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Shenzhen Inovance Technology Co. Ltd - A

Guidance maintained for FY26, IA anchors back-end-loaded earnings rebound, NEV worst likely behind

Overweight

300124.SZ, 300124 CH
Price (31 Aug 26):Rmb61.87
Price Target (Jun-27):Rmb84.00

Infrastructure, Industrials & Transport

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Inovance's latest briefing, held after the market close (31 August), pointed to a favorable Industrial Automation (IA) cycle, with tailwinds from AI-driven manufacturing, import substitution and broad-based end demand across lithium battery, 3C, machine tools and HVAC. July IA orders remained strong, up c.30% Y/Y, and August continued to show solid momentum, though the growth rate eased off as the base bumped up. Management said 2H26 IA demand should remain healthy, supported by ongoing digitalization and sector upgrades, even as the pace normalizes from the earlier surge. Pricing actions and product mix are helping IA margin and earnings trends, with management confident that the low point for group margin is behind it. Management maintained its full-year guidance for both revenue and profit in the 10-30% Y/Y range. NEV remains a drag, but the impact is dropping as the base eases and price transmission improves; overseas NEV volume is ramping up and should help further. ESS and humanoid robotics are seeing rapid development, especially overseas, with management focusing on higher-margin international projects and selectively abandoning low-margin domestic business. Maintain OW.

- **Management maintained FY26 guidance for both revenue and profit in the 10-30% Y/Y range**, highlighting that IA continues to anchor group results with solid order flow and pricing actions supporting a margin recovery. For EV, management pointed to ongoing margin pressure from raw material costs and domestic demand softness, but noted that the impact is dropping as the base eases and overseas volume increases, and product expansion into smart chassis. The elevator business delivered steady growth, and management expects this segment to remain stable for the rest of the year. Overall, management's view is that margin improvement is under way, segment performance is mixed, but manageable, and the company is well positioned to deliver on full-year targets.
- **The IA demand recovery by industry is diversified, with incremental market share gains and new product launches driving performance.** Inovance continues to gain share in servo, drives, PLC and robotics, with notable traction in lithium battery, 3C, machine tools and HVAC. Key customers include leading battery manufacturers, electronics OEMs and HVAC integrators, which are adopting new launches in large PLCs, high-load robots and precision actuators. Management highlighted that 20-30 industries saw >20-30% Y/Y growth in 1H26 and sees further opportunity in process industries, semi and international markets. Revenue and profit contribution from IA remains the foundation for group results, with margin improving Q/Q and no major customer losses reported.
- **Process automation (PA) is seeing mixed momentum, with August likely softer due to a high base, but investment and product improvement continue.** Inovance is investing in advanced PLCs, industrial software and

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digital twins to support complex process control. Engineering software and functional safety are areas for improvement, and PA is expected to remain a key growth area as digitalization and operational efficiency become more important. Some customers in process industries have flagged project delays or high base effects, but management is focused on improving engineering software and accelerating share gains. The pace of growth in PA is more moderate compared to discrete IA.

- **The IA margin trend is improving incrementally, with pricing actions and product mix supporting earnings quality, and management is confident the low point is behind it.** Gross margin for IA improved Q/Q in Q2, with price increases and a better product mix offsetting raw material inflation. Management expects further improvement in 2H26 as new products scale and operational leverage increases. The company is prioritizing pricing discipline and cost controls and sees incremental margin improvement as new launches gain traction.
- **NEV continues to weigh on group results, but management sees the impact dropping as the base eases and price transmission improves, with overseas volume ramping up and new customer wins.** Management acknowledged that NEV margin remains under pressure due to raw material inflation and weak domestic demand, but said some price increases are now being accepted by customers, which should help the margin recovery. The drag from NEV is dropping as the base effect eases and international projects ramp up, especially in Europe. The smart chassis business is scaling, and management expects less pressure in 2H26 and 2027 as overseas contributions increase. Management did not commit to a breakeven timeline, but signaled that the outlook is improving and the worst is likely behind it.
- **ESS and digital energy are seeing rapid development, especially overseas, with management focusing on higher-margin international projects and selectively abandoning low-margin domestic business.** Management highlighted that ESS and digital energy revenue in 1H26 nearly doubled Y/Y, with overseas orders up 100%. It is prioritizing higher-margin projects abroad, particularly in Europe, and is building out zero-carbon solution pilots. Domestic low-margin projects are being selectively abandoned to improve the overall margin profile. Management described overseas ESS margins as better than domestic. The focus remains on scaling international business and piloting new solutions, with customer engagement and partnership expansion under way.
- **Humanoid robotics is progressing, with small-batch sales of motors and validation of seven-axis arms in industrial scenarios, and management is focused on vertical, scenario-specific applications, with customer trials ongoing.** Management is prioritizing modular components and solutions for industrial use, rather than pursuing general-purpose humanoid robots. The main opportunity in the next three years is seen in vertical, scenario-specific applications, with ongoing customer trials and feedback. Revenue contribution is still small, but growing, and margins are improving as new products gain acceptance.
- **Overseas opportunities are expanding, with IA as the top priority, followed by automotive and robotics.** Management targets overseas revenue to reach 20-30% of group sales, with customer wins in Europe, Southeast Asia and India. Europe, Southeast Asia and India are key focus markets, with local production, direct sales and partnerships driving growth. Management is seeing strong momentum in digital energy and automation exports, and is leveraging the “borrowed ship” strategy to support international sales via domestic OEMs. Customer wins include new projects with European industrial and automotive clients, and revenue contribution from overseas is rising.

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Table 1: Inovance 1H26 financial review

Rmb MMs (PRC GAAP)	1H26	1H25	*Y/Y*	FY26 JPMe	Achieved%	2Q26	2Q25	*Y/Y*	2H26E	2H25	*Y/Y*
Revenue	24,675	20,509	20%	52,734	47%	14,532	11,531	26%	28,058	24,595	14%
Cost of sales	(17,336)	(14,310)	21%	(37,651)	46%	(10,143)	(8,114)	25%	(20,314)	(17,735)	15%
Gross profit	**7,339**	**6,199**	**18%**	**15,083**	**49%**	**4,389**	**3,418**	**28%**	**7,744**	**6,861**	**13%**
GPM%	*29.7%*	*30.2%*	*-0.5ppts*	*28.6%*	1.1ppts	*30.2%*	*29.6%*	*0.6ppts*	*27.6%*	*27.9%*	*-0.3ppts*
Operating expenses	**(4,594)**	**(3,749)**	**23%**	**(9,763)**	**47%**	**(2,660)**	**(2,132)**	**25%**	**(5,169)**	**(4,692)**	**10%**
Taxes and others	(150)	(130)	15%	(319)	47%	(86)	(74)	16%	(169)	(143)	18%
Selling expenses	(723)	(674)	7%	(1,743)	41%	(408)	(348)	17%	(1,020)	(862)	18%
Admin expenses	(3,226)	(2,796)	15%	(7,057)	46%	(1,753)	(1,504)	17%	(3,831)	(3,285)	17%
Impairment loss of assets	(495)	(150)	230%	(645)	77%	(413)	(206)	100%	(150)	(402)	-63%
						-18%	-18%	*0.2ppts*			
Other gains/losses (net)	**430**	**449**	**-4%**	**1,068**	**40%**	**279**	**275**	**2%**	**638**	**449**	**42%**
Other investment income	428	454	-6%	1,070	40%	280	270	4%	642	446	44%
Non-operating income	12	9	37%	50	24%	6	4	47%	38	41	-8%
Non-operating expenses	(11)	(14)	-21%	(52)	20%	(7)	0	nm	(42)	(39)	7%
EBIT	**3,175**	**2,899**	**10%**	**6,388**	**50%**	**2,009**	**1,561**	**29%**	**3,213**	**2,618**	**23%**
EBIT margin%	*12.9%*	*14.1%*	*-1.3ppts*	*12.1%*	0.8ppts	*13.8%*	*13.5%*	*0.3ppts*	*11.5%*	*10.6%*	*0.8ppts*
Net finance expenses	(49)	52	-194%	204	-24%	(34)	37	-194%	253	14	1758%
Share of profit of associates & JCEs	(75)	241	-131%	0	nm	6	184	-97%	75	(390)	nm
Earnings before taxes	**3,050**	**3,192**	**-4%**	**6,591**	**46%**	**1,980**	**1,781**	**11%**	**3,541**	**2,241**	**58%**
Income tax expenses	(250)	(187)	33%	(349)	72%	(202)	(119)	69%	(100)	(74)	35%
Net profit	**2,801**	**3,005**	**-7%**	**6,242**	**45%**	**1,778**	**1,662**	**7%**	**3,441**	**2,168**	**59%**
Minority interest	9	(36)	nm	(148)	nm	19	(16)	nm	(157)	(86)	82%
Net profit attributable to shareholders	**2,810**	**2,969**	**-5%**	**6,094**	**46%**	**1,796**	**1,646**	**9%**	**3,284**	**2,081**	**58%**
Net margin	*11.4%*	*14.5%*	*-3.1ppts*	*11.6%*	-0.2ppts	*12.4%*	*14.3%*	*-1.9ppts*	*11.7%*	*8.5%*	*3.2ppts*
Op-CF	**1,975**	**3,020**	**-35%**	**7,506**	**26%**	**1,881**	**2,758**	**-32%**	**5,531**	**3,661**	**51%**
Capex	(1,479)	(1,329)	11%	(3,613)	41%	(659)	(661)	0%	(2,134)	(1,695)	26%

Source: Company data, J.P. Morgan estimates.

Table 2: Inovance 1H26 segment breakdown

Segmental	1H26	1H25	Y/Y	FY26 JPMe	Achieved%
Revenue					
Industrial Automation	13,466	10,426	29%	27,139	49.6%
NEV	9,407	9,041	4%	22,355	42.1%
All others including new business	1,803	1,042	73%	3,239	55.7%
GPM					
Industrial Automation	41%	41%	*0.0ppts*	39%	2.1ppts
NEV	13%	17%	*-4.0ppts*	13%	-0.3ppts
All others including new business	31%	35%	*-4.0ppts*	46%	-15.0ppts

Source: Company data, J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

Shenzhen Inovance Technology Co. Ltd - A *(Overweight; Price Target: Rmb84.00)*

Investment Thesis

We rate Shenzhen Inovance OW, given its superior supply chain management and product development capabilities, which we believe position it to capture China's ongoing factory automation and industrial upgrade. Inovance's consistent track record of returns and robust Op-CF generation stand out among peers, providing comfort for investors amid rising macro headwinds. Beyond its core strengths in FA, Inovance is also actively investing in new growth drivers—including humanoid robots, energy storage systems (ESS) and digital/AI platforms—which are set to support the next phase of expansion and margin resilience. We believe Inovance is distinctively positioned to benefit from the ongoing upcycle in China's FA sector, with its ability to deliver innovation, scale and execution making it the best play for investors seeking exposure to this structural transformation.

Valuation

Our DCF-based Jun-27 PT of Rmb84 is based on terminal growth of 3% and a WACC of 8%, calculated based on the following assumptions: cost of equity at 9.0% (based on Rf = 2.2% [aligned with the latest China 10-year bond yield], an equity risk premium of 6.8% and a beta of 1.0 x), cost of debt at ~4% and target debt-to-capital of 20%. Our PT translates into a target PEG of c1.5x against our projected 23% earnings growth over FY25-28E.

Risks to Rating and Price Target

Downside risks include: (1) worse-than-expected IA segment growth; (2) smaller-than-expected market share gains from Japanese and European/US brands; (3) worse-than-expected GPM due to fiercer pricing competition across IA, elevator and NEV businesses; (4) a larger-than-expected impact from tariffs; and (5) fiercer market competition in the NEV PV controller business.



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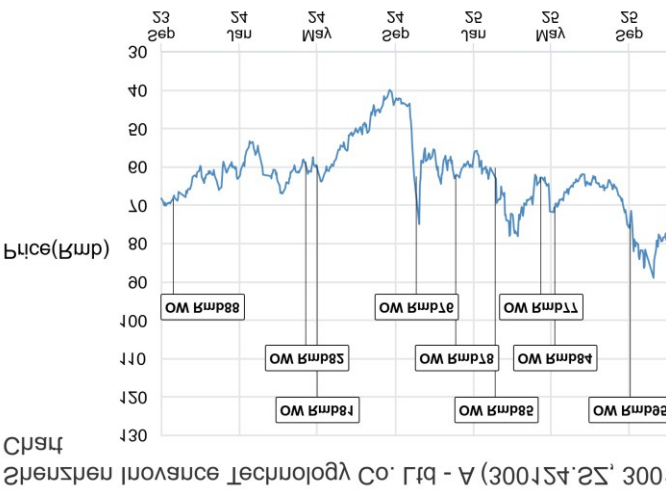
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