

Tuopu Group (601689.CH)

Domestic NVH Leader start a new round of growth

China | Automobile part | Company Initiation

26 August 2019

Company profile

Product introduction

The main business of Tuopu Group includes the R&D and manufacturing of auto parts such as power chassis system, trim system, and intelligent driving control system. At present, the Company has developed four product lines covering NVH (vibration and noise reduction), sound insulation, lightweight chassis and automotive electronics, with over 5,000 products in total.

Shareholding structure

Mr. Wu Jianshu, the actual controller and the founder, holds 0.68% of the Company's shares in a direct way, and 478.4 million, or 65.75%, of the Company's shares through Maik International Holdings (Hong Kong) Co., Ltd., totalling 66.43%. Among other shareholders, National Social Security Fund (NSSF) 113 Portfolio holds 1.84%, NSSF 418 Portfolio holds 1.28%, Basic Pension Fund (BPF) 802 Portfolio holds 0.65%, and Lugutong holds 1.05%.

Milestones

Founded in Ningbo, Zhejiang Province in 1983, the 30-year Tuopu Group started its business in the auto parts industry in the field of NVH (vibration and noise reduction) (rubber shock absorber and sound insulation products). In 2015, it was listed at Shanghai Stock Exchange by launching the initial public offering, and in 2017, the Company entered the field of auto lightweight chassis (aluminum alloy control arms, steering knuckles, and deputy frames) in a speedy manner through merger and acquisition, as well as the field of automotive electronics (electronic vacuum pumps and intelligent brake boosters) with the support of private placement capital raising.

Industry position/Competitive edge

1) The Company is an industry leader in the field of automotive NVH that is capable of synchronous design with the original equipment manufacturer (• Complete NVH solutions • Finished vehicle tests and analysis • Product design that meets vibration and noise requirements of finished vehicles). The Company's sales volume and market share of rubber shock absorbers and sound insulation products rank the first in China, and it owns R&D centers that support global projects and test centres with leading technologies.

2) In terms of auto chassis business, the Company one of the few manufacturers worldwide that master the core technologies for high-strength steel and light alloy. In recent years, the Company has developed a large number of products and put them on the market. It is expected that, in the near future, the lightweight chassis project will be the foremost engine that drives the Company towards constant rapid growth.

3) The Company's strength also lies in its high-quality and stable customer resource. With its leading R&D technologies, manufacturing techniques, quality management and global supply capacity, Tuopu Group has established sound technical cooperation with world-famous automobile manufacturers, and has become the global supplier of Audi, BMW, Chrysler, GM, Ford, Mercedes-Benz, Porsche, and Volkswagen, as well as the supporting supplier of Faurecia, Valeo, Benteler and other well-known integration suppliers. In 2015 and 2016, the Company announced successively that it had obtained orders of RMB2.7 billion from GM E2XX platform and GEM global platform, with the product life cycle being 8 years and 6 years, respectively.

Accumulate (Initiation)

CMP CNY 10.9

(Closing price as at 22 Aug 2019)

TARGET CNY 12.7(+16.5%)

COMPANY DATA

O/S SHARES (MN) :	1055
MARKET CAP (CNY MN) :	11499
52 - WK HI/LO (CNY):	15.86/ 9.07

SHARE HOLDING PATTERN, %

Mr. Wu Jianshu	66.43
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	5090	5984	5463	6184
Net Profit	738	753	501	637
EPS, CNY	1.01	1.04	0.48	0.60
P/E, x	10.7	10.5	22.9	18.0
BVPS, CNY	8.89	9.92	7.12	7.64
P/BV, x	1.2	1.1	1.5	1.4
DPS (CNY)	0.62	0.41	0.15	0.21
Div. Yield (%)	5.7%	3.8%	1.4%	1.9%

Source: Company reports, Phillip Securities Est.

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In terms of domestic market, the Company has built R&D, marketing, storage and manufacturing bases centering on the six major automobile industry clusters in China and the major markets abroad, established close relationship with Geely Motor, and developed new relationship with independent brands such as BAIC, SAIC, Great Wall, FAW and GAC. In 2016, the Company won the designated supplier qualification of Tesla's lightweight chassis. Tesla's super factory in Shanghai enjoys a capacity of 250,000 vehicles in Phase I, which is expected to be put into operation by the end of 2019 or at the beginning of 2020, and to increase in the future.

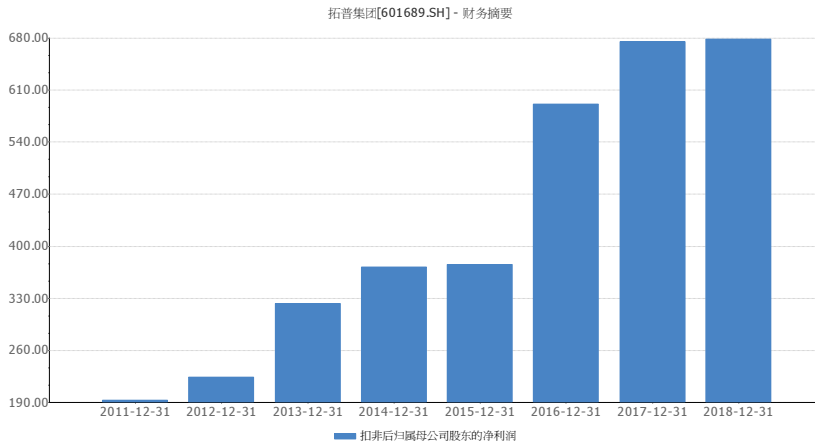
4) The Company also enjoys administrative strength. Though it's a private enterprise, the Company has always adhered to the professional manager model, implemented informatization management, encouraged internal entrepreneurship, insisted on independent innovation, developed new products, and upgraded equipment. The proportion of its R&D expenditure in revenue increased from 3.6% of 2011 to 4.8% of 2018, and the number of its R&D personnel increased from 365 of 2011 to 1,326 of 2018, accounting for 17.2% of the total number of employees from 11.7% of 2011. Every year, the Company obtains a large number of patents, which guarantees its leading edge in technology.

Financial Analysis:

Tuopu Group is a typical enterprise with steady growth. The output value of the Company's traditional business, shock absorption system products, exceeded RMB2.3 billion in 2018, accounting for 40% approx. of the total revenue, and its CAGR reached nearly 11% in the past seven years, enjoying steady growth. Sound insulation products are the Company's second-largest traditional business. Its output value recorded RMB2.2 billion approx. in 2018, and its compound growth rate reached nearly 21.7% in the past seven years, enjoying rapid growth on the whole. Lightweight chassis and automotive electronics are the Company's emerging businesses, with their output values up to RMB1.17 billion and RMB130 million, respectively, and their compound growth rates reached 84% and 31%, respectively, since 2015, enjoying a rapid development.

Revenue & Net profit trend





Source: Wind, Phillip Securities Hong Kong Research

In terms of gross profit composition, in 2019 H1, shock absorption, sound insulation, lightweight chassis and automotive electronics businesses have contributed 49%, 25%, 13%, and 2% of the gross profit sources, respectively, till now. The gross margins of the four recorded 31%, 20%, 17%, and 32%, respectively. In recent years, the Company's overall gross margin has been maintained above 25%, basically, EBITDA rate above 20%, and ROE above 10%, which allows the Company to stand at a leading position in the auto parts industry that is at a low level generally.

In 2019 H1, as affected by the extreme industry depression and the product line adjustment of its major customers, Geely Auto and SGM, Tuopu Group recorded a revenue of RMB2,438 million, a decrease of 20.7% yoy, and a net profit attributable to the parent company of RMB211 million, a decrease of 51.76% yoy. The declined sales volume of downstream customers, the increased price reduction pressure, and the raised depreciation dragged down the level of its gross margin.

We believe that the declined performance of the Company in short term was the result of disturbance factors in the industry, and in the long term, with its technical strength and customer relations in traditional businesses, the Company is expected to get new incremental orders from new energy vehicle enterprises in the field of emerging businesses (lightweight chassis and automotive electronics) in the future. Besides, the launch of Tesla's factory in Shanghai will bring a breakthrough for the Company.

Investment Thesis

We expect that the Company will realize a net profit of RMB501 million in 2019, and RMB637 million in 2020, with the corresponding EPS being RMB0.48 and 0.60, respectively. Although the Company's result is pressured in the short term, it will benefit from the wide prospect of lightweight and automotive electronics businesses under the tide of new energy in the long term. We give the Company's target price to RMB12.7, respectively 26/21 x P/E for 2019/2020, giving the average peers' and its history valuation, winning a "Accumulate" rating at its initiate coverage. (Closing price as at 22 Aug 2019)

Risk

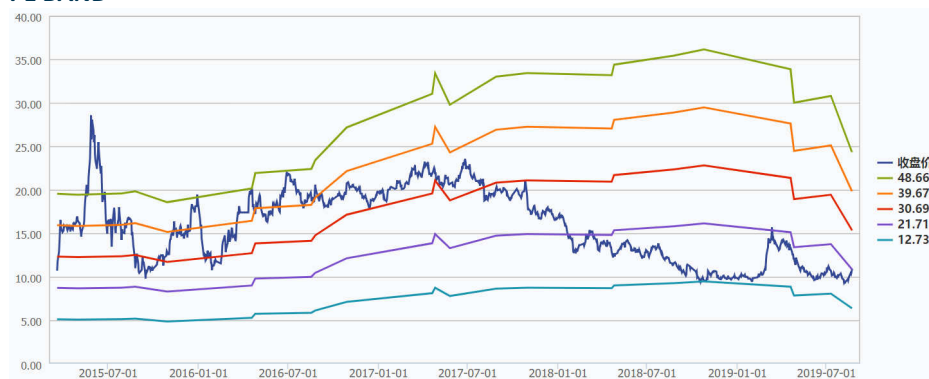
- Price war among peers
- Raw material price increase
- New business risk

Peer Comparison

Code	Name	Market Cap	PE			PB(MRQ)
			TTM	19E	20E	
601689.SH	拓普集团	1149936.65	21.81	16.67	14.1	1.61
沪深(10)						
中位值	中位值	1634534.31	19.88	15.2	13.89	2.51
600741.SH	华域汽车	7087323.52	10.18	9.56	8.87	1.49
600660.SH	福耀玻璃	5481329.31	13.16	13.56	12.2	2.65
601799.SH	星宇股份	2059565.72	31.68	25.97	20.56	4.54
600699.SH	均胜电子	1895722.66	18.75	13.95	11.61	1.46
000581.SZ	威孚高科	1740439.73	7.56	7.37	6.97	1.05
002085.SZ	万丰奥威	1528628.89	16.33	15.2	13.89	2.38
000559.SZ	万向钱潮	1464680.83	21	--	--	2.69
002920.SZ	德赛西威	1311750	56.67	36.7	29.03	3.31
603305.SH	旭升股份	949824.35	38.65	28.65	22.89	6.83

Source: Wind, Phillip Securities Hong Kong Research

PE BAND



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios					
P/E (X), adj.	11.5	10.7	10.5	22.9	18.0
P/B (X)	2.1	1.2	1.1	1.5	1.4
Dividend payout ratio(%)	19.5%	60.7%	39.8%	31.6%	34.8%
Dividend Yield (%)	1.7%	5.7%	3.8%	1.4%	1.9%
Per share data (RMB)					
EPS, (Basic)	0.95	1.01	1.04	0.48	0.60
EPS, (Diluted)	0.95	1.01	1.04	0.48	0.60
DPS	0.19	0.62	0.41	0.15	0.21
BVPS	5.19	8.89	9.92	7.12	7.64
Growth & Margins (%)					
Growth					
Revenue	30.9%	29.3%	17.6%	-8.7%	13.2%
EBIT	41.1%	22.5%	5.9%	-34.8%	25.9%
Net Income, adj.	48.4%	19.9%	2.1%	-33.5%	27.2%
Margins					
Gross margin	30.4%	28.2%	26.1%	25.4%	26.0%
EBIT margin	17.1%	16.2%	14.6%	10.4%	11.6%
Net Profit Margin	15.6%	14.5%	12.6%	9.2%	10.3%
Key Ratios					
ROE	18.9%	14.4%	11.0%	5.6%	8.2%
Income Statement (RMB mn)					
Revenue	3938	5090	5984	5463	6184
Gross profit	1199	1435	1564	1388	1610
EBIT	674	825	874	570	718
Profit before tax	715	860	877	584	744
Tax	99	119	122	82	105
Profit for the period	616	741	755	502	639
Minority interests	0	3	2	1	1
Total capital share	649	728	728	1055	1055
Net profit	616	738	753	501	637

Source: PSR

(Financial figures as at 22 August 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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