

# JOYSON (600699 CH)

## Success Advance of Global Integration and Expected Future Result

China | Automobile Parts | Company Updates

### Investment Summary

#### Improvement on Gross Margin Promoted by Continuous Integration Effect

Through several years of epitaxial mergers and acquisitions, Joyson Electronic's main products have covered four major fields related to driving, namely, vehicle active and passive safety, HMI and connectivity, new energy battery management system (BMS), and auto component. After the delivery of high-quality assets of Takata Company and their integration with KSS into Joyson Safety, the Company has become one of top 30 auto parts suppliers in the world and the second largest auto safety product supplier in the world.

In the first three quarters, Joyson Electronic recorded a revenue of RMB45.81 billion, up 16.2% yoy, net profit attributable to the parent company of RMB702 million, down 33.6% yoy, mainly due to non-recurring gains and losses confirmed in acquisition of assets of Takata Company during the same period last year, and net profit attributable to the parent company excluding non-recurring gains and losses of RMB814 million, up 15.7% yoy.

We believed that the decentralization of single risks of downturn in domestic car market by global supply assistance companies, the improvement in capacity utilization rate driven by consolidation of Takata Company (starting from Q2 2018) as well as the integration of Joyson Safety are the main reason for growth of result. Meanwhile, with advance of integration and appearance of scale effect, the cost control had been improved. In the first three quarters of 2019, the gross margin was 17.0%, up by 1.35 ppts yoy. The single-quarter gross margin of the first three quarters was 17.15%, 17.45% and 16.39%, respectively, up by 0.01 ppts, 3.22 ppts and 0.03 ppts, respectively. Specially, the qoq decrease of gross margin in 19Q3 was affected by US GM strike. A recovery in 19Q4 is expected with positive growth in overall gross margin for the whole year.

#### Success Advance of Global Integration and Expected Future Result

The Company actively strengthened management of working capital, with net operating cash inflow of RMB1.94 billion during the period, up 42.4% yoy. The expense rate of the first three quarters was stable, up by 0.4 ppts yoy to 14.2%. Specially, the sales expense rate was 2.27%, down by 0.48 ppts yoy, mainly due to advance of integration of Joyson Safety and integration of global sales outlets; the administration expense rate (including R&D) was 10.19%, up by 0.64 ppts yoy, mainly due to integration and restructuring costs and increased R&D investment; the financial expense rate was 1.7%, up by 0.24 ppts yoy, mainly due to increase in interest charges brought by mergers and acquisitions. Global integration of the Company is progressing smoothly. Most of the restructuring plans for China and Asia (ROA) have been completed. Detailed restructuring plans for Americas and EMEA are being implemented. The expense rates of integration are expected to be reduced with success advance of integration and continuous improvement of production efficiency and personnel structure. After completion of benchmark "super factories" located in six major cities in the world in the future, the automation rate would be improved, which will benefit profitability of Joyson Electronic. The improvement of market occupation rate of auto safety business from 30% to approximately 40% and the largest auto safety product supplier in the world within five years are the objectives of the Company.

12 February, 2020

### Accumulate (Maintain)

CMP CNY 29.61

(Closing price as at 10 Feb)

TARGET CNY 32.5 (+10%)

#### COMPANY DATA

O/S SHARES (MN) :	1237
MARKET CAP (CNY MN) :	36635
52 - WK HI/LO (CNY):	29.96/ 13.52

#### SHARE HOLDING PATTERN, %

Mr. Wang Jianfeng	36.67
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#### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	26606	56181	62733	67529
Net Profit	396	1318	1004	1285
EPS, CNY	0.42	1.43	0.81	1.04
P/E, x	71.0	20.7	36.5	28.5
BVPS, CNY	13.37	13.50	10.94	11.82
P/BV, x	2.2	2.2	2.7	2.5
DPS (CNY)	0.10	0.00	0.16	0.23
Div. Yield (%)	0.3%	0.0%	0.5%	0.8%

Source: Company reports, Phillip Securities Est.

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**Rapid Development of Automotive Electronics Business**

With acceleration of 5G progress, car cabin electronics and car networking technology are increasingly combined. The V2X based on 5G technology has a huge market space. Joyson Electronic has participated in formulation of industry standards. The vehicle-mounted information system provided by the Company for MQB/MEB platform of SAIC Volkswagen and FAW Volkswagen will enter mass production in H2 2019. The vehicle-mounted information system based on Google Android Auto provided for Volkswagen and Audi will enter mass production in 2020. The V2X car end product independently developed will enter mass production in 2021, which is expected to become the first 5G-V2X mass production product in the world. 4.2 billion of orders for connectivity business were added in H1.

In terms of E-mobility, in addition to major customers such as BMW, Mercedes-Benz and Geely, the Company has successively obtained BMS orders from Porsche, Volkswagen, new generation electric platform of Mercedes-Benz, Nissan, Ford and SGM-Wuling, as well as OBC orders for Volvo and Ferrari. As at H1 2019, 13.1 billion of orders for E-mobility business of the Company were obtained.

By the way, the Company expressed its intention to list the above-mentioned automotive electronics businesses to support further development of new businesses.

**Wining of Order from Tesla**

In recent days, the Company announced its obtaining of orders of RMB1.5 billion for steering wheels and airbags of Model3 and ModelY models from Tesla China. The orders will be available from 2020 with a life circle of about three or five years. The Company has already signed an order of RMB4.5 billion for auto safety products and an order of RMB1.5 billion for auto safety products, which means that Tesla would contribute RMB1.5 billion to RMB2.5 billion of revenue for the Company and approximately RMB1,600 of matching amount of single vehicles in the next three to five years.

**Investment Thesis**

In the first three quarters, Joyson Electronic obtained cumulative new orders of approximately RMB56 billion. Although the domestic car market will be affected by the epidemic, we are optimistic about the firm leading position of the Company and the broad development space for new businesses.

We revised the target price of RMB 32.5 equivalent to 40/31/24x of 2019/2020/2021's estimated EPS, and assign Accumulate ratings. (Closing price as at 10 Feb)

**Valuation Trend**



Source: Bloomberg, Phillip Securities Hong Kong Research

**Risk**

Operating collision in Joyson's M&A  
Worse-than-expected downstream demand

## Financials

FYE DEC	FY17	FY18	FY19F	FY20F	FY21F
<b>Valuation Ratios</b>					
P/E (X), adj.	71.0	20.7	36.5	28.5	22.2
P/B (X)	2.2	2.2	2.7	2.5	2.3
Dividend Yield (%)	0.3%	0.0%	0.5%	0.8%	1.0%
<b>Per share data (RMB)</b>					
EPS, (Basic)	0.42	1.43	0.81	1.04	1.34
EPS, (Diluted)	0.42	1.43	0.81	1.04	1.34
DPS	0.10	0.00	0.16	0.23	0.30
BVPS	13.37	13.50	10.94	11.82	12.95
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	43.4%	111.2%	11.7%	7.6%	9.6%
EBIT	22.6%	23.9%	54.1%	12.1%	14.7%
Net Income, adj.	-12.7%	232.9%	-23.8%	27.9%	28.6%
<b>Margins</b>					
Gross margin	16.4%	17.0%	17.4%	17.5%	17.8%
EBIT margin	5.9%	3.4%	4.7%	4.9%	5.2%
Net Profit Margin	1.5%	2.3%	1.6%	1.9%	2.2%
<b>Key Ratios</b>					
ROE	3.1%	10.6%	6.6%	9.1%	10.8%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>26606</b>	<b>56181</b>	<b>62733</b>	<b>67529</b>	<b>73985</b>
<b>Gross profit</b>	<b>4360</b>	<b>9550</b>	<b>10884</b>	<b>11818</b>	<b>13169</b>
EBIT	1557	1928	2971	3329	3819
Profit before tax	996	2761	2157	2563	3072
<b>Tax</b>	<b>254</b>	<b>634</b>	<b>487</b>	<b>590</b>	<b>768</b>
Profit for the period	743	2126	1669	1974	2304
Minority interests	347	809	665	689	652
Total capital share	949	921	1237	1237	1237
<b>Net profit</b>	<b>396</b>	<b>1318</b>	<b>1004</b>	<b>1285</b>	<b>1652</b>

Source: PSR

(Closing price as at 10 Feb)

### 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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