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Horizon Robotics | Asia Pacific

Impact from OEMs' switch to in-house chip solutions – it's not a one/zero situation

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Horizon Robotics (9660.HK, 9660 HK)

China Autos & Shared Mobility | China

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	HK$10.00
Up/downside to price target (%)	89
Shr price, close (May 29, 2026)	HK$5.29
52-Week Range	HK$11.32-5.07
Sh out, dil, curr (mn)	12,924
Mkt cap, curr (mn)	Rmb59,163.5
EV, curr (mn)	Rmb50,213.5
Avg daily trading value (mn)	HK$1,413

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (Rmb)**	(0.81)	(0.21)	(0.07)	0.10
Revenue, net (Rmb mn)	3,758	6,329	9,381	13,300
EBITDA (Rmb mn)	(3,707)	(2,402)	(417)	1,994
ModelWare net inc (Rmb mn)	(10,469)	(2,716)	(926)	1,277
P/E	NM	NM	NM	46.3
ROE (%)	(87.9)	(21.7)	(8.6)	11.7
EV/EBITDA	NM	NM	NM	25.5

framework
** = Based on consensus methodology

Key Takeaways

- As more OEMs pursue in-house chip development, Horizon provided additional details on how it would navigate the paradigm shift with a licensing business model.
- This model resembles that of a semiconductor IP company. Horizon charges licensing/royalties fees, which carry higher margins than its traditional chip sales.
- In-house chip development is the future trend, but management expects growing demand for its BPU IP, which could also support adoption of HSD software.
- Management mentioned that J6M volumes are not affected this year. Still, broader auto market weakness is likely to pull 1H26 growth below the 60% YoY target.

From chip sales to IP licensing: Management noted that its BPU IP can be licensed to OEMs developing in-house chips, generating:

- Upfront licensing fees and
- Recurring royalties based on shipments.

Projects are already ongoing. The licensing model generates nearly 100% gross margins vs. ~40-50% for chip sales. That said, management did not disclose the revenue contribution of this model relative to its traditional chip sales.

Management emphasized that third-party suppliers are expected to remain relevant – albeit under different collaboration models, even as OEMs' self-developed chips become an industry trend. Meanwhile, greater adoption of self-developed chips could drive demand for Horizon's software through design-ins based on its BPU architecture. Furthermore, not all automakers have the capability or economic rationale to develop chips in-house, given the lack of scale, the challenge of keeping pace with rapidly evolving chip specifications, and the complexity of integrating software and hardware.

Valuation Methodology and Risks

Horizon Robotics (9660.HK)

Probability-weighted DCF, with probability weightings of 25% bull case, 50% base case, 25% bear case. The balanced probabilities in our bull case vs. bear case reflect our constructive view on Horizon gaining volume market share among ADAS+AD players in China, but we are also aware of rising competition and potential geopolitical headwinds in the smart driving business. Key DCF assumptions: 12.2% WACC (1.9 beta, 3% long-term growth rate).

Risks to Upside

- Faster-than-expected ADAS/AD adoption growth in China
- Delays/failure in OEMs' in-house hardware design
- Narrowing access to other solutions providers in China
- Expanding customer base with additional key customers

Risks to Downside

- Slower-than-expected ADAS/AD adoption in China
- Supply chain disruption
- OEMs' successful in-house hardware design initiatives
- Vehicle sales pressure from key customers in China