08 Jul 2026 03:54:31 ET | 16 pages

Leader Drive (688017.SS)

Shifting Focus to Humanoid Robot from Industrial Robot; Buy

CITI'S TAKE

We believe that Leader Drive (LD) is gradually switching its business focus from industrial robot to humanoid robot (and cobot), which is evidenced by the fact that **1)** LD formed a humanoid robot joint JV with Minth (425.HK, covered by Kyle Wu) in the US in Feb-26 and **2)** LD established a humanoid precision components JV with SKF (SKFb.ST, covered by Klas Bergelind) in China in Jul-26. For industrial robot, LD targets the "**Big Four**" and less price sensitive clients so that it is no longer the largest harmonic reducer supplier to Estun (002747.SZ/2715.HK), China's largest industrial robot maker. We are positive about LD's strategy shift as the humanoid robot joint is an evolving market with less competition and faster growth potentially. We view today's share price correction as an enhanced buying opportunity ahead of the humanoid robot production ramp of its potential US client.

JV with SKF – Our checks show that the JV will mainly manufacture bearings used on humanoid robots, including crossed roller bearing (ideal for hip or shoulder joint), flexible bearing (for harmonic reducer's flexspline), four-point contact ball bearing, etc. A humanoid robot could use at least 60-70 units of bearings in total, and the dollar content could vary from 5% to 15% of a humanoid robot's BOM (Bill of Materials), depending on design.

Production ramp of US client – Our supply chain check suggests that LD's potential US humanoid robot client, Tesla Optimus, is about to ramp up its humanoid robot production momentarily, and the production volume could be ~1k/~19k in 3Q/4Q26 although this is slightly later than our previous industry checks. If the US client could meet 20k production volume in 2026, its Chinese suppliers estimate the production volume to become 10-fold (~200k) in 2027, based on our conversations with suppliers.

Our view – We reiterate our Buy rating on LD, expecting its humanoid robot revenue contribution to increase to 40%-50% in 2026E from ~20% in 2025. We also like Hengli Hydraulic (601100.SS, planetary roller screw) for its humanoid optionality.

What's next? – 1) Citi Industrial Team's joint call at 5:30pm HKT / 10:30am CET, 8 July: Humanoid Robots: Industry update as SKF joins the supply chain (Webcast Link | Video Link). **2)** Laifual Harmonic (3952.HK) Post IPO Business Update Call (Mandarin) at 10:00am HKT, 10 July. (Register)

Earnings Summary

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	56	0.332	-33.5	na	19.3	2.1	0.0
2025A	124	0.678	104.5	na	20.3	3.6	0.1
2026E	192	1.047	54.4	na	19.4	5.3	0.1
2027E	283	1.542	47.2	na	18.3	7.4	0.1
2028E	387	2.111	36.9	185.2	17.0	9.5	0.2

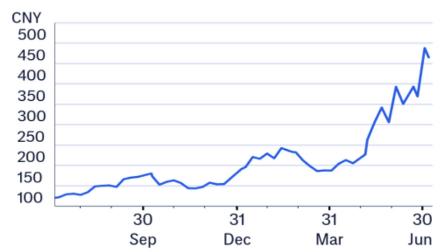
Source: Powered by dataCentral

Buy

Short-Term View: Upside, expires 01-OCT-26

Price (08 Jul 26 15:00)	Rmb391.000
Target price	Rmb496.000
Expected share price return	26.9%
Expected dividend yield	0.1%
Expected total return	26.9%
Market Cap	Rmb71,682M
	US$10,589M

Price Performance
(RIC: 688017.SS, BB: 688017 CH)



Jamie Wang[AC]

Eric Lau

688017.SS: Fiscal year end 31-Dec

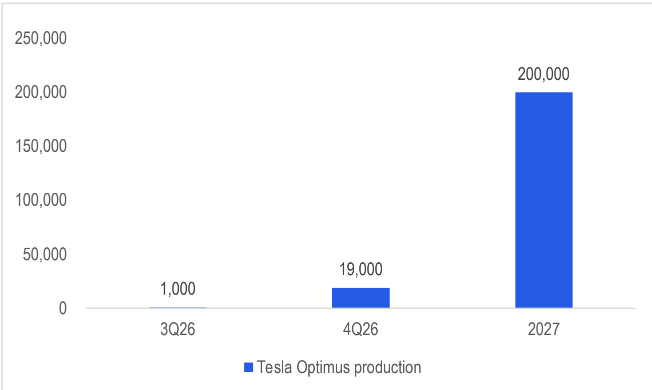
Price: Rmb391.000; TP: Rmb496.000; Market Cap: Rmb71,682m; Recomm: Buy

Profit & Loss (Rmbm)	2024	2025	2026E	2027E	2028E
Sales revenue	387	571	980	1,439	1,931
Cost of sales	-242	-360	-633	-923	-1,230
Gross profit	145	211	347	516	701
Gross Margin (%)	37.5	36.9	35.4	35.8	36.3
EBITDA (Adj)	**74**	**143**	**221**	**342**	**479**
EBITDA Margin (Adj) (%)	19.0	25.0	22.5	23.7	24.8
Depreciation	-51	-55	-67	-93	-121
Amortisation	-5	-5	-3	-3	-4
EBIT (Adj)	**18**	**83**	**150**	**245**	**355**
EBIT Margin (Adj) (%)	4.6	14.6	15.3	17.1	18.4
Net interest	0	-2	0	0	0
Associates	0	-1	0	0	0
Non-Op/Except/Other Adj	43	64	71	80	90
Pre-tax profit	**61**	**144**	**222**	**326**	**445**
Tax	-5	-18	-28	-41	-57
Extraord./Min.Int./Pref.div.	0	-1	-1	-1	-1
Reported net profit	**56**	**124**	**192**	**283**	**387**
Net Margin (%)	14.5	21.8	19.6	19.6	20.0
Core NPAT	56	124	192	283	387
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS (Rmb)	0.332	0.678	1.047	1.542	2.111
Core EPS (Rmb)	0.332	0.678	1.047	1.542	2.111
DPS (Rmb)	0.100	0.210	0.318	0.468	0.640
CFPS (Rmb)	0.165	0.829	0.874	1.053	1.815
FCFPS (Rmb)	-0.026	0.285	0.536	0.680	1.405
BVPS (Rmb)	20.297	19.292	20.126	21.350	22.994
Wtd avg ord shares (m)	169	183	183	183	183
Wtd avg diluted shares (m)	169	183	183	183	183
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	8.8	47.3	71.7	46.9	34.2
EBIT (Adj) (%)	-57.4	364.8	80.8	63.4	44.5
Core NPAT (%)	-33.3	121.4	54.4	47.2	36.9
Core EPS (%)	-33.5	104.5	54.4	47.2	36.9
Balance Sheet (Rmbm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	1,525	746	848	967	1,201
Accounts receivables	147	195	236	303	349
Inventory	246	285	443	646	861
Net fixed & other tangibles	1,320	1,110	1,103	1,077	1,029
Goodwill & intangibles	59	57	55	53	52
Financial & other assets	459	1,537	1,549	1,562	1,575
Total assets	**3,755**	**3,929**	**4,234**	**4,608**	**5,067**
Accounts payable	67	168	316	462	615
Short-term debt	69	0	0	0	0
Long-term debt	40	0	0	0	0
Provisions & other liab	149	218	220	223	226
Total liabilities	**325**	**386**	**537**	**685**	**841**
Shareholders' equity	3,425	3,538	3,691	3,915	4,216
Minority interests	5	6	8	9	11
Total equity	**3,430**	**3,544**	**3,699**	**3,924**	**4,227**
Net debt (Adj)	**-1,416**	**-746**	**-848**	**-967**	**-1,201**
Net debt to equity (Adj) (%)	-41.3	-21.1	-22.9	-24.6	-28.4

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	na	na	na	na	na
PB (x)	19.3	20.3	19.4	18.3	17.0
EV/EBITDA (x)	na	na	na	na	na
FCF yield (%)	0.0	0.1	0.1	0.2	0.4
Dividend yield (%)	0.0	0.1	0.1	0.1	0.2
Payout ratio (%)	30	31	30	30	30
ROE (%)	2.1	3.6	5.3	7.4	9.5
Cashflow (Rmbm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	74	143	221	342	479
Working capital	-105	-16	-91	-166	-149
Other	59	25	31	18	2
Operating cashflow	**28**	**152**	**160**	**193**	**333**
Capex	-32	-100	-62	-68	-75
Net acq/disposals	-280	-663	43	52	62
Other	0	0	0	0	0
Investing cashflow	**-312**	**-762**	**-19**	**-16**	**-13**
Dividends paid	-63	-22	-38	-58	-86
Financing cashflow	**840**	**-168**	**-38**	**-58**	**-86**
Net change in cash	**555**	**-779**	**103**	**118**	**234**
Free cashflow to s/holders	**-4**	**52**	**98**	**125**	**258**

For definitions of the items in this table, please click here.

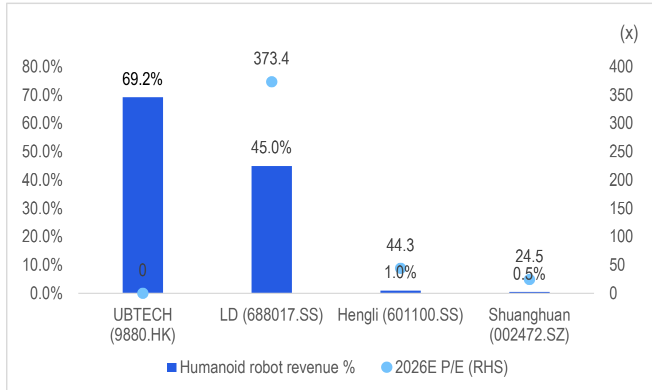
Figure 1. Tesla Optimus production estimates



*The production estimates are based on our talks with Chinese component suppliers

Source: Company Reports and Citi Research Estimates

Figure 2. Humanoid robot revenue % vs. 206E P/E among our coverage

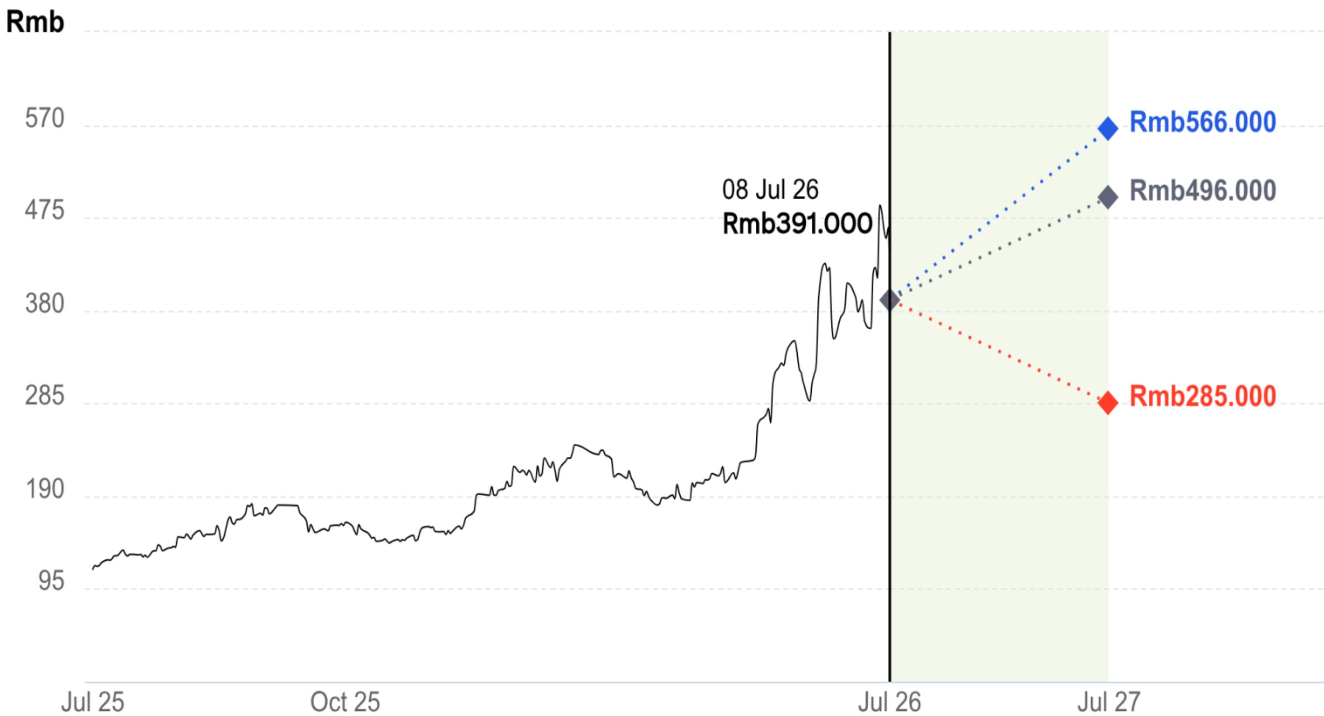


*UBTECH is still loss-making

Source: Company Reports and Citi Research Estimates

Bull/Bear: Leader Drive (688017.SS)

Rmb 566.000 ▲45% Upside	Rmb 496.000 ▲27% Upside	Rmb 285.000 ▼27% Downside



Spread 72pp
Current Price and expected returns (upside/downside) as of 08 Jul 2026

BULL Assumptions

- Valuation expands to 367x P/E on faster earnings growth

BASE Assumptions

- Valuation is based on 322x 2027E P/E

BEAR Assumptions

- Valuation shrinks to 230x P/E on weaker earnings growth

Leader Drive

Company description

Leader Harmonious Drive Systems (Leader Drive, or LD) produces and sells precision reducers. It specializes in harmonic reducers and manufactures mechatronic actuators and precision parts. LD provides its products to both domestic and overseas customers in industrial robots, service robots, CNC machine tools, aerospace, and medical equipment areas. LD listed on the Shanghai STAR Market on August 28, 2020, at a public offering price of RMB35.06 per share, raising RMB1.06bn. The initial listing shares account for 25% of total outstanding shares.

Investment strategy

We have a Buy rating with a target price of Rmb496. We believe LD's stronger-than-expected business recovery with rising contribution from the humanoid robot products in 2026E onwards could rerate LD's valuation to 2023 level when the market was hyping about LD's humanoid robot exposure.

Valuation

Our target price for LD of Rmb496 is based on 322x 2027E P/E, set at +1.5x SD to reflect its stronger-than-expected visibility for both humanoid and industrial robots.

Risks

Key fundamental downside risks that could cause the stock price deviate from our target price include: 1) slower growth in the automation market; 2) intensifying competition from foreign or local brands due to industry consolidation; 3) higher raw material costs eroding GPM; and 4) lower contribution from humanoid robot and other emerging applications.

Hengli Hydraulic

(601100.SS; Rmb115.93; 1; 07 Jul 26; 15:00)

Valuation

Our target price for Hengli of Rmb160.0 is based on 50x 2027E P/E, which is equal to its average P/E + 0.5x SD, to reflect its strong core business and potential re-rating due to rising humanoid robot exposure.

Risks

Key fundamental downside risks include: 1) weaker demand for excavator and non-excavator components; 2) weaker profitibility of ball screw and Mexico plants due to weaker economies of production scale; and 3) lower-than-expected GPM on favorable product mix change. Any of these risk factors could cause the stock to deviate from our target price.