Jiangsu Hengli Hydraulic - A

Global China Summit Takeaways: Accelerating new drivers and global expansion

Overweight

601100.SS, 601100 CH
Price: Rmb112.09
28 May 2026
Price Target: Rmb121.00
PT End Date: 30 Jun 2027

Infrastructure, Industrials & Transport

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Hengli Hydraulic participated in the JPM Global China Summit (May 20-22), providing a comprehensive update on business momentum, new growth drivers, and strategic priorities for 2026 and beyond. Key takeaways from the summit reflect a more bullish tone from management compared to the 1Q26 briefing, with stronger confidence in the scale-up of new business lines, accelerating order momentum, and a clear path to margin improvement and global expansion. We maintain our OW rating on the shares.

- **Management commentary at the China Summit was incrementally more positive**, with a focus on the rapid ramp-up of FA/ball screw and robotics, robust order visibility, and a disciplined approach to capacity and global expansion. The company is seeing demand and order flow in new business lines far above current capacity, and is targeting multi-year growth as new capacity comes online. Traditional hydraulic segments remain strong, and management is confident in both margin improvement and the ability to capture high-value opportunities in global and emerging markets.

- **FA/ball screw business is entering a high-growth phase, with order backlog and capacity expansion setting up multi-year scale and margin ramp.** Management highlighted that downstream demand for FA/ball screw is exceptionally strong, led by machine tools, 3D printing, semiconductor equipment, and AI-related manufacturing. Orders far exceed current capacity, with 2Q output set to double and further expansion planned for 2H26. Management now expects FY26 revenue of Rmb300-400MM, with a target of Rmb1B in FY27 and potential to double again by 2028-29 as capacity is deployed. Gross margin for this business is expected to reach or exceed group levels over time, with profitability supported by cost advantages in materials, efficiency, and product longevity. As scale builds, management targets a rapid margin ramp, with gross margin approaching 20% at Rmb1B revenue and further upside as volume grows.

- **Robotics business is scaling rapidly, with mass production and global leadership in core components for US customers.** Management reported that robotics shipments are currently several hundred sets per month, with plans to reach several thousand in 2H26. The company is preparing for mass production, with annual capacity for 100,000-200,000 sets and land secured in Mexico for future million-unit scale. Hengli is the largest global supplier of core components to a major US robotics customer, having secured a PPAP framework agreement with a ≥70% share. The customer's V3 version is now in mass production, with motors and a third product line to be added in 2H26. FY26 robotics revenue is projected at c.Rmb100MM, with profitability expected as scale is achieved. US customer feedback is highly positive, and Hengli's supply-chain position is seen as irreplaceable.

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- **Mexico factory and overseas expansion are progressing, with a clear path to profitability as global demand scales.** The Mexico factory is ramping up, with FY26 revenue expected at Rmb30-50MM. Losses are expected to widen to Rmb100-200MM in FY26 due to high depreciation and initial inefficiencies, but management targets a turnaround in FY27 as revenue doubles and fixed costs are absorbed. The facility is now in the equipment installation and capacity ramp phase, with future plans to support both robotics and traditional hydraulic product lines. Management is also considering further overseas expansion in India and Brazil to support global growth and supply chain security.

- **Aerospace/space technology and high-end industrial applications are emerging as new growth frontiers**, with little competition and significant market potential. Management identified aerospace as a future high-growth area, with Hengli already supplying rocket launch platforms and attitude control devices to domestic customers. Single-unit values range from hundreds of thousands to Rmb20MM, and the company faces little competition in this space. Management sees significant market potential and plans to expand further into aerospace applications, leveraging its core motion control technologies and engineering expertise.

- **Traditional hydraulic segments remain a foundation of growth, with strong OEM relationships and margin outperformance.** Management expects the excavator business to grow 30-40% Y/Y, among which pump/valve business is expected to grow 40-50% Y/Y in FY26. Hengli is Caterpillar’s largest global cylinder supplier, now supplying new products that account for 60-70% of Caterpillar’s global procurement. The company targets Rmb1B in Caterpillar-related revenue this year, with new products offering higher profitability and significant future upside. Gross margin for Caterpillar-related excavator products is 43-45%, above the group average, and management continues to prioritize high-value, high-growth opportunities in hydraulics, robotics, and international markets.

Investment Thesis

Hengli Hydraulic (Hengli) is a leading supplier of excavator hydraulic cylinders in China, with a market share exceeding 40% and a strong position in the pumps and valves market. The company is well positioned to leverage its leadership in the domestic cylinder market, in our view, with opportunities for further market share gains in segments with relatively low penetration, such as larger-sized excavator cylinders, valves and pumps. Hengli has strategically prioritized business diversification since 2022 to reduce its reliance on excavator products and supply chain concentration within China. The company's expansion into linear motion products, particularly in the humanoid robot and machine tool segments, is expected to contribute to revenue. This aligns with Hengli's strategy to tap into high-growth areas and capitalize on the increasing demand for precision components in advanced manufacturing processes.

Valuation

Our DCF-based Jun-27 PT is Rmb121. The WACC rate used in our DCF analysis is 8.4%, with assumptions as follows: risk-free rate: 3.0%; market risk premium: 6.8%; Beta: 1.0x (based on Bloomberg); after-tax cost of debt: 4.3%; terminal growth: 5%; and target gearing: 25%.

Risks to Rating and Price Target

Key downside risks include: (1) lower-than-expected excavator sales volumes; (2) slower-than-expected market share gains for pumps and valves; (3) a deterioration in GP margin; and (4) escalating trade tensions and higher-than-expected tariffs for China's products.

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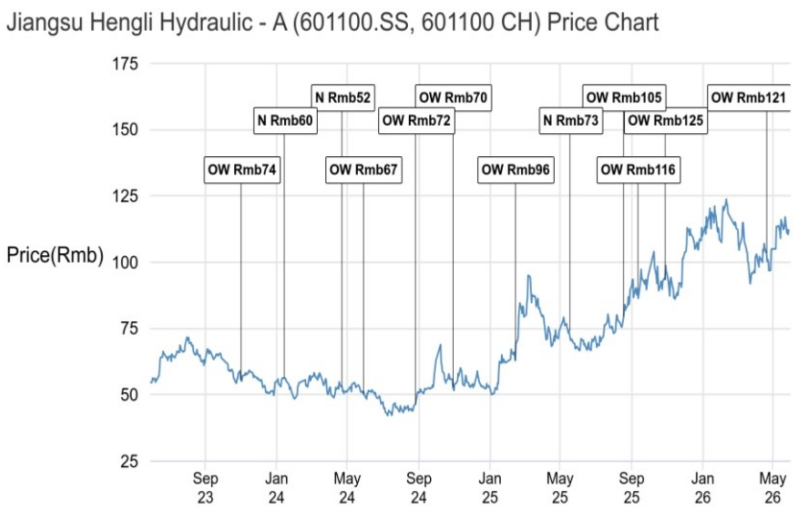

Date	Rating	Price (Rmb)	Price Target (Rmb)
02-Nov-23	OW	55.38	74
15-Jan-24	N	56.25	60
23-Apr-24	N	52.93	52
29-May-24	OW	50.43	67
27-Aug-24	OW	46.48	72
30-Oct-24	OW	53.00	70
14-Feb-25	OW	62.95	96
19-May-25	N	74.20	73
19-Aug-25	OW	79.50	105
12-Sep-25	OW	89.75	116
29-Oct-25	OW	93.45	125
21-Apr-26	OW	103.32	121

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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