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Asian Industrial Technology

China Next Winners: Industrial Technologies – From local substitution to globalization



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The next phase for China winners is to go global. We examine the globalization journey of Chinese industrial companies and show that two key factors, technology gap and degree of integration, determine the globalization inflection point and pace (Exhibit 5). We predict that the next wave of overseas "disruption" from China will likely be emerging technologies, such as humanoid / intelligent / commercial robotics, and material processing machines, such as machine tools, injection molding machines and laser cutting / welding equipment. Automation components and industrial robots, due to the complex integration required by users, will likely see steady progress rather than a sudden inflection point.

What drives the different pace of globalization? Overseas revenue contribution ranges from <10% to 70%+ across key sectors (Exhibit 4). Commercial / collaborative / mobile robots, construction equipment, and emerging technologies such as humanoid robots and intelligent robot guiding systems all generate over 40% of revenue overseas, while automation component companies have <10%. Two key factors drive the difference. The first is technology level. Chinese global winners emerge in areas where Chinese companies have closed the gap (such as construction equipment) or are technology leaders when the field is born (such as commercial and humanoid robots). The second factor is the level of integration. In the same industry, components are generally behind equipment in globalization, because the former needs to be designed into the latter and tested at each individual customer, and the process has no shortcut. This distinction clearly manifests in the construction and automation equipment industries (Exhibit 6).

When does breakthrough happen? 1) We believe the "born leaders" will continue their global success with newcomers, such as Mech-Mind, Pudu Robotics, and Chinese humanoid robot companies joining the club. 2) For standalone equipment, true inflection happens when local substitution has progressed to the mid-to-high end in China (Exhibit 8). Chinese machine tools, injection molding machines and laser equipment have just gone through the first stage, i.e., local substitution in the mid-to-low end, and further closing the technology gap will be the main driver for globalization. 3) Compared to general industrial components, automation components have on average bigger technology gaps, and due to the complex integration required, we do not expect a sudden inflection point but instead see steady progress for companies such as Inovance. Industrial robot, although not a component, also requires sophisticated integration, and will likely have a similar journey. For the same companies, overseas business generates gross margins that are 3-23 percentage points higher than domestic business (Exhibit 10).

China's globalization advantage is built on "engineer dividend" and deepening localization to the supply chain upstream. The advantage of China as a low-cost production base is shared by multinational companies in China, but China as a low cost engineering base remains a sustainable advantage (Exhibit 14). This advantage matters the most in emerging technology fields where engineer cost is the bigger item. Furthermore, Chinese industries' localization has steadily extended to the upstream, driving profound improvement in product quality and sustainable cost advantage, and showing an interesting contrast to the localization pattern in India (Exhibit 16).

See the Disclosure Appendix of this report for required disclosures, analyst certifications and other important information. Alternatively, visit our Global Research Disclosure Website.

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INVESTMENT IMPLICATIONS

Inovance has made solid progress in local substitution and its technology is comparable to leading global peers across most products. Its low overseas revenue contribution (~6%) is primarily a function of its product nature as automation components typically require a high degree of integration. We see significant long-term globalization potential for overseas revenue contribution to eventually exceed 40%, but this is likely to be a gradual process. A similar dynamic applies to its EV business, which we expect to globalize at a slower pace than Chinese EV OEMs.

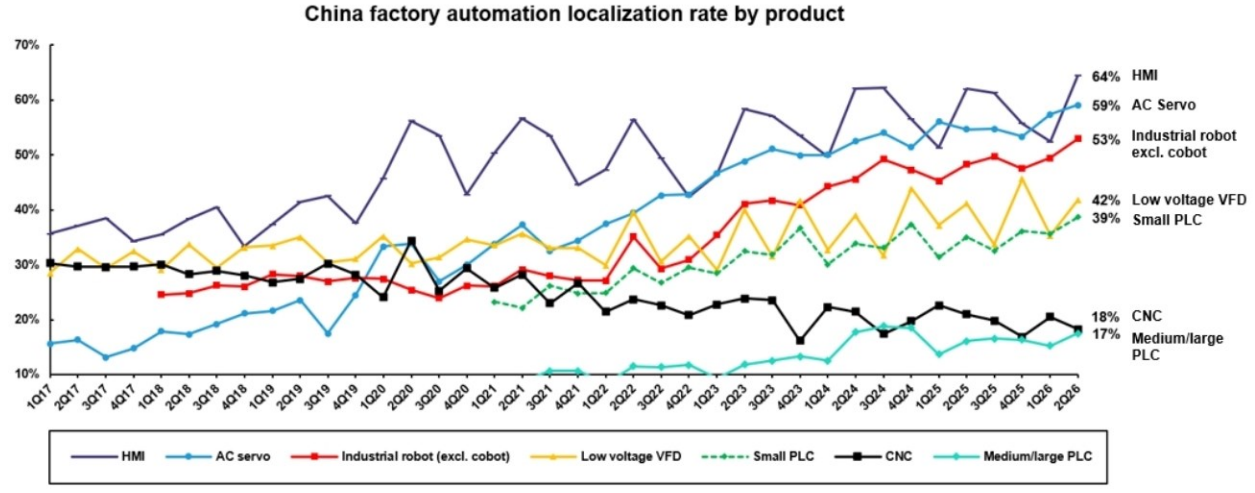
For Keyence, FANUC, SMC, Cognex, and IPG, their products require integration within customers' automation systems. Even when technology gaps narrow, market penetration by new entrants tends to be slow. We believe they will be able to sustain their global market positions through innovation at the technological frontier.

We predict that the next wave of overseas expansion from China will likely be emerging technologies, such as humanoid / intelligent / commercial robotics, and material processing machines, such as machine tools, injection molding machines and laser cutting / welding equipment.

DETAILS

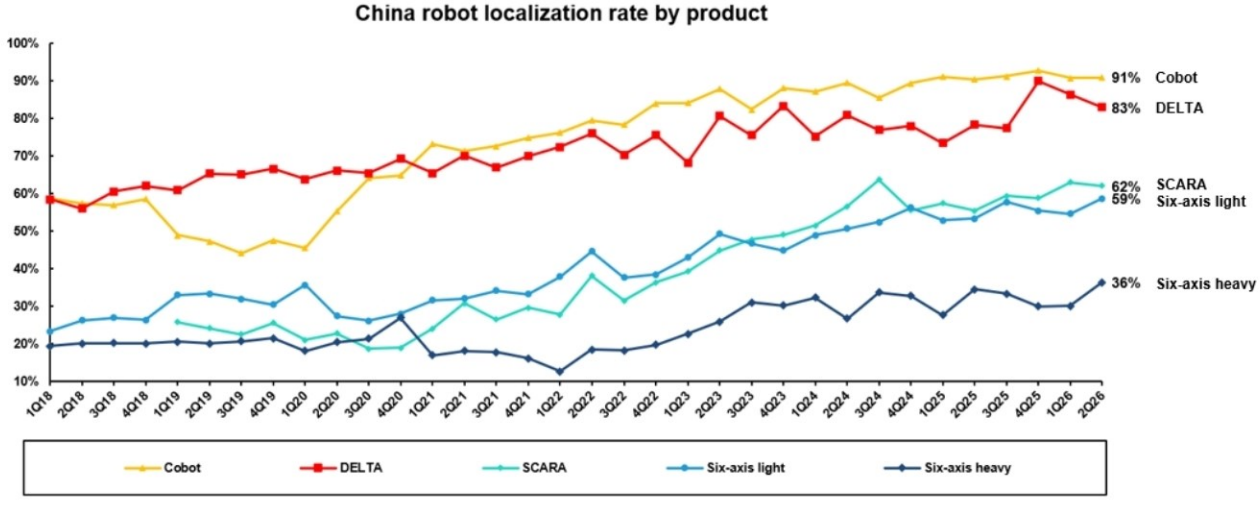
After Successful local substitution, globalization will be the next journey of Chinese automation companies.

EXHIBIT 1: **We have observed a steady trend of local substitution across key automation products, except in CNC**



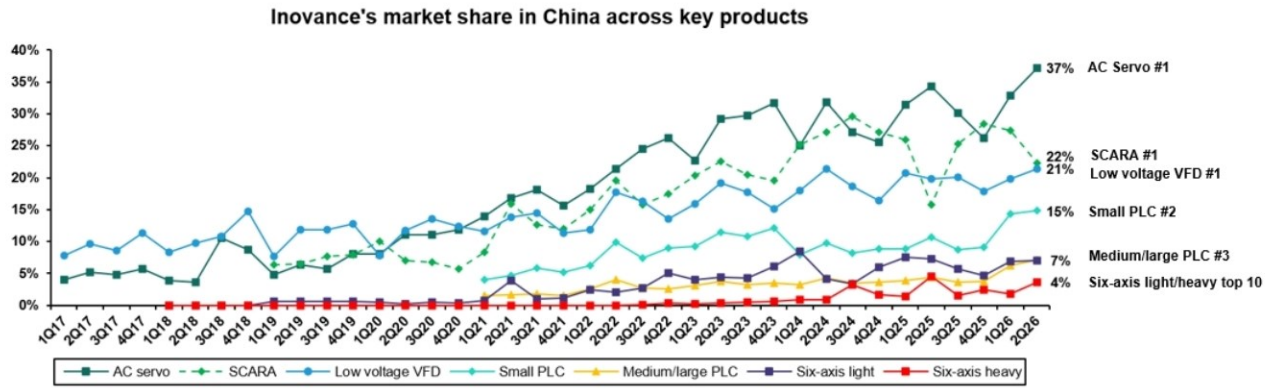
Source: MIR Databank, Bernstein analysis

EXHIBIT 2: **Domestic robot brands capture over 50% market share except for six-axis heavy robots**



Source: MIR Databank, Bernstein analysis

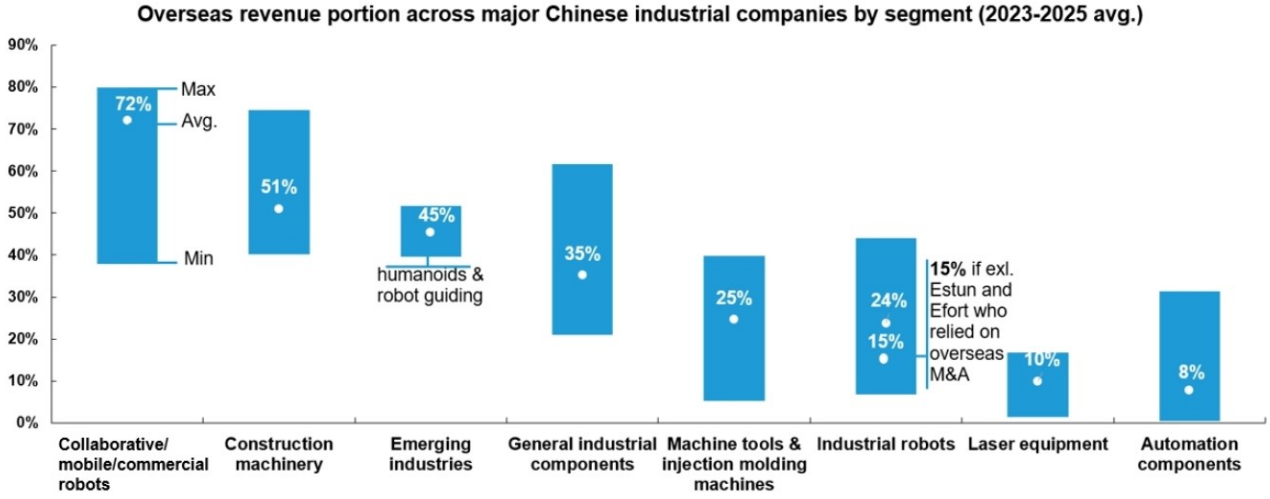
EXHIBIT 3: **Inovance is already the top player in AC servo, SCARA, and low voltage VFD in China with leading technology**



Source: MIR Databank, Bernstein analysis

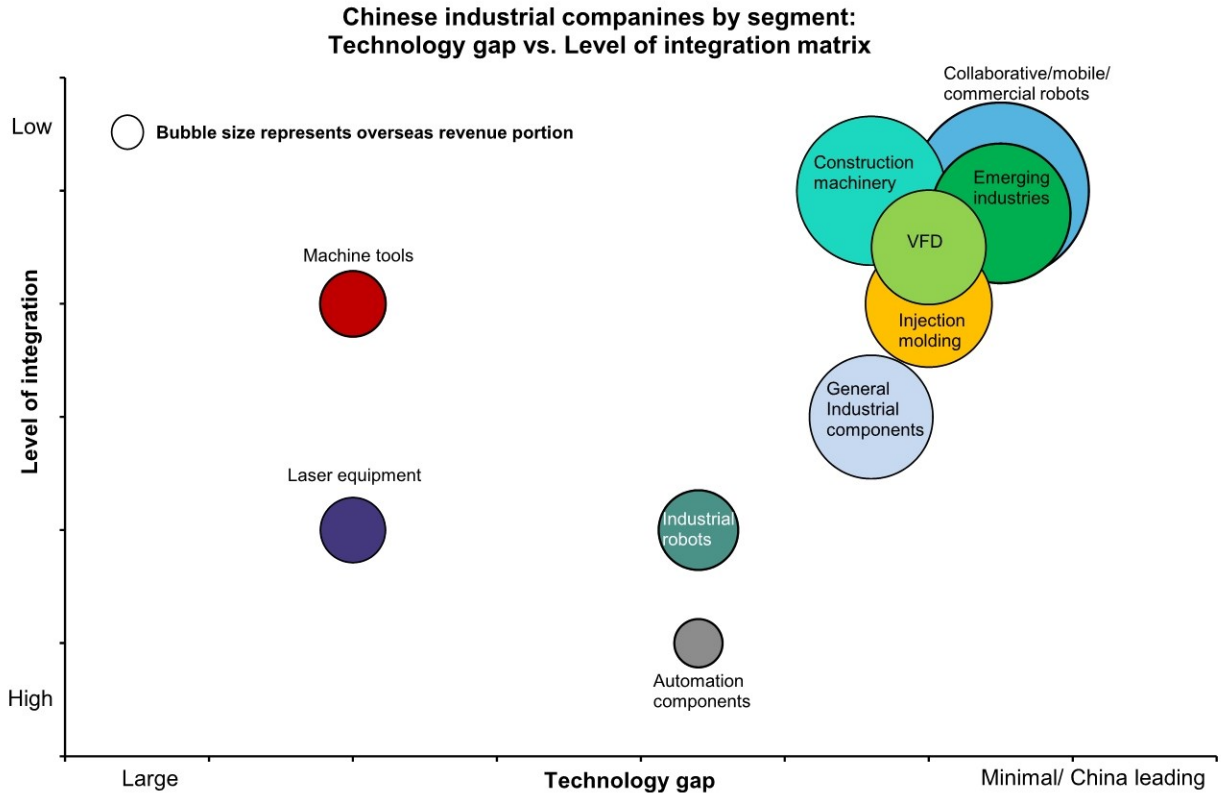
What drives the different pace of globalization across industries? We identify two key factors.

EXHIBIT 4: **Overseas revenue contribution ranges from 8% to 72% across key Chinese industrial segments**



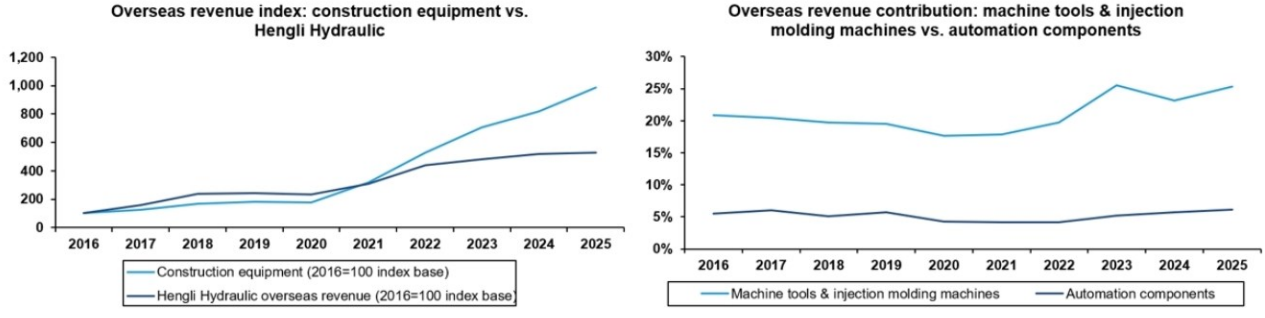
1) A full list of companies included in each segment could be found at the last page of the report; 2) Some Chinese companies disclose domestic and overseas revenue within their revenue from main operations.The proportion of overseas revenue is calculated by dividing overseas revenue by the sum of domestic and overseas revenue. It could be slightly different from overseas revenue divided by total revenue; 3) Companies have slighty different definition of overseas revenue and we use company disclosed data.
Source: Wind, Bernstein analysis

EXHIBIT 5: **Two major factors, technology gap and degree of integration, determine the globalization inflection point and pace**



Source: Wind, Bernstein analysis

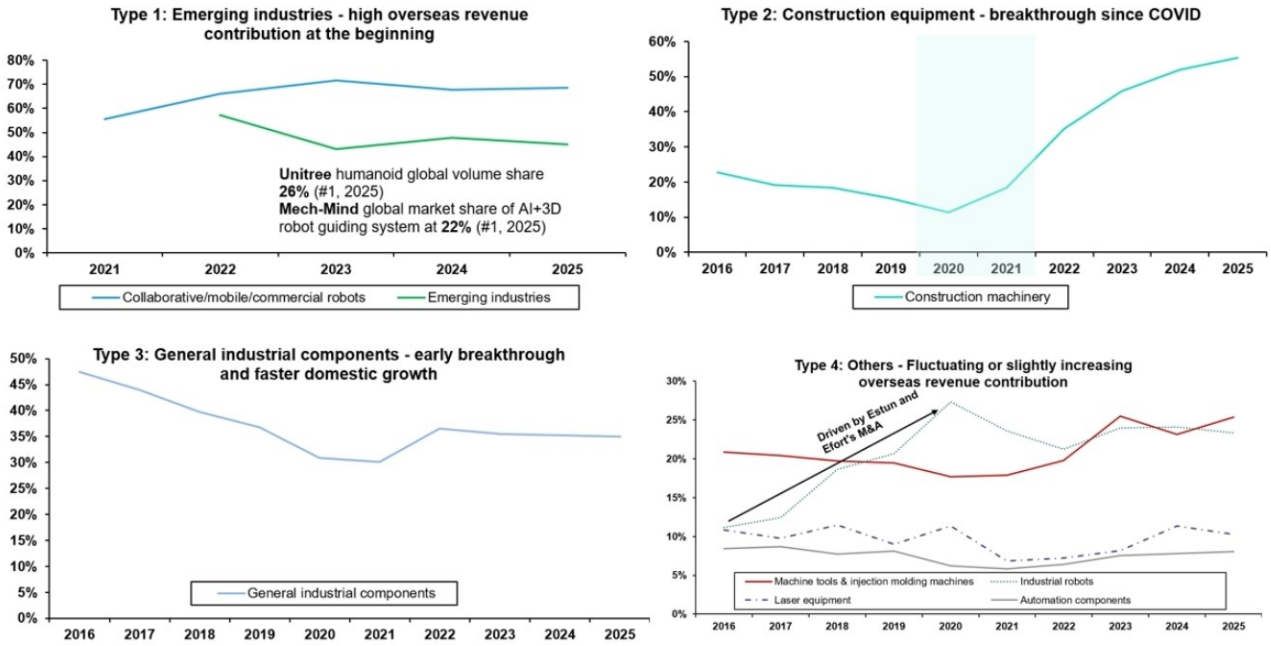
EXHIBIT 6: **In the same industry, components are generally behind standalone equipment in globalization, because the former needs to be designed into the latter and tested at each individual customer, and the process has no shortcut**



We use overseas revenue index for construction equipment as domestic revenue has declined since 2021.
Source: Wind, Bernstein analysis

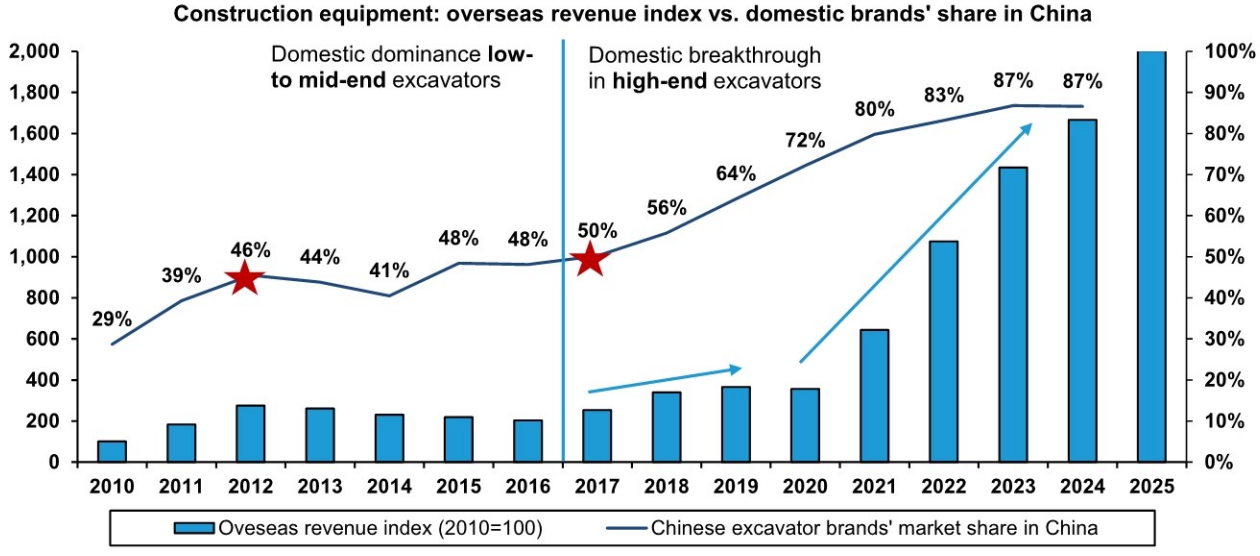
The learning across industrial technologies, and especially from Construction Equipment and Machine Tools, is that capturing low-hanging fruit in the domestic market is not enough, true inflection overseas happens when local substitution has progressed to the mid-to-high end.

EXHIBIT 7: **We have observed four types of globalization journey**



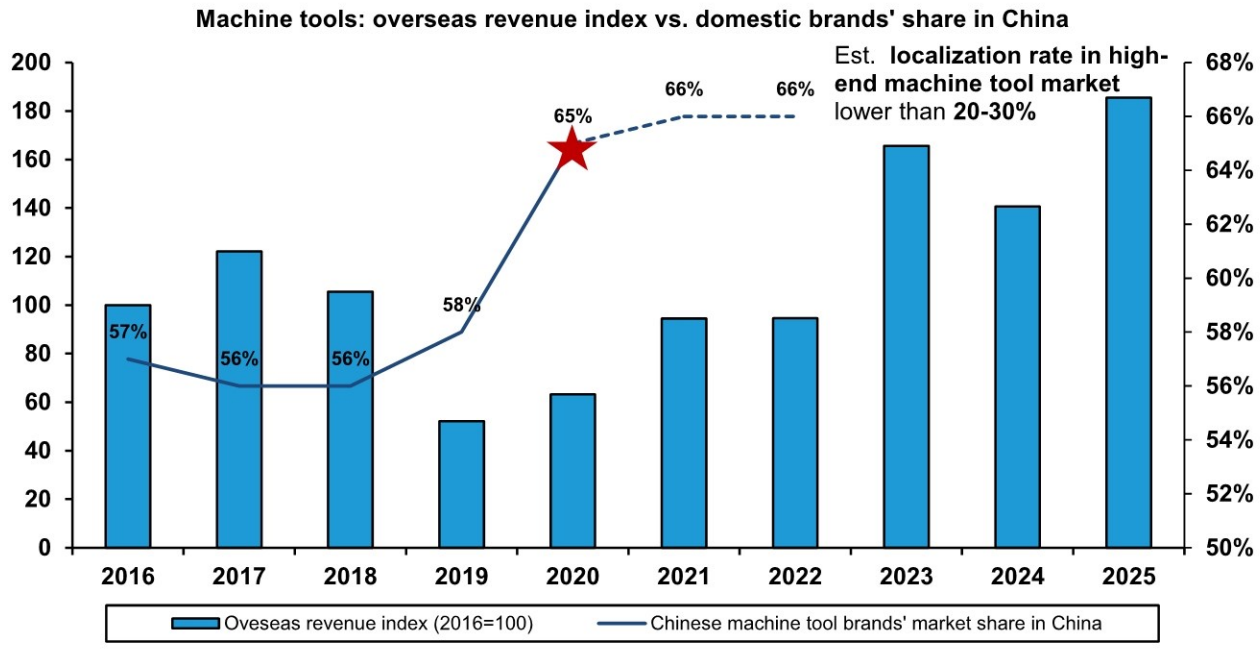
Pudu Robotics (commercial robot) is not included in this time-series analysis, as it does not disclose its overseas revenue contribution each year.
Source: Wind, Bernstein analysis

EXHIBIT 8: **Exponential overseas growth of Chinese construction equipment companies follows a domestic high-end market breakthrough, accelerated by foreign brand supply shortages during COVID**



Source: China Construction Machinery Industry Yearbook, Wind, Bernstein analysis

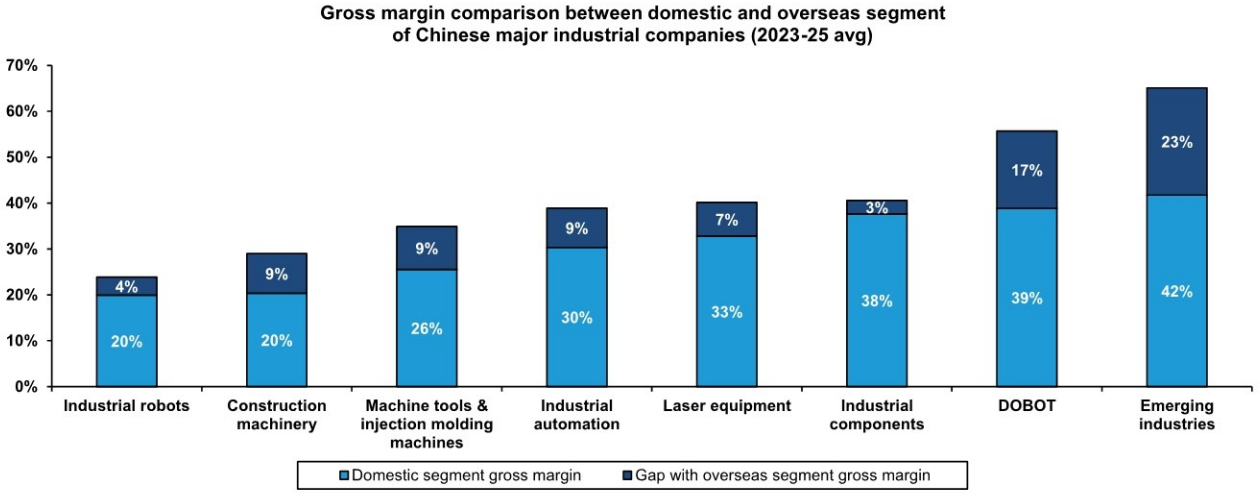
EXHIBIT 9: **We expect faster overseas market growth as Chinese machine tool companies improve high-end offerings**



Source: Wind, MIR Databank, Bernstein analysis

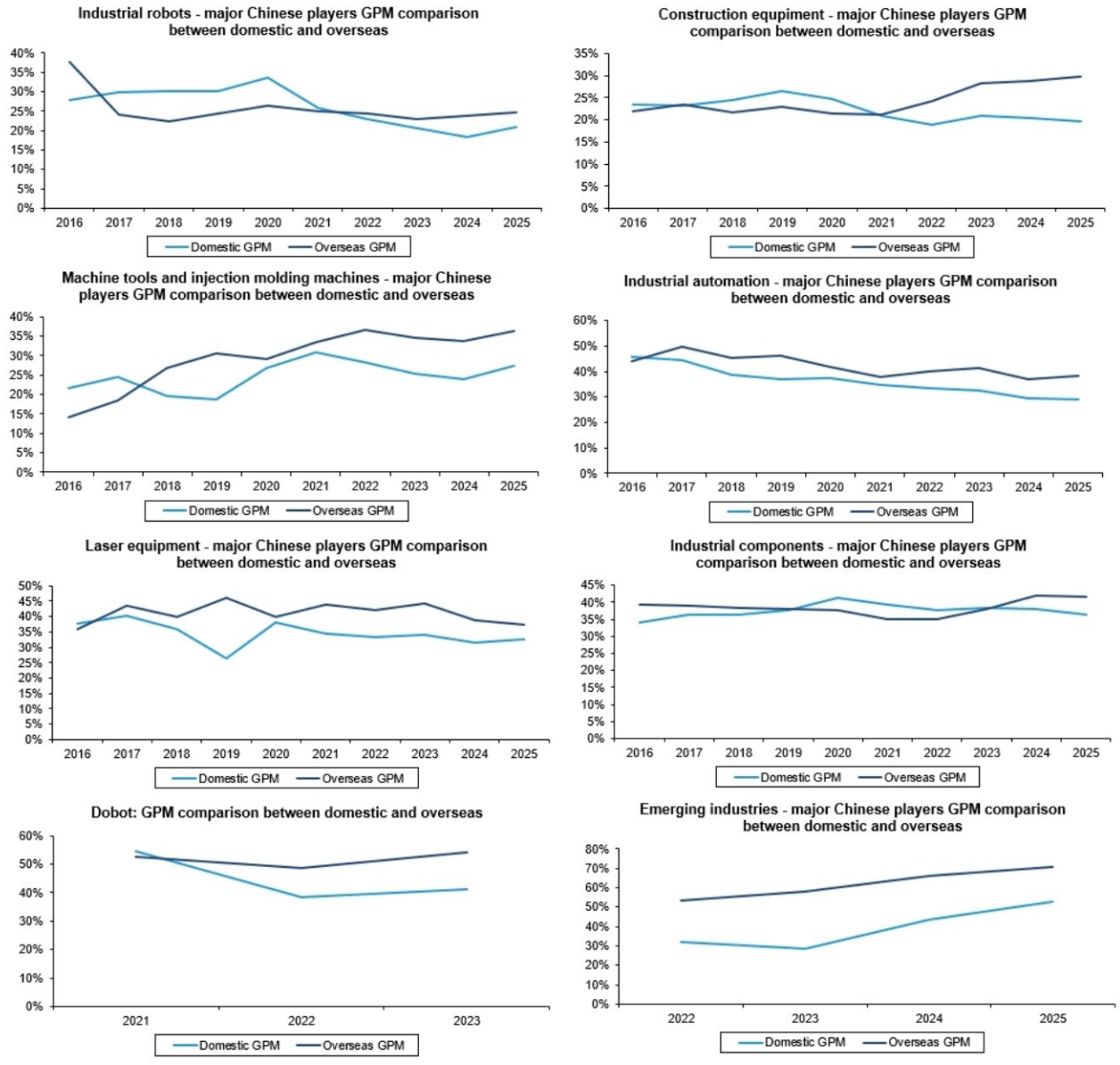
Globalization is margin accretive.

EXHIBIT 10: **Overseas markets provide margin-accretive growth opportunities**



For collaborative/mobile/commercial robots segment, DOBOT is the only company that discloses domestic and overseas gross margins; Emerging industries segment includes two companies Unitree (humanoids) and Mech-Mind (robot guiding systems).
Source: Wind, Bernstein analysis

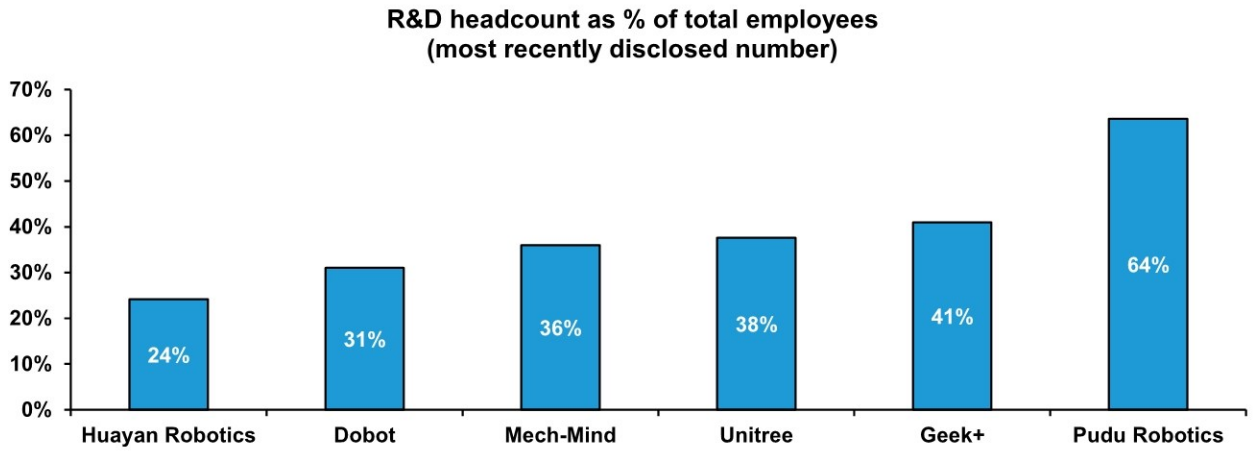
EXHIBIT 11: **Over the past decade, gross margins in overseas markets have remained higher and have been sustained or enhanced**



Source: Wind, Bernstein analysis

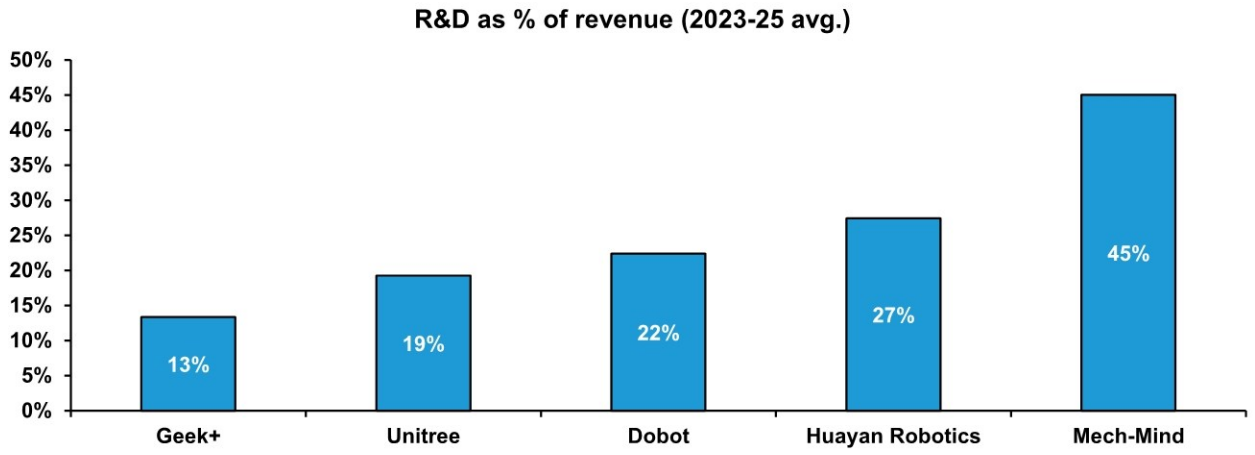
China's most sustainable advantages on the global stage are its "engineer dividend" and the depth of its local supply chain.

EXHIBIT 12: **In relatively new industries such as cobots, mobile and commercial robots, robot guidance systems, and humanoid robots, Chinese companies have a relatively high proportion of employees dedicated to R&D**



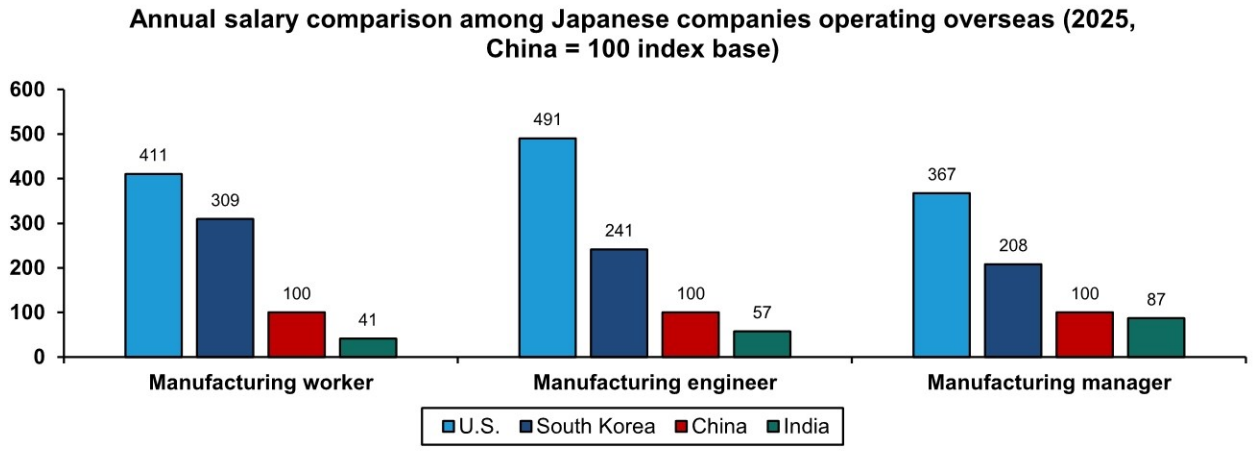
Source: Company reports, Bernstein analysis

EXHIBIT 13: **Correspondingly, their R&D spending represents a higher percentage of total revenue**



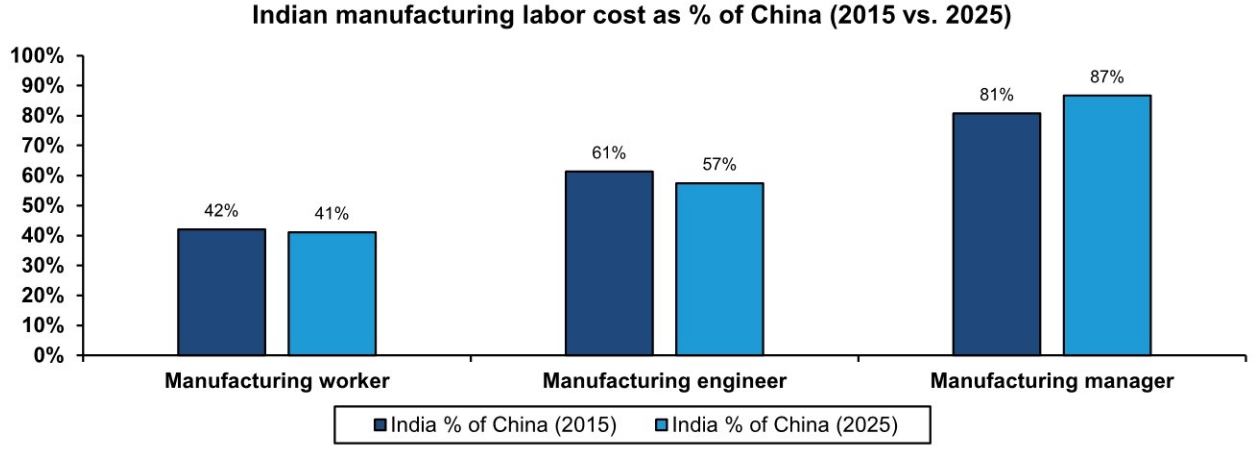
Source: Wind, Bernstein analysis

EXHIBIT 14: **China's cost advantage to developed economies extends beyond manufacturing workers to engineers and managers**



Source: JETRO (Japan External Trade Organization) survey, Bernstein analysis

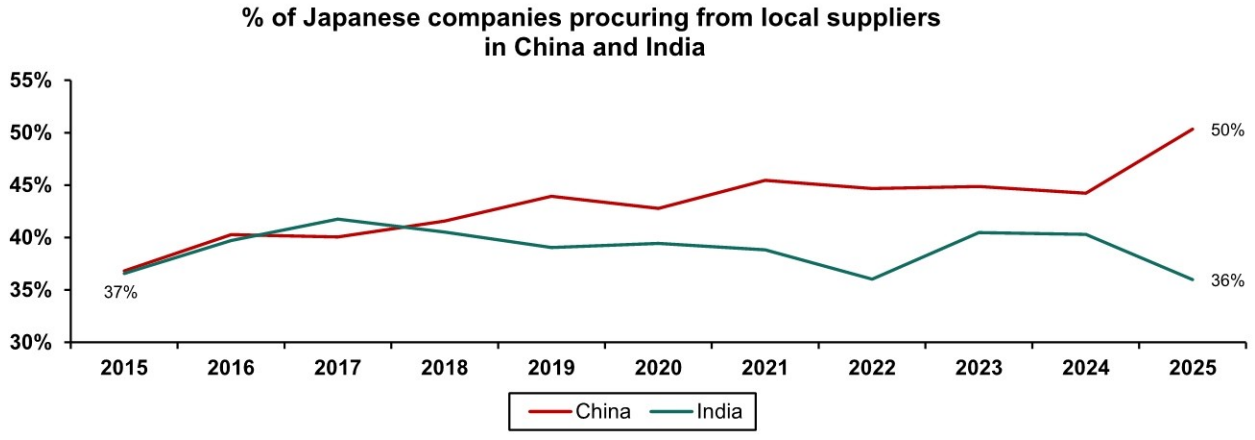
EXHIBIT 15: **Over the past decade, China's labor costs have increased only modestly relative to India**



Source: JETRO (Japan External Trade Organization) survey, Bernstein analysis

This exhibit below shows not the usual "local procurement ratio". It is the procurement percentage, by Japanese companies in China and India, from only local Chinese and local Indian companies, respectively. It does not include, for example, procurement from a U.S./EU/Japanese company's Chinese subsidiary. It is an indicator of the depth of the local supply chain.

EXHIBIT 16: **Over the past decade, an increasing number of Japanese companies have sourced from local suppliers in China, reflecting improvements in quality and the depth of supply chain**



Source: JETRO (Japan External Trade Organization) survey, Bernstein analysis

APPENDIX

Segment	Chinese companies included
Cobot & AMR	Dobot, Huayan Robotics, Geek+, Pudu Robotics
Construction equipment	Dingli, SANY, Zoomlion, XCMG, Dajin Heavy Industry, LiuGong, HELI, Hangcha, Shantui
Emerging industries	Unitree, Mech-Mind
General industrial components	Neway Valve, Hengli Hydraulic, Hongfa, CASTECH
Machine tools & injection molding machines	Haitian International, Haitian Precision, Yizumi, Neway CNC, Create Century, Qinchuan Machine Tool, Han's CNC
Industrial robots	EFORT, Topstar, Estun, SIASUN, Robotphoenix, ROKAE
Laser equipment	Raycus Laser, UW Laser, JPT, DR Laser, Han's Laser, Inno Laser, Everbright Photonics
Automation components	Inovance, HCFA, XINJE, Leadshine, INVT, Veichi Electric, SUPCON, Yiheda, AirTAC, Leader Drive, Luster LightTech, OPT

Inovance, AirTAC, Estun, and Han's Laser are covered by our team. Leader Drive is covered by Bernstein's Asia Emerging Robotics team. Other companies are not covered by Bernstein.

BERNSTEIN TICKER TABLE

			18 Sep 2026		TTM		Reported EPS			Reported P/E (x)		
Ticker	Rating	Cur	Closing Price	Price Target	Rel. Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
300124.CH (Inovance)	O	CNY	52.45	82.00	(60.3)%	CNY	1.87	2.19	2.65	28.0	23.9	19.8
002747.CH (Estun)	M	CNY	29.79	31.60	(9.2)%	CNY	0.05	0.30	0.30	595.8	97.9	99.4
2715.HK (Estun)	M	HKD	15.00	17.12	NA	CNY	0.05	0.30	0.30	300.0	49.3	50.0
002415.CH (Hikvision)	O	CNY	32.94	45.00	(17.2)%	CNY	1.55	2.08	2.14	21.3	15.9	15.4
002008.CH (Hans Laser)	O	CNY	99.60	100.00	115.0%	CNY	1.15	2.67	3.42	86.6	37.3	29.1
1590.TT (AirTAC)	O	TWD	1,220.00	1,570.00	33.8%	TWD	41.97	57.19	59.53	29.1	21.3	20.5
6861.JP (Keyence)	O	JPY	76,580	95,000	3.0%	JPY	1,835.62	2,420.47	2,675.94	41.7	31.6	28.6
6273.JP (SMC)	O	JPY	66,330	89,000	11.6%	JPY	2,640.86	3,671.13	3,655.58	25.1	18.1	18.1
6954.JP (Fanuc)	O	JPY	5,852.00	7,200.00	5.0%	JPY	178.47	221.78	207.13	32.8	26.4	28.3
6324.JP (HDSI)	O	JPY	6,200.00	7,800.00	63.9%	JPY	16.99	57.37	79.51	364.9	108.1	78.0
CGNX (Cognex)	O	USD	60.85	85.00	16.4%	USD	0.67	1.57	1.80	90.8	38.7	33.9
IPGP (IPG Photonics)	O	USD	76.12	122.00	(23.3)%	USD	0.73	1.14	2.67	104.3	66.5	28.5
ASIAX			1,953.49									
JPL			2,660.83									
SPX			7,650.50									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

6861.JP, 6273.JP, 6954.JP base year is 2026;

Source: Bloomberg, Bernstein estimates and analysis.

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Market-Perform (Bernstein Brand) Neutral (Autonomous Brand)	HOLD	35.8%	16.2%
Underperform	SELL	13.1%	13.6%

* These figures represent the percentage of companies within each equity rating category for which affiliates of Bernstein have provided investment banking services within the previous 12 months.
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