PATEO CONNECT (2889 HK)

AI pioneer powered by smart cockpit capabilities

BUY (Initiate)

Target Price	**HK$200.00**
Up/Downside	**100.0%**
Current Price	**HK$100.00**

Initiate with BUY. PATEO CONNECT Technology (Shanghai) (Pateo) is China's third-largest smart cockpit domain controller supplier, with 0.9mn-unit sales volume and a market share of 7.3% in 2024. It has become a market leader in Snapdragon- and Kirin-based smart cockpit solutions amid deep partnerships with Qualcomm (QCOM US, NR) and Huawei. It also leverages its software capabilities and close tie with ICT giants to explore vehicle-related AI businesses. We initiate coverage on the stock with BUY and TP of HK$200.00.

- **Poised to outperform industry growth on software capabilities, overseas expansion and improving product mix.** CIC projects a CAGR of 18.4% for China's smart cockpit revenue in 2024-29E, with China taking up about 35% of global market. We view such industry growth as solid while we expect Pateo's revenue to grow much faster with the following reasons: 1) Its integrated hardware-software solutions with fast technological iteration from working with market-leading players, such as Huawei and Li Auto, could help Pateo win high-margin business from laggards; 2) It has secured orders from a South Korean automaker for its global models, which unlocks overseas markets with larger room for growth and higher margins; 3) Sales volume of high-end domain controllers are set to rise faster than mid- to low-end ones, based on Pateo's recent design wins.
- **High visibility for revenue growth and margin lift amid new client wins.** We estimate Pateo has secured new lifecycle orders of almost RMB15bn since 4Q25, including a Korean automaker, Porsche and leading Chinese NEV makers. We thus estimate about 25% and 60% of Pateo's hardware revenue to come from new clients in FY26-27E, respectively.
- **AI business could be undervalued.** We project Pateo's AI application revenue to be RMB0.7bn in FY26E and RMB1.2bn in FY27E, mainly from AI box and AI powered data-driven insurance services. We believe that could be undervalued by investors. In fact, such businesses may provide a positive surprise given Pateo's close tie with Huawei, which makes Pateo a good proxy of Huawei concept, in our view.
- **Earnings/Valuation.** We project Pateo's revenue to rise 39%/65%/46% YoY to RMB3.5bn/5.8bn/8.5bn in FY25-27, respectively, largely driven by a 3-year CAGR of 48% for high-end domain controller sales volume and an average selling price CAGR of 24%. We estimate its adjusted operating profit (excl. share-based payment) to break even in FY26E and a net profit of RMB62mn (or adjusted net profit of RMB262mn) in FY27E, with rapid revenue growth and margin lift. We initiate with a BUY rating and target price of HK$200, based on SOTP valuation (2x FY27E P/S for smart cockpit business and 10x FY27E P/S for AI application business).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	1,496	2,557	3,543	5,827	8,487
YoY growth (%)	22.8	70.9	38.5	64.5	45.6
Gross margin (%)	15.4	11.8	12.9	14.8	15.8
Operating profit (RMB mn)	(364.3)	(546.8)	(1,101.4)	(397.3)	96.7
Net profit (RMB mn)	(283.9)	(541.2)	(1,173.5)	(439.2)	62.1
Adjusted net profit (RMB mn)	(218.5)	(352.8)	(250.1)	(39.2)	262.1
P/S (x)	8.8	5.2	3.7	2.3	1.6
P/E (x)	ns	ns	ns	ns	243.8
Net gearing (%)	(102.8)	(35.3)	(7.6)	7.7	(1.7)

Source: Company data, Bloomberg, CMBIGM estimates

China Auto

Ji SHI, CFA
(852) 3761 8728
shiji@cmbi.com.hk

Wenjing DOU, CFA
(852) 6939 4751
douwenjing@cmbi.com.hk

Austin Liang
(852) 3900 0856
austinliang@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	14,999.1
Avg 3 mths t/o (HK$ mn)	19.0
52w High/Low (HK$)	NA/NA
Total Issued Shares (mn)	150.0

Source: FactSet

Shareholding Structure

Mr. Ying Zhenkai	31.8%
Others	68.2%

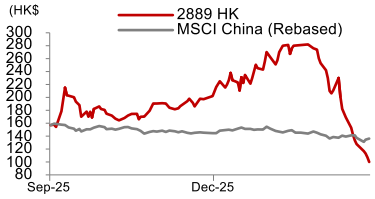
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-61.6%	-59.9%
3-mth	-49.3%	-45.8%
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Contents

Company Overview

A leading smart cockpit player pioneering in-car AI application

Founded in 2009 in Shanghai, Pateo is a provider of both smart cockpit and vehicle connectivity solutions in China's automotive intelligence industry. It ranked No.3 in terms of shipment volume of smart cockpit domain controllers in China in 2024, according to industry consultant CIC. Pateo has now started to explore more in-car AI related businesses, such as AI box (designed to enhance a vehicle's intelligence by featuring AI models), by leveraging its software capabilities, unique data and partnerships with information and communications technology (ICT) giants.

Pateo launched China's first 3G-based vehicle connectivity system in 2010, establishing early market presence in connectivity solutions. The company was also among the first developers of smart cockpit technologies. Unlike some competitors focusing predominantly on hardware components, Pateo's solutions integrate software, hardware, and cloud-based connectivity systems. This integrated approach could satisfy different needs from different OEMs more easily, especially for those with weak software capabilities, in our view. Pateo's major customers include Li Auto (LI US/2015 HK, HOLD), Dongfeng Group, SAIC Group (600104 CH, NR), Huawei, BAIC Group (1958 HK, NR), Avatr, and Geely (175 HK, BUY) etc. We also expect more automakers, such as Porsche (P911 GR, NR), a leading Chinese NEV start-up and a South Korean carmaker, to contribute meaningful revenue from FY26-27E.

Figure 1: China's top five providers of smart cockpit domain controller solutions in 2024

Ranking	Smart cockpit domain controller solution provider	Shipment volume ('000 units)	Market share in terms of shipment volume, 2024	Revenue (RMB mn)	Market share in terms of revenue, 2024
1	Desay SV (002920 CH)	~2,700	21.7%	~6,400	20.5%
2	Joynext	~1,300	10.4%	~2,700	8.6%
3	**Pateo**	**915**	**7.3%**	**~1,959**	**6.3%**
4	Autolink	~870	7.0%	~1,900	6.1%
5	Aptiv (APTV US)	~860	6.9%	~2,100	6.7%
	Total	**6,645**	**53.3%**	**15,059**	**48.2%**

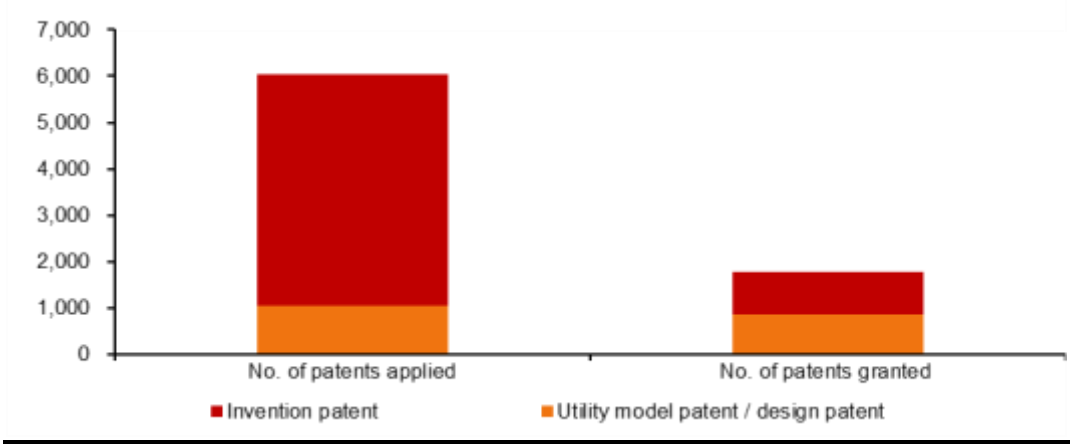
Source: CIC, CMBIGM estimates
Notes: (1) The list excludes the pure manufacturing service providers and providers without their own factories. (2) The list only includes providers for passenger vehicles produced in China in 2024.

Figure 2: Pateo's major clients

Source: Company data, CMBIGM estimates

As of 18 Mar 2025, Pateo has applied for 6,034 patents, among which 4,979 are invention patents, accounting for approximately 82.5%. The company has been granted 1,769 patents as of 31 May 2025, among which 921 are invention patents, accounting for 52.1% of the granted patents. Pateo ranked first in terms of the number of registered invention patents among domestic smart cockpit and intelligent vehicle connectivity solution providers as of 31 Dec 2024, according to CIC.

Figure 3: Number of patents applied and granted



Source: Company data, CMBIGM

■ Shareholding and employee structures

Mr. Ying Zhenkai is the founder, executive director, chairman of the board and general manager of Pateo. Mr. Ying has more than 15 years of automotive intelligence industry experience. Prior to founding the Company in 2009, Mr. Ying had been running his companies in multimedia and marketing since 2001. Mr. Ying holds multiple roles in industry committees related to automotive intelligence and entrepreneurship, as listed in Fig.4.

Figure 4: Mr. Ying's roles in multiple committees

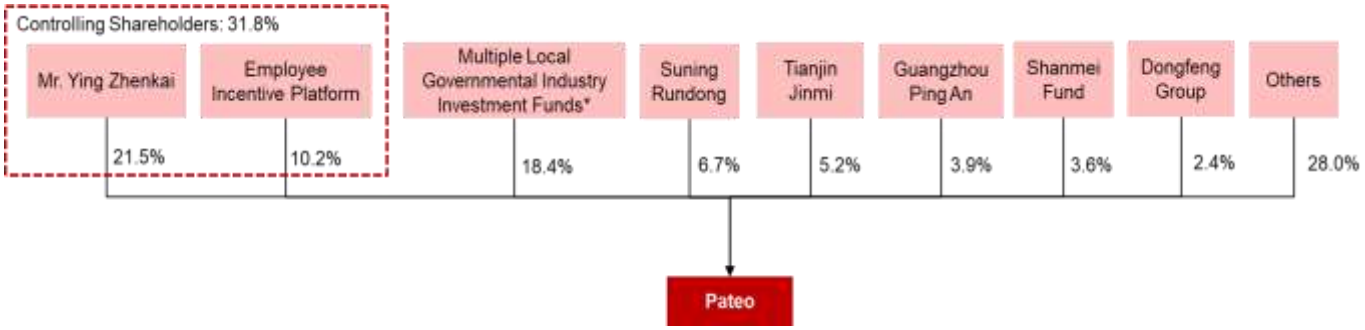
Committee	Role	Start Date
Expert Committee by the National Quality Supervision and Inspection Center for Intelligent Connected Vehicles (Tianjin) (国家智能网联汽车质量监督检验中心(天津)专家委员会)	Deputy director	Sep 2018
Expert Advisory Committee of the Shanghai National New-Generation Artificial Intelligence Innovation and Development Pilot Zone (上海国家新一代人工智能创新发展试验区专家咨询委员会) in the Science and Technology Commission of Shanghai Municipality (上海市科学技术委员会)	Member	Aug 2019
National Technical Committee of Auto Standardization (全国汽车标准化技术委员会)	Member	Mar 2020
Fourth Council of Shanghai Entrepreneur Association (上海市企业家协会第四届理事会)	Vice president	Mar 2021

Source: Company data, CMBIGM

As of Mar 2026, Mr. Ying has approximately 31.8% of the voting rights in the Company through: (i) a 21.5% equity stake held by him, and (ii) a 10.2% equity stake held by the employee incentive platform, where Mr. Ying serves as a general partner.

About a 18.4% equity stake is collectively held by multiple industry investment funds backed by local governments, including Xinchang (Zhejiang Province), Shanghai, Rui'an (Zhejiang Province), Wuxi (Jiangsu Province) and Sichuan Province. In addition, Tianjin Jinmi (wholly-owned by Xiaomi Inc. (1810 HK, BUY, covered by CMBI Research technology team), Guangzhou Ping An (an investment fund managed by Ping An Capital), Shanmei Fund and Dongfeng Group each hold 2-5% equity stakes (more details in Fig.5).

Figure 5: Pateo's shareholding structure post IPO



Source: Company data, CMBIGM
Notes: The multiple local governments include Xinchang (Zhejiang Province), Shanghai, Rui'an (Zhejiang Province), Wuxi (Jiangsu Province) and Sichuan.

Pateo had a total of 2,098 full-time employees and eight part-time employees as of 31 May 2025, with R&D employees accounting for 33.7%. Headquartered in Shanghai, Pateo has six R&D centers located in Nanjing, Dalian, Shenyang, Shenzhen, Wuhan and Changchun in China. We expect manufacturing staff to make up a higher share in the next 1-2 years, due to the starts of mass production in its Liuzhou and Rui'an plants in 2025-26.

Figure 6: Pateo's employee structure as of 31 May 2025

Function	Number of employees	% of total
Manufacturing	876	41.6%
Research and development	709	33.7%
Operations	253	12.0%
Sales and business development	54	2.6%
Management and administration	214	10.2%
Total	**2,106**	**100.0%**

Source: Company data, CMBIGM

■ Production capacity and expansion plan

Pateo established its first production facility in Xiamen, Fujian Province in Jul 2021 for domain controllers and related components manufacturing. Prior to that, an electronics manufacturer located in Nanjing contract manufactured the products for Pateo.

The production capacity of Xiamen Production Center was almost tripled to over 1.4mn units in 2024 from approximately 0.5mn units in 2023. The Liuzhou Production Center has started production since early 2025, according to management, with an annual production capacity of 150,000 units. The third production center located in Rui'an, Zhejiang Province is scheduled to start production in 2026 with an annual capacity of 0.4mn units. We believe the planned production capacity could cover Pateo's sales volume growth throughout 2027.

Figure 7: Pateo's self-production capacity and utilization for domain controllers

(units)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capacity	**532,000**	**536,000**	**1,447,000**	**1,550,000**	**1,950,000**	**1,950,000**
Xiamen, Fujian Province	532,000	536,000	1,447,000	1,400,000	1,400,000	1,400,000
Liuzhou, Guangxi Province				150,000	150,000	150,000
Rui'an, Zhejiang Province					400,000	400,000
Production volume	**473,000**	**391,000**	**1,056,000**	**1,100,000**	**1,300,000**	**1,600,000**
Utilization rate (%)	*88.9%*	*72.9%*	*73.0%*	*71.0%*	*66.7%*	*82.1%*

Source: Company data, CMBIGM estimates

Market leader in Snapdragon- and Kirin-based smart cockpit solutions

Pateo's smart cockpit solutions include both basic vehicle information (speed, revolutions per minute (RPM), fuel/battery levels, engine temperature) and multi-modal interaction functions (voice command processing, gesture-based control systems, eye-tracking modules). These features are enabled by the domain controller, which connects other devices including displays, cameras, microphones, and radios, to provide a seamless multi-functional user experience. It also interfaces with advanced driver assistance system (ADAS) components through standardized protocols. Fig. 8 illustrates the key hardware components of these solutions.

Figure 8: Key hardware components of Pateo's smart cockpit solutions

Source: Company data, CMBIGM

From the hardware structure perspective, the cockpit domain controller consists of a main SoC (Systems-on-chip(s)) and peripheral circuits. The computing power of the primary SoC integrated in domain controllers largely determines the data processing capacity, processing speed, and graphics rendering performance of smart cockpit systems. These capabilities largely determine the number of supported displays, system fluidity, and visual richness within the cockpit, and therefore, shape the overall user experience.

Pateo produces domain controllers with high-end, mid-end, and low-end SoC configurations to address varying performance and cost requirements across vehicle segments. See more details in Fig.9.

Figure 9: Characteristics of Pateo's domain controllers based on different types of SoCs

	High-End SoC Domain Controller	Mid-End SoC Domain Controller	Low-End SoC Domain Controller
Representative SoCs	Snapdragon 8295P and Kirin 9610A	Snapdragon 8155P and MTK8666	Qualcomm 6125
Computing power	230K DMIPS	105K DMIPS	58K DMIPS
	Hardware Specification (Maximum Configuration)		
Video input capabilities	16 HD camera signal inputs	16 HD camera signal inputs	Six camera signal inputs

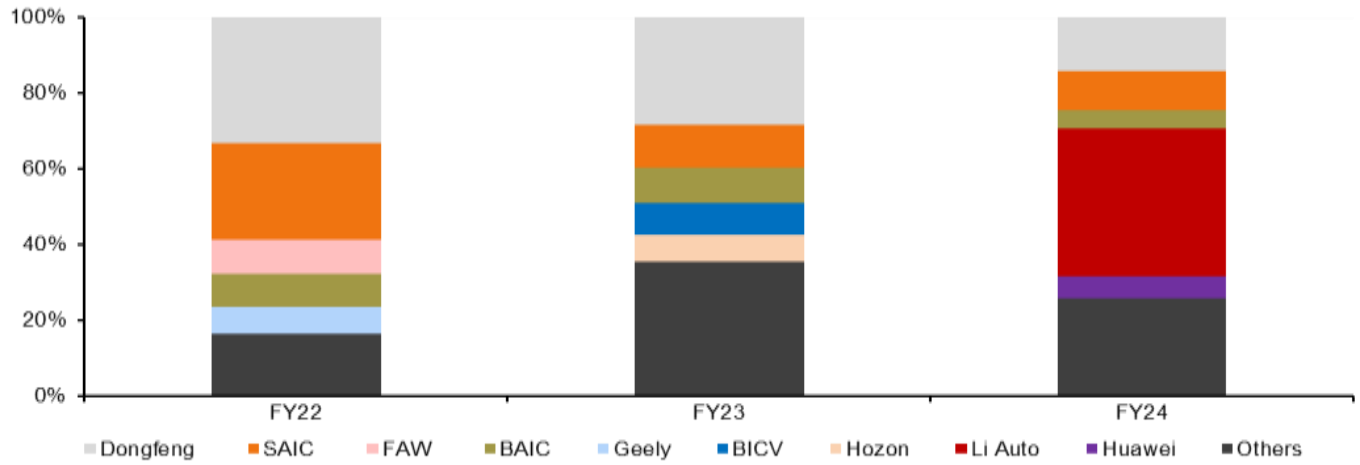
Video output capabilities	12 HD screens, including vehicle control screen, rear-seat infotainment screen, instrument cluster, augmented reality head-up display ("ARHUD") and windshield head-up display ("WHUD")	Six HD screens, including vehicle control screen, passenger screen, instrument cluster and ARHUD	Two 1080p video signal outputs
Main Features			
Audio	• Eight channels of 25W analog audio output, including for Acoustic Vehicle Alerting System ("AVAS") • External in-vehicle audio bus digital audio amplifier and microphone input • FM/AM reception • Five microphone signal inputs	• Eight channels of 25W analog audio output, including for AVAS • External in-vehicle audio bus digital audio amplifier and microphone input • FM/AM reception • Four microphone signal inputs	Multimedia player, including for AVAS
Connectivity	• 1000 Mbps Ethernet • Two Controller Area Network (CAN) or Controller Area Network Flexible Data Rate (CAN FD) interfaces, and one LIN interface • Connectivity with smartphones, such as Carplay and Android Auto	• 1000 Mbps Ethernet • Two CAN or CAN FD interfaces • MFi certification capability to support connectivity with smartphones, such as Carplay	• 4G network connectivity • CAN
Driver assistance	• Driving video recorder (DVR) and driver monitoring system (DMS) • Multi-modal interaction functions combining voice commands with either eye tracking or gesture recognition	• DVR and DMS • Multi-modal interaction functions combining voice commands with either eye tracking or gesture recognition	• DVR and DMS • Online voice recognition function
Others	• Built-in 360-degree surround view • HD single-camera reversing • Analog signal input/output, supporting power supply and management for screens and cameras	• Built-in 360-degree surround view • HD single-camera reversing • Analog signal input/output, supporting power supply and management for screens and cameras	• Built-in 360-degree surround view • HD single-camera reversing

Source: Company data, CMBIGM

Pateo has established in-depth strategic cooperation with Qualcomm and Huawei. The Company's current high-end smart cockpit solutions are mainly based on Qualcomm's Snapdragon 8295P (SA8295) and Huawei's Kirin 9610A, which now dominate the high-end smart cockpit chip market in China. The majority of premium NEV models in China have been adopting the SA8295 since late 2023. Pateo also started development of next-generation smart cockpit solutions featuring the Snapdragon Cockpit Platform Elite (SA8397), which we expect to be equipped from 2026. Huawei, as a tier-1 supplier in the automotive industry, has been one of Pateo's key customers. The Kirin 9610A is primarily deployed in Harmony Intelligence-enabled brands (Harmony Intelligence Mobility Alliance, or HIMA).

About 33% of Pateo's sales volume of domain controllers and cockpit components was sold to non-OEM customers in FY24, which contributed about 13% of the corresponding revenue. We estimate that Huawei accounted for about half of Pateo's non-OEM revenue in FY24. The lower average selling price (ASP) for non-OEM customers was mainly because revenue from Huawei did not include chips that Huawei provided. The top five customers contributed approximately 84%, 65% and 74% of Pateo's total revenue in FY22-24, respectively.

Figure 10: Major customers' contribution as % of Pateo's total revenue



Source: Company data, CMBIGM estimates

Intelligent connectivity: Supplement to better smart cockpit functions

Pateo is one of the early movers in intelligent vehicle connectivity solutions, as it unveiled China's first 3G vehicle connectivity system in 2010, according to CIC. Pateo's intelligent vehicle connectivity solutions consist of two core service modules: 1) user support services; 2) platform maintenance services.

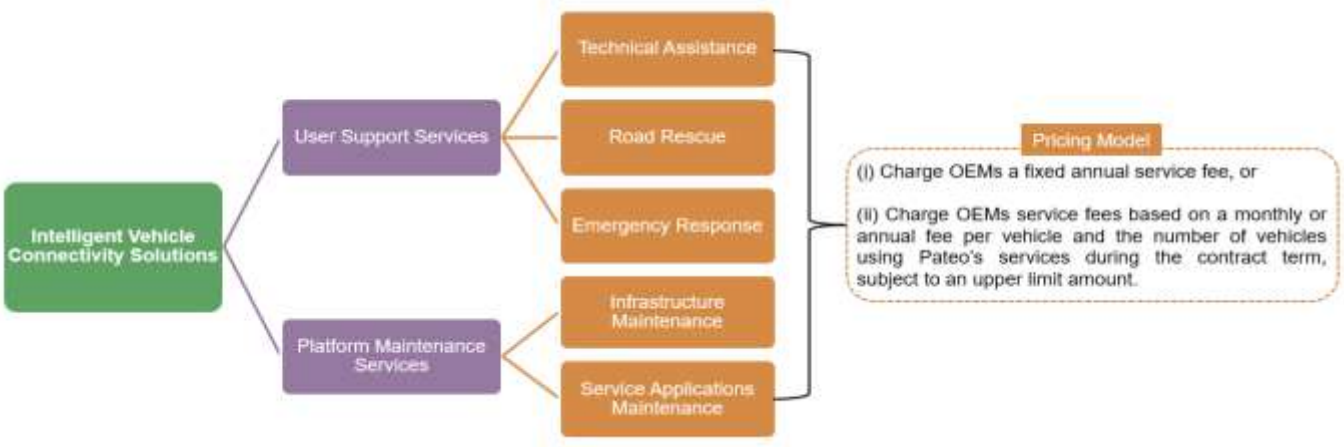
These solutions enhance connected vehicle owner experiences while ensuring stable platform performance. The intelligent vehicle connectivity solutions operate independently from Pateo's smart cockpit product line, allowing OEMs to procure either or both solution categories on an as-needed basis.

Pateo mainly deploys two fee structures based on different service contents (see more details in Fig.11):

(i) "Fixed Annual Service Fees" charged on OEMs, primarily determined by projected service costs (including personnel, facilities, and system maintenance expenses); or

(ii) "Per-Vehicle Service Fees" billed monthly/annually throughout contract terms, calculated according to the number of vehicles serviced but subject to capped amounts.

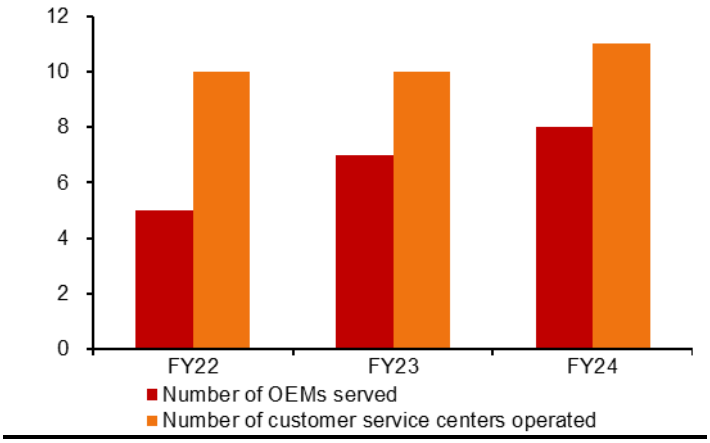
Figure 11: Pateo's business model for intelligent vehicle connectivity solutions



Source: Company data, CMBIGM

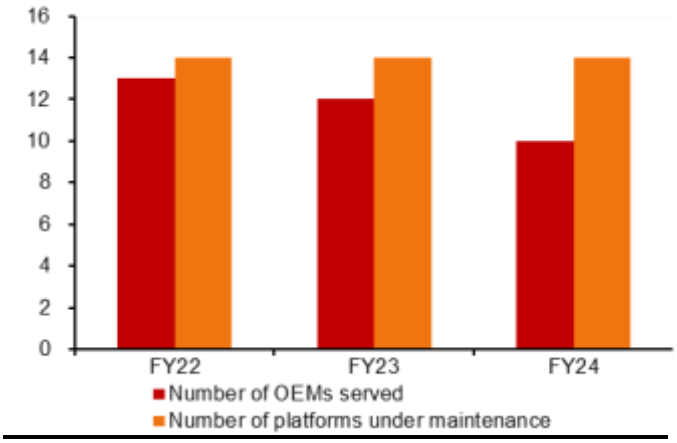
We believe Pateo's connectivity solutions revenue growth largely depends on the number of OEM customers and vehicle models served. Number of OEMs using Pateo's user engagement optimization services rose from 5 in FY22 to 7 in FY23 and 8 in FY24. Number of OEM customers using Pateo's vehicle connectivity platform services was 13, 12 and 10, respectively, during FY22-24.

Figure 12: User engagement optimization services: No. of OEMs served and no. of customer service centers operated



Source: Company data, CMBIGM

Figure 13: Vehicle connectivity platform services: No. of OEMs served and no. of platforms under maintenance



Source: Company data, CMBIGM

For the five months ended 31 May 2025, Pateo secured four design wins from its existing customers for intelligent vehicle connectivity solutions. As Pateo expands new clients with its smart cockpit products, its connectivity solutions may also benefit. In turn, its capabilities in the connectivity solutions could also make Pateo a more competitive player on the smart cockpit supply chain, in our view.

A pioneer in vehicle-related AI applications

As a smart cockpit provider, Pateo is a pioneer in exploring and monetizing vehicle-related AI applications by leveraging its software capabilities, unique data and partnerships with ICT giants. Two latest examples are:

1) Pateo entered a framework cooperation agreement with Ping An Property & Casualty Insurance in Jan 2026, to jointly create intelligent and personalized insurance service experience by utilizing multi-dimensional data platform and AI algorithms, and to explore other possible innovations of "AI + vehicle connectivity technologies + insurance services".
2) Pateo has secured orders from a leading Chinese NEV maker to supply AI box from 2026, according to the company. AI box is designed to enhance a vehicle's intelligence by featuring AI models enabled by higher computing power. The ASP of an in-cabin AI box could be as much as RMB4,000 based on our estimates.

Such first-mover advantages could help Pateo secure more AI box orders from more OEMs and monetize from more initiatives in AI applications, which may not be limited to OEMs, in our view. That could differentiate Pateo from other smart cockpit tier-1 suppliers.

Industry Analysis

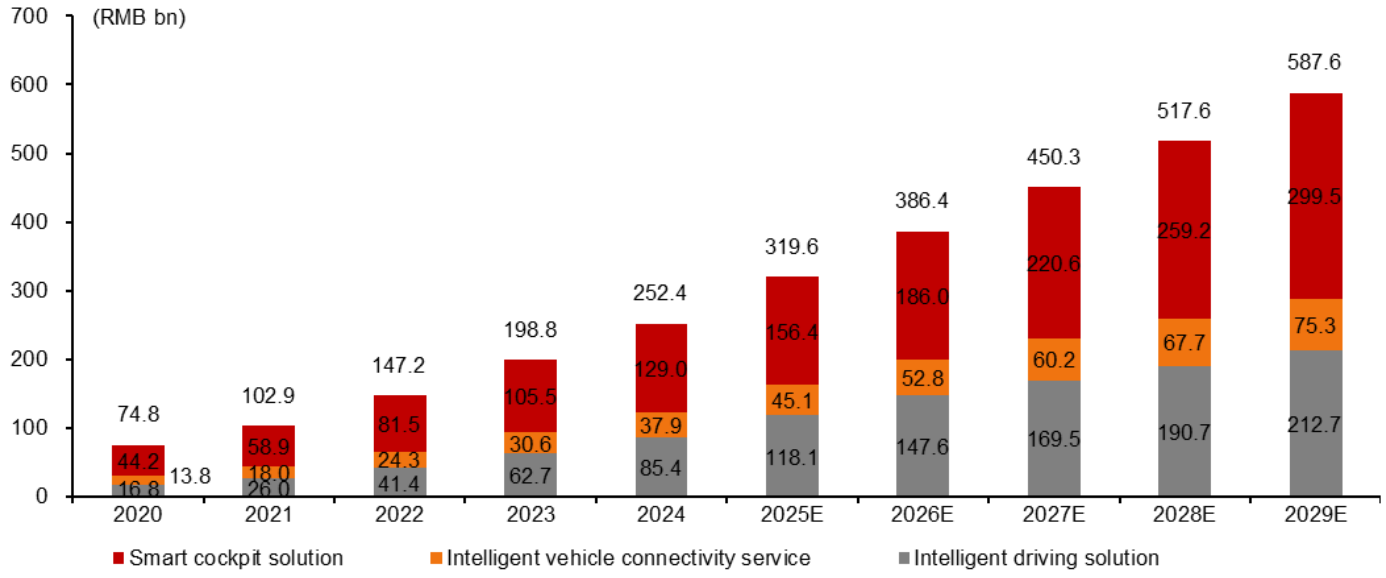
Smart cockpit: High growth to continue with software capabilities being more critical

The Chinese auto market leads in electrification, and has clearly demonstrated to the globe the importance of smart cockpit and autonomous driving technologies during the energy and tech transformation, in our view.

■ Smart cockpit as a core element of a smart car

Passenger vehicle (PV) intelligence solutions generated revenue of RMB758.7bn globally in 2024, with RMB252.4bn or 33.3% from China. Such revenue is expected to reach RMB1,555.5bn (China: RMB587.6bn, 37.8% share) in 2029E, representing a CAGR of 15.4% (China: 18.4%), according to CIC. Smart cockpit, intelligent vehicle connectivity and intelligent driving accounted for 51%, 15% and 34% of China's PV intelligence solutions revenue in 2024, respectively, which are projected to be 51%, 13% and 36% in 2029E, respectively, according to CIC.

Figure 14: Market size of China's PV intelligence solution industry in terms of revenue



Source: CPCA, CIC, CMBIGM

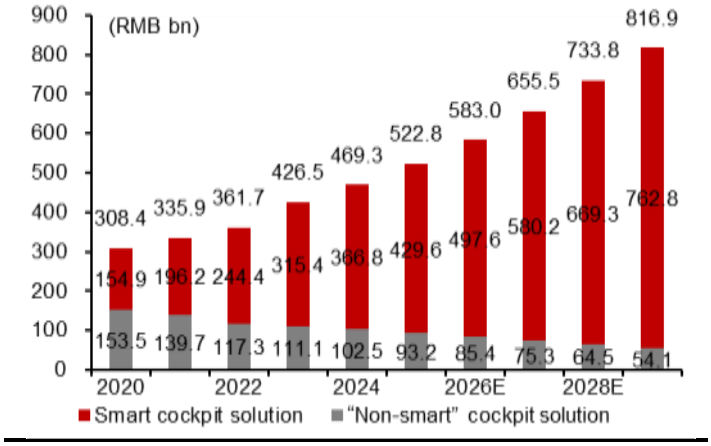
Note: Intelligent driving solution equips vehicles with autonomous driving capabilities, realizing functions of ADAS with Level 1 to Level 2 automation and automated driving system (ADS) with Level 3 to Level 5 automation.

■ Smart cockpit continues to grow fast throughout 2029E

PV cockpit solutions can be classified into two categories: 1) **traditional (or "non-smart") cockpit** which is mechanical based with only basic information and entertainment, relying on buttons and knobs without over-the-air (OTA) upgrades; 2) **smart cockpit** which provides more in-vehicle intelligent experience integrated with more devices including information/entertainment displays, HUDs and streaming mirrors, empowered by robust software and domain-centralized electrical/electronic architecture (EEA).

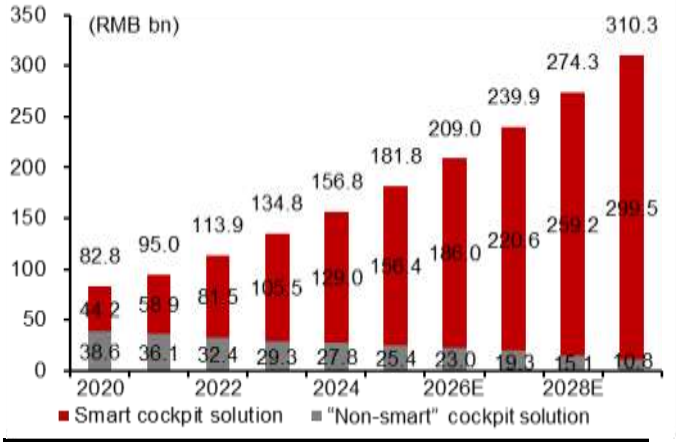
Apparently, smart cockpit solutions have been rapidly replacing traditional systems globally, led by the Chinese market. The smart cockpit sector in global PV market grew from RMB154.9bn in 2020 to RMB366.8bn in 2024 at a CAGR of 24.1% and is projected to reach RMB762.8bn in 2029E (5-year CAGR of 15.8%), according to CIC. The market size of smart cockpit solutions in China rose from RMB44.2bn in 2020 to RMB129.0bn in 2024 at a CAGR of 30.7% and is expected to hit RMB299.5bn in 2029E (5-year CAGR of 18.4%). China accounted for 35% of the global PV smart cockpit solution revenue in 2024, which may rise to 39% in 2029E, based on CIC's forecast.

Figure 15: Market size of global PV cockpit solution industry in terms of revenue



Source: CPCA, CIC, CMBIGM

Figure 16: Market size of China's PV cockpit solution industry in terms of revenue



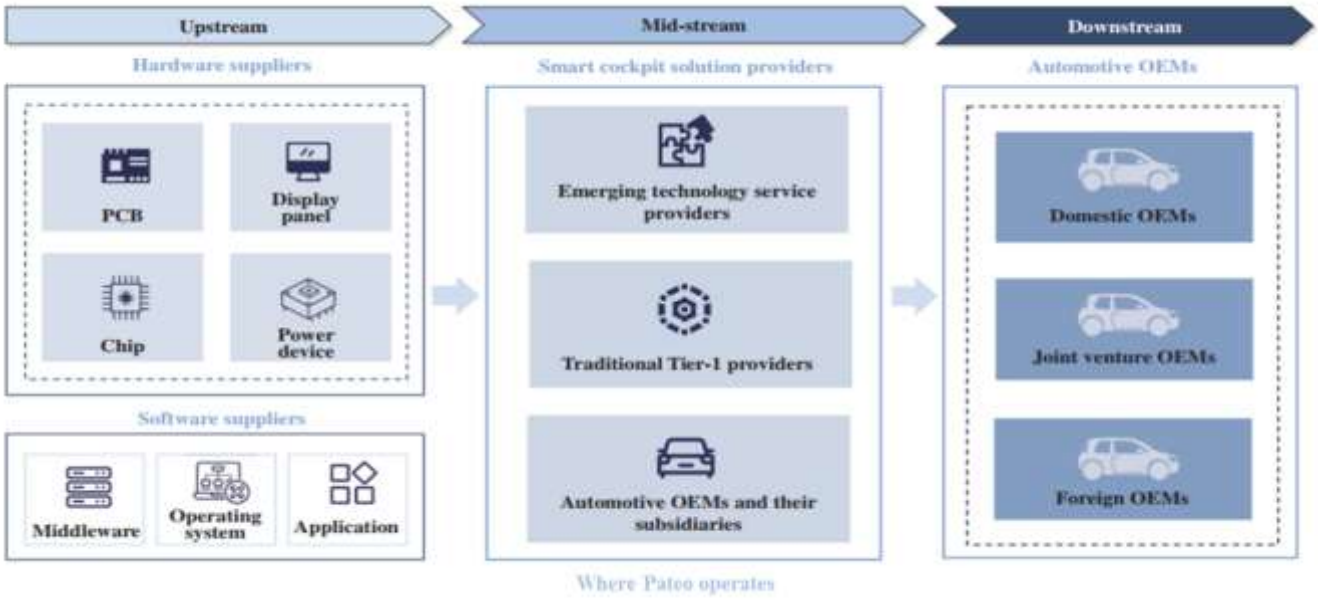
Source: CPCA, CIC, CMBIGM

The continuously rapid growth of the smart cockpit market both globally and in China is supported by both demand and supply, in our view. We believe car buyers, especially those in China, prefer increasingly convenient and personalized in-car experience. Meanwhile, both hardware and software technology development, including chip manufacturing, AI, big data and IoT, supports more advanced smart cockpit solutions.

- **Tier-1 suppliers with software capabilities could still play an important role in smart cockpit solutions**

The smart cockpit industry's value chain progresses from upstream hardware (PCB/panels/chips) and software (OS/middleware/apps) suppliers through midstream technology firms and tier-1 integrators to downstream OEMs.

Figure 17: Value chain of China's PV smart cockpit solution industry



Source: CIC, CMBIGM

Some leading NEV makers extensively develop in-house smart cockpit solutions in order to keep themselves staying on top of auto tech transformation, which results in low gross margins for tier-1 suppliers, as they mainly assemble domain controllers. However, more automakers still rely heavily on tier-1 smart cockpit suppliers in both hardware and software, to help those OEMs catch up in smart cockpit solutions at a faster pace and lower costs. We are of the view that economies of scale are still the critical factor for tier-1 smart cockpit suppliers to survive, and software capabilities are the key driver to lift those suppliers' gross margins.

- **Smart cockpit suppliers are likely to consolidate, which could benefit hardware-software integrated players more**

China's PV smart cockpit market is relatively fragmented, with hundreds of players and the top five providers making up a combined market share of 31.8% in terms of revenue in 2024, according to CIC. Pateo was ranked 11th with a segment revenue of RMB2,441mn and a market share of 1.9% in 2024.

Software-hardware integrated solution providers, including Pateo, had a market share of 60.4% in terms of China's industry-wide smart cockpit revenue in 2024, with the remaining market being taken by standalone software or hardware component suppliers. We expect software-hardware integrated providers to take up a larger market share in the smart cockpit market, as such solutions provide three advantages: 1) cost optimization through a one-stop shop process; 2) shorter R&D cycle with minimal supplier coordination; 3) enhanced system performance with better hardware-software compatibility and clear supplier responsibility.

The domain controller solution is a core component of smart cockpit solutions, and the competitive landscape of China's smart cockpit domain controller solution industry is relatively concentrated, with the top five providers taking up an aggregated market share of 53.3% in terms of shipment volume of smart cockpit domain controllers in 2024. Pateo delivered 0.9mn units of domain controllers in 2024 with the 3rd-largest market share of 7.3% among all the domain controller suppliers in China, excluding pure manufacturing service providers and providers without their own factories. Leveraging experience from its partnerships with leading Chinese NEV makers, Pateo has advantages over its peers in working with traditional OEMs which are desperate to catch up in tech transformation. Pateo's software capabilities and self-owned manufacturing base could be key to foreign automaker client wins and overseas expansion, in our view.

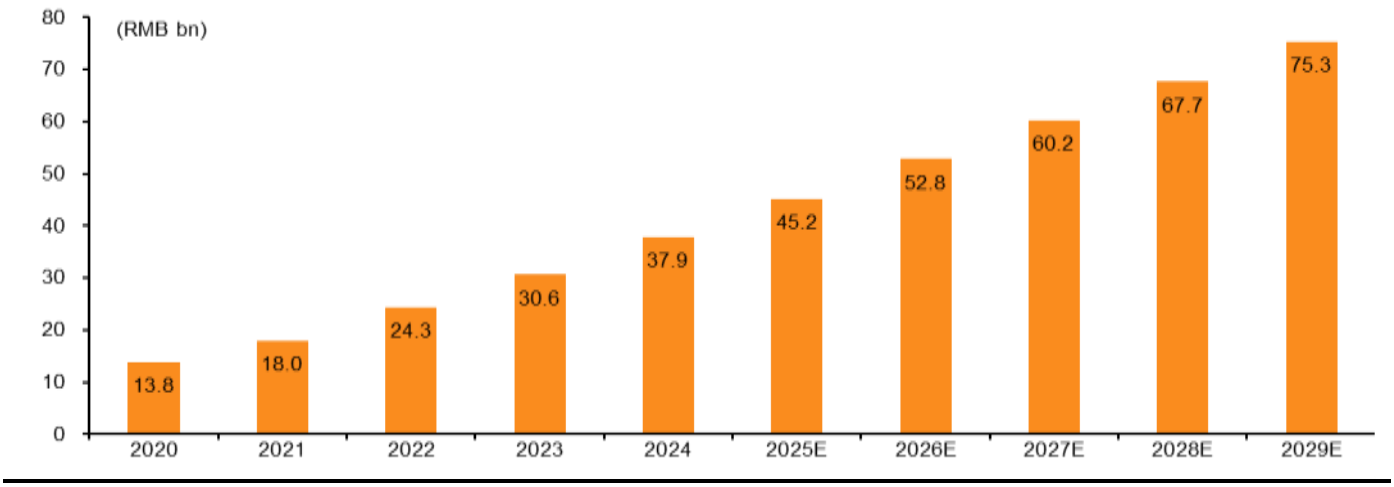
Intelligent connectivity: Necessary pillar for a smart car

- **Fast growth potential reflects the importance of intelligent connectivity**

Intelligent vehicle connectivity technology mainly connects vehicles with other vehicles, pedestrians, infrastructure, cloud platforms, etc. (or V2X), in order to enhance functionality with remote control and improve traffic safety and efficiency. Core services include R&D and maintenance services for connectivity platforms, and user engagement optimization services (user support, owner relationship management, and application ecosystem management).

The global intelligent vehicle connectivity market size expanded from RMB49.9bn in 2020 to RMB107.3bn in 2024 at a CAGR of 21.1%, according to CIC. It is also projected by CIC to reach RMB200.7bn in 2029 (5-year CAGR of 13.3%). China's intelligent vehicle connectivity market grew more rapidly: from RMB13.8bn in 2020 to RMB37.9bn in 2024 at a CAGR of 28.7%, driven by intelligent transportation systems, digital economy, and policy support. CIC projects China's market size to reach RMB75.3bn in 2029 (5-year CAGR of 14.7%). China accounted for 27.7% of global intelligent vehicle connectivity revenue in 2020 and 35.4% in 2024. CIC projects China's market share to reach 37.5% in 2029, as ecosystem integration and cross-industry collaboration is to enhance user experience with much broader application scenarios.

Figure 18: Market size of China's intelligent vehicle connectivity industry in terms of revenue



Source: CPCA, CIC, CMBIGM

The intelligent vehicle connectivity industry is expanding globally and in China, fueled by three key drivers: (i) Intelligent transportation systems integrating real-time traffic data to optimize mobility solutions; (ii) Growing user demand for safety (e.g. emergency rescue) and diverse in-vehicle infotainment; and (iii) Government policy support, including *China's Guidelines for National Vehicle Connectivity Standards (2023) (《国家车联网产业标准体系建设指南(智慧网联汽车)(2023 版)》)* and *Pilot Projects for Intelligent Vehicle Road Access (《关于开展智慧网联汽车准入和上路通行试点工作的通知》)*.

■ **We expect higher market share for suppliers and cross-industry players**

OEMs took about 80% of intelligent vehicle connectivity revenue in 2024, with the remaining 20% shared by many small suppliers including Pateo. Pateo generated a revenue of RMB110.2mn from this segment in FY24, capturing a market share of 0.3% in China's intelligent vehicle connectivity market.

As such business becomes mature and more standardized, we expect OEMs to outsource more business to suppliers. In the meantime, players from other industries, such as software developers and telecommunication companies, are likely to tap into this market by leveraging their expertise to broaden connectivity applications.

Figure 19: Intelligent vehicle connectivity ecosystem

Source: Baidu, CMBIGM

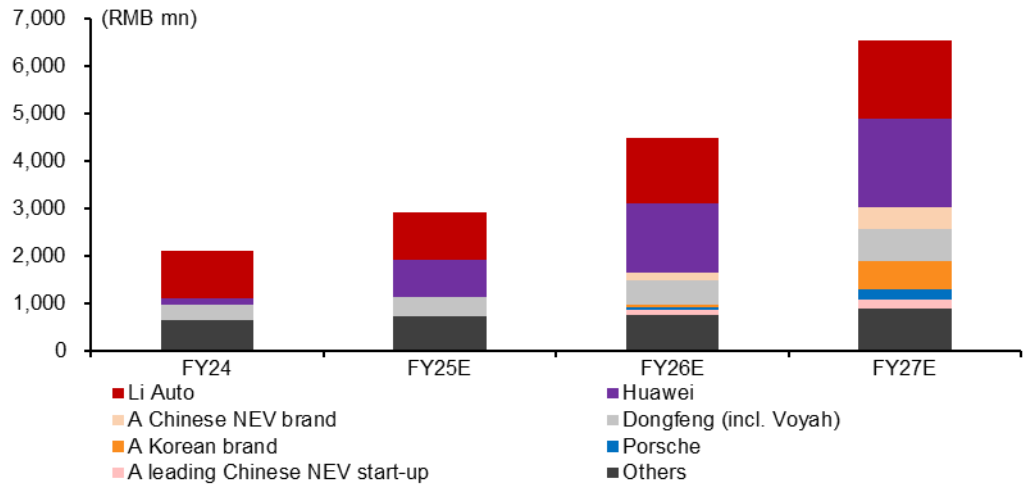
Investment Thesis

Solid new orders to lift sales in FY26-27E, with high gross margin

■ **New clients, especially those from overseas markets, to fuel growth**

Pateo has secured orders from new clients including Porsche, a South Korean automaker, a leading Chinese NEV maker and a leading Chinese NEV start-up, which will likely lift its revenue from FY26E. Total order backlog from the Korean carmaker could be as large as RMB8bn, as it covers global models sold in different countries, according to management. We expect this client to contribute a revenue of RMB0.6bn in FY27E and even higher in FY28E. Therefore, we project these new clients to contribute about 9% of Pateo's revenue from domain controllers and related components in FY26E. We expect such ratio to increase to 25% in FY27E. In other words, we estimate about 25% and 60% of hardware revenue growth at Pateo in FY26-27E, respectively, to come from new clients.

Figure 20: Pateo's hardware revenue breakdown by client (FY24-27E)

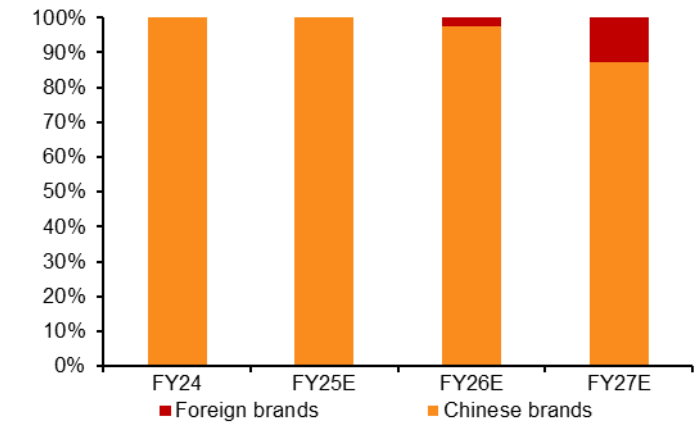


Source: Company data, CMBIGM estimates
Note: Chip procurement is to be partially included in revenue from Huawei from FY26E, which is the main reason why Huawei's revenue contribution increases significantly in FY26E.

■ **Key to margin lift lies in laggard OEMs with weak software capabilities**

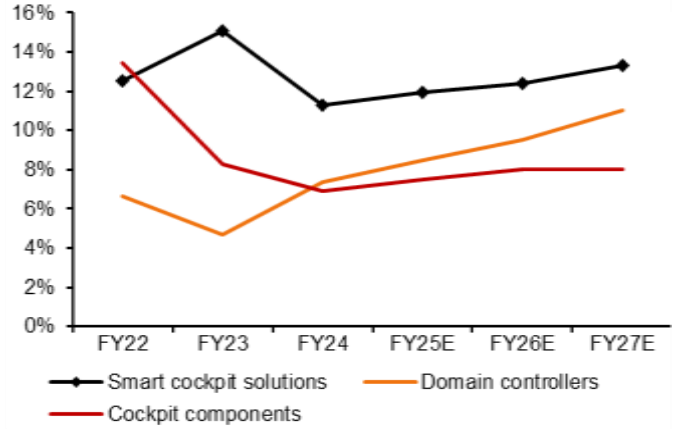
While partnering with leading NEV makers or suppliers could help Pateo maintain its position in leading technologies, business with automakers which are relatively weaker in software capabilities could generate higher margins with Pateo's heavier involvement in product design, in our view. Therefore, investors should not overlook Pateo's business with OEMs which are currently lagging in smart cockpit. It appears to us that Pateo has been winning such business more than before by leveraging its capabilities in both hardware and software, as well as a track record of serving market-leading customers. Therefore, we expect Pateo's gross margin for smart cockpit solutions (including domain controllers, components and related R&D services) to improve during FY25-27E, at 11.9%/12.4%/13.3%, respectively.

Figure 21: Foreign brands are to account for higher portion of Pateo's hardware revenue



Source: Company data, CMBIGM estimates

Figure 22: Pateo's smart cockpit solution gross margin forecast by segment



Source: Company data, CMBIGM estimates

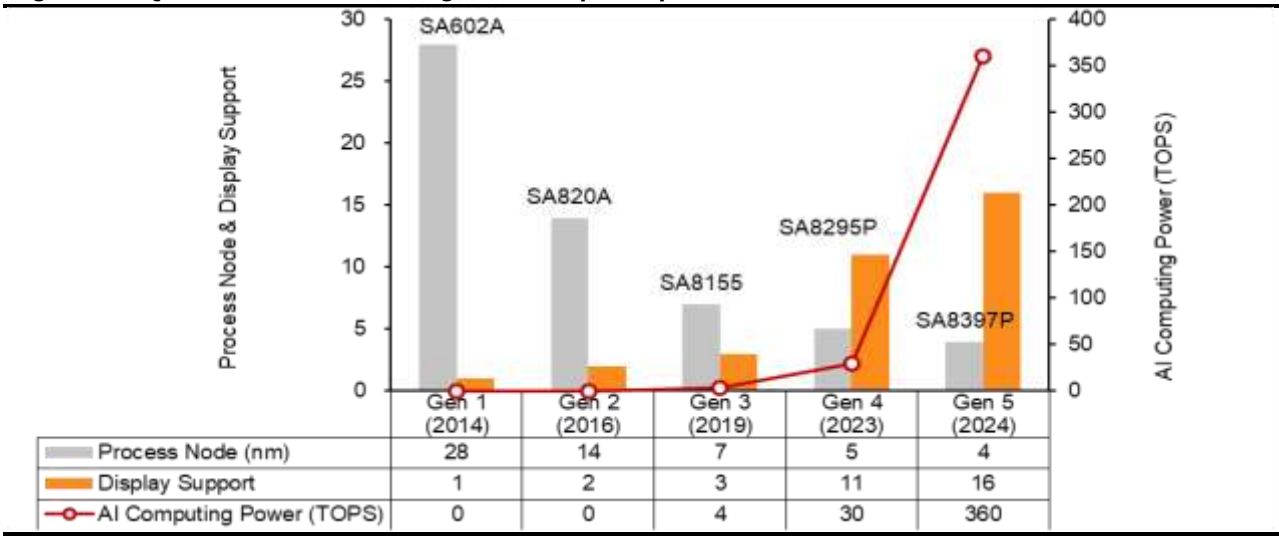
Smart cockpit ASP to rise on enhanced function needs, ADAS development

■ **Sales of domain controllers with high-end SoCs are likely to grow faster**

We expect Pateo's unit sales of domain controllers with high-end SoCs to rise faster than those with mid- to low-end SoCs in the next few years, which is another reason why we expect its gross margin to widen in FY25-27E. Not only the leading Chinese NEV makers attempt to maintain their leadership in the state-of-the-art technologies, but also other automakers, especially foreign marques, try to halt their market share loss by catching up in smart cockpit and autonomous driving, in our view. Such competitive landscape will likely accelerate domain controller's iteration.

We project sales volume of domain controllers with high-end SoCs at Pateo to rise at a 3-year CAGR of 48% to 1.13mn units in FY27E, making up 73% of total domain controller's unit sales in FY27E, up from 39% in FY24. The SA8295 has been widely adopted since 2024 and Pateo ranks as China's top smart cockpit solution provider by number of design wins for solutions powered by the SA8295, according to CIC. Such advantage is likely to extend into the SA8397 and SA8797, which is set to be adopted from 2026, based on our channel checks.

Figure 23: Qualcomm automotive-grade cockpit chip evolution



Source: Qualcomm, CMBIGM

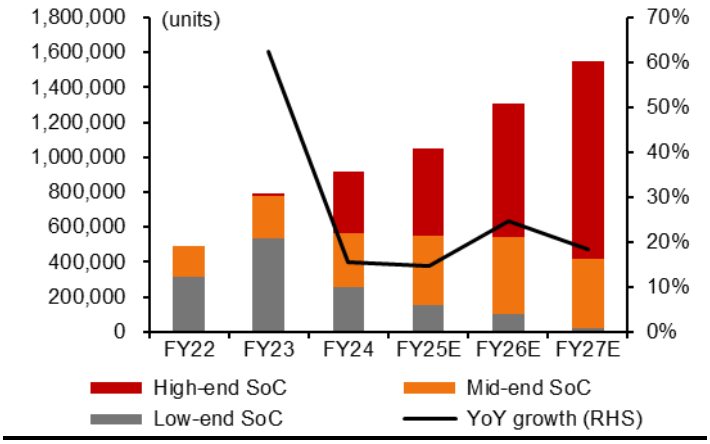
Figure 24: Qualcomm automotive-grade cockpit chip's application on vehicles

Generation (Year)	Gen 1 (2014)	Gen 2 (2016)	Gen 3 (2019)	Gen 4 (2023)	Gen 5 (2024)
Chip Model	Snapdragon 602A	Snapdragon 820A	Snapdragon 8155	Snapdragon 8295	Snapdragon 8397
Corresponding Vehicles	Audi Q7 (2015) Honda Accord (2015)	Audi A4 (2017) Buick LaCrosse (2018)	Li Auto L9 (2022) NIO ET7 (2022)	Xiaomi SU7 (2024) Zeekr 007 (2024)	Li Auto next-generation models (2026)
Breakthrough Upgrades	First automotive-grade chipset	Enabled basic smart navigation	5G connectivity + multi-screen interaction	Full-scene voice control + vision perception	Cockpit-ADAS fusion + on-device LLM execution

Source: Qualcomm, CMBIGM

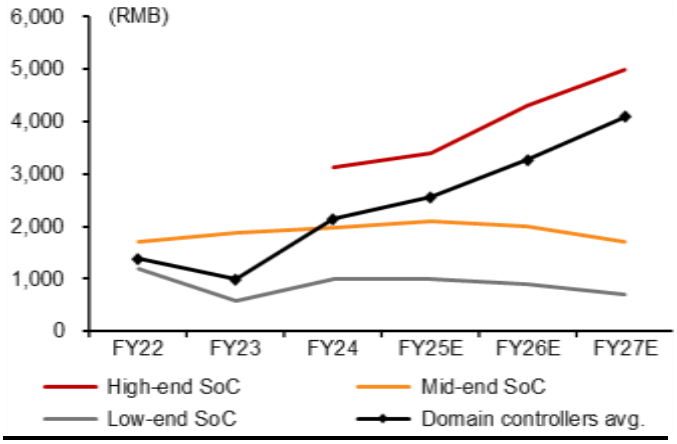
We also expect Pateo's improving product mix to lift its ASP in the next few years, with its domain controller's ASP rising from RMB2,141 in FY24 to RMB2,562/3,268/4,093 in FY25-27E, respectively. Note that the higher ASP growth rate in FY26E than other years is also partially due to calculation methodology change, as chip procurement is to be partially included in the revenue from Huawei from FY26E, which was excluded in the revenue in the previous years as it sourced Huawei's own chips.

Figure 25: Sales volume forecast for Pateo's domain controllers with different SoC configurations



Source: Company data, CMBIGM estimates

Figure 26: ASP forecast for Pateo's domain controllers with different SoC configurations



Source: Company data, CMBIGM estimates

■ **Smart cockpit's ASP growth is not short-lived as autonomous driving evolves**

We see further ASP increase potential for smart cockpit solutions beyond SoC upgrades, as autonomous driving technologies advance. We expect the L4 autonomous driving to free up drivers, allowing them to engage in more in-cabin activities, which creates more demand for both hardware and software of smart cockpit solutions that may not be a necessity in the L2 world. That could support Pateo's ASP growth beyond FY27E. Should such fundamental changes happen, total addressable market increase for smart cockpit could be more drastic than some investors expect, which has not been factored in either our model or smart cockpit players' valuation, in our view.

Pateo's AI exposure could be undervalued

■ **AI box demand could grow faster than some investors expect**

While L4 autonomous driving unlocking smart cockpit value may still take some time, demand for AI agents powered by large language models and other technologies to enhance in-car experience is around the corner. As adding AI box does not require a change to the EEA, monetization could start as soon as this year for Pateo. Most new flagship car models plan to equip high computing power chips for cockpit domain controllers, based on data that we have compiled, which could imply a wide adoption of AI agents from 2027. We project the leading Chinese NEV maker client to contribute RMB100mn (about

25,000 units) in FY26E and RMB250mn in FY27E to Pateo's AI box revenue. We expect AI box to contribute a revenue of RMB300mn (about 80,000 units) for Pateo in FY27E, along with new orders from other automakers. We estimate gross margin for AI box to be 15-20% in FY26-27E, higher than domain controller's gross margin.

■ **Data monetization with Ping An in FY26-27E**

The cooperation with Ping An has started to generate revenue for Pateo, according to management, by leveraging its unique data from drivers' behaviour to help Ping An optimize costs when providing insurance services. Pateo also assists Ping An in providing tailor-made customer services by utilizing its Qinggan Large Model partnered with SenseTime (20 HK, BUY, covered by CMBI Research TMT team).

We project such revenue to be RMB600mn in FY26E and RMB1,100mn in FY27E for Pateo, with a gross margin of 25-35%. More importantly, such cooperation provides a new possibility for Pateo to monetize its tier-1 expertise outside automakers and in-cabin experience. In our view, as AI models gradually become mature, unique data may be key to monetization especially for players who have no resources or capabilities to build own foundation models.

A good proxy of Huawei concept amid their close partnership, which may bring new business beyond smart cockpit

We estimate that Pateo takes up about 50% market share of HIMA's smart cockpits through Huawei. We are of the view that Pateo's close tie with Huawei means more than just smart cockpit business. We think their partnership could expand into chips, HarmonyOS and AI model.

In Jan 2026, Pateo appointed Dr. Jinyu Gu as an independent non-executive director who also serves as the chairman of the Program Management Committee (PMC) of Open Harmony Embodied Intelligence and the director of the Kernel Laboratory of Engineering Research Center of Domain-specific Operating Systems. We believe it could be a signal for Pateo to expand its footprint in the HarmonyOS ecosystem, especially in robotics operating systems.

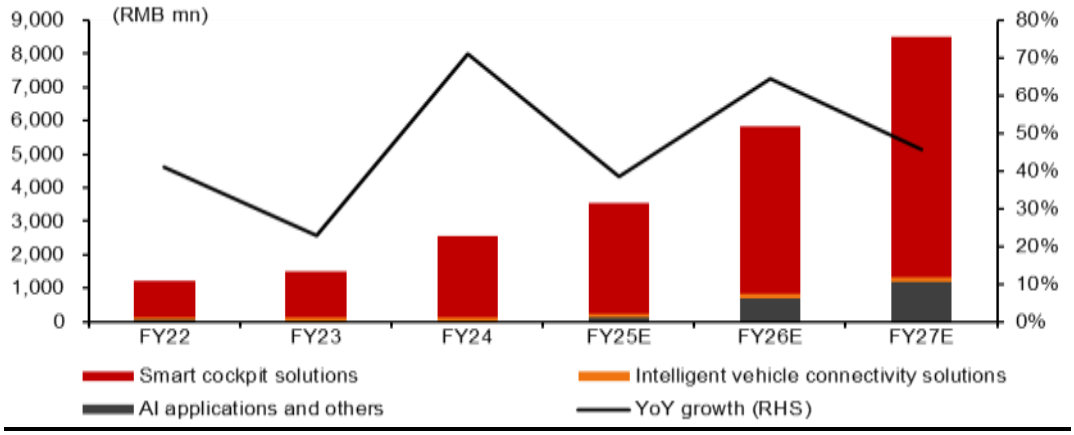
We project Pateo's smart cockpit revenue from Huawei to rise by 442%/83%/28% YoY to RMB0.8bn/1.5bn/1.9bn in FY25-27E, respectively. Total revenue from Huawei, in our view, could be even higher in FY26-27E, which has not been fully factored in our model. We believe Pateo's close tie with Huawei could lift its valuation.

Financial Analysis

We project a revenue CAGR of 49% for Pateo in FY24-27E

Pateo's revenue mainly consists of sales of smart cockpit solutions and intelligent vehicle connectivity solutions for now. Its revenue from AI applications, including in-car AI boxes and AI powered data-driven services with Ping An that we have discussed in the previous sections, is set to be meaningful. We project its total revenue to rise 39%/65%/46% YoY, respectively, to RMB3.5bn/5.8bn/8.5bn in FY25-27E, with detailed breakdown below.

Figure 27: Pateo revenue forecast



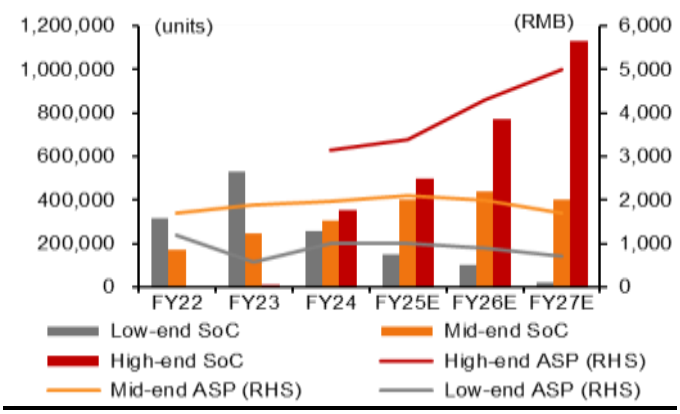
Source: Company data, CMBIGM estimates

■ **High-end SoCs to lift smart cockpit solutions revenue with higher ASP, GPM**

Pateo's smart cockpit solution revenue include sales of domain controllers, cockpit components and related R&D services. We project Pateo's sales volume of domain controllers to rise by 15%/25%/18% YoY, respectively, to 1.05mn/1.31mn/1.55mn units in FY25-27E, driven by those with high-end SoCs. We expect sales volume of domain controllers with high-end SoCs to rise at 3-year CAGR of 48% during FY24-27 and make up 73% of total domain controller sales volume in FY27E, as noted in the previous section.

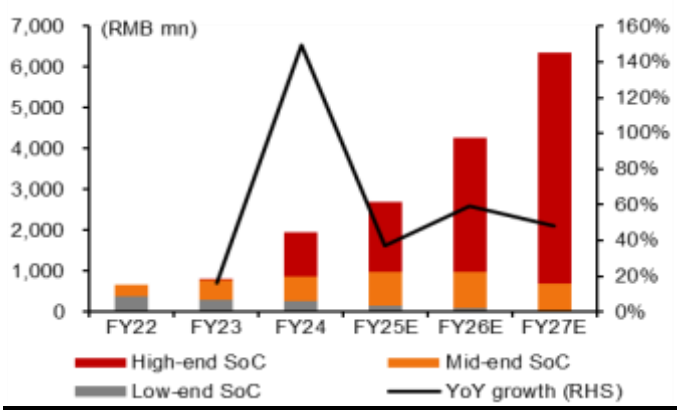
That, along with rising domain-controller ASPs (RMB2,562/3,268/4,093 in FY25-27E, respectively) as mentioned earlier, results in revenue from domain controllers rising by 37%/59%/48% YoY to RMB2.8bn/4.4bn/5.9bn in FY25-27E, respectively, based on our estimates. We expect high-end SoCs to account for 63%/77%/89% of Pateo's total domain-controller revenue during FY25-27E, respectively, up from 56% in FY24.

Figure 28: Sales volume and ASP forecasts for domain controllers with different SoCs



Source: Company data, CMBIGM estimates

Figure 29: Revenue forecast for sales of domain controllers



Source: Company data, CMBIGM estimates

■ **Cockpit component sourcing as part of integrated smart cockpit solutions**

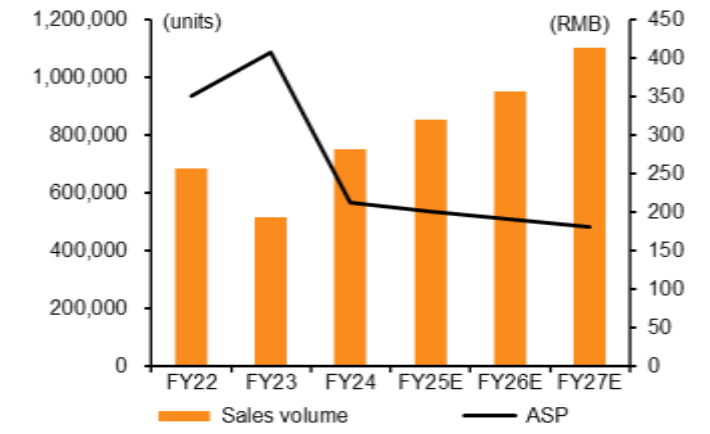
In addition to domain controllers, the company's smart cockpit solutions consist of additional hardware and software components, including display screens, T-Box modules, microphones, speakers, wires, antennas, operating systems and application software. Pateo's customers sometimes request domain controllers bundled with other hardware to enhance vehicle assembly efficiency. Therefore, Pateo sources specific hardware materials based on customers' requirements and integrate them within its smart cockpit platforms.

Figure 30: Major cockpit components

Source: Company data, Baidu, CMBIGM

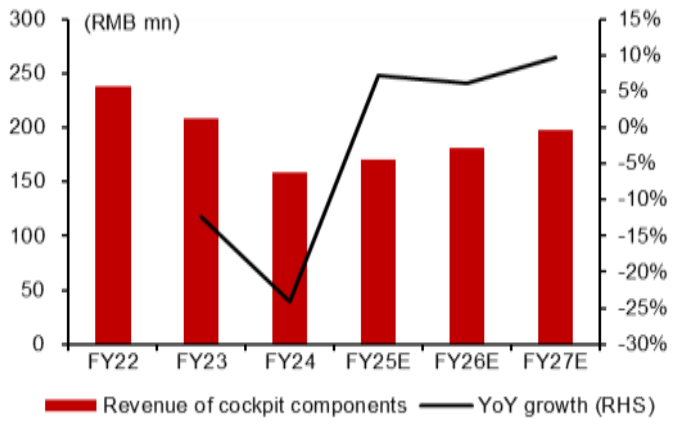
During FY22-24, cockpit components accounted for 22%/15%/7% of Pateo's smart cockpit solution revenue, respectively, with sales volume ranging from 0.51-0.75mn units and ASP ranging from RMB211-407. We project sales volume of cockpit components to rise with domain controllers' but at a slower pace given automakers' stringent cost control nowadays. We also expect ASP for cockpit components to decline given greater economies of scale and more demanding cost reduction from automakers. Accordingly, we project cockpit component revenue at Pateo to be RMB213mn/202mn/200mn, or 7%/4%/3% of its total smart cockpit solution revenue during FY25-27E, respectively.

Figure 31: Sales volume and ASP forecast for cockpit components



Source: Company data, CMBIGM estimates

Figure 32: Revenue forecast for Pateo's cockpit components



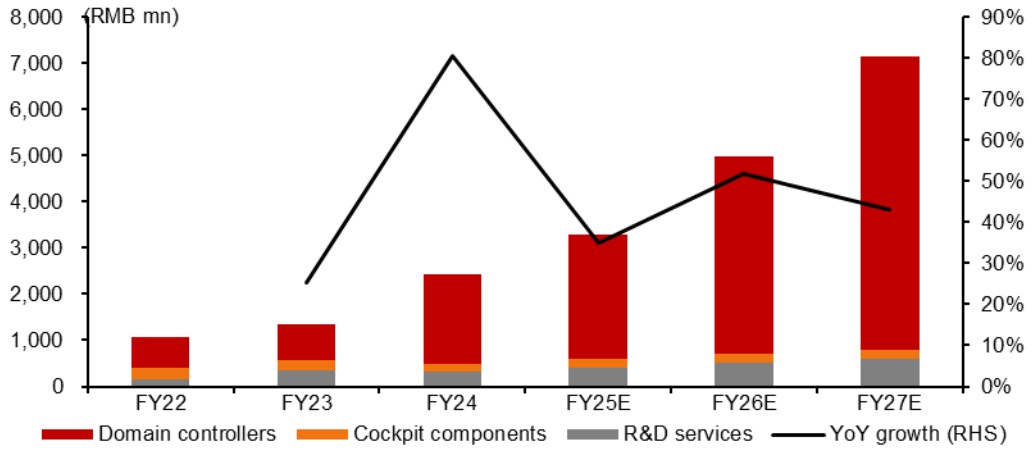
Source: Company data, CMBIGM estimates

R&D service revenue to rise with domain controllers

Pateo provides R&D services to smart cockpit ecosystem participants including OEMs, tier-1 customers and in-vehicle application providers, which include software or hardware design and development, as well as vehicle connectivity platform development, either individually or in combination. Pateo normally charges R&D service fees on a project basis. Apart from domain controller sales, Pateo can also benefit from R&D service revenue when working with OEMs with weak in-house R&D capabilities.

Although some Chinese automakers do not pay R&D service fees separately but rather incorporate it in the product prices, we still believe Pateo's R&D services are largely correlated with its cockpit hardware sales and customer types. R&D service revenue amounted to approximately 25%/46%/17% of domain controller sales revenue in FY22-24. We assume such ratios to decline gradually to 14.5%/12.0%/9.5% in FY25-27E. Accordingly, we project Pateo's R&D service revenue to rise 20%/32%/17% YoY to RMB390mn/514mn/603mn in FY25-27E, as we expect new foreign clients to contribute more.

Figure 33: Smart cockpit solution revenue forecast breakdown



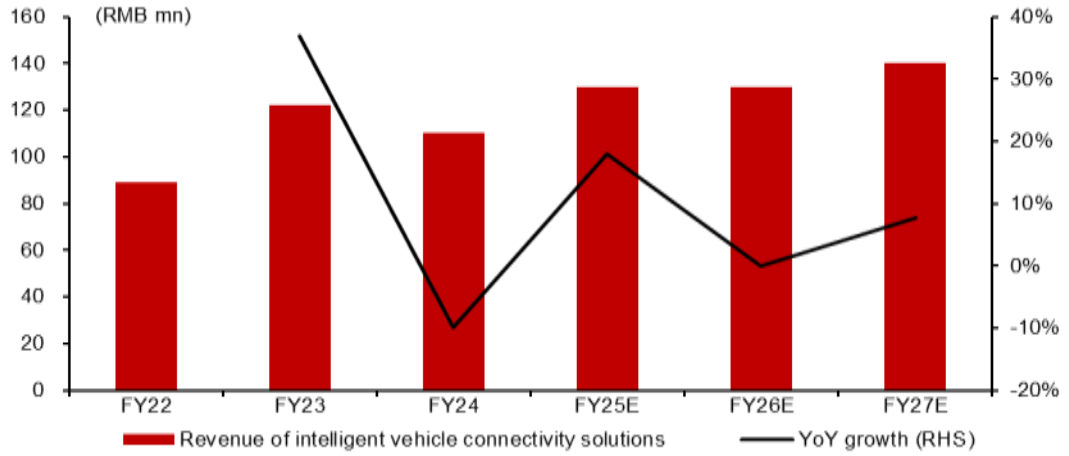
Source: Company data, CMBIGM estimates

Accordingly, we project Pateo's revenue from smart cockpit solutions to rise 35%/52%/43% YoY to RMB3.3bn/5.0bn/7.1bn in FY25-27E, respectively, with domain controllers taking up 82%/86%/89%. Domain controllers with high-end SoCs are likely to contribute the largest smart cockpit solution revenue growth in FY25-27E, with their fast sales volume increase and rising ASPs.

Intelligent vehicle connectivity solutions revenue to grow steadily

As Pateo expands new clients with its smart cockpit solutions, we believe its connectivity solutions may also benefit. However, connectivity solutions income visibility appears to be lower than smart cockpit solutions'. To be conservative, we expect its connectivity solutions revenue to rise 18%/0%/8% YoY to RMB130mn/130mn/140mn in FY25-27E, respectively. Accordingly, connectivity solutions' contribution to total revenue could fall from 4%-8% in FY22-24 to 2%-4% in FY25-27E, based on our estimates.

Figure 34: Revenue forecast for intelligent vehicle connectivity solutions



Source: Company data, CMBIGM estimates

■ **AI application related revenue may grow exponentially in FY26-27E**

As noted in the subsections of "Pateo's AI exposure could be undervalued" under the "Investment Thesis" section, we project AI application related revenue to be RMB0.7bn in FY26E and RMB1.2bn in FY27E, including the AI box and data-based services with Ping An.

In the past, Pateo's other revenue mainly included sales of automotive-grade chips, either for own trading purpose or as commissioned by some OEMs. We cannot rule out higher growth from chip sales in FY26-27E given the shortage of memory chips, which we have not modelled .

Gross margin to widen on better product mix, greater economies of scale and AI applications

We expect Pateo's overall gross margin to widen by 1.1ppts/1.9ppts/1.0ppts YoY to 12.9%/14.8%/15.8% in FY25-27E, respectively, aided by a better product mix from domain controllers with high-end SoCs, greater economies of scale and high-margin AI related businesses.

We project Pateo's gross margin for domain controllers to rise 1.2ppts/1ppt/1.5ppts YoY to 8.5%/9.5%/11.0% in FY25-27E, respectively, mainly driven by greater revenue contribution from high-end products. We expect domain controllers to account for 47%-50% of Pateo's total gross profit in FY25-27E, as product mix improves. It appears to us that the company now prioritizes market share in the high-end market and scales back low-margin businesses.

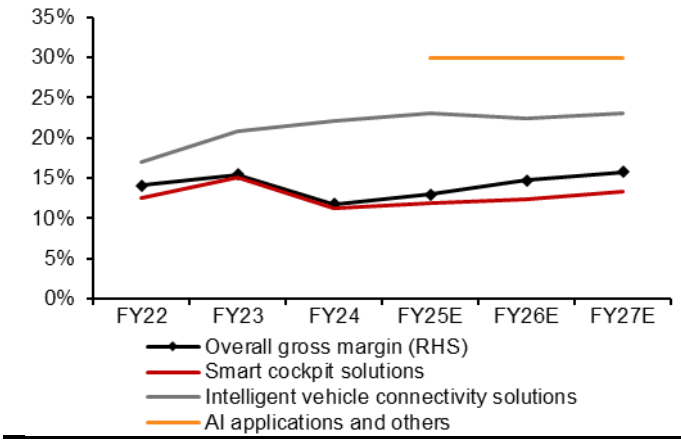
We expect gross margin of cockpit components to range from 7.5% to 8.0% in FY25-27E, similar to 6.9%-8.3% during FY23-24 given that Pateo mainly sources these components from suppliers for its customers.

We also expect gross margin for R&D services to be 38%-39% in FY25-27E, similar to 35.3%-41.8% in FY22-24. Accordingly, we estimate Pateo's gross margin for smart cockpit solutions (which consist of domain controllers, components and R&D services) to improve by 0.6ppts/0.5ppts/0.9ppts YoY to 11.9%/12.4%/13.3% in FY25-27E, respectively.

As illustrated in the previous section, we project overall GPM for Pateo's AI applications and others to be 30% during FY25-27E. Such businesses are estimated to contribute 24% and 27% of Pateo's total gross profit in FY26-27E, respectively.

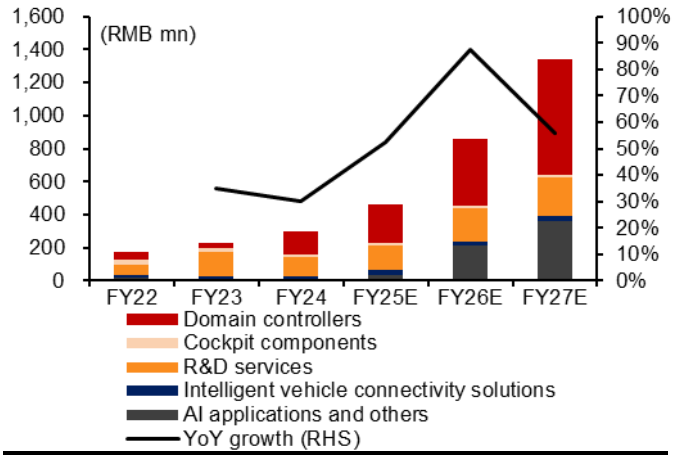
Accordingly, we project Pateo's total gross profit to rise 52%/88%/56% YoY to RMB459mn/860mn/1,341mn in FY25-27E, respectively.

Figure 35: Gross margin forecast by segment



Source: Company data, CMBIGM estimates

Figure 36: Gross profit forecast by segment



Source: Company data, CMBIGM estimates

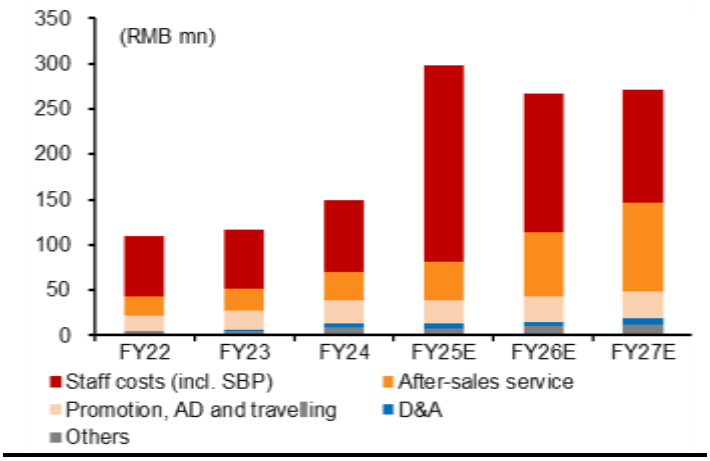
SG&A and R&D ratios to decline amid fast revenue growth

We expect the ratios (as % of revenue) of SG&A and R&D to drop significantly in FY26-27E, as Pateo's revenue surges and share-based payment (SBP) declines.

We calculate that about 68% of total staff costs (including SBP) were booked in operating expenses, accounting for 68% of SG&A and R&D expenses combined in FY24. We expect Pateo's total staff costs (excluding SBP) to rise by about 15%/20%/19% YoY to RMB649mn/777mn/923mn in FY25-27E, respectively, at a slower pace than revenue growth of 39%/65%/46% YoY during the same period, as operational efficiency improves. However, we may see SG&A and R&D ratio spikes in FY25E, mainly due to existing restricted share incentive schemes, especially the pre-IPO share options granted in Aug 2025. We project Pateo's SBP to be approximately RMB898mn in FY25E, given the majority cost of the pre-IPO share options is booked in FY25E. We expect the company to continue share incentive schemes in FY26-27E, but with smaller sizes compared with the pre-IPO one. We project SBP to be RMB400mn in FY26E and RMB200mn in FY27E.

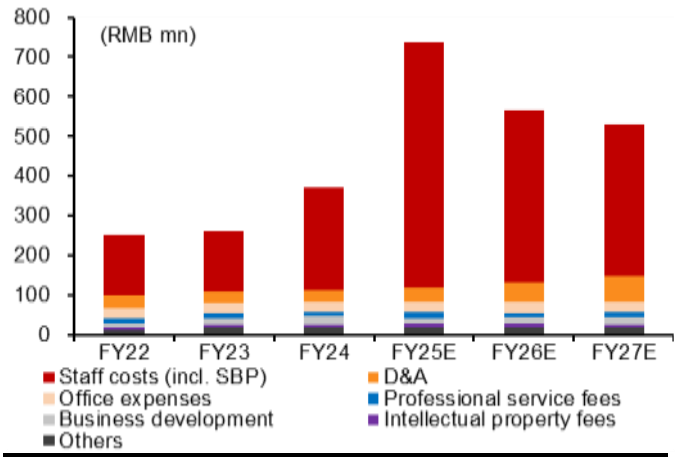
Total depreciation and amortization accounted for 7% of SG&A and R&D expenses combined in FY24, which may reach 4%/7%/9% in FY25-27E, respectively, as the Liuzhou plant started production in 2025, probably followed by the Rui'an plant in 2026.

Figure 37: Selling expense forecasts



Source: Company data, CMBIGM estimates

Figure 38: G&A expense forecasts

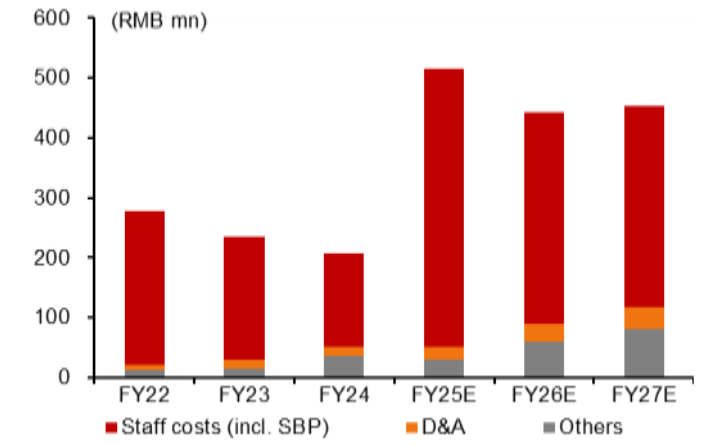


Source: Company data, CMBIGM estimates

Therefore, we project Pateo's SG&A expenses to be RMB1,036mn/833mn/800mn in FY25-27E, respectively, taking SBP into consideration. We estimate R&D expenses (including SBP) to be RMB516mn/443mn/454mn in FY25-27E, respectively. Accordingly, we project

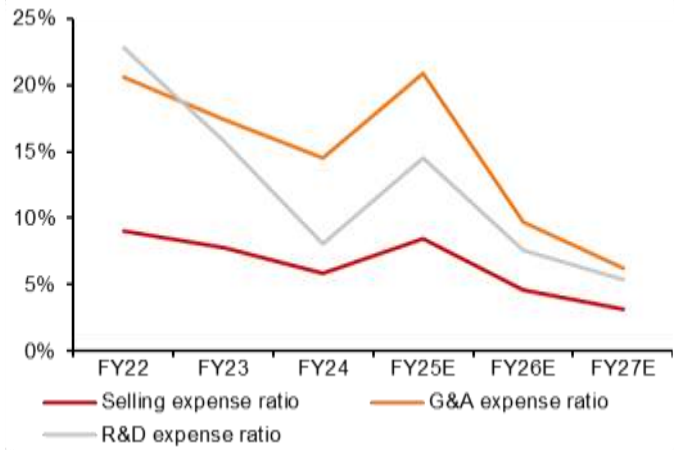
the combined SG&A and R&D ratio to be 43.8%/21.9%/14.8% in FY25-27E, respectively, based on our estimates. Note that all the R&D investments were expensed at Pateo during FY21-24, and we expect such accounting treatment to continue in FY25-27E.

Figure 39: R&D expense forecasts



Source: Company data, CMBIGM estimates

Figure 40: SG&A and R&D expense ratios



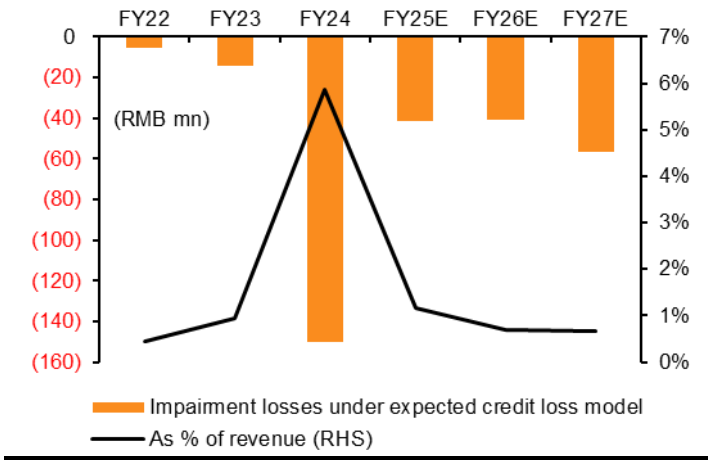
Source: Company data, CMBIGM estimates

We expect positive adjusted OP in FY26E and net breakeven in FY27E

■ Impairment on receivables to normalize from FY25E

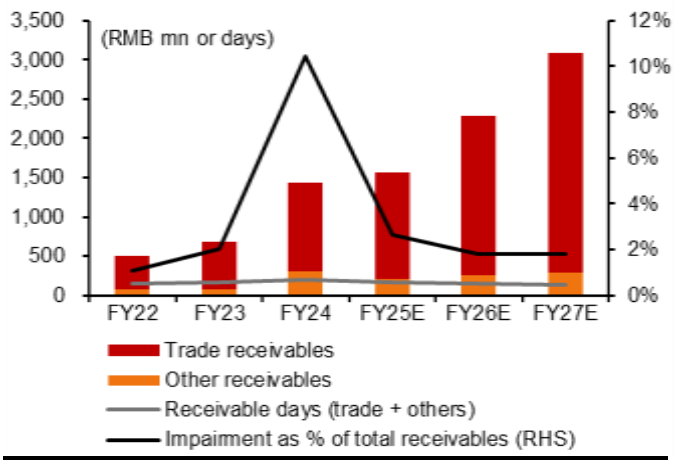
Pateo booked impairment losses of RMB150mn (amounting to 5.9% of revenue) under an expected credit loss model in FY24, mainly because it recognized credit loss for trade receivables due from Hozon which entered bankruptcy proceedings in 2025. With related impairment risks now fully accounted for, we project impairment loss of receivables to normalize starting from FY25E, at approximately 2%-3% of receivables, or equivalent to around 1% of revenue.

Figure 41: Impairment on credits forecasts



Source: Company data, CMBIGM estimates

Figure 42: Trade and other receivables forecasts



Source: Company data, CMBIGM estimates

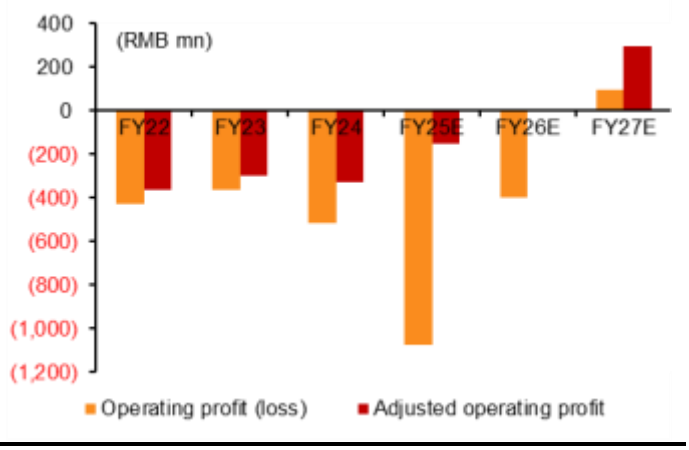
■ Net loss to narrow gradually with a possible breakeven in FY27E

We project Pateo's interest-bearing borrowings to be RMB1.3-2.1bn in FY25-27E, vs. RMB1.0-1.6bn in FY23-24, accounting for improving cash flow, possible equity financing post IPO and cash reserves for potential M&As. Accordingly, we project finance costs to be RMB46-54mn in FY25-27E.

With all the details elaborated above, we estimate Pateo's net loss to be RMB1,173mn in FY25E and RMB439mn in FY26E. In other words, adjusted net loss (excluding SBP and listing expenses) would be RMB250mn in FY25E and RMB39mn in FY26E, based on our estimates. In fact, we project Pateo to turn profitable (RMB3mn) at the adjusted operating

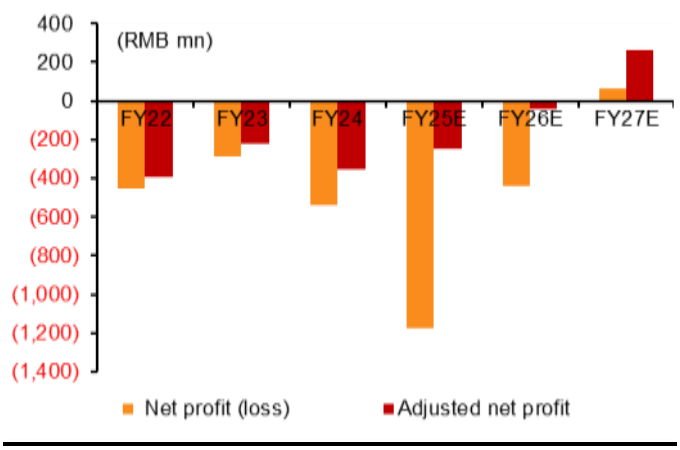
profit level in FY26E. With a gross margin of 15.8% and opex (SG&A and R&D) ratio of 14.8%, we project Pateo's net profit to be RMB62mn in FY27E, or RMB262mn at the adjusted level.

Figure 43: Operating profit (loss) forecast



Source: Company data, CMBIGM estimates

Figure 44: Net profit (loss) forecasts



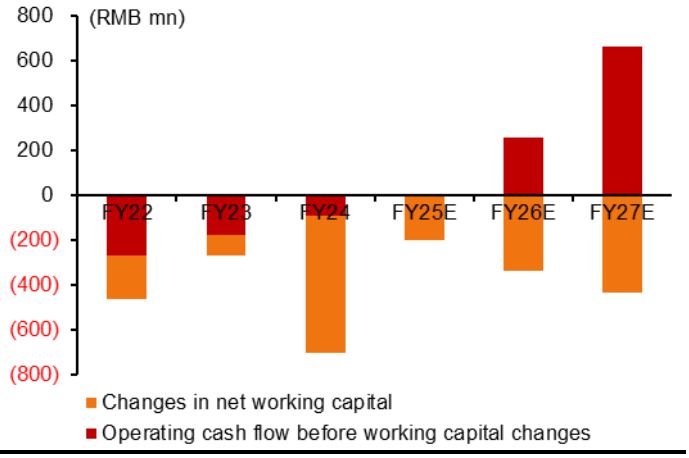
Source: Company data, CMBIGM estimates

Improving cash flow and healthy balance sheet in FY25-27E

We expect Pateo's cash flow from operating activities to improve year by year and turn positive in FY27E (RMB-200mn/-79mn/+225mn in FY25-27E, vs. RMB-706mn in FY24) amid rising adjusted operating profit. We also project improving free cash flow in FY25-27E with stable capex assumption (RMB320-410mn in FY25-27E). Therefore, we expect Pateo's free cash flow to improve year by year during FY25-27E.

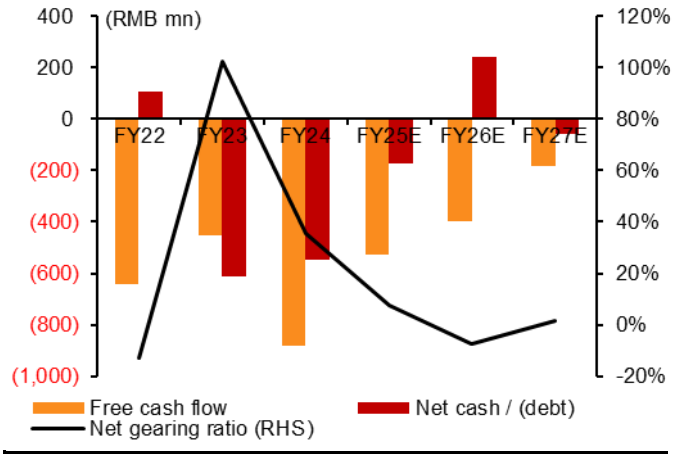
We also project Pateo's net debt to narrow year by year, aided by improving cash flow and possible equity financing post IPO in FY26-27E. In fact, we estimate a net cash of RMB242mn in FY26E, assuming one round of equity financing.

Figure 45: Operating cash flow forecasts



Source: Company data, CMBIGM estimates

Figure 46: Free cash flow and net debt forecasts



Source: Company data, CMBIGM estimates

Valuation and Key Risks

Initiate with BUY rating and a target price of HK$200

We initiate our coverage of Pateo with a BUY rating and target price of HK$200.00, based on sum-of-the-parts (SOTP) valuation to better evaluate its emerging AI related business. We value Pateo's smart cockpit business at RMB14.6bn, or HK$110 per share, based on 2x our FY27E P/S. We value its AI application business at RMB12bn, or HK$90 per share, based on 10x our FY27E P/S.

The average valuation multiple of major Chinese smart cockpit and ADAS tier-1 suppliers is about 1.1x FY27E P/S now, with an average FY24-27E revenue CAGR of 24%, based on consensus from Wind (see Fig. 47). We are of the view that Pateo deserves a valuation premium given its FY24-27E revenue CAGR of 49% on our estimates. The current market leader, Desay SV, is trading at 1.4x FY27E P/S based on consensus earnings with a revenue CAGR of 18% for FY24-27E.

The average valuation multiple of major Chinese AI application players is about 8.5x FY27E P/S on consensus, with an average FY24-27E revenue CAGR of 40%. We also believe Pateo deserves a slight valuation premium given its high revenue growth potential in its early stage.

Figure 47: Peers' valuation

Company	Ticker	Mkt Cap (RMB mn)	P/E (x)		P/S (x)		Revenue CAGR
			FY26E	FY27E	FY26E	FY27E	FY24-27E
Intelligent connected vehicle tier-1 suppliers							
Desay SV	002920 CH	63,978	21.1	17.3	1.7	1.4	18%
Thunder Software	300496 CH	27,960	42.2	34.8	3.1	2.6	26%
Foryou Corporation	002906 CH	14,330	13.4	10.7	0.9	0.8	23%
Joyson Electronic	0699 HK	34,375	17.3	13.5	0.5	0.5	9%
iMotion Automotive	1274 HK	737	N/A	7.7	0.3	0.2	43%
Average			**23.5**	**16.8**	**1.3**	**1.1**	**24%**
AI application players							
SenseTime	0020 HK	68,016	N/A	N/A	10.8	8.5	28%
Unisound AI	9678 HK	17,743	N/A	216.4	9.2	6.4	44%
Cloudwalk	688327 CH	13,657	N/A	N/A	17.0	10.7	48%
Average			**N/A**	**216.4**	**12.3**	**8.5**	**40%**

Source: Company data, Wind, CMBIGM
Note: Data as of 25 Mar 2026 close

Figure 48: SOTP valuation

Pateo (2889 HK)	FY27E Revenue (RMB bn)	Target P/S Multiple	Target Market Cap (RMB bn)	Target Price (HK$)
Smart cockpit solutions	7.3	2x	14.6	110
AI business	1.2	10x	12.0	90
SOTP			**26.6**	**200**

Source: Company data, CMBIGM estimates
Note: RMB/HKD = 1.13

Key risks to our rating and target price

1) More intensifying competition than we expect, which may lead to lower revenue and gross margin than we project;
2) More OEMs develop proprietary technologies for their smart cockpit solutions than we expect;
3) Key client risk as Pateo's top five clients generated 74.4% of its FY24 revenue with the largest client making up 39.1% of its total revenue. The dent on revenue and margins could be more severe than we expect, should key client(s) lower Pateo's share or experience substantial sales volume miss;
4) Key supplier risk as Pateo's largest supplier made up 25.2% of its total purchases in FY24. The margin dent could be more significantly than we expect, should SoC chip prices be much higher than we project and the Company not be able to pass the price hike to its clients. Chip price has fluctuated significantly in the past few years, especially during 2021-22;
5) Revenue from AI application business misses our expectation, as it is still at an early stage;
6) R&D commercialization uncertainty as automotive smart cockpit technology evolves fast. Pateo could lose existing clients or be unable to acquire new clients, should its R&D investments be inefficient or bet on the wrong roadmap;
7) Although Pateo has secured design wins for some overseas vehicle models, its revenue from overseas or broader overseas expansion plan could be affected by tariff and geopolitical risks;
8) A sector de-rating.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	**1,218**	**1,496**	**2,557**	**3,543**	**5,827**	**8,487**
Cost of goods sold	(1,047)	(1,265)	(2,256)	(3,084)	(4,967)	(7,146)
Gross profit	**171**	**231**	**301**	**459**	**860**	**1,341**
Operating expenses	**(596)**	**(595)**	**(848)**	**(1,560)**	**(1,257)**	**(1,244)**
Selling expense	(110)	(117)	(149)	(298)	(266)	(270)
Admin expense	(250)	(260)	(370)	(738)	(567)	(529)
R&D expense	(277)	(235)	(207)	(516)	(443)	(454)
Others	42	17	(121)	(8)	19	9
Operating profit	**(425)**	**(364)**	**(547)**	**(1,101)**	**(397)**	**97**
Other gains/(losses)	(0)	108	51	(10)	10	20
Share of (losses)/profits of associates/JV	0	0	(1)	(10)	(5)	0
EBITDA	**(380)**	**(195)**	**(417)**	**(1,001)**	**(215)**	**361**
Depreciation	21	25	35	55	95	143
Depreciation of ROU assets	25	35	45	65	83	101
EBIT	**(425)**	**(256)**	**(497)**	**(1,121)**	**(393)**	**117**
Net Interest income/(expense)	**(27)**	**(28)**	**(44)**	**(52)**	**(46)**	**(54)**
Pre-tax profit	**(452)**	**(284)**	**(541)**	**(1,173)**	**(439)**	**63**
Income tax	(0)	(0)	(0)	0	0	0
After tax profit	**(452)**	**(284)**	**(541)**	**(1,173)**	**(439)**	**63**
Minority interest	0	(0)	(0)	(1)	(1)	(1)
Net profit	**(452)**	**(284)**	**(541)**	**(1,173)**	**(439)**	**62**
Adjusted net profit	**(390)**	**(219)**	**(353)**	**(250)**	**(39)**	**262**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	**1,999**	**2,116**	**3,581**	**4,216**	**5,501**	**7,268**
Cash & equivalents	588	257	977	1,254	1,460	1,953
Receivables	497	691	1,435	1,571	2,290	3,087
Inventories	467	488	504	718	993	1,331
ST bank deposits	106	136	73	61	54	88
Financial assets at FVTPL	165	457	488	498	518	538
Other current assets	171	84	95	106	175	255
Contract assets	3	3	9	7	12	17
Non-current assets	**288**	**464**	**727**	**993**	**1,216**	**1,451**
PP&E	188	312	433	678	884	1,140
Right-of-use assets	89	146	167	202	224	203
Investment in JVs & assos	0	0	112	102	97	97
Other non-current assets	11	6	14	10	11	10
Total assets	**2,287**	**2,581**	**4,308**	**5,208**	**6,717**	**8,719**
Current liabilities	**1,314**	**1,716**	**2,332**	**2,398**	**2,925**	**4,583**
Short-term borrowings	561	839	1,348	1,165	899	1,698
Payables	674	831	892	1,111	1,858	2,672
Lease liabilities	30	34	57	60	69	70
Contract liabilities	49	12	35	62	99	143
Non-current liabilities	**156**	**266**	**430**	**538**	**635**	**717**
Long-term borrowings	30	169	247	322	372	402
Obligations under finance leases	47	60	60	74	84	86
Deferred income	48	3	84	89	99	114
Other non-current liabilities	31	34	39	53	80	115
Total liabilities	**1,470**	**1,982**	**2,762**	**2,936**	**3,561**	**5,301**
Share capital	118	118	140	150	170	170
Other reserves	699	480	1,405	2,120	2,984	3,246
Total shareholders equity	**817**	**598**	**1,545**	**2,270**	**3,154**	**3,416**
Minority interest	1	1	1	2	2	3
Total equity and liabilities	**2,287**	**2,581**	**4,308**	**5,208**	**6,717**	**8,719**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(452)**	**(284)**	**(541)**	**(1,173)**	**(439)**	**63**
Depreciation & amortization	45	60	80	120	178	244
Tax paid	(0)	(0)	(0)	0	0	0
Change in working capital	(194)	(90)	(615)	(193)	(336)	(435)
Others	137	42	370	1,046	519	353
Net cash from operations	**(464)**	**(271)**	**(706)**	**(200)**	**(79)**	**225**
Investing						
Capital expenditure	(177)	(183)	(176)	(325)	(320)	(410)
Acquisition of subsidiaries/ investments	0	0	(113)	0	0	0
Net proceeds from disposal of short-term investments	(158)	(204)	(85)	0	0	0
Others	(43)	(24)	58	19	10	(29)
Net cash from investing	**(378)**	**(411)**	**(315)**	**(306)**	**(310)**	**(439)**
Financing						
Net borrowings	38	420	501	(108)	(216)	828
Proceeds from share issues	1,345	0	1,331	1,000	910	0
Others	(41)	(69)	(91)	(109)	(99)	(121)
Net cash from financing	**1,342**	**351**	**1,741**	**783**	**595**	**707**
Net change in cash						
Cash at the beginning of the year	88	588	257	977	1,254	1,460
Exchange difference	0	(0)	(0)	0	0	0
Cash at the end of the year	**588**	**257**	**977**	**1,254**	**1,460**	**1,953**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	41.0%	22.8%	70.9%	38.5%	64.5%	45.6%
Gross profit	(7.0%)	35.0%	30.3%	52.4%	87.5%	56.0%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	14.1%	15.4%	11.8%	12.9%	14.8%	15.8%
Operating margin	(34.9%)	(24.4%)	(21.4%)	(31.1%)	(6.8%)	1.1%
EBITDA margin	(31.2%)	(13.1%)	(16.3%)	(28.3%)	(3.7%)	4.3%
Adj. net profit margin	(32.1%)	(14.6%)	(13.8%)	(7.1%)	(0.7%)	3.1%
Return on equity (ROE)	(127.2%)	(40.1%)	(50.5%)	(61.5%)	(16.2%)	1.9%

GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.1	(1.0)	(0.4)	(0.1)	0.1	(0.0)
Current ratio (x)	1.5	1.2	1.5	1.8	1.9	1.6
Receivable turnover days	125.5	151.2	160.6	140.0	127.0	120.0
Inventory turnover days	163.0	140.9	81.5	85.0	73.0	68.0
Payable turnover days	155.9	169.1	97.6	95.0	100.0	100.0

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	243.8
P/B	11.4	17.4	7.5	6.0	5.0	4.4
P/CFPS	ns	ns	ns	ns	ns	67.3
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.
Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.
CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.
This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.
The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.
CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.
Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom
This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States
CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore
This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.