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Weixing New Materials (002372.SZ)

1H26 Reported NP Beat Is Optical; Core Profit Still Contracts Yoy; Maintain Neutral

CITI'S TAKE

Weixing printed 1H26 revenue of RMB1,897m, down 8.71% yoy, a slight improvement from 1Q26's 9.2% decline. Reported NP rose 43.9% yoy to RMB390m, but the gain was mostly non-operating: RMB175m of non-recurring items, chiefly the RMB125m Dongpeng JV mark-to-market swing and RMB27m Songtiancheng bargain-purchase gain. Core NP (ex non-rec) fell 19.65% yoy to RMB215m, pace improving from 1Q26's -23.4%. Blended GM rose ~120bps yoy to ~41.7% on mix, while PPR, the flagship retail line, saw GM contract 1.4pp on copper-cost pressure. A ~150bps rise in the opex ratio and lower interest income offset most of the GM gain, and OCF fell 29.88% yoy, a step back for the cash-generation pillar behind our thesis. Maintain Neutral. We will review our estimates after the Citi-hosted 1H26 post-results call on 7 Aug (2:30pm HKT) — click here to sign up.

Neutral	
Price (06 Aug 26 15:00)	Rmb8.610
Target price	Rmb11.800
Expected share price return	37.0%
Expected dividend yield	5.2%
Expected total return	42.3%
Market Cap	Rmb13,707M
	US$2,031M

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1) Revenue: mild deceleration, East China still the drag —

1H26 revenue fell 8.71% yoy to RMB1,897m, a touch better than 1Q26's -9.2% pace. By product, PPR (47% of sales) fell 4.55% yoy, PE -15.94%, PVC -4.46% and other products -12.70%. East China, the largest region at 47% of sales, fell 15.04% yoy, the steepest of any region and a sign the core home market stayed weak. Overseas sales, still just 9% of the total, rose 19.22% yoy to RMB176m, tracking mgmt's FY26 +18% overseas target and the one clean growth line in the print.

2) Margin: the Q2 GM trough we flagged didn't show up, but PPR itself is still under pressure —

Recall our May-26 note flagged Q2 as the GM trough, since cost inflation lands before price hikes fully pass through. The 1H26 print doesn't confirm that: implied 2Q26 GM of ~41.9% is above 1Q26's 41.4%, not below it. But the improvement is mix-led, not broad-based. PE and PVC GM rose 2.98pp and 0.51pp yoy on unit costs falling faster than revenue, while PPR, the flagship and highest-margin retail line, saw GM contract 1.40pp yoy as its unit costs fell just 1.40% against a 4.55% revenue decline, consistent with lingering copper-cost pressure on brass fittings.

3) Below the line: the whole NP swing is non-recurring, and cash generation took a rare step back —

Core NP (ex non-rec) fell 19.65% yoy to RMB215m, better than 1Q26's -23.4% pace, largely on the 2Q GM improvement above. Opex ratio still rose ~150bps yoy on negative operating leverage, and interest income fell RMB4.8m yoy on lower deposits and falling rates, eating back most of the GM gain. Reported NP of RMB390m was carried mostly by RMB175m of non-recurring items, versus just

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

RMB3m a year ago. OCF fell 29.88% yoy to RMB407m on lower sales volume, a soft print for the cash-generation pillar anchoring our Neutral thesis.

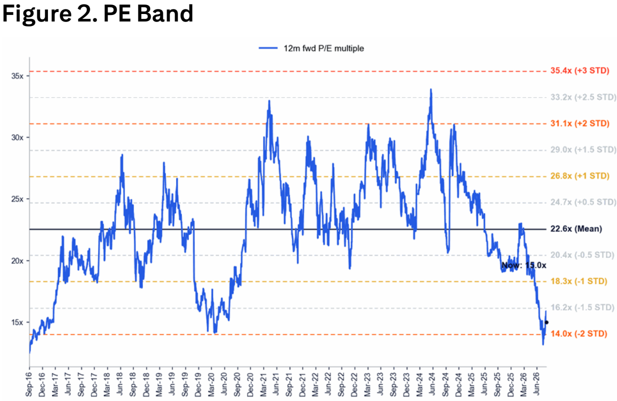
Maintain Neutral, still anchored by cash flow discipline and the dividend yield, balanced against limited near-term earnings visibility as the property-linked renovation cycle stays soft. Read-across: in our view, the divergence between East China's -15% decline and the +19% overseas growth is a reminder that China's home-renovation demand pool, not global demand, remains the swing factor for this cycle.

Figure 1. Quarterly P&L

P&L (Rmb, million)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Revenue	**997**	**1,346**	**1,430**	**2,494**	**895**	**1,183**	**1,289**	**2,015**	**813**	**1,084**
COGS	583	773	813	1,482	533	703	734	1,206	476	630
Gross profit	**413**	**573**	**616**	**1,012**	**362**	**479**	**555**	**809**	**336**	**454**
Business taxes & surcharge	12	13	14	25	10	12	13	24	9	12
Selling expenses	150	207	198	393	134	179	187	319	132	169
Administrative expenses	69	90	56	79	66	79	60	80	66	81
R&D expenses	34	41	45	72	31	39	44	60	28	34
Operating profit	**148**	**223**	**303**	**443**	**121**	**171**	**250**	**326**	**101**	**159**
Finance cost	(16)	(9)	(17)	(3)	(2)	(6)	(1)	(1)	(1)	0
Other income	20	13	13	13	13	12	8	5	15	9
Investment income	3	(17)	12	28	(6)	(0)	60	6	(6)	143
Fair value gain	-	-	2	(0)	-	-	0	(0)	0	(0)
Asset & Credit impairment	(2)	(6)	(5)	(95)	6	(3)	(2)	(83)	(2)	2
JV&asso		(7)	7			3	(3)			(9)
Asset disposal gain	(0)	0	0	0	0	0	0	0	0	0
Non-operating income	1	0	1	3	0	1	0	2	31	0
Non-operating expense	0	1	2	1	0	1	2	1	1	4
Profit before tax	**185**	**221**	**342**	**394**	**136**	**185**	**316**	**256**	**141**	**299**
Tax expense	28	33	53	68	20	29	48	61	22	29
Minority interest	4	1	5	(3)	2	(1)	(1)	(6)	0	(0)
Net profit to parent	**154**	**186**	**284**	**329**	**114**	**157**	**269**	**201**	**119**	**271**
Recurring	**142**	**198**	**272**	**305**	**114**	**154**	**222**	**195**	**88**	**128**
Revenue	11%	0.4%	-5%	-5%	-10.2%	-12.2%	-10%	-19%	-9.2%	-8.3%
Gross profit	24%	-2.4%	-15%	-14%	-12.4%	-16.4%	-10%	-20%	-7.1%	-5.2%
Operating profit	43%	-22.2%	-29%	-28%	-18.2%	-23.4%	-17%	-26%	-16.8%	-7.0%
Profit before tax	-6%	-42.0%	-27%	-43%	-26.4%	-16.0%	-8%	-35%	3.6%	61.6%
Net profit	-12%	-41.9%	-25%	-41%	-25.9%	-15.5%	-5%	-39%	5.1%	72.0%
Recurring net profit	38%	-47.9%	20%	-46%	-19.4%	-22.2%	-19%	-36%	-23.4%	-16.8%
Gross margin	41.5%	42.6%	43.1%	40.6%	40.5%	40.5%	43.0%	40.2%	41.4%	41.9%
Operating margin	15%	16.5%	21%	18%	13.5%	14.4%	19%	16%	12.4%	14.6%
Net margin	15%	13.8%	20%	13%	12.7%	13.3%	21%	10%	14.7%	25.0%
Recurring net margin	14%	14.7%	19%	12%	12.8%	13.0%	17%	10%	10.8%	11.8%
Business tax ratio	1%	1.0%	1%	1%	1.2%	1.0%	1%	1%	1.2%	1.1%
Selling expense ratio	15%	15.3%	14%	16%	14.9%	15.1%	15%	16%	16.2%	15.6%
Administrative expense ratio	7%	6.7%	4%	3%	7.4%	6.7%	5%	4%	8.2%	7.4%
R&D ratio	3%	3.1%	3%	3%	3.5%	3.3%	3%	3%	3.5%	3.1%
Tax rate	15%	15.0%	15%	17%	15.0%	15.9%	15%	24%	15.3%	9.8%
MI%	2%	0.5%	1%	-1%	1.6%	-0.8%	0%	-3%	0.2%	-0.1%

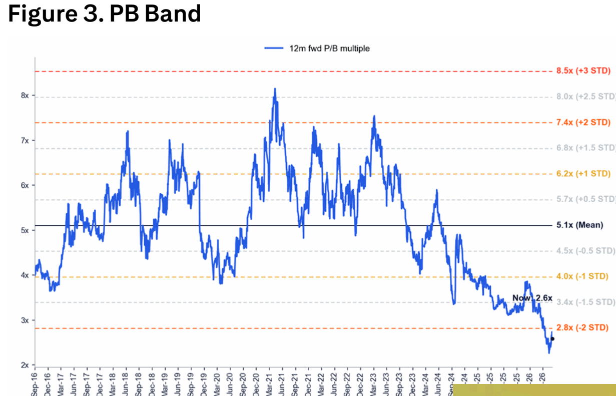
Source: Citi Research, Company Reports

Figure 2. PE Band



Source: Citi Research

Figure 3. PB Band



Source: Citi Research

Weixing New Materials

Valuation

Our target price of RMB11.80 is based on 22x FY26E PE (near -1SD of historical trading band since 2018). This multiple incorporates structural headwinds in property and consumption sectors while acknowledging management's proven margin resilience and strong capital return policy. The valuation discount reflects near-term growth uncertainties balanced against Weixing's industry-leading profitability (consistently highest ROE among peers) and cash generation capabilities.

Risks

We note the following upside risks: 1) Broader property market stabilization from policy support measures; 2) Successful execution of price restoration strategy preserving margins; 3) Acceleration in municipal infrastructure investment; and 4) Effective integration of acquired businesses improving consolidated profitability.

Downside risks: 1) Demand weakness in retail and municipal segments persists through FY26; 2) Intensifying competition limiting pricing power in retail channels; 3) Raw material cost volatility; 4) Potential capital allocation shifts if profitability pressures extend; and 5) Execution challenges in international expansion initiatives.

Any of these risks could result in the stock deviating from our target price.