Shuanghuan Driveline (002472 CH)

2Q26 Results Preview: Core Business Overall Solid, But Reported Earnings Impacted By Forex Loss

BUY (Maintained)

Share Price	Rmb36.95
Target Price	Rmb52.00
Upside	+40.7%

Analyst(s)
Johnny Yum
+852 2236 6706
johnny.yum@uobkh.com
Murphy Li
+603 2147 1874
Murphy.li@uobkh.com

Highlights

- We expect 2Q26 revenue of Rmb2,331m (+7.7% yoy, +11.3% qoq), gross margin of 27.8% (+0.5ppt yoy, +0.3ppt qoq) and operating profit of Rmb399m (+6.7% yoy, +10.6% qoq). Its reported net profit of Rmb312m (+3.8% yoy, +10.0% qoq) is expected to be below market's estimates of Rmb320m due to a forex loss of around Rmb10m.
- **Maintain BUY and keep target price unchanged at Rmb52.00** as we rollover to 2027 estimates and adjust our multiple to 25.2x PE, still pegged to 1.3x forward PEG.

2Q26 Results Preview

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26F	yoy (%)	qoq (%)
Revenue	2,164	2,095	2,331	7.7	11.3
Gross Profit	591	577	648	9.7	12.3
Operating Profit	374	360	399	6.7	10.6
Reported NP	301	284	312	3.8	10.0
Margin (%)					
GPM (%)	27.3	27.5	27.8	0.5	0.3
OPM (%)	17.3	17.2	17.1	(0.2)	(0.1)
NPM (%)	13.9	13.6	13.4	(0.5)	(0.2)

Source: Shuanghuan Driveline, UOB Kay Hian

Analysis

- **Headline operating numbers largely in line; expect forex to impact bottom line.** We expect Shuanghuan Driveline (Shuanghuan) to report 2Q26 revenue of Rmb2,331m (+7.7% yoy, +11.3% qoq), gross margin of 27.8% (+0.5ppt yoy, +0.3ppt qoq) and operating profit of Rmb399m (+6.7% yoy, +10.6% qoq). Its reported net profit of Rmb312m (+3.8% yoy, +10.0% qoq) is expected to be below market's estimates of Rmb320m due to a forex loss of around Rmb10m. Stripping that out, adjusted net profit should be relatively in line.
- **Growth of NEV gears are returning to expansion after a slower 1Q** as the high-ASP/high-margin coaxial gearbox gears start to pick up meaningfully. Capacity is running at 100% utilisation, driven by robust orders from existing clients as well as new design wins. On the other hand, the differential sub-assembly business is contributing more meaningfully while production at new overseas BEV projects is ramping up. Overall, we now expect 2Q26 EV-gear revenue to reach Rmb1b (+18.0% yoy and +23.8% qoq) and further accelerate in 2H26.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	8,781	9,112	10,094	11,470	12,830
EBITDA	2,121	2,519	2,803	3,088	3,482
Operating profit	1,351	1,606	1,818	2,176	2,523
Net profit (rep./act.)	1,024	1,262	1,472	1,756	2,072
Net profit (adj.)	1,001	1,204	1,502	1,756	2,072
EPS (Rmb)	1.20	1.42	1.77	2.07	2.44
PE (x)	30.9	26.1	20.9	17.9	15.2
P/B (x)	3.5	3.1	2.9	2.5	2.2
EV/EBITDA (x)	15.6	13.1	10.9	9.9	7.8
Dividend yield (%)	0.6	1.2	0.6	0.7	0.8
Net margin (%)	11.7	13.8	14.6	15.3	16.1
Net debt/(cash) to equity (%)	12.5	9.0	(13.6)	(12.4)	(34.4)
Interest cover (x)	55.8	53.6	92.4	39.2	70.2
ROE (%)	11.9	12.8	14.3	14.9	15.4
Consensus adjusted net profit	-	-	n.a.	n.a.	n.a.
UOBKH/Consensus (x)	-	-	n.a.	n.a.	n.a.

Source: Shuanghuan Driveline, UOB Kay Hian

Stock Data

GICS sector	Auto Parts & Equipment
Bloomberg ticker:	002472 CH
Shares issued (m):	849.9
Market cap (Rmbm):	31,405
Market cap (US$m):	4,374
3-mth avg daily t'over (US$m):	242

Price Performance (%)

52-week high/low: Rmb53.50/ Rmb32.88

1mth	3mth	6mth	1yr	YTD
(12.3)	(5.0)	(20.4)	8.9	(22.1)

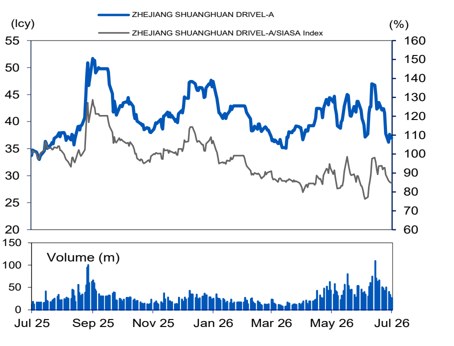
Major Shareholders

	%
Wu Changhong	7.06
Li Shaoguang	4.23

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	28.03.
FY26 Net Cash/Share (Rmb)	5.84

Price Chart



Source: Bloomberg

Company Description

Shuanghuan Driveline (002472 CH) is a leading China gear maker supplying passenger- and commercial-vehicle transmission gears, NEV reduction-gearbox gears, construction-machinery gears, and — via Fine Motion Technology — RV and harmonic robot reducers.

- **ICE-car gear business still weak but stabilising.** We expect the ICE-car gear segment to remain sluggish in 2Q26, and estimate revenue will decline 9.0% yoy to Rmb414m, although we note that the yoy decline is narrowing vs 1Q26's high-teens yoy decline. Based on our communication with management, the yoy decline rate is likely similar for 3Q26-4Q26, and we no longer expect a recovery from 2027 onwards. Instead, we now expect the business is likely to register high single-digit to low teens-% decline per year going forward, as the company is now more likely to gradually step away from the ICE-car gear business and focus on EV gears/new initiatives instead.
- **CV gear business to remain stable this year.** End-demand for commercial vehicle (CV) gear should have remained solid in 1H26, but the CV gear market's competition had been intensifying, thus pressuring pricing. We understand Shuanghuan remains selective on orders with solid profitability, and hence we believe the company had lost market share throughout 2Q26. Overall, we expect the segment to remain flattish in 2Q26, although for 2H26 we may see a slight growth as its North America client starts to ramp up the high-gear content-electric semitruck production to ~1,000 units per month.
- **Construction machinery to remain robust.** Driven by robust demand for construction machinery on the back of AIDC-related power infrastructure constructions, new orders from Shuanghuan's key construction machinery gear clients such as Caterpillar, John Deere, CNH and Liebheer remained strong throughout the quarter and we are now expecting the segment to register a 28.2% yoy growth to Rmb250m in 2Q26.
- **Fine Motion riding on solid recovery of industrial robot output.** Fine Motion Technology – Shuanghuan's robotic gear business arm – is expected to grow 30% yoy in 2Q26, similar to the trend back in 1Q26. The company now targets to expand its RV reducer capacity from >200,000 units per year currently to more than 300,000 units by year-end as capacity remains tight. There are no expansion plans for the humanoid gear capacity yet, but management stated that the North American customer's project development progress remains smooth. We understand that the company has not changed Fine Motion's full-year revenue target of >Rmb500m, which we view as conservative and could be easily exceeded given the solid recovery in industrial robot production volume in China.

Earnings Revision/Risk

- **We trim earnings on unchanged revenue.** We adjust our 2026-28 net profit estimates by -4.4%/+0.3%/+2.4% respectively to Rmb1,472m/Rmb1,756m/Rmb2,072m. We have factored in: a) a lower PV gear and CV gear sales estimates, b) a slightly lower margin assumption for PV gear business partially offset by a better CV gear margin forecast, and c) additional forex losses in 2Q26.

Valuation/Recommendation

- **Maintain BUY and keep target price unchanged at Rmb52.00** as we roll over to 2027 estimates and adjust our multiple to 25.2x PE, still pegged to 1.3x forward PEG.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	9,112	10,094	11,470	12,830
EBITDA	2,519	2,803	3,088	3,482
Deprec. & amort.	(913)	(985)	(912)	(960)
EBIT	1,606	1,818	2,176	2,523
Total other non-operating income	(55)	(31)	(1)	(1)
Associate contributions	1	1	1	1
Net interest income/(expense)	(47)	(30)	(79)	(50)
Pre-tax profit	1,505	1,758	2,097	2,473
Tax	(180)	(211)	(252)	(297)
Minorities	(64)	(74)	(89)	(105)
Net profit	1,262	1,472	1,756	2,072
Net profit (adj.)	1,204	1,502	1,756	2,072

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	7,219	7,020	6,791	6,515
Other LT assets	3,103	3,132	3,148	3,165
Cash/ST investment	2,367	5,089	5,351	8,956
Other current assets	6,073	4,144	7,030	5,219
Total assets	18,763	19,384	22,320	23,854
ST debt	3,122	3,322	3,522	3,722
Other current liabilities	4,231	3,624	4,693	4,061
LT debt	274	274	274	274
Other LT liabilities	626	626	626	626
Shareholders' equity	10,018	10,971	12,550	14,411
Minority interest	492	567	655	760
Total liabilities & equity	18,763	19,384	22,320	23,854

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	2,391	3,743	1,018	4,366
Pre-tax profit	1,505	1,758	2,097	2,473
Tax	(277)	(211)	(252)	(297)
Deprec. & amort.	913	985	912	960
Associates	1	1	1	1
Working capital changes	(41)	1,174	(1,818)	1,180
Non-cash items	290	36	78	49
Other operating cashflows	-	-	-	-
Investing	(2,293)	(800)	(700)	(700)
Capex (growth)	(2,069)	(800)	(700)	(700)
Investments	(2,130)	-	-	-
Proceeds from sale of assets	21	-	-	-
Others	1,885	-	-	-
Financing	1,092	(221)	(56)	(60)
Dividend payments	(421)	(421)	(256)	(260)
Issue of shares	202	-	-	-
Proceeds from borrowings	4,110	2,500	2,500	2,500
Loan repayment	(2,620)	(2,300)	(2,300)	(2,300)
Others/interest paid	(178)	-	-	-
Net cash inflow (outflow)	1,190	2,722	263	3,605
Beginning cash & cash equivalent	1,189	2,367	5,089	5,351
Changes due to forex impact	(12)	-	-	-
Ending cash & cash equivalent	2,367	5,089	5,351	8,956

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	27.6	27.8	26.9	27.1
Pre-tax margin	16.5	17.7	18.3	19.3
Net margin	13.8	14.6	15.3	16.1
ROA	7.0	7.9	8.4	9.0
ROE	12.8	14.3	14.9	15.4
Growth				
Turnover	3.8	10.8	13.6	11.9
Gross profit	13.4	13.5	16.7	13.8
Pre-tax profit	25.1	16.8	19.3	17.9
Net profit	23.2	16.7	19.3	17.9
Net profit (adj.)	20.3	24.7	16.9	17.9
EPS (adj.)	18.5	24.7	16.9	17.9
Leverage				
Debt to total capital	2.8	2.8	2.4	2.2
Debt to equity	5.3	4.9	4.3	3.7
Net debt/(cash) to equity	9.0	(13.6)	(12.4)	(34.4)
Interest cover (x)	53.6	92.4	39.2	70.2