Defu Tech (A)

One-off and below-GP items weighed on 2Q; HVLP ramp-up supports 3Q inflection

Reiterate Rating: BUY | PO: 100.00 CNY | Price: 90.64 CNY

2Q26 NPAT +467% YoY / -21% QoQ; below-GP drags

Defu Tech reported 1H26 NPAT of RMB263mn, up 581% YoY, implying 2Q26 NPAT of RMB116mn, up 467% YoY but down 21% QoQ, below our estimate and consensus. The 2Q26 earnings miss mainly reflected below-GP items: 1) selling expenses of RMB19mn, up 44% YoY and 109% QoQ, and administrative expenses of RMB74mn, up 102% YoY and 78% QoQ, which we believe reflected higher management compensation and sales commissions; 2) finance costs of RMB91mn, up 24% YoY but down 4% QoQ, likely due to elevated bill-discounting charges amid high leverage, in our view; 3) non-operating expenses of RMB13mn, versus RMB1mn in 2Q25 and RMB2mn in 1Q26, mainly reflecting equipment disposal losses from production-line upgrades, which we believe were likely related to HVLP line conversion; and 4) income tax expense of RMB67mn, versus tax benefits of RMB28mn in 2Q25 and RMB6mn in 1Q26, mainly due to higher deferred tax expense as subsidiaries returned to profitability. Finance costs could improve after the planned private placement, in our view. The company proposed an interim dividend of RMB0.10/share, implying a c.24% payout ratio.

HVLP ramp-up to drive a 3Q inflection; maintain Buy

We calculate blended GPM at c.9% in 2Q26, up c.3ppts YoY but broadly flat QoQ, as higher copper prices enlarged both revenue and COGS. We believe PCB foil GPM likely improved QoQ on higher ASPs and a richer high-end product mix, based on industry data. However, PCB foil shipments may have been temporarily affected by production-line upgrades, while the HVLP3-4 ramp-up could have caused near-term yield pressure. The company disclosed that HVLP1-4 had achieved batch supply, while HVLP5 had completed sample certification. We expect the converted HVLP lines coming on stream and accelerating shipments to support a 3Q26 inflection. Our channel checks suggest Defu's HVLP shipments could exceed 500t/month, including several dozen tonnes of HVLP4 per month. We also believe lithium-battery foil shipments increased QoQ, as production was unaffected by the PCB foil line conversion. We maintain Buy on the planned 50ktpa high-end PCB foil expansion, improving PCB foil margins and recovering lithium-battery foil demand.

Estimates (Dec) (CNY)	2024A	2025A	2026E	2027E	2028E
Net Income (Adjusted - mn)	(245)	113	737	1,652	2,751
EPS	(0.454)	0.179	1.17	2.62	4.36
EPS Change (YoY)	NM	NM	555.0%	124.1%	66.5%
Dividend / Share	0	0.100	0.351	0.786	1.31
Free Cash Flow / Share	(2.41)	(2.06)	(3.52)	(1.64)	2.02
Valuation (Dec)					
P/E	NM	507.74x	77.52x	34.59x	20.77x
Dividend Yield	0%	0.110%	0.387%	0.867%	1.44%
EV / EBITDA*	NM	106.14x	42.70x	22.54x	15.13x
Free Cash Flow Yield*	-2.27%	-2.27%	-3.88%	-1.81%	2.23%

* For full definitions of iQmethod℠ measures, see page 5.

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Stock Data

Price	90.64 CNY
Price Objective	100.00 CNY
Date Established	6-Aug-2026
Investment Opinion	C-1-7
52-Week Range	27.86 CNY-178.88 CNY
Mrkt Val / Shares Out (mn)	8,501 USD / 630.3
Market Value (mn)	57,132 CNY
Average Daily Value (mn)	463.20 USD
Free Float	46.6%
BofA Ticker / Exchange	XJDDF / SHZ
Bloomberg / Reuters	301511 CH / 301511.SZ
ROE (2026E)	17.2%
Net Dbt to Eqty (Dec-2025A)	70.7%

ASP: average selling price

GPM: gross profit margin

HVLP: hyper very low profile

PCB: printed circuit board

iQprofile℠ Defu Tech (A)

Key Income Statement Data (Dec)	2024A	2025A	2026E	2027E	2028E
(CNY Millions)					
Sales	7,805	12,437	18,919	26,348	30,232
Gross Profit	167	885	1,849	3,388	4,857
Sell General & Admin Expense	(155)	(239)	(268)	(374)	(429)
Operating Profit	(352)	216	1,086	2,368	3,698
Net Interest & Other Income	(1)	(16)	0	0	0
Associates	NA	NA	NA	NA	NA
Pretax Income	(353)	200	1,086	2,368	3,698
Tax (expense) / Benefit	(16)	(46)	163	355	555
Net Income (Adjusted)	(245)	113	737	1,652	2,751
Average Fully Diluted Shares Outstanding	540	630	630	630	630
Key Cash Flow Statement Data					
Net Income	(278)	21	1,063	2,362	3,860
Depreciation & Amortization	337	402	450	542	638
Change in Working Capital	(818)	(1,386)	(1,537)	(1,538)	(1,132)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	209	581	(233)	(456)	(772)
Cash Flow from Operations	(550)	(381)	(257)	910	2,594
Capital Expenditure	(750)	(916)	(1,962)	(1,942)	(1,321)
(Acquisition) / Disposal of Investments	(79)	111	0	0	0
Other Cash Inflow / (Outflow)	(79)	46	0	0	0
Cash Flow from Investing	(908)	(759)	(1,962)	(1,942)	(1,321)
Shares Issue / (Repurchase)	0	500	0	0	0
Cost of Dividends Paid	(129)	(100)	(386)	(587)	(887)
Cash Flow from Financing	683	2,674	(386)	(587)	(887)
Free Cash Flow	(1,300)	(1,298)	(2,219)	(1,031)	1,273
Net Debt	3,227	3,767	6,371	7,989	7,604
Change in Net Debt	1,273	335	2,605	1,618	(386)
Key Balance Sheet Data					
Property, Plant & Equipment	5,599	5,961	6,951	8,245	9,177
Other Non-Current Assets	929	1,281	1,802	1,908	1,659
Trade Receivables	3,409	4,598	6,995	9,742	11,178
Cash & Equivalents	2,832	5,058	2,454	836	1,221
Other Current Assets	2,111	2,646	3,165	3,436	3,751
Total Assets	14,880	19,545	21,368	24,167	26,986
Long-Term Debt	928	1,455	1,455	1,455	1,455
Other Non-Current Liabilities	657	768	768	768	768
Short-Term Debt	5,131	7,371	7,371	7,371	7,371
Other Current Liabilities	3,588	4,626	5,913	7,286	7,849
Total Liabilities	10,304	14,220	15,506	16,879	17,442
Total Equity	4,575	5,325	5,862	7,288	9,544
Total Equity & Liabilities	14,880	19,545	21,368	24,167	26,986
iQ*method℠ - Bus Performance					
Return On Capital Employed	-2.9%	1.3%	6.4%	13.2%	18.5%
Return On Equity	-5.9%	2.8%	17.2%	33.2%	42.7%
Operating Margin	-4.5%	1.7%	5.7%	9.0%	12.2%
EBITDA Margin	-0.2%	5.0%	8.1%	11.0%	14.3%
iQ*method℠ - Quality of Earnings					
Cash Realization Ratio	NM	-3.4x	-0.3x	0.6x	0.9x
Asset Replacement Ratio	2.3x	2.4x	4.4x	3.6x	2.1x
Tax Rate (Reported)	NM	22.8%	NM	NM	NM
Net Debt-to-Equity Ratio	70.5%	70.7%	108.7%	109.6%	79.7%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

* For full definitions of *iQmethod*℠ measures, see page 5.

Company Sector

Non-Ferrous-Other

Company Description

Defu Tech is one of China's leading copper foil manufacturers, with a product portfolio spanning LiB copper foil and electronic circuit copper foil, including PCB copper foil and emerging high-end carrier foil applications.

Investment Rationale

We rate Defu Tech Buy, supported by: 1) an AI-driven high-end PCB copper foil upcycle, where strong demand meets structurally tight qualified HVLP supply, 2) Defu's PCB copper foil margin improvement and capacity expansion, as the company shifts toward higher-end RTF/HVLP products, and 3) LiB copper foil recovery, supported by NE-HDT and ESS demand, with Defu maintaining leading capacity and exposure to high-performance products.

Stock Data

Price to Book Value	12.8x

Price objective basis & risk

Defu Tech (XJDDF)

Our PO of RMB100 is based on a P/E valuation methodology. We apply a 38x FY27E P/E, slightly lower than the average multiple of China PCB materials peers of 42x, because LiB foil will still dominate earnings in 2027E and only in 2028 do we expect higher margin PCB copper foil to become the primary earnings driver.

Upside risks: 1) faster-than-expected PCB copper foil demand growth, and 2) faster-than-expected LiB copper foil processing fee recovery.

Downside risks: 1) slower-than-expected PCB copper foil demand growth, 2) slower-than-expected LiB copper foil demand recovery, and 3) delays in Defu's capacity expansion or product qualification.

Analyst Certification

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APR - Basic Materials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Anhui Conch	AHCHF	914 HK	Matty Zhao
	Anhui Conch -A	AHCAF	600585 CH	Matty Zhao
	Banpu Pcl	XNORF	BANPU TB	Komsun Suksumrun
	Baosteel	BAOSF	600019 CH	Matty Zhao
	CGN Mining	CGNMF	1164 HK	Miriam Chan, CFA
	Chalco	ALMMF	2600 HK	Matty Zhao
	Chalco -A	XAMTF	601600 CH	Matty Zhao
	China Hongqiao	CHHQF	1378 HK	Miriam Chan, CFA
	China Jushi	XCKLF	600176 CH	Edward Leung, CFA
	CMOC Group Ltd	CMCLF	3993 HK	Miriam Chan, CFA
	CMOC Group Ltd	XCMUF	603993 CH	Miriam Chan, CFA
	CNBM	CBUMF	3323 HK	Matty Zhao
	Defu Tech	XJDDF	301511 CH	Yibing Xia
	Ganfeng Lithium	GNENF	1772 HK	Matty Zhao
	Ganfeng Lithium	XMOZF	002460 CH	Matty Zhao
	Hoa Phat Group	XPHTF	HPG VN	Jessie Lo
	Huayou Cobalt	XZHCF	603799 CH	Miriam Chan, CFA
	Jiangxi Copper	JIAXF	358 HK	Matty Zhao
	Jiangxi Copper	JGXCF	600362 CH	Matty Zhao
	JL Mag	XJMRF	300748 CH	Yibing Xia
	JL Mag	XZRIF	6680 HK	Yibing Xia
	Lee & Man Paper	LMPMF	2314 HK	Edward Leung, CFA
	Lynas Rare Earths	LYSDY	LYSDY US	Chen Jiang
	MMG Limited	MMLTF	1208 HK	Miriam Chan, CFA
	Nine Dragons Paper	NDGPF	2689 HK	Matty Zhao
	POSCO Holdings	PKXFF	005490 KS	KJ Hwang
	POSCO Holdings	PKX	PKX US	KJ Hwang
	Putailai	XVHGF	603659 CH	Edward Leung, CFA
	SD Gold	SGOLF	600547 CH	Miriam Chan, CFA
	SD Gold	SDGMF	1787 HK	Miriam Chan, CFA
	Sinoma Sci & Tech	XXTTF	002080 CH	Edward Leung, CFA
	Tianqi Lithium	TQLCF	002466 CH	Matty Zhao
	Tianqi Lithium	XYECF	9696 HK	Matty Zhao
	Tinci Materials	XCVHF	002709 CH	Edward Leung, CFA
	United Tractors	PUTKF	UNTR IJ	Jessie Lo
	Xinyi Glass	XYIGF	868 HK	Matty Zhao
	Yunnan Energy	XLGFF	002812 CH	Edward Leung, CFA

APR - Basic Materials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Yunnan Germanium	XYLXF	002428 CH	Miriam Chan, CFA
	Zhaojin Mining	ZHAOF	1818 HK	Miriam Chan, CFA
	Zijin Gold Int'l	ZJNGF	2259 HK	Matty Zhao
	Zijin Mining	ZIJMF	2899 HK	Matty Zhao
	Zijin Mining	XZNMF	601899 CH	Matty Zhao
NEUTRAL				
	FLAT Glass	FGSGF	6865 HK	Edward Leung, CFA
	FLAT Glass	XFLCF	601865 CH	Edward Leung, CFA
	Maanshan Iron & Steel	MAANF	323 HK	Miriam Chan, CFA
	Maanshan Iron & Steel -A	MISIF	600808 CH	Miriam Chan, CFA
	Press Metal	PSSMF	PMAH MK	Jessie Lo
	PT Merdeka Battery Materials	XDMBF	MBMA IJ	Jessie Lo
	Semirara Mining and Power Corporation	SMIRF	SCC PM	Julian Roxas
	Shenzhen Dynanonic	XJDCF	300769 CH	Edward Leung, CFA
	Shenzhen Senior	XHYRF	300568 CH	Edward Leung, CFA
UNDERPERFORM				
	Angang Steel	ANGGF	347 HK	Miriam Chan, CFA
	Angang Steel -A	AGGSF	000898 CH	Miriam Chan, CFA
	Chengxin Lithium Group	XCNGF	002240 CH	Miriam Chan, CFA
	China Resources Building Materials	CJRCF	1313 HK	Matty Zhao
	Hangzhou First Applied Material	XMLMF	603806 CH	Miriam Chan, CFA
	Kibing Group	XIOCF	601636 CH	Edward Leung, CFA
	Nickel Asia Corporation	NCKAF	NIKL PM	Philip Albert Felix
	Oriental Yuhong	XSUUF	002271 CH	Edward Leung, CFA
	Siam Cement	SCVQF	SCC TB	Komsun Suksumrun
	Sichuan Yahua Industrial Group	XVHEF	002497 CH	Miriam Chan, CFA
	Tongwei	XGWTF	600438 CH	Miriam Chan, CFA
	Xinyi Solar	XNYIF	968 HK	Edward Leung, CFA

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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