

CATL (300750 CH)

King of Power Battery Industry, expect to keep benefitting from Matthew's Effect

China | Automobile Components | Company Report

Investment Summary

Company profile

CATL is a leading power battery system supplier in the world and focuses on R&D, manufacturing and sales of power battery systems and energy storage systems for new energy vehicles. The main business includes power battery system, energy storage system and lithium battery material system (mainly ternary precursor). Specially, the power battery system includes battery core, module and battery pack, which are applied to passenger vehicles and commercial vehicles. In addition, the Company also entered into battery recovery business by acquiring Guangdong BRUNP, invested in holding foreign lithium mine enterprises to bind raw material suppliers, and achieved closed-loop layout of upstream and downstream industry chains.

Shareholding Structure

The sponsor shareholders of the Company and employee holding platform accounted for 59% of the Company's shares, with relatively concentrated shares and stable shareholding structure. The Company launched equity incentives three times in 2015, 2018 and 2019, with employees deeply bound to interests of the Company.

Financing Overview

The Company was established in 2011. After changing into a joint-stock company in 2015, the Company obtained a total capital of RMB16.28 billion through eight rounds of financing. The Company listed on IPO in June 2018 and raised RMB5.46 billion to construct 24GWh power battery new capacity project; in June 2019, the Company issued RMB10 billion of corporate bonds to further maintain orderly progress of capacity expansion.

History

The Company was born out of power battery business department of ATL, the world leader in consumer batteries (polymer lithium batteries) and Apple's mobile battery supplier. At the beginning of establishment, the Company undertook the technology accumulation, manufacturing experience and brand channels in consumer battery of ATL. Depending on the first order in 2012 and successful cooperation with BMW Brilliance, the Company became the only domestic manufacturer to enter into power battery supply chain of multinational automobile enterprises, and became famous at that time.

Starting from 2014, due to vigorous support of the country for new energy vehicle industry chain and sharp increase of domestic lithium battery demand, the Company has been able to rapidly grow. Judging from the shipments, CATL has ranked the first in the world from 2017. The installed power battery capacity in China reached 56.9GWh and 62.2GWh in 2018 and 2019, with CATL of 23.53GWh and 31.71GWh, respectively. Its market share was 41% and 51%, and the gap between the second place BYD (20% and 17%) and the third place Guoxuan Hi-Tech (5% and 5%) was widening.

26 February 2020

Buy (Initiation)

CMP CNY 154.41

(Closing price as at 24 Feb)

TARGET CNY 185.3 (+20%)

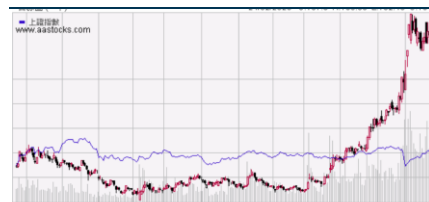
COMPANY DATA

O/S SHARES (MN) :	2208
MARKET CAP (CNY MN) :	340999
52 - WK HI/LO (CNY):	169.89/ 64

SHARE HOLDING PATTERN, %

Mr Zeng Yuqun	25.88
---------------	-------

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	19997	29611	43713	57936
Net Profit	3878	3387	4400	5784
EPS, CNY	2.01	1.64	1.99	2.62
P/E, x	76.9	94.1	77.5	58.9
BVPS, CNY	12.63	15.01	16.73	18.93
P/BV, x	12.2	10.3	9.2	8.2
DPS (CNY)	0.00	0.14	0.20	0.40
Div. Yield (%)	0.0%	0.1%	0.1%	0.3%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 21-51699400-103)

zhangjing@phillip.com.cn

Low Customer Concentration for Dispersing Risks

For customer structure, the Company almost covered all mainstream car enterprises: Domestic commercial vehicle leader YUTONG, passenger vehicle leaders SAIC, GAC and Geely, as well as new comers as NIO and Weltmeister. In terms of overseas customers, the Company has cooperated with BMW for a long time and is also the supplier of VW, Daimler, Toyota, Honda and Volvo. Recently, the cooperation agreement signed with Tesla was announced. Compared with competitors Samsung and Panasonic, customers of CATL are distributed more dispersedly, which is conducive to dispersing risks.

Technical Leading Advantages with Obvious Cost-Scale Effect

In recent years, the scale of CATL increased continuously with further outstanding technical advantages, thus resulting in gradually appeared scale effect and obvious competitive advantages. Currently, the power battery cost of the Company has decreased to RMB0.75/Wh, mainly due to dilution of fixed costs by scale effect and increase in automation rate, besides the decrease in raw material price.

1. Technical advantages: Early synergy with ATL improved R&D efficiency. Then, the Company also obtain efficient cash for high R & D input through capital market financing, enabling new product design and technological innovation, and the energy density of its battery increased year by year. As of H1 2019, the Company had a total of 4,678 R&D personnel, accounting for 17% of employees. R&D expenditure accounted for 7% of total revenue, and was fully expensed. The Company and its subsidiaries had 1,909 domestic patents and 59 overseas patents, with a total of 2,571 patents under application.

2. Scale-cost effect: Due to excellent performance, the products of the Company were very popular, and the number of matching vehicle models was far ahead of peers. Demand and capacity expansion formed a virtuous circle. The capacity of the Company increased from 7GWh in 2016 to approximately 40GWh in 2019. The Company has production bases in Ningde, Qinghai and Liyang at present, and begins to establish its first overseas production base in Germany. The Company plans to achieve a total capacity of 150GWh to 160GWh in 2022, with accelerating capacity expansion.

In general, we expect that the unit cost of products of the Company has room for further reduction, mainly due to technical upgrading and forward-looking layout brought about by R&D investment, scale effect brought about by production increase, supply chain management, equipment localization substitution, as well as labour efficiency improvement.

Healthy Financial Indicator Leading Industry

Depending on increase in shipments, the result of CATL also showed explosive growth. The revenue increased 32-fold from RMB890 million in 2014 to RMB29.6 billion in 2018; the net profit attributable to the parent company increased 61-fold from RMB54.4 million to RMB3.39 billion.

Meanwhile, the financial indicators of the Company were sound. The gross margin from 2014 to 2018 was 25.7%/38.6%/43.7%/37%/32.8%, respectively. The decrease since 2017 was mainly due to price reduction caused by subsidy decline, but still 10 pts higher than that of competitors. In terms of solvency, the debit ratio continuously increased due to rapid expansion, but still lower than average level, at a reasonable ratio. The Company had strong bargaining power to the upstream and downstream, which guarantees good cash flow. Net cash flow from operating activities was approximately twice that of interest-bearing debts, cash in hand was approximately five times that of interest-bearing debts, and balance sheet was strong.

Investment Thesis

At present, the electric vehicle policies of many countries in the world especially European were accelerated. Large car manufacturers would accelerate their new energy plans. With continuous expansion of follow-up scale and release of bonuses for engineers, the cost control advantages of leading enterprise would be highlighted, and power battery industry is expected to show a pattern that the strong would get stronger and stronger. CATL would benefit deeply from the global electrification trend and may exceed market expectations. Risks are unexpected sales volume of electric vehicles, sharp increase in raw material price or sharp decrease in product price.

As for valuation, we expected diluted EPS of the Company to RMB 1.99/2.62/3.51 of 2019/2020/2021. And we accordingly gave the target price to RMB185.3, respectively 93/71/53x P/E for 2019/2020/2021. "Buy" rating. (Closing price as at 24 Feb)

Risk

Progress of new production line is below expectations
 Electric vehicle sales fall short of expectations
 Macroeconomic downturn affects product demand
 Sharply rising raw material prices or sharply falling product prices

Financials

FYE DEC	FY17	FY18	FY19F	FY20F	FY21
Valuation Ratios					
P/E (X), adj.	76.9	94.1	77.5	58.9	44.0
P/B (X)	12.2	10.3	9.2	8.2	7.0
Dividend Yield (%)	0.0%	0.1%	0.1%	0.3%	0.3%
Per share data (RMB)					
EPS, (Basic)	2.01	1.64	1.99	2.62	3.51
EPS, (Diluted)	2.01	1.64	1.99	2.62	3.51
DPS		0.14	0.20	0.40	0.54
BVPS	12.63	15.01	16.73	18.93	21.95
Growth & Margins (%)					
Growth					
Revenue	40.1%	48.1%	47.6%	32.5%	34.0%
EBIT	57.5%	-20.2%	15.7%	34.1%	40.3%
Net Income, adj.	41.9%	-12.7%	29.9%	31.4%	34.1%
Margins					
Gross margin	36.3%	32.8%	28.8%	28.0%	27.7%
EBIT margin	24.4%	13.1%	10.3%	10.4%	10.9%
Net Profit Margin	19.4%	11.4%	10.1%	10.0%	10.0%
Key Ratios					
ROE	19.3%	11.8%	12.6%	14.7%	17.2%
Income Statement (RMB mn)					
Revenue	19997	29611	43713	57936	77645
Gross profit	7257	9709	12572	16199	21508
EBIT	4874	3889	4501	6037	8467
Profit before tax	4848	4205	5379	7042	9492
Tax	654	469	605	792	1068
Profit for the period	4194	3736	4774	6250	8424
Minority interests	316	349	374	466	667
Total capital share	1955	2195	2208	2208	2208
Net profit	3878	3387	4400	5784	7757

Source: PSR

(Closing price as at 24 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

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>.

© 2020 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 10, 330 Collins Street
Melbourne VIC 3000

Tel (+61) 3 8633 9803 Fax (+61) 3 8633 9899

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