

# Beijing WKW (002662.CH)

## Industry Leader of Interior and Exterior Auto Trim Parts for Mid- and High-end Passenger Vehicles, New business Drives Second Growth

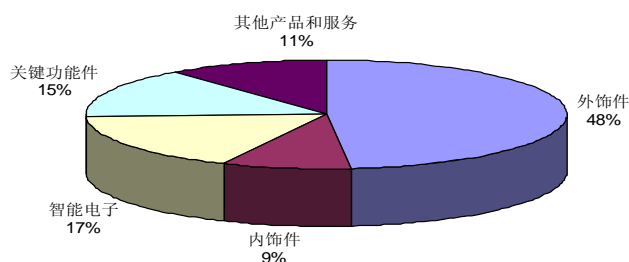
China | Automobile Parts | Company Initiation

8 February 2017

### Company profile

Incorporated in 2002, Beijing WKW Automotive Parts Co., Ltd. (hereinafter referred to Beijing WKW) is a Sino-German integrated manufacturer and integrated service provider of automotive interior and exterior trim parts system for passenger vehicles. Its major shareholders are Central Investment Group and well-known German automotive parts company WKW Erbslöh Automotive GmbH. The de facto controllers of the former is the couple Li Jingyu and Zhang Zhijin, while that of the latter is the German Mayer family, with each holding 30% and 25.2% stakes in the company, respectively. The company launched an IPO on Small and Medium Enterprise Board of Shenzhen Stock Exchange in February 2012 with the net fund-raising reaching RMB1.4 billion. Currently, the company's main business is expanded to four major departments: interior and exterior parts, automotive electronics, intelligent equipment and new energy vehicles.

### Revenue breakdown by segments



Source: Company, Phillip Securities Hong Kong Research

### High Growth of Interior and Exterior Parts and Huge profits

In respect of the interior and exterior trim parts, on the basis of introducing cutting-edge technology from Germany, the company gradually improved and perfected its technology through digestion, absorption and re-innovation. Besides, it had the capacity of synchronous development, overall supporting scheme design and modular supply. As a result, the company has established its leading position in the interior and exterior parts for mid- and high-end passenger vehicles in the industry, and especially is competitive in the aluminum alloy exterior parts for luxury cars. Its major customers encompass FAW-Volkswagen, BMW Brilliance, Shanghai Volkswagen, Beijing Benz, Shanghai GM, FAW Toyota, Chang'an Ford and other prominent vehicle manufacturers. It maintains a stable and quality customer relationship and builds up a wealth of supporting experience. Also, more than 70% of its operating revenues are derived from the top five customers.

### Main clients of Company



Source: Company, Phillip Securities Hong Kong Research

### Buy (Initiation)

CMP: CNY 16.09

(Closing price as at 6 Feb 2017)

TARGET: CNY 19.30 (+20%)

### COMPANY DATA

O/S SHARES (MN) :	750
MARKET CAP (CNY MN) :	11918
52 - WK HI/LO (CNY):	17.88/ 11.2

### SHARE HOLDING PATTERN, %

Central Investment Group	30
WKW Erbslöh Automotive GmbH	25.2

### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

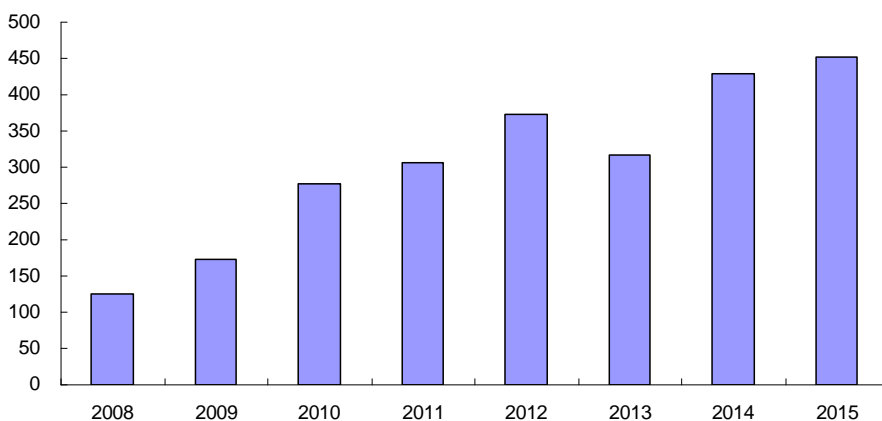
CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	2447	3616	4597	5496
Net Profit	429	454	622	821
EPS, CNY	0.70	0.60	0.83	1.09
P/E, x	23.0	26.8	19.4	14.7
BVPS, CNY	6.89	5.82	6.63	7.79
P/BV, x	2.3	2.8	2.4	2.1
DPS (CNY)	0.30	0.30	0.33	0.45
Div. Yield (%)	1.9%	1.9%	2.1%	2.8%

Source: Company reports, Phillip Securities Est.

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Benefit from the previous rapid increase in China's auto industry, especially in the industry of mid- and high-end passenger vehicles, the company's business of interior and exterior parts witnessed a rapid growth. Besides, the compound growth rates of its total revenues and net profits registered 30.4% and 20.3%, respectively, from 2008 to 2015. The company maintained a positive growth in results in these years except in 2013, when its net profits declined due to completion of door frame business and surge in labor costs in Beijing Central Parts Company. The company's profitability is strong, since its gross profit margin was higher than 30% and its net profit margin was greater than 10%, maintaining a leading position in the industry and twice the industry average level. Amid the sustained trend of China's auto consumption upgrade, the sales of mid- and high-end and luxury cars will maintain a stable and rapid growth, so we expect that the company's business of interior and exterior parts will maintain a 10% healthy growth in the future.

### Net profit trend (mil)



Source: Company, Phillip Securities Hong Kong Research

### Expand Businesses of Automotive Electronics and New Energy Vehicles via Mergers and Acquisitions, Open up Room for Growth

As the upstream of the automotive industry, the automotive parts industry faced increasingly heavy competitive pressure along with the growth ratio slowdown in the domestic vehicle sales over the past 2—3 years. Integrating all resources, expanding industrial chain and enhancing business scale and value-added products have become the main trend of auto parts enterprises which includes Beijing WKW. After listed in 2012, the company acquired several auto parts companies by means of expanding its production capacity, thereby diversifying product types, optimizing product mix and improving business synergy with OEMs.

It is worth mentioning that the company is also accelerating the strategic layout of emerging business. In 2014, the company acquired a 100% stake in the domestic automotive electronics company Ningbo Fuerda through the "issuance of shares + cash" a total cost of RMB1.13 billion. Gong Fugen and his son with Fuerda now held 15.5% of equities in Beijing WKW. Fuerda's intelligent electronic integrated control industry is a rising industry and enjoys a rapid growth. Therefore, we estimate that a more comprehensive substitution will be achieved in the future amid the current trend of increased penetration rate of automotive electronics.

In November 2015, the company invested RMB200 million to subscribe for 20% equities in Changchun New Energy Vehicles. In December 2015, it subscribed for 48% equities in Shenzhen Wuzhoulong Motors Co., Ltd., a new energy commercial vehicle manufacturer, at a price of RMB550 million. Additionally, the company's major shareholder Central Investment subscribed for 75% equities in Germany's EFA-S

Elektrofahrzeuge Schwaben GmbH. In the coming days, the company's business of new energy vehicles will form synergies and complementary advantages in Changchun, Shenzhen and Germany.

## Valuation

We believe that although the new energy vehicle business will produce a short-term adverse effect on the company's results, the company's long-term development space will be incredibly broad thanks to the gradual implementation of the strategy of transformation and upgrading. As analyzed above, we expected diluted EPS of the Company to RMB 0.83 and 1.09 of 2016/2017. And we accordingly gave the target price to 19.3, respectively 23/18x P/E for 2016/2017. "Buy" rating. (Closing price as at 6 Feb 2017)

### Peer Comparison

Ticker	Name	总市值 Market Cap	总收入 Revenue	市盈率P/E		市净率P/B ROE	
				2016E	2017E		
600480 CH	凌云股份	7846	7202	37	30	2.3	5.20%
425 HK	敏实集团	24623	24623	15	12	2.5	14.50%
002662 CH	京威股份	11835	3595	18	14	2.7	10.70%

Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY12	FY13	FY14	FY15	FY16F	FY17F
<b>Valuation Ratios</b>						
P/E (X), adj.	25.1	30.4	23.0	26.8	19.4	14.7
P/B (X)	3.8	3.5	2.3	2.8	2.4	2.1
Dividend Yield (%)	1.6%	1.6%	1.9%	1.9%	2.1%	2.8%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.64	0.53	0.70	0.60	0.83	1.09
EPS, (Diluted)	0.64	0.53	0.70	0.60	0.83	1.09
DPS	0.25	0.26	0.30	0.30	0.33	0.45
BVPS	4.28	4.56	6.89	5.82	6.63	7.79
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	58.1%	8.4%	36.0%	47.8%	27.1%	19.6%
EBIT	14.0%	-16.2%	28.4%	9.6%	65.7%	35.3%
Net Income, adj.	11.3%	-14.1%	34.9%	5.8%	37.1%	31.9%
<b>Margins</b>						
Gross margin	39.9%	33.9%	35.4%	30.6%	32.3%	33.1%
EBIT margin	30.4%	23.5%	22.2%	16.5%	21.4%	24.3%
Net Profit Margin	22.3%	17.7%	17.5%	12.6%	13.5%	14.9%
<b>Key Ratios</b>						
ROE	16.1%	12.0%	12.2%	9.4%	13.3%	15.2%
<b>Income Statement (RMB mn)</b>						
Revenue	1660	1799	2447	3616	4597	5496
Gross profit	662	609	866	1105	1485	1818
EBIT	505	423	543	595	986	1334
Profit before tax	533	461	564	591	802	1065
Tax	129	125	137	127	168	226
Profit for the period	404	336	427	464	633	839
Minority interests	34	18	-2	10	11	18
Total capital share	600	600	600	750	750	750
<b>Net profit</b>	<b>370</b>	<b>318</b>	<b>429</b>	<b>454</b>	<b>622</b>	<b>821</b>

Source: PSR

(Financial figures as at 6 February 2017)



**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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