# Country Daily | Greater China

Friday, 28 August 2026

## Key Indices

| | Prev Close | 1D % | 1W % | 1M % | YTD % |
|---|---|---|---|---|---|
| DJIA | 53569.4 | 0.2 | 1.5 | 2.6 | 11.5 |
| S&P 500 | 7731.0 | 0.7 | 1.2 | 4.3 | 12.9 |
| FTSE 100 | 10792.5 | (0.8) | 0.4 | 0.1 | 8.7 |
| AS30 | 9243.2 | (1.0) | (0.6) | 1.4 | 2.5 |
| CSI 300 | 4630.3 | 0.9 | 0.8 | 1.3 | 0.0 |
| FSSTI | 5684.1 | (0.7) | 0.2 | 1.2 | 22.3 |
| HSCEI | 8490.3 | (0.5) | (0.7) | 0.6 | (4.7) |
| HSI | 25565.7 | (0.3) | (0.5) | 1.4 | (0.3) |
| JCI | 6521.8 | 1.8 | 2.0 | 6.4 | (24.6) |
| KLCI | 1741.7 | (0.4) | 0.6 | 1.7 | 3.7 |
| KOSPI | 6912.4 | 1.5 | 0.9 | 14.8 | 64.0 |
| Nikkei 225 | 66132.0 | (0.2) | (0.1) | 6.0 | 31.4 |
| SET | 1600.7 | (0.1) | (0.6) | (1.5) | 27.1 |
| TWSE | 45975.2 | 0.3 | 2.3 | 10.5 | 58.7 |
| BDI | 3107 | 1.7 | 11.3 | 15.2 | 65.5 |
| CPO (RM/mt) | 4596 | (1.1) | 0.0 | (0.2) | 16.9 |
| Brent Crude (US$/bbl) | 90 | 2.1 | (4.4) | 1.5 | 47.4 |

*Source: Bloomberg*

## Corporate Events

| | Venue | Begin | Close |
|---|---|---|---|
| Analyst Marketing by Julia Pan on Greater China Internet Sector | Singapore | 07 Sep | 08 Sep |
| Analyst Marketing by Julia Pan on Greater China Internet Sector | Malaysia | 09 Sep | 11 Sep |
| 17th Asian Gems Conference 2026 (Virtual) | Singapore | 22 Sep | 23 Sep |
| Post-results NDR with Sunny Optical (2382 HK) | Taipei | 22 Sep | 23 Sep |

## Corporate and Macro Calendar

| Economic Indicator/Event | Country/Region | Date |
|---|---|---|
| Aug PMI (Composite, Manufacturing, Non-manufacturing) | China | 31 Aug |
| Jul Retail Sales (Value, Volume) | Hong Kong | 31 Aug |
| Jul Money Supply (M1, M2, M3) | Hong Kong | 31 Aug |

## Top Stories

**Sector Initiate Coverage |** Internet – AI Model Page 3 →

- China's AI model market is entering a hyper-growth phase, driven by accelerating domestic enterprise adoption and growing consumer/SME demand overseas. We are bullish on leading Chinese AI labs that are supported by improving reasoning, easing compute constraints, and frontier R&D, while cost-effective open-weight models support overseas adoption. Initiate coverage on Z.ai (2513 HK) and MiniMax (100 HK) with a BUY.

**Company Results |** China Mengniu Dairy (2319 HK/**BUY**/HK$18.79/Target: HK$24.40) Page 5 →

- 1H26 results beat expectations. Excluding the tax adjustment impact, net profit would have increased around 30%. Mengniu has raised its full-year revenue growth target to the high single digits, but still targets to achieve at least yoy flat operating margin, despite gross margin pressure. The income tax adjustment may bring an additional tax amount of Rmb500m this year. Going forward, an annual increase of Rmb200m is expected. Maintain BUY; raise target price to HK$24.40.

**Company Results |** China Shineway Pharmaceutical (2877 HK/**HOLD**/HK$8.41/Target: HK$8.50) Page 8 →

- 1H26 revenue and net profit declined 28.5% and 23.7% yoy respectively, missing our 2026 estimates. Shineway remains conservative on 2026-27 growth amid persistent policy and economic headwinds, with pipeline approvals underpinning recovery from 2028. It raised the second interim dividend to Rmb0.80/share, leading to a 123% payout ratio in 2026, although without a formal policy commitment. We cut our 2026 revenue and net profit growth estimates to -25.2% and -20.5% yoy respectively. Maintain HOLD and cut target price to HK$8.50.

**Company Results |** Inner Mongolia Yili Industrial Group (600887 CH/**BUY**/Rmb26.45/Target: Rmb32.40) Page 11 →

- Yili's 2Q26 revenue missed forecasts, but operating margin expansion was better than expected. The net profit decline was driven by impairment losses related to Ausnutria. Management has reiterated its full-year revenue target of mid-single-digits. Looking beyond, for the liquid milk business, it aims for accelerated growth in the future (by 2027 at the earliest, per our understanding). Ausnutria is expected to turn profitable in 2H26. Maintain BUY; keep target price unchanged at Rmb32.40.

*Disclaimer: In Traders' Corner, technical analysis is carried out purely based on charting patterns, price movements and trends, and is thus independent of the fundamental research views of our analysts. As a result, and from time to time, we may make a technical recommendation that is opposite to our fundamental BUY/HOLD/SELL rating.*

**Company Results |** Sunny Optical (2382 HK/**BUY**/HK$64.10/Target: HK$106.00) Page 14 →

- Sunny's 1H26 net profit rose 9.9% yoy to Rmb1.8b, 17.6% above consensus estimates, as AIoT-related products registered sharp growth, driving an 88.5% yoy growth in the other products segment, coupled with its higher margins at 34% more than offset weakening handset business. This trend is expected to continue going forward, as the handset business continues to weaken, which is more than offset by the robust growth from AIoT-related products. Maintain BUY with a lower target price of HK$106.00.

**Company Results |** Zhejiang Sanhua Intelligent Controls Co (002050 CH/**BUY**/Rmb36.82/Target: Rmb43.00) Page 17→

- Sanhua's 2Q26 core net profit grew 10.5% yoy and 14.9% qoq to Rmb1,305m, in line with our estimate, while reported net profit fell 7.5% yoy to Rmb1,116m on a forex loss. Revenue growth accelerated to 6.2% yoy on data-centre liquid cooling and appliance premiumisation, and management kept its 15% full-year profit target. We cut our 2026 net profit forecast by 5% due to the forex loss. Maintain BUY and cut target price to Rmb43.00.

## Technical Analysis

**Shanghai Biren Technology |** 6082 HK Page 20 →

- Support levels: HK$33.82/HK$32.00
- Resistance levels: HK$45.84/HK$58.00

**Shanghai Iluvatar CoreX |** 9903 Page 20 →

- Support levels: HK$348.60/HK$338.20
- Resistance levels: HK$502.00/HK$649.50

# Internet

AI Model: Scaling Intelligence, Winning On Cost

## Highlights

- China's AI model market is entering a hyper-growth phase, driven by accelerating domestic enterprise adoption and growing consumer/SME demand overseas. We are bullish on leading Chinese AI labs that are supported by improving reasoning, easing compute constraints, and frontier R&D, while cost-effective open-weight models support overseas adoption.
- Initiate coverage on Z.ai (2513 HK) and MiniMax (100 HK) with a BUY.

## Analysis

- **China's AI model market is entering a hyper-growth phase,** with accelerating domestic enterprise and international adoption powering the upside momentum. We forecast AI model application programming interface/subscription revenue growing from Rmb35b in 2026 to Rmb900b in 2030, with daily token consumption rising from 350T tokens to 4,500T (13x). Chinese models should increasingly gain traction in non-US markets as improving intelligence and lower token costs appeal to cost-sensitive SMEs and 24/7 autonomous-agent deployments.
- **Chinese models are rapidly narrowing the performance gap with US peers while maintaining a structural cost advantage.** Chinese developers are quickly catching up with US players across reasoning, coding and multimodal AI, with Kimi K3 slightly exceeding Anthropic Opus 4.8 on the Artificial Analysis Intelligence Index just seven weeks after the launch. China's agent and coding token usage has rapidly reached 63% of global usage vs 32% a year ago – evidence of fast global adoption.
- **Inference efficiency and frontier R&D are increasingly becoming the key differentiators.** Chinese foundation models have improved coding and agentic performance, with context windows expanding to 1m tokens. Chinese AI labs have significantly improved inference efficiency through efficient mixture of expert architectures, key-value cache optimisation, context compression, retrieval-augmented generation and advanced attention to cost control. We believe the talent, compute and R&D barriers should accelerate industry consolidation, while top models such as GLM-5, M3 and Kimi K3 highlight the fast shifts in model leadership.
- **Initiate coverage on Z.AI Co (2513 HK/BUY/Target: HK$1,830.00) and MiniMax Group Inc (100 HK/BUY/Target: HK$470.00).** We believe Z.ai remains well positioned with its research talent and we prefer Z.ai for its strong coding performance and better pricing power, while MiniMax stands out with its differentiated multimodal capabilities and superior cost efficiency.

*Click here for Full Report dated 27 Aug 26*

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**MARKET WEIGHT (Maintained)**

## Segmental Rating

| Segment | Rating |
|---|---|
| AI Model | OVERWEIGHT (Initiate Coverage) |
| E-commerce | MARKET WEIGHT (Maintained) |
| Online Game | OVERWEIGHT (Maintained) |
| OTA | OVERWEIGHT (Maintained) |
| Online Property Vertical | MARKET WEIGHT (Maintained) |
| Local Life Service | UNDERWEIGHT (Maintained) |

*Source: Bloomberg, UOB Kay Hian*

## Key Picks

| Company | Ticker | Rec | Share Price (HK$) | Target Price (HK$) |
|---|---|---|---|---|
| Z.ai | 2513 HK | BUY | 1,030.00 | 1,830.00 |
| MiniMax | 100 HK | BUY | 303.00 | 470.00 |

*Source: Bloomberg, UOB Kay Hian*

## Peer Comparison

| Company | Ticker | Price @ 26 Aug 26 (lcy) | Market Cap (lcy m) | -----Calendarised PE----- 2026F (x) | 2027F (x) | 2028F (x) | --Calendarised EV/EBITDA-- 2026F (x) | 2027F (x) | 2028F (x) | --Calendarised EV/Sales-- 20256 (x) | 2027F (x) | 2028F (x) | ---------- ROE ---------- 2026F (%) | 2027F (%) | 2028F (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | | | | | | | | | | | | | | | |
| Z AI Co Ltd | 2513 HK | 1030.00 | 479,592 | n.a | n.a | n.a | n.a | n.a | n.a | 94.5 | 31.9 | 14.1 | 7.4 | 25.3 | -8.9 |
| Minimax Group Inc | 100 HK | 303.00 | 105,818 | n.a | n.a | n.a | n.a | n.a | n.a | 34.6 | 12.6 | 5.8 | -31.6 | -5.1 | 888.2 |
| Meitu Inc | 1357 HK | 4.30 | 19,653 | 13.8 | 10.7 | 8.5 | 9.2 | 6.7 | 4.7 | 2.8 | 2.3 | 1.9 | 18.0 | 19.6 | 21.3 |
| Shenzhen Xunce Technology | 3317 HK | 122.90 | 40,554 | 253.9 | 64.9 | 39.5 | 246.4 | 67.3 | 32.1 | 14.6 | 9.2 | 6.3 | 3.5 | 14.8 | 23.8 |
| Alibaba Group Holding Ltd | 9988 HK | 116.60 | 2,235,800 | 18.1 | 12.8 | 10.1 | 11.9 | 9.1 | 7.3 | 1.3 | 1.2 | 1.0 | 8.2 | 11.1 | 13.2 |
| Tencent Holdings Ltd | 700 HK | 445.40 | 4,054,540 | 13.0 | 12.3 | 11.3 | 11.0 | 10.2 | 9.2 | 4.3 | 4.0 | 3.6 | 18.7 | 17.2 | 16.5 |
| Baidu Inc | 9888 HK | 90.90 | 246,656 | 15.4 | 12.3 | 10.1 | 11.3 | 9.9 | 8.1 | 0.8 | 0.8 | 0.7 | 4.4 | 5.1 | 5.8 |
| Kuaishou Technology | 1024 HK | 33.60 | 145,472 | 11.2 | 11.7 | 9.8 | 5.7 | 5.8 | 5.1 | 0.7 | 0.7 | 0.6 | 9.3 | 9.0 | 9.5 |
| Avg | | | | 54.2 | 20.8 | 14.9 | 49.3 | 18.2 | 11.1 | 19.2 | 7.8 | 4.3 | 4.8 | 12.1 | 121.2 |
| US | | | | | | | | | | | | | | | |
| Alphabet Inc | GOOG US | 343.30 | 4,221,800 | 18.1 | 20.9 | 17.6 | 18.4 | 14.1 | 10.9 | 9.5 | 7.5 | 6.1 | 57.7 | 40.0 | 29.3 |
| Meta Platforms Inc | META US | 570.10 | 1,452,210 | 16.2 | 14.9 | 12.3 | 12.0 | 9.7 | 7.8 | 5.8 | 4.8 | 4.1 | 30.1 | 24.1 | 21.1 |
| Microsoft Corp | MSFT US | 491.70 | 3,651,210 | 24.9 | 20.9 | 17.4 | 15.2 | 12.4 | 10.0 | 9.5 | 8.0 | 6.6 | 28.1 | 26.4 | 25.3 |
| Apple Inc | AAPL US | 309.90 | 4,522,740 | 35.2 | 32.4 | 29.1 | 26.1 | 24.4 | 22.2 | 9.4 | 8.6 | 8.0 | 135.8 | 114.0 | 88.7 |
| Avg | | | | 23.6 | 22.3 | 19.1 | 17.9 | 15.2 | 12.7 | 8.5 | 7.2 | 6.2 | 62.9 | 51.1 | 41.1 |

*Source: Bloomberg, UOB Kay Hian*

## Investment Highlights

- **China's AI model market is entering a hyper-growth phase,** with AI labs reaching a critical intelligence level, driven by accelerating domestic enterprise adoption and growing consumer/SME demand overseas. We forecast AI model application programming interface/subscription revenue growing from Rmb35b in 2026 to Rmb900b in 2030, with daily token consumption rising from 350 tokens to 4,500 (~13x). Chinese models should increasingly gain traction in non-US markets as improving intelligence and lower token costs appeal to cost-sensitive SMEs and 24/7 autonomous-agent deployments. We forecast a three-year revenue CAGR of 123% for MiniMax and 141% for Z.ai in 2026-29, with both breaking even in 2029.
- **Chinese models are narrowing the performance gap with US peers while retaining a pricing advantage.** Chinese AI labs are progressing rapidly across reasoning, coding and multimodal capabilities and the growth is likely to remain non-linear, with capability breakthroughs driving sharp increases in adoption, distribution and revenue before competition shifts toward cost efficiency, reliability and distribution. The latest US models still maintain an advantage at the frontier, while the generally lower pricing of Chinese models supports their competitiveness in high-volume and cost-sensitive deployments.
- **Inference efficiency and frontier R&D are key differentiators.** Chinese foundation models have materially improved coding and agentic performance over the past year, with context windows expanding to 1m tokens. As 1m-token contexts add coding and long-horizon agent use cases, key-value cache optimisation, context compression, retrieval-augmented generation and advanced attention are critical to cost control. In addition, efficient mixture of expert architectures, post-training and real-world data flywheels are further improving cost efficiency. Recent model launches highlight continued shifts in model leadership, while Z.ai remains well positioned given its R&D pedigree, Tsinghua affiliation and major internet-platform customers. In our view, Z.ai is well positioned due to its research talent, while Kimi's commercial licensing could help Chinese labs capture more value from global deployment.
- **Frontier AI remains difficult to replicate, supporting eventual industry consolidation.** Sustained leadership requires deep research expertise, specialised talent, improving compute and rapid R&D execution. We expect the frontier to consolidate around fewer players, with large platforms leveraging scale and distribution and focused labs competing on R&D speed. In the near term, we expect frontier coding workloads to remain concentrated among leading models, while lower-end agentic AI stays more fragmented.
- **Domestic compute adoption expanding into frontier-scale model development.** Z.ai has also reportedly completed a 1GW China-chip data centre. Meanwhile, DeepSeek and Z.ai are exploring proprietary inference chips. These developments suggest China's domestic hardware and software stack is reducing its reliance on restricted foreign GPUs, although compute constraints continue to ease gradually rather than be fully resolved, as proprietary-chip efforts are still early-stage and focusing mainly on inference.
- **Future trend – bifurcating market.** We expect frontier models to retain pricing power, while lower-end models face price competition but benefit from rapidly growing demand for cost-efficient agentic AI. For 2H26, we foresee: a) multiple Chinese AI model launches with 2T-5T parameters; b) intensifying competition in coding/programming as peers challenge the Z.ai general language model (GLM) through higher-quality real-world coding data and greater model scale; c) leading models shifting from open-source to open-weight licensing, introducing revenue sharing/take rates for commercial use; and d) multimodal and visual reasoning becoming another key upgrade area for models like GLM and DeepSeek, while MiniMax M3 already has a strong multimodal focus. Against this backdrop, R&D capability, pricing power, cost efficiency, financial strength, token scale and market share gains will increasingly differentiate the winners from among large language models.

# China Mengniu Dairy (2319 HK)

1H26: Results Beat; Raises Full-Year Revenue Target To High Single Digits; Maintains Flat OPM Target

## Highlights

- **Mengniu's 1H26 results** beat on both top-line and bottom line. Excluding the tax adjustment impact, net profit would have increased by around 30%.
- **3Q-to-date, all business segments sustained solid growth momentum,** leading management to raise its full-year revenue growth target to high single-digits from mid-single-digits. Regarding profitability, while the rising raw material prices may continue to weigh on gross margin, the company's strengthened expense control could support operating margin expansion in 2H26. Therefore, for the full year, the company still targets to achieve at least a yoy flat operating margin.
- **Regarding the income tax adjustment,** management expects an additional tax amount of Rmb500m this year. Going forward, an annual increase of Rmb200m is expected under the new taxation criteria.
- **Maintain BUY and raise target price by 5% to HK$24.40.**

### 1H26 Results

| Year to 31 Dec (Rmbm) | 1H26 | 2H25 | 1H25 | yoy chg (%) | hoh chg (%) |
|---|---|---|---|---|---|
| Total revenue | 44,795 | 40,678 | 41,567 | 7.8 | 10.1 |
| Gross profit | 18,258 | 15,456 | 17,352 | 5.2 | 18.1 |
| Gross profit margin (%) | 40.8 | 38.0 | 41.7 | (1.0) | 2.8 |
| Operating profit | 3,676 | 3,026 | 3,538 | 3.9 | 21.5 |
| Operating margin (%) | 8.2 | 7.4 | 8.5 | (0.3) | 0.8 |
| Core net profit | 2,371 | 1,914 | 2,046 | 15.9 | 23.9 |
| Core net margin (%) | 5.3 | 4.7 | 4.9 | 0.4 | 0.6 |

*Source: Mengniu, UOB Kay Hian*

## Analysis

- **1H26 results beat; net profit should have increased 30% excluding tax adjustment impact.** China Mengniu Dairy (Mengniu) reported revenue of Rmb44,795m (+8% yoy), beating VA consensus by 4%. Gross profit was Rmb18,258m (+5% yoy), with gross margin at 40.8% (-1.0ppt yoy). The decline in gross margin can be attributed to: a) price adjustments made for certain basic products in 2H25 to cope with market competition, and b) a significant increase in the costs of raw and auxiliary materials. Operating profit was Rmb3,676m (+4% yoy), with operating margin at 8.2% (-0.3ppt yoy). The decline in operating margin was primarily due to gross margin contraction, partially offset by a 0.7ppt SG&A expense savings. Net profit was Rmb2,371m (+16% yoy), beating VA consensus by 4%, with net margin at 5.3% (+0.4ppt yoy). During the period, the company made an income tax adjustment payment amounting to Rmb320m, bringing the effective tax rate to 31.5% from 24.1% in 1H25. Excluding the tax adjustment impact, net would have increased by around 30%.

### Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 88,675 | 82,245 | 87,848 | 92,372 | 97,333 |
| EBITDA | 10,664 | 11,040 | 10,092 | 10,468 | 10,791 |
| Operating profit | 7,257 | 6,564 | 6,985 | 7,464 | 7,875 |
| Net profit (rep./act.) | 105 | 1,545 | 5,034 | 5,636 | 6,042 |
| Net profit (adj.) | 4,435 | 3,960 | 5,034 | 5,636 | 6,042 |
| EPS (Fen) | 112.9 | 101.4 | 128.4 | 143.8 | 154.2 |
| PE (x) | 14.3 | 15.9 | 12.5 | 11.2 | 10.5 |
| P/B (x) | 1.5 | 1.6 | 1.5 | 1.4 | 1.3 |
| EV/EBITDA (x) | 8.1 | 7.4 | 7.6 | 6.9 | 6.3 |
| Dividend yield (%) | 3.1 | 3.2 | 4.1 | 4.5 | 4.9 |
| Net margin (%) | 5.0 | 4.8 | 5.7 | 6.1 | 6.2 |
| Net debt/(cash) to equity (%) | (14.5) | (23.9) | (32.9) | (39.4) | (45.2) |
| Interest cover (x) | 191.1 | 85.7 | n.a. | n.a. | n.a. |
| ROE (%) | 10.3 | 9.6 | 12.0 | 12.5 | 12.5 |
| Consensus net profit | - | - | 4,932.9 | 5,495.4 | 6,021.8 |
| UOBKH/Consensus (x) | - | - | 1.02 | 1.03 | 1.00 |

*Source: Mengniu, Bloomberg, UOB Kay Hian*

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| BUY (Maintained) | |
|---|---|
| Share Price | HK$18.79 |
| Target Price | HK$24.40 |
| Upside | +29.9% |
| Previous TP | HK$23.20 |

### Stock Data

| | |
|---|---|
| Sector | Consumer Staples |
| Bloomberg ticker | 2319 HK |
| Shares issued (m) | 3,871.2 |
| Market cap (HK$m) | 72,739.7 |
| Market cap (US$m) | 9,279.6 |
| 3-mth avg daily t'over (US$m) | 55.7 |

### Price Performance (%)

| 52-week high/low | | | | HK$19.67/HK$13.88 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 3.2 | 14.2 | 16.3 | 11.5 | 26.0 |

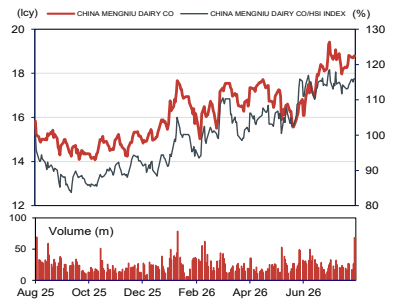
### Major Shareholders (%)

| | |
|---|---|
| COFCO Corp | 24.14 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (Rmb) | 11.11 |
| FY26 Net Cash/Share (Rmb) | 4.10 |

### Price Chart




*Source: Bloomberg*

### Company Description

China Mengniu Dairy (Mengniu) is a leading dairy product manufacturer in China, with MENGNIU as its core brand. It offers diversified products including liquid milk products, ice cream, milk formula and cheese, under well-known brands such as Milk Deluxe, Just Yoghurt, and Bellamy's. Mengniu continues to expand and build its omni-channel operations to establish long-term relationships with consumers.

## Key Operational Data

| Year to 31 Dec (Rmbm) | 1H26 | 2H25 | 1H25 | yoy chg (%) | hoh chg (%) |
|---|---|---|---|---|---|
| Revenue by product | | | | | |
| Liquid milk products | 33,865 | 32,748 | 32,192 | 5.2 | 3.4 |
| Ice cream products | 4,207 | 1,515 | 3,879 | 8.5 | 177.7 |
| Milk powder products | 2,058 | 1,968 | 1,676 | 22.8 | 4.6 |
| Cheese products | 3,148 | 2,892 | 2,374 | 32.6 | 8.9 |
| Others | 1,517 | 1,556 | 1,447 | 4.8 | (2.5) |

*Source: Mengniu, UOB Kay Hian*

- **2026 revenue target raised to high single-digits.** By segment, liquid milk/ice cream/milk powder/cheese/others recorded revenue growth of 5%/8%/23%/33%/5%, respectively, with growth primarily driven by volume, while ASPs were largely flat. In the liquid milk segment, Deluxe achieved high single-digit growth, while fresh milk delivered over 30% growth. 3Q-to-date, all business segments sustained solid growth momentum, leading management to raise the full-year revenue growth target to high single-digits from mid-single-digits.
- **Maintains flat operating margin target.** Regarding profitability, while the rising raw material prices may continue to weigh on gross margin, the company's strengthened expense control could support operating margin expansion in 2H26. Furthermore, management believes that raw milk price stabilisation will drive industry competition rationalisation, enabling the company to reduce promotions. Therefore, for the full year, the company still targets to achieve at least a yoy flat operating margin.
- **Expect non-operating items to contribute positively to net profit in 2H26;** annual tax increase of Rmb200m due to new criteria. Below the operating profit line, in 1H26, share of associate (primarily China Modern Dairy) contributed a profit of Rmb40m (vs a loss of Rmb585m in 1H25). Write-down of inventories amounted to Rmb166m (vs Rmb222m in 1H25). With raw milk prices already stabilising and projected to gradually trend up in 2H26, we anticipate these non-operating items contributing positively to net profit in 2H26. Regarding the income tax adjustment, management foresees an increase of additional tax amount of Rmb500m this year (Rmb320m in 1H26). Going forward, an annual increase of Rmb200m is expected under the new taxation criteria.

## Earnings Revision/Risk

- **We lower our 2026 earnings forecast by 1.4%, while raising our 2027 earnings forecast by 0.4%.** We raise our 2026/27 revenue forecasts by 2.3%/3.3%, respectively. We cut our 2026/27 gross margin estimates by 0.3ppt/0.2ppt respectively. We also trim our 2026/27 selling and marketing expense ratio forecasts both by 0.3ppt. We lift our 2026/27 estimates of non-operating items. We raise our 2026/27 effective tax rate estimates to reflect changes in the taxation criteria. Thus, our 2026 earnings forecast is lowered by 1.4%, while our 2027 earnings forecast is raised slightly by 0.4%.

## Valuation/Recommendation

- **Maintain BUY and raise target price by 5% to HK$24.40.** Our DCF-based target price is raised by 5% to HK$24.40, implying 17.0x 2026F PE and 15.1x 2027F PE. The stock currently trades at 12.5x 2026F PE and 11.2x 2027F PE.

## Profit & loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 82,244.9 | 87,847.5 | 92,371.7 | 97,332.6 |
| EBITDA | 11,039.9 | 10,091.9 | 10,468.2 | 10,790.8 |
| Deprec. & amort. | 4,475.5 | 3,106.9 | 3,004.7 | 2,916.0 |
| EBIT | 6,564.4 | 6,985.0 | 7,463.5 | 7,874.8 |
| Total other non-operating income | (2,723.0) | 440.7 | 650.5 | 661.3 |
| Associate contributions | (804.0) | 269.9 | 440.3 | 554.4 |
| Net interest income/(expense) | (128.8) | 27.4 | 92.0 | 178.2 |
| Pre-tax profit | 2,908.5 | 7,722.9 | 8,646.3 | 9,268.7 |
| Tax | (1,284.6) | (2,432.7) | (2,723.6) | (2,919.6) |
| Minorities | (78.6) | (256.1) | (286.7) | (307.4) |
| Net profit | 1,545.4 | 5,034.1 | 5,636.0 | 6,041.7 |
| Net profit (adj.) | 3,960.0 | 5,034.1 | 5,636.0 | 6,041.7 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 18,118.9 | 17,418.0 | 16,811.2 | 16,285.8 |
| Other LT assets | 43,691.6 | 43,629.2 | 43,574.9 | 43,527.8 |
| Cash/ST investment | 13,254.5 | 14,202.2 | 19,650.5 | 25,118.6 |
| Other current assets | 21,513.3 | 22,324.2 | 22,961.4 | 23,661.1 |
| Total assets | 96,578.3 | 97,573.6 | 102,998.0 | 108,593.3 |
| ST debt | 13,874.1 | 9,151.5 | 9,250.7 | 9,340.0 |
| Other current liabilities | 20,752.9 | 22,205.5 | 23,279.2 | 24,503.2 |
| LT debt | 11,514.6 | 12,506.8 | 13,399.7 | 14,203.3 |
| Other LT liabilities | 3,255.1 | 3,255.1 | 3,255.1 | 3,255.1 |
| Shareholders' equity | 40,518.9 | 43,535.9 | 46,607.8 | 49,778.8 |
| Minority interest | 6,662.7 | 6,918.8 | 7,205.5 | 7,512.9 |
| Total liabilities & equity | 96,578.3 | 97,573.6 | 102,998.0 | 108,593.3 |

## Cash flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 8,750.5 | 9,038.8 | 9,363.9 | 9,789.4 |
| Pre-tax profit | 2,908.5 | 7,722.9 | 8,646.3 | 9,268.7 |
| Tax | (1,284.6) | (2,432.7) | (2,723.6) | (2,919.6) |
| Deprec. & amort. | 4,475.5 | 3,106.9 | 3,004.7 | 2,916.0 |
| Working capital changes | 267.0 | 641.7 | 436.5 | 524.3 |
| Other operating cashflows | 2,350.3 | (0.0) | 0.0 | 0.0 |
| Investing | 3,335.2 | (2,343.6) | (2,343.6) | (2,343.6) |
| Capex (growth) | (2,453.0) | (2,343.6) | (2,343.6) | (2,343.6) |
| Investments | (7,049.2) | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 102.3 | 0.0 | 0.0 | 0.0 |
| Others | 12,735.1 | 0.0 | 0.0 | 0.0 |
| Financing | (11,713.9) | (5,747.5) | (1,572.0) | (1,977.8) |
| Dividend payments | (1,991.2) | (2,017.0) | (2,564.1) | (2,870.7) |
| Proceeds from borrowings | 26,391.0 | 10,143.6 | 10,143.6 | 10,143.6 |
| Loan repayment | (31,737.1) | (13,874.1) | (9,151.5) | (9,250.7) |
| Others/interest paid | (4,376.5) | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | 371.8 | 947.7 | 5,448.3 | 5,468.0 |
| Beginning cash & cash equivalent | 6,199.4 | 13,254.5 | 14,202.2 | 19,650.5 |
| Changes due to forex impact | (535.1) | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 6,036.0 | 14,202.2 | 19,650.5 | 25,118.6 |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 13.4 | 11.5 | 11.3 | 11.1 |
| Pre-tax margin | 3.5 | 8.8 | 9.4 | 9.5 |
| Net margin | 4.8 | 5.7 | 6.1 | 6.2 |
| ROA | 3.9 | 5.2 | 5.6 | 5.7 |
| ROE | 9.6 | 12.0 | 12.5 | 12.5 |
| | | | | |
| Growth | | | | |
| Turnover | (7.3) | 6.8 | 5.2 | 5.4 |
| EBITDA | 3.5 | (8.6) | 3.7 | 3.1 |
| Pre-tax profit | 191.1 | 165.5 | 12.0 | 7.2 |
| Net profit | (10.7) | 27.1 | 12.0 | 7.2 |
| Net profit (adj.) | (10.7) | 27.1 | 12.0 | 7.2 |
| EPS | (10.2) | 26.6 | 12.0 | 7.2 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 35.7 | 33.0 | 33.7 | 33.0 |
| Debt to equity | 61.9 | 51.5 | 50.3 | 48.9 |
| Net debt/(cash) to equity | (23.9) | (32.9) | (39.4) | (45.2) |
| Interest cover (x) | 85.7 | n.a. | n.a. | n.a. |

# China Shineway Pharmaceutical (2877 HK)

1H26: Results Miss; Higher Dividend Cushions 2026 Forecast Cut

## Highlights

- Shineway's 1H26 revenue and net profit declined 28.5% and 23.7% yoy respectively, missing our 2026 estimates. It remains conservative on 2026-27 growth amid persistent policy and economic headwinds, with pipeline approvals underpinning recovery from 2028.
- It raised the second interim dividend to Rmb0.80/share, resulting in a 123% payout ratio in 2026, though without a formal policy commitment.
- We cut our 2026 revenue and net profit growth estimates to -25.2% and -20.5% yoy. Maintain HOLD and cut target price to HK$8.50.

### 1H26 Results

| Year to 31 Dec (Rmbm) | 1H25 | 1H26 | % chg yoy |
|---|---|---|---|
| Revenue | 1,653 | 1,181 | (28.5) |
| Injection | 566 | 320 | (43.4) |
| Soft capsule | 217 | 203 | (6.8) |
| Granules | 273 | 247 | (9.6) |
| TCM formula granules | 488 | 336 | (31.1) |
| Others | 109 | 76 | (30.6) |
| Gross Profit | 1,194 | 826 | (30.8) |
| Selling expense | (648) | (312) | (51.8) |
| G&A expense | (126) | (107) | (15.5) |
| R&D expense | (50) | (67) | 32.9 |
| Operating Profit | 531 | 468 | (11.8) |
| Investment income | 218 | 113 | (48.2) |
| Net income | 615 | 469 | (23.7) |
| Ratios | 1H25 | 1H26 | ppt chg yoy |
| GP margin | 72.2 | 69.9 | (2.3) |
| Selling expense % | 39.2 | 26.4 | (12.8) |
| Admin expense % | 7.7 | 9.0 | 1.4 |
| R&D % | 3.0 | 5.7 | 2.6 |
| OP margin | 32.1 | 39.7 | 7.5 |
| Investment income % | 13.2 | 9.6 | (3.6) |
| Net profit margin | 37.2 | 39.7 | 2.5 |

*Source: Shineway, UOB Kay Hian*

## Analysis

- **1H26 results missed.** China Shineway Pharmaceutical's (Shineway) 1H26 revenue dropped 28.5% yoy to Rmb1.18b, while net profit declined 23.7% yoy to Rmb469.2m. The 1H26 results missed our estimated revenue and net profit growth of -3.2% and 0.6% yoy for 2026, respectively. The company declared a second interim dividend for 2026 at Rmb0.80/share. Its 2026 dividend totalled Rmb1.23/share, representing a payout ratio of 123%.

### Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 3,778 | 3,135 | 2,344 | 2,347 | 2,427 |
| EBITDA | 1,025 | 896 | 813 | 865 | 911 |
| Operating profit | 1,025 | 896 | 813 | 865 | 911 |
| Net profit (rep./act.) | 840 | 950 | 755 | 811 | 864 |
| Net profit (adj.) | 840 | 950 | 755 | 811 | 864 |
| EPS (Fen) | 111.2 | 125.8 | 100.0 | 107.4 | 114.3 |
| PE (x) | 6.5 | 5.7 | 7.2 | 6.7 | 6.3 |
| P/B (x) | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (x) | (0.9) | (1.0) | (1.1) | (1.0) | (1.0) |
| Dividend yield (%) | 7.5 | 6.5 | 17.1 | 5.6 | 5.9 |
| Net margin (%) | 22.2 | 30.3 | 32.2 | 34.6 | 35.6 |
| Net debt/(cash) to equity (%) | (77.6) | (85.0) | (86.7) | (84.6) | (88.5) |
| Interest cover (x) | 167.2 | 157.6 | 143.0 | 152.2 | 160.2 |
| ROE (%) | 11.6 | 12.2 | 9.5 | 10.0 | 10.0 |
| Consensus net profit | - | - | 956 | 1,072 | 1,184 |
| UOBKH/Consensus (x) | - | - | 0.79 | 0.76 | 0.73 |

*Source: Shineway, Bloomberg, UOB Kay Hian*

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| HOLD (Maintained) | |
|---|---|
| Share Price | HK$8.41 |
| Target Price | HK$8.50 |
| Upside | 1.1% |
| Previous TP | HK$9.00 |

### Stock Data

| | |
|---|---|
| Sector | Health Care |
| Bloomberg ticker | 2877 HK |
| Shares issued (m) | 827 |
| Market cap (HK$m) | 6,955 |
| Market cap (US$m) | 887 |
| 3-mth avg daily t'over (US$m) | 0.8 |

### Price Performance (%)

| 52-week high/low | | | | HK$10.47/HK$7.21 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 2.2 | 2.6 | (10.5) | (4.2) | (2.2) |

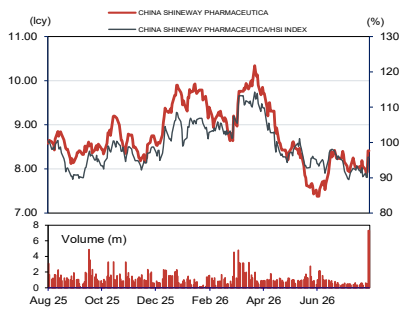
### Major Shareholders (%)

| | |
|---|---|
| Li Zhenjiang | 66.12 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (Rmb) | 10.44 |
| FY26 Net Cash/Share (Rmb) | 9.06 |

### Price Chart




*Source: Bloomberg*

### Company Description

China Shineway Pharmaceutical develops, manufactures, and sells modern Chinese medicines in Mainland China. The company also produces and sells a series of western pharmaceuticals.

- **1H26 and 2Q26 revenue fell 28.5% and 37.5% yoy,** mainly due to: a) continued impact from the anti-corruption campaign and group purchasing organisation (GPO) tenders on multiple traditional Chinese medicine (TCM) products, and b) weak economic conditions. TCM injections, TCM formula granules, granules and soft capsules saw 1H26 revenue declines of 43.4%, 31.1%, 9.6% and 6.8% yoy respectively. By medicine category, revenue from prescription and over-the-counter medications fell 29.1% and 23.4% yoy respectively in 1H26.
- **Cost control supported margins in 1H26.** Gross margin narrowed 2.3ppt yoy to 69.9% in 1H26, primarily impacted by GPO price cuts on TCM injections and TCM formula granules, and high production costs. The selling expenses/revenue ratio improved 12.8ppt yoy to 26.4% in 1H26 on lower advertising and market development spending, while the G&A/revenue ratio and R&D/revenue ratio expanded 1.4ppt and 2.6ppt yoy to 9.0% and 5.7% respectively. Operating margin rose 7.5ppt yoy to 39.7% in 1H26, while net margin improved 2.5ppt to 39.7%, even as investment income fell 48.2% yoy.
- **Significant dividend uplift for 2026.** Shineway declared a second interim dividend for 2026 of Rmb0.80/share, up from Rmb0.11/share in 2025. Its 2026 dividend totalled Rmb1.23/share, representing a payout ratio of 123%. Management positioned the increase as a response to long-standing concerns over payout levels but did not commit a formal policy. Future distributions may vary, as cash reserves are also needed to support lengthening hospital receivables.
- **Management expects no recovery in 2H26.** Shineway expects GPO tenders to continue and notes prices already cut will not recover, while removal of the hospital dispensing mark-up lands in 2H26. Channel inventory is already low, so destocking is no longer the constraint. Hospital payment periods continue to lengthen, distributors struggle to collect, and Shineway ships only against payment. Management remains conservative on the 2026-27 revenue outlook.
- **TCM formula granules under pressure while exclusive oral products showed relative resilience.** TCM formula granules revenue fell 31.1% yoy to Rmb336m after Hebei province implemented GPO tenders cutting winning bid prices by over 30% on average. Management indicated the decline was price- rather than volume-driven and that Yunnan was largely spared because its prices had already been cut earlier. Hebei's hospital sales fell 36.4% yoy while Yunnan's grew 20.7% yoy. As a private enterprise, Shineway expects to take share as additional provincial markets open. Exclusive oral prescription medications were the most resilient segment, with 1H26 revenue down 12.2% yoy to Rmb234m. Sales of Huamoyan Granule fell 14.3% yoy while Dan Deng Tong Nao Soft Capsule grew 1.0% yoy.
- **Pipeline approvals underpin 2028 growth outlook.** Sailuotong and JC Capsule have completed Phase III trials, with market launch targeted for 2027. Management indicated JC Capsule could possibly be approved by end-26. A further approval in late-Aug 26 lifts the number of classic prescriptions to eight, ranking first nationwide. Management sees a reasonable prospect of growth in 2028 even if 2027 does not recover.

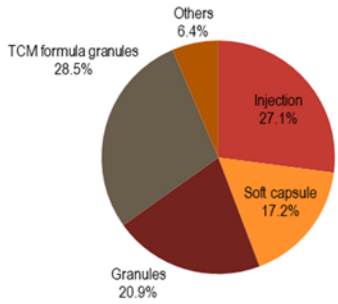
## Valuation/Recommendation

- **Maintain HOLD with a lower target price of HK$8.50,** based on 6.8x 2027F PE. The stock is currently trading at HK$8.41, below its 2026 net cash/share of Rmb9.06.

## Earnings Revision/Risk

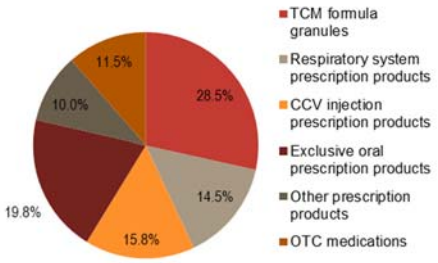
- We cut our 2026 revenue and net profit growth estimates from -3.2% and 0.6% yoy to -25.2% and -20.5% yoy respectively, on the weaker 2026 growth outlook.
- **Risks** include: a) worse-than-expected impact from the anti-corruption campaign; b) GPO risks on TCM formula granules; c) intensifying competition; and d) possibly weaker-than-expected economic conditions.

### Revenue By Segment (1H26)




*Sources: Shineway, UOB Kay Hian*

### Revenue By Medicine Category (1H26)




*Sources: Shineway, UOB Kay Hian*

## Profit & Loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 3,135 | 2,344 | 2,347 | 2,427 |
| EBITDA | 896 | 813 | 865 | 911 |
| Deprec. & amort. | - | - | - | - |
| EBIT | 896 | 813 | 865 | 911 |
| Total other non-operating income | 379 | 200 | 222 | 246 |
| Associate contributions | - | - | - | - |
| Net interest income/(expense) | (6) | (6) | (6) | (6) |
| Pre-tax profit | 1,269 | 1,007 | 1,081 | 1,151 |
| Tax | (319) | (252) | (270) | (288) |
| Minorities | - | - | - | - |
| Net profit | 950 | 755 | 811 | 864 |
| Net profit (adj.) | 950 | 755 | 811 | 864 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 1,249 | 1,231 | 1,215 | 1,202 |
| Other LT assets | 224 | 219 | 216 | 213 |
| Cash/ST investment | 7,189 | 7,179 | 7,443 | 8,250 |
| Other current assets | 2,115 | 1,590 | 1,850 | 1,656 |
| Total assets | 10,777 | 10,219 | 10,724 | 11,321 |
| ST debt | 339 | 339 | 339 | 339 |
| Other current liabilities | 2,171 | 1,787 | 1,784 | 1,840 |
| LT debt | - | - | - | - |
| Other LT liabilities | 205 | 205 | 205 | 205 |
| Shareholders' equity | 8,062 | 7,888 | 8,396 | 8,937 |
| Minority interest | - | - | - | - |
| Total liabilities & equity | 10,777 | 10,219 | 10,724 | 11,321 |

## Cash Flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 1,172 | 951 | 599 | 1,161 |
| Pre-tax profit | 1,269 | 1,007 | 1,081 | 1,151 |
| Tax | (319) | (252) | (270) | (288) |
| Deprec. & amort. | 151 | 152 | 148 | 145 |
| Associates | - | - | - | - |
| Working capital changes | 461 | 141 | (263) | 250 |
| Non-cash items | - | - | - | - |
| Other operating cashflows | (389) | (97) | (97) | (97) |
| Investing | 222 | (26) | (26) | (26) |
| Capex (growth) | (144) | (144) | (144) | (144) |
| Investments | 95 | 95 | 95 | 95 |
| Proceeds from sale of assets | 23 | 23 | 23 | 23 |
| Others | 248 | - | - | - |
| Financing | (375) | (935) | (309) | (328) |
| Dividend payments | (355) | (929) | (303) | (323) |
| Proceeds from borrowings | (5) | - | - | - |
| Loan repayment | - | - | - | - |
| Others/interest paid | (15) | (6) | (6) | (6) |
| Net cash inflow (outflow) | 1,019 | (10) | 264 | 807 |
| Beginning cash & cash equivalent | 6,140 | 7,189 | 7,179 | 7,443 |
| Changes due to forex impact | 30 | - | - | - |
| Ending cash & cash equivalent | 7,189 | 7,179 | 7,443 | 8,250 |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| Gross margin | 72.3 | 69.9 | 70.0 | 70.0 |
| Pre-tax margin | 40.5 | 43.0 | 46.1 | 47.5 |
| Net margin | 30.3 | 32.2 | 34.6 | 35.6 |
| ROA | 9.1 | 7.2 | 7.7 | 7.8 |
| ROE | 12.2 | 9.5 | 10.0 | 10.0 |
| | | | | |
| Growth | | | | |
| Turnover | (17.0) | (25.2) | 0.1 | 3.4 |
| Gross profit | (20.0) | (27.7) | 0.3 | 3.4 |
| Pre-tax profit | 10.8 | (20.6) | 7.4 | 6.5 |
| Net profit | 13.1 | (20.5) | 7.4 | 6.5 |
| Net profit (adj.) | 13.1 | (20.5) | 7.4 | 6.5 |
| EPS | 13.1 | (20.5) | 7.4 | 6.5 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 4.0 | 4.1 | 3.9 | 3.7 |
| Debt to equity | 4.2 | 4.3 | 4.0 | 3.8 |
| Net debt/(cash) to equity | (85.0) | (86.7) | (84.6) | (88.5) |
| Interest cover (x) | n.a. | n.a. | n.a. | n.a. |

# Inner Mongolia Yili Industrial Group (600887 CH)

2Q26: Revenue Misses But Operating Margin Expansion Better Than Expected; Reiterates Mid-Single-Digit Revenue Growth Target

## Highlights

- Yili's 2Q26 revenue missed forecasts, but operating margin expansion was better than expected. The net profit decline was driven by impairment losses related with Ausnutria. We estimate that excluding the Ausnutria impact, core net profit increased 3% in 1H26 but decreased 15% in 2Q26, due to an income tax adjustment payment.
- Management has reiterated its full-year revenue target of mid-single-digits. Looking beyond, for the liquid milk business, it aims for accelerated growth in the future (earliest by 2027, per our understanding). Ausnutria is expected to turn profitable in 2H26.
- Maintain BUY and keep target price unchanged at Rmb32.40.

## 2Q26 & 1H26 Results

| Year to 31 Dec (Rmbm) | 2Q26 | 2Q25 | yoy chg (%) | 1H26 | 1H25 | yoy chg (%) |
|---|---|---|---|---|---|---|
| Total revenue | 29,665 | 28,915 | 2.6 | 64,490 | 61,933 | 4.1 |
| Operational revenue | 29,590 | 28,838 | 2.6 | 64,331 | 61,777 | 4.1 |
| Operational gross profit | 10,105 | 9,860 | 2.5 | 23,437 | 22,268 | 5.3 |
| Operational gross margin (%) | 34.2 | 34.2 | (0.0) | 36.4 | 36.0 | 0.4 |
| EBIT | 2,908 | 2,688 | 8.2 | 8,830 | 7,962 | 10.9 |
| EBIT margin (%) | 9.8 | 9.3 | 0.5 | 13.7 | 12.9 | 0.8 |
| Attributable net profit | 364 | 2,326 | (84.4). | 5,759 | 7,200 | (20.0) |
| Attributable net margin (%) | 1.2 | 8.0 | (6.8) | 8.9 | 11.6 | (2.7) |
| Core net profit | 1,986 | 2,326 | (14.6) | 7,381 | 7,200 | 2.5 |
| Core net margin (%) | 6.7 | 8.0 | (1.3) | 11.4 | 11.6 | (0.2) |

*Note: core net profit definition excluding Ausnutria-related impairment losses*
*Source: Yili, UOB Kay Hian*

## Analysis

- **2Q26 revenue missed; operating margin expansion better than expected; net profit declined due to one-offs.** In 1H26, Inner Mongolia Yili Industrial Group's (Yili) revenue was Rmb64,490m, up 4% yoy but 3% below VA consensus. Operational gross margin was 36.4%, up 0.4ppt yoy. EBIT totalled Rmb8,830m, up 11% yoy, with EBIT margin at 13.7%, up 0.8ppt yoy. Net profit was Rmb5,759m, down 20% yoy. The decline in net profit was primarily attributed to: a) a Rmb1,547m goodwill impairment on Ausnutria (none in 1H25); b) a Rmb908m inventory impairment loss, most of which came from Ausnutria Dairy (vs Rmb316m in 1H25); and c) higher income tax, with the effective income tax rate rising to 24.5% in 1H26 from 12.6% in 1H25, due to an income tax adjustment payment. Net margin was 8.9%, down 2.7ppt yoy. Excluding the impairment losses related with Ausnutria, we estimate that core net profit increased by 3% in 1H26.

## Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 115,780 | 115,931 | 121,564 | 127,787 | 134,639 |
| EBITDA | 17,059 | 18,252 | 18,315 | 19,158 | 20,116 |
| Operating profit | 12,447 | 13,657 | 14,530 | 15,364 | 16,310 |
| Net profit (rep./act.) | 8,453 | 11,565 | 10,437 | 13,369 | 14,631 |
| Net profit (adj.) | 8,825 | 11,665 | 12,059 | 13,369 | 14,631 |
| EPS (Fen) | 138.9 | 184.6 | 190.6 | 211.4 | 231.3 |
| PE (x) | 19.0 | 14.3 | 13.9 | 12.5 | 11.4 |
| P/B (x) | 3.2 | 3.1 | 3.0 | 2.8 | 2.6 |
| EV/EBITDA (x) | 10.9 | 10.8 | 10.6 | 9.8 | 9.0 |
| Dividend yield (%) | 4.6 | 5.2 | 5.4 | 6.0 | 6.6 |
| Net margin (%) | 7.6 | 10.1 | 9.9 | 10.5 | 10.9 |
| Net debt/(cash) to equity (%) | 27.4 | 46.1 | 37.3 | 25.3 | 13.8 |
| Interest cover (x) | n.a. | n.a. | n.a. | n.a. | n.a. |
| ROE (%) | 16.5 | 21.6 | 21.7 | 22.9 | 23.3 |
| Consensus net profit | - | - | 11,878.4 | 13,238.6 | 14,334.7 |
| UOBKH/Consensus (x) | - | - | 1.02 | 1.01 | 1.02 |

*Source: Yili, Bloomberg, UOB Kay Hian*

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**BUY (Maintained)**

| | |
|---|---|
| Share Price | Rmb26.45 |
| Target Price | Rmb32.40 |
| Upside | +22.5% |

## Stock Data

| | |
|---|---|
| Sector | Consumer Staples |
| Bloomberg ticker | 600887 CH |
| Shares issued (m) | 6,325.4 |
| Market cap (Rmbm) | 167,305.8 |
| Market cap (US$m) | 24,891.1 |
| 3-mth avg daily t'over (US$m) | 239.3 |

## Price Performance (%)

| 52-week high/low | | | | Rmb29.78/Rmb23.76 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 1.5 | (0.6) | 0.3 | (6.6) | (7.5) |

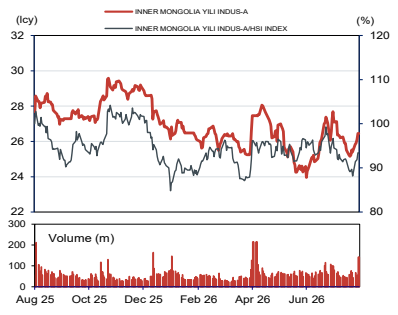
## Major Shareholders (%)

| | |
|---|---|
| Huhe Haote Investment Co. Ltd | 8.51 |

## Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (Rmb) | 8.91 |
| FY26 Net Debt/Share (Rmb) | 3.50 |

## Price Chart




*Source: Bloomberg*

## Company Description

Inner Mongolia Yili Industrial Group produces milk, powdered milk, ice cream, and other dairy products.

- **This implies 2Q26 revenue of Rmb29,665m,** up 3% yoy. Operational gross margin was 34.2%, broadly flat yoy. EBIT totalled Rmb2,908m, up 8% yoy, with EBIT margin at 9.8%, up 0.5ppt yoy, driven by SG&A expense savings of 0.4ppt yoy. Net profit was Rmb364m, down 84% yoy, with net margin at 1.2%, down 6.8ppt yoy. Excluding the impairment losses related with Ausnutria, we estimate that core net profit decreased by 15% in 2Q26, due to an income tax adjustment payment.
- **Mid-single-digit revenue growth target reiterated; aims for accelerated growth in liquid milk in the future.** By product, in 2Q26, liquid milk/milk powder and dairy products/frozen dairy recorded yoy revenue changes of flat/-4%/+13% (vs +2%/+6%/+7% in 1Q26), respectively. Management has reiterated its full-year revenue target of mid-single-digits. Looking beyond, for the liquid milk business, with raw milk prices having bottomed out and expected to turn to a positive growth trajectory in 2H26, coupled with a more diversified product portfolio in the premium liquid milk segment, healthier channel inventory and an optimised channel structure, the company expects accelerated growth in the future (earliest by 2027, per our understanding).
- **Expect Ausnutria to turn profitable in 2H26.** Management attributed the decline in the milk powder business to a drag from Ausnutria, due to international supply chain disruptions and inventory adjustments, while Jinlingguan achieved mid-to-high single-digit growth with market share rising 1.2ppt. Looking ahead, management expects Ausnutria to turn profitable in 2H26, following active channel structure optimisation and refined inventory management in 1H26. For other products, the toB business grew at double digits and is expected to sustain double-digit growth for the full year.
- **Share buyback of Rmb1b-2b; reaffirmed dividend payout above 75%.** On shareholder returns, the company announced a Rmb1b-2b buyback, and reaffirmed its 2025-27 dividend commitment to maintain a payout ratio above 75%, with the dividend amount not falling below the 2024 level.

## Earnings Revision/Risk

- **We lower our 2026 earnings forecast by 1%, while raising our 2027 earnings forecast by 3%.** We keep our 2026/27 revenue forecasts unchanged. We keep our 2026 gross margin estimate unchanged and trim our 2027 gross margin forecast slightly by 0.1ppt. We cut our 2026/27 selling and marketing expense ratio forecasts both by 0.4ppt. We raise our impairment loss estimate for 2026 to account for Ausnutria's impairment losses. We also raise our effective tax rate estimate to reflect the adjustments. Thus, our 2026 earnings forecast is lowered by 1%, while lifting our 2027 earnings forecast by 3%.

## Valuation/Recommendation

- **Maintain BUY and keep target price unchanged at Rmb32.40.** We keep our DCF-based target price unchanged at Rmb32.40. Our target price implies 19.6x 2026F PE and 15.3x 2027F PE. The stock currently trades at 13.9x 2026F PE and 12.5x 2027F PE.

### Segmental Results (Quarterly)

| Year to 31 Dec (Rmbm) | 2Q26 | 1H25 | yoy chg (%) |
|---|---|---|---|
| Revenue by category | 29,302 | 28,576 | 2.5 |
| - Liquid milk | 16,494 | 16,485 | 0.1 |
| - Milk powder and dairy products | 7,493 | 7,765 | (3.5) |
| - Frozen dairy | 4,676 | 4,124 | 13.4 |
| - Other products | 639 | 202 | 216.5 |
| Revenue by channel | 29,302 | 28,576 | 2.5 |
| - Distributors | 27,724 | 27,568 | 0.6 |
| - Direct | 1,578 | 1,008 | 56.5 |

*Source: Yili, UOB Kay Hian*

### Segmental Results (Semi-Annually)

| Year to 31 Dec (Rmbm) | 2Q26 | 1H25 | yoy chg (%) |
|---|---|---|---|
| Revenue by category | 63,775 | 61,318 | 4.0 |
| - Liquid milk | 36,590 | 36,126 | 1.3 |
| - Milk powder and dairy products | 16,845 | 16,578 | 1.6 |
| - Frozen dairy | 9,073 | 8,229 | 10.3 |
| - Other products | 1,266 | 386 | 228.2 |
| Revenue by channel | 63,775 | 61,318 | 4.0 |
| - Distributors | 60,783 | 59,357 | 2.4 |
| - Direct | 2,992 | 1,961 | 52.5 |

*Source: Yili, UOB Kay Hian*

## Profit & loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 115,931.1 | 121,563.7 | 127,786.7 | 134,638.6 |
| EBITDA | 18,252.1 | 18,314.5 | 19,157.6 | 20,115.7 |
| Deprec. & amort. | 4,594.6 | 3,784.5 | 3,794.1 | 3,806.2 |
| EBIT | 13,657.5 | 14,530.0 | 15,363.5 | 16,309.5 |
| Total other non-operating income | (534.0) | (100.0) | (100.0) | (100.0) |
| Associate contributions | 147.2 | 350.0 | 367.5 | 385.9 |
| Net interest income/(expense) | 690.9 | 598.1 | 473.8 | 1,005.1 |
| Pre-tax profit | 12,993.8 | 12,671.6 | 15,844.8 | 17,340.5 |
| Tax | (1,479.9) | (2,280.9) | (2,535.2) | (2,774.5) |
| Minorities | 51.3 | 46.3 | 59.2 | 64.8 |
| Net profit | 11,565.2 | 10,436.9 | 13,368.9 | 14,630.8 |
| Net profit (adj.) | 11,664.7 | 12,059.2 | 13,368.9 | 14,630.8 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 35,743.6 | 32,776.5 | 29,838.3 | 26,929.1 |
| Other LT assets | 49,985.2 | 50,005.1 | 49,986.4 | 49,920.4 |
| Cash/ST investment | 19,494.9 | 17,149.9 | 24,267.6 | 31,495.4 |
| Other current assets | 46,874.8 | 47,526.2 | 49,573.5 | 51,825.4 |
| Total assets | 152,098.5 | 147,457.6 | 153,665.9 | 160,170.3 |
| ST debt | 45,630.6 | 38,047.2 | 38,122.5 | 38,190.3 |
| Other current liabilities | 45,422.4 | 45,950.5 | 47,198.2 | 48,549.5 |
| LT debt | 472.5 | 1,225.2 | 1,902.7 | 2,512.4 |
| Other LT liabilities | 2,028.8 | 2,028.8 | 2,028.8 | 2,028.8 |
| Shareholders' equity | 54,655.7 | 56,363.6 | 60,630.6 | 65,171.1 |
| Minority interest | 3,888.6 | 3,842.3 | 3,783.1 | 3,718.2 |
| Total liabilities & equity | 152,098.5 | 147,457.6 | 153,665.9 | 160,170.3 |

## Cash flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 14,343.9 | 12,591.6 | 14,843.8 | 16,017.7 |
| Pre-tax profit | 12,993.8 | 12,671.6 | 15,844.8 | 17,340.5 |
| Tax | (1,479.9) | (2,280.9) | (2,535.2) | (2,774.5) |
| Deprec. & amort. | 4,594.6 | 3,784.5 | 3,794.1 | 3,806.2 |
| Working capital changes | (2,699.1) | 1,409.7 | 894.2 | 964.5 |
| Other operating cashflows | 934.5 | (2,993.4) | (3,154.1) | (3,319.0) |
| Investing | (7,796.3) | 623.0 | 623.0 | 623.0 |
| Capex (growth) | (3,125.0) | (800.0) | (800.0) | (800.0) |
| Investments | (36,128.5) | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 30,412.6 | 1,423.0 | 1,423.0 | 1,423.0 |
| Others | 1,044.5 | 0.0 | 0.0 | 0.0 |
| Financing | (13,472.9) | (15,559.6) | (8,349.1) | (9,412.9) |
| Dividend payments | (12,024.8) | (8,729.0) | (9,101.9) | (10,090.4) |
| Proceeds from borrowings | 234,590.5 | 38,800.0 | 38,800.0 | 38,800.0 |
| Loan repayment | (235,559.9) | (45,630.6) | (38,047.2) | (38,122.5) |
| Others/interest paid | (478.6) | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | (6,925.3) | (2,345.0) | 7,117.7 | 7,227.8 |
| Beginning cash & cash equivalent | 24,546.5 | 19,494.9 | 17,149.9 | 24,267.6 |
| Changes due to forex impact | 56.4 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 17,677.6 | 17,149.9 | 24,267.6 | 31,495.4 |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 15.7 | 15.1 | 15.0 | 14.9 |
| Pre-tax margin | 11.2 | 10.4 | 12.4 | 12.9 |
| Net margin | 10.0 | 8.6 | 10.5 | 10.9 |
| ROA | 7.6 | 7.0 | 8.9 | 9.3 |
| ROE | 21.4 | 18.8 | 22.9 | 23.3 |
| | | | | |
| Growth | | | | |
| Turnover | 0.1 | 4.9 | 5.1 | 5.4 |
| EBITDA | 7.0 | 0.3 | 4.6 | 5.0 |
| Pre-tax profit | 28.3 | (2.5) | 25.0 | 9.4 |
| Net profit | 36.8 | (9.8) | 28.1 | 9.4 |
| Net profit (adj.) | 32.2 | 3.4 | 10.9 | 9.4 |
| EPS | 32.9 | 3.3 | 10.9 | 9.4 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 47.7 | 41.3 | 40.5 | 39.2 |
| Debt to equity | 85.5 | 70.7 | 68.4 | 64.7 |
| Net debt/(cash) to equity | 46.1 | 37.3 | 25.3 | 13.8 |
| Interest cover (x) | n.a. | n.a. | n.a. | n.a. |

# Sunny Optical (2382 HK)

1H26: Solid Beat, AIoT Products Emerge As Key Growth Driver

## Highlights

- 1H26 revenue rose 11.5% yoy to Rmb21.9b and net profit grew 9.9% yoy to Rmb1.81b, beating consensus by 8.2% and 17.6% respectively.
- AIoT products are emerging as a major growth driver through 2026-28, offsetting the sustained deterioration in the handset business.
- Maintain BUY. Lower target price to HK$106.00, based on 21.1x 2027F PE.

### 1H26 Results

| Year to 31 Dec (Rmbm) | 1H25 | 2H25 | 1H26 | yoy (%) | hoh (%) |
|---|---|---|---|---|---|
| Revenue | 19,652 | 23,577 | 21,906 | 11.5 | (7.1) |
| Gross profit | 3,894 | 4,621 | 4,269 | 9.6 | (7.6) |
| Operating profit | 2,022 | 3,664 | 2,388 | 18.1 | (34.8) |
| Net profit | 1,646 | 2,993 | 1,808 | 9.9 | (39.6) |
| Margins (%) | | | | | |
| Gross margin | 19.8 | 19.6 | 19.5 | (0.3) | (0.1) |
| Operating margin | 10.3 | 15.5 | 10.9 | 0.6 | (4.6) |
| Net margin | 8.4 | 12.7 | 8.3 | (0.1) | (4.4) |

*Source: Sunny Optical, UOB Kay Hian*

## Analysis

- **Non-handset segments led strong top- and bottom line beat.** Revenue rose 11.5% yoy to Rmb21.9bn, 8.2% above consensus, but declined 7.1% hoh due to seasonality. Growth was driven entirely by the non-handset segments: a) other products (+88.5% yoy); b) XR (+11.0% yoy); and c) vehicle products (+10.6% yoy), while handset revenue slipped 0.8% yoy against weaker global smartphone shipments. Gross margin contracted 0.3ppt yoy and 0.1ppt hoh to 19.5%, broadly in line with consensus of 19.3%, as a 2.0ppt/3.1ppt yoy erosion in handset/vehicle-related products gross margin was partly offset by the other products segment, which has a much higher than average margin at 34.4% (+1.3ppt yoy). Coupled with a solid cost control, net profit rose 9.9% yoy to Rmb1.8b, 17.6% ahead of consensus.

## Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 38,294 | 43,229 | 46,244 | 50,445 | 55,492 |
| EBITDA | 5,751 | 8,069 | 8,198 | 9,264 | 10,701 |
| Operating profit | 3,525 | 5,687 | 4,779 | 5,435 | 6,462 |
| Net profit (rep./act.) | 2,699 | 4,639 | 4,093 | 4,659 | 5,545 |
| Net profit (adj.) | 2,699 | 3,720 | 4,093 | 4,659 | 5,545 |
| EPS (Fen) | 248.2 | 426.5 | 376.3 | 428.4 | 509.8 |
| PE (x) | 22.1 | 12.8 | 14.6 | 12.8 | 10.7 |
| P/B (x) | 3.3 | 2.8 | 2.5 | 2.3 | 2.1 |
| EV/EBITDA (x) | 9.2 | 6.5 | 6.4 | 5.7 | 4.9 |
| Dividend yield (%) | 0.8 | 1.7 | 1.5 | 1.7 | 2.0 |
| Net margin (%) | 7.0 | 10.7 | 8.9 | 9.2 | 10.0 |
| Net debt/(cash) to equity (%) | 6.0 | (14.8) | (22.8) | (30.6) | (42.2) |
| Interest cover (x) | 4.0 | 7.1 | 13.0 | 23.1 | 26.3 |
| ROE (%) | 11.4 | 13.8 | 13.3 | 13.7 | 14.7 |
| Consensus net profit | - | - | 4,025 | 4,800 | 5,563 |
| UOBKH/Consensus (x) | - | - | 1.02 | 0.97 | 1.00 |

*Source: Sunny Optical, Bloomberg, UOB Kay Hian*

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| BUY (Maintained) | |
|---|---|
| Share Price | HK$64.10 |
| Target Price | HK$106.00 |
| Upside | +65.4% |
| Previous TP | HK$125.80 |

### Stock Data

| | |
|---|---|
| Sector | Electronic Components |
| Bloomberg ticker | 2382 HK |
| Shares issued (m) | 1,095 |
| Market cap (HK$m) | 70,177 |
| Market cap (US$m) | 9,055 |
| 3-mth avg daily t'over (US$m) | 155.7 |

### Price Performance (%)

| 52-week high/low | | | | HK$91.40 / HK$51.50 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 9.3 | (14.7) | 10.0 | (23.3) | (2.2) |

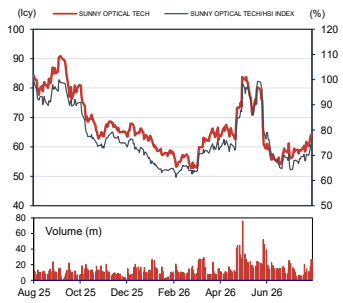
### Major Shareholders (%)

| | |
|---|---|
| Sun Xu | 35.6 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (Rmb) | 29.61 |
| FY26 Net Cash/Share (Rmb) | 6.67 |

### Price Chart




*Source: Bloomberg*

### Company Description

Sunny Optical designs, develops, manufactures and sells optical and optical-related products – handset and vehicle lens sets, camera modules, AR/VR modules and optical instruments.

- **Guidance on full-year headline numbers unchanged at 7% yoy growth for both revenue and net profit.** Growth will be mainly driven by IoT products (other products), and better opex controls.
- **Pan-IoT's growth is even stronger than our anticipation,** and management is now guiding for a 50% yoy revenue growth in "other products" for 2026, which is much stronger than what we expected. Given the segment's profitability (~34% gross margin), it will also provide a meaningful boost to the product mix as well. We are also expecting the strong growth momentum to sustain through 2027-28 and become the one single big growth driver for Sunny Optical (Sunny), as a lot of the demand growth is driven by the expansion of AI-related applications.

*Key subsegments includes robot vision, warehouse logistics AMR, industrial equipment vision, AI microscopy, semi inspection tools and even glass substrates.*

- **Handset business TAM continues to deteriorate** as Sunny sees sustained order cuts from OEM clients through 2H26-2027 amid supply shortages and mounting component costs. Flagship/high-end smartphones will remain resilient in both ASPs and margins as every brand is moving towards the premium segment; but low-mid-end phones are likely to see worsening pressure through the period. Margins are expected to remain under pressure as well given steeper price cuts for the mainstream products, but the silver-lining is that progress in the key overseas client remains solid and we remain confident in Sunny achieving further design wins for the said client's 2027 launches.
- **Sunny to participate in AI optical interconnect products as a core component supplier,** and the company had finished R&D on a wide range of components (see sidebar). However, the company also believes that it will take quite a while before CPO's adoption will be meaningful enough to start contributing meaningfully to optical suppliers such as Sunny.

*Optical interconnect components include Glass V-Groove substrate, Micro lens array, Resin lens, Z-block WDM, Etched silicon lens, Aspheric Cylindrical lens, Aspheric ferrule lens*

## Valuation/Recommendation

- **Maintain BUY, trim target price to HK$106.00.** We roll over to 2027 estimates, and our target price of HK$106.00 is based on 21.1x 2027F PE, pegged to 0.5SD below mean. We now have a lower PE multiple, as we expect the handset business to remain sluggish for a longer period of time.

## Earnings Revision/Risk

- We raise our 2026-28 net profit estimates by 3.1%/2.5%/5.7% to Rmb4.1b/Rmb4.7b/Rmb5.6b respectively. We have factored in: a) much higher "other products" revenue and margin assumptions, b) better opex controls, c) adjustments to XR-related products revenue, and d) lower handset revenue and margin assumptions.

### Changes To 2026-28 Estimates

| Year to 31 Dec | ---------- Old estimates---------- | | | ---------- New estimates --------- | | | ---------- Differences (%) --------- | | |
|---|---|---|---|---|---|---|---|---|---|
| (Rmbm) | 2026F | 2027F | 2028F | 2026F | 2027F | 2028F | 2026F | 2027F | 2028F |
| Revenue | 47,031 | 51,517 | 56,611 | 46,244 | 50,445 | 55,492 | (1.7) | (2.1) | (2.0) |
| Handset related products | 29,412 | 30,752 | 32,232 | 27,286 | 27,152 | 27,773 | (7.2) | (11.7) | (13.8) |
| Vehicle related products | 7,872 | 9,218 | 10,973 | 7,872 | 9,218 | 10,973 | 0.0 | 0.0 | 0.0 |
| XR related products | 2,000 | 2,600 | 3,380 | 2,200 | 2,750 | 3,300 | 10.0 | 5.8 | (2.4) |
| Other products | 7,747 | 8,947 | 10,027 | 8,886 | 11,325 | 13,447 | 14.7 | 26.6 | 34.1 |
| Gross margin (%) | 19.1 | 19.3 | 19.7 | 19.2 | 19.7 | 20.4 | 0.1 | 0.4 | 0.7 |
| Handset related products | 13.7 | 13.5 | 13.4 | 12.1 | 11.6 | 11.7 | (1.7) | (1.9) | (1.7) |
| Vehicle related products | 30.9 | 31.1 | 31.4 | 30.3 | 29.8 | 30.1 | (0.6) | (1.3) | (1.3) |
| XR related products | 20.0 | 20.0 | 20.0 | 12.0 | 16.0 | 16.0 | (8.0) | (4.0) | (4.0) |
| Other products | 27.0 | 27.0 | 27.0 | 33.0 | 32.0 | 31.5 | 6.0 | 5.0 | 4.5 |
| EBIT | 4,636 | 5,305 | 6,117 | 4,779 | 5,435 | 6,462 | 3.1 | 2.5 | 5.6 |
| Adjusted net profit | 3,970 | 4,547 | 5,248 | 4,093 | 4,659 | 5,545 | 3.1 | 2.5 | 5.7 |

*Source: Sunny Optical, UOB Kay Hian*

## Profit & Loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 43,229 | 46,244 | 50,445 | 55,492 |
| EBITDA | 8,069 | 8,198 | 9,264 | 10,701 |
| Depreciation & amortization | 2,382 | 3,418 | 3,829 | 4,239 |
| EBIT | 5,687 | 4,779 | 5,435 | 6,462 |
| Total other non-operating income | (6) | 0 | 0 | 0 |
| Associate contributions | 172 | 172 | 172 | 172 |
| Net interest income/(expense) | (436) | (207) | (207) | (207) |
| Pre-tax profit | 5,416 | 4,744 | 5,400 | 6,427 |
| Tax | (609) | (533) | (607) | (723) |
| Minorities | 168 | 118 | 134 | 159 |
| Net profit | 4,639 | 4,093 | 4,659 | 5,545 |
| Net profit (recurrent) | 3,720 | 4,093 | 4,659 | 5,545 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 9,818 | 9,996 | 9,965 | 9,823 |
| Other LT assets | 7,034 | 7,364 | 7,824 | 8,377 |
| Cash/ST investment | 7,482 | 10,525 | 14,098 | 19,981 |
| Other current assets | 34,881 | 32,283 | 33,690 | 33,858 |
| Total assets | 59,215 | 60,168 | 65,577 | 72,039 |
| ST debt | 1,770 | 1,770 | 1,770 | 1,770 |
| Other current liabilities | 48,604 | 47,907 | 51,600 | 56,044 |
| LT debt | 3 | 3 | 3 | 3 |
| Other LT liabilities | 1,412 | 1,412 | 1,412 | 1,412 |
| Shareholders' equity | 29,149 | 32,190 | 35,651 | 39,771 |
| Minority interest | 616 | 616 | 616 | 616 |
| Total liabilities & equity | 59,215 | 60,168 | 65,577 | 72,039 |

## Cash Flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 6,080 | 7,843 | 7,840 | 10,371 |
| Pre-tax profit | 5,416 | 4,744 | 5,400 | 6,427 |
| Tax | (609) | (533) | (607) | (723) |
| Depreciation/amortization | (2,382) | (3,418) | (3,829) | (4,239) |
| Associates | (172) | (172) | (172) | (172) |
| Working capital changes | (558) | 511 | (489) | 715 |
| Non-cash items | 4,384 | 6,711 | 7,536 | 8,362 |
| Other operating cashflows | | | | |
| Investing | (999) | (4,366) | (3,972) | (4,047) |
| Capex (growth) | (2,931) | (3,500) | (3,000) | (3,000) |
| Investments | (2,010) | (270) | (376) | (451) |
| Proceeds from sale of assets | 3,942 | (596) | (596) | (596) |
| Others | - | - | - | - |
| Financing | (2,094) | (422) | (282) | (427) |
| Dividend payments | (526) | (1,192) | (1,052) | (1,198) |
| Issue of shares | - | - | - | - |
| Proceeds from borrowings | 764 | 764 | 764 | 764 |
| Loan repayment | - | - | - | - |
| Others/interest paid | (2,332) | 6 | 6 | 6 |
| Net cash inflow (outflow) | 2,987 | 3,056 | 3,587 | 5,896 |
| Beginning cash & cash equivalent | 4,509 | 7,482 | 10,525 | 14,098 |
| Changes due to forex impact | (13) | (13) | (13) | (13) |
| Ending cash & cash equivalent | 7,482 | 10,525 | 14,098 | 19,981 |

## Key Metrics

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| Gross margin | 19.7 | 19.2 | 19.7 | 20.4 |
| Pre-tax margin | 12.5 | 10.3 | 10.7 | 11.6 |
| Net margin | 10.7 | 8.9 | 9.2 | 10.0 |
| ROA | 6.6 | 6.9 | 7.4 | 8.1 |
| ROE | 13.8 | 13.3 | 13.7 | 14.7 |
| | | | | |
| Growth | | | | |
| Turnover | 12.9 | 7.0 | 9.1 | 10.0 |
| Gross profit | 21.6 | 4.2 | 12.2 | 13.7 |
| Pre-tax profit | 72.3 | (12.4) | 13.8 | 19.0 |
| Net profit | 71.9 | (11.8) | 13.8 | 19.0 |
| Net profit (adj.) | 37.8 | 10.0 | 13.8 | 19.0 |
| EPS | 71.9 | (11.8) | 13.8 | 19.0 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 5.4 | 5.3 | 4.8 | 4.4 |
| Debt to equity | 10.9 | 9.9 | 8.9 | 8.0 |
| Net debt/(cash) to equity | (14.8) | (22.8) | (30.6) | (42.2) |
| Interest cover (x) | 13.0 | 23.1 | 26.3 | 31.3 |

# Zhejiang Sanhua Intelligent Controls Co (002050 CH)

2Q26: Core Earnings In Line; Reported Profit Misses On Forex Loss

## Highlights

- 2Q26 core net profit grew 9.2% yoy and 15.59% qoq to Rmb1,286m, in line with our estimate, while reported net profit fell 7.5% yoy on forex loss.
- Management kept its full-year target of 15% profit growth, with profit growth expected to outpace revenue growth.
- Looking ahead, growth will come from data centre liquid cooling, appliance premiumisation and humanoid robots.
- We cut our 2026 net profit forecast by 5% for the forex loss, but maintain core net profit forecasts. Maintain BUY and cut target price to Rmb43.00/HK$50.00.

## 2Q26 Results

| Year to 31 Dec (Rmbm) | 2Q26 | yoy % | qoq % | 1H26 | yoy % | 2026F | yoy % | 1H26/2026 | Comment |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 9,126 | 6.2 | 17.4 | 16,900 | 3.9 | 34,113 | 10.0 | 0.50 | In line, 50% of full year |
| Gross profit | 2,582 | 2.7 | 19.5 | 4,742 | 3.7 | 9,893 | 10.9 | 0.48 | In line |
| *Gross margin (%)* | 28.3 | (1.0) | 0.5 | 28.1 | (0.1) | 29.0 | 0.2 | 0.97 | In line; steel for copper |
| EBIT | 1,559 | (2.2) | 19.9 | 2,860 | 5.4 | 5,595 | 10.6 | 0.51 | In line |
| *EBIT margin (%)* | 17.1 | (1.5) | 0.3 | 16.9 | 0.2 | 16.4 | 0.1 | 1.03 | In line, ahead of our 16.4% |
| Net profit (GAAP) | 1,116 | (7.5) | 20.4 | 2,044 | (3.1) | 4,716 | 17.1 | 0.43 | Miss on Rmb143m forex loss |
| Net profit – adj | 1,286 | 9.2 | 15.5 | 2,399 | 19.2 | 4,716 | 19.1 | 0.51 | In line, 52% of full year |
| *Net margin (%)* | 12.2 | (1.8) | 0.3 | 12.1 | (0.9) | 13.8 | 0.8 | 0.87 | Miss on forex loss |
| *Net margin – adj (%)* | 14.3 | 0.6 | (0.3) | 14.4 | 2.1 | 13.8 | 1.1 | 1.04 | In line |
| OCF | 1,394 | 72.5 | 26.0 | 2,500 | 96.0 | 6,334 | 24.4 | 0.39 | Beat, nearly doubled yoy |
| FCF | 548 | n.a. | (6.1) | 1,132 | (452.5) | 3,434 | 77.1 | 0.33 | Swung positive from 1H25 |

*Source: Sanhua, Bloomberg, UOB Kay Hian*

## Analysis

- **Reported net profit missed estimates on forex loss.** Zhejiang Sanhua Intelligent Controls Co's (Sanhua) 2Q26 reported net profit dropped 7.5% yoy and grew 20.4% qoq to Rmb1,116m, missing estimates, as forex loss spiked 497.4% yoy to Rmb143m.
- **2Q26 core earnings grew 9.2% yoy and 15.5% qoq to Rmb1,286m, in line with estimates.** This brings 1H26 adjusted net profit to Rmb2,399m (+19.2% yoy), 51% of our full-year estimate of Rmb4,716m.
  - **Revenue growth accelerated from 1.4% yoy in 1Q26 to 6.2% yoy in 2Q26, in line with estimates.** This brings 1H26 revenue to Rmb16.9b (+3.9% yoy), 50% of our full-year estimate.

## Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 27,947 | 31,012 | 34,113 | 39,230 | 45,114 |
| EBITDA | 4,918 | 6,313 | 7,126 | 8,152 | 9,306 |
| Operating profit | 3,890 | 5,056 | 5,595 | 6,434 | 7,399 |
| Net profit (rep./act.) | 3,099 | 4,027 | 4,472 | 5,449 | 6,286 |
| Net profit (adj.) | 3,048 | 4,136 | 4,716 | 5,449 | 6,286 |
| EPS (Fen) | 83.0 | 95.7 | 106.3 | 129.5 | 149.4 |
| PE (x) | 44.3 | 38.5 | 34.6 | 28.4 | 24.6 |
| P/B (x) | 7.1 | 4.9 | 4.5 | 4.1 | 3.7 |
| EV/EBITDA (x) | (2.3) | (1.8) | (1.6) | (1.4) | (1.2) |
| Dividend yield (%) | 1.0 | 1.1 | 1.2 | 1.4 | 1.6 |
| Net margin (%) | 11.1 | 13.0 | 13.1 | 13.9 | 13.9 |
| Net debt/(cash) to equity (%) | (4.3) | (34.2) | (36.6) | (38.3) | (39.3) |
| Interest cover (x) | (88.8) | 50.0 | 583.1 | (19.4) | (19.3) |
| ROE (%) | 16.4 | 16.2 | 14.2 | 15.0 | 15.7 |
| Consensus net profit | - | - | 4,608 | 5,377 | 6,246 |
| UOBKH/Consensus (x) | - | - | 0.97 | 1.01 | 1.01 |

*Source: Sanhua, Bloomberg, UOB Kay Hian*

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**BUY (Maintained)**

| | |
|---|---|
| Share Price | Rmb36.82 |
| Target Price | Rmb43.00 |
| Upside | 16.8% |
| Previous TP | Rmb57.00 |

## Stock Data

| | |
|---|---|
| Sector | Industrials |
| Bloomberg ticker | 002050 CH |
| Shares issued (m) | 4,208 |
| Market cap (RMBm) | 154,939 |
| Market cap (US$m) | 21,225 |
| 3-mth avg daily t'over (US$m) | 665 |

## Price Performance (%)

| 52-week high/low | | | | Rmb60.77/Rmb29.18 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 2.2 | (27.8) | (28.1) | 21.0 | (33.4) |

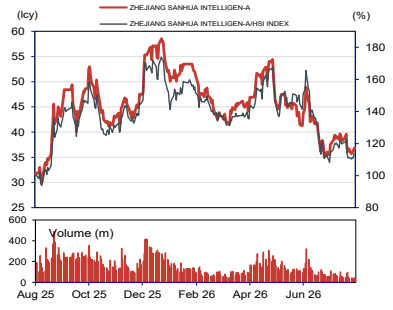
## Major Shareholders (%)

| | |
|---|---|
| Sanhua Holding Group Co Ltd | 25.42 |
| Zhejiang Sanhua Green Energy Industrial Group Co Ltd | 17.80 |

## Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (Rmb) | 7.80 |
| FY26 Net Debt/Share (Rmb) | 3.00 |

## Price Chart




*Source: Bloomberg*

## Company Description

Zhejiang Sanhua Intelligent Controls Co is an automotive parts manufacturer of noise, vibration and hardness shock absorbers; interior/exterior decorative parts; chassis and body parts; chassis electronics; smart cockpit parts; and thermal management systems.

- **Margins held up well.** Gross margin edged up 0.5ppt qoq to 28.3%, still down 1.0ppt yoy and below our full-year assumption of 29.0%. The opex/revenue ratio dipped 0.1ppt yoy and 0.7ppt qoq to 11.0%, dragged by SG&A. EBIT margin rose 0.3ppt qoq to 17.1%, down 1.5ppt yoy but above our full-year assumption of 16.4%.

- **We maintain our 2026-28 revenue estimates at Rmb34.11b/Rmb39.23b/Rmb45.11b respectively (10%/15%/15%).** The revenue growth will be driven by four engines. Management expects its key liquid-cooling projects to enter volume production in 2H26, with orders already exceeding capacity and rising CDU power lifting the value of each unit. Energy-efficiency upgrades and premiumisation should support refrigeration, where management sees no ceiling and targets double-digit growth over the next five years, with some new businesses doubling. Auto is guided to deliver double-digit growth, while humanoid robots are beginning to ramp up in what management describes as the first year of mass production.
- **We maintain our 2026-28 gross margin assumptions at 29%/29%/29% and EBIT margin assumptions at 16.4%/16.4%/16.4% respectively.** The company's margins will be underpinned by the continued substitution of stainless steel for copper, which lowers unit prices but raises both profit and market share as penetration rises, and by a richer mix as high-value liquid-cooling components scale. Cost control continues across technology, process, equipment, quality and delivery, and management is targeting profit growth ahead of revenue growth for the full year.

## Earnings Revision/Risk

- **We cut our 2026 net profit forecast by 5% to Rmb4,475m to factor in the forex loss, and keep our 2027-28 forecasts at Rmb5,449m/Rmb6,286m respectively (up 11%/22%/15% yoy).**
- **We maintain our 2026-28 adjusted net profit projections at Rmb4,716m/Rmb5,449m/Rmb6,286m respectively (up 14%/16%/15%).**
- **Risks:** Renminbi volatility, further securities fair-value losses, annual price reductions from carmakers, high copper prices, and a slower humanoid robot ramp-up.

## Valuation/Recommendation

- **Maintain BUY and cut target prices for A-share/H-share from Rmb57.00/HK$64.00 to Rmb43.00/HK$50.00**, as we roll over the base year for valuation from 2026 to 2027 and lower the target PE multiple from 51x (2SD above historical mean) to 33x (on par with historical mean). The market has turned more rational towards auto parts companies with exposure to AI hardware/infrastructure, eliminating valuation premium.

## Share Price Catalyst

- **Catalysts:** Liquid-cooling projects entering volume production in 2H26, humanoid robot line ramp-up, energy-storage orders, and delivery of the 15% profit target.

## Profit & Loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 31,012 | 34,113 | 39,230 | 45,114 |
| EBITDA | 6,313 | 7,126 | 8,152 | 9,306 |
| Deprec. & amort. | (1,257) | (1,531) | (1,719) | (1,907) |
| EBIT | 5,056 | 5,595 | 6,434 | 7,399 |
| Total other non-operating income | (104) | (150) | (145) | (145) |
| Associate contributions | (8) | (8) | (8) | (8) |
| Net interest income/(expense) | (101) | (10) | 332 | 383 |
| Pre-tax profit | 4,844 | 5,427 | 6,613 | 7,629 |
| Tax | (737) | (868) | (1,058) | (1,221) |
| Minorities | (80) | (87) | (106) | (122) |
| Net profit | 4,027 | 4,472 | 5,449 | 6,286 |
| Net profit (adj.) | 4,136 | 4,716 | 5,449 | 6,286 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 13,416 | 14,460 | 15,489 | 16,904 |
| Other LT assets | 2,268 | 2,435 | 2,529 | 2,550 |
| Cash/ST investment | 12,487 | 14,246 | 16,188 | 18,158 |
| Other current assets | 21,235 | 21,839 | 24,437 | 27,425 |
| Total assets | 49,406 | 52,979 | 58,644 | 65,037 |
| ST debt | 2,983 | 2,983 | 2,983 | 2,983 |
| Other current liabilities | 12,382 | 13,109 | 15,125 | 17,390 |
| LT debt | 1,069 | 1,069 | 1,069 | 1,069 |
| Other LT liabilities | 932 | 932 | 932 | 932 |
| Shareholders' equity | 31,749 | 34,508 | 38,051 | 42,057 |
| Minority interest | 291 | 378 | 483 | 605 |
| Total liabilities & equity | 49,406 | 52,979 | 58,644 | 65,037 |

## Cash Flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 5,091 | 6,088 | 6,517 | 7,367 |
| Pre-tax profit | 4,844 | 5,427 | 6,613 | 7,629 |
| Tax | (737) | (868) | (1,058) | (1,221) |
| Deprec. & amort. | 1,257 | 1,531 | 1,719 | 1,907 |
| Associates | 13 | 8 | 8 | 8 |
| Working capital changes | (539) | (169) | (582) | (723) |
| Non-cash items | 254 | 160 | (182) | (233) |
| Other operating cashflows | - | - | - | - |
| Investing | (3,793) | (2,489) | (2,541) | (2,990) |
| Capex (growth) | (3,152) | (2,900) | (3,000) | (3,500) |
| Investments | - | - | - | - |
| Others | (641) | 411 | 459 | 510 |
| Financing | 7,802 | (1,840) | (2,033) | (2,407) |
| Dividend payments | (1,088) | (1,840) | (2,033) | (2,407) |
| Proceeds from borrowings | 1,820 | 500 | 500 | 500 |
| Loan repayment | (2,212) | (500) | (500) | (500) |
| Others/interest paid | 9,283 | - | - | - |
| Net cash inflow (outflow) | 9,100 | 1,758 | 1,943 | 1,969 |
| Beginning cash & cash equivalent | 3,444 | 12,487 | 14,246 | 16,188 |
| Changes due to forex impact | (57) | - | - | - |
| Ending cash & cash equivalent | 12,487 | 14,246 | 16,188 | 18,158 |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 20.4 | 20.9 | 20.8 | 20.6 |
| Pre-tax margin | 15.6 | 15.9 | 16.9 | 16.9 |
| Net margin | 13.0 | 13.1 | 13.9 | 13.9 |
| ROA | 9.6 | 9.2 | 9.8 | 10.2 |
| ROE | 16.2 | 14.2 | 15.0 | 15.7 |
| | | | | |
| Growth | | | | |
| Turnover | 11.0 | 10.0 | 15.0 | 15.0 |
| EBITDA | 28.4 | 12.9 | 14.4 | 14.1 |
| Pre-tax profit | 31.2 | 12.0 | 21.8 | 15.4 |
| Net profit | 29.9 | 11.1 | 21.8 | 15.4 |
| Net profit (adj.) | 35.7 | 14.0 | 15.5 | 15.4 |
| EPS | 15.2 | 11.1 | 21.8 | 15.4 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 8.2 | 7.6 | 6.9 | 6.2 |
| Debt to equity | 12.8 | 11.7 | 10.6 | 9.6 |
| Net debt/(cash) to equity | (34.2) | (36.6) | (38.3) | (39.3) |
| Interest cover (x) | 50.0 | 583.1 | (19.4) | (19.3) |

# Technical Analysis

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## Shanghai Biren Technology (6082 HK)

| | |
|---|---|
| Last price: | HK$39.26 |
| Support levels: | HK$33.82/HK$32.00 |
| Resistance levels: | HK$45.84/HK$58.00 |

Price held above the gap support zone, while consolidating within a tight range. The RSI continues to slope upward above its neutral 50-midline. Watch for a decisive breakout above the current consolidation ceiling that will trigger momentum-following buyers and initiate an accelerated leg higher.

**Average timeframe: Around two weeks.**

## Shanghai Iluvatar CoreX (9903 HK)

| | |
|---|---|
| Last price: | HK$404.80 |
| Support levels: | HK$348.60/HK$338.20 |
| Resistance levels: | HK$502.00/HK$649.50 |

Price appears to be staging a rebound off its previous low support zone. The RSI is turning upward while still operating below its neutral 50-midline to reflect easing sell pressure. A decisive penetration above the HK$425.00 resistance pivot is expected to confirm a shift in market posture, clearing the path for an accelerated move higher.

**Average timeframe: Around two weeks.**

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