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Zhejiang Sanhua Intelligent Controls (002050.SZ)

Divergent 3Q Margin Trends; Robotics Revenue Set to Double in 27E

CITI'S TAKE

We joined Sanhua's analyst briefing on 29-Oct. **Key takeaways: (1) Divergent margin trends:** 3Q refrigeration GPM grew +2.0ppt YoY driven by improved product mix and cost reduction, while auto parts GPM down -1.8ppt YoY pressured by FX and new factory ramp-up in Thailand, partially offset by cost reduction and rising mix of integrated components; **(2) Robotics revenue is expected to double YoY in 2027E**, with products covering joint actuators, finger joint modules, robot thermal management and sensors; mass-production for domestic and key North American clients has started; **(3) Long-term guidance:** 2026-2030 auto parts segment revenue targets a 3-fold expansion with 15%-20% CAGR. Traditional refrigeration (home appliance) targets 10% CAGR over next five years; commercial refrigeration and liquid cooling businesses aim for 15%-20% CAGR. Further reading: Sanhua (002050.SZ/2050.HK) - 3Q26 GPM Beat, Core Profit In Line

Segmental performance — (1) Refrigeration segment: 3Q revenue was +7% YoY (-16% QoQ) to Rmb4.88bn, with GPM +2.0ppt YoY to 29.0% on improved product mix and cost reduction; **(2) Auto parts segment:** 3Q revenue was +10% YoY (+5% QoQ) to Rmb3.49bn, with GPM -1.8ppt YoY to 27.7%, pressured by FX and new factory ramp-up in Thailand, partially offset by cost reduction and rising mix of integrated components.

Humanoid robot business — Products cover joint actuators, finger joint modules, robot thermal management and sensors. Dexterous hand motor modules have entered mass supply for key domestic clients; thermal management products are scheduled for mass-production by end-4Q26. Robot revenue is expected to double in 2027 versus 2026.

Liquid cooling business — Total 9M26 revenue ranged between Rmb1.8-2.1bn, including Rmb0.6-0.7bn from energy storage liquid cooling and Rmb1.2-1.4bn from data center liquid cooling. The 50% YoY growth target for 2026 is on track; 2027 growth is projected at 50%-100% YoY. The company focuses on component supply instead of complete set manufacturing. *(Continued)*

Earnings Summary

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	3,099	0.830	6.1	42.9	6.9	16.7	1.0
2025A	4,063	0.966	16.3	36.9	4.7	15.9	1.1
2026E	4,120	0.979	1.4	36.4	4.4	12.5	1.2
2027E	4,573	1.087	11.0	32.8	4.1	12.8	1.3
2028E	5,116	1.216	11.9	29.3	3.7	13.2	1.4

Source: Powered by dataCentral

Neutral

Price (28 Oct 26 15:00)	Rmb35.640
Target price	Rmb41.000
Expected share price return	15.0%
Expected dividend yield	1.2%
Expected total return	16.2%
Market Cap	Rmb132,990M US$19,950M

Price Performance
(RIC: 002050.SZ, BB: 002050 CH)



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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

Q & A session

Q: What drove solid growth of refrigeration business in 3Q, when domestic home-appliance industry faced downward pressure?

A: Liquid cooling business achieved 50%-100% YoY growth in 3Q, serving as the core incremental driver. Overseas markets performed robustly: North America revenue rose over 20% YoY. Demand in Japan and Southeast Asia exceeded expectations supported by temperature conditions and energy-efficiency upgrade policies. Such momentum is likely to persist in 4Q.

Q: What are the drivers behind improved gross margin in refrigeration segment?

A: Gross margin improvement came from multi-dimensional efforts. High-margin liquid-cooling business lifted refrigeration segment gross margin by 1.5ppt YoY. Internal cost-cutting via modularization, miniaturization and material substitution lifted product added value. Higher proportion of high-value core products such as expansion valves also optimized product mix. The company will stick to existing operational strategies to sustain gross-margin performance. Auto parts segment gross margin saw mild volatility due to FX and factory ramp-up issues.

Q: Please update tariff rebate progress and its impact on 4Q results.

A: Rmb100-200mn tariff rebates have been received this year. Historically most tariffs were borne by customers.

Q: Could you elaborate on humanoid robot product layout and mass-production timeline?

A: The company develops high-value hardware including joint actuators, finger joint modules, robot thermal management and sensors. The components can account for 20%-30% of total hardware value of humanoid robots. Dexterous-hand hollow-cup motor modules are in mass supply for key domestic manufacturers. Robot thermal-management projects are expected to reach mass-production by late 4Q26. Robot business has already generated revenue in 2026; full-year revenue for 2027 is expected to double this year's level.

Q: What is the value proportion of Sanhua's liquid-cooling components within the whole system?

A: Currently Sanhua's liquid cooling components take 20%-30% of total system value for liquid-cooling solutions. The ratio may rise to 40%-60% upon new-product rollout.

Q: Will Sanhua expand into CDU complete-set manufacturing? Will liquid-cooling business bring competition against existing Tier-1 partners?

A: Sanhua's strategic positioning remains focused on thermal-management components. Sanhua will not engage in CDU complete-set production. They only explore regional modular integration solutions and optimize component performance from system-level perspective. Technologies accumulated in automotive integration will be transferred to home-appliance-related R&D. Therefore, Sanhua will not compete with Tier-1 partners.

Q: Auto parts revenue mix?

A: Sanhua's major auto clients include BYD, Leapmotor, Geely, Xiaomi and Li Auto. Revenue share from key North American client remains below 25%.



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Company description

Sanhua is a leading Chinese manufacturer and distributor of a diversified portfolio of component products that provide exposure to the growth and development cycles of an array of consumer segments, spanning air conditioners, refrigerators and other residential/commercial cooling solutions, electric vehicles (NEVs) and specialty household appliances (washing machines, coffee machines and dishwashers). The company operates through four segments: refrigeration segment, microchannel segment, auto parts and subsidiary AWECO (acquired in 2013).

Investment strategy

We rate Sanhua-A shares as Neutral. Given humanoid robots and AIDC likely remain small revenue contribution in the near term, while its refrigeration segment could face growth pressure on the squeeze-out effect of 2025 trade-in subsidy and the auto parts business could be impacted by volume downside risk of Tesla and the slowdown of China NEV sales growth, we see current risk-reward as neutral.

Valuation

We derive our A-share target price of Rmb41 by applying 42x 2026E P/E (1SD above the 5-year average to capture its humanoid robots and AIDC opportunities).

Risks

Key downside risks that could mean Sanhua stock fails to achieve our target price include a slowdown in China's economy and consumption leading to lower-than-expected growth, an escalating China-US trade dispute dampening growth, and failure by the company to further gain market share, leading to sales volume miss.

Upside risks that could cause the shares to trade above our target price include an accelerated economic recovery and an improvement in consumption leading to higher-than-expected growth in China and a sharp improvement in the sales of key automotive clientele, translating to sharper-than-expected auto parts sales volume growth.

Sanhua

(2050.HK; HK$23.18; 2; 28 Oct 26; 16:10)

Valuation

We derive our H-share target price of HK$29 by applying 26x 2026E P/E, which is the average level since the listing in Jun-2025 (share price upcycle)