AVIC Jonhon (002179.SZ): Downgrade to Neutral on continued defense margin pressure despite emerging data center opportunities

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We downgrade AVIC Jonhon to Neutral from Buy given limited TP-implied upside and a more balanced risk-reward profile. Since being added to our Buy list on Aug 6, 2025, the share price has been flat, versus CSI300 Index +18% and our China Industrial Tech coverage average of +57%. We think the relative underperformance mainly reflects softer-than-expected defense demand trends and weaker margin progression.

Looking ahead, we expect the near-term operating environment to remain relatively stable but without meaningful acceleration. On the defense side, management indicated that 2026 demand conditions are likely to remain broadly stable, with structural shifts occurring within the market: newer areas such as unmanned systems and deep-sea applications continue to grow, while some traditional equipment installation-related demand categories have not shown significant growth and in certain cases may be slightly lower. Meanwhile, we forecast firmwide GPM at 29.8% in 2026E, largely flat versus 29.7% in 2025E, with defense GPM remaining around 35%, below the 45% level seen in 2024. We believe profitability could continue to face pressure from elevated silver and copper prices, while price pass-through mechanisms and product redesign flexibility appear relatively limited in defense applications. In addition, growth in the EV-related business also appears to be moderating this year, which may weigh on overall margin mix.

At the same time, we continue to view the company's investments into emerging growth areas positively. In data center-related applications, the company is currently supplying three categories of products and continues to expand capacity to support future demand. Management expects optical-module-related products to potentially achieve rapid growth this year, while high-speed and liquid-cooling-related products, including connectors, manifolds, cold plates, and tubing systems, could continue to scale meaningfully into next year. While contribution remains relatively small at this stage and still in the early ramp-up phase, we view these businesses as important areas to monitor over the medium term.

Estimates and rating change

We maintain our 2025-30E EPS estimates unchanged, and our 12-month TP remains at Rmb37.5, based on 22x 2027E P/E (unchanged).

Upside risks

1. **Faster-than-expected liquid cooling demand:** If liquid-cooling adoption and related infrastructure demand accelerate faster than our expectations, this could positively impact revenue and earnings growth.
2. **Faster-than-expected overseas expansion:** Overseas revenue grew 9% yoy in 1H24 despite weaker domestic demand, although overseas sales still accounted for only 6% of total revenue. If overseas expansion, particularly in non-US markets, progresses faster than expected, this could provide incremental upside to our forecasts.

Downside risks

1. **Weaker-than-expected defense spending and procurement activity**: If defense-related procurement remains soft for longer than expected, or if development timelines for next-generation platforms are delayed, this could pressure military connector demand.
2. **Intensifying competition in civil markets:** Competition in EV connectors, liquid cooling, and other faster-growing civil applications could increase as both domestic and global connector makers expand into these markets. If competition becomes more intense than expected, this could pressure both market share and profitability.

Exhibit 1: AVIC Jonhon financial summary

Income statement (Rmb mn)	2024	2025	2026E	2027E	2028E	2029E	2030E
Total revenue	20,686	21,386	23,570	26,459	30,186	34,854	40,514
Cost of goods sold	(13,114)	(15,143)	(16,553)	(18,401)	(20,833)	(23,914)	(27,637)
SG&A	(3,974)	(3,461)	(3,889)	(4,260)	(4,739)	(5,333)	(6,028)
R&D	-	-	-	-	-	-	-
Other operating profit/(expense)	(326)	(450)	(259)	(238)	(272)	(314)	(365)
EBITDA	3,825	3,013	3,635	4,419	5,291	6,348	7,659
Depreciation & amortization	(554)	(681)	(766)	(858)	(949)	(1,054)	(1,175)
EBIT	3,272	2,332	2,869	3,560	4,342	5,294	6,484
Interest income	119	69	116	128	128	131	133
Interest expense	(28)	(28)	(35)	(35)	(35)	(35)	(35)
Income/(loss) from uncons. subs.	58	79	87	96	105	116	128
Others	344	239	230	253	278	306	337
Pretax profits	3,764	2,691	3,267	4,002	4,819	5,812	7,046
Income tax	(216)	(341)	(159)	(229)	(300)	(384)	(491)
Minorities	(194)	(188)	(163)	(196)	(13)	(282)	(338)
Net income pre-preferred dividends	3,354	2,162	2,945	3,578	4,285	5,146	6,218
Preferred dividends	-	-	-	-	-	-	-
Net income (pre-exceptionals)	3,354	2,162	2,945	3,578	4,285	5,146	6,218
Post-tax exceptionals	-	-	-	-	-	-	-
Net income	3,354	2,162	2,945	3,578	4,285	5,146	6,218
EPS (basic, pre-except) (Rmb)	1.58	1.03	1.40	1.70	2.04	2.45	2.96
EPS (basic, post-except) (Rmb)	1.58	1.03	1.40	1.70	2.04	2.45	2.96
EPS (diluted, post-except) (Rmb)	1.58	1.03	1.40	1.70	2.04	2.45	2.96
DPS (Rmb)	0.80	0.55	0.70	0.85	1.02	1.23	1.48
Dividend payout ratio (%)	50.52	53.34	50.00	50.00	50.00	50.00	50.00

Balance sheet (Rmb mn)	2024	2025	2026E	2027E	2028E	2029E	2030E
Cash & equivalents	9,122	7,256	8,017	7,996	8,173	8,322	8,514
Accounts receivable	12,648	11,718	12,914	14,497	16,539	19,097	22,198
Inventory	4,699	6,097	5,896	6,554	7,420	8,517	9,843
Other current assets	4,574	6,219	6,219	6,219	6,219	6,219	6,219
Total current assets	31,043	31,289	33,046	35,266	38,352	42,155	46,774
Net PP&E	8,383	9,415	10,359	11,412	12,334	13,431	14,747
Net intangibles	846	861	802	742	682	623	563
Total investments	354	383	470	566	671	787	915
Other long-term assets	621	579	579	579	579	579	579
Total assets	41,247	42,527	45,255	48,565	52,618	57,576	63,578
Accounts payable	6,574	7,905	8,641	9,605	10,875	12,483	14,427
Short-term loans	436	855	855	855	855	855	855
Other current liabilities	7,707	6,677	6,997	7,313	7,666	8,097	8,633
Total current liabilities	14,716	15,437	16,492	17,773	19,396	21,435	23,914
Long-term debt	-	-	-	-	-	-	-
Other long-term liabilities	1,278	954	954	954	954	954	954
Total long-term liabilities	1,278	954	954	954	954	954	954
Total liabilities	15,994	16,390	17,446	18,727	20,350	22,389	24,868
Preferred shares	-	-	-	-	-	-	-
Total common equity	23,598	24,268	25,741	27,530	29,672	32,245	35,354
Minority interest	1,655	1,869	2,069	2,309	2,596	2,941	3,356
Total liabilities & equity	41,247	42,527	45,255	48,565	52,618	57,576	63,578
BVPS	11.14	11.55	12.26	13.11	14.13	15.35	16.83

Cash flow statement (Rmb mn)	2024	2025	2026E	2027E	2028E	2029E	2030E
Net income pre-preferred dividends	3,354	2,162	2,945	3,578	4,285	5,146	6,218
D&A add-back	554	681	766	858	949	1,054	1,175
Minorities interests add-back	194	188	163	196	235	282	338
Net (inc)/dec working capital	(2,189)	(1,887)	(260)	(1,276)	(1,639)	(2,047)	(2,483)
Other operating cash flow	238	418	(87)	(96)	(105)	(116)	(128)
Cash flow from operations	2,150	1,562	3,527	3,260	3,724	4,319	5,119
Capital expenditures	(1,543)	(1,582)	(1,650)	(1,852)	(1,811)	(2,091)	(2,431)
Acquisitions	-	-	-	-	-	-	-
Divestitures	160	-	-	-	-	-	-
Others	(80)	(66)	-	-	-	-	-
Cash flow from investments	(1,462)	(1,516)	(1,650)	(1,852)	(1,811)	(2,091)	(2,431)
Dividends paid (common & pref)	(1,322)	(1,836)	(1,153)	(1,473)	(1,789)	(2,142)	(2,573)
Inc/(dec) in debt	(53)	(27)	-	-	-	-	-
Common stock issuance (repurchase)	-	-	-	-	-	-	-
Other financing cash flows	(6)	(49)	37	44	53	64	76
Cash flow from financing	(1,380)	(1,912)	(1,116)	(1,428)	(1,736)	(2,079)	(2,497)
Total cash flow	(693)	(1,866)	761	(21)	177	149	192

Ratios	2024	2025	2026E	2027E	2028E	2029E	2030E
ROE (%)	15.2	9.0	11.8	13.4	15.0	16.6	18.4
ROA (%)	8.7	5.2	6.7	7.6	8.5	9.3	10.3
Cash conversion days	148.5	163.6	140.5	131.6	130.6	130.0	129.6
Inventory days	123.7	130.1	132.2	123.5	122.4	121.6	121.2
Receivables days	185.2	207.9	190.7	189.1	187.6	186.6	186.0
Payable days	160.4	174.5	182.4	181.0	179.4	178.3	177.7
Net debt/equity (%)	(34.4)	(24.5)	(25.8)	(23.9)	(22.7)	(21.2)	(19.8)
Interest cover - EBIT (X)	116.1	82.0	81.4	101.1	123.3	150.3	184.1

Growth & margins (%)	2024	2025	2026E	2027E	2028E	2029E	2030E
Sales growth	3.0	3.4	10.2	12.3	14.1	15.5	16.2
EBITDA growth	4.4	(21.2)	20.6	21.6	19.7	20.0	20.7
EBIT growth	0.4	(28.7)	23.0	24.1	22.0	21.9	22.5
Net income growth	0.4	(35.6)	36.3	21.5	19.8	20.1	20.8
EPS growth	0.5	(35.0)	36.3	21.5	19.8	20.1	20.8
Gross margin	36.6	29.2	29.8	30.5	31.0	31.4	31.8
EBITDA margin	18.5	14.1	15.4	16.7	17.5	18.2	18.9
EBIT margin	15.8	10.9	12.2	13.5	14.4	15.2	16.0
Net margin	16.2	10.1	12.5	13.5	14.2	14.8	15.3

Source: Company data, Goldman Sachs Global Investment Research

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Investment thesis, Valuation methodology and Risks

Investment thesis - Avic Jonhon
AVIC Jonhon is a domestic leader in optical and electrical connectors. Approximately half of revenue is exposed to military applications, which we continue to view as an important long-term market given ongoing demand for defense electronics and next-generation platforms, although not seeing near-term demand acceleration. The remainder of sales are generated from broader civil manufacturing industries including telecom, EV, data center, rail, and other industrial applications. We expect data center-related products and EV connectors to remain key growth contributors over the medium term, supported by liquid-cooling adoption and broader electrification trends. However, we also expect the rising contribution from civil businesses to weigh on blended profitability given lower margins relative to the defense segment. Overall, we view the company's current valuation as broadly reflecting both the medium-term growth opportunities and the near-term operating uncertainties, and therefore have a Neutral rating.

Price Target Risks and Methodology - AVIC Jonhon
Valuation: Our 12-month TP is Rmb37.5, based on 22x 2027E P/E.

Upside risks: Faster-than-expected liquid cooling demand; Better-than-expected margin recovery.

Downside risks: Slower-than-expected defense demand recovery; Intensifying competition in civil connector and liquid cooling markets; Slower-than-expected ramp-up in new growth areas

002179.SZ	12m Price Target: **Rmb37.50**	Price: **Rmb38.71**	Downside: **3.1%**

Neutral

Market cap: Rmb82.0bn / $12.1bn
Enterprise value: Rmb76.9bn / $11.3bn
3m ADTV: Rmb1.6bn / $232.4mn
China
China Industrial Tech & Machinery
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn)	21,386.1	23,570.4	26,459.2	30,186.1
EBITDA (Rmb mn)	3,012.8	3,634.7	4,418.8	5,291.5
EPS (Rmb)	1.03	1.40	1.70	2.04
P/E (X)	37.6	27.6	22.7	19.0
P/B (X)	3.3	3.2	3.0	2.7
Dividend yield (%)	1.4	1.8	2.2	2.6
N debt/EBITDA (ex lease,X)	(2.1)	(2.0)	(1.6)	(1.4)
CROCI (%)	15.8	15.3	16.7	17.8
FCF yield (%)	(0.0)	2.3	1.7	2.3

	12/25	3/26E	6/26E	9/26E
EPS (Rmb)	0.20	0.19	0.35	0.36

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 27 May 2026 close.

Disclosure Appendix

Reg AC

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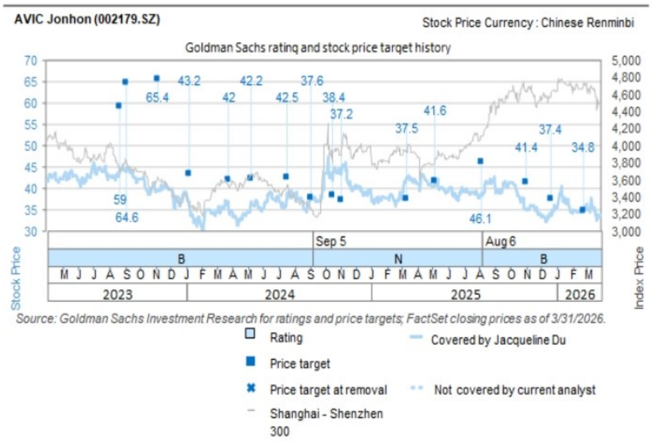
Price target and rating history chart(s)



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Target price history table(s)
AVIC Jonhon (002179.SZ)

Date of report	Target price (Rmb)	Closing price (Rmb)
05-May-26	37.50	36.56
03-Apr-26	38.20	33.09
24-Feb-26	34.80	34.88
22-Dec-25	37.40	34.18
03-Nov-25	41.40	35.01
06-Aug-25	46.10	38.87
07-May-25	41.60	41.94
12-Mar-25	37.50	42.28
04-Nov-24	37.20	43.95
18-Oct-24	38.40	43.88
05-Sep-24	37.60	37.72
18-Jul-24	42.50	38.11
09-May-24	42.20	36.89
25-Mar-24	42.00	36.02
08-Jan-24	43.20	35.68
07-Nov-23	65.40	39.33
06-Sep-23	64.60	44.70
23-Aug-23	59.00	43.65

Price targets shown in table(s) are unadjusted for corporate actions.

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