

Feilong Auto (002536 CH)

Short-term fluctuations do not alter long-term trends

China | Automobile Components | Company Report

31 October 2025

Company profile:

Feilong Auto Components Co., Ltd. is a leading enterprise in the domestic automotive thermal management sector, maintaining strong growth momentum in both traditional and new energy tracks. In the field of traditional thermal management, the Company continues to consolidate its market advantage with three core products: mechanical water pumps, exhaust manifolds, and turbocharger housings (abbreviated as "turbo housings"). In the field of new energy system cooling, its main products include the electronic water pump series and thermostat valve series. Currently, the Company is implementing a dual-track penetration strategy of "automotive + general industrial", developing a second growth curve in non-automotive sectors, focusing on intelligent liquid cooling solutions for 5G base stations, AI computing centres, new energy storage, hydrogen energy equipment, and high-end agricultural machinery, thereby enabling the cross-industry application of thermal management technology.

Investment Summary

Stable Q3 Results with Continued Improvement in Gross Margin

According to the recently released Q3 2025 report, the Company recorded revenue of RMB32.37 million (RMB, the same below) for the first three quarters, down 7.38% yoy. Net profit attributable to the parent company reached RMB287 million, up 7.54% yoy, and net profit attributable to the parent company excluding non-recurring items was RMB304 million, up 16.66% yoy.

Operating costs for the first three quarters dropped 12.78% yoy to RMB24.03 million, a steeper decline than the drop in revenue, mainly driven by optimisation of product mix and cost control. This contributed to a 4.6 pts increase in gross margin to 25.8%. The overall period expense ratio rose by 2.06 pts to 14.94%, with the selling expense ratio up 0.64 pts yoy and the administration expenses ratio up 1.11 pts yoy. Financial expenses decreased by 31.2% yoy, benefiting from increased exchange gains. The R&D expense ratio rose slightly by 0.55 pts to 6.7%. Asset impairment losses narrowed by 38.1% yoy, mainly due to a reduction in provision for inventory write-down. Profit growth was primarily driven by continued cost optimisation, partly offset by the rise in period expense ratio. Net profit margin attributable to the parent company increased by 1.23 pts yoy to 8.86%.

Looking at the quarterly data, Q3 revenue was RMB10.76 million, down 4.68% yoy. Net profit attributable to the parent company was RMB76,301.6 thousand, down 7.9% yoy. Net profit attributable to the parent company excluding non-recurring items was RMB86 million, up 0.38% yoy. Compared to Q2, revenue/net profit attributable to the parent company/net profit attributable to the parent company excluding non-recurring items were up 2.28%, down 13.09%, down 9.34% qoq, respectively. Profitability continued to improve in Q3, with gross margin up 0.84 pts yoy to 26.28%. The period expense ratio rose slightly by 0.45 pts yoy, and operating profit margin increased by 1 ppt yoy to 8.9%. However, a sharp increase in non-operating expenses due to losses on disposal of fixed assets, along with a higher effective tax rate, significantly impacted profitability, resulting in a 0.25 pts yoy decline in net profit margin attributable to the parent company to 7.09%.

Neutral (Downgrade)

CMP CNY 22.4

(Closing price as at 30 October)

TARGET CNY 23.2 (+3.57%)

COMPANY DATA

O/S SHARES (MN) :	575
MARKET CAP (CNY MN) :	12875
52 - WK HI/LO (CNY):	34.3/ 10.39

SHARE HOLDING PATTERN, %

Mr Sun Yao Zhi	14.85
Mr Sun Yao Zhong	5.11

PRICE VS. SHCOMP



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY24	FY25E	FY26E	FY27E
Net Sales	4723	4874	6062	7023
Net Profit	330	420	553	667
EPS, CNY	0.57	0.73	0.96	1.16
P/E, x	39.3	30.7	23.3	19.3
BVPS, CNY	5.80	6.08	6.39	6.82
P/BV, x	3.9	3.7	3.5	3.3
DPS (CNY)	0.40	0.50	0.65	0.76
Div. Yield (%)	1.8%	2.2%	2.9%	3.4%

Source: Company reports, Phillip Securities Est.

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Overseas Business and Capacity Adjustment

In terms of market layout, the Company continues to deepen its presence in the domestic market while enhancing its share in international markets through optimisation of overseas channels. The increase in exchange gains indirectly reflects the scale of overseas business settlements. Notably, construction in progress at the end of the reporting period decreased by 50.21% compared with the beginning of the period, mainly due to the transfer of Longtai Auto Parts's project to fixed assets, suggesting that capacity restructuring may provide support for future market expansion.

Breakthrough in Liquid Cooling Technology and Entry into the Humanoid Robot Supply Chain

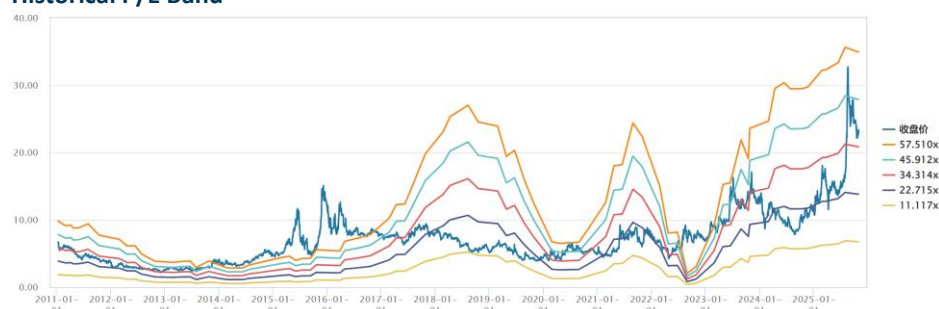
During the period, the Company achieved significant technological breakthroughs. Its liquid cooling pipeline system gained strong market recognition driven by surging AI computing power demand, further reinforcing its leading technological advantage. The Company successfully introduced its joint module into the supply chain of humanoid robots, marking a substantive advancement in the application of thermal management technology in frontier industries. In addition, the Company continues to promote the integration of its thermal management technology with emerging fields such as robotics, accelerating its deployment in the humanoid robot market and striving to establish a long-term growth engine aimed at fostering new productive forces.

Investment Thesis

With the rising penetration of new energy vehicles and increasing demand for liquid-cooled servers, the Company's dual-track strategy of "automotive + general industrial" is expected to continue unlocking result potential. The increase in expense ratio during the market development phase, does not undermine its long-term growth potential.

As for valuation, we revised diluted EPS of the Company to RMB 0.73/0.96/1.16 of 2025/2026/2027. And we accordingly gave the target price to RMB23.2, respectively 31.8/24.1/20x P/E for 2025/2026/2027. "Neutral" rating. (Closing price as at 30 October)

Historical P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

Risk

- Progress of new production line is below expectations
- Electric vehicle sales fall short of expectations
- Macroeconomic downturn affects product demand
- Sharply rising raw material prices or sharply falling product prices

Financials

FYE DEC	FY23	FY24	FY25F	FY26F	FY27F
Valuation Ratios					
P/E (X), adj.	44.8	39.3	30.7	23.3	19.3
P/B (X)	4.0	3.9	3.7	3.5	3.3
Dividend payout ratio(%)	60.0%	70.2%	68.5%	67.5%	65.5%
Dividend Yield (%)	1.3%	1.8%	2.2%	2.9%	3.4%
Per share data (RMB)					
EPS, (Basic)	0.50	0.57	0.73	0.96	1.16
EPS, (Diluted)	0.50	0.57	0.73	0.96	1.16
DPS	0.3	0.4	0.5	0.65	0.76
BVPS	5.62	5.80	6.08	6.39	6.82
Growth & Margins (%)					
Growth					
Revenue	25.7%	15.3%	3.2%	24.4%	15.9%
EBIT	553.5%	29.9%	26.8%	35.8%	25.2%
Net Income, adj.	211.1%	25.9%	27.3%	31.8%	20.5%
Margins					
Gross margin	20.9%	21.5%	25.1%	25.7%	25.7%
EBIT margin	6.0%	6.8%	8.3%	9.1%	9.8%
Net Profit Margin	6.4%	7.0%	8.6%	9.1%	9.5%
Key Ratios					
ROE	9.8%	10.0%	12.3%	15.4%	17.6%
Income Statement (RMB mn)					
Revenue	4095	4723	4874	6062	7023
Gross profit	855	1018	1224	1558	1808
EBIT	246	319	405	550	688
Profit before tax	238	325	409	548	664
Tax	-3	-2	-1	5	7
Profit for the period	241	327	410	542	658
Minority interests	-21	-2	-10	-11	-9
Total capital share	575	575	575	575	575
Net profit	262	330	420	553	667
Source: PSR					

(Closing price as at 30 October)

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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