Daiwa Capital Markets Hong Kong Limited

Airtac International Group (1590 TT)

Target price: **TWD1,950.00** (from TWD1,840.00)

Share price (21 Jul): **TWD1,360.00** | Up/downside: **+43.4%**

5 4 3 2 **1**

Buy
(unchanged)

2Q26 preview: solid profitability on the cards

- Solid 2026-30E revenue CAGR outlook on pneumatic share gain and…
- … new growth drivers, alongside the margin expansion trend
- Reaffirming our Buy (1) rating; lifting 12M TP to TWD1,950

Sheng Cheng
(886) 2 8758 6253
sheng.cheng@daiwacm-cathay.com.tw

Allan Wang
(886) 2 8758 6249
allan.wang@daiwacm-cathay.com.tw

What's new: We provide our preview on Airtac's 2Q26 results.

What's the impact: Though it has taken longer than expected, we believe we are nearing the linear guide (LG) business bearing fruit from 4Q26. After a 6-7 year ramp-up, we estimate CNY250m in revenue from LG in 2Q26 (internal usage: c.CNY75m) and a c.50% utilisation rate. As such, we expect LG's gross margin to gradually expand from the current c.30% to c.40% by 2H28E, and believe this will be a key driver of gross margin expansion over our forecast horizon. On top of this, we estimate Airtac's electrical controller contributed c.CNY400m (c.5% of total sales) in 2025 with a c.60% gross margin. We forecast this to reach CNY500m in 2026E. Longer term, the company targets c.CNY3bn in annual revenue within the next 10 years. For electrical cylinder, we expect this to be introduced by 2028-29. Given the potential market share gains from the pneumatic market (from 30% now to c.35% in the long term) and new growth drivers from LG, electrical controllers and electrical cylinders, we believe Airtac should deliver teens % revenue CAGR over 2026-30E, alongside improving operating margins. While we see a continuing favourable revenue trend at Airtac, we see YoY revenue growth decelerating from 4Q26 given the high base in 4Q25. As such, we expect share-price momentum to recover on revenue growth acceleration in 2Q27E.

2Q26 preview. We now estimate higher 2Q26 sales at TWD12.2bn (up 21% QoQ and 36% YoY), 10% higher than our previous estimate of TWD11.1bn on stronger industrial demand. We estimate the gross margin to rise 1.8pp QoQ to 49.8% (vs. our prior estimate of 48.6%) on higher leverage on lower fixed costs, and the operating margin to only improve 1.1pp QoQ to 34.3% (still the highest level over past 10 years) as the China government implemented stricter policies on social welfare benefits in 2Q26. The additional and unrealised cost in 1Q26 was reflected in 2Q26, which led to a one-off slightly higher opex ratio. We believe the loss from disposal of assets will largely be offset by government subsidies in 2Q26. Hence, we estimate net income of TWD3.3bn (EPS: TWD16.63).

What we recommend: We raise our 2026-28E EPS by 10-14% to reflect our higher gross-margin assumption. We lift our 12-month TP to TWD1,950 (from TWD1,840), now based on a target PER of 28x (prior: 31x; the high end of its past-3-year range of 18-31x), given the likely earnings growth deceleration ahead, on our 1-year forward EPS. We reaffirm our Buy (1) call. Downside risk: worse-than-expected pneumatic demand in China.

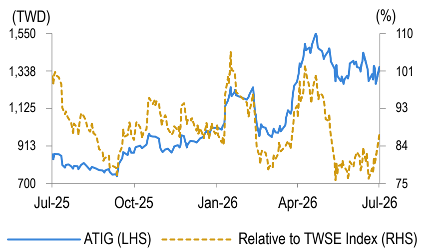
How we differ: Our 2026-28E EPS are 6-14% higher than the consensus, likely due to our more positive view on the company's operating margin.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	7.1	8.9	6.7
Net profit change	10.1	14.3	13.7
Core EPS (FD) change	10.1	14.3	13.7

Source: Daiwa forecasts

Share price performance



12-month range	741.00-1,550.00
Market cap (USDbn)	8.43
3m avg daily turnover (USDm)	45.48
Shares outstanding (m)	200
Major shareholder	Ding Kan Invest Ltd. (14.8%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	44,670	52,080	54,997
Operating profit (m)	14,966	17,859	18,494
Net profit (m)	11,958	14,290	14,746
Core EPS (fully-diluted)	59.788	71.452	73.731
EPS change (%)	42.4	19.5	3.2
Daiwa vs Cons. EPS (%)	8.6	13.8	6.1
PER (x)	22.7	19.0	18.4
Dividend yield (%)	2.0	2.9	3.4
DPS	27.3	38.9	46.4
PBR (x)	4.6	4.1	3.8
EV/EBITDA (x)	15.0	12.7	12.0
ROE (%)	21.4	22.9	21.6

Source: FactSet, Daiwa forecasts

See important disclosures, including any required research certifications, beginning on page 6

Flash

Airtac: Daiwa's revenue and earnings forecasts vs. consensus

	2026E			2027E			2028E		
(TWDm)	Previous	New	Consensus	Previous	New	Consensus	Previous	New	Consensus
Revenue	41,723	44,670	41,595	47,804	52,080	47,020	51,534	54,997	58,691
Diff (%)		7.1%	7.4%		8.9%	10.8%		6.7%	-6.3%
Gross Margin (%)	47.9%	48.6%	48.1%	48.2%	48.8%	48.0%	47.6%	48.4%	48.0%
Operating profit	13,750	14,966	13,591	15,819	17,859	15,499	16,462	18,494	17,486
Op Margin (%)	33.0%	33.5%	32.7%	33.1%	34.3%	33.0%	31.9%	33.6%	29.8%
Net profit	10,864	11,958	11,007	12,504	14,290	12,556	12,969	14,746	13,894
EPS (TWD)	54.32	59.79	55.03	62.52	71.45	62.78	64.85	73.73	69.47
Diff (%)		10.1%	8.6%		14.3%	13.8%		13.7%	6.1%

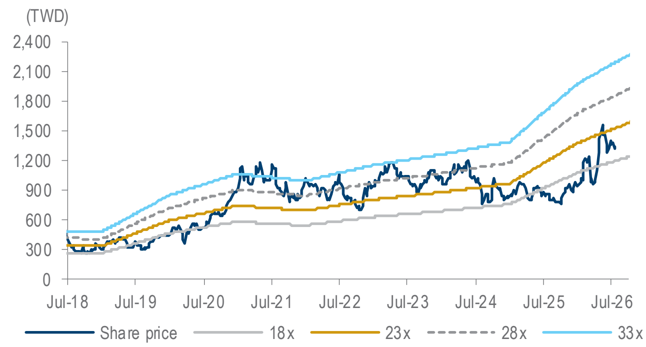
Source: Bloomberg, Daiwa forecasts

Airtac: quarterly and annual P&L statement

	2026E				2027E				2025	2026E	2027E	2028E
(TWDm)	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
Net revenue	**10,014**	**12,164**	**11,512**	**10,981**	**11,818**	**13,890**	**13,419**	**12,953**	**34,330**	**44,670**	**52,080**	**54,997**
COGS	-5,210	-6,108	-5,923	-5,705	-6,089	-7,006	-6,863	-6,704	-18,548	-22,946	-26,662	-28,354
Gross profit	**4,804**	**6,056**	**5,589**	**5,276**	**5,730**	**6,884**	**6,556**	**6,249**	**15,782**	**21,725**	**25,418**	**26,643**
Operating expenses	-1,479	-1,885	-1,692	-1,702	-1,749	-1,986	-1,932	-1,891	-5,494	-6,758	-7,559	-8,149
Operating profit	**3,325**	**4,170**	**3,897**	**3,574**	**3,981**	**4,897**	**4,624**	**4,358**	**10,288**	**14,966**	**17,859**	**18,494**
Non-operating profit	99	93	85	86	91	89	84	86	358	364	350	343
Pre-tax profit	**3,424**	**4,263**	**3,982**	**3,661**	**4,071**	**4,986**	**4,707**	**4,444**	**10,645**	**15,330**	**18,209**	**18,838**
Income taxes	-753	-938	-876	-805	-871	-1,073	-1,014	-961	-2,245	-3,372	-3,919	-4,091
Net profit	**2,671**	**3,325**	**3,106**	**2,855**	**3,200**	**3,913**	**3,694**	**3,484**	**8,400**	**11,958**	**14,290**	**14,746**
Net EPS (TWD)	**13.35**	**16.63**	**15.53**	**14.28**	**16.00**	**19.56**	**18.47**	**17.42**	**42.00**	**59.79**	**71.45**	**73.73**
Operating Ratios												
Gross margin	48.0%	49.8%	48.6%	48.1%	48.5%	49.6%	48.9%	48.2%	46.0%	48.6%	48.8%	48.4%
Operating margin	33.2%	34.3%	33.9%	32.6%	33.7%	35.3%	34.5%	33.6%	30.0%	33.5%	34.3%	33.6%
Pre-tax margin	34.2%	35.0%	34.6%	33.3%	34.4%	35.9%	35.1%	34.3%	31.0%	34.3%	35.0%	34.3%
Net margin	26.7%	27.3%	27.0%	26.0%	27.1%	28.2%	27.5%	26.9%	24.5%	26.8%	27.4%	26.8%
YoY (%)												
Net revenue	24%	36%	40%	22%	18%	14%	17%	18%	12%	30%	17%	6%
Gross profit	34%	47%	47%	23%	19%	14%	17%	18%	10%	38%	17%	5%
Operating profit	46%	53%	58%	27%	20%	17%	19%	22%	14%	45%	19%	4%
Pre-tax profit	39%	66%	50%	24%	19%	17%	18%	21%	11%	44%	19%	3%
Net profit	38%	63%	48%	23%	20%	18%	19%	22%	10%	42%	20%	3%
QoQ (%)												
Net revenue	11%	21%	-5%	-5%	8%	18%	-3%	-3%				
Gross profit	12%	26%	-8%	-6%	9%	20%	-5%	-5%				
Operating profit	18%	25%	-7%	-8%	11%	23%	-6%	-6%				
Pre-tax profit	16%	25%	-7%	-8%	11%	22%	-6%	-6%				
Net profit	15%	25%	-7%	-8%	12%	22%	-6%	-6%				

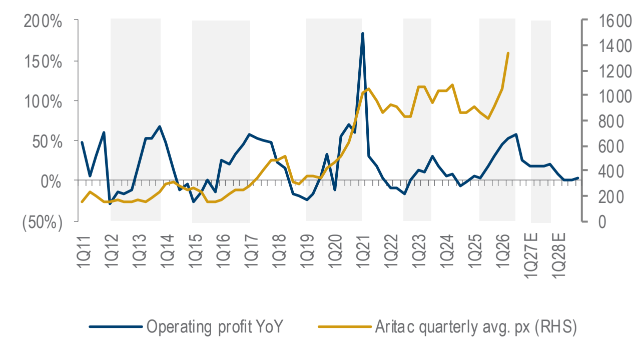
Source: Company, Daiwa forecasts

Airtac: 1-year-forward PER bands



Source: TEJ, Daiwa forecasts

Airtac: operating profit YoY growth vs. share price movement



Source: Company

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
YoY growth of cylinder revenue (%)	32	0	11	6	13	33	17	3
YoY growth of valve revenue (%)	34	(4)	11	7	14	28	16	3
Airtac's market share in China (%)	23	25	26	27	28	30	31	32

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cylinder	13,039	13,081	14,555	15,373	17,434	23,202	27,117	27,928
Valve	6,446	6,212	6,895	7,371	8,379	10,766	12,486	12,867
Other Revenue	5,915	6,780	8,378	7,916	8,517	10,702	12,476	14,202
Total Revenue	**25,400**	**26,073**	**29,827**	**30,660**	**34,330**	**44,670**	**52,080**	**54,997**
Other income	0	0	0	0	0	0	0	0
COGS	(13,063)	(14,180)	(16,072)	(16,346)	(18,548)	(22,946)	(26,662)	(28,354)
SG&A	(3,556)	(3,590)	(4,007)	(4,221)	(4,370)	(5,471)	(6,157)	(6,638)
Other op.expenses	(595)	(736)	(896)	(1,040)	(1,124)	(1,287)	(1,402)	(1,511)
Operating profit	**8,186**	**7,568**	**8,852**	**9,052**	**10,288**	**14,966**	**17,859**	**18,494**
Net-interest inc./(exp.)	(88)	(51)	(58)	36	65	64	63	63
Assoc/forex/extraord./others	(2)	198	(102)	328	293	300	287	281
Pre-tax profit	**8,097**	**7,715**	**8,692**	**9,416**	**10,645**	**15,330**	**18,209**	**18,838**
Tax	(1,943)	(1,811)	(1,932)	(2,010)	(2,246)	(3,372)	(3,919)	(4,092)
Min. int./pref. div./others	1	0	0	0	0	0	0	0
Net profit (reported)	**6,154**	**5,905**	**6,761**	**7,406**	**8,400**	**11,958**	**14,290**	**14,746**
Net profit (adjusted)	**6,154**	**5,905**	**6,761**	**7,406**	**8,400**	**11,958**	**14,290**	**14,746**
EPS (reported)(TWD)	**30.771**	**29.523**	**33.803**	**37.029**	**42.000**	**59.788**	**71.452**	**73.731**
EPS (adjusted)(TWD)	**30.771**	**29.523**	**33.803**	**37.029**	**42.000**	**59.788**	**71.452**	**73.731**
EPS (adjusted fully-diluted)(TWD)	**30.771**	**29.523**	**33.803**	**37.029**	**42.000**	**59.788**	**71.452**	**73.731**
DPS (TWD)	**9.148**	**10.148**	**11.148**	**17.370**	**19.550**	**27.300**	**38.862**	**46.444**
EBIT	**8,186**	**7,568**	**8,852**	**9,052**	**10,288**	**14,966**	**17,859**	**18,494**
EBITDA	**9,913**	**9,728**	**11,267**	**11,613**	**12,866**	**17,638**	**20,728**	**21,593**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	8,097	7,715	8,692	9,416	10,645	15,330	18,209	18,838
Depreciation and amortisation	1,727	2,161	2,414	2,561	2,578	2,672	2,869	3,098
Tax paid	(1,943)	(1,811)	(1,932)	(2,010)	(2,246)	(3,372)	(3,919)	(4,092)
Change in working capital	(1,866)	(3,392)	(576)	364	(3,819)	(3,066)	(3,701)	(1,524)
Other operational CF items	17	445	243	131	507	0	(0)	0
Cash flow from operations	**6,032**	**5,118**	**8,842**	**10,461**	**7,667**	**11,563**	**13,458**	**16,320**
Capex	(5,164)	(5,589)	(2,447)	(2,653)	(2,815)	(3,127)	(3,646)	(3,850)
Net (acquisitions)/disposals	(452)	1,619	(1,096)	(1,411)	0	0	0	0
Other investing CF items	124	279	(8)	0	0	0	0	0
Cash flow from investing	**(5,492)**	**(3,692)**	**(3,551)**	**(4,064)**	**(2,815)**	**(3,127)**	**(3,646)**	**(3,850)**
Change in debt	(6,879)	3,214	135	(5,838)	(5,341)	0	0	0
Net share issues/(repurchases)	7,873	0	0	0	0	0	0	0
Dividends paid	(1,712)	(2,676)	(2,688)	(3,595)	(4,002)	(5,460)	(7,772)	(9,289)
Other financing CF items	(76)	(83)	(87)	(85)	(86)	0	0	0
Cash flow from financing	**(794)**	**455**	**(2,639)**	**(9,518)**	**(9,429)**	**(5,460)**	**(7,772)**	**(9,289)**
Forex effect/others	(20)	(19)	(11)	71	(18)	0	0	0
Change in cash	**(274)**	**1,863**	**2,641**	**(3,051)**	**(4,594)**	**2,976**	**2,040**	**3,182**
Free cash flow	868	(472)	6,395	7,808	4,852	8,436	9,813	12,470

Source: FactSet, Daiwa forecasts

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Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	6,222	6,608	10,064	8,617	4,085	7,061	9,101	12,283
Inventory	5,302	7,250	6,528	6,803	6,292	8,825	10,255	10,905
Accounts receivable	7,506	9,070	9,920	9,760	14,419	15,731	18,340	19,367
Other current assets	284	326	301	239	251	251	251	251
Total current assets	**19,314**	**23,254**	**26,814**	**25,419**	**25,047**	**31,869**	**37,947**	**42,807**
Fixed assets	24,467	28,829	28,560	28,987	28,753	29,208	29,985	30,737
Goodwill & intangibles	52	41	35	31	29	29	29	29
Other non-current assets	3,846	2,475	2,640	3,124	3,711	3,711	3,711	3,711
Total assets	**47,679**	**54,600**	**58,049**	**57,561**	**57,540**	**64,817**	**71,672**	**77,283**
Short-term debt	4,493	11,282	11,371	5,611	217	217	217	217
Accounts payable	1,303	1,291	1,118	1,129	1,307	2,086	2,424	2,578
Other current liabilities	3,424	2,361	2,324	2,364	3,106	3,106	3,106	3,106
Total current liabilities	**9,219**	**14,934**	**14,812**	**9,103**	**4,630**	**5,409**	**5,747**	**5,901**
Long-term debt	2,806	0	10	0	0	0	0	0
Other non-current liabilities	502	733	630	558	323	323	323	323
Total liabilities	**12,527**	**15,666**	**15,452**	**9,662**	**4,953**	**5,732**	**6,070**	**6,224**
Share capital	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Reserves/R.E./others	33,144	36,926	40,589	45,893	50,581	57,078	63,596	69,054
Shareholders' equity	**35,144**	**38,926**	**42,589**	**47,893**	**52,581**	**59,078**	**65,596**	**71,054**
Minority interests	8	7	7	6	6	6	6	6
Total equity & liabilities	**47,679**	**54,600**	**58,049**	**57,561**	**57,540**	**64,817**	**71,672**	**77,283**
EV	273,084	276,681	273,323	269,001	268,138	265,162	263,122	259,940
Net debt/(cash)	**1,076**	**4,674**	**1,317**	**(3,006)**	**(3,868)**	**(6,844)**	**(8,884)**	**(12,066)**
BVPS (TWD)	**175.720**	**194.629**	**212.947**	**239.463**	**262.906**	**295.392**	**327.981**	**355.268**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	33.0	2.6	14.4	2.8	12.0	30.1	16.6	5.6
EBITDA (YoY)	31.6	(1.9)	15.8	3.1	10.8	37.1	17.5	4.2
Operating profit (YoY)	36.7	(7.6)	17.0	2.3	13.6	45.5	19.3	3.6
Net profit (YoY)	32.7	(4.1)	14.5	9.5	13.4	42.4	19.5	3.2
Core EPS (fully-diluted) (YoY)	25.5	(4.1)	14.5	9.5	13.4	42.4	19.5	3.2
Gross-profit margin	48.6	45.6	46.1	46.7	46.0	48.6	48.8	48.4
EBITDA margin	39.0	37.3	37.8	37.9	37.5	39.5	39.8	39.3
Operating-profit margin	32.2	29.0	29.7	29.5	30.0	33.5	34.3	33.6
Net profit margin	24.2	22.6	22.7	24.2	24.5	26.8	27.4	26.8
ROAE	21.4	15.9	16.6	16.4	16.7	21.4	22.9	21.6
ROAA	13.8	11.5	12.0	12.8	14.6	19.5	20.9	19.8
ROCE	20.7	16.3	17.0	16.8	19.4	26.7	28.5	27.0
ROIC	18.5	14.5	15.7	16.0	17.3	23.1	25.7	25.0
Net debt to equity	3.1	12.0	3.1	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	24.0	23.5	22.2	21.4	21.1	22.0	21.5	21.7
Accounts receivable (days)	104.8	116.0	116.2	117.1	128.5	123.2	119.4	125.1
Current ratio (x)	2.1	1.6	1.8	2.8	5.4	5.9	6.6	7.3
Net interest cover (x)	93.5	149.8	151.7	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	37.3	33.0	37.8	51.4	52.8	65.0	54.4	63.0
Free cash flow yield	0.3	n.a.	2.4	2.9	1.8	3.1	3.6	4.6

Source: FactSet, Daiwa forecasts

Company profile

Founded in 1988, Airtac is the second-largest manufacturer of pneumatic components in China, with a 20% market share based on sales volume for 2018. Its key products include cylinder, valves, and filters, regulators & lubricators (FRL). The company sells all the products under its own product brand, AirTAC, and also provides after-sales services that include installation, maintenance, etc.

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ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	2	Airtac has 10 directors on its board, with 4 independent directors. All its independent directors have passed the independence requirements set by local governments and experts in the following areas, including business management, the pneumatic industry, and law. We see the diversified background of Airtac's independent directors being positive for the company's governance.
G	Capital management	3	Between 2021-23, Airtac's dividend payout ratio has been below 50%. The payout ratio was even lower at 33-36% during 2019-20 due to higher capex (especially in 2017 and 2018) to increase Airtac's capacities in both pneumatic products and linear guides. Despite a lower payout ratio than other listed companies, we attribute it to the unique business model of the pneumatic industry as it requires higher working capital than other industries due to its longer cash conversion cycle period. According to Airtac, the payout ratio should slightly increase in 1-2 years due to improving free cash flows and increasing revenue scale. For 2025, Airtac declared a DPS of TWD19.55, for a payout ratio of 53%.
G	Related party & transaction	1	Sales to related parties accounted for limited 2024 sales, and there were no purchases from related parties. We see limited risk from related-party transactions.
E	Product design & lifecycle management	2	Airtac Ningbo has been certified by the Provincial High-tech Enterprise Research and Development Center in China, making it the rule setter in the pneumatic components industry. As such, Airtac is currently involved in the formulation and revision of industry and national standards. For future R&D direction, Airtac has adopted the product data management (PDM) system to track data related to product lifecycles, which should increase the speed of development while ensuring product quality, in our view. Green design is another of its R&D targets. Airtac plans to: 1) use environmental-friendly materials that meet RoHS 2.0 regulations, 2) reduce energy consumption by reducing product size, and 3) improve the decomposability of products and reduce the substances in use to facilitate the disposal treatment after the end of product lifecycle.
E	GHG emissions	2	In 2022, Airtac invested TWD140.6m in environmental protection. As the greenhouse gas (GHG) created by Airtac during the manufacturing process is mainly from electricity and a small amount of petrochemicals, the emissions are indirect and limited. The types of GHG emissions include CO_2, CH_4, N_2O. The total GHG emissions produced in 2022 were 118.3 thousand tonnes. To reduce the risk of climate change, Airtac aims to reduce its energy consumption per sales unit by 8-15% in 2025 compared with 2021.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 21 Jul 2026

Source: Daiwa, Company

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