

Tuopu Group (601689 CH)

Lightweight and Automotive Electronics Business See Opportunities

China | Automobile Part | Company Update

23 December 2019

Investment Summary

Decline Slowed in the Third Quarter

Tuopu Group recorded a revenue of RMB3766 million in the last three quarters, a 15.50% fall compared with the same period of last year. Among which, Q3 revenue was RMB1328 million, signaling a 3.90% Y-o-Y decrease and a M-o-M increase of 11.30%. Compared with the 25% decrease in the second quarter, the decrease has significantly shrunk.

In terms of net profit attributable to the parent company, it was RMB340 million in the last three quarters, decreasing by 30% year-on-year. Among the RMB340 billion, RMB130 million was in the third quarter, which represented a 30% year-on-year decrease and a 30% month-on-month increase. Compared with the same period of last year, gross profit margin and net profit margin down 1.55 and 3.5 pts, respectively, mainly attributed to the decline in industry prosperity and the increase in depreciation.

Recovery of Sales Volume of Major Customers Leads to the Improvement of Capacity Utilization Ratio

The improvement in results in the third quarter is resulted from the improved demand from downstream customers. The output of the company's major customers Geely Motor and SAIC GM increased by 9.3% and 3.8%, respectively in the third quarter over the previous quarter. The production of SAIC self and Chang'an Ford also improved compared with the previous quarter, leading to a rebound in the company's capacity utilization. Gross profit margin increased by 0.6 pts to 26.4% compared with the second quarter, and net profit margin also increased by 1.4 pts to 9.55% compared with the second quarter. We expect that with the further improvement in sales of major customers in the fourth quarter, the company's profitability will continue to pick up, and net profit growth is expected to be positive.

The company continued to reduce costs and increase efficiency in adversity, and the sales, management and R&D expenses accounted for 14.76% of revenue in the third quarter, which fell by 0.92 pts compared with the second quarter. The company has a good cash flow with a RMB226 million net flow from its operating activities. Inventories fell 12.9% year-on-year to RMB1.14 billion.

Lightweight and Automotive Electronics Business See Opportunities for Development

The construction of Tesla's Shanghai plant was faster than expected. The trial production began in October and nearly 20,000 vehicles will be produced by the end of the year. As capacity climbs, production will reach 150,000 in 2020 and is expected to exceed 250,000 in 2021. Tuopu supplies Tesla with more than RMB5,000 for each vehicle, and it is estimated that the Model 3 vehicles will bring the company a net profit increment of RMB93 million and RMB180 million in the next two years, respectively, accounting for about 12% and 24% of the company's net profit in 2018. In the field of automotive electronics EVP and IBS, the company's visionary layout brings it a leading position among domestic manufacturers. Tuopu is expected to break through the technological monopoly of foreign giants and realize domestic substitution in the future.

Overall, the Company's lightweight chassis and automotive electronics business are in line with the trend of industry upgrading, which will inject momentum into the company's new round of development.

Accumulate (Maintain)

CMP CNY 17.44

(Closing price as at 19 Dec)

TARGET CNY 19 (+9%)

COMPANY DATA

O/S SHARES (MN) :	1055
MARKET CAP (CNY MN) :	18399
52 - WK HI/LO (CNY):	23.6/ 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	5355	6574
Net Profit	738	753	513	714
EPS, CNY	1.01	1.04	0.49	0.68
P/E, x	17.2	16.8	35.9	25.8
BVPS, CNY	8.89	9.92	7.05	7.61
P/BV, x	2.0	1.8	2.5	2.3
DPS (CNY)	0.62	0.41	0.12	0.21
Div. Yield (%)	3.5%	2.4%	0.7%	1.2%

Source: Company reports, Phillip Securities Est.

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Investment Thesis

We estimate that the company's net profit in 2019/2020/2021 will reach RMB513 /714/969 million, respectively, with the corresponding EPS being RMB0.49/0.68/0.92. Although the results in 2019 are under pressure, under the acceleration of Tesla's localization, the company's results will usher in an inflection point and we are optimistic about the development prospects of the company's lightweight business and automotive electronics. So, we lift the Company's target price to RMB19, respectively 26/21 x P/E for 2019/2020/2021, a "Accumulate" rating. (Closing price as at 19 Dec)

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

Forward PE PB trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY16	FY17	FY18	FY19F	FY20F	FY21F
Valuation Ratios						
P/E (X), adj.	18.4	17.2	16.8	35.9	25.8	19.0
P/B (X)	3.4	2.0	1.8	2.5	2.3	2.1
Dividend payout ratio(%)	19.5%	60.7%	39.8%	24.7%	31.0%	34.9%
Dividend Yield (%)	1.1%	3.5%	2.4%	0.7%	1.2%	1.8%
Per share data (RMB)						
EPS, (Basic)	0.95	1.01	1.04	0.49	0.68	0.92
EPS, (Diluted)	0.95	1.01	1.04	0.49	0.68	0.92
DPS	0.19	0.62	0.41	0.12	0.21	0.32
BVPS	5.19	8.89	9.92	7.05	7.61	8.32
Growth & Margins (%)						
Growth						
Revenue	30.9%	29.3%	17.6%	-10.5%	22.8%	20.6%
EBIT	41.1%	22.5%	5.9%	-29.4%	33.1%	35.7%
Net Income, adj.	48.4%	19.9%	2.1%	-32.0%	39.3%	35.7%
Margins						
Gross margin	30.4%	28.2%	26.1%	25.5%	26.1%	26.7%
EBIT margin	17.1%	16.2%	14.6%	11.5%	12.5%	14.0%
Net Profit Margin	15.6%	14.5%	12.6%	9.6%	10.9%	12.2%
Key Ratios						
ROE	18.9%	14.4%	11.0%	5.7%	9.2%	11.5%
Income Statement (RMB mn)						
Revenue	3938	5090	5984	5355	6574	7926
Gross profit	1199	1435	1564	1363	1718	2116
EBIT	674	825	874	616	820	1113
Profit before tax	715	860	877	616	844	1153
Tax	99	119	122	99	123	174
Profit for the period	616	741	755	517	721	979
Minority interests	0	3	2	5	7	10
Total capital share	649	728	728	1055	1055	1055
Net profit	616	738	753	513	714	969

Source: PSR

(Closing price as at 19 Dec)

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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