28 Oct 2026 22:48:13 ET | 12 pages

Huizhou Desay SV Automotive (002920.SZ)

3Q Briefing: Cost Inflation Persists, Robotics Nominations Gain Traction

CITI'S TAKE

We joined 3Q analyst briefing today; our key takeaways: (1) GPM QoQ decline was due to broad raw materials inflation and pass-through timing mismatch though memory cost recovery contracts were signed with most OEMs. (2) Robotics domain controller nominations from AgiBot, UBTech, etc.; mgmt. expected >Rmb100mn revenue in 26E and several hundred million in 27E. (3) Entering 4Q, mgmt. believes kit-rate remains the swing factor for revenue performance due to tight-supply and cost inflation pressure should persist. We fine-tune our model updating 1-3Q26 actuals on FX and investment loss impact while keeping our revenue/NP estimate unchanged. Maintain TP of Rmb89.0 with an unchanged SOTP valuation.

3Q/9M26 revenue drivers — (1) Mgmt. said the 3Q growth was led by smart-driving domain controllers, helped by projects deferred from 2Q and several large programs reaching SOP in 3Q. (2) 9M revenue mix: smart-cabin ~66%, smart-driving 26-28%. (3) By customer: Chery, Li Auto, XPeng, Geely, Great Wall, GAC-Toyota were the top contributors. (4) Mgmt. said ~11% of revenue came from overseas in 9M26 (including ~12% in 3Q26); company expects 4Q overseas mix to dip slightly.

GPM and cost inflation — (1) Mgmt. said the QoQ decline in GPM was due to broader raw material inflation incl. PCB, MLCC and even metal hardware. (2) Mgmt. said while most of the memory cost pressure can be passed through, the company needs to absorb a portion of it, which carries timing mismatch as the 2Q negotiations with OEMs were based on end-Jun prices while fresh increases in 3Q need to be negotiated until the next cycle (year-end or 2027).

Robotics business — (1) Mgmt. said the company has won nominations of robotics domain controllers across AgiBot, UBTech, covering most of the top-15 robot companies, and it targets scale production from 4Q, with AgiBot likely first. (2) Mgmt. has guided to 26E robotics revenue above Rmb100mn and several hundred million in 2027E. ***(continued...)***

Neutral

Price (28 Oct 26 15:00)	Rmb80.520
Target price	Rmb89.000
Expected share price return	10.5%
Expected dividend yield	1.5%
Expected total return	12.1%
Market Cap	Rmb48,055M
	US$7,208M

Price Performance
(RIC: 002920.SZ, BB: 002920 CH)



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Earnings Summary

Year to 31 Dec	Net Profit (RmbM)	Diluted EPS (Rmb)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	2,005	3.613	29.6	22.3	4.6	22.8	1.5
2025A	2,454	4.111	13.8	19.6	3.1	19.6	1.5
2026E	2,450	4.104	-0.2	19.6	2.8	15.0	1.5
2027E	2,978	4.990	21.6	16.1	2.5	16.3	1.9
2028E	3,510	5.881	17.9	13.7	2.2	16.9	2.2

Source: Powered by dataCentral

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

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Earnings estimate — We keep our 26-28E revenue forecast unchanged at Rmb35.9/40.1/44.8bn and fine-tune 26E-28E GPM by 0.2-0.5ppt based on 1-9M26 actuals as most customers have already signed contracts for memory cost recovery and the overseas ramp-up is likely to compensate the pressure from other materials inflation (MLCC, PCB, etc.), while we still see a tight-supply landscape for key materials in 2027E. We also adjust for other items (investment gain/forex impact) incorporating 1-9M26 actuals. Overall, we keep our 26-28E earnings largely unchanged at Rmb2,450/2,978/3,510mn. Maintain TP of Rmb89.0 on unchanged SOTP methodology.

Overseas update — (1) Mgmt. said the Spain plant is on track and will enter production within 1-2 months, with Phase 1 capacity of ~Rmb1-1.5bn, expandable to several billions, starting with lower-margin displays, initially below domestic-export margin but above domestic-sales margin. (2) Mgmt. also mentioned that a Southeast Asia base is being planned.

Robovan — Mgmt. said the robovan business was deliberately slowed (several hundred robovans in operation) in Guangdong cities pending regulatory clarity, and also because AI compute/talent costs were above expectations.

R&D and tax rate — (1) Mgmt. attributed R&D QoQ increase to ~10% headcount increase and pre-SOP spending on new projects. (3) Q3 tax rate increase was driven solely by timing of the super-deduction: no deduction was recognized in Q1, Q2 recognized the full 1H26 amount, and Q3 recognized only the deduction attributable to that quarter.

We summarize some of the key topics from the Q&A session below:

Questions and Answers

Q: How will Desay ensure Spain's profitability approaches domestic levels given European labor differences?

A: Mgmt. said new plants need time to refine management and production systems. Germany's multi-year operations provide experience with local labor laws and culture.

Q: Is kit-rate the biggest variable for Q4?

A: Mgmt. mentioned that kit-rate fluctuates significantly and is monitored daily, weekly and monthly. Profitability pressure remains sizeable as material costs are expected to rise further.

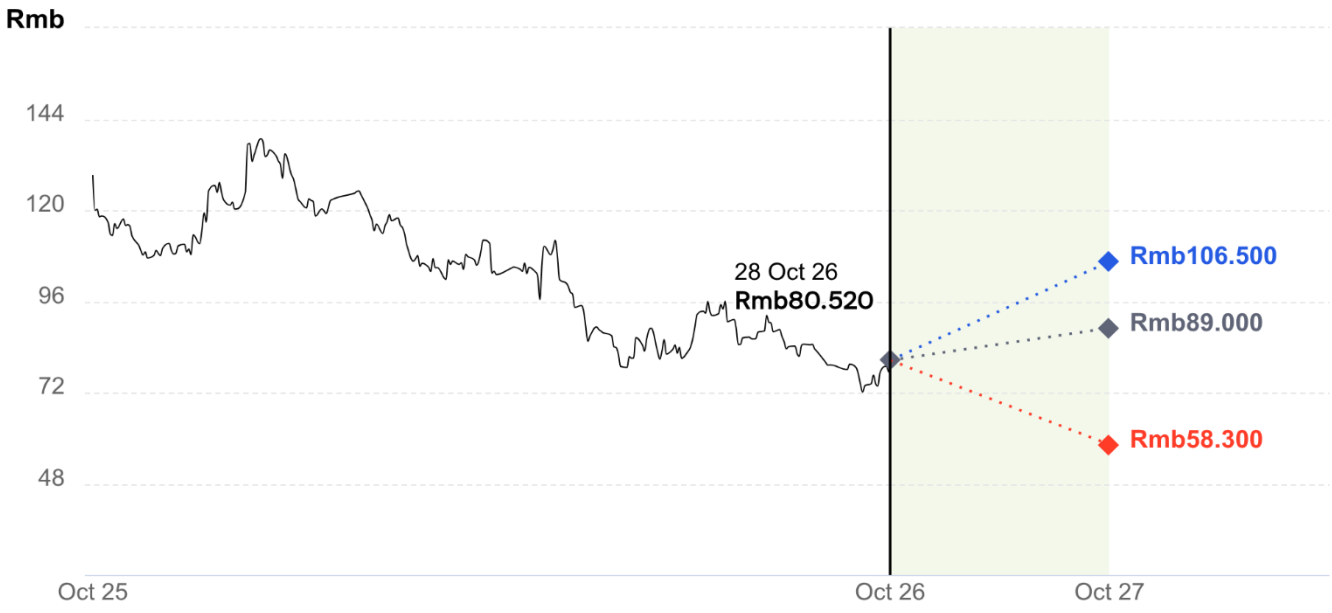
Q: Can the domestic share gains from strong supply assurance be quantified?

A: Mgmt. said it is hard to quantify, and the resources are prioritized toward strategic customers and higher-margin projects.



Bull/Bear: Huizhou Desay SV Automotive (002920.SZ)

Rmb 106.500	Rmb 89.000	Rmb 58.300
▲32% Upside	▲11% Upside	▼28% Downside



Spread 60pp
Current Price and expected returns (upside/downside) as of 28 Oct 2026

BULL Assumptions

- 2026E smart cabin revenue YoY change 5ppt higher than expected
- 2026E smart driving revenue YoY change 10ppt higher than expected
- 2026E blended gross margin 2ppt better than expected

BASE Assumptions

- 2026E smart cabin revenue +7% YoY
- 2026E smart driving revenue +15% YoY
- 2026E blended gross margin at 18.2%

BEAR Assumptions

- 2026E smart cabin revenue YoY change 10ppt lower than expected
- 2026E smart driving revenue YoY change 20ppt lower than expected
- 2026E blended gross margin 2ppt lower than expected

Huizhou Desay SV Automotive

Company description

Huizhou Desay SV Automotive is a China-based company that is mainly engaged in the research and development, design, manufacture and sales of automotive electronics products. Supplying primarily to China OEMs and the aftermarket, the company's main products include vehicle information systems, car entertainment systems, automotive air-conditioning controllers and driving information display systems, such as radios, color screen retractable machines, multimedia navigations, electric air-conditioning controllers, passenger car conventional instruments, engineering machineries and others.

Investment strategy

We rate the stock as Neutral. We expect Desay will register robust earnings growth over 2026-28E, driven by gains in market share and improvements in customer mix in the core smart cabin segment, along with incremental revenue growth from the smart driving and connectivity businesses. That said, we believe most positives have been priced in and that the valuation is becoming stretched.

Valuation

Our target price for Desay of Rmb89.0 is based on a sum-of-the-parts (SOTP) valuation, in which we assign: 1) '26E-'28E PEG of 1.1x (in line with two-year sector historical average for cockpit electronics suppliers) to smart cabin, to capture our more cautious view on the segment given the aggressive cost cuts among automakers in China; and 2) '26E-'28E PEG of 1.2x to smart driving (whose earnings growth is driven primarily by the ADAS component) and 1.0x to connectivity segment. Our target PEG is based on 2-year sector historical average of ADAS component suppliers to reflect the company's strong order backlog coupled with ADAS and smart cabin penetration growth.

Risks

Although our quant model assigns a High Risk rating to Desay based on the volatility of the share price in the past 12 months, we do not believe such a rating is warranted given the company has a strong track record and reputable brand image as the leading cockpit electronics supplier in China. Its client base also consists of all the large SOE automakers in China, which should generate stable revenue for the company.

Downside risks that could prevent the shares from achieving our target price include the emergence of disruptive technologies that leads to a steep decline in demand for key products and a deterioration in China auto sales that leads to a decline in the company's revenue.

Upside risks that could cause the stock to trade above our target price include better-than-expected auto sector conditions and higher-than-expected