

HASCO (600741.CH)

Business Integration and Upgrading Keep Going Ahead

China | Automobile parts | Company Update

19 February 2019

Investment Summary

HASCO is the pioneer of China's auto component industry. We believe that to attract customers, auto manufacturers will tend to apply more high-end and high-technology auto parts and components in their automobiles. This trend will certainly benefit top-tier auto parts manufacturers such as HASCO. The company also actively grasps the trend of electric vehicle, network connection, intelligence and sharing of the automotive industry. We reaffirm "accumulate" rating.

Q3 Results Basically Stay Flat

According to HASCO's report of the first three quarters in 2018, the Company recorded a revenue of RMB3,717,2 million in the third quarter, up by 5.15% Y-o-Y; a net profit attributable to parent company of RMB1.59 billion, up by 0.41% Y-o-Y; a gross margin of 14.32%, up by 0.61 ppts; a net profit margin of 5.61%, down by 0.74 ppts Y-o-Y. In the first three quarters, the Company recorded a revenue of RMB11,879,9 million, up by 14.51% Y-o-Y, a net profit attributable to parent company of RMB636,4 million, up by 32.13% Y-o-Y; a gross margin of 13.83%, down by 0.21 ppts Y-o-Y; a net profit margin of 6.97%, up by 0.39 ppts Y-o-Y.

Inclusion of One-time Income in H1 and Downturn of Q3 Downstream Prosperity Lead to the Slowdown in the Growth

The net profit attributable to parent company in H1 surged by 47.67% Y-o-Y, which was mainly the result of the acquisition of Koito Automotive Lamp Co., Ltd. (now renamed Huayu Vision). Meanwhile, one-time premium investment incomes of RMB920 million were recognized whereas there was no such factor in the third quarter. In addition, the slowdown in the growth rate of the results in the third quarter was also dragged by the downturn of the downstream prosperity. The Y-o-Y growth of sales volume of major customers of the Company in the third quarter, including SAIC Volkswagen and SAIC-GM both slipped from the positive to the negative column, the autonomous volume of SAIC Volkswagen is small, and the Y-o-Y growth rate has narrowed from 50% in the first half to 18%.

Gross Margin Has Improved and Administration Expenses Increase Significantly

The gross margin of the first three quarters in 2018 showed a trend of improvement quarter by quarter, which were 13.1%, 14.1% and 14.3%, respectively, up by -1.61, 0.37 and 0.61 ppts Y-o-Y. The improvement of gross margin was mainly from merging the headlight business with high gross margin in Huayu Vision.

The administration expenses of the Company in Q2 and Q3 increased significantly with an administration expenses ratio of 8.18% and 9.26%, respectively, up by 0.16 and 1.5 ppts, respectively. It is expected to mainly come from the integration cost of merging Huayu Vision. The Company's operating cash flow in Q3 was RMB1.1 billion, down by 66.4% Y-o-Y, and it is expected to be mainly related to some downstream OEM manufacturers' elongating the payment settlement cycle.

Accumulate (Downgrade)

CMP CNY 19.45

(Closing price as at 15 Feb 2019)

TARGET CNY23 (+18%)

COMPANY DATA

O/S SHARES (MN) :	3153
MARKET CAP (CNY MN) :	61320
52 - WK HI/LO (CNY):	28.48/ 16.72

SHARE HOLDING PATTERN, %

SAIC	60.1
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	124296	140487	162381	178653
Net Profit	6076	6554	7917	7960
EPS, CNY	1.93	2.08	2.51	2.52
P/E, x	10.1	9.4	7.7	7.7
BVPS, CNY	12.08	13.09	14.65	16.01
P/BV, x	1.6	1.5	1.3	1.2
DPS (CNY)	1.00	1.05	1.21	1.21
Div. Yield (%)	5.1%	5.4%	6.2%	6.2%

Source: Company reports, Phillip Securities Est.

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Business Integration and Upgrading Keep Going Ahead

Recently, HASCO announced that it intended to purchase 50% of Shanghai SACHS Powertrain Component Systems Co., Ltd. from ZF China for RMB65.16 million. Meanwhile, the Company intended to sell its 50% stake in Shanghai TRW Automotive Safety Systems Co., Ltd. to TRW Asia Pacific for RMB80.71 million. This transaction will help support and drive SACHS Powertrain's autonomous development in the drive module business. While maintaining the domestic vehicle matching and after-sales market competitive advantage of the existing clutch business, SACHS Powertrain will, according to the development trend of automotive parts industry in the future, actively develop the independent R&D of products, such as CVT, TC, DMF and hybrid modules, and strive to become a supplier of key parts (modules) of power train modules to meet the requirements of energy saving and emission reduction of vehicles and electrification. In our opinion, in the context of intellectualization/new energy and consumption upgrading, the Company's products are expected to benefit from the rising trend of price and quantity of high value-added products in the future.

Investment Thesis

As analyzed above, we revised EPS expectation of the Company to RMB 2.51 and 2.52 of 2018/2019. And we accordingly gave the target price to 23, respectively 9.2/9.1x P/E for 2018/2019. "Accumulate" rating. (Closing price as at 15 Feb 2019)

Forward P/E P/B trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios					
P/E (X), adj.	10.7	10.1	9.4	7.7	7.7
P/B (X)	1.8	1.6	1.5	1.3	1.2
Dividend payout ratio(%)	44.4%	51.9%	50.5%	48.2%	47.9%
Dividend Yield (%)	4.2%	5.1%	5.4%	6.2%	6.2%
Per share data (RMB)					
EPS, (Basic)	1.82	1.93	2.08	2.51	2.52
EPS, (Diluted)	1.82	1.93	2.08	2.51	2.52
DPS	0.81	1.00	1.05	1.21	1.21
BVPS	10.68	12.08	13.09	14.65	16.01
Growth & Margins (%)					
Growth					
Revenue	43.0%	17.8%	13.0%	15.6%	10.0%
EBIT	12.0%	28.6%	2.0%	5.1%	10.9%
Net Income, adj.	17.4%	16.1%	7.9%	20.8%	0.6%
Margins					
Gross margin	13.8%	14.7%	14.5%	14.0%	14.0%
EBIT margin	4.4%	4.8%	4.3%	3.9%	4.0%
Net Profit Margin	5.0%	4.9%	4.7%	4.9%	4.5%
Key Ratios					
ROE	18.4%	16.9%	16.5%	18.1%	16.5%
Income Statement (RMB mn)					
Revenue	105499	124296	140487	162381	178653
Gross profit	14507	18221	20327	22701	25029
EBIT	4641	5968	6089	6398	7093
Profit before tax	8336	9861	10492	12180	12440
Tax	950	1278	1361	1543	1577
Profit for the period	7385	8582	9131	10637	10862
Minority interests	2153	2507	2577	2720	2902
Total capital share	2869	3153	3153	3153	3153
Net profit	5233	6076	6554	7917	7960

Source: PSR

(Financial figures as at 15 February 2019)

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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