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China Industrials | Asia Pacific

2Q26 Automation Market – Growth Accelerating

The OEM market growth accelerated notably while the project market remained muted in 2Q. Core product sales saw growth acceleration on AI and broader downstream resilience (e.g., battery, logistics, electronics, robots), and leading local players continued to gain share.

2Q26 sales by product – key FA products all saw sustained growth acceleration:

In 2Q26, sales of low-voltage (LV) AC drive, servo, small PLC, mid-large PLC and industrial robots rose 7%, 25%, 15%, 14% and 17% y-y, respectively, vs. 4%, 17%, 14%, 11% and 14% y-y in 1Q26. MIR raised its 2026 estimates for overall automation market sales growth (+5% y-y vs. +2% y-y previously), and for some FA products such as servo (+21% y-y vs. +17% y-y previously), PLC (+11% y-y vs. +9% y-y previously), industrial robot (+14% y-y vs. +12% y-y previously), etc. This implies +5% y-y growth for the overall market into 2H vs. +4% y-y in 1H. (See details in [Exhibit 2](#))

By downstream, recovery appears to be on broader basis: Industries such as battery, electronics, semi, and robots saw growth accelerate. Logistics, machine tool, and textile sustained decent growth momentum. Process industries (e.g., chemical, metallurgy) and elevator demand stayed relatively soft. Solar turned to slightly positive y-y growth YTD.

Local brands continued to outperform: Market shares of local brands of LV AC drives, servos, small PLC, mid-large PLC and industrial robots reached 42%, 59%, 39%, 17% and 61% in 2Q26, respectively, up 1ppt, 4ppt, 4ppt, 1ppt and 5ppt, y-y. Estun was the No.1 industrial robot maker in China in terms of shipments in 2Q26, with 9.9% market share.

Automation up-cycle reaffirmed: We expect automation to benefit from a broadening capex cycle, and project ~5% y-y growth in 2026 led by: 1) tech-driven demand - AI and physical AI applications, such as intelligent robots, PCB equipment, liquid cooling, electronics, etc.; 2) growing energy security demand; 3) replacement demand kicking in, with possible acceleration on rapid technology iteration; and 4) equipment companies' increasing export competitiveness. We prefer Hongfa (600885.SS) on strong order momentum, AIDC 800V architecture opportunity and attractive valuation, and Bochu (688188.SS) on manufacturing capex recovery, structural laser penetration, new products and end-market expansion.

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CHINA INDUSTRIALS

Asia Pacific

Industry View

In-Line

Exhibit 1 : MIR forecast – by OEM/project market

	2Q25	2Q26	y-y	1H25	1H26	y-y	2025e	y-y
Automation market	87,568	92,603	6%	177,213	184,838	4%	359,276	5%
~OEM market	32,381	37,852	17%	64,726	72,579	12%	135,158	9%
~Project market	55,207	54,751	-1%	112,487	112,059	0%	224,118	2%

Source: MIR data/estimates, Morgan Stanley Research

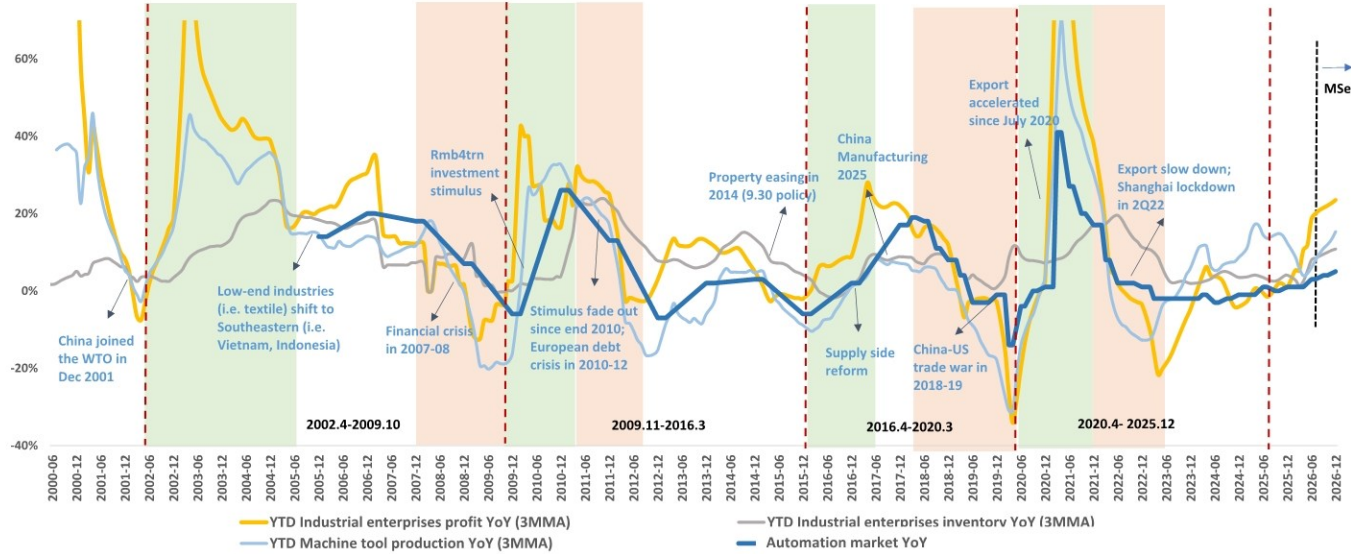
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Key Charts

Exhibit 2: The industrial enterprise profit's gradual recovery echoes our view that automation capex will be in an up-cycle in 2026



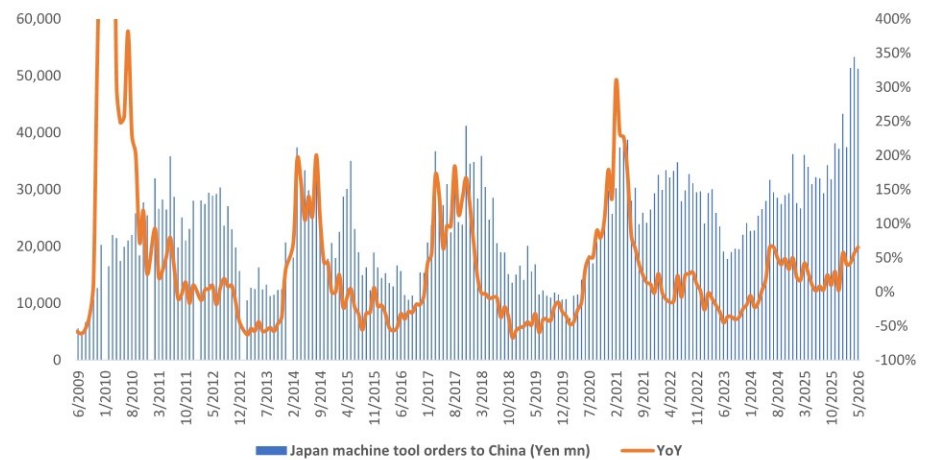
Source: NBS, MIR, Morgan Stanley Research estimates

Exhibit 3: 2Q26 automation market by downstream segment and key domestic players' shares

Rmb mn	2Q25	2Q26	y-y	1H25	1H26	y-y	Key players 2Q26 m/s	y-y	2026E	y-y
Low-voltage AC drive	7,244	7,715	7%	14,614	15,380	5%	ABB 17.2% Siemens 12.9% INVT 5.4%	↑ +1.0ppt ↓ -0.2ppt ↓ -0.2ppt	29,506	3%
Servo	5,782	7,204	25%	11,262	13,604	21%	Siemens 10.7% Panasonic 7.5% Yaskawa 5.8% Leadshine 5.4% Delta 5.2% Wuxi Xinjie 4.6%	↓ -0.6ppt ↓ -0.3ppt ↓ -1.5ppt ↑ +1.2ppt ↓ -0.7ppt ↑ +0.7ppt	26,976	21%
Small PLC	1,512	1,732	15%	2,955	3,383	14%	Siemens 29.6% Wuxi Xinjie 11.7%	↓ -1.1ppt ↑ +0.2ppt	6,849	12%
Mid-large PLC	2,600	2,961	14%	5,286	5,938	12%	Siemens 51.3% Omron 9.7%	↓ -1.2ppt ↑ +1.8ppt	10,874	8%
Industrial robots (unit)	86,090	100,806	17%	162,871	188,612	16%	Estun 9.9% KUKA 9.8% Fanuc 8.0% ABB 4.1% Epson 5.6% Efort 6.3%	↓ -0.3ppt ↑ +0.6ppt ↓ -1.0ppt ↓ -1.3ppt ↓ -0.7ppt ↑ +0.9ppt	382,122	14%
--<20kg 6-axis	27,025	31,167	15%	51,215	58,537	14%	-	-	113,557	12%
-->20kg 6-axis	24,725	27,470	11%	49,832	53,352	7%	-	-	113,171	7%
--SCARA	21,495	24,205	13%	39,615	46,565	18%	-	-	92,437	15%
--Cobot	11,250	16,320	45%	19,185	26,970	41%	-	-	56,168	40%

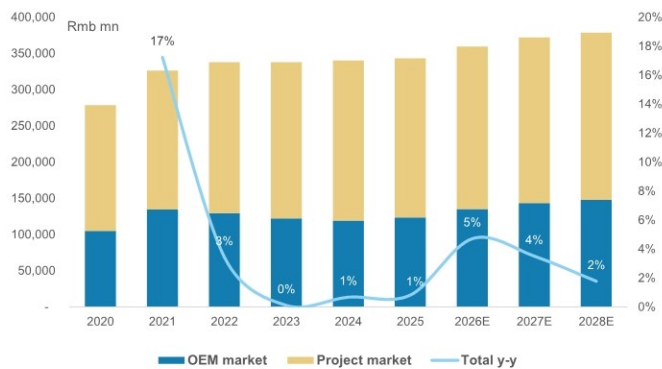
Source: MIR data, Morgan Stanley Research. E = MIR estimates.

Exhibit 4: Japan machine tool orders to China continued to build momentum



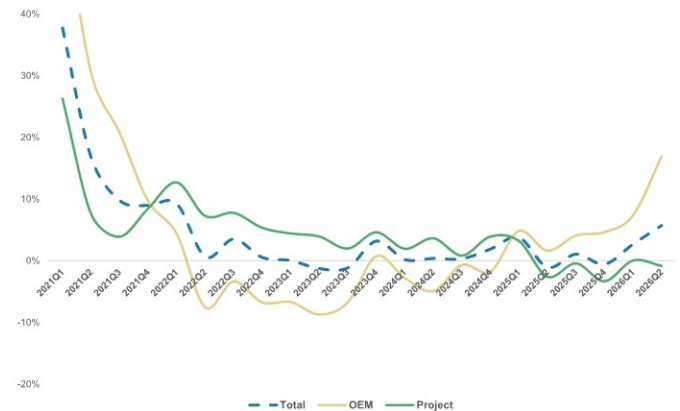
Source: JMTBA, Morgan Stanley Research

Exhibit 5: 2025 automation market fell 1% y-y; MIR sees full-year 2026 improving to +5% y-y



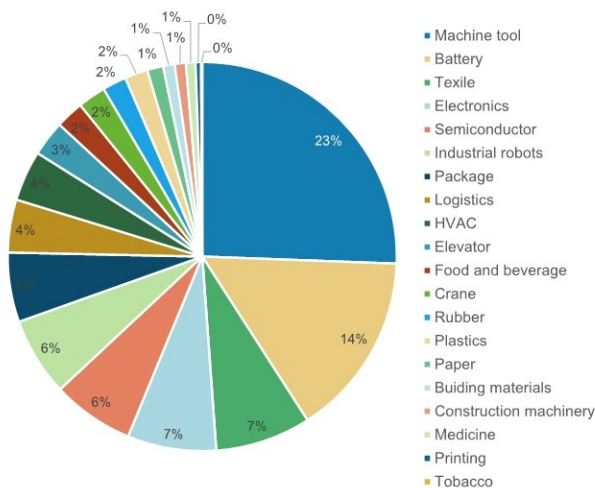
Source: MIR, Morgan Stanley Research. e = MIR estimates

Exhibit 6: China's automation market accelerated to +6% y-y in 2Q26, mainly driven by OEM market



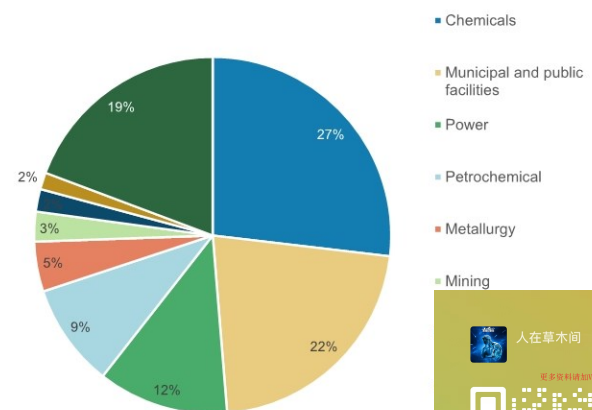
Source: MIR, Morgan Stanley Research

Exhibit 7: China's automation OEM market by downstream segment, in 2Q26



Source: MIR, Morgan Stanley Research

Exhibit 8: China's automation project market by downstream segment, in 2Q26



Source: MIR, Morgan Stanley Research

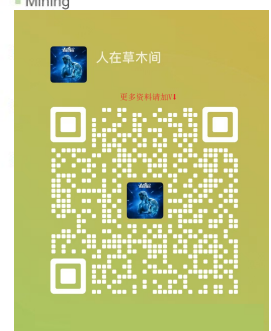
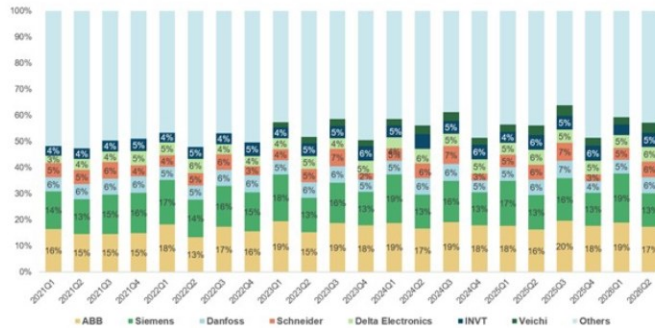
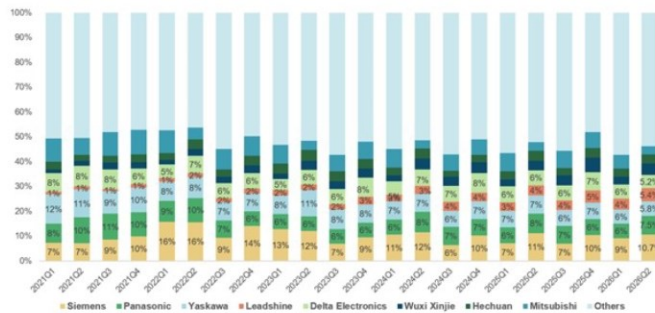


Exhibit 9: China's LV AC drive market: Localization rate reached 42% in 2Q26, up 1ppt y-y



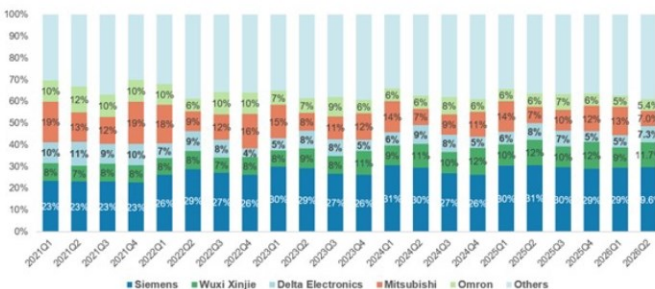
Source: MIR, Morgan Stanley Research

Exhibit 11: China's servo market: Localization rate reached 59% in 2Q26, up 4ppt y-y



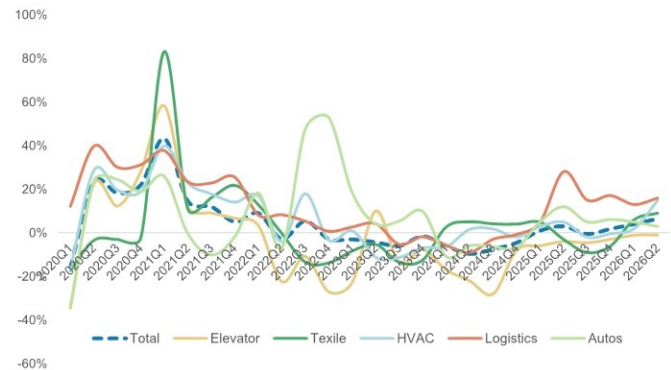
Source: MIR, Morgan Stanley Research

Exhibit 13: China's small PLC market: Localization rate reached 39% in 2Q26, up 4ppt y-y



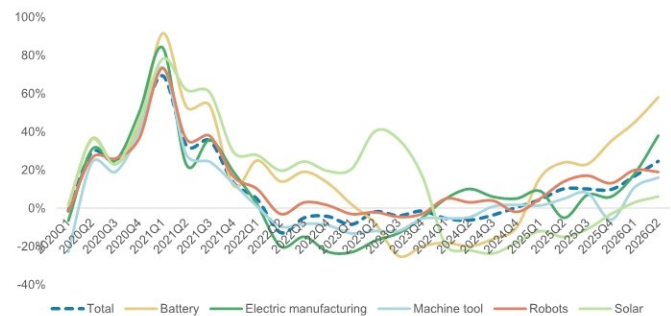
Source: MIR, Morgan Stanley Research

Exhibit 10: China's 2Q26 LV AC drive market grew 7% y-y, among which logistics and HVAC outperformed



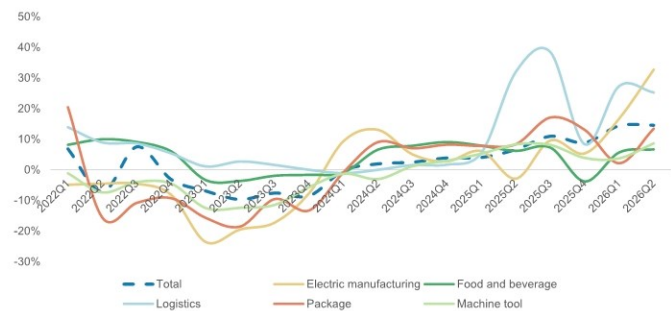
Source: MIR, Morgan Stanley Research

Exhibit 12: China's 2Q26 servo market grew 25% y-y, supported by battery, electronics and semiconductor



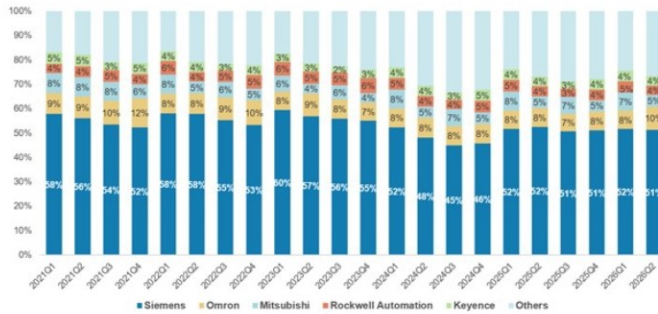
Source: MIR, Morgan Stanley Research

Exhibit 14: China's small PLC market grew 15% y-y in 2Q26, supported by logistics, electronics, battery, semiconductor



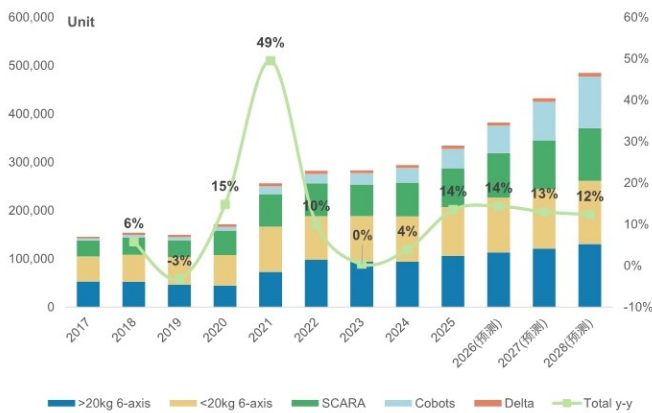
Source: MIR, Morgan Stanley Research

Exhibit 15: China's mid-large PLC market: local brands share is still relatively low at 17% in 2Q26, up 1ppt y-y



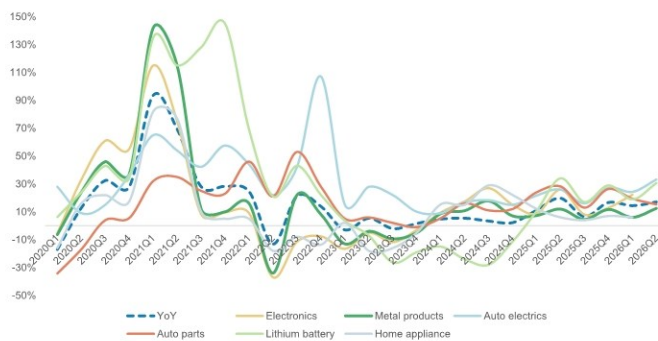
Source: MIR, Morgan Stanley Research

Exhibit 17: China's industrial robot shipments grew 14% y-y in 2025; MIR estimates 14% y-y rise in 2026



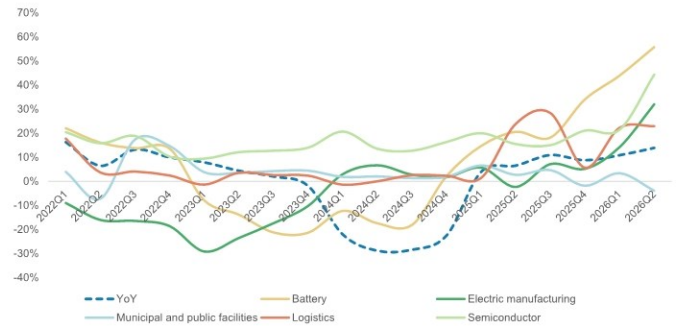
Source: MIR, Morgan Stanley Research. e=MIR estimates

Exhibit 19: Growth in robot shipments in 2Q26 was mainly supported by battery, electronics, auto electronics, semiconductor



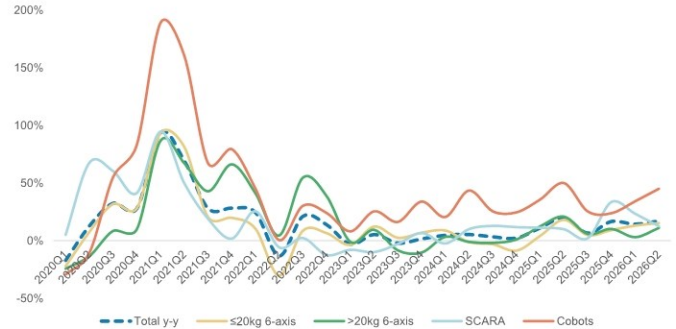
Source: MIR, Morgan Stanley Research

Exhibit 16: China's mid-large PLC market grew 14% y-y in 2Q26, supported by battery and electronics



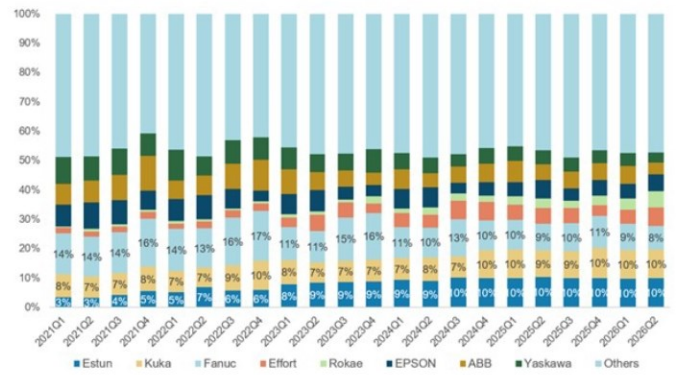
Source: MIR, Morgan Stanley Research

Exhibit 18: In 2Q26, industrial robots shipment grew 17% y-y; cobots outperformed with 45% y-y growth



Source: MIR, Morgan Stanley Research

Exhibit 20: China's industrial robots market share dynamics - localization further exceeded 60% in 2Q26



Source: MIR, Morgan Stanley Research

Valuation Methodology and Risks

Hongfa Technology Co Ltd (600885.SS)

Base case, P/E. We apply FY2 P/E multiple of 25x to 2027e EPS. This is largely in line with the historical average + 1sd, reflecting our positive view on Hongfa's strong global business presence, diversified downstream exposure, and continued market share gains supported by rapid product iteration.

Risks to Upside

- Faster-than-expected growth in AIDC, ESS and new electrical products
- Faster-than-expected commodity price decline
- Faster-than-expected adoption of 800V products

Risks to Downside

- More intense price competition and rising raw material costs, hampering Hongfa's margin
- Sharp decline in China's property market, resulting in weak home appliance consumption
- Downturn in global EV demand

Shanghai BOCHU Electronic Technology (688188.SS)

Base case, derived from P/E methodology. Our target multiple is 30x 2027e P/E, this is largely in-line with Inovance, given Bochu's dominant position in laser cutting motion control system, but it's still below Bochu's 5-year historical average FY2 P/E of 36x due to our expectation of slower revenue growth in 2026-27.

Risks to Upside

- Better-than-expected market share gains in high-power MCS market.
- Faster-than-expected market expansion in welding MCS market.

Risks to Downside

- Narrowing demand for low- to mid-power equipment.
- Margin pressure from intensified competition in the low- to mid-power market.
- Unfavorable product mix.

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(as of June 30, 2026)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1544	42%	453	49%	29%	757	44%
Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Stock Price, Price Target and Rating History (See Rating Definitions)

Hongfa Technology Co Ltd (600885.SS) - As of 07/29/26 GMT in CNY
Industry : China Industrials



Stock Rating History: 7/1/21 : E/I; 2/4/23 : E/A; 5/23/23 : 0/A; 1/8/25 : 0/I

Price Target History: 4/30/21 : 30; 8/31/21 : 34.18; 6/30/22 : 26.53; 8/24/22 : 27.86; 1/5/24 : 22.14; 2/27/24 : 21.43; 4/17/24 : 27.14; 8/9/24 : 26.43; 4/1/25 : 30; 9/8/25 : 34; 1/22/26 : 35; 7/7/26 : 43

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Shanghai BOCHU Electronic Technology (688188.SS) - As of 07/29/26 GMT in CNY
Industry : China Industrials



Stock Rating History: 1/16/24 : 0/A; 8/22/24 : 0/A; 1/8/25 : 0/I

Price Target History: 1/16/24 : 133.02; 4/24/24 : 138.02; 5/20/24 : 135.47; 8/22/24 : 106.12; 5/16/25 : 109.18; 9/7/25 : 110.71; 1/22/26 : 120.71; 7/7/26 : 122

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
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INDUSTRY COVERAGE: China Industrials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/28/2026)
Chelsea Wang		
China Railway Group (601390.SS)	E (05/12/2022)	Rmb4.55

China Railway Group (0390.HK)	E (08/11/2025)	HK\$3.59
China State Construction Engineering (601668.SS)	U (08/11/2025)	Rmb4.64
Han's Laser (002008.SZ)	O (10/02/2025)	Rmb94.17
Hefei Meyer Optoelectronic Technology (002690.SZ)	E (09/08/2025)	Rmb15.30
iRay Technology Company Limited (688301.SS)	O (07/07/2026)	Rmb86.17
Neway Valve (Suzhou) Co., Ltd (603699.SS)	O (09/12/2025)	Rmb40.70
Shanghai BOCHU Electronic Technology (688188.SS)	O (08/22/2024)	Rmb99.03
Shenzhen Envicool Technology Co Ltd (002837.SZ)	O (08/19/2024)	Rmb55.13
Sheng Zhong		
Beijing Geekplus Technology Co., Ltd. (2590.HK)	O (08/07/2025)	HK\$9.26
Centre Testing International Group (300012.SZ)	E (11/18/2024)	Rmb13.41
CRRCLtd (1766.HK)	U (01/22/2026)	HK\$4.97
CRRCLtd (601766.SS)	U (01/22/2026)	Rmb6.00
DR Laser (300776.SZ)	E (12/17/2021)	Rmb109.59
Estun Automation Co Ltd (002747.SZ)	U (06/30/2022)	Rmb30.34
Haitian International Holdings Limited (1882.HK)	E (09/08/2025)	HK\$20.38
Hongfa Technology Co Ltd (600885.SS)	O (05/23/2023)	Rmb33.28
Jiangsu Guomao Reducer Co Ltd (603915.SS)	U (01/08/2025)	Rmb12.35
Jiangsu Hengli Hydraulic Co.Ltd (601100.SS)	O (05/23/2023)	Rmb103.80
Jingsheng Mechanical & Electrical Co (300316.SZ)	U (01/08/2025)	Rmb38.46
Leader Harmonious Drive Systems (688017.SS)	O (01/22/2026)	Rmb293.03
Sany Heavy Industry Co., Ltd. (600031.SS)	O (01/08/2025)	Rmb19.70
Shenzhen Inovance Technology (300124.SZ)	++	Rmb58.67
Shenzhen SC New Energy Technology Corp (300724.SZ)	U (09/08/2025)	Rmb56.04
Sinotruk (Hong Kong) Limited (3808.HK)	E (05/19/2025)	HK\$40.08
Suzhou Maxwell Technologies Co Ltd (300751.SZ)	U (09/15/2023)	Rmb168.26
Times Electric (3898.HK)	E (01/22/2026)	HK\$32.66
WeiChai Power (2338.HK)	O (03/30/2026)	HK\$30.92
WeiChai Power (000338.SZ)	O (03/30/2026)	Rmb26.19
Wuxi Autowell Technology Co Ltd (688516.SS)	U (09/08/2025)	Rmb37.20
Wuxi Lead Intelligent (300450.SZ)	O (09/08/2025)	Rmb33.03
Zhejiang Dingli Machinery Co Ltd. (603338.SS)	O (11/05/2025)	Rmb58.21
Zhejiang Hangke Technology (688006.SS)	O (09/08/2025)	Rmb20.49
Zhejiang Shuanghuan Driveline Co. Ltd. (002472.SZ)	O (08/25/2023)	Rmb35.63
Zoomlion Heavy Industry (1157.HK)	O (09/08/2025)	HK\$7.50
Zoomlion Heavy Industry (000157.SZ)	O (09/08/2025)	Rmb7.54

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