Nexteer (1316 HK)

1H26: Net Profit Up 35.2% yoy As EMEASA Margins And A Lower Tax Rate More Than Offset Soft Volumes

Highlights

- Nexteer's 1H26 net profit rose 35.2% yoy to US$85.8m, on a 3.9% yoy revenue growth and a 1.0ppt gain in adjusted EBITDA margin to 11.3%.
- Management has guided for the 2026 effective tax rate to be slightly below 25%, against the 33% assumed.
- We lift 2026-28 net profit forecasts by 20.6%/23.2%/22.0% respectively and roll the valuation base to 2027 at an unchanged 20x PE, taking our target price to HK$11.40 from HK$8.30.

1H26 Results

Year to 31 Dec (US$m)	1H26	yoy %	hoh %	2026F	yoy %	Comment
Revenue	2,328.8	3.9	(0.6)	4,709.0	2.7	In line (49% of 2026F)
Gross profit	278.3	7.5	5.4	560.4	7.1	In line (50% of 2026F)
Gross margin (%)	*12.0*	*0.4*	*0.7*	*11.9*	*0.5*	*In line (+0.1ppt vs 2026F)*
EBITDA	262.8	14.1	8.8	535.6	13.5	In line (49% of 2026F)
EBITDA margin (%)	*11.3*	*1.0*	*1.0*	*11.4*	*1.1*	*In line (−0.1ppt vs 2026F)*
EBIT	115.9	24.5	67.1	222.4	36.8	Miss (52% of 2026F)
EBIT margin (%)	*5.0*	*0.8*	*2.0*	*4.7*	*1.2*	*In line (+0.3ppt vs 2026F)*
Net profit	85.8	35.2	122.7	161.7	58.5	Miss (53% of 2026F)
Net profit – adj	76.0	23.3	129.4	161.7	70.5	Miss (47% of 2026F)
Net margin (%)	*3.7*	*0.9*	*2.0*	*3.4*	*1.2*	*In line (+0.3ppt vs 2026F)*
Operating cash flow	262.2	84.2	(0.2)	385.3	(4.8)	Beat (68% of 2026F)
FCF	108.8	196.7	24.7	39.2	(68.4)	1H26 is 277% of the 2026F full-year figure

Source: Nexteer, UOB Kay Hian

Analysis

- Revenue rose 3.9% yoy to a record US$2,329m, with the Europe, Middle East and South America (EMEASA) segment up 11.6%, North America up 2.7%, and Asia Pacific up 3.2%. Excluding currency and commodity pass-throughs, growth was 0.8%, or 180bp above a global production market that was down about 1%; however, this is short of the 200-300bp guided in March, which management attributed to weaker volumes in China.

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	4,276.1	4,584.2	4,709.0	4,952.0	5,292.0
EBITDA	424.4	471.9	535.6	575.5	620.9
Operating profit	114.8	162.5	222.4	252.1	287.5
Net profit (rep./act.)	61.7	102.0	161.7	183.7	210.5
Net profit (adj.)	47.6	94.8	161.7	183.7	210.5
EPS (US cents)	2.46	4.06	6.44	7.32	8.39
PE (x)	23.2	14.0	8.9	7.8	6.8
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	2.6	2.2	1.9	1.7	1.4
Dividend yield (%)	1.5	3.2	5.1	5.8	6.6
Net margin (%)	1.4	2.2	3.4	3.7	4.0
Net debt/(cash) to equity	(16.3)	(19.2)	(17.5)	(19.4)	(21.7)
Interest cover (x)	14.5	20.2	28.4	32.2	36.7
ROE (%)	3.1	4.8	7.3	7.9	8.5
Consensus net profit	n.a.	n.a.	n.a.	n.a.	n.a.
UOBKH/Consensus (x)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Nexteer, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$4.48
Target Price	HK$11.40
Upside	154.5%
Previous TP	HK$8.30

Stock Data

Sector	Auto Parts
Bloomberg ticker	1316 HK
Shares issued (m)	2,509.8
Market cap (HK$m)	11,244
Market cap (US$m)	1,433
3-mth avg daily t'over (US$m)	3.6

Price Performance (%)

52-week high/low				HK$8.69/HK$3.81
1mth	3mth	6mth	1yr	YTD
17.3	(16.3)	(37.0)	(32.2)	(29.8)

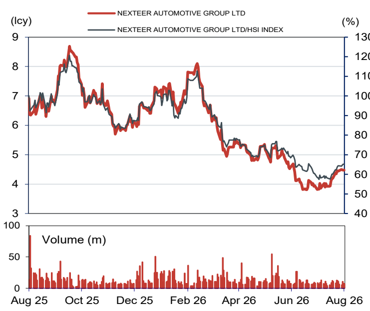
Major Shareholders (%)

Nexteer Automotive (HK) Holdings	44.0
Beijing E-Town International	16.0

Balance Sheet Metrics

FY26 NAV/Share (HK$)	6.96
FY26 Net Debt/Share (HK$)	(1.25)

Price Chart



Source: Bloomberg

Company Description

Nexteer Automotive designs and manufactures electric and hydraulic power steering systems, steering columns and intermediate shafts, halfshafts and, increasingly, steer-by-wire and brake-by-wire systems, supplying global and Chinese vehicle makers from North America, Asia Pacific, Europe and South America.

- Adjusted EBITDA rose 14.1% yoy to US$263m, with margin expanding 1.0ppt to 11.3%. EMEASA drove the increase, contributing EBITDA of US$55m (+56% yoy, +62% hoh) and a margin of 12.2% (+3.5ppt yoy, +3.7ppt hoh), underpinned by its regional margin enhancement programme. Asia Pacific held at 16.9% despite pricing pressure and higher commodity costs, while North America slipped to 7.3% (−0.3ppt yoy) on a plant outage and adverse currency, with an insurance recovery expected in 2H26.
- US$8m of 2025 tariff costs were recovered, though nothing has yet been booked on the North American electric vehicle cancellations that cost US$24m in 2H25. Depreciation and amortisation rose 6.1% yoy to US$146m, while the effective tax rate fell to 21.6% (-6.3ppt yoy), driven by stronger US profitability and tax planning. Minority interests accounted for 5.0% of profit (-3.0ppt yoy), and adjusted net profit increased 23.3% yoy to US$76m.
- Operating cash flow rose 84.2% yoy to US$262m and free cash flow reached US$109m (+197% yoy), lifting net cash to US$516m (+40.5% yoy) with total liquidity of US$968m. Capex and intangible additions rose 42.6% yoy to US$158m, so the improvement came from earnings and working capital, not underinvestment.
- Bookings reached US$3.3b (+120% yoy), tracking toward the reaffirmed full-year target of US$6b, supported by 28 programme launches, 26 of which were for new or conquest business. First steer-by-wire production launches were achieved, though management does not expect the technology to contribute meaningfully to group revenue until after 2030. For 2H26, it flags price give-backs closer to 2% and no commodity escalation cover on Chinese customers.

Earnings Revision/Risk

- We cut 2026-28 revenue forecasts by 0.9%/1.0%/1.1% to US$4,709m/US$4,952m/US$5,292m respectively, based on management guidance; the 2027-28 cuts carry a lower base at unchanged growth rates.
- We raise the EMEASA EBITDA margin from 8.0% to 11.5%, trim the North American 2026 EBITDA margin to 7.7%, and reduce the effective tax rate from 33% to 24.5% on guidance.
- All in all, we raise 2026-28 net profit forecasts by 20.6%/23.2%/22.0% to US$162m/US$184m/US$210m respectively.
- Risks: a) no recovery of electric vehicle cancellations, b) further commodity cost hikes in China, and c) a weaker currency tailwind.

Valuation/Recommendation

- We maintain BUY and raise our target price from HK$8.30 to HK$11.40, rolling the basis forward one year from 20x 2026F PE to 20x 2027F PE with the multiple unchanged and on par with the historical mean.

Share Price Catalyst

- Catalysts: a) Progress on 2H26 bookings toward the US$6b full-year target, b) insurance recovery for the plant outage, c) a settlement on the EV cancellations, d) further steer-by-wire launches, and e) 2027 guidance in Mar 27.

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	4,584.2	4,709.0	4,952.0	5,292.0
EBITDA	471.9	535.6	575.5	620.9
Deprec. & amort.	(285.0)	(313.2)	(323.4)	(333.3)
EBIT	162.5	222.4	252.1	287.5
Total other non-operating income/(expense)	0.0	0.0	0.0	0.0
Associate contributions	4.9	2.0	2.5	3.0
Net interest income/(expense)	0.5	1.0	1.5	2.9
Pre-tax profit	167.8	225.4	256.1	293.4
Tax	(55.3)	(55.2)	(62.8)	(71.9)
Minorities	(10.5)	(8.5)	(9.7)	(11.1)
Net profit	102.0	161.7	183.7	210.5
Net profit (adj.)	94.8	161.7	183.7	210.5

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	1,055.1	1,105.9	1,144.9	1,172.7
Other LT assets	764.6	757.6	752.7	749.6
Cash/ST investment	500.7	486.2	553.2	640.1
Other current assets	1,450.1	1,534.8	1,612.9	1,722.3
Total assets	3,770.5	3,884.4	4,063.7	4,284.6
ST debt	17.4	17.4	17.4	17.4
Other current liabilities	1,229.8	1,219.5	1,278.1	1,360.2
LT debt	69.6	69.6	69.6	69.6
Other LT liabilities	294.5	294.5	294.5	294.5
Shareholders' equity	2,111.6	2,227.4	2,338.3	2,466.1
Minority interest	47.5	56.0	65.7	76.8
Total liabilities & equity	3,770.5	3,884.4	4,063.7	4,284.6

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating				
Pre-tax profit	167.8	225.4	256.1	293.4
Tax	(55.3)	(55.2)	(62.8)	(71.9)
Deprec. & amort.	305.0	313.2	323.4	333.3
Associates	(4.9)	(2.0)	(2.5)	(3.0)
Working capital changes	(63.2)	(95.0)	(19.5)	(27.3)
Non-cash items				
Other operating cashflows	(0.5)	(1.0)	(1.5)	(2.9)
Investing				
Capex (growth)	(341.7)	(355.0)	(355.0)	(355.0)
Investments				
Proceeds from sale of assets				
Others	8.5	8.9	9.4	10.7
Financing				
Dividend payments	(21.8)	(45.9)	(72.8)	(82.7)
Issue of shares				
Proceeds from borrowings	200.0	200.0	200.0	200.0
Loan repayment	(200.0)	(200.0)	(200.0)	(200.0)
Others/interest paid	(8.1)	(7.8)	(7.8)	(7.8)
Net cash inflow (outflow)	62.4	(14.6)	67.0	86.9
Beginning cash & cash equivalent	422.3	500.7	486.2	553.2
Ending cash & cash equivalent	500.7	486.2	553.2	640.1

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	10.3	11.4	11.6	11.7
Pre-tax margin	3.7	4.8	5.2	5.5
Net margin	2.2	3.4	3.7	4.0
ROA	2.7	4.2	4.5	4.9
ROE	4.8	7.3	7.9	8.5
Growth				
Turnover	7.2	2.7	5.2	6.9
EBITDA	11.2	13.5	7.5	7.9
Pre-tax profit	43.2	34.3	13.6	14.6
Net profit	65.3	58.5	13.6	14.6
Net profit (adj.)	99.3	70.5	13.6	14.6
EPS	65.3	58.5	13.6	14.6
Leverage				
Debt to total capital	3.9	3.7	3.5	3.3
Debt to equity	4.0	3.8	3.6	3.4
Net debt/(cash) to equity	(19.2)	(17.5)	(19.4)	(21.7)
Interest cover (x)	20.2	28.4	32.2	36.7