

Weifu (000581.CH)

National VI Emission will sharpen its advantage edge

China | Automobile Parts | Company Update

Investment Summary

Large-value asset impairment/decline in gross margin impact last year's results

In 2018, Weifu recorded total revenue of RMB8.72 billion, a slight decrease of 3.3% yoy. The net profit attributable to the parent company reached RMB2.4 billion, down 6.8% yoy, while net profit attributable to the parent company excluding non-recurring items reached RMB201,500 million, down 13.24% yoy. The EPS was RMB2.37, and the cash dividend per share was RMB1.2. The dividend payout rate exceeded 50%, up 3.4 ppts.

The investment income was RMB1.96 billion, up 6% yoy. The investment income from Bosch Automotive Diesel and Zhonglian Electronics increased by 4% and 3%, respectively, accounting for three-quarters of the Company's total profit. Due to abundant cash flow, the investment income contributed by wealth management plans increased by 40% to RMB310 million from RMB220 million last year.

The overall gross profit margin fell 1.43 ppts to 23.34%, dragged down by switching emissions standards, price cutting on older models for promotion and rising prices of raw materials. By category, the revenue from fuel injection decreased 10% yoy to RMB5.03 billion, with a gross profit margin of 23.3%, down 1.3 ppts yoy. The revenue of post-processing increased by 8.9% yoy to RMB2.79 billion, and the gross profit margin was basically maintained flat at 12%. The revenue of intake system increased 15.7% yoy to RMB440 million, and the gross profit margin increased by 3 ppts to 28%.

Large provision is one of the main factors of declining results. In 2018, the asset impairment loss surged by 1.1 times to RMB251 million. In addition to the inventory depreciation reserve of RMB77.19 million and the bad accounts loss of RMB27.18 million, the main cause is that the company in 2018Q4, based on the principle of caution, set aside impairment provision of RMB146 million for investment in the hub motor company Protean.

The sales expense ratio increased to 2.73% in 2018, a yoy increase of 0.57 ppts, mainly caused by the increase of wages and warranty costs. The administration expense ratio reached 11.33%, with a yoy increase of 1.01 ppts, mainly due to the substantial increase in equity incentive expenses.

2019Q1 result was dragged down by the major market, but the gross margin improved

In 2019Q1, the company achieved a revenue of RMB2,270 million, a yoy decrease of 5.09%. Net profit attributable to the parent company reached RMB689 million, a yoy decrease of 12.12%. The decline in results is mainly due to a large reduction in investment income. Investment income from joint-stock companies fell 17.7% yoy to RMB410 million, dragged down by the decline of the overall domestic automotive market in the first quarter. However, the company's overall gross margin improved 1.2 ppts yoy to 22.1% due to a higher percentage of intake system products that generate higher gross margin. The expense ratio remained stable overall, slightly increasing by 0.2 ppt.

9 July 2019

Buy (Maintain)

CMP CNY 18.72

(Closing price as at 5 July)

TARGET CNY 24.5 (+31%)

COMPANY DATA

O/S SHARES (MN) :	1009
MARKET CAP (CNY MN) :	17843
52 - WK LO / HI (CNY):	24.89/ 15.24

SHARE HOLDING PATTERN, %

Wuxi Industry Development Group Co., Ltd.	20.22
Bosch	14.16

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	9017	8722	8408	8716
Net Profit	2571	2395	2246	2318
EPS, CNY	2.55	2.37	2.23	2.30
P/E, x	7.3	7.9	8.4	8.1
BVPS, CNY	14.70	15.77	16.78	17.76
P/BV, x	1.3	1.2	1.1	1.1
DPS (CNY)	1.20	1.20	1.15	1.20
Div. Yield (%)	6.4%	6.4%	6.1%	6.4%

Source: Company reports, Phillip Securities Est.

ZhangJing (+ 86 51699400-103)

zhangjing@phillip.com.cn

National VI Emission will sharpen its advantage edge

In order to promote environmental protection, more than a dozen of Chinese provinces and cities have launched policies to implement the National VI Emission Standard from July 2019, among which Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin have implemented the stricter National VI-B. With the upgrading of emission standards, the company's competitive advantages in core power system components, advanced exhaust treatment technology and abundant product reserves will become increasingly prominent.

Presence in new fields of fuel cell components and automotive chips

The company holds RMB7.5 billion of cash and wealth management plans, with the asset-liability ratio staying as low as 23%. Its abundant cash flow and stable operation style provides a foundation for the future merger and acquisition transformation and high dividend. The company recently announced the purchase of 66% of equity in IRDFuelCellsA/S for EUR7.26 million, and the joint investment of RMB200 million to set up a semiconductor device and integrated circuit enterprise. The former has a number of patents in the field of fuel cells, involving membrane electrodes and bipolar plates, and its products in Europe, the United States, China and other regions have stable technical partners and customers. The latter is in line with the "New Four" (electric, networking, intelligent, sharing), which is an upgrade trend in the automotive industry. We believe that these two extensive mergers and acquisitions are helpful for the company to cultivate new business growth points and achieve strategic transformation and upgrading of product lines.

Valuation

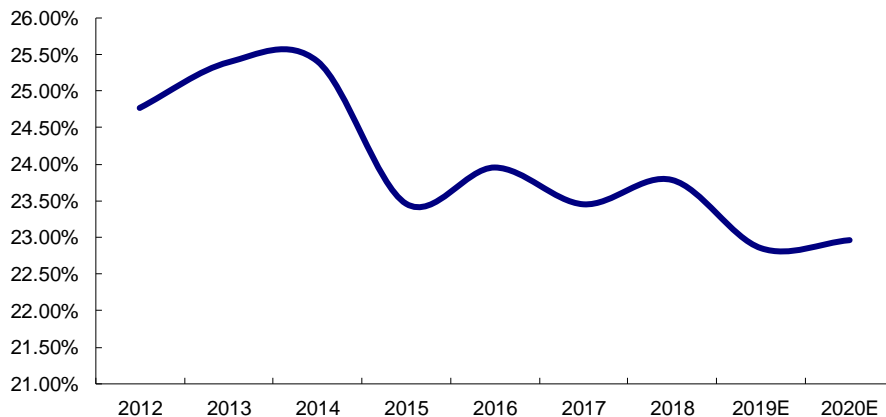
As analyzed above, we expected diluted EPS of the Company to RMB 2.23 and 2.3 for 2019/2020. And we accordingly gave the target price to 24.5, respectively 11/10.7x P/E for 2019/2020. "Buy" rating.

Forward P/E Band



Source: Bloomberg, Phillip Securities Hong Kong Research

Gross profit margin trend



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj.	12.5	11.3	7.3	7.9	8.4	8.1
P/B (X)	1.6	1.5	1.3	1.2	1.1	1.1
Dividend Yield (%)	2.7%	3.2%	6.4%	6.4%	6.1%	6.4%
Per share data (RMB)						
EPS, (Basic)	1.50	1.66	2.55	2.37	2.23	2.30
EPS, (Diluted)	1.50	1.66	2.55	2.37	2.23	2.30
DPS	0.50	0.60	1.20	1.20	1.15	1.20
BVPS	11.68	12.81	14.70	15.77	16.78	17.76
Growth & Margins (%)						
Growth						
Revenue	-9.6%	11.9%	40.4%	-3.3%	-3.6%	3.7%
EBIT	-6.7%	10.5%	57.8%	-12.5%	-9.5%	6.5%
Net Income, adj.	-1.6%	10.4%	53.7%	-6.8%	-6.2%	3.2%
Margins						
Gross margin	23.5%	24.0%	25.0%	23.3%	22.9%	23.0%
EBIT margin	27.9%	27.6%	31.0%	28.0%	26.3%	27.0%
Net Profit Margin	26.4%	26.0%	28.5%	27.5%	26.7%	26.6%
Key Ratios						
ROE	13.5%	13.54%	18.52%	15.58%	13.96%	14.45%
Income Statement (RMB mn)						
Revenue	5742	6423	9017	8722	8408	8716
Gross profit	1347	1538	2256	2030	1921	2001
EBIT	1602	1770	2792	2443	2210	2354
Profit before tax	1663	1819	2830	2602	2439	2518
Tax	111	93	183	136	129	133
Profit for the period	1552	1727	2646	2466	2310	2384
Minority interests	37	54	76	70	64	66
Total capital share	1009	1009	1009	1009	1009	1009
Net profit	1515	1673	2571	2395	2246	2318

Source: PSR

Financial figures as at 5 July 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

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>.

© 2019 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 12, 15 William Street,
Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

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