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Company – Results | Greater China

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Pateo Connect Technology (2889 HK)

1H26: Core Results In Line, But GAAP Bottom-line Pressured By Share-based Compensation

Highlights

- 2Q26 results met estimates with revenue growing 105% yoy to Rmb2,228m and adjusted net loss decreasing 36% yoy to Rmb103m. GAAP net loss increased 34.5% yoy to Rmb306m, due to share-based compensation.
- We increase our 2026 GAAP net loss estimate by 103%, and slash 2027-28 GAAP net profit forecasts by 77%/21% respectively to reflect the Rmb250m p.a. of share-based compensation. We keep our 2026 adjusted net loss estimate, and lift 2027-28 adjusted net profit projections by 6%/3% respectively to factor in the CME acquisition.
- Risks: Repaying the Rmb2.4b in short-term bank loans and funding the Rmb1.4b CME acquisition with Rmb1.6b in cash and cash outflow.
- Maintain BUY with target price of HK$350.00 pegged to 4.0x 2027F PS.

1H26 Results

Year to 31 Dec (Rmbm)	1H26	yoy %	hoh %	2026F	yoy %	1H26/2026	Comment
Revenue	2,228	105.1	(8.0)	7,004	99.5	0.32	Revenue in line
Gross profit	257	64.7	(7.5)	1,044	140.5	0.25	
Gross margin (%)	*11.5*	*(2.8)*	*0.1*	*14.9*	*2.5*	*0.77*	Launch of new projects and new capacity
EBIT	(273)	51.3	(66.5)	(181)	(81.8)	1.50	
EBIT margin (%)	*(12.2)*	*(26.3)*	*(63.6)*	*(2.6)*	*(90.9)*	*4.73*	Margin miss
Net profit (GAAP)	(306)	34.5	(64.7)	(244)	(77.7)	1.25	Dragged by share-based compensation
Net profit (adj)	(103)	(36.1)	283.5	(244)	29.3	0.42	
Net margin (%)	*(13.7)*	*7.2*	*22.0*	*(3.5)*	*27.7*	*3.93*	
Core net margin (%)	*(4.6)*	*10.3*	*(3.5)*	*(3.5)*	*1.9*	*1.31*	

Source: Pateo, Bloomberg, UOB Kay Hian

Analysis

- **2Q26 results met expectations with revenue growing 105% yoy to Rmb2,228m and adjusted net loss decreasing 36% yoy to Rmb103m**, vs our estimated revenue of Rmb7b and net loss of Rmb244m for full-year 2026. GAAP net loss increased 34.5% yoy to Rmb306m, larger than our estimated full-year GAAP net loss of Rmb244m, due to share-based payments.
  - **Revenue doubled yoy, in line with estimates, driven by smart cockpit and AI-related solutions.** Smart cockpit solution revenue surged 97% yoy to Rmb1,988m (89% of total revenue), while AI-related solution revenue spiked 589% yoy to Rmb209m (9% of total revenue).
  - **Gross margin remained flat hoh at 11.5%, down 2.8ppt yoy, in line with our expectation**. The gross margin erosion was due to new smart cockpit projects being at an early stage of expansion, and the launch of new capacity that raised depreciation expenses as a percentage of revenue.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	2,557	3,510	7,004	12,158	19,208
EBITDA	(385)	(912)	(280)	408	1,182
Operating profit	(465)	(994)	(431)	202	981
Net profit (rep./act.)	(541)	(1,093)	(494)	68	831
Net profit (adj.)	(403)	(189)	(244)	318	1,081
EPS (Fen)	(305.8)	(132.9)	(151.0)	196.2	668.1
PE (x)	(41.3)	(95.1)	(83.7)	64.4	18.9
P/B (x)	11.4	8.8	10.3	10.0	7.1
EV/EBITDA (x)	(55.0)	(23.2)	(75.7)	51.8	17.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(15.8)	(5.4)	(3.5)	2.6	5.6
Net debt/(cash) to equity (%)	42.9	35.2	134.2	169.4	96.3
Interest cover (x)	(10.5)	(17.7)	(6.8)	1.9	8.6
ROE (%)	(37.6)	(10.2)	(11.8)	15.7	43.8
Consensus net profit	-	-	(292)	94	568
UOBKH/Consensus (x)	-	-	n.a.	0.72	1.46

Source: Pateo, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	HK$147.90
Target Price	HK$350.00
Upside	136.6%

Stock Data

Sector	Consumer discretionary
Bloomberg ticker	2889 HK
Shares issued (m)	161.8
Market cap (HK$m)	23,932.7
Market cap (US$m)	3,088.1
3-mth avg daily t'over (US$m)	10.7

Price Performance (%)

52-week high/low HK$288.80/ HK$96.00

1mth	3mth	6mth	1yr	YTD
13.5	(31.8)	(41.5)	n.a.	(31.5)

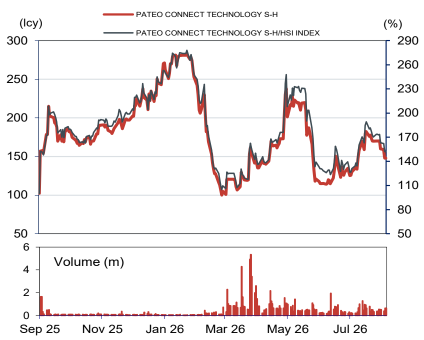
Major Shareholders (%)

Ying Zhenkai	21.62
Jiequan Rundong Investment	14.18
Jinmi Tianjin	10.93

Balance Sheet Metrics

FY26 NAV/Share (HK$)	14.34
FY26 Net Debt/Share (HK$)	19.24

Price Chart



Source: Bloomberg

Company Description

Pateo Connect Technology (Shanghai) Corporation manufactures automotive electronic hardware, automotive interactive products, and others. The company also develops automobile software and intelligent operating systems.

- **Opex/revenue fell 7.3ppt yoy to 24.0% due to operating leverage, but was still above our estimate on share-based expenses.** Pateo Connect Technology's (Pateo) SG&A expense grew 68.5%/33.5% yoy to Rmb387m/Rmb148m respectively, implying SG&A/revenue ratio of 17.3% (-3.8ppt yoy) and R&D/revenue ratio of 6.7% (-3.6ppt yoy). These are above our estimates due to share-based payment of Rmb202m (+289% yoy).

- **Pateo's growth will be driven by the strong order flows and ramp-up o high-end projects** such as the smart cockpit solutions based on high caputing capability platforms (Huawei Kirin Platform, Qualcomm 8295/8397 Platform), and the AI-related solutions.
  - **Smart cockpit solutions.** High-end projects (eg the Huawei Kirin Platform for HIMA, the Qualcomm 8295/8397 Platform for Li Auto, Porsche, Korean OEMs and others), and mass-market projects (eg the Horizon Robotics Platform) will ramp up from 2H26-2027. We maintain our 2026-28 smart cockpit solution revenue estimates at Rmb6.22b/Rmb9.75b/Rmb15.12b respectively, based on sales volume of 2.2m/3.0m/4.0m units and ASP of Rmb2,800/Rmb3,250/Rmb3,780.
  - **AI-related solutions.** Instead of one-time hardware sales, Pateo is moving towards recurring service-based models. Pateo keeps its 2026 target of Rmb500m-800m revenue for the AI-related business. We maintain our AI-related solution revenue estimates at Rmb500m/Rmb1.5b/Rmb3.0b for 2026/27/28 respectively.
  - **Optical module business.** Pateo on 7 Aug 26 agreed to acquire a 70% stake in Chengdu Meenyi Electronic (CME) for Rmb1.4b. CME is engaged in the development, design and sales of high-speed optoelectronic chips and the related modules. After acquiring CME, Pateo is seeking to introduce optical optical modules into vehicle connectivity to fulfil the need for high-speed data communication in high-level autonomous driving. Pursuant to the performance undertakers, CME shall generate a revenue of at least Rmb480m/Rmb620m/Rmb800m and net profit of Rmb45m/Rmb90m/Rmb120m in 2026/27/28 respectively. CME is expected to be consolidated into Pateo before end-26.
- **Maintain 2026 revenue estimate at Rmb7.00b (+100% yoy) and raise 2027-28 revenue estimates by 5.4%/4.3% to Rmb12.16b (+74% yoy)/Rmb19.21b (+58% yoy) respectively** to reflect the CME acquisition.
- **Keep 2026 gross margin assumption at 14.9% and lift those for 2027-28 to 17.5%/17.7% respectively to factor in the consolidation of CME.** Our 2026 gross margin assumption of 14.9% is roughly on a par with the company's guidance of 15.0%, and it implies a 2H26 gross margin of 16.5% vs 11.5% in 1H26. The prospective gross margin improvement will be driven by the ramp-up of new projects and optimisation of revenue mix. For CME, we assume 2027/28 gross margin at 53%/55% respectively.

Earnings Revision/Risks

- **We increase our 2026 GAAP net loss estimate by 103% to Rmb494m, and slash 2027-28 GAAP net profit forecasts by 77%/21% respectively** to reflect the Rmb250m p.a. of share-based compensation.
- **We keep 2026 adjusted net loss estimate at Rmb244m, and lift 2027-28 adjusted net profit projections by 6%/3% to Rmb318m/Rmb1,081m respectively** to factor in the acquisition of CME.
- **Risks:** Repaying the Rmb2.4b in short-term loans and funding the Rmb1.4b CME acquisition with Rmb1.6b in cash and cash outflow.

Valuation/Recommendation

- **Maintain BUY and keep target price at HK$350 pegged to 4.0x 2027F PS.**

Catalysts

- **New design wins, b) the completion of CME acquisition.**

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	3,510	7,004	12,158	19,208
EBITDA	(912)	(280)	408	1,182
Deprec. & amort.	(82)	(152)	(206)	(201)
EBIT	(994)	(431)	202	981
Total other non-operating income	-	-	-	-
Associate contributions	(8)	-	-	-
Net interest income/(expense)	(56)	(63)	(107)	(114)
Pre-tax profit	(1,094)	(494)	95	867
Tax	(0)	-	-	-
Minorities	0	-	(27)	(36)
Net profit	(1,093)	(494)	68	831
Net profit (adj.)	(189)	(244)	318	1,081

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	813	2,244	2,216	2,191
Other LT assets	326	303	284	269
Cash/ST investment	1,444	621	807	1,007
Other current assets	3,255	4,481	6,884	9,155
Total assets	5,837	7,649	10,191	12,621
ST debt	1,888	2,968	3,968	3,468
Other current liabilities	1,287	2,187	3,635	5,697
LT debt	362	362	362	362
Other LT liabilities	148	148	148	148
Shareholders' equity	2,152	1,984	2,051	2,882
Minority interest	(0)	(0)	27	63
Total liabilities & equity	5,837	7,649	10,191	12,621

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(525)	(606)	(546)	974
Pre-tax profit	(1,094)	(494)	95	867
Tax	(0)	-	-	-
Deprec. & amort.	82	152	206	201
Associates	8	-	-	-
Working capital changes	(498)	(327)	(955)	(208)
Non-cash items	977	63	107	114
Other operating cashflows	-	-	-	-
Investing	(338)	(1,560)	(160)	(160)
Capex (growth)	(414)	(160)	(160)	(160)
Investments	(206)	-	-	-
Others	282	(1,400)	-	-
Financing	1,331	1,343	893	(614)
Dividend payments	-	-	-	-
Proceeds from borrowings	2,349	3,500	4,500	4,500
Loan repayment	(1,805)	(2,420)	(3,500)	(5,000)
Others/interest paid	787	263	(107)	(114)
Net cash inflow (outflow)	467	(823)	186	200
Beginning cash & cash equivalent	977	1,444	621	807
Changes due to forex impact	(0)	-	-	-
Ending cash & cash equivalent	1,444	621	807	1,007

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	(26.0)	(4.0)	3.4	6.2
Pre-tax margin	(31.2)	(7.1)	0.8	4.5
Net margin	(5.4)	(3.5)	2.6	5.6
ROA	(3.7)	(3.6)	3.6	9.5
ROE	(10.2)	(11.8)	15.7	43.8
Growth				
Turnover	37.3	99.5	73.6	58.0
EBITDA	136.9	n.a.	(246.0)	189.6
Pre-tax profit	102.2	n.a.	(119.1)	817.5
Net profit	102.0	n.a.	(113.7)	1,131.1
Net profit (adj.)	(53.1)	n.a.	(230.0)	240.5
EPS	87.4	n.a.	(119.1)	817.5
Leverage				
Debt to total capital	38.5	43.5	42.5	30.3
Debt to equity	104.6	167.9	211.1	132.9
Net debt/(cash) to equity	35.2	134.2	169.4	96.3
Interest cover (x)	(17.7)	(6.8)	1.9	8.6