UOBKayHian

Company – Results | Greater China

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Inovance Technology (300124 CH)

2Q26: Results In Line, Recovery To Sustain Through 2027

Analyst(s)

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Highlights

- 2Q26 net profit rose 9% yoy to Rmb1.8b, which is largely in line with consensus as mix improvements was offset by non-op items.
- 2H26's general automation will continue to recover, although growth may slow down sequentially on a high base. The NEV business expected to remain weak, while the ESS business' growth will accelerate thanks to breakthroughs overseas.
- Maintain BUY. Raise target price to Rmb95.00.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	yoy (%)	qoq (%)
Revenue	11,531	10,143	14,532	26.0	43.3
Gross profit	3,418	2,949	4,389	28.4	48.8
Operating profit	1,776	1,069	1,981	11.5	85.3
Net profit	1,646	1,013	1,796	9.2	77.3
Core net profit	1,438	1,046	1,710	19.0	63.6
Margins (%)					
Gross margin	29.6	29.1	30.2	0.6	1.1
Operating margin	15.4	10.5	13.6	(1.8)	3.1
Net margin	14.3	10.0	12.4	(1.9)	2.4

Source: Inovance, UOB Kay Hian

Analysis

- **2Q26 results largely in line.** Inovance Technology's (Inovance) 2Q26 revenue rose 26.0% yoy and 43.3% qoq to Rmb14.5b, 4.5% ahead of consensus driven by a solid beat in general automation segment. Given that the general automation business's margins are much higher at close to 40%, product mix improved and blended gross margin expanded 0.6ppt yoy and 1.1ppt qoq, which is 1.3ppt above street's 28.9%. Opex was well controlled, with opex ratio declining 1.2ppt yoy and 2.7ppt qoq to 14.9%, although this was partially offset by impairments which doubled yoy to Rmb413m. As a result, net profit grew 9.2% yoy and 77.3% qoq to Rmb1.8b, which is in line with consensus estimates.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	37,041	45,105	51,627	58,847	67,759
EBITDA	5,081	6,287	7,174	8,570	9,362
Operating profit	4,232	5,171	5,832	7,098	7,817
Net profit (rep./act.)	4,285	5,050	5,903	7,140	7,950
Net profit (adj.)	4,036	4,951	5,603	6,840	7,650
EPS (Fen)	159.1	186.6	218.1	263.8	293.7
PE (x)	38.9	33.2	28.4	23.5	21.1
P/B (x)	6.0	4.7	4.2	3.7	3.2
EV/EBITDA (x)	33.1	26.3	23.3	18.4	16.9
Dividend yield (%)	0.7	0.8	0.9	1.1	1.2
Net margin (%)	10.9	11.0	10.9	11.6	11.3
Net debt/(cash) to equity (%)	2.1	(9.4)	(3.5)	(24.5)	(21.0)
Interest cover (x)	26.2	30.3	38.4	49.2	54.1
ROE (%)	15.4	15.6	14.9	16.0	15.7
Consensus net profit	-	-	6,022	7,340	8,833
UOBKH/Consensus (x)	-	-	0.98	0.97	0.90

Source: Inovance, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	Rmb61.87
Target Price	Rmb95.00
Upside	53.5%
Previous TP	Rmb80.50

Stock Data

Sector	Industrial
Bloomberg ticker	300124 CH
Shares issued (m)	2,707
Market cap (Rmbm)	167,460
Market cap (US$m)	24,270
3-mth avg daily t'over (US$m)	348.9

Price Performance (%)

52-week high/low				Rmb91.00 / Rmb57.32
1mth	3mth	6mth	1yr	YTD
(3.4)	(16.3)	(15.2)	(17.5)	(17.9)

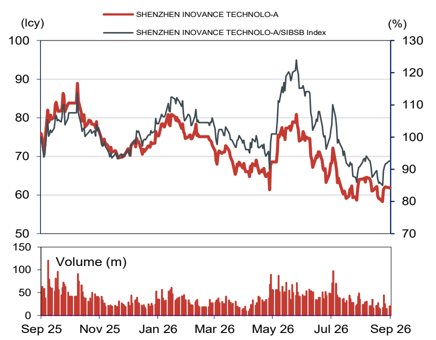
Major Shareholders (%)

Shenzhen Inovance Investment Co	17.21
Liu Guowei	2.87

Balance Sheet Metrics

FY26 NTAV/Share (Rmb)	12.99
FY26 Net Cash/Share (Rmb)	0.51

Price Chart



Source: Bloomberg

Company Description

Inovance Technology designs and manufactures industrial automation products, including inverters, servo systems, PLCs and motion controllers, and supplies electric powertrain and power systems to new energy vehicle manufacturers. It is also building industrial robot, machine vision and digital energy businesses.

- **2Q26 segment performance.** General automation's revenue surged 43.3% yoy and 58.6% qoq to Rmb6,747m. Of this, PLC & HMI registered an 80.2% yoy growth in sales to Rmb865m, inverters grew 44.9% yoy to Rmb2,058m, general servo grew 36.6% yoy to Rmb2,704m – indicating a strong recovery in automation products across the board. Elevator business remained flattish, growing 1.7% yoy to Rmb1,369m, while the NEV powertrain business grew 0.3% yoy to Rmb5,163m, which should be a disappointment to the market. The emerging business (ie ESS, robots, industrial AI) doubled sequentially to Rmb981m from Rmb489m, but do note that segment gross margins in 1H26 did decline 5.4ppt as the lower-margin energy storage business took a larger share.
- **2026 guidance remains unchanged, at 10-30% yoy revenue growth and 10-30% yoy net profit growth.**
- **General automation orders grew 40% yoy in July, after a 40-50% yoy growth in 2Q26,** with orders driven by AI capital investments, energy storage, semiconductors and export-related tools. The growth is expected to sustain from 2H26 to 2027 although management highlighted that growth will likely slow down sequentially starting from August given the high base ytd. Prices are expected to further increase in 2H26 to pass down the component price hikes to customers, and Inovance's excellent inventory management and component sourcing capabilities will help with share gains going forward.
- **NEV powertrain – unfavourable customer mix, likely sustained pressure going forward.** EV shipment growth in 1H26 was mainly driven by exports. However, Inovance does not have exposure to these big export brands eg BYD. As such, with domestic consumption remaining weak, Inovance faced pressure in both shipments and cost pass-through, which resulted in flattish growth and margin pressure. Management expects the pressure to persist, which implies lacklustre growth and sustained margin pressure.
- **For the emerging businesses,** Inovance achieved: a) component design wins on intelligent robots; b) shipped motors in small batches, c) the 7-axis bionic arm has completed qualification in one customer, and d) the prototype for the general humanoid solutions has been launched. However, it appears that revenue contribution from embodied robots will be limited, and the segment will be driven by energy storage instead, particularly from overseas given the robust 200%/100% sales/orders growths in 1H26. That said, given the lower margins of ESS, we expect the segment's margin mix to further deteriorate going forward.

Valuation/Recommendation

- Maintain BUY, and raise target price to Rmb95.00. We roll over to 2027 estimates and our new target price is based on high earnings, and 36.6x 2027F PE, now on a par with five-year historical forward mean.

Earnings Revision/Risk

- We raise our 2026-28 net profit assumption by 6.2%/0.9%/1.8% respectively to Rmb5.9b/Rmb7.1b/Rmb7.9b respectively, as we factor in: a) a higher revenue and margin assumption for general automation; and b) a higher revenue assumption for the emerging businesses. However, these are partially offset by: a) a lower revenue and margin assumption for the NEV powertrain business, and b) a lower margin assumption for the emerging businesses.

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	53,900	60,776	69,137	51,627	58,847	67,759	(4.2)	(3.2)	(2.0)
Gross profit	14,622	17,010	18,748	14,612	16,752	18,662	(0.1)	(1.5)	(0.5)
Operating profit	5,456	7,040	7,683	5,832	7,098	7,817	6.9	0.8	1.7
Reported NP	5,557	7,076	7,807	5,903	7,140	7,950	6.2	0.9	1.8
Gross margin (%)	27.1	28.0	27.1	28.3	28.5	27.5	1.2	0.5	0.4
Operating margin (%)	10.1	11.6	11.1	11.3	12.1	11.5	1.2	0.5	0.4
Net margin (%)	10.3	11.6	11.3	11.4	12.1	11.7	1.1	0.5	0.4

Source: Inovance, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	45,105	51,627	58,847	67,759
EBITDA	6,287	7,174	8,570	9,362
Depreciation & amortization	1,117	1,341	1,472	1,544
EBIT	5,171	5,832	7,098	7,817
Total other non-operating income	(2)	12	12	12
Associate contributions	(149)	200	200	200
Net interest income/(expense)	66	28	111	273
Pre-tax profit	5,433	6,432	7,781	8,663
Tax	(261)	(386)	(467)	(520)
Minorities	(123)	(143)	(173)	(193)
Net profit	5,050	5,903	7,140	7,950
Net profit (recurrent)	4,951	5,603	6,840	7,650

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	9,893	9,926	9,872	9,729
Other LT assets	18,413	18,688	18,921	19,169
Cash/ST investment	7,384	5,086	14,889	14,598
Other current assets	35,625	41,987	43,780	52,548
Total assets	71,314	75,687	87,461	96,044
ST debt	1,347	1,000	1,000	1,000
Other current liabilities	28,547	28,574	34,510	36,735
LT debt	1,572	1,572	1,572	1,572
Other LT liabilities	2,713	2,713	2,713	2,713
Shareholders' equity	35,353	39,903	45,567	51,732
Minority interest	1,782	1,925	2,099	2,292
Total liabilities & equity	71,314	75,687	87,461	96,044

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	6,681	1,254	13,073	3,288
Pre-tax profit	5,171	5,832	7,098	7,817
Tax	(2,076)	(386)	(467)	(520)
Depreciation/amortization	1,117	1,341	1,472	1,544
Associates	149	(200)	(200)	(200)
Working capital changes	(316)	(6,106)	4,399	(6,126)
Non-cash items	2,637	772	772	772
Other operating cashflows	-	-	-	-
Investing	(5,536)	(1,700)	(1,650)	(1,650)
Capex (growth)	(3,024)	(1,650)	(1,650)	(1,650)
Investments	(14,671)	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	12,160	(50)	-	-
Financing	2,892	(1,852)	(1,620)	(1,929)
Dividend payments	(1,235)	(1,505)	(1,620)	(1,929)
Issue of shares	-	-	-	-
Proceeds from borrowings	2,814	1,785	1,785	1,785
Loan repayment	(3,388)	(2,132)	(1,785)	(1,785)
Others/interest paid	4,700	-	-	-
Net cash inflow (outflow)	4,037	(2,298)	9,803	(291)
Beginning cash & cash equivalent	3,337	7,384	5,086	14,889
Ending cash & cash equivalent	7,384	5,086	14,889	14,598

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	13.9	13.9	14.6	13.8
Pre-tax margin	11.0	11.8	12.6	12.3
Net margin	11.0	10.9	11.6	11.3
ROA	7.7	7.6	8.4	8.3
ROE	15.6	14.9	16.0	15.7
Growth				
Turnover	21.8	14.5	14.0	15.1
EBITDA	23.7	14.1	19.5	9.2
Pre-tax profit	17.9	18.4	21.0	11.3
Net profit	17.8	16.9	21.0	11.3
Net profit (adj.)	22.7	13.2	22.1	11.8
EPS	17.3	16.9	21.0	11.3
Leverage				
Debt to total capital	5.2	4.4	3.8	3.5
Debt to equity	10.5	8.4	7.4	6.5
Net debt/(cash) to equity	(9.4)	(3.5)	(24.5)	(21.0)
Interest cover (x)	30.3	38.4	49.2	54.1