

ADD Industry (603089 CH)

Effective Cost Rate Control Boosted Net Profit Margin, with Overseas Plant to Commence Production Soon

China | Automobile Components | Company Report

11 September 2025

Company profile:

ADD Industry was established in 1994, specialising in the field of shock absorbers of the automotive suspension system. It has nearly 20 thousand product models covering most vehicle types worldwide and is a leading enterprise in China's shock absorber industry. At present, its business mainly includes shock absorbers of the automotive suspension system, automotive rubber damping products, as well as engine sealing components and other auto parts. In 2024, revenue reached RMB2,303 million (RMB, the same below), up 31.0% yoy, with overseas sales accounting for 82%. Net profit attributable to the parent company was RMB71 million, and net profit attributable to the parent company excluding non-recurring items was RMB64 million, up 21.4% and 22.2% yoy, respectively.

Investment Summary

Strong Growth in H1 2025 Results

The Company released its 2025 semi-annual report. In H1 2025, the Company reported revenue/net profit attributable to the parent company/net profit attributable to the parent company excluding non-recurring items of RMB1,356 million/RMB119 million/RMB69 million, up 39.62%/420.67%/269.37% yoy, respectively. In Q2 2025 alone, the Company reported revenue/net profit attributable to the parent company/net profit attributable to the parent company excluding non-recurring items of RMB740 million/RMB89 million/RMB41 million, up +34.62%/+1113.3%/+914.6% yoy, respectively.

Effective Cost Rate Control Boosted Net Profit Margin

According to the semi-annual report, gross margin was 24.29%, down 0.53 pts yoy, remaining broadly stable, while gross profit increased by RMB88.4 million yoy. Period cost rate declined 3.2 pts yoy to 12.6%, with sales/administration/R&D/financial cost rates down by -1.8/-1.3/+0.01/-0.2 pts yoy, respectively, showing significant benefits from scale effect and cost control. In addition, the Company disposed of a piece of plant land during the period, recording a one-off disposal gain of RMB55 million, which also contributed to earnings growth. Net profit margin rose 7.07 pts to 10.16%, and net profit margin excluding non-recurring items rose 3.16 pts to 5.08%. Meanwhile, net cash flow from operating activities surged 412.6% yoy, reflecting continuous improvement in earnings quality.

Capacity Upgrade and Value Chain Integration

The Company is actively promoting capacity upgrading with its "Zhengyu Intelligent Manufacturing Park" as a platform. By the end of the reporting period, the Park had achieved a significant increase in production capacity, and the intelligent factory capacity matrix had been gradually established. The new Park not only significantly shortened the order delivery cycle but also formed an integrated "R&D-Intelligent Manufacturing-Delivery" closed-loop system, consolidating the Company's capability for rapid product iteration and continuously strengthening its technological moat in the industry. In terms of vertical integration, the Park extended the industrial chain upstream and has begun mass production of self-made high-precision stamping parts, high-precision piston rods, solenoid valves and other key shock absorber components, achieving in-house production of core parts. The deep extension of the industrial chain effectively reduced product defect rates, further optimised production costs, and established a rapid response mechanism, perfectly meeting the global customers' flexible customisation and high-frequency turnover demand for "multi-variety, small-batch, multi-batch" one-stop procurement.

Accumulate (Initiation)

CMP CNY 16.48

(Closing price as at 10 September)

TARGET CNY 18.78 (+16%)

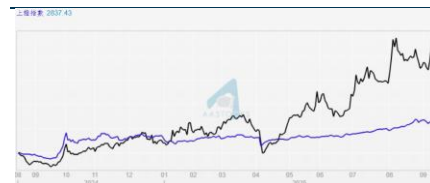
COMPANY DATA

O/S SHARES (MN) :	240
MARKET CAP (CNY MN) :	3956
52 - WK HI/LO (CNY):	18.1/ 6.81

SHARE HOLDING PATTERN, %

ADD China	41.03
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PRICE VS. SHCOMP



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY24	FY25E	FY26E	FY27E
Net Sales	2303	2856	3403	3897
Net Profit	71	148	180	215
EPS, CNY	0.32	0.61	0.75	0.89
P/E, x	51.5	26.8	22.0	18.4
BVPS, CNY	5.51	6.68	7.31	7.95
P/BV, x	3.0	2.5	2.3	2.1
DPS (CNY)	0.10	0.19	0.23	0.28
Div. Yield (%)	0.6%	1.2%	1.4%	1.7%

Source: Company reports, Phillip Securities Est.

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Global Deployment Accelerating Capacity Expansion, with Overseas Plant to Commence Production Soon

The Company's intelligent manufacturing base in Thailand has already entered large-scale production, and investment will continue to be increased to expand capacity. At present, the Company's capacity expansion is entering an accelerated phase. Capacity was RMB1.7 billion in 2023 and is expected to reach RMB4.4 billion by 2027, an expansion of 2.5 times in four years. The Company has a production capacity of RMB3.4 billion in China and a capacity of RMB1.0 billion in Thailand, further strengthening its global delivery capability.

Investment Thesis

As a leading enterprise in the domestic shock absorber industry, the Company has achieved in-house production of core components through the construction of intelligent manufacturing parks, enhancing its vertical integration capability. Such technological barriers and economies of scale enable it to occupy a favourable position in the global automotive after-market. With global vehicle ownership exceeding 1.6 billion units, equivalent to demand for over 800 million shock absorbers, and a market size of about RMB70 billion, the Company is well positioned to continue benefiting from this trend.

As for valuation, we expected diluted EPS of the Company to RMB 0.61/0.75/0.89 of 2025/2026/2027. And we accordingly gave the target price to RMB18.78, respectively 31/25/21x P/E for 2025/2026/2027. "Accumulate" rating. (Closing price as at 10 September)

Historical P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

Risk

- Progress of new production line is below expectations
- Overseas market risk
- Macroeconomic downturn affects product demand
- Sharply rising raw material prices or sharply falling product prices

Financials

FYE DEC	FY22	FY23	FY24	FY25F	FY26F	FY27F
Valuation Ratios						
P/E (X), adj.	51.5	63.4	51.5	26.8	22.0	18.4
P/B (X)	3.3	3.2	3.0	2.5	2.3	2.1
Dividend payout ratio(%)	31.3%	0.0%	31.3%	30.9%	30.7%	31.3%
Dividend Yield (%)	0.6%	0.0%	0.6%	1.2%	1.4%	1.7%
Per share data (RMB)						
EPS, (Basic)	0.32	0.26	0.32	0.61	0.75	0.89
EPS, (Diluted)	0.32	0.26	0.32	0.61	0.75	0.89
DPS	0.1	0	0.1	0.19	0.23	0.28
BVPS	4.97	5.17	5.51	6.68	7.31	7.95
Growth & Margins (%)						
Growth						
Revenue	4.6%	3.4%	31.0%	24.0%	19.2%	14.5%
EBIT	-74.4%	41.2%	31.0%	106.6%	23.4%	16.3%
Net Income, adj.	-40.7%	-16.6%	21.4%	106.4%	22.1%	19.1%
Margins						
Gross margin	21.2%	24.6%	24.1%	24.0%	24.3%	24.7%
EBIT margin	4.0%	5.4%	5.4%	9.0%	9.4%	9.5%
Net Profit Margin	4.1%	3.3%	3.1%	5.2%	5.3%	5.5%
Key Ratios						
ROE	6.6%	5.1%	6.0%	10.1%	10.7%	11.7%
Income Statement (RMB mn)						
Revenue	1700	1758	2303	2856	3403	3897
Gross profit	361	432	555	686	825	964
EBIT	68	95	125	258	319	371
Profit before tax	78	81	109	248	304	364
Tax	20	19	17	48	56	61
Profit for the period	58	61	92	201	248	304
Minority interests	-12	3	21	53	68	89
Total capital share	223	224	224	240	240	240
Net profit	71	59	71	148	180	215

Source: PSR

(Closing price as at 10 September)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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