

Weifu (000581.CH)

The high-growth momentum of result will continue in H2

China | Automobile Parts | Company Update

19 October 2017

- High-speed boom of heavy truck market drives the high growth of the result in H1
- The gross margin increased by 1.2 ppts
- Steady financial structure, sufficient cash guarantee
- The high-growth momentum of result will continue in H2

Buy (Maintain)

CMP: CNY 25.21

(Closing price as at 17 Oct 2017)

TARGET: CNY 30.58 (+21%)

Investment Thesis

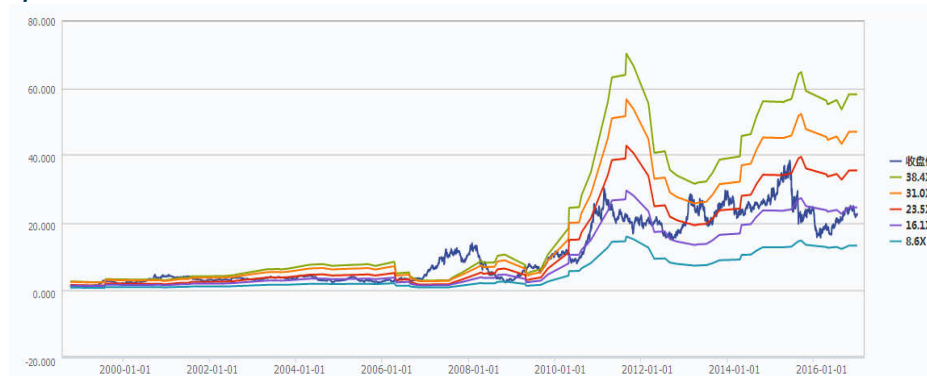
Valuation

As analyzed above, we expected diluted EPS of the Company to RMB 2.3 and 2.55 for 2017/2018. And we accordingly gave the target price to 30.58, respectively 13.3/12x P/E for 2017/2018. "Buy" rating. (Closing price as at 17 Oct 2017)

COMPANY DATA

O/S SHARES (MN) :	1009
MARKET CAP (CNY MN) :	25436
52 - WK LO / HI (CNY):	21.05/ 27.4

P/E Band



Source: Wind, Phillip Securities Hong Kong Research

SHARE HOLDING PATTERN, %

Wuxi Industry Development Group Co.,Ltd.	20.22
Bosch	14.16

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

High-speed boom of heavy truck market drives the high growth of the result in H1

Weifu High-Technology recorded a total revenue of RMB4,728 million in H1 2017, dramatically up by 40.45% yoy; the net profit attributable to the parent company was RMB1,326 million, up by 40.52% yoy; the net profit attributable to the parent company after deduction of non-recurring profit or loss was RMB1,208 million, up by 45.64% yoy; the net profit in H1 was equivalent to 80% of that of last year. Earnings per share were RMB1.31. The figure was RMB0.94 in the same period of last year.

The Company's products like automobile fuel injection, post-processing system and engine air intake system are mainly used in and are highly related to the heavy truck market. Benefiting from the recovery of domestic infrastructure construction market and the strict implementation of the treatment policies against overloaded and out-of-limit heavy trucks, the sales volume of domestic heavy trucks has been on the increase since the middle of last year; its average monthly sales volume exceeds 50%; in H1 2017, a total of 583.7 thousand heavy trucks were sold out at home, up by 71.85% yoy.

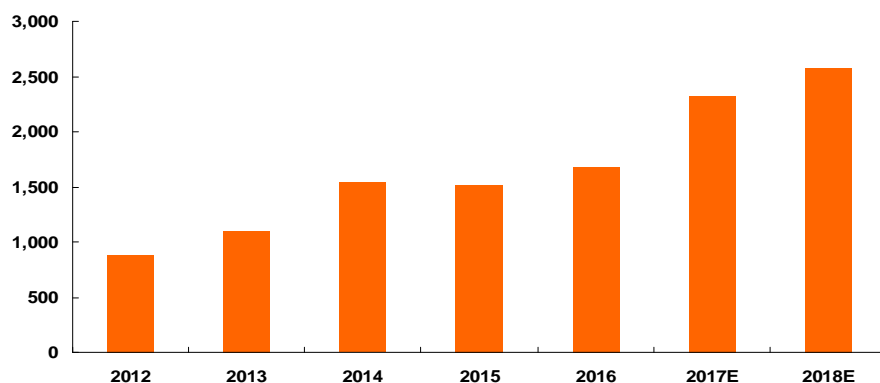
KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	5742	6423	8826	9975
Net Profit	1515	1673	2323	2577
EPS, CNY	1.50	1.66	2.30	2.55
P/E, x	16.8	15.2	10.9	9.9
BVPS, CNY	11.68	12.81	14.56	16.13
P/BV, x	2.2	2.0	1.7	1.6
DPS (CNY)	0.50	0.60	0.80	0.90
Div. Yield (%)	2.0%	2.4%	3.2%	3.6%

Source: Company reports, Phillip Securities Est.

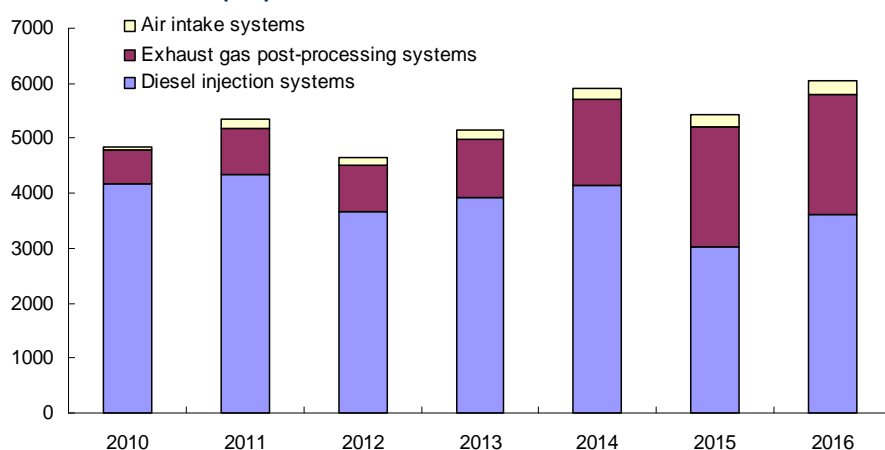
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Net profit (mil)



Source: Company, Phillip Securities Hong Kong Research

Revenue breakdown (mil)



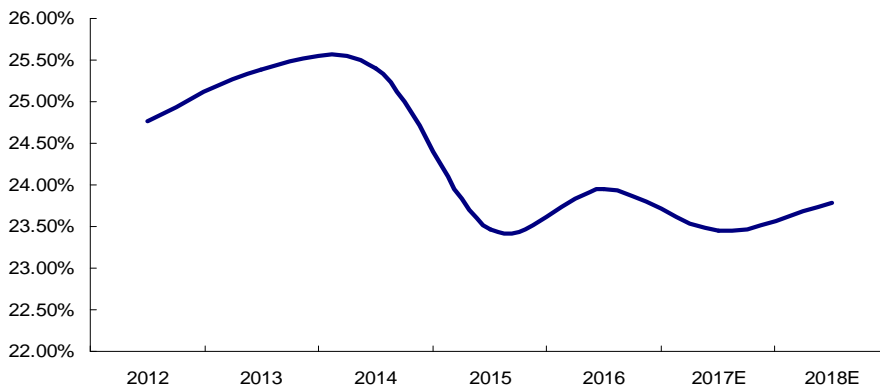
Source: Company, Phillip Securities Hong Kong Research

The gross margin increased by 1.2 pts, and the expense was under proper control

By category, the Company's core product, automobile fuel injection system, recorded a revenue of RMB2,913 million, up by 54% yoy; its automobile post-treatment business recorded a revenue of RMB1,384 million, up by 19.42% yoy; its engine air intake system recorded a revenue of RMB0.18 billion, up by about 38.5% yoy.

The gross margin of the Company was increased by 1.2 pts to 26.1%. Wherein, the gross margins of automobile fuel injection system and engine air intake system increased by 1.2 and 2.5 pts, respectively, and that of automobile post-treatment business decreased by 6.2 pts due to the price rise of bulky materials, e.g., steel. Meanwhile, the Company's expense was under proper control, and the three expense ratios decreased by 2 pts yoy.

Gross profit margin trend



Source: Wind, Phillip Securities Hong Kong Research

The major affiliated companies Bosch Automotive Diesel Systems Co., Ltd. and United Automotive Electronic Systems Co., Ltd. recorded an income from investment of RMB834 million in H1, up by 40% yoy accounting for 57% of the Company’s pre-tax profit.

Steady financial structure, sufficient cash guarantee

The Company’s financial state kept steady continually, the asset liability ratio was only about 25%, the quick ratio was 2.6, and the cash flow was continually enhanced. At the end of H1, the on-hand cash + net bills receivable reached RMB3.1 billion, an increase of RMB 0.83 billion yoy, guaranteeing the extended development of the Company and the dividends paid to shareholders. We hope that the industrial buyout fund established by the Company in the middle of last year can yield positive results early.

The high-growth momentum of result will continue in H2

On July 1, 2017, the National V Emission Standard was formally implemented for domestic heavy trucks around the country. On January 1, 2018, it will be implemented for light trucks as well. In addition, the National VI Emission Standard formally entered its preparation stage (predicted to be implemented in 2020); the post-treatment system of commercial vehicle will enter a period of favorable policies. It is expected that both the quality and price of products of the Company will increase.

Financials

FYE DEC	FY13	FY14	FY15	FY16	FY17F	FY18F
Valuation Ratios						
P/E (X), adj.	23.2	16.7	16.8	15.2	10.9	9.9
P/B (X)	2.7	2.4	2.2	2.0	1.7	1.6
Dividend Yield (%)	1.2%	1.6%	2.0%	2.4%	3.2%	3.6%
Per share data (RMB)						
EPS, (Basic)	1.09	1.51	1.50	1.66	2.30	2.55
EPS, (Diluted)	1.09	1.51	1.50	1.66	2.30	2.55
DPS	0.30	0.40	0.50	0.60	0.80	0.90
BVPS	9.41	10.65	11.68	12.81	14.56	16.13
Growth & Margins (%)						
Growth						
Revenue	-5.2%	13.7%	-9.6%	11.9%	37.4%	13.0%
EBIT	-9.5%	39.4%	-6.7%	10.5%	42.0%	11.1%
Net Income, adj.	-8.1%	38.9%	-1.6%	10.4%	38.9%	10.9%
Margins						
Gross margin	25.4%	25.4%	23.5%	24.0%	23.5%	23.8%
EBIT margin	22.0%	27.0%	27.9%	27.6%	28.5%	28.0%
Net Profit Margin	19.8%	24.2%	26.4%	26.0%	26.3%	25.8%
Key Ratios						
ROE	9.8%	15.0%	13.5%	13.54%	16.82%	16.64%
Income Statement (RMB mn)						
Revenue	5589	6354	5742	6423	8826	9975
Gross profit	1419	1614	1347	1538	2070	2372
EBIT	1232	1717	1602	1770	2513	2792
Profit before tax	1257	1712	1663	1819	2529	2809
Tax	103	123	111	93	134	149
Profit for the period	1154	1589	1552	1727	2395	2660
Minority interests	46	50	37	54	72	83
Total capital share	1020	1020	1009	1009	1009	1009
Net profit	1108	1539	1515	1673	2323	2577

Source: PSR

(Financial figures as at 17 October 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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