Zhejiang Sanhua Intelligent Controls Co (002050 CH)

2Q26: Core Earnings In Line; Reported Profit Misses On Forex Loss

Highlights

- 2Q26 core net profit grew 9.2% yoy and 15.59% qoq to Rmb1,286m, in line with our estimate, while reported net profit fell 7.5% yoy on forex loss.
- Management kept its full-year target of 15% profit growth, with profit growth expected to outpace revenue growth.
- Looking ahead, growth will come from data centre liquid cooling, appliance premiumisation and humanoid robots.
- We cut our 2026 net profit forecast by 5% for the forex loss, but maintain core net profit forecasts. Maintain BUY and cut target price to Rmb43.00/HK$50.00.

2Q26 Results

Year to 31 Dec (Rmbm)	2Q26	yoy %	qoq %	1H26	yoy %	2026F	yoy %	1H26/2026	Comment
Revenue	9,126	6.2	17.4	16,900	3.9	34,113	10.0	0.50	In line, 50% of full year
Gross profit	2,582	2.7	19.5	4,742	3.7	9,893	10.9	0.48	In line
Gross margin (%)	28.3	(1.0)	0.5	28.1	(0.1)	29.0	0.2	0.97	In line; steel for copper
EBIT	1,559	(2.2)	19.9	2,860	5.4	5,595	10.6	0.51	In line
EBIT margin (%)	17.1	(1.5)	0.3	16.9	0.2	16.4	0.1	1.03	In line, ahead of our 16.4%
Net profit (GAAP)	1,116	(7.5)	20.4	2,044	(3.1)	4,716	17.1	0.43	Miss on Rmb143m forex loss
Net profit – adj	1,286	9.2	15.5	2,399	19.2	4,716	19.1	0.51	In line, 52% of full year
Net margin (%)	12.2	(1.8)	0.3	12.1	(0.9)	13.8	0.8	0.87	Miss on forex loss
Net margin – adj (%)	14.3	0.6	(0.3)	14.4	2.1	13.8	1.1	1.04	In line
OCF	1,394	72.5	26.0	2,500	96.0	6,334	24.4	0.39	Beat, nearly doubled yoy
FCF	548	n.a.	(6.1)	1,132	(452.5)	3,434	77.1	0.33	Swung positive from 1H25

Source: Sanhua, Bloomberg, UOB Kay Hian

Analysis

- **Reported net profit missed estimates on forex loss.** Zhejiang Sanhua Intelligent Controls Co's (Sanhua) 2Q26 reported net profit dropped 7.5% yoy and grew 20.4% qoq to Rmb1,116m, missing estimates, as forex loss spiked 497.4% yoy to Rmb143m.
- **2Q26 core earnings grew 9.2% yoy and 15.5% qoq to Rmb1,286m, in line with estimates.** This brings 1H26 adjusted net profit to Rmb2,399m (+19.2% yoy), 51% of our full-year estimate of Rmb4,716m.
  - **Revenue growth accelerated from 1.4% yoy in 1Q26 to 6.2% yoy in 2Q26, in line with estimates.** This brings 1H26 revenue to Rmb16.9b (+3.9% yoy), 50% of our full-year estimate.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	27,947	31,012	34,113	39,230	45,114
EBITDA	4,918	6,313	7,126	8,152	9,306
Operating profit	3,890	5,056	5,595	6,434	7,399
Net profit (rep./act.)	3,099	4,027	4,472	5,449	6,286
Net profit (adj.)	3,048	4,136	4,716	5,449	6,286
EPS (Fen)	83.0	95.7	106.3	129.5	149.4
PE (x)	44.3	38.5	34.6	28.4	24.6
P/B (x)	7.1	4.9	4.5	4.1	3.7
EV/EBITDA (x)	(2.3)	(1.8)	(1.6)	(1.4)	(1.2)
Dividend yield (%)	1.0	1.1	1.2	1.4	1.6
Net margin (%)	11.1	13.0	13.1	13.9	13.9
Net debt/(cash) to equity (%)	(4.3)	(34.2)	(36.6)	(38.3)	(39.3)
Interest cover (x)	(88.8)	50.0	583.1	(19.4)	(19.3)
ROE (%)	16.4	16.2	14.2	15.0	15.7
Consensus net profit	-	-	4,608	5,377	6,246
UOBKH/Consensus (x)	-	-	0.97	1.01	1.01

Source: Sanhua, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	Rmb36.82
Target Price	Rmb43.00
Upside	16.8%
Previous TP	Rmb57.00

Stock Data

Sector	Industrials
Bloomberg ticker	002050 CH
Shares issued (m)	4,208
Market cap (RMBm)	154,939
Market cap (US$m)	21,225
3-mth avg daily t'over (US$m)	665

Price Performance (%)

52-week high/low: Rmb60.77/Rmb29.18

1mth	3mth	6mth	1yr	YTD
2.2	(27.8)	(28.1)	21.0	(33.4)

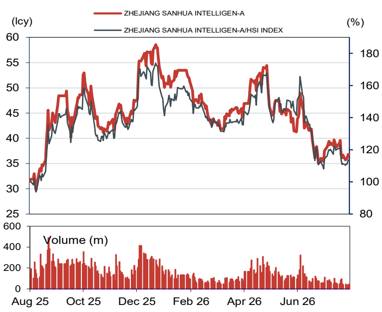
Major Shareholders (%)

Sanhua Holding Group Co Ltd	25.42
Zhejiang Sanhua Green Energy Industrial Group Co Ltd	17.80

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	7.80
FY26 Net Debt/Share (Rmb)	3.00

Price Chart



Source: Bloomberg

Company Description

Zhejiang Sanhua Intelligent Controls Co is an automotive parts manufacturer of noise, vibration and hardness shock absorbers; interior/exterior decorative parts; chassis and body parts; chassis electronics; smart cockpit parts; and thermal management systems.

- **Margins held up well.** Gross margin edged up 0.5ppt qoq to 28.3%, still down 1.0ppt yoy and below our full-year assumption of 29.0%. The opex/revenue ratio dipped 0.1ppt yoy and 0.7ppt qoq to 11.0%, dragged by SG&A. EBIT margin rose 0.3ppt qoq to 17.1%, down 1.5ppt yoy but above our full-year assumption of 16.4%.

• **We maintain our 2026-28 revenue estimates at Rmb34.11b/Rmb39.23b/Rmb45.11b respectively (10%/15%/15%).** The revenue growth will be driven by four engines. Management expects its key liquid-cooling projects to enter volume production in 2H26, with orders already exceeding capacity and rising CDU power lifting the value of each unit. Energy-efficiency upgrades and premiumisation should support refrigeration, where management sees no ceiling and targets double-digit growth over the next five years, with some new businesses doubling. Auto is guided to deliver double-digit growth, while humanoid robots are beginning to ramp up in what management describes as the first year of mass production.

• **We maintain our 2026-28 gross margin assumptions at 29%/29%/29% and EBIT margin assumptions at 16.4%/16.4%/16.4% respectively.** The company's margins will be underpinned by the continued substitution of stainless steel for copper, which lowers unit prices but raises both profit and market share as penetration rises, and by a richer mix as high-value liquid-cooling components scale. Cost control continues across technology, process, equipment, quality and delivery, and management is targeting profit growth ahead of revenue growth for the full year.

Earnings Revision/Risk

• **We cut our 2026 net profit forecast by 5% to Rmb4,475m to factor in the forex loss, and keep our 2027-28 forecasts at Rmb5,449m/Rmb6,286m respectively (up 11%/22%/15% yoy).**

• **We maintain our 2026-28 adjusted net profit projections at Rmb4,716m/Rmb5,449m/Rmb6,286m respectively (up 14%/16%/15%).**

• **Risks:** Renminbi volatility, further securities fair-value losses, annual price reductions from carmakers, high copper prices, and a slower humanoid robot ramp-up.

Valuation/Recommendation

• **Maintain BUY and cut target prices for A-share/H-share from Rmb57.00/HK$64.00 to Rmb43.00/HK$50.00**, as we roll over the base year for valuation from 2026 to 2027 and lower the target PE multiple from 51x (2SD above historical mean) to 33x (on par with historical mean). The market has turned more rational towards auto parts companies with exposure to AI hardware/infrastructure, eliminating valuation premium.

Share Price Catalyst

• **Catalysts:** Liquid-cooling projects entering volume production in 2H26, humanoid robot line ramp-up, energy-storage orders, and delivery of the 15% profit target.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	31,012	34,113	39,230	45,114
EBITDA	6,313	7,126	8,152	9,306
Deprec. & amort.	(1,257)	(1,531)	(1,719)	(1,907)
EBIT	5,056	5,595	6,434	7,399
Total other non-operating income	(104)	(150)	(145)	(145)
Associate contributions	(8)	(8)	(8)	(8)
Net interest income/(expense)	(101)	(10)	332	383
Pre-tax profit	4,844	5,427	6,613	7,629
Tax	(737)	(868)	(1,058)	(1,221)
Minorities	(80)	(87)	(106)	(122)
Net profit	4,027	4,472	5,449	6,286
Net profit (adj.)	4,136	4,716	5,449	6,286

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	13,416	14,460	15,489	16,904
Other LT assets	2,268	2,435	2,529	2,550
Cash/ST investment	12,487	14,246	16,188	18,158
Other current assets	21,235	21,839	24,437	27,425
Total assets	49,406	52,979	58,644	65,037
ST debt	2,983	2,983	2,983	2,983
Other current liabilities	12,382	13,109	15,125	17,390
LT debt	1,069	1,069	1,069	1,069
Other LT liabilities	932	932	932	932
Shareholders' equity	31,749	34,508	38,051	42,057
Minority interest	291	378	483	605
Total liabilities & equity	49,406	52,979	58,644	65,037

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	5,091	6,088	6,517	7,367
Pre-tax profit	4,844	5,427	6,613	7,629
Tax	(737)	(868)	(1,058)	(1,221)
Deprec. & amort.	1,257	1,531	1,719	1,907
Associates	13	8	8	8
Working capital changes	(539)	(169)	(582)	(723)
Non-cash items	254	160	(182)	(233)
Other operating cashflows	-	-	-	-
Investing	(3,793)	(2,489)	(2,541)	(2,990)
Capex (growth)	(3,152)	(2,900)	(3,000)	(3,500)
Investments	-	-	-	-
Others	(641)	411	459	510
Financing	7,802	(1,840)	(2,033)	(2,407)
Dividend payments	(1,088)	(1,840)	(2,033)	(2,407)
Proceeds from borrowings	1,820	500	500	500
Loan repayment	(2,212)	(500)	(500)	(500)
Others/interest paid	9,283	-	-	-
Net cash inflow (outflow)	9,100	1,758	1,943	1,969
Beginning cash & cash equivalent	3,444	12,487	14,246	16,188
Changes due to forex impact	(57)	-	-	-
Ending cash & cash equivalent	12,487	14,246	16,188	18,158

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	20.4	20.9	20.8	20.6
Pre-tax margin	15.6	15.9	16.9	16.9
Net margin	13.0	13.1	13.9	13.9
ROA	9.6	9.2	9.8	10.2
ROE	16.2	14.2	15.0	15.7
Growth				
Turnover	11.0	10.0	15.0	15.0
EBITDA	28.4	12.9	14.4	14.1
Pre-tax profit	31.2	12.0	21.8	15.4
Net profit	29.9	11.1	21.8	15.4
Net profit (adj.)	35.7	14.0	15.5	15.4
EPS	15.2	11.1	21.8	15.4
Leverage				
Debt to total capital	8.2	7.6	6.9	6.2
Debt to equity	12.8	11.7	10.6	9.6
Net debt/(cash) to equity	(34.2)	(36.6)	(38.3)	(39.3)
Interest cover (x)	50.0	583.1	(19.4)	(19.3)