

# Navinfo (002405 CH)

## Daybreak after Discontinued Result

China | Automobile Parts | Company Update

2 December 2019

### Investment Summary

#### Loss of More than RMB60 Million in the Third Quarter

NavInfo recorded revenue of RMB451 million in Q3 2019, down 15.34% yoy. A net loss of RMB61,415,500 was recorded from singer-quarter result, approximately the lower limit of the result guidance interval, which represents a profit of RMB55.97 million in the same period last year.

The revenue in the first three quarters was basically the same, up 0.76% yoy to RMB1,535 million. The net profit attributable to the parent company was RMB24,184,800, down 89% yoy, with EPS of RMB0.01. The net profit attributable to the parent company in Q1 and Q2 decreased by 43% and 52% yoy to RMB42.03 million and RMB43.57 million, respectively.

#### Drag of Slump of Domestic Vehicle Market and Investment Loss

The domestic passenger vehicles in the first three quarters of 2019 decreased by 11.7% yoy. Due to weak demand and intense market competition, the pre-installed navigation map business, which accounted for 40% of the revenue, was dragged. The main clients of chip business (which accounted for one-sixth of the revenue), was self-owned brands, whose sales down 18.6% in the first nine months, which affected the result of chip business of the Company. Therefore, the gross margin in Q3 decreased by 12.54 ppts to 66.63%, and the gross margin in the first quarters decreased by 5.14 ppts to 71.9%.

On the other hand, the Company divested AUTOAI, the entity of Internet of Vehicles of passenger vehicles in 2018. AUTOAI was no longer consolidated with the Company in 2019, which affected the revenue (AUTOAI recorded revenue of RMB105 million in 2018), and relevant profit and loss were included in investment gains. After the divestment, the input into Internet of Vehicles continuously increased, which scaled up the loss and dragged the investment gains of the Company in the first three quarters for loss of RMB33.83 million, RMB52.39 million and RMB58.53 million, respectively.

#### High Investment into R&D and Result under Pressure in a Short Time

The sales expense ratio decreased by 0.7 ppts to 4.75% in the first three quarters, mainly due to the exclusion of sales promotion expense of Internet of Vehicles of passenger vehicles. The administration+R&D expense ratio decreased by 0.64 ppts to 64.37%, still maintain a high level. At present, the R&D input into fields such as the Self-Driving, Internet of Vehicles and chip continuously increased, which would still place the result under great pressure in the future one to two years. Before the maturity of new technologies and formal implementation of product commercialization, high R&D fee is the prerequisite to take advantages in the coming era of intelligent driving, and would lay the foundation for NavInfo to further build a five-in-one technology advantage of "Digital Map+ Internet of Vehicles+ Self-Driving+ Big Data+ Chip", as well as an industry leading position in Self-Driving field.

#### Daybreak after Discontinued Result

For Self-Driving at or above L3, only NavInfo as well as AMap of Ali and Qianxun SI could provide high-precision maps and high-precision positioning at the same time in China at present. The barriers of the industry are obvious. For high-precision map, NavInfo obtained the first production order of L3 passenger vehicle self-driving map in China. The high-precision positioning business of the subsidiary Sixents Technology has achieved the market leading level. NavInfo currently issued the announcement that Huawei purchased its high-precision map data products and services to show that the product strengthen and industry status were approved, which marked the formal implementation of Self-Driving cooperation project with Huawei. It is expected that the market would be opened up subsequently. AutoChips recently successfully developed the chip of TPMS, and had the mass-production capacity, which is expected to break the monopoly of Infineon in chip of TPMS.

### Buy (Upgrade)

CMP CNY 16.09

(Closing price as at 28 November)

TARGET CNY 20 (+24.3%)

#### COMPANY DATA

O/S SHARES (MN) :	1309
MARKET CAP (CNY MN) :	25351
52 - WK HI/LO (CNY):	30.18/ 13.15

#### SHARE HOLDING PATTERN, %

China Siwei	12.4
Tencent	11.14

#### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	2157	2134	2337	2803
Net Profit	265	479	275	419
EPS, CNY	0.22	0.38	0.21	0.32
P/E, x	73.6	42.8	76.7	50.3
BVPS, CNY	5.17	5.50	5.65	6.19
P/BV, x	3.1	2.9	2.8	2.6
DPS (CNY)	0.04	0.01	0.04	0.06
Div. Yield (%)	0.3%	0.1%	0.2%	0.4%

Source: Company reports, Phillip Securities Est.

#### Research analyst

ZhangJing (+ 86 021-51699400-103)

zhangjing@phillip.com.cn

From H2 2019, phased progress was made in market expansion: NavInfo obtained the orders from BMW, MITSUBISHI ELECTRIC, Ministry of Industry and Information Technology (MIIT), Ministry of Public Security, Daimule and Huawei, which would gradually contribute increment to the Company from 2021, and the elastic of result would be large in the future.

### Valuation

Although the profit of NavInfo would be affected by no expansion of new products and slowing domestic vehicle market of traditional navigation map and chip business, we believe that the Company is expected to welcome the turning point of result with the rapid advance of Self-Driving, and the growth space would be broad in the future. As analyzed above, we expected diluted EPS of the Company to RMB 0.21 and 0.32 of 2019/2020. And we accordingly gave the target price to 20. "Buy" rating. (Closing price as at 28 November)

#### Forward P/E P/B Trend



Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F
<b>Valuation Ratios</b>					
P/E (X), adj.	109.9	73.6	42.8	76.7	50.3
P/B (X)	6.1	3.1	2.9	2.8	2.6
Dividend Yield (%)	0.2%	0.3%	0.1%	0.2%	0.4%
<b>Per share data (RMB)</b>					
EPS, (Basic)	0.15	0.22	0.38	0.21	0.32
EPS, (Diluted)	0.15	0.22	0.37	0.21	0.32
DPS	0.04	0.04	0.01	0.04	0.06
BVPS	2.62	5.17	5.50	5.65	6.19
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	5.3%	36.0%	-1.1%	9.5%	19.9%
EBIT	-44.4%	259.7%	126.6%	-46.6%	62.4%
Net Income, adj.	20.2%	69.8%	80.6%	-42.7%	52.4%
<b>Margins</b>					
Gross margin	76.8%	75.4%	70.7%	70.4%	69.1%
EBIT margin	3.7%	9.7%	22.3%	10.9%	14.7%
Net Profit Margin	9.9%	12.3%	22.5%	11.8%	14.9%
<b>Key Ratios</b>					
ROE	5.8%	5.6%	7.0%	3.8%	5.4%
<b>Income Statement (RMB mn)</b>					
Revenue	<b>1585</b>	<b>2157</b>	<b>2134</b>	<b>2337</b>	<b>2803</b>
Gross profit	1218	1626	1507	1645	1935
EBIT	58	210	476	254	413
Profit before tax	164	269	507	266	443
Tax	47	57	129	59	97
Profit for the period	116	212	377	208	346
Minority interests	-40	-52.88	-101.65	-67	-73
Total capital share	1067	1283	1283	1309	1309
<b>Net profit</b>	<b>156</b>	<b>265</b>	<b>479</b>	<b>275</b>	<b>419</b>

Source: PSR

(Closing price as at 28 November)

### 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](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)