This material is neither intended to be distributed to Mainland China investors nor to provide securities investment consultancy services within the territory of Mainland China. This material or any portion hereof may not be reprinted, sold or redistributed without the written consent of J.P. Morgan.

Jiangsu Hengli Hydraulic - A

3Q26 recurring profit and Op-CF shine through one-off drag; FA/robotics business expansion accelerates

Overweight

601100.SS, 601100 CH
Price: Rmb86.60
26 Oct 2026
Price Target: Rmb126.00
PT End Date: 31 Dec 2027

Infrastructure, Industrials & Transport

Karen Li, CFA AC
(852) 2800-8589
karen.yy.li@jpmorgan.com

Mufan Shi
(852) 2800-8502
mufan.shi@jpmorgan.com

Jenny Qiu, CFA
(852) 2800 8503
jenny.qiu@jpmorgan.com

Sunny Su
(852) 2800 8551
sunny.su@jpmorgan.com

Neil Zhang
(852) 2800-8598
neil.zhang@jpmorgan.com

Beatrice Lam
(852) 2800-8738
beatrice.lam@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited/
J.P. Morgan Broking (Hong Kong) Limited

Hengli Hydraulic delivered a robust 3Q26, with revenue up 30% Y/Y to Rmb3.4B, attaining a record high and reflecting solid underlying demand across core segments. Op-CF jumped 55% Y/Y, highlighting strong cash generation and the company's ability to fund ongoing expansion. Recurring profit surged 30% Y/Y to Rmb872MM, underscoring the resilience of core operations, while headline profit growth remained muted at +9% Y/Y due to FX and fair value swings as a stronger Rmb continued to impact the fair value of FX swap products. The drop in GPM by c. 2ppts to 40.1% is in line with our expectation and primarily reflects the rapid ramp-up of new business lines, led by early-stage FA ball screw and robotics, as well as the Mexico plant. Despite these headwinds, recurring earnings and cashflow trends remain healthy, and the company is on track to deliver on its full-year operational targets.

Stock view: We remain constructive on Hengli, as new business lines—particularly FA ball screw and robotics—are scaling up rapidly, with profitability improving and segmental margins turning positive. The company's global supply chain is taking shape, with Mexico and Indonesia positioned to serve Hengli's customers as global expansion accelerates. Despite these positive developments, Hengli's stock is down c.20% since July, in line with the CSI300, even as recurring profit growth, Op-CF generation, global expansion, and new business ramp all point to a much stronger outlook. We see this dip as unjustified and a disconnect from the company's improving fundamentals. With new business momentum, margin repair, and global diversification all in play, we reiterate our Overweight rating. Hengli will host a results briefing at 9am HKT tomorrow (Oct 27), and we will revert with further details and management color after the call.

- **The 3Q26 results reinforce Hengli's transition to a higher-quality growth profile, in our view, with recurring profit and Op-CF outpacing headline earnings and providing a clearer signal of underlying momentum.** While headline NP was muted at +9% Y/Y due to FX and fair value swings, recurring NP and Op-CF both grew c.30–55% Y/Y, highlighting the company's ability to convert demand into cash and fund expansion. Notably, 9M26 revenue and profit achievement ratios (75% and 68% of FY26 JPMe) point to strong full-year delivery, even as margin pressure from Mexico and new business ramp-up weighs on GPM. The company's ability to deliver robust cashflow and recurring profit despite these headwinds signals a step-change in earnings quality and sets the stage for a more visible profit inflection as margin repair and new business scaling continue into 4Q26 and 2027.

See page 5 for analyst certification and important disclosures, including non-US analyst disclosures.

- **Segmental performance reveals broad-based demand and margin bifurcation, as construction machinery hydraulics and new business lines both scale.** Cylinder revenue grew 17% Y/Y in 3Q26, led by excavator cylinders up 22% and non-excavator cylinders up 12% Y/Y, but margins dropped 4–5ppts, with the steepest dilution in segments most exposed to overseas ramp-up, especially Mexico. Pumps & valves delivered standout revenue growth of 42% Y/Y, though margin declined c13ppts, while hydraulic systems revenue rose 12% Y/Y with a notable 11.5ppts margin improvement. This divergence highlights both the strength of end-market demand and the near-term cost of global expansion, with management focused on driving margin repair as utilization improves and high-value segments scale. The drop in GPM is not just a cost issue, but a sign of portfolio upgrade, as higher-growth, higher-potential businesses (FA, robotics) scale up.

- **Mexico plant and FA ball screw business are emerging as key growth engines, with rapid top-line ramp and visible operating leverage improvement.** The Mexico plant posted 9M26 revenue of Rmb176MM (+480% Y/Y), though the business still recorded a loss due to heavy upfront investment and fixed-cost absorption. Management expects further loss narrowing as output scales and utilization improves. The FA ball screw business is scaling even faster, with 9M26 revenue reaching Rmb250MM (+400% Y/Y), and management highlighted that segmental GPM turned positive in 3Q26. We believe this margin inflection marks a critical transition from investment drag to earnings contribution, setting up for a profit acceleration in 2027 and reinforcing Hengli's second growth curve.

- **Robotics is poised to become a more meaningful earnings driver as mass production for a major US-led humanoid robot program finally begins.** Hengli's role as a core supplier to this US-led humanoid robot platform is becoming more visible, and the company is investing in capacity and technology to support global leadership ambitions in robotics. Management is prioritizing customer engagement and innovation to reinforce its position in high-value automation niches and is optimistic about further growth in 2027 as commercial deployment of humanoid robots begins to scale and the sector moves into mass adoption.

Karen Li, CFA
(852) 2800-8589
karen.yy.li@jpmorgan.com

J.P.Morgan

Table 1: Hengli 9M26 and 3Q26 results summary

In Rmb MMs	9M26	9M25	Y/Y	FY26JPMe	% Achieved	3Q26	3Q25	Y/Y
Total revenue	**10,233**	**7,790**	***31.4%***	**13,672**	**75%**	**3,400**	**2,619**	***29.8%***
Total cost	**(7,787)**	**(5,568)**	***39.8%***	**(10,509)**	**74%**	**(2,454)**	**(2,020)**	***21.5%***
COGS	(6,183)	(4,521)	*36.7%*	(8,220)	75%	(2,033)	(1,514)	*34.3%*
Taxes and others	(90)	(76)	*18.0%*	(122)	74%	(30)	(24)	*25.8%*
Selling expenses	(231)	(163)	*41.3%*	(304)	76%	(85)	(60)	*42.2%*
Admin expenses	(555)	(457)	*21.7%*	(770)	72%	(218)	(161)	*35.4%*
R&D expenses	(545)	(550)	*-0.9%*	(813)	67%	(185)	(194)	*-4.6%*
Net finance income	(183)	200	*NM*	(101)	NM	12	(68)	*NM*
FX gain	(314)	75	*NM*	(100)	314%	(34)	(111)	*-69.1%*
Credit losses	(24)	(11)	*130.4%*	(46)	54%	(1)	(4)	*-86.1%*
Asset impairments	(81)	(17)	*370.3%*	(133)	61%	(20)	0	*NM*
Other operating income	**27**	**139**	***-80.8%***	**327**	**8%**	**(63)**	**134**	***NM***
Net gains from changes in FV	(253)	(100)	*153.6%*			(120)	99	*NM*
Investment income	227	176	*28.7%*	176	129%	42	12	*NM*
Asset disposal income	0	0	*NM*	0	NM	(1)	0	*NM*
Other	53	62	*-15.4%*	150	35%	16	23	*-32.4%*
Operating income	**2,367**	**2,333**	***1.4%***	**3,490**	**68%**	**883**	**733**	***20.5%***
Non-op income	11	5	*118.1%*	16	69%	4	2	*121.1%*
Non-op expenses	(1)	(2)	*-32.4%*	-	NM	(0)	(0)	*10.2%*
Earnings before taxes	**2,377**	**2,336**	***1.7%***	**3,168**	**75%**	**781**	**731**	***6.9%***
Income tax expenses	(219)	(245)	*-10.4%*	(338)	65%	(63)	(72)	*-12.2%*
Profit after tax	**2,157**	**2,091**	***3.1%***	**3,168**	**68%**	**718**	**659**	***9.0%***
Minority interest	(4)	(4)	*-20.4%*	(6)	55%	(1)	(1)	*-29.6%*
Net profit	**2,154**	**2,087**	***3.2%***	**3,162**	**68%**	**717**	**658**	***9.1%***

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

Table 2: Hengli 3Q26 segmental revenue and margin trend

In Rmb MMs	3Q26	3Q25	Y/Y
By product	3,400	2,619	*29.8%*
Hydraulic Cylinder	1,543	1,323	*16.6%*
Excavator Cylinder	746	612	*22.0%*
Non-standard Cylinder	797	711	*12.0%*
Hydraulic Pumps & Valves	1,361	960	*41.9%*
Hydraulic System	107	96	*11.6%*
GP Margin			
Hydraulic Cylinder	36.6%	41.1%	-4.5ppts
Excavator Cylinder	37.2%	41.5%	-4.3ppts
Non-standard Cylinder	36.1%	40.7%	-4.6ppts
Hydraulic Pumps & Valves	43.6%	56.3%	-12.6ppts
Hydraulic System	41.7%	30.2%	11.5ppts

Source: Company data.

Investment Thesis

Hengli Hydraulic (Hengli) is a leading supplier of excavator hydraulic cylinders in China, with a market share exceeding 40% and a strong position in the pumps and valves market. The company is well positioned to leverage its leadership in the domestic cylinder market, in our view, with opportunities for further market share gains in segments with relatively low penetration, such as larger-sized excavator cylinders, valves and pumps. Hengli has strategically prioritized business diversification since 2022 to reduce its reliance on excavator products and supply-chain concentration within China. The company's expansion into linear motion products, particularly in the humanoid robot and machine tool segments, is expected to contribute to revenue. This aligns with Hengli's strategy to tap into high-growth areas and capitalize on the increasing demand for precision components in advanced manufacturing processes. Maintain OW.

Valuation

Our DCF-based Dec-27 PT is Rmb126. The WACC rate used in our DCF analysis is 8.4%, with assumptions as follows: risk-free rate: 2.5%; market risk premium: 6.8%; Beta: 1.1x (based on Bloomberg); after-tax cost of debt: 4.3%; terminal growth: 5%; and target gearing: 25%.

Risks to Rating and Price Target

Key downside risks to our rating and price target include: 1) lower-than-expected excavator sales volumes; 2) slower-than-expected market share gains for pumps and valves; 3) a deterioration in GP margin; and 4) escalating trade tensions and higher-than-expected tariffs for China's products.

