

Huizhou Desay SV (002920 CH)

3Q26: Revenue Growth Accelerates To 24%, But Earnings Miss On Subsidy Cuts, Credit Provisions, Associates' Losses, And Tax Hikes

Highlights

- 3Q26 net profit missed estimates at Rmb591m (+4.5% yoy/-24.6% qoq) with subsidy cut, credit provision, associates' loss, and tax hike offsetting revenue beat (+24% yoy).
- Forward earnings will be driven by new smart-driving programmes, overseas growth, and diversified customers.
- We trim our 2026-28 net profit forecasts by 1% to Rmb2.54b, and raise our 2027-28 net profit forecasts by 3%/8% to Rmb2.88b/Rmb3.41b respectively.
- Maintain BUY and cut target price from Rmb135.00 to Rmb105.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q26	yoy %	qoq %	9M26	yoy %	Prev. 2026F	yoy %	9M26 / 2026	Comment
Revenue	9,519	23.7	13.2	24,420	9.3	34,185	5.0	0.71	Revenue growth accelerated to 23.7%.
Gross profit	1,797	26.3	10.0	4,640	5.4	6,324	1.9	0.73	
Gross margin (%)	18.9	0.4	(0.6)	19.0	(0.7)	18.5	(0.6)	1.03	Gross margin held up well yoy.
EBIT	772	28.7	(14.1)	2,176	9.3	3,087	3.9	0.71	EBIT dragged by subsidy cut.
EBIT margin (%)	8.1	0.3	(2.6)	8.9	0.0	9.0	(0.1)	0.99	
Net profit	591	4.5	(24.6)	1,835	2.7	2,555	4.1	0.72	Miss on subsidy, credit provision and tax
Net profit – adj	568	(0.6)	(24.2)	1,793	4.0	2,555	5.9	0.70	
Net margin (%)	6.2	(1.1)	(3.1)	7.5	(0.5)	7.5	(0.1)	1.01	
Core net margin (%)	6.0	(1.5)	(2.9)	7.3	(0.4)	7.5	0.1	0.98	
Operating cash flow	(247)	n.a.	366.3	816	(63.9)	3,102	7.6	0.26	
Free cash flow	(784)	n.a.	67.9	(503)	n.a.	1,602	48.2	(0.31)	

Source: Desay SV, UOB Kay Hian

Analysis

- 3Q26 net profit missed estimates at Rmb591m (+4.5% yoy/-24.6% qoq)**, with subsidy cut, credit provision, associates' loss, and tax hike offsetting revenue beat. This brings 9M26 net profit to Rmb1,835m (+2.7% yoy), 72% of our 2026 estimate.
 - Revenue grew 23.7% yoy and 13.2% qoq to Rmb9,519m in 3Q26, beating estimates on overseas growth and a favourable smart-driving product mix.** This compares with +7.0%/-4.4% yoy revenue growth in 2Q26/1Q26. Given 9M26 revenue of Rmb24.42b (+9.3% yoy), our original 2026 revenue estimate implies 4Q26 revenue of only Rmb9,765m (-4.5% yoy/+2.6% qoq), which is over-conservative.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	27,618	32,557	35,813	41,185	47,363
EBITDA	3,476	3,752	4,017	4,514	5,242
Operating profit	2,807	2,971	3,134	3,492	4,064
Net profit (rep./act.)	2,005	2,454	2,541	2,877	3,406
Net profit (adj.)	1,946	2,414	2,541	2,877	3,406
EPS (Fen)	361.1	411.1	425.8	482.0	570.7
PE (x)	21.4	18.8	18.2	16.1	13.6
P/B (x)	4.5	3.0	2.7	2.4	2.1
EV/EBITDA (x)	13.3	12.2	11.2	9.8	8.3
Dividend yield (%)	1.4	1.6	1.6	1.9	2.2
Net margin (%)	7.0	7.4	7.1	7.0	7.2
Net debt/(cash) to equity (%)	4.9	(0.4)	(5.4)	(8.0)	(11.8)
Interest cover (x)	17.8	140.7	n.a.	n.a.	n.a.
ROE (%)	22.1	19.3	15.6	15.7	16.5
Consensus net profit	-	-	2,809	3,329	3,822
UOBKH/Consensus (x)	-	-	0.90	0.86	0.89

Source: Huizhou Desay SV, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb77.42
Target Price	Rmb105.00
Upside	35.6%
Previous TP	Rmb135.00

Stock Data

Sector	Auto Parts
Bloomberg ticker	002920 CH
Shares issued (m)	596.8
Market cap (Rmbm)	46,207.6
Market cap (US\$m)	6,373.5
3-mth avg daily t'over (US\$m)	84.0

Price Performance (%)

52-week high/low			Rmb142.79/Rmb71.40	
1mth	3mth	6mth	1yr	YTD
(6.6)	(6.6)	(30.4)	(40.0)	(35.6)

Major Shareholders (%)

Huizhou Desai Industry Development Co., Ltd.	25.33
Huizhou Innovation Investment Ltd.	20.16

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	30.9
FY26 Net Cash/Share (Rmb)	2.6

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.

- **Gross margin underpinned by high-margin overseas businesses.** Gross margin beat estimates at 18.9% (+0.4ppt yoy/-0.6ppt qoq) in 3Q26 and 19.0% in 9M26 (-0.7ppt yoy), above our 2026 assumption of 18.5%, due to the rapid growth of the higher-margin overseas businesses.
- **EBIT margin dragged by subsidy cuts.** Other incomes/revenue ratio fell to 0.5% (-1.1ppt yoy/-0.5ppt qoq) in 3Q26, due to subsidy cuts. SG&A/revenue ratio remained flat qoq at 2.7% (-0.4ppt yoy). R&D/revenue ratio dipped 0.5ppt yoy but rose 1.5ppt qoq to 8.3%. All in, EBIT margin edged up 0.3ppt yoy and fell 2.6ppt qoq to 8.1% in 3Q26, and remained flat yoy at 8.9% in 9M26, vs our full-year assumption of 9.0%.
- **Shared loss of JVs and associates escalated to Rmb62m in 3Q26 from Rmb4m in 2Q26, vs shared profit of Rmb17m in 3Q25,** as Fusei Automotive Electronics' profitability collapsed amid weak Li Auto demand.
- **Improving receivable days, but elevated credit provision signals specific customer risk.** Though receivable days improved to 105 days as of 30 Sep 26 from 122 days as of 30 Sep 25 and 123 days as of 30 Jun 26, credit provision stayed elevated at Rmb78m (-25.6% qoq), likely reflecting prudent provisioning against specific customer credit risk.
- **Effective tax rate rose to 8.9% (+9.7ppt yoy/+6.3ppt qoq) in 3Q26,** due to higher earnings from overseas.
- **Cash absorbed by inventory build-up.** The company registered Rmb247m (+366.3% yoy) in operating cash outflow, vs Rmb622m in operating cash inflow in 3Q25, as inventory days rose to 100 days as of 30 Sep 26 from 66 days as of 30 Sep 25 and 84 days as of 30 Jun 26. Huizhou Desay SV strategically stocked up chips amid rising chip prices. As such, it recorded Rmb784m in negative free cash flow (+67.9% qoq) in 3Q26, vs positive free cash flow of Rmb172m in 3Q25.
- **Earnings will be driven by new smart-driving programmes, overseas growth, and diversified customers.** 4Q26 growth will come from new project launches with Chery, Xiaomi, XPeng and Changan, and continued overseas conversion. In 1H27, the Spanish plant will ramp up after 4Q26 trial production, and the Rmb6b Nvidia Thor-based domain controller order will start. The Rmb20b in overseas orders will begin contributing from 2028.
 - **Raise our 2026-28 revenue estimates by 5%/8%/10% to Rmb35.81b/Rmb41.185b/Rmb47.36b respectively (+10%/15%/15% yoy),** based on the upbeat 3Q26 revenue and strong order backlog.
 - **Lift our 2026-28 gross margin assumptions to 19.0%/19.0%/19.0%** from 18.5%/18.5%/18.5% respectively, based on the optimisation of smart-driving business mix and rising overseas revenue.
 - **Cut our 2026-28 assumptions on other income/revenue ratios to 0.9%/0.5%/0.5%** from 1.4%/1.4%/1.4% respectively.
 - **Slash our 2026-28 estimates for JVs' and associates' contribution to a net loss of Rmb80m p.a.,** from a net profit of Rmb90m p.a..
 - **Increase our 2026-28 assumptions on effective tax rates to 9%/9%/9%** from 6%/6%/6% respectively, based on higher overseas profit contribution.

Earnings Revision/Risk

- **We trim our 2026 net profit forecasts by 1% to Rmb2.54b, and raise those for 2027-28 by 3%/8% to Rmb2.88b/Rmb3.41b respectively.**
- **Risks:** Weaker-than-expected sales of the customers' new models.

Valuation/Recommendation

- **Maintain BUY and cut target price from Rmb135.00 to Rmb105.00,** based on a lower target 2027F PE multiple of 22x (1SD below historical mean).

Share Price Catalyst

- 4Q26 sequential earnings recovery; new launches at Chery, Xiaomi, XPeng, and Changan; L3 pilot expansion; and policy tailwinds.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	32,557	35,813	41,185	47,363
EBITDA	3,752	4,017	4,514	5,242
Deprec. & amort.	(781)	(883)	(1,022)	(1,178)
EBIT	2,971	3,134	3,492	4,064
Total other non-operating income	(6)	(10)	(10)	(10)
Associate contributions	58	(140)	(140)	(140)
Net interest income/(expense)	(21)	(7)	2	13
Pre-tax profit	2,570	2,814	3,182	3,764
Tax	(97)	(253)	(286)	(339)
Minorities	(19)	(19)	(19)	(19)
Net profit	2,454	2,541	2,877	3,406
Net profit (adj.)	2,414	2,541	2,877	3,406

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	2,884	3,120	2,872	3,379
Pre-tax profit	2,570	2,814	3,182	3,764
Tax	(97)	(253)	(286)	(339)
Deprec. & amort.	781	883	1,022	1,178
Associates	(58)	140	140	140
Working capital changes	(714)	(412)	(1,123)	(1,292)
Non-cash items	402	(53)	(62)	(73)
Other operating cashflows	-	-	-	-
Investing	(5,573)	(1,476)	(1,466)	(1,455)
Capex (growth)	(1,803)	(1,500)	(1,500)	(1,500)
Investments	(11,178)	-	-	-
Others	7,408	24	34	45
Financing	3,374	(772)	(794)	(895)
Dividend payments	(693)	(772)	(794)	(895)
Proceeds from borrowings	1,303	400	400	400
Loan repayment	(1,171)	(400)	(400)	(400)
Others/interest paid	3,934	-	-	-
Net cash inflow (outflow)	695	873	612	1,029
Beginning cash & cash equivalent	721	1,416	2,289	2,901
Changes due to forex impact	11	-	-	-
Ending cash & cash equivalent	1,416	2,289	2,901	3,930

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	3,239	3,063	2,868
Cash/ST investment	1,416	2,289	2,901	3,930
Other current assets	22,016	22,857	25,565	28,679
Total assets	29,845	32,095	35,814	40,199
ST debt	687	687	687	687
Other current liabilities	12,898	13,327	14,911	16,734
LT debt	255	255	255	255
Other LT liabilities	444	444	444	444
Shareholders' equity	15,418	17,220	19,334	21,877
Minority interest	145	164	183	203
Total liabilities & equity	29,845	32,095	35,814	40,199

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.5	11.2	11.0	11.1
Pre-tax margin	7.7	7.3	7.5	7.7
Net margin	7.4	7.1	7.0	7.2
ROA	9.4	8.2	8.5	9.0
ROE	19.3	15.6	15.7	16.5
Growth				
Turnover	17.9	10.0	15.0	15.0
EBITDA	7.9	7.1	12.4	16.1
Pre-tax profit	22.4	9.5	13.1	18.3
Net profit	22.4	3.6	13.2	18.4
Net profit (adj.)	24.1	5.3	13.2	18.4
EPS	13.9	3.6	13.2	18.4
Leverage				
Debt to total capital	4.5	4.2	3.8	3.4
Debt to equity	8.8	7.9	7.0	6.2
Net debt/(cash) to equity	8.8	7.9	7.0	6.2
Interest cover (x)	140.7	418.4	n.a.	n.a.

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