

FDG (729.HK)

Reverse Roadshow Takeaways

China | Automobile | Company Updates

29 May 2018

Company Profile

FDG Electric Vehicles Limited is an integrated electric vehicle manufacturer and is mainly engaged in (i) independent R&D, design and production of electric vehicles; (ii) R&D, production and sales of lithium-ion batteries and related products; (iii) R&D, manufacturing and sales of cathode materials for the production of lithium-ion batteries; and (iv) electric vehicle rental and direct investment.

Historical Milestone

The Company was formerly known as Sinopoly Battery Limited, which was established in 2010. Its battery production bases in Jilin and Tianjin were put into operation in 2011 and 2012, respectively. Their current production capacities are 0.38GWH and 0.42GWH, respectively. Now the second phase of Tianjin factory and the Jianyang factory in Sichuan with a design capacity of 1.5GWH and 4GWH, respectively are under construction.

In 2014, the Company merged Changjiang Automobile, a veteran bus manufacturer, into the electric vehicle production field. At present, the Company has two established production bases: Hangzhou, Zhejiang Province (designed capacity of 100,000 units, put into operation in 2016), Guian, Guizhou Province (designed capacity of 205,000 units, final assembly line put into operation at the end of 2017) and two factories under construction: Jianyang, Sichuan Province (designed capacity of 400,000 units in 2020) and Foshan, Guangdong Province (designed capacity of 60,000 units in 2020). In addition, the Company established a joint venture, Chanje, in the United States in 2015, and its electric commercial cars was certificated to sell in the U.S. in 2017..

In 2015, the Company entered the field of cathode materials in the battery upstream by acquiring SK's subsidiary company in South Korea. In 2016, it invested about 22% of the equity in Aleees, a manufacturer of cathode materials in Taiwan. The Company has holdings and participations in Chongqing and Taiwan's Taoyuan cathode material plants which have the annual capacity of 4,800 tons and 3,000 tons in ternary nickel-cobalt-manganese and lithium iron phosphate, respectively. The Guian plant under construction in Guizhou Province has an annual designed capacity of 30,000 tons of lithium iron phosphate and ternary materials.

Reverse Roadshow Highlights

In the middle of last month, we participated in a reverse roadshow organized by FDG Electric Vehicles Limited (729.HK) and visited the Company's Changjiang Auto Factory in Hangzhou, Zhejiang Province. The Hangzhou production base was put into operation in 2016 with a total investment of RMB5.1 billion and covers an area of 1,200 acres. The first phase of the project covers an area of 700 acres and has a total investment of RMB2.5 billion. It is equipped with five major international advanced production facilities including stamping, welding, painting, assembly and electric control. The designed capacity is 100,000 units in two shifts, of which 20,000 medium/large electric buses/logistics vehicles, and 80,000 units reserved for electric passenger cars. We mainly visited the stamping, welding, assembly workshops, and took the Company's medium-sized commercial vehicle for acceleration, climbing at a standstill, wading and other test drive activities.

No Rating

CMP: HKD 0.165
(Closing price as at 25 May 2018)
Target price: N/A

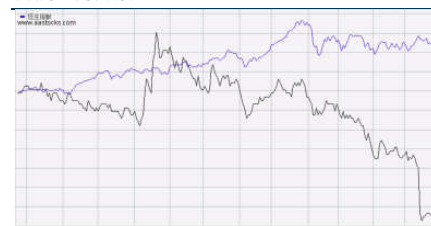
COMPANY DATA

O/S SHARES (MN) :	22413
MARKET CAP (HKD MN) :	3698
52 - WK HI/LO (HKD):	0.435/0.142

SHARE HOLDING PATTERN, %

Mr Cao Zhong	11.86
CITIC International Assets Management Ltd	10.63
Mr Miao Zhenguo	8.47

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY14	FY15	FY16	FY17
Net Sales	82	304	363	1,513
Net Profit	-906	-410	-228	-555
EPS	-0.07	-0.02	-0.01	-0.03
P/E, x	(2.4)	(8.3)	(16.5)	(5.5)
BVPS,	0.10	0.12	0.15	0.13
P/BV, x	1.6	1.4	1.1	1.3
DPS	0.00	0.00	0.00	0.00
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Phillip Securities Est.

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The Company's stamping and welding workshops have a high degree of automation. They are equipped with several German KUKA seven-axis robots with full laser welding technology, which can effectively increase the strength and safety performance of the car body. The core components of the Company mainly include wheel-side motor drive axles, power batteries, BMS systems and electronic control systems. The batteries are placed on the wheel-side motor drive axles to prevent battery damage caused by collision rollover. The Company's minibus has good acceleration, climbing and wading performance, strong sense of pushing back, and can easily climb the slope of 30° and pass the 60-cm deep water district.

The Company's main products are electric commercial vehicles. The capacity of the bus is 86 passengers and it takes 6-8 hours for normal charging. It can be filled with 80% of power with 1-3 hours of rapid charging, and has 200-300 kilometers of driving mileage. The capacity of the minibus is 10-27 passengers and has 200-240 kilometers of driving mileage. It can be filled with 80% of power with 1 hours of rapid charging.

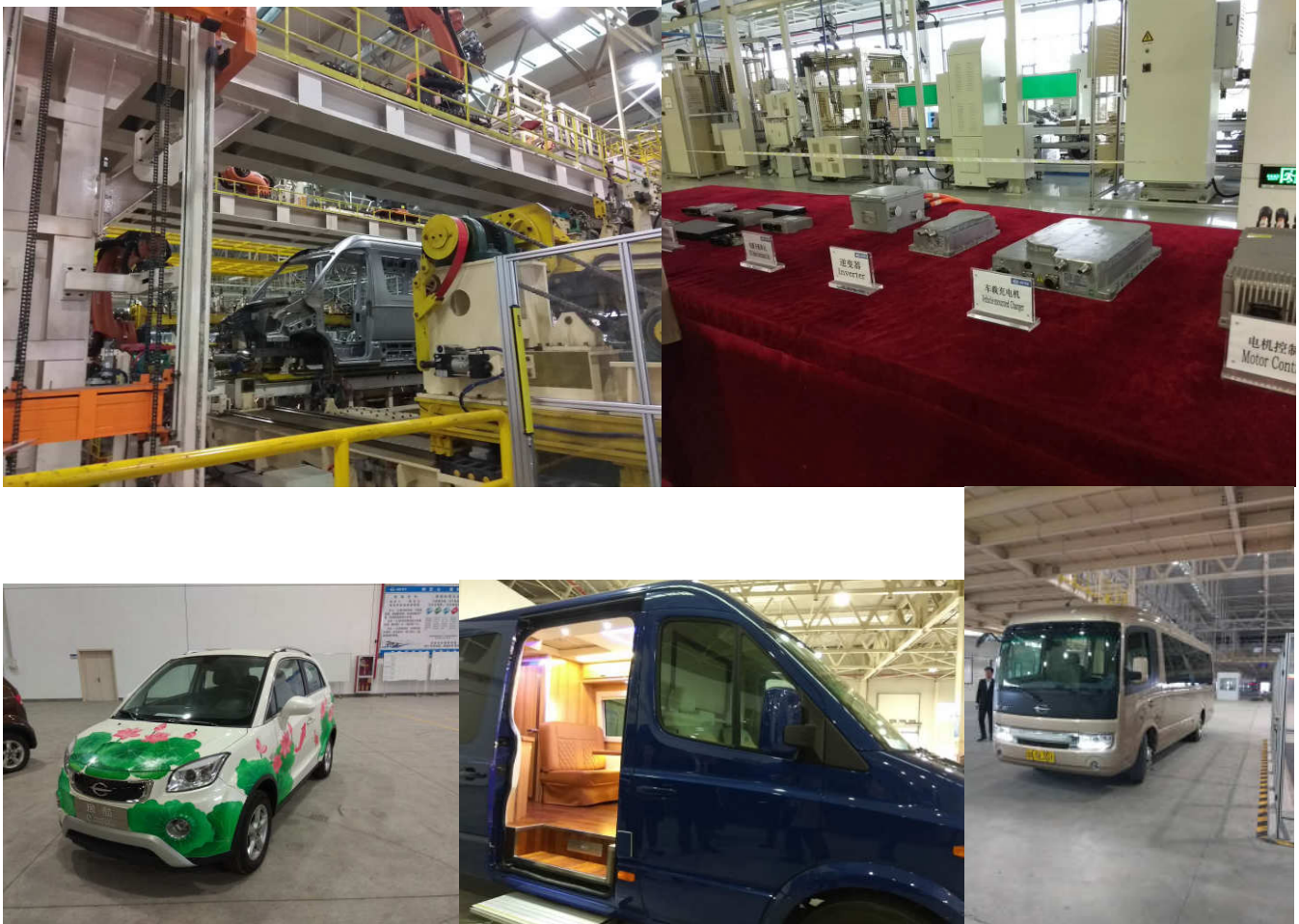
Finance Overview

Since the Company was still in the investment for R&D and product introduction period in the past few years and some other reasons, it recorded losses in its historical results and recorded only marginal profits in the first half of 2015. The Company's recent announcement stated that it is expected that it will still record a loss of more than RMB1.13 billion in the fiscal year of 2017/2018, an increase of 130% over the same period of previous year, mainly due to changes in domestic subsidies for new energy vehicles, investment in new production lines, investment in overseas markets, the loss of goodwill arising from the sale of assets and fixed asset impairment losses. The current revenue share of each segment is 23% for electric vehicles, 15% for batteries, 59% for cathode materials, and 3% for other products, respectively. Since the operating rate has not yet reached expectations, the overall of 2017H gross margin is only 10.4%.

The management of the Company expects EBITDA balance to be achieved when commercial vehicle sales reach 12,000 units. In 2018, the Company's sales target is around 10,000 units. Considering that the Company has orders of around 10,000 units currently, we believe that if such orders can be delivered smoothly, it is more likely that it will achieve initial profit and loss balance in the next fiscal year.

Photos taken in FDG's Hangzhou Plant





Source: Phillip Securities Hong Kong Research

Financials

FYE DEC	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17
Valuation Ratios						
P/E (X), adj.	(4.1)	(5.5)	(2.4)	(8.3)	(16.5)	(5.5)
P/B (X)	3.4	5.9	1.6	1.4	1.1	1.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Per share data (HKD)						
EPS, reported	(0.04)	(0.03)	(0.07)	(0.02)	(0.01)	(0.03)
EPS, adj.	(0.04)	(0.03)	(0.07)	(0.02)	(0.01)	(0.03)
DPS	0.00	0.00	0.00	0.00	0.00	0.00
BVPS	0.05	0.03	0.10	0.12	0.15	0.13
Growth & Margins (%)						
Growth						
Revenue	-23.1%	-7.0%	54.0%	270.8%	19.7%	316.4%
EBIT	NA	-32.5%	157.4%	-51.1%	28.1%	-26.9%
Net Income, adj.	NA	-26.7%	179.4%	-54.8%	-44.3%	143.2%
Margins						
Gross margin	4.4%	12.3%	5.9%	23.2%	39.7%	32.5%
EBIT margin	NA	-674.1%	-1127.0%	-148.6%	-159.0%	-27.9%
Net Profit Margin	NA	-610.1%	-1107.1%	-135.0%	-62.8%	-36.7%
Key Ratios						
ROE (%)	-86.2%	-74.6%	-87.41%	-21.54%	-8.40%	-17.58%
ROA (%)	-24.3%	-19.1%	-32.93%	-8.28%	-3.10%	-5.68%
Income Statement (HKD mn)						
Revenue	57	53	82	304	363	1,513
Gross profit	55	47	77	233	219	1,021
Operating profit	(119)	(137)	(135)	(457)	(569)	(302)
EBIT	(531)	(358)	(923)	(451)	(578)	(423)
Profit before tax	(546)	(376)	(937)	(567)	(889)	(742)
Tax	(103)	(52)	(25)	(58)	(1)	(17)
Profit for the period	(442)	(324)	(912)	(509)	(888)	(725)
Minority interests	0	0	(5)	(99)	(660)	(170)
Total capital share	10,992	12,255	16,977	17,866	21,964	22,398
Net profit	(442)	(324)	(906)	(410)	(228)	(555)

Source: PSR

(Financial figures as at 25 May 2018)

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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