

Navinfo (002405.CH)

Expected to return to a rapid growth track

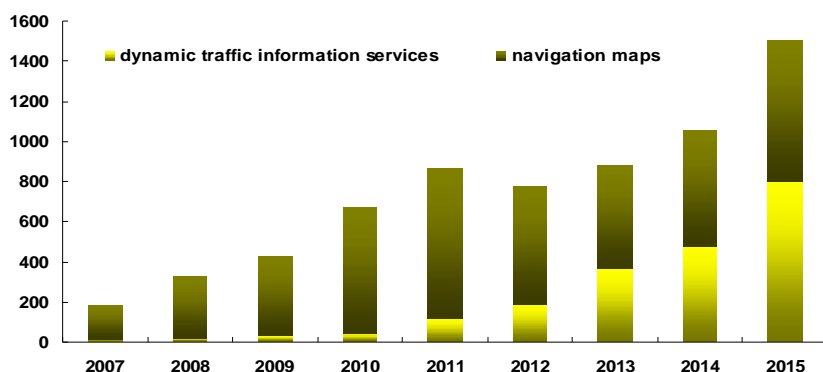
China | Automobile Parts | Company Initiation

31 March 2017

Company profile: Leading electronic map supplier in China

Established in 2002, Beijing NavInfo Co., Ltd. (hereinafter referred to NavInfo or "the company") is a leading supplier providing navigation maps and dynamic traffic information services in China. Founded by National Administration of Surveying, Mapping and Geoinformation, it is the only national company specialized in surveying and mapping affiliated to China Aerospace Science and Technology Corporation. It was listed on Shenzhen Stock Exchange in 2010. At present, the main business of NavInfo includes two categories: sale of electronic navigation maps and system technical services. NavInfo has maintained a good strategic cooperative relationship with important internet customers and clients. In the pre-installed navigation market, NavInfo's customers include a large number of international mainstream car manufacturers, such as BMW, Mercedes Benz, GM, Tesla. In China, all of the navigation maps of Tesla are provided by NavInfo. In the field of internet enterprises, Tencent, Baidu, Sogou are the important partners of NavInfo.

Revenue breakdown by segments



Significant leading role in China's pre-installed vehicle navigation

NavInfo is the China's largest, the world's third largest electronic navigation map manufacturer, and leads the market in the field of pre-installed vehicle navigation maps. For eight consecutive years, the company has accounted for over 60% of the share in the vehicle navigation map market and has taken up over 50% of the share in the mobile navigation map market for four consecutive years. The company has built a nationwide navigation electronic map database and the country's largest production and update network system of navigation electronic maps. Nowadays, there are 35 field bases established in China, including 600 field collectors and 100 field operating vehicles. We have the ability of updating the data services four times annually in major cities and two times in secondary major cities.

Main clients of Company



Source: Company, Phillip Securities Hong Kong Research

Buy (Initiation)

CMP: CNY 19.79

(Closing price as at 29 March 2017)

TARGET: CNY 24.75 (+25%)

COMPANY DATA

O/S SHARES (MN) :	1283
MARKET CAP (CNY MN) :	25388
52 - WK HI/LO (CNY):	36.23/ 16.97

SHARE HOLDING PATTERN, %

China Siwei	10.15
Tencent	9.94

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	1059	1506	1583	2933
Net Profit	117	130	156	343
EPS, CNY	0.11	0.13	0.15	0.33
P/E, x	175.2	158.2	131.7	60.0
BVPS, CNY	2.37	2.45	3.42	4.26
P/BV, x	8.3	8.1	5.8	4.6
DPS (CNY)	0.03	0.04	0.04	0.07
Div. Yield (%)	0.2%	0.2%	0.2%	0.4%

Source: Company reports, Phillip Securities Est.

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Threshold of qualification builds the moat

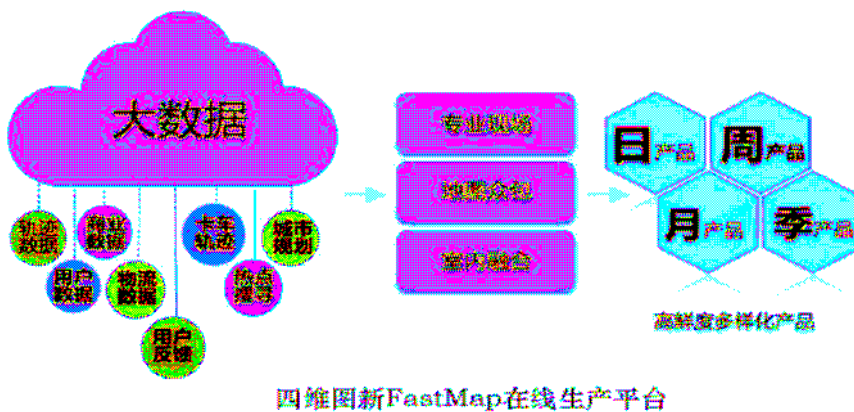
NavInfo is the first company qualified for the production of navigation maps (since 2001). Presently, there are only 13 qualified suppliers in China. Because map data involves national secrets, we expect that the high threshold will continue to build a deep moat for the company.

Promote a new round of industrial chain layout. Conform to the trend of emerging industry development

In the consolidation of the existing electronic map business, the company makes vertical integration to the vehicular networking, automatic driving and other future fields, exploring business model innovation and new profit growth points actively based on our own technologies and resource advantages. In recent years, relying on the capital market, the company has increased the research and development in innovative business types and carried out a series of asset acquisitions in industry chain. In 2011, the company acquired Mapscape of Netherlands, the company obtained NDS compiler technology. Acquiring China Trans Geomatics Co., LTD., the company expanded to traffic mapping and vehicle networking. In 2013, the company cooperated with Sinomach Automobile, and become the controlling shareholder of Zhonghuan Satellite, expanding to the field of commercial vehicle networking. In 2014, holding hands with Tencent, the company put forward the whole vehicle solutions WeDrive, and launched a series of products, building a vehicle networking application ecosystem. In 2015, the company perfected the vehicle networking business group with the acquisitions of Mapbar and SmartAuto. And the cooperation with Didi Taxi brought us high quality floating car database. In 2016, we cooperated with Yanfeng Visteon, NextEV, WM Motor and JD Finance in the fields of vehicle networking, autonomous vehicles, automotive financial services, etc. The company acquired, in 2016, 100% equity of AutoChips Inc., an auto-chip manufacturer, of MediaTek, with RMB3.9 billion, becoming a player in a key aspect of vehicular networking.

FastMap platform of Company

大数据挖掘分析，在线采集编辑平台，提高地图更新效率，助力地图更新新模式



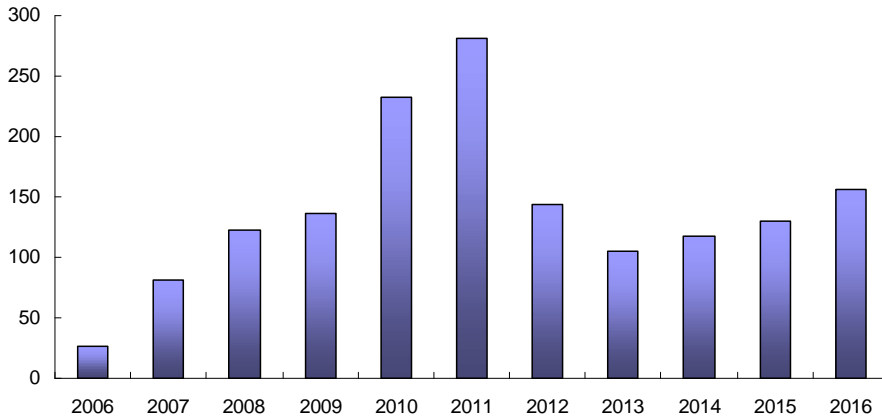
Source: Company, Phillip Securities Hong Kong Research

Performance is expected to recover steadily

Since the company was listed in 2010, its performance saw a fall after initial improvement, and then once again witnessed a trend of steady recovery. The main reason for the low profit in 2013 was the unexpected fall in sales in Nokia mobile phones, the company's largest user in the field of mobile phone electronic map. As a result, the net profit in 2013 only recorded RMB105 million, down 27% yoy. However, with the continued efforts to expand its car electronic map, car networking and compilation service business, the company's profit rose again after bottoming out and the compound annual growth rate from 2014 to 2016 was approx. 18%. Taking up over 60% market share in the automotive IVI chip market, the leading acquired

AutoChips promised to achieve a net profit of RMB187 million, RMB228 million and RMB303 million in 2016, 2017 and 2018 respectively. We expect a bright future for NavInfo after new business integration and its performance is expected to return to a rapid growth track.

Net profit trend (mil)



Source: Company, Phillip Securities Hong Kong Research

Increasingly flexible and efficient corporate governance structure

In order to meet the challenges brought by the ever-changing scientific and technological innovation competition and build a more flexible and efficient corporate governance mechanism, NavInfo in recent years have made several reforms in its state-owned enterprise structure, including promoting mixed ownership, equity incentives, employee holdings and so on. In 2014, the company introduced the Tencent industry fund as a strategic investor with 9.74% stake of the company, turning the company from a state-owned and state-controlled company to a state-owned holding company without actual controller. In 2015, the company implemented its equity incentive plan, with 2.57% of the total equity for 482 management and core technology staff. At the beginning of 2017, the company subscribed 40,000 shares for executives and core staff in its plan for fixed asset acquisition. The company’s general manager has 14.8% of the voting rights of the company, more than the largest shareholder, which helps to establish a more flexible and efficient decision-making management system and core talent incentive mechanism.

Valuation

As analyzed above, we expected diluted EPS of the Company to RMB 0.15 and 0.33 of 2016/2017. And we accordingly gave the target price to 24.75, respectively 75x P/E for 2017. "Buy" rating. (Closing price as at 29 March 2017)

Financials

FYE DEC	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios					
P/E (X), adj.	196.1	175.2	158.2	131.7	60.0
P/B (X)	8.5	8.3	8.1	5.8	4.6
Dividend Yield (%)	0.2%	0.2%	0.2%	0.2%	0.4%
Per share data (RMB)					
EPS, (Basic)	0.10	0.11	0.13	0.15	0.33
EPS, (Diluted)	0.10	0.11	0.13	0.15	0.33
DPS	0.03	0.03	0.04	0.04	0.07
BVPS	2.32	2.37	2.45	3.42	4.26
Growth & Margins (%)					
Growth					
Revenue	14.0%	20.2%	42.2%	5.1%	85.3%
EBIT	-85.7%	127.3%	320.0%	-10.6%	229.5%
Net Income, adj.	-27.8%	11.9%	10.7%	20.1%	119.6%
Margins					
Gross margin	79.0%	81.4%	76.4%	75.2%	76.9%
EBIT margin	1.2%	2.4%	7.0%	5.9%	10.5%
Net Profit Margin	11.9%	11.1%	8.6%	9.9%	11.7%
Key Ratios					
ROE	4.8%	4.8%	5.2%	5.1%	8.6%
Income Statement (RMB mn)					
Revenue	881	1059	1506	1583	2933
Gross profit	696	862	1150	1190	2255
EBIT	11	25	105	94	309
Profit before tax	121	173	199	163	393
Tax	-7	44	53	42	61
Profit for the period	128	129	146	121	332
Minority interests	23	12	16	-35	-11
Total capital share	692	692	711	1067	1283
Net profit	105	117	130	156	343

Source: PSR

(Financial figures as at 29 March 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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