Hangzhou Hikvision Digital Technology (002415 CH)

From Memory-driven Recovery to AIoT-led Volume Growth

Highlights

- Memory inflation and effective cost pass-through have offset declining shipment volumes, supporting core-business growth and lifting gross margin in the near term.
- As memory inflation subsides, growth should shift from pricing to volume, supported by improving AIoT economics, broader adoption and a potential equipment replacement cycle from 2028.
- Hikvision's competitive moat is built on its operating ecosystem, where customer relationships, industry data and product deployment drive continuous innovation.

Analysis

- **Core business has returned to growth, while effective cost pass-through is driving an earnings recovery.** Hangzhou Hikvision Digital Technology's (Hikvision) domestic core business grew 5% yoy in 1H26 after four consecutive years of weak performance, which management deems as evidence that the business has passed its trough. Meanwhile, AI-driven DRAM shortages have allowed Hikvision to raise ASPs faster than memory costs, offsetting declining shipment volumes and lifting gross margin to a record 50% in 1H26. Management expects memory tightness to persist through 2027 and targets 2026 revenue of above Rmb100b and record-high profit.
- **Growth should gradually transition from pricing-led to volume-led.** As memory supply normalises, ASPs should ease and weigh on gross margin, although management expects gross margin to remain within a normalised range of 45-47%. Lower memory costs and more capable edge chips could make AI-enabled sensing products more attractive to customers, supporting broader adoption and higher shipment volumes. Management also believes an equipment replacement cycle could emerge around 2028 as ageing surveillance products reach end-of-life, providing an additional volume driver when the current pricing tailwind fades.
- **Capital returns remain attractive.** Management intends to maintain a dividend payout ratio above 70% and believes this level can be sustained for some time. Since listing in 2009, Hikvision has returned Rmb84.5b to shareholders, comprising Rmb80.4b in cash dividends and Rmb4.1b in share buybacks.

Key Financials

Year to 31 Dec (Rmbm)	2021	2022	2023	2024	2025
Net turnover	81,420	83,166	89,341	92,496	92,508
EBITDA	17,851	14,388	16,307	15,256	17,716
Operating profit	16,559	12,358	13,993	12,838	14,578
Net profit (rep./act.)	16,800	12,838	14,108	11,977	14,195
Net profit (adj.)	16,445	12,331	13,666	11,815	13,703
EPS (Fen)	180.3	137.0	152.0	129.7	154.6
PE (x)	18.4	24.1	22.4	25.6	21.4
P/B (x)	4.7	4.3	3.9	3.5	3.3
EV/EBITDA (x)	16.7	21.6	18.5	20.1	17.4
Dividend yield (%)	2.7	2.1	2.7	2.4	3.6
Net margin (%)	20.6	15.4	15.8	12.9	15.3
Net debt/(cash) to equity (%)	(40.9)	(38.8)	(39.9)	(33.5)	(42.4)
Interest cover (x)	(77.6)	(46.2)	(35.6)	(38.9)	(88.3)
ROE (%)	25.7	17.6	17.2	13.7	15.6

Source: Hikvision, Bloomberg, UOB Kay Hian

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NOT RATED

Share Price	Rmb33.11
Target Price	n.a.
Upside	n.a.

Stock Data

Sector	Electronic Equipment & Instruments
Bloomberg ticker	002415 CH Equity
Shares issued (m)	9,165
Market cap (Rmbm)	303,449
Market cap (US$m)	44,977
3-mth avg daily t'over (US$m)	442.6

Price Performance (%)

52-week high/low				Rmb39.18/Rmb28.61
1mth	3mth	6mth	1yr	YTD
(3.0)	(2.7)	7.6	9.3	11.0

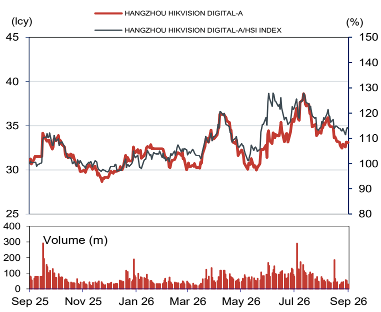
Major Shareholders (%)

CETHIK Group	37.3
Gong Hongjia	10.5

Balance Sheet Metrics

FY25 NAV/Share (Rmb)	9.09
FY25 Net Cash/Share (Rmb)	4.19

Price Chart



Source: Bloomberg

Company Description

Hangzhou Hikvision Digital Technology is a video-centric AIoT solution provider. The company designs, produces and sells video surveillance cameras and recorders, access control, alarm and display products, and operates innovative businesses in machine vision and robotics, smart home, automotive electronics, thermal imaging and storage.

- **Hikvision frames its competitive moat on an integrated hardware and software ecosystem rather than standalone AI models.** Extensive distribution and client relationships provide access to real world operational data, which are used alongside sector expertise to fine-tune computer vision algorithms for specific workflows. Supply chain scale then enables cost effective custom manufacturing, allowing these algorithms to be monetised across a portfolio of over 30,000 hardware SKUs. This creates a self-reinforcing loop – the deployed hardware captures field data to upgrade models, driving further specialised product sales.
- **Geopolitical restrictions place a structural ceiling on Hikvision's overseas growth.** Cybersecurity-related restrictions have effectively excluded the company from major markets including the US, Canada and India, with no mitigation plan or timeline for re-entry. This constrains Hikvision's global addressable market and leaves overseas growth increasingly dependent on accessible emerging markets.

Valuation/Recommendation

- Hikvision is trading at a 12-month trailing PE of 18.4x.

Profit & Loss

Year to 31 Dec (Rmbm)	2022	2023	2024	2025
Net turnover	83,166	89,341	92,496	92,508
EBITDA	13,694	15,796	14,822	16,632
Depreciation & amortization	(1,336)	(1,803)	(1,984)	(2,054)
EBIT	12,358	13,993	12,838	14,578
Total other non-operating income	1,780	1,526	988	1,870
Associate contributions	106	(30)	31	216
Net interest income/(expense)	611	610	487	350
Pre-tax profit	14,855	16,099	14,343	17,013
Tax	(1,297)	(943)	(1,202)	(1,580)
Minorities	(720)	(1,048)	(1,164)	(1,238)
Net profit	12,838	14,108	11,977	14,195
Net profit (recurrent)	12,331	13,666	11,815	13,703

Balance Sheet

Year to 31 Dec (Rmbm)	2022	2023	2024	2025
Fixed assets	12,885	16,337	20,293	22,534
Other LT assets	8,443	9,360	9,242	9,108
Cash/ST investment	40,012	49,638	36,271	46,508
Other current assets	57,895	63,523	66,209	59,900
Total assets	119,235	138,858	132,016	138,050
ST debt	4,211	7,934	1,799	6,625
Other current liabilities	30,144	36,479	35,846	37,371
LT debt	7,800	9,284	5,495	1,510
Other LT liabilities	4,108	2,998	1,376	1,327
Shareholders' equity	68,389	76,354	80,669	83,348
Minority interest	4,582	5,809	6,832	7,869
Total liabilities & equity	119,235	138,858	132,016	138,050

Cash Flow

Year to 31 Dec (Rmbm)	2022	2023	2024	2025
Operating	10,164	16,622	13,264	25,339
Pre-tax profit	14,855	16,099	14,343	17,013
Tax	(5,947)	(6,495)	(6,679)	(6,768)
Depreciation/amortization	1,336	1,803	1,984	2,054
Associates	(106)	30	(31)	(216)
Working capital changes	(7,002)	(1,911)	(4,025)	6,921
Non-cash items	7,030	7,096	7,672	6,335
Other operating cashflows	-	-	-	-
Investing	(3,725)	(3,987)	(4,548)	(3,417)
Capex (growth)	(3,756)	(4,048)	(4,666)	(3,622)
Investments	(82)	(115)	(44)	(127)
Proceeds from sale of assets	13	31	19	131
Others	100	144	143	200
Financing	(1,456)	(3,145)	(22,079)	(11,763)
Dividend payments	(8,734)	(7,083)	(8,994)	(10,565)
Issue of shares	-	-	-	-
Proceeds from borrowings	8,360	11,032	7,214	4,558
Loan repayment	(4,786)	(6,175)	(17,074)	(3,801)
Others/interest paid	3,704	(920)	(3,226)	(1,954)
Net cash inflow (outflow)	5,211	9,603	(13,375)	10,151
Beginning cash & cash equivalent	34,604	39,825	49,428	36,053
Changes due to forex impact	229	113	(12)	(8)
Ending cash & cash equivalent	39,815	49,428	36,053	46,204

Key Metrics

Year to 31 Dec (%)	2022	2023	2024	2025
Profitability				
Gross margin	42.3	44.3	43.8	45.9
Pre-tax margin	17.9	18.0	15.5	18.4
Net margin	15.4	15.8	12.9	15.3
ROA	11.5	10.9	8.8	10.5
ROE	17.6	17.2	13.7	15.6
Growth				
Turnover	2.1	7.4	3.5	0.0
Gross profit	(2.6)	12.6	2.4	4.7
Pre-tax profit	(19.6)	8.4	(10.9)	18.6
Net profit	(23.6)	9.9	(15.1)	18.5
Net profit (adj.)	(25.0)	10.8	(13.5)	16.0
EPS	(24.3)	10.9	(14.7)	19.2
Leverage				
Debt to total capital	14.1	17.3	7.7	8.2
Debt to equity	17.6	22.5	9.0	9.8
Net debt/(cash) to equity	(40.9)	(42.5)	(35.9)	(46.0)
Interest cover (x)	(20.2)	(23.0)	(26.4)	(41.7)