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Leader Harmonious Drive System Co.

3Q26 snapshot: strong sales, margin trade-offs, and capacity build-out in humanoid robotics

Overweight

688017.SS, 688017 CH
Price (30 Oct 26):Rmb254.00
Price Target (Dec-27):Rmb358.00

Infrastructure, Industrials & Transport

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Leader Drive reported 3Q26 results after the close on Friday (30 October), delivering a standout 56% Y/Y sales increase to Rmb242MM, a sharp acceleration from 36% Y/Y in 2Q26 despite a tougher base. The quarter's most notable feature was the rapid sales ramp, which came alongside further GPM compression—down 6.2ppts Y/Y to 33.4%, compared to a 2.5ppts Y/Y decline in 1H26. We attribute this margin trend to the fast-rising contribution of new humanoid robot products, which are scaling up quickly and driving a significant mix shift. Leader Drive is actively expanding in the humanoid segment to capture share, and underlying shipment volumes likely grew even faster than reported sales, potentially above 70% Y/Y. We see this as a positive, as the company is still in a capacity ramp phase, and margins should recover as utilization and scale improve. Our recent in-person discussion with the general manager at CIIF (China International Industrial Fair) confirmed management's ambition for global leadership, supported by a three-year plan to expand capacity 10x to 4MM–6MM units annually. The CEO also downplayed the threat from smaller Chinese competitors, reinforcing our conviction in Leader Drive's execution and product quality at scale. Maintain OW.

- **Top-line growth acceleration is the key line to watch, with embodied AI ramping as a major driver.** 3Q26 revenue rose 56% Y/Y to Rmb242MM, marking a meaningful pick-up from 36% Y/Y in 2Q26, even against a more challenging base. Management attributes the growth to both share gains in industrial robots and a significant scale-up in embodied AI robotics. Based on our recent conversation with management, embodied AI has ramped up to ~30% of total sales this year vs. 15–20% a year ago, implying that humanoid robot application volume has at least doubled. This is a key support for the current P/S valuation, with FY28E P/S at 28x underpinned by expectations of high double-digit growth over the next three years. The return to >50% Y/Y growth is a key positive, in our view.
- **Near-term margin pressure is in line with expectations and reflects Leader Drive's prioritization of scale and market position.** 3Q26 GPM declined 6.2ppts Y/Y to 33.4%, extending the 2.5ppts Y/Y decline in 1H26. The further GPM dip was mainly due to the mix shift as humanoid robot products scale up, and to stepped-up D&A as capacity expands. We do not see this as a sign of aggressive price cutting, but rather as a function of the company's strategy to gain share in a fast-growing segment. Over the medium term, management targets a healthy ~30% GPM as scale, product mix, and in-house manufacturing efficiency improve.
- **Opex control remains decent, supporting profit growth even as margins compress.** SG&A expense was well managed, down 5.5ppts Y/Y, partially offsetting the GPM contraction. Net profit rose 29% Y/Y in 3Q26 to Rmb52MM, while recurring profit growth was even stronger at 40% Y/Y. Implied 4Q26 sales and net profit now stand at 88% Y/Y and 106% Y/Y,



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

respectively, as per JPMe. We see the top line as achievable, while margin recovery will depend on scaled production and operational leverage.

- **Capacity expansion is the key execution lever, with management targeting a step-up in output to support demand and global ambitions.** Leader Drive is targeting capacity of more than 1MM units this year, ~2MM next year, and 4–6MM annualized units over three years—an ambitious expansion path that management sees as necessary for global leadership. The main ramp constraint is not equipment, but labor, process maturity, and the ability to maintain consistency across a broad SKU base. Leader Drive is also extending beyond its core harmonic reducer business into planetary and cycloidal designs to address different humanoid robot architectures, serving applications with varying torque, impact-resistance, and cost requirements. The strategy is to match transmission architecture to end application, not rely on a single product type. The company is also expanding into roller screws and actuators, while pursuing overseas partnerships, including SKF. These moves broaden the addressable content per robot, but we believe that near-term results will continue to depend on delivery conversion, capacity ramp, and the balance between share gains and margin discipline.

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Table 1: Leader Drive 3Q26 financial review

Rmb MMs (PRC GAAP)	9M26	9M25	Y/Y	FY26 JPMe	Achieved %	3Q26	3Q25	Y/Y	Implied 4Q26e	4Q25	Y/Y
Revenue	591	407	45%	900	66%	242	155	56%	309	164	88%
Cost of sales	(398)	(258)	54%	(566)	70%	(161)	(94)	72%	(169)	(102)	65%
Gross profit	**193**	**149**	**30%**	**334**	**58%**	**81**	**61**	**32%**	**140**	**62**	**127%**
GPM%	*32.7%*	*36.6%*	*-3.9ppts*	*37.1%*	*-4.4ppts*	*33.4%*	*39.6%*	*-6.2ppts*	*45.4%*	*37.7%*	*7.7ppts*
Operating expenses	**(106)**	**(88)**	**20%**	**(155)**	**68%**	**(36)**	**(31)**	**16%**	**(50)**	**(40)**	**25%**
Taxes and others	(2)	(2)	-34%	(5)	31%	(1)	(1)	1%	(3)	(1)	327%
Selling expenses	(12)	(8)	58%	(19)	63%	(4)	(3)	71%	(7)	(6)	25%
Admin expenses	(70)	(60)	17%	(101)	70%	(24)	(24)	-1%	(30)	(20)	50%
Impairment loss of assets	(22)	(17)	23%	(31)	70%	(8)	(4)	76%	(9)	(13)	-31%
Amin Exp as % of sales											
Other gains/losses (net)	**56**	**47**	**19%**	**71**	**79%**	**19**	**16**	**17%**	**15**	**17**	**-8%**
Investment income	38	37	1%	44	86%	14	13	10%	6	15	-61%
Other income	18	10	89%	28	66%	5	4	36%	9	2	292%
Non-operating income	0	0	nm	0	nm	0	0	nm	(0)	0	nm
Non-operating expenses	(0)	(0)	nm	0	nm	(0)	(0)	nm	0	(1)	nm
EBIT	**144**	**108**	**33%**	**249**	**58%**	**64**	**46**	**37%**	**106**	**39**	**174%**
EBIT margin%	*24.3%*	*26.6%*	*-2.3ppts*	*27.7%*	*-3.4ppts*	*26.3%*	*29.9%*	*-3.6ppts*	*34.2%*	*23.5%*	*10.7ppts*
Net finance expenses	**(2)**	**(2)**	**-2%**	(37)	5%	**(1)**	**(1)**	**-51%**	(35)	**0**	nm
Share of profit of associates & JCEs	(1)	(0)	nm	0	nm	(1)	(0)	nm	1	(1)	nm
Earnings before taxes	**141**	**106**	**33%**	**212**	**66%**	**62**	**45**	**39%**	**72**	**38**	**88%**
Income tax expenses	(15)	(11)	36%	(27)	56%	(8)	(5)	67%	(12)	(7)	64%
Net profit	**125**	**95**	**32%**	**185**	**68%**	**54**	**40**	**35%**	**60**	**31**	93%
Minority interest	(3)	(1)	nm	0	nm	(2)	0	nm	3	(0)	nm
Net profit attributable to shareholders	**122**	**94**	**30%**	**185**	**66%**	**52**	**40**	**29%**	**63**	**31**	**106%**
Net margin	*20.7%*	*23.0%*	*-2.4ppts*	*20.6%*	*0.1ppts*	*21.4%*	*25.9%*	*-4.5ppts*	*20.5%*	*18.7%*	*1.8ppts*
Op-CF	(71)	110	-165%	128	-56%	(54)	63	-185%	199	42	376%
Capex	(141)	(64)	121%	(1,012)	14%	(24)	(25)	-1%	(871)	(36)	2320%

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

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Investment Thesis, Valuation and Risks

Leader Harmonious Drive System Co. *(Overweight; Price Target: Rmb358.00)*

Investment Thesis

We remain OW on Leader Drive, China's leading harmonic drive supplier, as we believe the company is poised to capture significant upside from the accelerating adoption of humanoid robots and the broader expansion of the robotics hardware supply chain. Leader Drive's strong moat in precision components, deep integration with domestic OEMs and proven ability to scale production position it as a key beneficiary as the industry transitions from pilot programs to scaled deployment. The company's robust customer relationships and ongoing investment in R&D further reinforce its leadership in a market where content per robot and platform integration are set to rise.

Valuation

We value Leader Drive using both a target P/S and a DCF framework to capture its scarcity premium and long-term growth potential. Our Dec-27 PT of Rmb358 is based on a target P/S of 39x/28x for FY27E/28E vs. the current trading levels of c.30x/c.20x. This premium reflects Leader Drive's unique positioning as a critical upstream supplier with strong content value per robot and the ability to scale across multiple OEMs as the humanoid robotics ecosystem expands.

Our DCF analysis supports our PT, using a terminal growth rate of 5% and a WACC of 7.7%. The WACC is derived from a cost of equity of 11.1% (risk-free rate 1.6%, equity risk premium 6.8%, beta 1.4) and an after-tax cost of debt of 4.3% (pretax cost of debt 5.0%, tax rate 15%), with a target capital structure of 50% debt/total capital. This approach reflects our confidence in Leader Drive's ability to deliver sustainable growth and margin resilience as the sector matures and the market increasingly rewards proven moats and platform value.

Risks to Rating and Price Target

Downside risks include: (1) weaker-than-expected quarterly sales growth delivery in the coming 12 months; (2) rising competition and higher-than-expected pricing pressure from downstream robot suppliers; and (3) slower-than-expected humanoid robot commercialization.