

iFlytek Inc (002230 CH)

3Q26: Revenue Below Expectations; Elevated R&D Spending Weighs On Profitability

Highlights

- iFlytek's 3Q26 revenue missed expectations, rising 8.0% yoy to Rmb6.56b amid its ongoing business refocus. Gross margin eased 0.4ppt yoy to 40.0%. Attributable net profit rose 31.0% yoy to Rmb226m, supported by non-recurring investment gains and government grants, while net loss excluding non-recurring items reached Rmb126m as elevated R&D and selling expenses weighed on profitability. Further Spark upgrades are scheduled for 22 October.
- Downgrade to SELL with a lower target price of Rmb30.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	QOQ	YOY	UOBKH	Var	Cons	Var
Total Net revenue	6,078	6,349	6,564	3%	8.0%	7,225	-9.1%	7,150	-8.2%
COGS	3,624	3,784	3,941	4%	8.7%	4,228	-6.8%		
Gross profits	2,454	2,565	2,624	2%	6.9%	2,996	-12.4%	2,977	-11.9%
GPM	40.4%	40.4%	40.0%	(0.4 ppt)	-40.9%	41.5%	(1.5 ppt)		
Operating expenses	2,587	2,933	2,977	2%	15.1%	2,998	-0.7%		
Sales tax	43	45	39	-13%	-10.1%	72	-45.9%		
Marketing expenses	1,141	1,237	1,323	7%	16.0%	1,264	4.7%		
G&A	282	296	299	1%	6.0%	361	-17.2%		
R&D	1,120	1,355	1,316	-3%	17.4%	1,300	1.2%		
Operating profit	(132)	(368)	(354)	4%	-167.4%	(2)	-18639.0%		
OPM	-2%	-6%	-5%	0%	-321.1%	-0.03%	(5.4 ppt)		
Net profit	172	(34)	226	762%	31.0%	190	18.8%		
Adjusted net profit	26	(207)	(126)	39%	-580.7%	124	-202.0%	127	-199.3%
NPM	0.4%	-3%	-1.9%	1.3 ppt	-235.3%	1.7%	(3.6 ppt)	1.8%	(3.7 ppt)

Source: iFlytek, UOB Kay Hian

Analysis

- Revenue growth picked up in 3Q26 but fell short of our forecast.** iFlytek Inc's (iFlytek) revenue rose 8.0% yoy to Rmb6.56b, 8-9% below our forecast of Rmb7.23b, bringing 9M26 revenue to Rmb18.19b, up 7.1% yoy. Management is taking a more selective approach to government projects, scaling back the smart city business while focusing on smart education and smart medical services. G-end revenue declined 2.4% yoy as the smart city business contracted, while smart education and smart medical revenue each grew more than 20% yoy. Meanwhile, the company continues to strengthen its consumer offerings and deepen enterprise penetration.
- Higher operating expenses weighed on profitability.** 3Q26 gross margin eased 0.4ppt yoy to 40.0%, while operating expenses expanded 15.1% yoy to Rmb2.98b. R&D and selling expenses increased 17.4% and 16.0% yoy, respectively, to Rmb1.32b each, widening the operating loss to Rmb354m. Attributable net profit rose 31.0% yoy to Rmb226m, supported by Rmb352m of non-recurring gains, including Rmb248m in investment gains and Rmb165m in government grants. Excluding non-recurring items, iFlytek swung to a net loss of Rmb126m from a net profit in 3Q25.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	23,343	27,105	27,997	33,984	37,242
EBITDA	1,281	1,159	-366	3,045	3,422
Operating profit	378	271	-1,464	1,848	2,182
Net profit (rep./act.)	560	839	39	2,390	2,693
Net profit (adj.)	560	339	-638	2,390	2,693
EPS (fen)	23.5	14.0	(25.7)	96.4	108.6
PE (x)	153.6	258.7	n.a.	37.5	33.3
P/B (x)	4.7	4.4	4.4	4.1	3.8
EV/EBITDA (x)	71.9	79.5	n.a.	30.3	26.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	2.4	3.1	0.1	7.0	7.2
Net debt/(cash) to equity (%)	22.4	25.1	23.2	19.6	15.3
Interest cover (x)	10.5	7.7	(4.6)	n.a.	n.a.
ROE (%)	3.2	4.6	0.2	12.2	12.8
Consensus net profit (Rmbm)	-	-	1,080.0	1,442.8	2,016.6
UOBKH/Consensus (x)	-	-	-0.59	1.66	1.34

Source: iFlytek, Bloomberg, UOB Kay Hian

Analyst(s)

Julia Pan

julianpan@uobkh.com

+86 21 5404 7225 ext 808

SELL (Downgraded)

Share Price	Rmb36.12
Target Price	Rmb30.00
Upside	-16.9%
Previous TP	Rmb39.00

Stock Data

Sector	Information Technology
Bloomberg ticker	002230 CH
Shares issued (m)	2,402.1
Market cap (US\$m)	86,763.1
Market cap (US\$m)	12,982.7
3-mth avg daily t'over (US\$m)	173.3

Price Performance (%)

52-week high/low			HK\$67.50/HK\$35.48	
1mth	3mth	6mth	1yr	YTD
(6.1)	(11.8)	(25.1)	(29.6)	(28.2)

Major Shareholders (%)

China Mobile Communications Group Co Ltd	9.65
Liu Qingfeng	5.34
China Asset Management Co Ltd	3.45

Balance Sheet Metrics

FY26 NAV/Share (Rmb\$)	8.14
FY26 Net Debt/Share (Rmb\$)	1.89

Price Chart



Source: Bloomberg

Company Description

iFlytek Inc specialises in speech intelligence and AI technology. It also develops chip products, voice messaging software and e-government system integration software

- **R&D investment exceeded 25% of revenue.** iFlytek's total R&D investment exceeded Rmb1.7b in 3Q26, up nearly Rmb0.4b yoy and representing more than 25% of revenue, as it continued investing in independently controlled AI technologies. Management highlighted ongoing investment in foundation-model development and the expansion of integrated hardware and software offerings as drivers of higher strategic spending. The balance of capitalised development expenditure rose 32.0% from end-25 to Rmb2.23b, which the company attributed to increased R&D investment during the period.
- **Cash collection improved and 9M26 operating cash flow turned positive.** Sales collections reached Rmb7.79b in 3Q26, up more than Rmb0.7b yoy, while 9M26 operating cash flow reached Rmb264m, up 115.3% yoy, despite higher spending on model R&D and memory-chip stocking. Inventory rose 58.1% from end-25 to Rmb4.79b, mainly due to increases in raw materials and finished goods. Cash balances jumped 83.5% from end-25 to Rmb4.50b, mainly supported by fundraising, including the Rmb4.0b placement whose shares were listed in April. Equity attributable to shareholders rose 21.4% from end-25 to Rmb22.82b.
- **Share buyback under way.** Under the Rmb100m-200m buyback programme approved on 27 Jul 26, iFlytek had repurchased 750,000 shares for Rmb30.0m, excluding transaction fees, by 30 Sep 26 at Rmb39.53-40.42 per share. The repurchased shares will be used for equity incentives or employee share ownership plans.
- **Further Spark upgrades scheduled for 22 Oct 26.** iFlytek plans to launch its new "cloud + device" Spark model, supported by fully domestic computing infrastructure, alongside upgrades to its integrated cloud-device solutions and multimodal human-machine interaction. The company will also advance its "Token + Agent" strategy to further develop the Spark ecosystem, with management outlining a shift from providing access to AI capabilities towards working with ecosystem partners to jointly create value.

Valuation/Recommendation

- **Downgrade to SELL on iFlytek with a lower target price of Rmb30.00,** based on DCF valuation and implying 8x/7x average 2026/27 EV/sales. We turn more cautious on the company given deteriorating underlying profitability, sustained R&D expenditure and competitive pressure, alongside limited visibility on AI monetisation and returns on investment. iFlytek is currently trading at 9.8x 2026 EV/Sales.

Earnings Revision/Risk

- We cut our 2026 revenue forecast by 2.3% to Rmb28b, implying a 3% yoy growth, reflecting the continued scaling back of the smart city business. We lower our 2026 adjusted earnings forecast to a net loss of Rmb638m, reflecting lower revenue and higher R&D and selling expenses.
- **Risks:** a) slower-than-expected education contract growth, b) intensified competition if bigger internet players enter the market and scale up, c) high investment in AIGC development and weak expense control, and d) the ongoing US chip ban.

Share Price Catalyst

- LLM product launch, b) fast AI technology integration in smart education and business progress in smart medical care, and c) strong penetration in the areas of smart education and smart city.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	27,105.4	27,997.1	33,983.7	37,242.0
EBITDA	1,158.7	(365.9)	3,045.2	3,421.9
Deprec. & amort.	887.9	1,097.9	1,197.2	1,240.3
EBIT	270.9	(1,463.9)	1,848.0	2,181.7
Total other non-operating income	1,401.6	1,246.3	720.0	720.0
Associate contributions	(928.0)	134.3	0.0	0.0
Net interest income/(expense)	(151.2)	(79.2)	17.7	29.6
Pre-tax profit	593.3	(162.5)	2,585.7	2,931.3
Tax	256.2	179.9	(103.4)	(146.6)
Minorities	(10.1)	21.8	(92.0)	(92.0)
Net profit	839.4	39.2	2,390.3	2,692.7

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	3,208.1	2,528.4	3,099.7	3,120.6
Pre-tax profit	593.3	(162.5)	2,585.7	2,931.3
Tax	256.2	179.9	(103.4)	(146.6)
Deprec. & amort.	887.9	1,097.9	1,197.2	1,240.3
Associates	928.0	(134.3)	0.0	0.0
Working capital changes	(4,028.1)	5,172.5	(11,306.9)	5,604.8
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	4,570.8	(3,625.2)	10,727.1	(6,509.2)
Investing	(3,519.4)	(2,150.0)	(1,720.0)	(1,376.0)
Capex (maintenance)	(3,150.6)	(2,150.0)	(1,720.0)	(1,376.0)
Investment	1,825.3	1,825.3	1,825.3	1,825.3
Proceeds from sale of assets	(2,194.1)	(1,825.3)	(1,825.3)	(1,825.3)
Others	158.3	158.3	158.3	158.3
Financing	0.0	0.0	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	158.3	158.3	158.3	158.3
Others/interest paid	(153.0)	536.7	1,538.0	1,902.9
Net cash inflow (outflow)	3,387.4	2,451.2	2,805.9	3,202.8
Beginning cash & cash equivalent	(3.9)	(0.0)	0.0	0.0
Changes due to forex impact	3,230.4	2,987.9	4,344.0	5,105.7
Ending cash & cash equivalent	3,208.1	2,528.4	3,099.7	3,120.6

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	5,976.1	6,365.6	6,462.4	6,354.0
Other LT assets	13,451.5	14,114.0	14,540.1	14,784.2
Cash/ST investment	2,451.2	2,805.9	3,202.8	3,840.2
Other current assets	22,978.3	19,689.3	25,632.7	23,282.5
Total assets	44,857.1	42,974.9	49,837.9	48,260.9
ST debt	3,647.0	3,647.0	3,647.0	3,647.0
Other current liabilities	14,948.1	13,064.6	18,428.2	15,173.5
LT debt	3,525.7	3,525.7	3,525.7	3,525.7
Other LT liabilities	2,873.9	2,873.9	2,873.9	2,873.9
Shareholders' equity	18,794.5	18,817.6	20,225.0	21,810.5
Minority interest	1,068.0	1,046.2	1,138.2	1,230.2
Total liabilities & equity	44,857.1	42,974.9	49,837.9	48,260.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	4.3	(1.3)	9.0	9.2
Pre-tax margin	2.2	(0.6)	7.6	7.9
Net margin	3.1	0.1	7.0	7.2
ROA	1.9	0.1	5.2	5.5
ROE	4.6	0.2	12.2	12.8
Growth				
Turnover	16.1	3.3	21.4	9.6
EBITDA	(9.6)	n.a.	n.a.	12.4
Pre-tax profit	159.0	n.a.	n.a.	13.4
Net profit	49.8	(95.3)	5,992.4	12.7
Net profit (adj.)	(39.4)	n.a.	n.a.	12.7
EPS	(40.6)	n.a.	n.a.	12.7
Leverage				
Debt to total capital	26.5	26.5	25.1	23.7
Debt to equity	38.2	38.1	35.5	32.9
Net debt/(cash) to equity	25.1	23.2	19.6	15.3
Interest cover (x)	7.7	(4.6)	n.a.	n.a.

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at [this link](#) or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."