

Inovance Technology (300124 CH)

3Q26: Earnings Miss On Margin Squeeze; Outlook Hinges On Cost Pass-through

Highlights

- Inovance's 3Q26 reported net profit grew 23.6% yoy to Rmb1.6b, above consensus estimate. This is mainly driven by non-op items. Core profit was weaker than expected due to a surprise margin squeeze from cost hikes.
- Management expects sustained 20% yoy growth in the general automation business in 2027, while the NEV and elevator businesses should see relief in profitability thanks to cost pass-through. Physical AI will start to kick in as a primary growth driver going forward as well.
- Maintain BUY but cut target price to Rmb75.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	yoy (%)	qoq (%)
Revenue	11,153	14,532	13,281	19.1	(8.6)
Gross profit	3,068	4,389	3,381	10.2	(23.0)
Operating profit	1,172	2,143	1,142	(2.6)	(46.7)
Net profit	1,286	1,796	1,589	23.6	(11.6)
Core net profit	1,217	1,710	1,151	(5.4)	(32.7)
Margins (%)					
Gross margin	27.5	30.2	25.5	(2.1)	(4.8)
Operating margin	11.4	13.6	12.1	0.7	(1.5)
Net margin	11.5	12.4	12.0	0.4	(0.4)

Source: Inovance, UOB Kay Hian

Analysis

- Margin squeeze drove core profit miss.** Revenue rose 19.1% yoy but fell 8.6% qoq to Rmb13,281m, in line with consensus. Gross margin contracted 2.1ppt yoy and 4.8ppt qoq to 25.5%, missing consensus by 3.6ppt. Reported net profit rose 23.6% yoy to Rmb1,589m, 4.0% above consensus, supported by Rmb419m in fair-value gains. Excluding these gains, core net profit dropped 5.4% yoy and 32.7% qoq to Rmb1,151m, 16.7% below consensus.
- Product mix and cost inflation weighed on margins.** Industrial automation and digital contributed Rmb6.4b, or 48% of revenue, while new energy vehicles contributed Rmb6.1b, or 46%, and emerging businesses contributed Rmb630m, or 5%. Automotive gross margin fell materially due to a shift towards lower-margin products, while component-cost inflation and the lack of cost pass-through further pressured group margins.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	37,041	45,105	51,627	56,313	62,457
EBITDA	5,081	6,287	7,174	7,818	8,601
Operating profit	4,232	5,171	5,832	6,346	7,057
Net profit (rep./act.)	4,285	5,050	5,669	6,435	7,222
Net profit (adj.)	4,036	4,951	5,369	6,135	6,922
EPS (Fen)	159.1	186.6	209.4	237.8	266.8
PE (x)	33.5	28.6	25.5	22.4	20.0
P/B (x)	5.1	4.1	3.6	3.2	2.9
EV/EBITDA (x)	28.5	22.6	20.2	17.3	15.9
Dividend yield (%)	0.8	0.9	1.0	1.1	1.3
Net margin (%)	10.9	11.0	10.4	10.9	11.1
Net debt/(cash) to equity (%)	2.1	(9.4)	(1.5)	(23.4)	(18.5)
Interest cover (x)	26.2	30.3	38.4	44.0	48.9
ROE (%)	15.4	15.6	14.3	14.5	14.6
Consensus net profit	-	-	5,805	7,142	8,574
UOBKH/Consensus (x)	-	-	0.98	0.90	0.84

Source: Inovance, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	Rmb53.31
Target Price	Rmb75.00
Upside	40.7%
Previous TP	Rmb95.00

Stock Data

Sector	Industrial
Bloomberg ticker	300124 CH
Shares issued (m)	2,711
Market cap (Rmbm)	144,527
Market cap (US\$m)	21,516
3-mth avg daily t'over (US\$m)	230.0

Price Performance (%)

52-week high/low			Rmb84.05 / Rmb48.50	
1mth	3mth	6mth	1yr	YTD
2.8	(10.4)	(18.9)	(31.9)	(29.2)

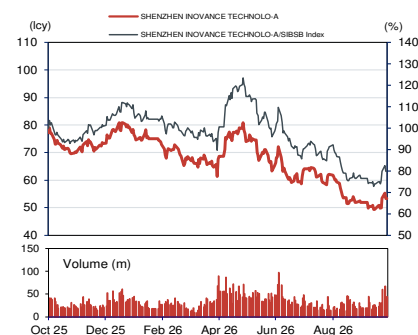
Major Shareholders (%)

Shenzhen Inovance Investment Co	17.20
Liu Guowei	2.87

Balance Sheet Metrics

FY26 NTAV/Share (Rmb)	12.90
FY26 Net Cash/Share (Rmb)	(0.23)

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.

- **Forward guidance.** Management keeps its 2026 target to grow revenue and net profit by 10-30% yoy. However, judging from its tone, it is targeting the lower end for the net profit target. Management also guided that: a) general automation could grow 20% yoy in 4Q26, and another 20% yoy in 2027; b) the NEV business may face pressure amid the weak domestic market, but the company is turning more selective on new orders and is pushing for cost pass-through going forward; and c) elevator business will continue to see cost pass-through in 4Q26 and beyond.

The bottom line is that the automation industry cycle will be slower in 2027, but overall growth remains solid on the back of Apple supply chain demand, AI-related spending and import substitution, and the NEV/elevator business may remain slower but margins are expected to improve with better cost pass-through.

- **Physical AI opportunities is again a primary focus.** Inovance Technology (Inovance) is positioned to be an applier of AI for industrial digitalisation. The company takes existing general purpose LLMs and uses their industry know-how and manufacturing data to construct its own vertical process models – a hybrid of a slower process model for planning and fast edge models for real-time control, built to meet the industry's need for reliable data with no hallucination, which can be tailored to its customers' requirements. Management stated that 5-6 customers are trialling its AI welding solution, and reception so far has remained strong. In 2026, humanoid-robot-related motors and bionic arms are each expected to exceed Rmb10m in orders, and total revenue should exceed Rmb10m. Orders could pick up rapidly to the Rmb100m level in 2027, still mainly driven by components, although the target has not been finalised. In the long term, management expects the physical AI market for factories to be larger than current day's industrial automation market.

Valuation/Recommendation

- **Maintain BUY but cut target price to Rmb75.00**, now based on 31.5x 2027F PE, 1SD below the five-year historical mean. We are lowering our PE multiple due to a slowing FAI investment in China, mounting risk from cost pressure and a slower industry growth in both the EV and general automation sectors.

Earnings Revision/Risk

- We are cutting our 2026-28 net profit estimates by 4.0%/9.9%/9.1% to Rmb5,669m/Rmb6,435m/Rmb7,222m respectively. We have factored in: a) lower revenue assumptions for the elevator inverter and NEV powertrain businesses; b) lower margins in the general automation, and EV businesses given the mounting cost pressure, and c) a higher opex ratio.

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	56,313	62,457	(4.2)	(7.3)	(9.7)
Gross profit	14,622	17,010	18,748	14,612	15,810	17,428	(0.1)	(7.1)	(7.0)
Operating profit	5,456	7,040	7,683	5,832	6,346	7,057	6.9	(9.8)	(8.1)
Reported NP	5,557	7,076	7,807	5,669	6,435	7,222	2.0	(9.1)	(7.5)
Gross margin (%)	27.1	28.0	27.1	28.3	28.1	27.9	1.2	0.1	0.8
Operating margin (%)	10.1	11.6	11.1	11.3	11.3	11.3	1.2	(0.3)	0.2
Net margin (%)	10.3	11.6	11.3	11.0	11.4	11.6	0.7	(0.2)	0.3

Source: Inovance, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	45,105	51,627	56,313	62,457
EBITDA	6,287	7,174	7,818	8,601
Depreciation & amortization	1,117	1,341	1,472	1,544
EBIT	5,171	5,832	6,346	7,057
Total other non-operating income	(2)	12	12	12
Associate contributions	(149)	200	200	200
Net interest income/(expense)	66	28	94	241
Pre-tax profit	5,433	6,177	7,012	7,870
Tax	(261)	(371)	(421)	(472)
Minorities	(123)	(138)	(156)	(175)
Net profit	5,050	5,669	6,435	7,222
Net profit (recurrent)	4,951	5,369	6,135	6,922

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	6,681	487	13,067	2,257
Pre-tax profit	5,171	5,832	6,346	7,057
Tax	(2,076)	(371)	(421)	(472)
Depreciation/amortization	1,117	1,341	1,472	1,544
Associates	149	(200)	(200)	(200)
Working capital changes	(316)	(6,106)	5,097	(6,444)
Non-cash items	2,637	(11)	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)	(1,562)	(1,753)
Dividend payments	(1,235)	(1,505)	(1,562)	(1,753)
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	(3,065)	9,855	(1,147)
Beginning cash & cash equivalent	3,337	7,384	4,318	14,173
Ending cash & cash equivalent	7,384	4,318	14,173	13,027

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	4,318	14,173	13,027
Other current assets	35,625	42,515	41,708	49,783
Total assets	71,314	75,447	84,674	91,708
ST debt	1,347	1,000	1,000	1,000
Other current liabilities	28,547	28,574	32,626	33,871
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	39,668	44,687	50,300
Minority interest	1,782	1,920	2,076	2,251
Total liabilities & equity	71,314	75,447	84,674	91,708

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	13.9	13.9	13.9	13.8
Pre-tax margin	11.0	12.2	11.8	12.0
Net margin	11.0	10.4	10.9	11.1
ROA	7.7	7.3	7.7	7.8
ROE	15.6	14.3	14.5	14.6
Growth				
Turnover	21.8	14.5	9.1	10.9
EBITDA	23.7	14.1	9.0	10.0
Pre-tax profit	17.9	13.7	13.5	12.2
Net profit	17.8	12.3	13.5	12.2
Net profit (adj.)	22.7	8.4	14.3	12.8
EPS	17.3	12.3	13.5	12.2
Leverage				
Debt to total capital	5.2	4.5	4.0	3.7
Debt to equity	10.5	8.5	7.5	6.7
Net debt/(cash) to equity	(9.4)	(1.5)	(23.4)	(18.5)
Interest cover (x)	30.3	38.4	44.0	48.9

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