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Sanhua Intelligent A/H

3Q26 recurring profit beat despite FX and macro challenges; AIDC/robotics progressing rapidly; stay OW

Sanhua delivered another solid quarter in 3Q26, achieving revenue of Rmb8.4B, up 8% Y/Y, and recurring net profit of Rmb1.1B, up 12% Y/Y. This performance stands out against a backdrop of macro uncertainties, including forex volatility, raw material cost inflation, and weak NEV end demand (domestic NEV sales -20% Y/Y). For 9M26, revenue grew 5% Y/Y to Rmb25.3B, recurring net profit rose 3% Y/Y to Rmb3.2B, and Op-CF reached Rmb3.7B, up 23% Y/Y—far outpacing the reported profit trend which was flattish in the same period. This highlights Sanhua's superior supply chain position in thermal management and its ability to navigate a challenging environment through stable refrigeration component performance and incremental contributions from AIDC cooling systems.

Stock view: Looking ahead, we remain constructive on Sanhua as one of the few quality names in the broad-based robotics and automation supply chain, with new growth drivers gaining traction while the underlying business remains solid. The company's new initiatives—including humanoid robotics and AIDC cooling—are progressing rapidly, with the industry moving faster toward commercialization than previously expected while Sanhua's positioning stays firm with its key international customers. While robotics sales are still at the initial ramp-up stage and not yet a material contributor, Sanhua is well-positioned as a key actuator supplier for next-generation robots by one of the leading US-based customers. The company's conventional refrigeration business continues to gain share, leveraging manufacturing know-how and innovation leadership. With c.40% of sales overseas, CNY appreciation may have understated the underlying strength in overseas segments. We see the likelihood of robotics and AIDC cooling systems translating to concrete growth drivers in the foreseeable future. Maintain OW.

- **Gross margin expansion in 3Q26 is especially notable given sluggish downstream demand for auto parts and home appliances.** GPM improved to 28.9% in 3Q26, up 0.9ppts Y/Y, even as cost of sales rose 7% Y/Y. This margin resilience is particularly impressive given the ongoing softness in downstream demand for both auto parts and home appliances. Sanhua's ability to expand gross margin in this environment reflects ongoing product innovation, miniaturization, modularization, and lightweighting, as well as internal cost savings from self-made equipment and value chain optimization. Pricing linkage mechanisms for key raw materials and hedging for non-linked materials also helped offset input cost volatility, supporting margin stability.
- **Operating cash flow YTD remains very solid, far outpacing reported profit and highlighting Sanhua's premium cash generation.** Op-CF in 9M26 reached Rmb3.7B, up 23% Y/Y, far outpacing the reported net profit decline of 5% Y/Y in the same period. This strong cash flow performance was driven by improved working capital management and higher cash receipts from sales. Capex in 9M26 was Rmb1.9B, down 8% Y/Y, reflecting disciplined capital allocation even as the company continues to invest in future growth. The company's ability to generate record-high Op-

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002050.SZ, 002050 CH
Overweight
Price (28 Oct 26): Rmb35.64
Price Target (Dec-27): Rmb51.00

2050.HK, 2050 HK
Overweight
Price (28 Oct 26): HK$23.18
Price Target (Dec-27): HK$38.00

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

CF, even as headline profit was impacted by non-operating items, highlights the resilience and quality of Sanhua's core business.

- **Domestic demand for auto parts and home appliances remains resilient, with overseas strength and new product expansion offsetting softness in local sales.** While domestic auto sales declined, overseas sales continued to grow, and Sanhua's market share is concentrated in those export-heavy segments. The auto business is on track to double in incremental value by 2030, supported by ongoing upgrades in smart modules and thermal management content. For home appliances, domestic demand remains stable, with new product launches and energy efficiency upgrades supporting growth. Both core businesses continued to deliver growth and resilience, with revenue and gross profit expanding in the quarter.
- **Global warming and extreme weather are fueling a multi-year upcycle in AC demand and opening new growth opportunities in emerging markets.** Extreme weather has provided a clear, stage-specific boost to home appliance demand, especially in northern China, while future growth in India and other emerging markets is poised to accelerate. Europe's contribution remains c.10–20%, with both penetration and value-per-unit still having room to rise. The company is leveraging energy efficiency upgrades and new applications—such as kitchen appliances and floor-cleaning robots—to drive incremental demand and premium content in the home appliance segment.
- **AIDC cooling is becoming a more meaningful sales driver, with sequential growth and a growing role in Sanhua's business mix.** While line-by-line details are not yet available, AIDC cooling is incrementally contributing to sales growth each quarter. The company's stable refrigeration component performance, combined with the ramp-up of AIDC cooling systems, is helping offset muted demand in the auto parts segment. With c.40% of sales overseas, CNY appreciation may have understated the underlying strength in export-driven segments. Sanhua's manufacturing know-how and innovation leadership continue to facilitate further market share gains, especially as thermal management system upgrades become more critical for security, energy loss saving, and efficiency.
- **Robotics sales are at the initial ramp-up stage, with Sanhua positioned as a key actuator supplier for next-generation robots.** Robotics is still in the early phase of ramping up, and while near-term sales contribution is limited, the industry is moving faster toward commercialization. Sanhua is competitive as an actuator supplier for leading global customers, including a leading US-based one, with which the transition from laboratory experiment to small batch production is underway. The company's early engagement and accumulated know-how position it well for future volume growth as the industry moves toward broader adoption of physical AI and general-purpose robotics.

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Table 1: Sanhua - 3Q26 financial review

Rmb MMs (PRC GAAP)	9M26	9M25	*Y/Y*	FY26JPMe	% achived	3Q26	3Q25	*Y/Y*	Implied 4Q26E	4Q25	*Y/Y*
Revenue	25,274	24,029	5%	33,665	75.1%	8,374	7,767	8%	8,392	6,982	20%
Cost of sales	(18,112)	(17,281)	5%	(24,010)	75.4%	(5,954)	(5,591)	7%	(5,898)	(4,807)	23%
Gross profit	**7,162**	**6,748**	**6%**	**9,656**	**74.2%**	**2,419**	**2,176**	**11%**	**2,494**	**2,176**	**15%**
GPM%	*28.3%*	*28.1%*	*0.3ppts*	*28.7%*	*-0.3ppts*	*28.9%*	*28.0%*	*0.9ppts*	*29.7%*	*31.2%*	*-1.4ppts*
Operating expenses	**(3,244)**	**(3,135)**	**3%**	**(4,670)**	**69.5%**	**(1,144)**	**(942)**	**21%**	**(1,425)**	**(1,175)**	**21%**
Taxes and others	(138)	(133)	3%	(190)	72.3%	(39)	(39)	2%	(53)	(42)	25%
Selling expenses	(466)	(435)	7%	(816)	57.1%	(156)	(127)	24%	(350)	(317)	10%
Admin expenses	(2,543)	(2,435)	4%	(3,564)	71.3%	(940)	(827)	14%	(1,021)	(848)	20%
Impairment loss of assets	(98)	(132)	-26%	(99)	99%	(8)	51	nm	(1)	33	-104%
Other gains/losses (net)	**41**	**306**	**-87%**	**56**	**73.4%**	**32**	**112**	**-71%**	**15**	**24**	**-37%**
Other operating income	64	319	-80%	72	89%	34	118	-72%	8	27	-72%
Non-operating income	6	7	-25%	12	46.4%	2	2	-8%	6	5	41%
Non-operating expenses	(28)	(20)	45%	(27)	103.6%	(4)	(9)	-57%	1	(8)	-112%
EBIT	**3,958**	**3,920**	**1%**	**5,042**	**78.5%**	**1,307**	**1,346**	**-3%**	**1,084**	**1,025**	**6%**
EBIT margin%	*15.7%*	*16.3%*	*-0.7ppts*	*15.0%*	*0.7ppts*	*15.6%*	*17.3%*	*-1.7ppts*	*12.9%*	*14.7%*	*-1.8ppts*
Net finance expenses	(287)	(20)	1318%	44	nm	(60)	17	nm	331	(81)	**-509%**
Earnings before taxes	**3,671**	**3,900**	**-6%**	**5,086**	**72.2%**	**1,247**	**1,363**	**-8%**	**1,415**	**944**	**50%**
Income tax expenses	(534)	(611)	-13%	(774)	69.0%	(192)	(212)	-10%	(240)	(126)	90%
Net profit	**3,137**	**3,289**	**-5%**	**4,312**	**72.7%**	**1,056**	**1,151**	**-8%**	**1,176**	**818**	**44%**
Minority interest	(70)	(47)	49%	(44)	159%	(32)	(19)	75%	26	3	781%
Net profit attributable to shareholders	**3,067**	**3,242**	**-5%**	**4,269**	**71.9%**	**1,023**	**1,132**	**-10%**	**1,201**	**821**	**46%**
Net margin	*12.1%*	*13.5%*	*-1.4ppts*	*12.7%*	*-0.5ppts*	*12.2%*	*14.6%*	*-2.4ppts*	*14.3%*	*11.8%*	*2.6ppts*
Op-CF	3,749	3,058	23%	4,647	80.7%	1,249	1,783	-30%	898	2,032	-56%
Capex	(1,903)	(2,058)	-8%	(3,502)	54.3%	(536)	(461)	16%	(1,599)	(1,095)	46%

Source: Company report, J.P. Morgan estimates

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Investment Thesis, Valuation and Risks

Zhejiang Sanhua Intelligent Controls - A *(Overweight; Price Target: Rmb51.00)*

Investment Thesis

Our investment case for Sanhua is based on: 1) the Refrigeration Components business being poised to remain resilient on the back of extended policy support and an increasing contribution from AIDC cooling system demand; 2) Sanhua's auto parts business growth with a diversified customer portfolio; and 3) our increased confidence in the company's strategic positioning within the humanoid robot development landscape. We rate the stock OW.

Valuation

We value Sanhua-A using a discounted cash flow (DCF) valuation methodology. Key valuation assumptions behind our Dec-27 PT of Rmb51 include a WACC of 7.9% (based on Rf = 2.5% - aligned with the latest China 10-year bond yield, an equity risk premium of 6.8% and a beta of 1.0x), cost of debt at ~4%, target debt-to-capital of 20%, and a terminal growth rate of 3%.

Risks to Rating and Price Target

Downside risks to our rating and price target include: 1) Lower-than-expected global EV demand, which could put Sanhua's auto parts business at risk and be a catalyst for a potential de-rating of the stock; 2) Greater-than-expected industry competition in the auto segment, which could lead to market share losses for the company; 3) A challenging global macro environment, which could put the refrigeration components business under pressure; and 4) Slower-than-expected humanoid robot business development.



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Investment Thesis, Valuation and Risks

Zhejiang Sanhua Intelligent Controls - H *(Overweight; Price Target: HK $38.00)*

Investment Thesis
Our investment case for Sanhua is based on: 1) the Refrigeration Components business being poised to remain resilient on the back of extended policy support and an increasing contribution from AIDC cooling system demand; 2) Sanhua's auto parts business growth with a diversified customer portfolio; and 3) our increased confidence in the company's strategic positioning within the humanoid robot development landscape. We rate the stock OW.

Valuation
We value Sanhua-H using a discounted cash flow (DCF) valuation methodology. Key valuation assumptions behind our Dec-27 PT of HK$38 include a WACC of 7.9% (based on Rf = 2.5% - aligned with the latest China 10-year bond yield, an equity risk premium of 6.8% and a beta of 1.0x), cost of debt at ~4%, target debt-to-capital of 20%, and a terminal growth rate of 3%. We also adopt an A/H premium of c.25% to reflect the recent widening A/H premium trend.

Risks to Rating and Price Target
Downside risks to our rating and price target include: 1) Lower-than-expected global EV demand, which could put Sanhua's auto parts business at risk and be a catalyst for a potential de-rating of the stock; 2) Greater-than-expected industry competition in the auto segment, which could lead to market share losses for the company; 3) A challenging global macro environment, which could put the refrigeration components business under pressure; and 4) Slower-than-expected humanoid robot business development.