

JOYSON (600699.CH)

Opening up the Space for Performance Growth in the Future

China | Automobile Parts | Company Updates

19 March 2019

Investment Summary

Amazing Result in 2018

Joyson recently released its result forecast for 2018. It is estimated that the net profit attributable to shareholders will be RMB1.25 billion to RMB1.45 billion in the whole year of 2018, up by about 216%-266% annually, and the EPS is about RMB1.36-1.58. The net profit attributable to shareholders except non-recurring profit and loss will be RMB900 million to RMB1.05 billion, up by about 2,100%-2,433% annually, and the main business income is expected to be about RMB53.8 billion. According to this calculation, the Company's quarterly attributable net profit is RMB31 million, RMB790 million, RMB237 million and RMB290 million (median), respectively, down by 85%, up by 94%, down by 13% and up by 159% annually.

The Acquisition of Takata Asset and the Integration Effect Enhance the Result

The Company's result in 2018 ushered in a turning point, especially in the second and fourth quarters, which was better than our expectations. The main reason is that in 2018, the Company completed the acquisition of high-quality assets of Takata Company, and the benefits of the release of production capacity corresponding to related assets enhanced the result of listed companies. After the acquisition of high-quality assets of Takata Company, the Company improved operational cost and efficiency of automotive security by steadily integrating regions. The estimated impact of non-recurring profit and loss such as takeover of Takata's global assets and global business integration after the acquisition on the Company's result is RMB350 million to RMB400 million. In addition, the company's automotive electronics and automotive functional parts business has maintained a sustained and stable growth in 2018 with the continuous increase of customer orders..

BMS Business of New Energy Vehicle Gains Big Order, Opening up the Space for Performance Growth in the Future

Recently, the company disclosed through its official website that its subsidiaries have successively gained nearly RMB10 billion in new energy vehicle battery management system BMS related business orders from customers such as Volkswagen, Benz, Nissan, Ford and SGM-Wuling. The above orders will be put into mass production from the end of 2019.

Joyson has been focusing on R&D investment, which accounts for more than 8% of the annual R&D expenditure. Prospective global merger and acquisition layout and sustained large-scale R&D investment ensure the company's competitiveness and leadership in the subdivision industry. At present, Joyson has more than 5,000 technical patents in reserve. Its patents cover all fields of active and passive safety, intelligent driving, vehicle networking and power management of new energy vehicles.

The company's Joyson Preh has been the exclusive contractor of BMS systems for BMW's new energy vehicles since 2008. It has supplied more than 150,000 BMS systems for BMW, including i3/i8/ existing EV and PHEV models of 3, 5 and 7 series cars. It also started to develop 48V-BMS system with Mercedes-Benz in 2017. In addition, the company began to supply Tesla in 2014. Domestic automobile companies, including Geely, Chery and other independent brand automobile companies, have begun to use Joyson's BMS products since 2016.

Accumulate (Maintain)

CMP CNY 27.22

(Closing price as at 15 March 2019)

TARGET CNY 31.5 (+16%)

COMPANY DATA

O/S SHARES (MN) :	949
MARKET CAP (CNY MN) :	25840
52 - WK HI/LO (CNY):	32.42/ 20.02

SHARE HOLDING PATTERN, %

Mr. Wang Jianfeng	36.49
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	18552	26606	53775	63631
Net Profit	453	396	1331	1420
EPS, CNY	0.66	0.42	1.40	1.50
P/E, x	41.4	65.3	19.4	18.2
BVPS, CNY	13.38	13.37	15.43	16.57
P/BV, x	2.0	2.0	1.8	1.6
DPS (CNY)	0.15	0.10	0.29	0.35
Div. Yield (%)	0.6%	0.4%	1.1%	1.3%

Source: Company reports, Phillip Securities Est.

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We anticipate that the company will gain more new orders in the new energy vehicle market with the competitive advantage in technology and market.

Investment Thesis

The company completed its share repurchase plan of RMB1.8 billion in November 2018, and the capital stock repurchase is 7.58%, which demonstrated the management's confidence in the company's future development. 2017 is an important year in the history of company's mergers and acquisitions, and 2018 is the year of integration. Integration not only makes the company's leading position more stable, but also opens up more space for long-term sustainable development.

We revised the target price of RMB 31.5 equivalent to 23/21x of 2018/2019's estimated EPS, and assign Accumulate ratings. (Closing price as at 15 March 2019)

Risk

Operating collision in Joyson's M&A

Worse-than-expected downstream demand

Valuation Trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	49.6	44.6	41.4	65.3	19.4	18.2
P/B (X)	7.1	4.7	2.0	2.0	1.8	1.6
Dividend Yield (%)	0.4%	0.0%	0.6%	0.4%	1.1%	1.3%
Per share data (RMB)						
EPS, (Basic)	0.55	0.61	0.66	0.42	1.40	1.50
EPS, (Diluted)	0.55	0.61	0.66	0.42	1.40	1.50
DPS	0.11	0.00	0.15	0.10	0.29	0.35
BVPS	3.84	5.79	13.38	13.37	15.43	16.57
Growth & Margins (%)						
Growth						
Revenue	15.9%	14.2%	129.5%	43.4%	102.1%	18.3%
EBIT	6.6%	29.6%	101.2%	22.6%	67.3%	23.1%
Net Income, adj.	19.3%	15.6%	13.4%	-12.7%	236.2%	6.7%
Margins						
Gross margin	19.6%	21.7%	18.8%	16.4%	17.3%	17.9%
EBIT margin	6.9%	7.8%	6.8%	5.9%	4.8%	5.0%
Net Profit Margin	4.9%	4.9%	2.4%	1.5%	2.5%	2.2%
Key Ratios						
ROE	14.7%	12.9%	5.5%	3.1%	9.7%	9.4%
Income Statement (RMB mn)						
Revenue	7077	8083	18552	26606	53775	63631
Gross profit	1385	1750	3496	4360	9282	11358
EBIT	487	631	1270	1557	2604	3206
Profit before tax	458	559	809	996	2092	2760
Tax	109	142	134	254	523	690
Profit for the period	349	417	675	743	1569	2070
Minority interests	3	17	222	347	238	650
Total capital share	631	656	949	949	949	949
Net profit	346	400	453	396	1331	1420

Source: PSR

(Financial figures as at 15 March 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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