

JOYSON (600699.CH)

Expecting to Usher in a Tuning 2018 Year

China | Automobile Parts | Company Updates

20 July 2018

Investment Summary

Via external acquisition and integration, Joyson has rapidly grown into a top global supplier of automotive components and parts. Its current products include: The development and manufacturing of 1) intelligent driving systems, 2) car safety systems, 3) new energy vehicle BMS, and 4) high-end automotive functional parts assembly, bringing more room for long-term sustainable development. What's more, the company's result is warming up from 2018Q2. We revised the target price of RMB 29.7 equivalent to 29/25x of 2018/2019's estimated EPS, and assign Accumulate ratings. (Closing price as at 18 July 2018)

Decline Result in 2017 and 2018Q1

In 2017, Joyson reported revenues of RMB26.6 billion, up 43% yoy; net profits attributable to parent company were RMB396 million, down 13% yoy; net losses of RMB490 million were recorded in 2017Q4. The annual EPS was RMB0.42, down 36% yoy, with a dividend paid of RMB0.1 per share. In 2018Q1, the revenue was RMB7 billion, up 7% yoy; net profits attributable to parent company stood at RMB31 million, down 85% yoy; the EPS was RMB0.03.

The Cost of M&A Integration Dragged Down the Results

The Company's results fell short of our expectations, mainly resulting from the non-recurring expenses of the Company's acquisition of Takata, the pressure of climbing gross margin of KSS new products, and American tax reform fees. In 2017, the Company's accumulated unplanned expenses reached as high as RMB910 million, accounting for 90% of the profit before tax, including Takata acquisition expenses confirmed of RMB111 million, additional costs of RMB276 million for mass production of KSS new products, one-off effect of RMB65 million from American tax reform, a yoy increase of RMB330 million in R&D expenses, and the non-recurring expenses of RMB127 million from Mexican factory integration. In the first quarter of 2018, the acquisition of Takata confirmed an expense of RMB200 million again, accounting for 150% of the profit before tax.

Result Rebound in 2018Q2, Expecting to Usher in a Tuning 2018 Year

The Company's gross margin dropped by 2.5 ppts to 16.4% in 2017, but with the ramp-up of new products, the gross margin picked up 3 ppts qoq to 17% in 2018Q1. The period cost ratio was 14.36% (-0.3 ppts) in 2017, and the cost ratio was 15.39% (+2.1 ppts) in the first quarter of 2018, of which the administration expenses grew fast due to integration and acquisition and the rapid increase in R&D investment.

The management forecasts that in H1 2018, the Company will report revenues of RMB22 billion - RMB25 billion, and net profits attributable to parent company will be RMB400 million - RMB500 million, that is, the net profits attributable to parent company will reach RMB370 million - RMB470 million in 2018Q2, hitting a record high. We expect that with the completion of acquisition and promotion of integration of Takata's assets, the scale effect will emerge, the Company's results will get back on track, and the overall gross profit and net profit margin of the Company will recover steadily.

Full Orders Guarantee Long-term Development

In 2017, the amount of the Company's newly-signed orders exceeded RMB38 billion, among which the human-machine interaction (HMI)/vehicle-borne interconnection system/KSS vehicle safety system/BMS/functional component and assembly business obtained new orders of RMB12.6 billion/RMB4 billion/USD2.2 billion/RMB1.2 billion/RMB5.9 billion, respectively. In 2018, the Company obtained orders worth USD21 billion via acquisition of Takata, providing a good guarantee for long-term development.

Accumulate (Downgrade)

CMP CNY 25.78

(Closing price as at 18 July 2018)

TARGET CNY 29.70 (+15%)

COMPANY DATA

O/S SHARES (MN) :	949
MARKET CAP (CNY MN) :	24454
52 - WK HI/LO (CNY):	43.24/ 24.22

SHARE HOLDING PATTERN, %

Mr. Wang Jianfeng	36.49
-------------------	-------

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	18552	26606	48775	53631
Net Profit	453	396	972	1145
EPS, CNY	0.66	0.42	1.02	1.21
P/E, x	39.2	61.8	25.2	21.4
BVPS, CNY	13.38	13.37	14.38	15.62
P/BV, x	1.9	1.9	1.8	1.7
DPS (CNY)	0.15	0.10	0.23	0.28
Div. Yield (%)	0.6%	0.4%	0.9%	1.1%

Source: Company reports, Phillip Securities Est.

Research Analyst
ZhangJing
 (+ 86 51699400-103)
 zhangjing@phillip.com.cn

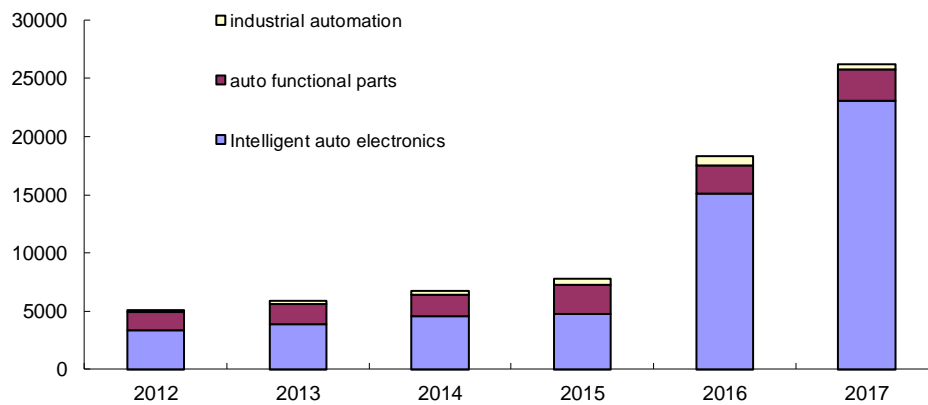
Investment Thesis

Through the deep-rooted layout in recent years, Joyson’s main products have covered four major fields related to driving, namely, vehicle active and passive safety, HMI and connectivity, new energy battery management system (BMS), and auto component. The year of 2017 is an important year in the M&A history of Joyson Electronic. While promoting the integration of KSS, the Company launched a purchase of Takata’s target assets in addition to gas generators at USD1,588 million. In April 2018, the consolidation of Takata was fully completed, and the original KSS and Takata business will merge into a new company named Joyson Safety, becoming the second largest vehicle safety system supplier in the world after Autoliv, with annual sales revenues of approximately USD7 billion and market share of nearly 30%. This will completely change the pattern of industrial chain, and it will not only thicken the results in H2 2018, but also bring more room for long-term sustainable development. We revised the target price of RMB 29.7 equivalent to 29/25x of 2018/2019’s estimated EPS, and assign Accumulate ratings.

Risk

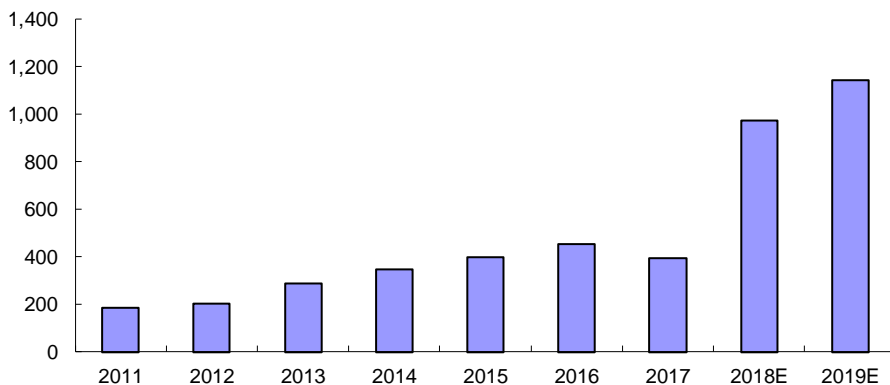
Operating collision in Joyson’s M&A
Worse-than-expected downstream demand

Revenue breakdown by segments (mil)



Source: Company, Phillip Securities Hong Kong Research

Net profit trend (mil)



Source: Company, Phillip Securities Hong Kong Research

Valuation Trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	47.0	42.3	39.2	61.8	25.2	21.4
P/B (X)	6.7	4.5	1.9	1.9	1.8	1.7
Dividend Yield (%)	0.4%	0.0%	0.6%	0.4%	0.9%	1.1%
Per share data (RMB)						
EPS, (Basic)	0.55	0.61	0.66	0.42	1.02	1.21
EPS, (Diluted)	0.55	0.61	0.66	0.42	1.02	1.21
DPS	0.11	0.00	0.15	0.10	0.23	0.28
BVPS	3.84	5.79	13.38	13.37	14.38	15.62
Growth & Margins (%)						
Growth						
Revenue	15.9%	14.2%	129.5%	43.4%	83.3%	10.0%
EBIT	6.6%	29.6%	101.2%	22.6%	58.8%	14.8%
Net Income, adj.	19.3%	15.6%	13.4%	-12.7%	145.6%	17.8%
Margins						
Gross margin	19.6%	21.7%	18.8%	16.4%	17.7%	17.9%
EBIT margin	6.9%	7.8%	6.8%	5.9%	5.1%	5.3%
Net Profit Margin	4.9%	4.9%	2.4%	1.5%	2.0%	2.1%
Key Ratios						
ROE	14.7%	12.9%	5.5%	3.1%	7.4%	8.0%
Income Statement (RMB mn)						
Revenue	7077	8083	18552	26606	48775	53631
Gross profit	1385	1750	3496	4360	8628	9573
EBIT	487	631	1270	1557	2472	2839
Profit before tax	458	559	809	996	1960	2393
Tax	109	142	134	254	490	598
Profit for the period	349	417	675	743	1470	1795
Minority interests	3	17	222	347	498	650
Total capital share	631	656	949	949	949	949
Net profit	346	400	453	396	972	1145

Source: PSR

(Financial figures as at 18 July 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2018 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm