

Tsugami China (1651 HK)

Key takeaways from post-results meeting

Tsugami China released a strong set of FY25/26 (Mar year-end) results after market close on 29 Jun, with net profit surging 40% YoY to RMB1.09bn. The Company held an analyst meeting on 30 Jun. Key takeaways: (1) Strong order intake was seen in Apr-Jun 2026 with capacity currently running at above designed capacity of 15k units; (2) The Company's precision lathes are now applied in optical module components production, which will serve as a new growth driver over the coming 1-2 years; (3) Explosive growth for machines for universal quick disconnects (UQDs) in liquid cooling is expected in FY26/27E.

■ **FY25/26 (Mar year-end) results highlights.** Revenue grew 22% YoY to RMB5.18bn (Precision lathes: +20% YoY to RMB4.3bn; Precision machining centres: +58% YoY to RMB386mn; Precision grinding machines: +9% to RMB227mn; Components: +30% YoY to RMB232mn). Gross margin expanded 1.9ppt YoY to 34.9%. On the back of stringent expense control, net profit grew 40% YoY to RMB1.09bn. Operating cash inflow surged 2x YoY to RMB1.06bn. Tsugami China proposed a final dividend of HK\$0.9/shr. This, together with the interim dividend of HK\$0.6/shr, implies ~44% full-year payout ratio.

■ **Penetrating into optical module applications.** Tsugami China revealed that its precision lathes can now be applied in the production of transmitter optical sub-assembly (TOSA) and receiver optical sub-assembly (ROSA) for optical modules, with ultimate demand from NVIDIA (GB300). Tsugami China sees good demand visibility over the coming 1-2 years. We see chances for ~1k units of machine shipments in FY26/27E.

■ **Liquid cooling in data centres.** Tsugami China's automatic lathes offer a significant cost advantage in processing UQDs in liquid cooling. Tsugami China delivered ~1k units of machines in FY25/26. We see chances for the Company to double the sales YoY in FY26/27E.

■ **Humanoid robots.** Tsugami China's grinding machines are applied in the production of reducers for humanoid robots. The Company delivered several hundred units of machines in FY25/26. Management mentioned that the supply chains of Tesla (TSLA, NR) and Unitree are more active than before. That said, management is relatively conservative at the moment as it may take a longer-than-expected time for mass production.

■ **Capacity construction progress on track.** Tsugami China is currently running at above the full utilization rate (designed capacity: 15k units/year). It acquired a land parcel in Zhejiang's Pinghu Economic Development Zone in May 2025 and planned to construct two plants over the next two years (capex: ~RMB150mn). The new plants are expected to increase annual capacity by ~3k units. The completion and acceptance procedures for both new plants are expected to be completed by end-2027. Commencement will be in Jan 2028.

NOT RATED
Current Price **HK\$60.65**
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Stock Data

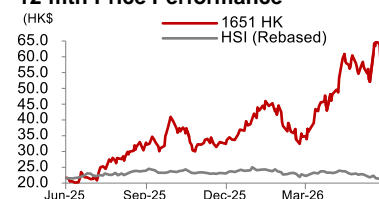
Mkt Cap (HK\$ mn)	23,447
Avg 3 mths t/o (HK\$ mn)	73.7
52w High/Low (HK\$)	65.00/20.05
Total Issued Shares (mn)	386.6

Source: FactSet

Share Performance

	Absolute	Relative
1-mth	11.1%	21.5%
3-mth	72.6%	87.0%
6-mth	87.1%	108.3%

Source: FactSet

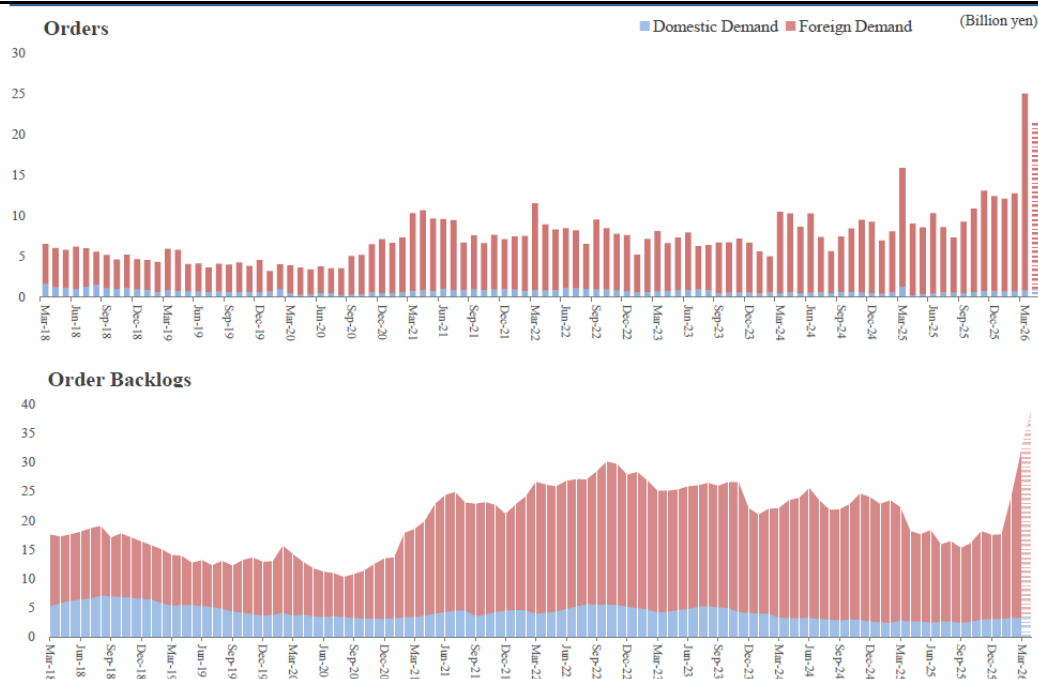
12-mth Price Performance


Source: FactSet

Company background

Precision Tsugami (China) is a subsidiary of Tsugami Corporation (6101 JP, “株式会社ツガミ”, “Tsugami Japan”), a renowned Japanese CNC high precision machine tool manufacturer. Tsugami China has grown into the largest foreign-branded CNC machine tool manufacturer in the Chinese machine tools market through 22 years of rapid development since the business commencement in 2003. Tsugami China manufactures and sells high-end CNC machine tools including precision lathes, precision machining centres and precision grinding machines. With its customer orientation, high speed, high precision and high rigidity as its quality targets, the Company has been widely recognised by the downstream industries including auto parts and components, IT communications and electronics and industrial automation. The products are sold mainly in China, and are also sold overseas through Tsugami Japan’s sales channel.

Figure 1: Tsugami Corporation’s orders and backlog trend

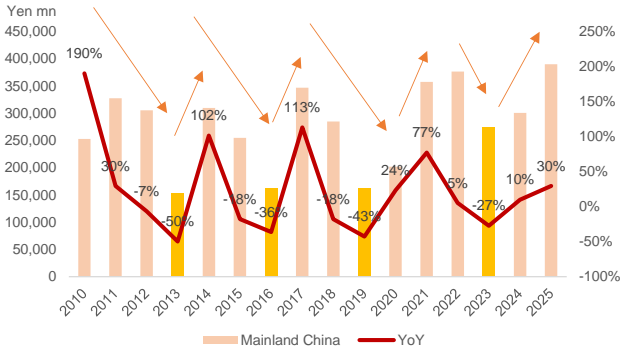


Note: Orders from foreign regions in this chart refers to the order inflow to Tsugami Corporation from non-Japanese regions. China accounted for the majority of the foreign orders.

Source: Tsugami Corporation, CMBIGM

Industry chart

Figure 2: China's orders of machine tools from Japan



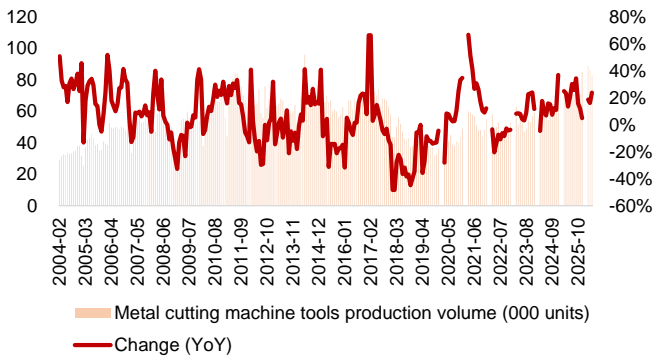
Source: Japan Machine Tool Builders' Association, CMBIGM

Figure 3: China's orders of machine tools from Japan (monthly)



Source: Japan Machine Tool Builders' Association, CMBIGM

Figure 4: China metal cutting machine tools monthly production



Source: Wind, CMBIGM

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