Morgan Stanley | RESEARCH

UPDATE

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Greater China Technology Hardware | Asia Pacific

Automation – Read-across from China's July Manufacturing PMI

In this report, we focus on China's manufacturing PMI, which we see as a potential catalyst for Airtac's and Hiwin's share prices.

China's manufacturing PMI dropped to 49.2 in July from 50.3 in June:

- This came in lower than both our estimate and consensus of 50.1.
- The major drag was from the production (-1.5ppt MoM to 49.9) and new orders (-2.7ppt MoM to 48.5), while export was relatively resilient (new export orders (-0.5ppt MoM to 49.6).
- Our macro team pointed out that there might be room for broader easing this fall, if the July-August growth disappoints, since the government has urged faster execution of the Rmb2tn fiscal impulse in 2H26.

Our view:

- We think the softer Chroma manufacturing PMI might weigh on the near term sentiment toward the names in the industrial automation space, especially those with high exposure to China, though we will closely monitor whether this develops into a trend in the coming months.
- In the automation group in Taiwan, we like Airtac and Hiwin as they got their company specific drivers on top of the overall market dynamics:
    - Airtac (1590.TW, OW) should continue to benefit from its own share gains and incremental contribution from linear guides. Valuation appears undemanding at 19x 2027e P/E (vs. the 25x average since 2020).
    - Hiwin (2049.TW, OW) should show more margin expansion in coming quarters, supported by higher utilization and price hikes. We see potential share price upside at the current 28x 2027e P/E vs. peak cycle valuation of 35-40x.

Derrick Yang
Equity Analyst
Derrick.Yang@morganstanley.com +886 2 2730-2862

Vivi Huang
Research Associate
Vivi.Huang@morganstanley.com +886 2 2730-2860

Andy Meng, CFA
Equity Analyst
Andy.Meng@morganstanley.com +852 2239-7689

GREATER CHINA TECHNOLOGY HARDWARE

Asia Pacific

Industry View **In-Line**

AlphaSignals Catalyst Event Reaction

Company / Catalyst	Date	Impact to thesis	Catalyst versus expectation
AirTAC International 1590.TW			
China July Manufacturing PMI	31 Jul 2026	Unchanged	↓ Modest downside surprise
Hiwin Technologies Corp. 2049.TW			
China July Manufacturing PMI	31 Jul 2026	Unchanged	↓ Modest downside surprise

Source:

Valuation Methodology and Risks

AirTAC International (1590.TW)

Base case, 29x 2027e P/E. We believe this methodology better captures earnings growth momentum for industrial automation component plays (market sentiment moves along with business cycles). As the industry enters an up-cycle, we think applying a near-peak cycle valuation of 29x P/E is reasonable given the stronger business outlook.

Risks to Upside

- Stronger macroeconomic climate in China
- Stronger-than-expected demand from industrial automation

Risks to Downside

- Sharper economic downturn in China
- Miniature linear guideway business development taking more time
- Larger-than-expected investment in new products but weaker-than-expected demand

Hiwin Technologies Corp. (2049.TW)

Base case, P/E. We think this valuation methodology better captures Hiwin's earnings growth momentum, as its valuation tends to move with the business cycle. We apply a target multiple of 37x to our 2027 EPS estimate. We view this multiple as justified by the 44% operating profit CAGR we project for 2025-28.

Risks to Upside

- Stronger industrial automation demand pickup.
- Market share gains.
- Earlier-than-expected revenue contribution from humanoids.

Risks to Downside

- Weaker industrial automation demand.
- More pricing pressure.
- Market share loss.
- More broad-based impact on the global economy from geopolitical risks.