Leader Harmonious Drive Systems Co. (688017.SS)

Raise TP to factor in 2035E humanoid robot potential; Stay Neutral on likely more aggressive pricing and margin headwinds in 2H26-28E

688017.SS	12m Price Target: **Rmb285.10**	Price: **Rmb290.50**	Downside: **1.9%**

We raise LeaderDrive's 12-month TP to Rmb285.1 from Rmb186.7 reflecting extended forecasts through 2035E to capture long-run humanoid robot market potential as 2030-35E earnings increments are likely to be more exponential underpinned by LeaderDrive's strong product positioning and competitiveness, thus our recognition on the visibility of that trajectory. However, we **maintain a Neutral rating**, with 0% implied upside (as of today's close) and the stock trading at c.250x 12-m forward P/E. Our revised TP utilizes a longer-term valuation framework **based on 35x 2035E P/E**, discounted back to 2027E with a 12% CoE. This target multiple is benchmarked against recent trading P/E multiples of Chinese industrial tech leaders Inovance/Sanhua at a similar revenue/net profit scale compared to our extended forecasts for LeaderDrive by 2035E.

We project **a robust 64%/37% total sales CAGR for 2025-30E/30-35E**, primarily fueled by the structural humanoid robot industry growth, with our global teams now seeing humanoid shipment reaching 890k/6.5mn units by 2030E/35E. Given the high density of harmonic reduction gears in humanoids especially the ones that demand high level of manipulation capability, we model LeaderDrive's humanoid related revenue to surge to Rmb5.7bn/30.5bn in 2030E/35E, representing **84% and 94% of total sales** respectively. To capture this demand, we model an aggressive capacity ramp to c.7mn units by 2030E, supporting a sustained c.30%/c.50% market share in high/low-to-mid-spec applications with higher share among the Chinese humanoid players while geopolitical sensitivities could limit overseas expansion, particularly among the US customer base.

Despite strong topline visibility and likely end-state market leadership, near-term earnings trajectory will likely be compromised by margins declines, as LeaderDrive is adopting **an aggressive pricing strategy to deter new entrants and pressure key**

NEUTRAL

Jacqueline Du
+852-2978-1783 | jacqueline.du@gs.com
Goldman Sachs (Asia) L.L.C.

Key Data

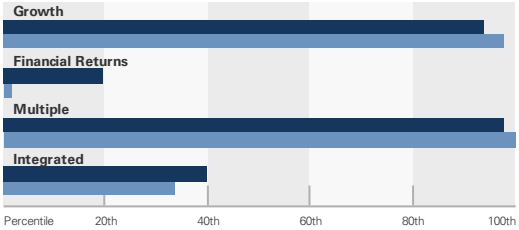
Market cap: Rmb53.3bn / $7.9bn
Enterprise value: Rmb52.6bn / $7.8bn
3m ADTV: Rmb4.5bn / $671.9mn
China
China Industrial Tech & Machinery
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn) New	**570.7**	**863.0**	**1,371.9**	**2,394.6**
Revenue (Rmb mn) Old	570.7	923.9	1,284.4	1,748.7
EBITDA (Rmb mn)	143.8	216.8	260.5	392.4
EPS (Rmb) New	**0.68**	**0.92**	**1.17**	**1.81**
EPS (Rmb) Old	0.68	1.18	1.84	2.60
P/E (X)	NM	NM	NM	160.6
P/B (X)	7.6	14.5	13.9	13.1
Dividend yield (%)	0.1	0.1	0.1	0.2
CROCI (%)	7.9	9.3	10.0	12.6

	3/26	6/26	9/26E	12/26E
EPS (Rmb)	0.18	0.20	0.26	0.28

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

Goldman Sachs does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

NEUTRAL

Leader Harmonious Drive Systems Co. (688017.SS)

Rating since Jan 13, 2025

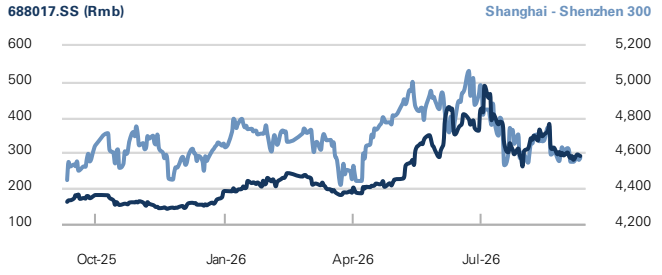
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	NM	NM	NM	160.6
P/B (X)	7.6	14.5	13.9	13.1
FCF yield (%)	0.2	(0.6)	(0.4)	(0.7)
EV/EBITDAR (X)	181.7	242.6	201.6	134.3
EV/EBITDA (excl. leases) (X)	181.7	242.6	201.6	134.3
CROCI (%)	7.9	9.3	10.0	12.6
ROE (%)	3.6	4.7	5.7	8.4
Net debt/equity (%)	(21.0)	(18.6)	(19.1)	(14.2)
Net debt/equity (excl. leases) (%)	(21.0)	(18.6)	(19.1)	(14.2)
Interest cover (X)	21.2	33,982.4	40,934.6	70,523.5
Days inventory outst, sales	169.7	149.0	142.8	130.8
Receivable days	153.7	131.1	112.2	97.2
Days payable outstanding	95.6	97.5	97.1	97.8
DuPont ROE (%)	3.5	4.6	5.6	8.2
Turnover (X)	0.1	0.2	0.3	0.5
Leverage (X)	1.1	1.1	1.2	1.3
Gross cash invested (ex cash) (Rmb)	2,596.0	2,917.6	3,192.1	3,798.2
Average capital employed (Rmb)	2,406.2	2,890.7	3,036.2	3,284.7
BVPS (Rmb)	19.33	20.00	20.83	22.12

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	47.3	51.2	59.0	74.5
EBITDA growth	82.9	50.8	20.2	50.6
EPS growth	103.8	36.1	26.5	55.0
DPS growth	93.4	31.9	26.5	55.0
EBIT margin	14.7	14.0	10.6	10.5
EBITDA margin	25.2	25.1	19.0	16.4
Net income margin	21.8	19.6	15.6	13.9

Price Performance



	3m	6m	12m
Absolute	(30.9)%	39.4%	78.8%
Rel. to the Shanghai - Shenzhen 300	(27.4)%	40.7%	73.4%

Source: FactSet. Price as of 9 Sep 2026 close.

Income Statement (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	570.7	863.0	1,371.9	2,394.6
Cost of goods sold	(360.1)	(569.3)	(958.6)	(1,693.2)
SG&A	(39.7)	(34.5)	(68.6)	(143.7)
R&D	(53.9)	(94.9)	(137.2)	(215.5)
Other operating inc./(exp.)	(33.0)	(43.1)	(61.7)	(91.0)
EBITDA	**143.8**	**216.8**	**260.5**	**392.4**
Depreciation & amortization	(59.7)	(95.7)	(114.7)	(141.2)
EBIT	**84.1**	**121.0**	**145.8**	**251.2**
Net interest inc./(exp.)	(1.1)	7.5	6.8	7.3
Income/(loss) from associates	(0.8)	(0.5)	–	–
Pre-tax profit	**144.3**	**194.0**	**246.0**	**385.7**
Provision for taxes	(18.4)	(23.3)	(32.0)	(54.0)
Minority interest	(1.5)	(1.5)	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**124.4**	**169.2**	**214.0**	**331.7**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**124.4**	**169.2**	**214.0**	**331.7**
EPS (basic, pre-except) (Rmb)	**0.68**	**0.92**	**1.17**	**1.81**
EPS (diluted, pre-except) (Rmb)	**0.68**	**0.92**	**1.17**	**1.81**
EPS (basic, post-except) (Rmb)	**0.68**	**0.92**	**1.17**	**1.81**
EPS (diluted, post-except) (Rmb)	**0.68**	**0.92**	**1.17**	**1.81**
DPS (Rmb)	0.21	0.28	0.35	0.54
Div. payout ratio (%)	31.0	30.0	30.0	30.0

Balance Sheet (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	745.5	682.4	730.1	574.7
Accounts receivable	265.2	354.6	488.6	787.3
Inventory	285.0	419.5	653.7	1,061.9
Other current assets	1,296.0	996.0	696.0	396.0
Total current assets	**2,591.7**	**2,452.6**	**2,568.5**	**2,819.9**
Net PP&E	610.4	958.2	1,135.7	1,399.2
Net intangibles	56.8	49.6	42.5	35.3
Total investments	57.2	101.0	171.4	269.9
Other long-term assets	613.1	613.1	613.1	613.1
Total assets	**3,929.1**	**4,174.4**	**4,531.1**	**5,137.4**
Accounts payable	117.0	187.2	323.0	584.5
Short-term debt	0.1	0.1	0.1	0.1
Short-term lease liabilities	–	–	–	–
Other current liabilities	153.8	166.0	179.5	214.8
Total current liabilities	**270.9**	**353.3**	**502.6**	**799.4**
Long-term debt	0.0	0.0	0.0	0.0
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	115.0	155.3	209.6	283.0
Total long-term liabilities	**115.0**	**155.3**	**209.6**	**283.0**
Total liabilities	**385.9**	**508.6**	**712.2**	**1,082.3**
Preferred shares	–	–	–	–
Total common equity	3,536.8	3,658.0	3,811.1	4,047.2
Minority interest	**6.4**	**7.9**	**7.9**	**7.9**
Total liabilities & equity	**3,929.1**	**4,174.4**	**4,531.1**	**5,137.4**
Net debt, adjusted	(745.4)	(682.3)	(730.0)	(574.6)

Cash Flow (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Net income	124.4	169.2	214.0	331.7
D&A add-back	59.7	95.7	114.7	141.2
Minority interest add-back	1.5	1.5	–	–
Net (inc)/dec working capital	(3.5)	(153.8)	(232.4)	(445.4)
Other operating cash flow	(30.1)	(3.5)	(16.1)	(25.2)
Cash flow from operations	**152.0**	**109.1**	**80.3**	**2.4**
Capital expenditures	(99.7)	(436.3)	(285.1)	(397.5)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	(662.5)	300.0	300.0	300.0
Cash flow from investing	**(762.3)**	**(136.3)**	**14.9**	**(97.5)**
Repayment of lease liabilities	–	–		
Dividends paid (common & pref)	(22.4)	(38.5		
Inc/(dec) in debt	(148.1)	–		
Other financing cash flows	1.5	2.7		
Cash flow from financing	**(168.9)**	**(35.8**		
Total cash flow	**(779.2)**	**(63.0**		
Free cash flow	52.3	(327.3		

Source: Company data, Goldman S

人在草木间

competitors' profitability. Evidently, 2Q26 GPM contracted -4pp yoy and -2pp qoq to 31.3%. Furthermore, management's target to double capacity annually will incur higher depreciation costs before industry demand more meaningfully catches up in 2029E and beyond. We therefore **lower our 2026E/30E GPM forecasts to 34.0%/30.7% and OPM to 14.0%/12.9%**. After revising down 2026-30E net income estimates by -22% on average, we now forecast a 49% net income CAGR over 2025-30E as expanding sales are partially offset by margin declines. All in, our 2026-28E revenue forecasts are +21% above Wind Consensus on humanoid leadership, while our net income estimates are -19% below consensus.

Upside/downside risks: (1) faster/lower-than-expected volume production and/or technology advancement of humanoid robots; (2) better/worse-than-expected domestic industrial/collaborative robot demand; (3) faster/lower-than-expected penetration into key robot customers (especially foreign brands); (4) more/less competition pressure from overseas and local brands.

64%/37% 2025-30E/30-35E sales CAGR with humanoid market leadership backed by capacity ramp

Our global teams recently raised global humanoid robot market forecasts and now expect **annual shipments** to reach **c.75k units in 2026E, 890k in 2030E, and 6.5mn in 2035E** (vs. 51k, 256k, and 1.4mn previously), as an increasing number of humanoid programs advance toward larger-scale prototype deployments and the early stages of commercial production (see *Physical AI - Framing the Forward Progress of Humanoids (with a Studied Focus on the Logistics Landscape*). This rapid growth in global humanoid robot shipments, and the fact that harmonic reduction gears are adopted at a much higher density on humanoid robots (avg. 14~16/10 harmonic reduction gears per high/mid-spec robot) than industrial robots (avg. 2 gears per robot) and cobots (avg. 6 gears per robots) will lead to **humanoid applications' share of the total global harmonic reduction gear demand mix surging** to 65%/89% by 2030E/35E from 3% in 2025, in our view.

We extend our forecasts for LeaderDrive through to 2035E (vs. 2030E previously) to capture the long-run potential of the humanoid industry and reflect these updated industry shipment assumptions. We continue to model the company capturing **c.30%/c.50% market share in the global high-specs/low-to-mid-specs humanoid robot industry in the long term with a dominant share in the China humanoid robot market**, supported by its competitive product quality, capacity advantage, customer relationships with the cobot brands (many of which are also setting foot into the humanoid space) as well as early dominance. That said, we believe **LeaderDrive's expansion in the overseas humanoid robot industry will, to a large degree, be subject to geopolitical sensitivities on critical emerging technologies and supply chain security, particularly within the US market.** Therefore, we adopt a conservative outlook regarding LeaderDrive's penetration into the US humanoid supply chain.

In our latest global supply/demand model for harmonic reduction gears (Exhibit 2), we model LeaderDrive to aggressively ramp up its annual capacity for to c.7mn by 2030E from 0.7mn/1.4mn units by 2025/26E, vs. management's long-term target of reaching 10mn units capacity. As such, we now model **revenue from humanoid robot end-market to reach Rmb5.7bn in 2030E** (vs. Rmb2.0bn prior) **and Rmb30.5bn in 2035E, accounting for 84% of total sales in 2030E** (vs. 58% prior and <20% in 2025) **and 94% in 2035E, with 123% CAGR over 2025-30E** (vs. 80% prior) **and 40% CAGR over 2030-35E**. Separately, We model a solid 18%/11% 2025-30E/30E-35E sales CAGR for the non-humanoid business, driven by market share gain on top of the organic growth in the global industrial/collaborative robot industry, as LeaderDrive continues to penetrate into the top 4 international industrial robot brands with increasingly on-par quality and competitive pricing vs. the global peers. All in, we look for **64% total sales CAGR in 2025-30E and 37% CAGR in 2030-35E**, mostly driven by the humanoid application.