

# Huazhong In-vehicle (6830.HK)

## Rapid Promotion of New Products and Continuously Increasing Profit Margin

Hong Kong | Automobile parts | Initiation Report

### Investment Summary

Huazhong In-Vehicle is an international leader in the technology known as "replacing steel with plastics", enjoying good acceptance and firm relationship from the OEMs. With abundant orders at hand, accelerating SOP of new products and fading loss factors, we are optimistic about its high future result visibility. We give the company a target price of HK\$1.56, equivalent to 13.8/10.6/8.1x P/E for 2018/2019/2020, respectively. Accumulate rating is given for initiation. (Closing price as at 15 August 2018)

### Company Profile

As an integrated auto part supplier, Huazhong In-Vehicle Holdings Company Limited ("Huazhong In-Vehicle") mainly produces interior and exterior auto structures and decorative parts (bumpers; racks; dashboards; A, B, C, and D pillars; door sill plates, etc.), large- and medium-sized auto moulds, and shells/liquid receivers of air conditioners, as well as the production and sales of a small number of non-auto products, including office chair assembly/yacht engines and raw materials. The revenues of the above four segments accounted for 70%, 10%, 10%, and 10% among the total revenue in 2017, respectively. The Company is an international leader in the technology known as "replacing steel with plastics", with which automobiles can be lightened up as their weights can be reduced to only a quarter to one-eighth while maintaining hardness and safety.

The Company has 22 manufacturing bases across China, an R&D team of more than 200 experts and over 4000 staff members. In 2012, it was listed in Hong Kong, and acquired HZ FBZ, a mould factory whose customers included European Mercedes Benz, BMW and Audi.

### Leading Technical Process and Steadily Increasing Gross Margin

The Company is an international leader in the technology known as "replacing steel with plastics", with which automobiles can be lightened up as their weights can be reduced to only a quarter to one-eighth while maintaining hardness. The company has the synchronous development ability to cooperate with the main engine factory, and can provide customers with molds and total assembly products through vertical integration. The overall degree of automation of the company's factory is high, and is more than 90%. The company has kept moving on and made great progress in improving production technology, upgrading equipment, optimizing product structure and strengthening quality management and control. Since listing, the gross margin has steadily increased from 20% in 2012 to 29% in 2017.

### Steady Cooperative Relationship

The company has been in the automotive parts industry for more than 20 years. Its customers include FAW-Volkswagen, Shanghai General Motors (SGM), Chang'an Ford, Shanghai Volkswagen (SVW), Beijing Benz (BBAC), Volvo and other medium-high-end/luxury brand joint-venture automobile enterprises. Its business relationship with FAW-Volkswagen and SGM has been stable for more than 16 years. As the entry threshold of supply chain system of the joint-venture automobile factory is extremely high, we predict that the traditional business of the company will maintain a steady growth rate following the joint-venture enterprises.

17 August 2018

### Accumulate (Initiation)

CMP HKD 1.36  
(Closing price as at 15 August 2018)  
TARGET HKD 1.56 (+15%)

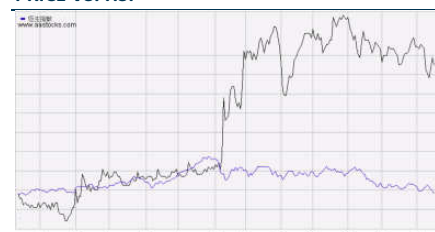
#### COMPANY DATA

O/S SHARES (MN) :	1769
MARKET CAP (HKD MN) :	2406
52 - WK HI/LO (HKD):	1.65/0.58

#### SHARE HOLDING PATTERN, %

Mr. Zhou Minfeng	75
Morgan stanley	4.98
Blackrock Inc	4.97

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	1739	1762	1920	2112
Net Profit	105	138	176	231
EPS, CNY	0.06	0.08	0.10	0.13
P/E, x	20.4	14.5	12.0	9.3
BVPS, CNY	0.39	0.46	0.56	0.68
P/BV, x	3.2	2.4	2.2	1.8
DPS (HKD)	0.00	0.01	0.01	0.01
Div. Yield (%)	0.0%	0.7%	0.8%	1.1%

Source: Company reports, Phillip Securities Est.

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

In 2016, the company began to expand its customer base to the cutting-edge independent brands such as Geely Auto, SGMW, Trumpchi, etc. In 2017, the company developed new energy vehicles brand such as Weltmeister and Ai-ways. As new energy vehicles have a higher demand for lightweight body, we believe that the prosperity of new energy vehicles in the future will bring greater opportunities for the company's "replacing steel with plastics".

#### **Abundant Orders at Hand**

In the first half of 2018, the company signed new orders that are worth about RMB3 billion. At present, the company has a conservative estimate of RMB12-15 billion orders, which can be supplied to 2022. At present, the capacity utilization rate of the production line is abundant, which is over 85%. In order to meet the demand of new orders, the company is increasing the capacity of new production in recent years, including the Qingdao factory put into operation in April 2018, Tianjin factory put into operation in June, Wenzhou cooperative factory put into operation in August, Liuzhou factory which will be put into operation in October, and Jiangxi factory which will be put into operation in 2019. Two production lines will be added in Changsha factory in 2019.

#### **Fading Loss Factors**

After the company was listed in 2012, the company's performance was flat, mainly because 1) there were too many outsourcing orders of its overseas factory, which lowered the profitability; 2) the JV Changchun factory with 50% holdings continued to make loss, dragging down the performance.

The company integrated overseas factory with domestic factories and R&D departments, transferring some orders to domestic production and reducing costs. Finally, overseas factory turned losses into profits in 2017. It is expected to be slightly profitable in 2018.

Changchun JV factory has been making a loss contribution of RMB 10-20 million in recent years. The company replaced the JV partner in 2016/2017. It is expected to turn a loss into a profit in 2018. After the factory launching a new production line in 2019, the output value will rise from RMB 530 million now to RMB700-900 million in 2020 with attributable earning of about RMB 55 million.

#### **Rapid Promotion of New Products and Continuously Increasing Profit Margin**

The company continues to explore the layout of the lightweight products in the direction of "replacing steel with plastics". The front frame and bottom plate of new products have been recognized by many famous automobile enterprises in China. The products begin to enter the supply chain of some automobile enterprises such as SVW, FAW Volkswagen/Audi, Chang'an Ford, SGM, Geely, Denza, Trumpchi and Zotye.

What's more, the 50% holding JV "Ningbo Roekona Zoeppritex" 's new factory Hualuote was officially put into operation in October 2017. It has a complete production line and manufacturing techniques covering knitting, weaving, dyeing, sorting and overlaying. All process/equipment/personnel training/environmental protection standards follow international leading standards to fill the domestic gap. The output value of the two domestic projects--sunshade which SOP in Oct 2018, belongs to the Nickie market, and expected to achieve RMB 500 million in 2020, with over 15% of the net profit rate.

#### **Investment Thesis**

We predict that the EPS of the company's share will reach RMB0.10/0.13/0.17 in 2018/2019/2020, respectively, increased by 28/31/32% YoY. At present, the estimated P/E ratio of Hong Kong auto parts stocks in 2018/2019 is about 10-14x/9-13x. Considering the foreseeable higher profit growth of Huazhong In-Vehicle Holdings in the next two or three years, we believe that the current its 12/9/7x P/E ratio in 2018/2019/2020 was slightly underestimated. Finally, we give the company a

target price of HK\$1.56, equivalent to 13.8/10.6/8.1x P/E for 2018/2019/2020, respectively. Accumulate rating is covered for the first time. (Closing price as at 15 August 2018)

### Risk

The progress of the new project is later than expected.

The auto market is seriously retrogressing, affecting the demand for the company's products.

Customer acceptance of new products is weaker than expected.

### Peer comparison

Ticker	Name	Market Cap (HK 100million)	PE- 2017	PE- 2018	PE- 2019	PE- 2020	PB- 2018	Revenue (RMB 100 million)
3606.HK	福耀玻璃	640	17.0	14.4	13.4	11.4	2.7	193
0868.HK	信义玻璃	351	8.7	7.7	6.7	5.8	1.7	135
0425.HK	敏实集团	306	12.6	11.2	9.3	8.2	2.0	115
1316.HK	耐世特	297	10.8	10.2	9.1	8.3	2.2	262
1269.HK	首控集团	229	-63.2					19
0819.HK	天能动力	107	7.6	6.5	5.2		1.6	269
8137.HK	洪桥集团	83	12.2					0
0951.HK	超威动力	42	7.7	5.6	4.8		0.8	247
2488.HK	元征科技	34	47.0	23.7	14.2	12.5	2.5	10
1571.HK	信邦控股	36	7.8	6.6	5.5	4.6	1.4	20
1760.HK	英恒科技	32	21.8	12.3	8.0			15
6830.HK	华众车载	24	14.6					18
0360.HK	新焦点	22	-5.7					13
1188.HK	正道集团	17	-5.3					0
1039.HK	鑫网易雷	13	-16.0					2
3663.HK	协众国际控股	13	-26.2	42.6	25.2	15.2	1.4	9
2025.HK	瑞丰动力	11	9.7					7
0872.HK	昌迪国际	9	-12.2					2
1148.HK	新晨动力	10	6.5					30
1057.HK	浙江世宝	10	25.1					11

Source: Wind, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F	FY20F
<b>Valuation Ratios</b>							
P/E (X), adj.	21.8	28.9	20.4	14.5	12.0	9.3	7.0
P/B (X)	3.7	3.5	3.2	2.4	2.2	1.8	1.5
Dividend Payout Ratio (%)	0.0%	9.3%	0.0%	10.0%	10.0%	10.0%	10.0%
Dividend Yield (%)	0.0%	0.3%	0.0%	0.7%	0.8%	1.1%	1.4%
<b>Per share data (RMB)</b>							
EPS, (Basic)	0.05	0.04	0.06	0.08	0.10	0.13	0.17
EPS, (Diluted)	0.05	0.04	0.06	0.08	0.10	0.13	0.17
DPS	0.00	0.00	0.00	0.01	0.01	0.01	0.02
BVPS	0.29	0.33	0.39	0.46	0.56	0.68	0.83
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
Revenue	Na	-2.8%	6.3%	1.3%	9.0%	10.0%	11.4%
EBIT	Na	-13.7%	27.8%	22.4%	20.2%	22.3%	21.6%
Net Income, adj.	Na	-19.8%	51.2%	31.7%	27.7%	30.9%	31.7%
<b>Margins</b>							
Gross margin	24.0%	24.2%	27.5%	29.2%	30.4%	31.9%	33.1%
EBIT margin	9.4%	8.4%	10.1%	12.2%	13.4%	14.9%	16.3%
Net Profit Margin	5.1%	4.2%	6.0%	7.8%	9.2%	10.9%	12.9%
<b>Key Ratios</b>							
ROE	18.3%	12.8%	16.7%	18.4%	19.6%	21.2%	22.8%
<b>Income Statement (RMB mn)</b>							
Revenue	<b>1683</b>	<b>1636</b>	<b>1739</b>	<b>1762</b>	<b>1920</b>	<b>2112</b>	<b>2353</b>
Gross profit	404	396	479	514	583	673	780
EBIT	159	137	175	214	257	315	383
Profit before tax	120	105	152	195	247	322	420
Tax	-29	-30	-42	-52	-66	-85	-109
Profit for the period	91	75	111	143	182	237	311
Minority interests	5	5	6	5	5	6	6
Total capital share	801	1602	1617	1769	1769	1769	1769
<b>Net profit</b>	<b>87</b>	<b>69</b>	<b>105</b>	<b>138</b>	<b>176</b>	<b>231</b>	<b>304</b>

Source: PSR

**(Closing price as at 15 August 2018)**  
**(Financial figures as at 15 August 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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.ashaphillip.net/home.htm)