

Zhejiang Supcon Tech

 **Outperform**

Domestic revenue growth slowing down

Key Points

- 4Q24 earnings were below MQe and VA consensus estimates due to revenue decline and hikes in SG&A and R&D expenses.
 - 2024 domestic revenue growth was flattish, but overseas revenue surged by 118.3% YoY and accounted for 8.2% of total revenue, a record high.
 - Its leading position in domestic processing industrial automation remains intact. We reiterate Outperform.
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- **What we liked:** 4Q24 GPM/NPM improved YoY and QoQ to 36.2%/14.3%. 2024 operating CF soared by 126.7% YoY.
 - **What we did not like:** 4Q24 revenue was down 4.7% YoY, far below MQe. SG&A/R&D expenses increased 2.4%/8.1% YoY.
 - **Domestic market - main business growth decelerates:** Revenue from chemical/petrochemical industries declined 13.9%/3.9% YoY in 4Q24. 2024 revenue from chemical/petrochemical only grew 5.9%/10.6% YoY. Revenue from oil & gas rose 47.7% YoY in 2024, accounting for 9.7% of revenue. S2B saw revenue decline of 14.5% YoY with GPM down to 8.9% in 2024. Supcon retained its leading market share of 40.4%/31.2% in DSC (distributed control system)/SIS (safety instrumented system).
 - **Overseas market - future focus:** 2024 overseas revenue climbed 118.3% YoY to Rmb749m, accounting for 8.2% of total revenue, a record high. It signed new overseas contracts of Rmb1.36b, +35% YoY, and achieved cooperation with Saudi Aramco, Pertamina, etc. With slowdown in domestic revenue growth, overseas would be its future growth engine.
 - **New robotic segment:** It launched "Plantbot", a processing industrial robot solution by integrating "AI + platform + safety inspection", supply chain logistics, and collaborative robotics. In 2024, the robotic segment achieved revenue of Rmb56m and secured new orders of Rmb167m. Mgmt targets robotic revenue of Rmb500m in next three years.

Earnings changes: We cut 25E/26E net profit by 14.7%/12.7% after incorporating 4Q24 results, slower revenue growth and higher opex.

Valuation: Our TP increases by ~1% to Rmb60.70 from Rmb60.00 as we roll over to 2026E EPS, based on an unchanged 32.0x 2026E PER (1.0SD below historical average PE).

Catalysts: Market-share gains in the instrument and software sectors and accelerated revenue contributions from overseas customers.

Investment Thesis and Recommendation

Despite the headwinds from the petrochemical capex downcycle and margin pressure from intensifying competition, we expect Supcon to benefit from import substitution in favour of the domestic market by the process manufacturing industry in the long term. For more company research, click [here](#).

Technology Hardware & Equipment Greater China



Daisy Zhang, CFA



Cassie Dai

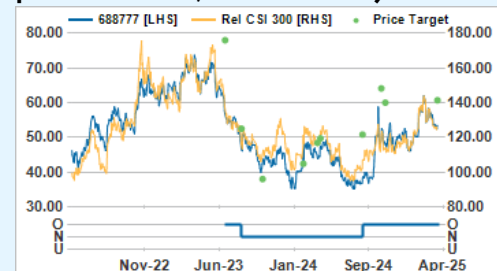
688777 CH	Outperform
Price (at 3 Apr 2025)	CNY52.38
12-month target	CNY60.70
12-month TSR (%)	17.4
Volatility Index	High
Market Cap (Local) (m)	41,411
Market Cap (USD) (m)	5,695
Free Float (%)	89
30-day avg turnover (USD) (m)	94.5

Investment Fundamentals

Year end 31 Dec	2024A	2025E	2026E	2027E
Revenue (m)	9,139	10,330	12,420	15,233
Revenue growth (%)	6.0	13.0	20.2	22.6
EBIT (m)	851.5	1,024	1,335	1,740
EBIT growth (%)	29.9	20.3	30.3	30.3
Reported profit (m)	1,117	1,264	1,499	1,893
EPS rep [CNY]	1.4	1.6	1.9	2.4
EPS rep growth (%)	(0.8)	13.1	18.6	26.2
EPS adj [CNY]	1.4	1.6	1.9	2.4
Net debt/equity (%)	(12.9)	(15.0)	(17.8)	(16.1)
ROA (%)	4.7	5.5	6.7	7.8
ROE (%)	11.1	11.9	13.1	15.2
PER rep (x)	37.1	32.8	27.6	21.9
EV/EBITDA (x)	42.5	35.8	28.2	22.1
P/BV (x)	4.0	3.8	3.5	3.2
Total div yield (%)	1.4	1.5	1.8	2.3

Quant (rank vs. global sector) 527 / 1,218

688777 CH rel CSI 300 performance, & rec history



Source: FactSet, Macquarie Research, Apr 2025 (all figures in CNY unless noted, TP in CNY)

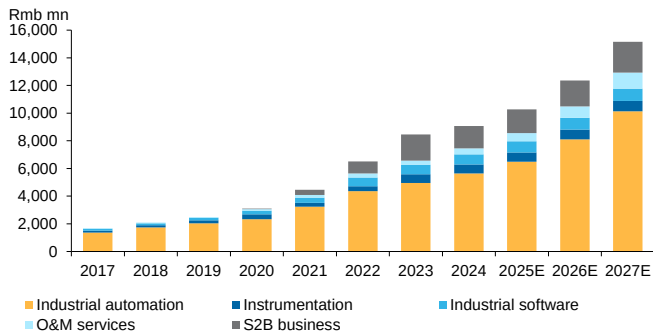
Key Risks to Investment Thesis

- Capex downcycles for the domestic chemical and petrochemical industries.
- Margin contraction due to large projects and the low-margin online platform.

Company Description

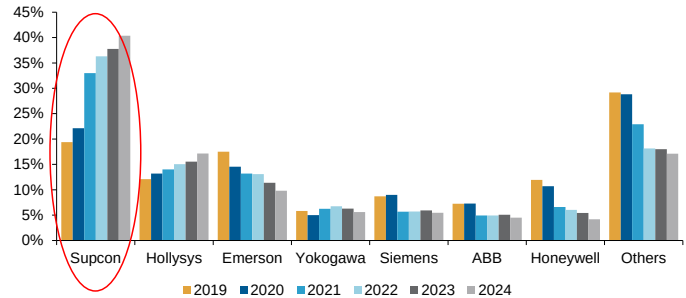
Supcon is a domestic process manufacturing industry leader. It is an integrated industrial automation control system supplier, from DCS products & instruments to software and solutions provision. Through its innovative offline and online sales model, it has exceeded most global peers and become the number-one DCS and number-two SIS supplier in China. The company targets to expand its overseas market through cooperation with Saudi Aramco, BASF, etc.

Figure 1 - Revenue breakdown by segments



Source: Company data, Macquarie Research, April 2025

Figure 2 - DCS market shares in China, 2019-2024



Source: MIR, April 2025

Zhejiang Supcon Tech (688777 CH) CNY/(m) unless otherwise noted

Income Statement	Dec FY	2024A	2025E	2026E	2027E	Q4/24A	Q1/25E	Balance Sheet	2024A	2025E	2026E	2027E
Revenue		9,139	10,330	12,420	15,233	2,802	1,843	Cash	3,463	3,795	4,265	4,248
Cost of Goods Sold		6,044	6,808	8,115	9,918	1,789	1,230	Receivables	4,031	3,535	4,458	5,626
Gross Profit		3,095	3,523	4,305	5,315	1,013	613.0	Inventories	3,251	3,722	4,456	5,639
EBITDA		963.1	1,143	1,450	1,854	320.5	184.3	Investments	2,795	2,795	2,795	2,795
Depreciation		68.4	73.2	81.4	89.6	20.7	20.6	Fixed Assets	823.3	915.3	1,008	1,101
Amortisation		43.1	45.8	33.3	24.3	9.6	11.4	Intangibles	349.5	303.7	270.4	246.1
EBIT		851.5	1,024	1,335	1,740	290.3	152.3	Other Assets	3,604	3,657	3,786	3,946
Net Interest Income		137.7	40.4	50.4	64.4	71.7	10.1	Total Assets	18,316	18,723	21,038	23,601
Exceptionals	(191.9)	(60.0)	(140.0)	(140.0)	(46.7)	(15.0)	(15.0)	Payables	4,350	3,968	5,119	6,141
Other Pre-Tax Income	401.2	340.0	350.0	350.0	121.7	72.0	72.0	Short Term Debt	2,101	2,101	2,101	2,101
Pre-Tax Profit	1,198	1,345	1,595	2,014	436.9	219.4	219.4	Long Term Debt	15.2	15.2	15.2	15.2
Tax Expense	(47.9)	(61.9)	(73.4)	(92.6)	(14.1)	(10.1)	(10.1)	Other Liabilities	1,419	1,486	1,764	2,137
Net Profit	1,151	1,283	1,522	1,921	422.9	209.3	209.3	Total Liabilities	7,886	7,571	8,999	10,394
Minority Interests	(33.6)	(19.2)	(22.8)	(28.8)	(22.6)	(3.1)	(3.1)	Shareholders' Funds	10,309	11,011	11,875	13,014
Reported Earnings	1,117	1,264	1,499	1,893	400.3	206.1	206.1	Minority Interests	121.7	140.9	163.7	192.6
Adjusted Earnings	1,117	1,264	1,499	1,893	400.3	206.1	206.1	Total S/H Equity	10,430	11,152	12,039	13,207
Basic Shares Outstanding	790.6	790.6	790.6	790.6	790.6	790.6	790.6	Total Liab & S/H Funds	18,316	18,723	21,038	23,601
Diluted Shares Outstanding	790.4	790.6	790.6	790.6	790.6	790.6	790.6	Net Debt / Equity (%)	(12.9)	(15.0)	(17.8)	(16.1)
EPS (rep) [CNY]	1.4	1.6	1.9	2.4	0.5	0.3	0.3	Interest Cover (x)	NM	NM	NM	NM
EPS (adj) [CNY]	1.4	1.6	1.9	2.4	0.5	0.3	0.3	ROE (%)	11.1	11.9	13.1	15.2
Total DPS [CNY]	0.7	0.8	1.0	1.2	0.7	0.0	0.0	ROA (%)	4.7	5.5	6.7	7.8
								ROIC (%)	10.9	10.8	13.4	16.8
Ratio		2024A	2025E	2026E	2027E			Cash Flow Analysis	2024A	2025E	2026E	2027E
Revenue Growth (%)		6.0	13.0	20.2	22.6	-	-	EBITDA	963.1	1,143	1,450	1,854
EBITDA Growth (%)		28.4	18.7	26.8	27.8	-	-	Tax Paid	(47.9)	(61.9)	(73.4)	(92.6)
EBIT Growth (%)		29.9	20.3	30.3	30.3	-	-	Chgs in Working Cap	0.0	(343.8)	(358.0)	(1,116)
EPS Growth (adj) (%)		0.4	13.1	18.6	26.2	-	-	Net Interest Paid	137.7	40.4	50.4	64.4
Gross Profit Margin (%)		33.9	34.1	34.7	34.9	-	-	Other	(618.9)	280.0	210.0	210.0
EBITDA Margin (%)		10.5	11.1	11.7	12.2	-	-	Operating Cashflow	434.0	1,058	1,279	919.3
EBIT Margin (%)		9.3	9.9	10.7	11.4	-	-	Capex	(105.7)	(165.3)	(173.9)	(182.8)
Net Profit Margin (%)		12.2	12.2	12.1	12.4	-	-	Other	(1,777)	0.0	0.0	0.0
Payout Ratio (%)		50.2	50.3	50.3	50.3	-	-	Investing Cashflow	(1,883)	(165.3)	(173.9)	(182.8)
PE (rep) (x)		37.1	32.8	27.6	21.9	-	-	Dividend (Ordinary)	(572.1)	(561.3)	(635.1)	(753.4)
PE (adj) (x)		37.1	32.8	27.6	21.9	-	-	Debt Movements	110.9	0.0	0.0	0.0
EV/EBITDA (x)		42.5	35.8	28.2	22.1	-	-	Other	(130.8)	0.0	0.0	0.0
EV/EBIT (x)		48.0	39.9	30.6	23.5	-	-	Financing Cashflow	(592.0)	(561.3)	(635.1)	(753.4)
Price/Book (x)		4.0	3.8	3.5	3.2	-	-	Net Chg in Cash/Debt	(2,014)	331.5	469.9	(16.9)
Total Div Yield (%)		1.4	1.5	1.8	2.3	-	-	Free Cashflow	328.3	892.8	1,105	736.5

Source: Company data, Macquarie Research Apr 2025

Figure 3 - Supcon - Quarterly financial statement

RMB m	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	YoY %	QoQ %
Revenue	981	1,685	1,560	2,397	1,446	2,195	2,038	2,941	1,738	2,514	2,085	2,802	-4.7%	34.4%
Gross profit	384	597	546	835	482	701	677	1,001	539	874	669	1,013	1.2%	51.5%
SG&A expenses	221	259	275	295	259	308	322	409	271	289	287	418	2.4%	45.7%
R&D expenses	136	139	170	248	186	220	220	281	206	239	230	304	8.1%	32.4%
Pre-tax profit	69	276	185	341	101	453	197	431	152	406	203	437	1.3%	115.1%
Net profit	60	254	161	324	92	418	183	408	145	371	200	400	-2.0%	100.0%
Recurring net profit	40	199	127	317	67	357	145	378	119	354	183	382	1.1%	109.0%
Operating cashflow	-447	-112	71	848	-723	-260	236	939	-677	257	66	788	-16.1%	1095.8%
Margins														
Gross margin	39.1%	35.5%	35.0%	34.9%	33.3%	31.9%	33.2%	34.0%	31.0%	34.8%	32.1%	36.2%	2.1%	4.1%
Net margin	6.1%	15.1%	10.3%	13.5%	6.4%	19.1%	9.0%	13.9%	8.4%	14.8%	9.6%	14.3%	0.4%	4.7%

Source: Company data, April 2025

Figure 4 - Supcon 2024 financial statement

RMB m	2024	2023	YoY %	2024 MQe	Diff %	2024 VA est.	Diff %
Revenue	9,139	8,620	6.0%	9,853	-7.3%	9,785	-6.6%
Gross profit	3,095	2,861	8.2%	3,277	-5.6%	3,259	-5.0%
SG&A expenses	1,265	1,298	-2.5%	1,286	-1.6%		
R&D expenses	978	908	7.7%	1,005	-2.7%		
Pre-tax profit	1,198	1,183	1.3%	1,274	-5.9%	1,288	-7.0%
Net profit	1,117	1,102	1.4%	1,202	-7.1%	1,176	-5.0%
Recurring net profit	1,038	947	9.6%				
Operating cashflow	434	191	126.7%				
EPS (RMB)	1.42	1.44	-1.4%				
DPS (RMB)	0.71	0.70	1.4%				
Margins							
Gross margin	33.9%	33.2%	0.7%	33.3%	0.6%	33.3%	0.6%
Net margin	12.2%	12.8%	-0.6%	12.2%	0.0%	12.0%	0.2%

Source: Company data, Macquarie Research, VisibleAlpha, April 2025

Figure 5 - Supcon 4Q24 financial statement

RMB m	4Q24	4Q23	YoY	3Q24	QoQ	4Q24e MQe	Diff %	4Q24e VA	Diff %
Revenue	2,802	2,941	-4.7%	2,085	34.4%	3,516	-20.3%	3,283	-14.7%
Gross profit	1,013	1,001	1.2%	669	51.5%	1,195	-15.2%	1,118	-9.4%
SG&A expens	418	409	2.4%	287	45.7%	439	-4.7%		
R&D expense	304	281	8.1%	230	32.4%	331	-8.2%		
Pre-tax profit	437	431	1.3%	203	115.1%	512	-14.7%	501	-12.8%
Net profit	400	408	-2.0%	200	100.0%	485	-17.5%	449	-10.9%
Recurring net	382	378	1.1%	183	109.0%				
Operating ca:	788	939	-16.1%	66	1095.8%				
Margins									
Gross margin	36.2%	34.0%	2.1%	32.1%	4.1%	33.0%	3.2%	34.1%	2.1%
Net margin	14.3%	13.9%	0.4%	9.6%	4.7%	11.5%	2.8%	13.7%	0.6%

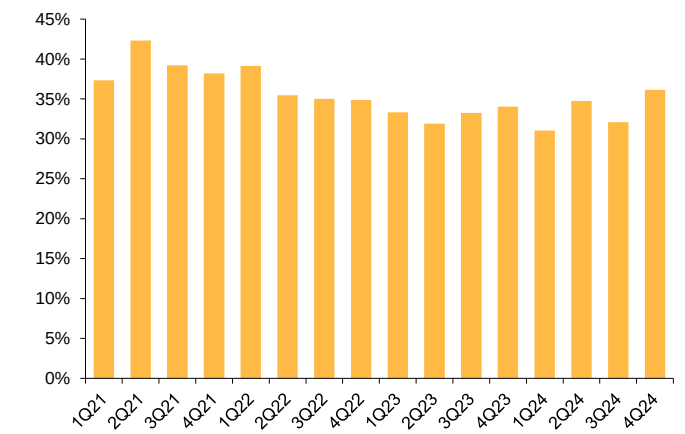
Source: Company data, Macquarie Research, VisibleAlpha, April 2025

Figure 6 - Earnings revisions

RMB m	2025E			2026E			2027E		
	New	Old	Change	New	Old	Change	New	Old	Change
Revenue	10,330	12,168	-15.1%	12,420	15,006	-17.2%	15,233		
Gross profit	3,523	4,052	-13.1%	4,305	5,003	-14.0%	5,315		
Opex	2,498	2,794	-10.6%	2,970	3,422	-13.2%	3,575		
EBIT	1,024	1,257	-18.5%	1,335	1,581	-15.6%	1,740		
Pre-tax profit	1,345	1,580	-14.9%	1,595	1,830	-12.8%	2,014		
Net profit	1,264	1,482	-14.7%	1,499	1,716	-12.7%	1,893		
Margins									
Gross margin	34.1%	33.3%	0.8%	34.7%	33.3%	1.3%	34.9%		
Op margin	9.9%	10.3%	-0.4%	10.7%	10.5%	0.2%	11.4%		
Net margin	12.2%	12.2%	0.1%	12.1%	11.4%	0.6%	12.4%		

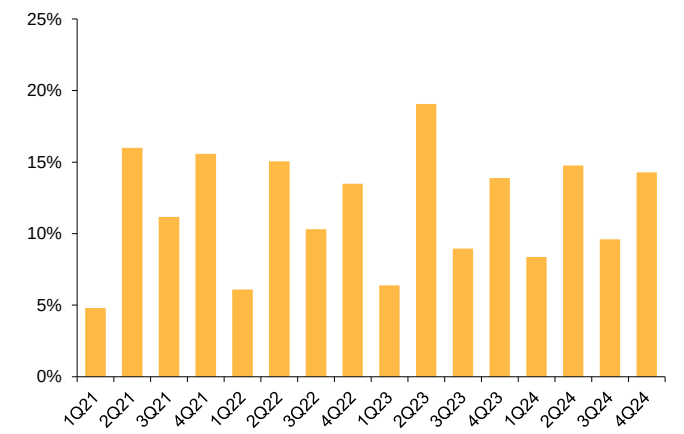
Source: Company data, Macquarie Research, April 2025

Figure 7 - Supcon GPM



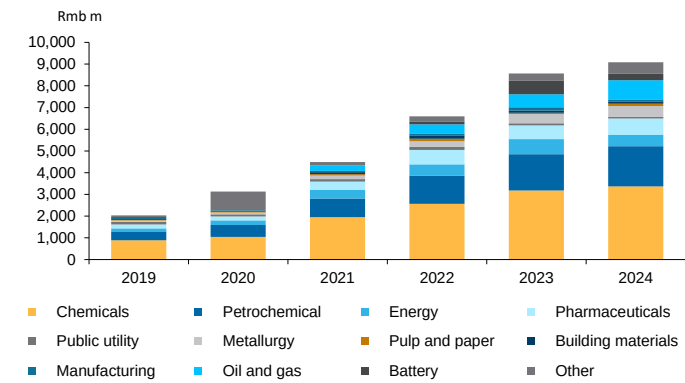
Source: Company data, April 2025

Figure 8 - Supcon NPM



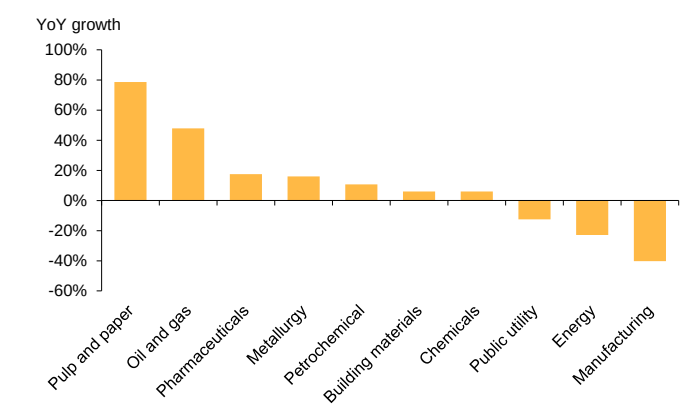
Source: Company data, April 2025

Figure 9 - Supcon - Revenue breakdown by downstream industry



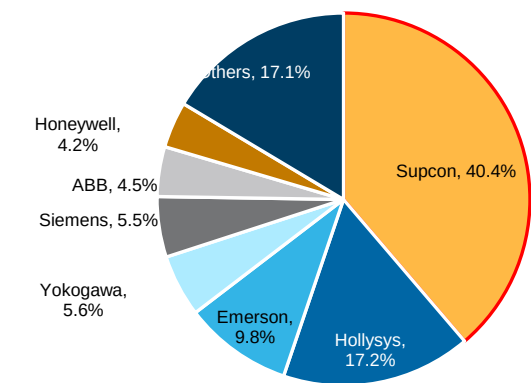
Source: Company data, April 2025

Figure 10 - Revenue growth by downstream industry in 2024



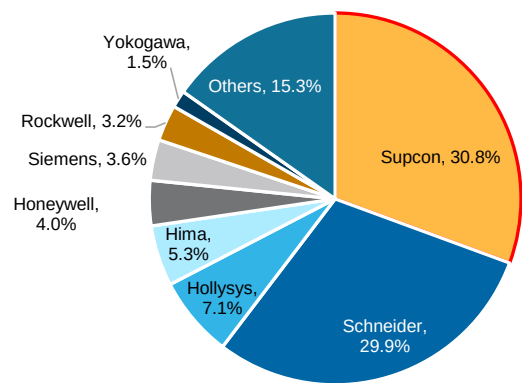
Source: Company data, April 2025

Figure 11 - China DCS market share (2024)



Source: MIR, Macquarie Research, April 2025

Figure 12 - China SIS market share (2024)



Source: MIR, Macquarie Research, April 2025

Key Quant Findings

The quant model currently holds a marginally positive view on Zhejiang Supcon Tech. The strongest style exposure is Profitability, indicating this stock is efficiently converting investments to earnings; proxied by ratios like ROE or ROA. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

Macquarie Alpha Model: Key rankings

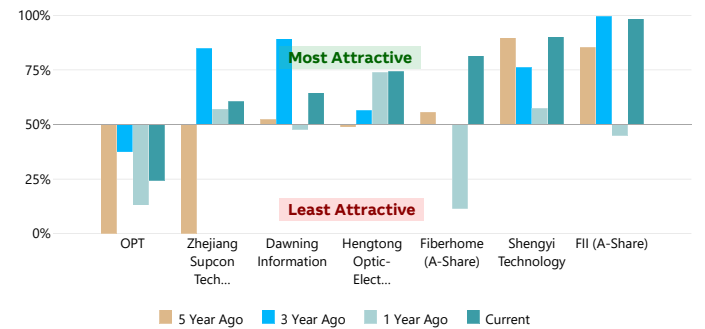
The Macquarie Quant's flagship Alpha model is a dynamic multi-factor model based on a staple of quant factors such as value, momentum, revisions, quality, and risk.

	Global	Market (Country)	Sector
	Whole Universe	China A	Technology Hardware & Equipment
Macquarie Alpha Model	7571/17800	2020/5134	527/1218
Fundamental (Consensus) *	1/17800	1/5134	1/1218

* based on Total Shareholder Return = Consensus Price target / Current Price

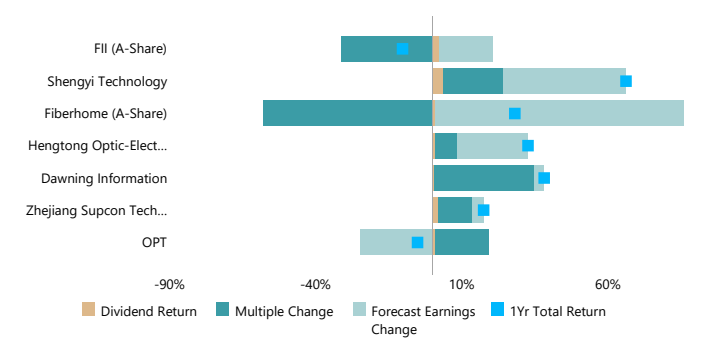
Current and Historical Alpha Model Rank

The chart shows the Macquarie Alpha model market ranking against the company's peers and over recent history.



Drivers of Stock Return

Breakdown of 1-year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



Source (all charts): FactSet, Refinitiv, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative Team: maccaperequitiesresearchquantglobal@macquarie.com. Explanation for items on this page can be found at <https://www.macquarieinsights.com/rp/dr/rp/OTUyMzg1>

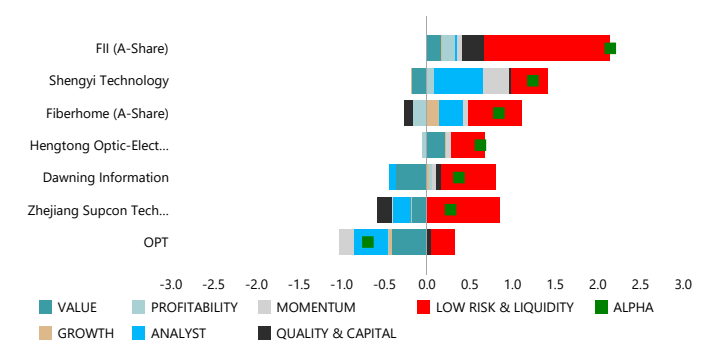
Alpha Model Decomposition

The Macquarie Alpha is decomposed into its sector and market relative factor & styles exposures (a higher/better percentile is coded in green, whilst lower in red).

Factors / Styles	Percentile relative to		Core factors in definition
	sectors (/1218)	market (/5134)	
ALPHA	57%	61%	Built from the styles below
VALUE	28%	31%	Book, CF, Yield, Earnings Multiples
ANALYST	57%	70%	Revisions (Earnings, Recommendations)
MOMENTUM	53%	50%	Price Momentum
GROWTH	37%	37%	EPS, Sales (Forecast, Historic)
PROFITABILITY	66%	66%	ROE, Margin, Asset Turnover
QUALITY	33%	36%	Accruals, Earn Stability, Cash Conversion
CAPITAL	6%	5%	Investment/Capex, Net share issuance
LIQUIDITY	95%	94%	Size, Turnover, Analyst Coverage
LOW RISK	92%	95%	Beta, Volatility, Earn.Cert, Leverage
TECHNICAL	45%	63%	MACD, RSI, Bollinger, Williams R, etc

Factors driving the Alpha Model vs peers

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall raw Alpha score.



Macquarie Style Returns over last year

Recent performance to Macquarie style factors

Asia Ex JP	Monthly Factor Long-Short Returns for												Last 5 Years (ann)	Last 10 Years (ann)
	Mar - 25	Feb - 25	Jan - 25	Dec - 24	Nov - 24	Oct - 24	Sep - 24	Aug - 24	Jul - 24	Jun - 24	May - 24	Apr - 24		
ALPHA	4%	-3%	1%	7%	1%	-1%	-19%	5%	-2%	6%	0%	2%	6%	6%
VALUE	4%	-3%	1%	5%	1%	-2%	1%	3%	-2%	0%	3%	3%	7%	4%
ANALYST	1%	2%	3%	6%	0%	2%	-7%	1%	-3%	4%	-2%	1%	14%	10%
MOMENTUM	-2%	-1%	-1%	4%	2%	1%	-23%	3%	-2%	9%	2%	0%	1%	1%
GROWTH	-1%	0%	0%	5%	2%	-1%	0%	-2%	0%	1%	-2%	0%	-2%	0%
PROFITABILITY	5%	-5%	1%	4%	0%	-3%	-3%	3%	-2%	1%	1%	1%	-7%	-2%
QUALITY	2%	-4%	1%	4%	1%	-1%	-1%	0%	-4%	1%	1%	2%	-4%	0%
CAPITAL	3%	-4%	-1%	1%	1%	-1%	1%	1%	-1%	-2%	1%	3%	0%	-2%
LIQUIDITY	-1%	0%	0%	-1%	2%	-3%	-13%	4%	-1%	5%	1%	0%	-3%	1%
LOW RISK	5%	-7%	-1%	4%	2%	-3%	-9%	4%	3%	3%	0%	2%	-3%	-3%

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Important Disclosures

Recommendation definitions	Volatility index definition	Financial definitions
Macquarie – Asia and USA Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <-10% Macquarie – Australia/New Zealand Outperform – expected return >10% Neutral – expected return from 0% to 10% Underperform – expected return <0% During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions. Recommendations – 12 months 12-month target – Expected share price in 12 months Valuation – The company's estimated fair value share price based on the disclosed valuation methodology Note: Quant recommendations may differ from Fundamental Analyst recommendations	This is calculated from the volatility of historical price movements. Very high – highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative. High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative. Medium – stock should be expected to move up or down at least 25–40% in a year. Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to select stocks in Asia/Australia/NZ Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk	All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions for quarter ending 31 Dec 2024

	AU/NZ	Asia	USA	
Outperform	59.71%	65.18%	66.98%	(for global coverage by Macquarie, 1.50% of stocks followed are investment banking clients)
Neutral	34.17%	22.25%	30.19%	(for global coverage by Macquarie, 1.35% of stocks followed are investment banking clients)
Underperform	6.12%	12.57%	2.83%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

Company-Specific Disclosures

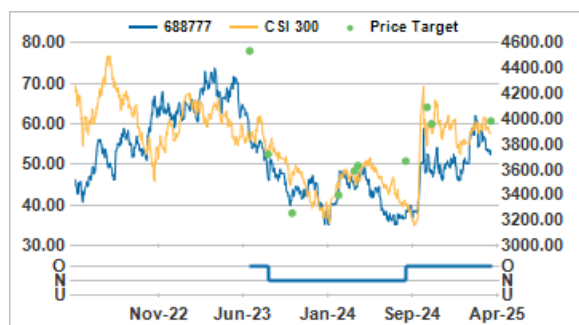
Company Name	Disclosure
Zhejiang Supcon Tech (688777 CH) Outperform 12-month target: CNY60.70 - P/E Valuation: CNY 60.70 - P/E Price: CNY52.38	None

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Recommendation history

Company name	Date	Recommendation	Target price
Zhejiang Supcon Tech (688777 CH)	3-Apr-2025	Outperform	CNY 60.70
	29-Oct-2024	Outperform	CNY 60.00
	17-Oct-2024	Outperform	CNY 64.10
	22-Aug-2024	Outperform	CNY 50.80
	18-Apr-2024	Neutral	CNY 49.70
	9-Apr-2024	Neutral	CNY 48.40
	27-Feb-2024	Neutral	CNY 42.40
	28-Oct-2023	Neutral	CNY 38.00



26-Aug-2023	Neutral	CNY 52.50
8-Jul-2023	Outperform	CNY 78.00

Sensitivity analysis:

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