

Tuopu Group (601689 CH)

Non-public Offering and Production Expansion will Promote the Company to Grow with High-quality Customers

China | Automobile Part | Company Update

7 July 2020

Investment Summary

Last Year's Results Declined with the Market

Tuopu Group reported a revenue of RMB5,359 million in 2019, down by 10.45% yoy due to the sliding sales volume of major customers such as Geely, SAIC-GM and Ford resulting from overall downturn of the automobile industry last year. The net profit attributable to the parent company of RMB456 million, down by 39.44% yoy. Basic EPS was RMB0.44, and the DPS was RMB0.19, a dividend payout ratio of 43%.

In 2019, the car sales volume of Geely, SAIC-GM and Ford were down by 9.3%, 25.7% and 26.1%, respectively. This affected the sales volume of the Company's interior trim and chassis system, and the revenue of the two segments was RMB1,650 million and RMB1,047 million, respectively, down by 25.64% and 10.28%, respectively. Another two segments of shock absorbers and automotive electronics stayed flat, recording an income of RMB2,342 million (+1.50%) and RMB128 million (+1.30%), respectively.

The gross margin decreased by 0.6 ppts to 26.29% in 2019, and the net profit margin declined by 4.04 ppts to 8.58%. The period expense ratio was 15.6%, up by 2.2 ppts from the previous year. The expense ratio of sales/administration/R&D was 5.36%/10.15%/5.87%, respectively, which was mainly because of the rapid increase in administration expense rate (the increase of wages and depreciation and amortization) and R&D cost rate (the increase of R&D input).

The Results of Q1 2020 Outperformed the Market

In Q1 2020, the Company recorded a revenue of RMB1,208 million, down by 2.98% yoy. The net profit attributable to the parent company was RMB114 million, up by 0.14% yoy. The performance of the Company obviously outperformed the market, and the main contribution came from Tesla's localization project. The period expense ratio was 16.39%, up by 0.58 ppts yoy, among which the expense ratio of sales/administration/R&D was 5.46%/4.15%/6.22%, respectively. The R&D input remained high. The result of the Company had been dragged by the high depreciation brought by the new production lines in the early stage. It is expected that as the capital spending slows down, the pressure of depreciation and amortization will be significantly reduced, and the expense ratio of the whole year will keep steady.

Non-public Offering and Production Expansion will Promote the Company to Grow with High-quality Customers

In recent years, the Company has proactively made a layout of the module of the lightweight chassis system and the automotive electronics business as the future strategic development project, in order to adapt to the trend of electrification, intellectualization and lightweight of vehicles. As one of the four core systems of automobile, the automotive chassis system is capital-intensive and technology-intensive, and of high single vehicle value. We believe electrification and lightweight is the direction of the automobile industry in the future.

Accumulate (Maintain)

CMP CNY 28.3

(Closing price as at 3 July)

TARGET CNY 30 (+6%)

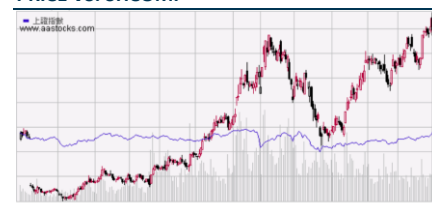
COMPANY DATA

O/S SHARES (MN) :	1055
MARKET CAP (CNY MN) :	29856
52 - WK HI/LO (CNY):	29.44/ 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	FY18	FY19	FY20E	FY21E
Net Sales	5984	5359	6558	8180
Net Profit	753	456	654	980
EPS, CNY	1.04	0.43	0.62	0.93
P/E, x	27.3	65.4	45.7	30.5
BVPS, CNY	9.92	6.99	7.49	8.32
P/BV, x	2.9	4.0	3.8	3.4
DPS (CNY)	0.41	0.19	0.25	0.32
Div. Yield (%)	1.5%	0.7%	0.9%	1.1%

Source: Company reports, Phillip Securities Est.

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The lightweight chassis system plays an important role in improving the endurance mileage of the new energy vehicle, and the comfort and controllability of the vehicle. The application of parts of the lightweight chassis system in the whole vehicle, especially the new energy vehicle will be deepened continuously. The Company continues to increase the investment in innovation and make the layout of the supporting capacity of new energy vehicles and the R&D input of lightweight products. Currently, various light alloy products and lightweight chassis developed by integrating many processes such as aluminium alloy have achieved the recognition of customers at home and abroad, especially new energy vehicle enterprises. Now, Tuopu has entered the supply chain of manufacturers such as Tesla, Geely, BYD, BAIC, Great Wall, NIO and WM.

Investment Thesis

We revised the estimate that the company's net profit in 2020/2021 will reach RMB 654/980 million, respectively, with the corresponding EPS being RMB 0.62/0.93. Although the stock price recorded a significant increase, 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 RMB30, respectively 48/32 x P/E, 4/3.6 x P/B for 2020/2021, a "Accumulate" rating. (Closing price as at 3 July)

Peer Comparison

Code	Market Cap	PE			PB(MRQ)
		TTM	19E	20E	
601689.SH	299	65	48	37	4
Medium	298	43	34	26	3
600741.SH	714	15	12	11	1
600660.SH	552	20	21	17	3
601799.SH	343	44	37	29	7
600699.SH	296	41	31	22	2
603786.SH	278	56	53	42	8
000581.SZ	178	10	9	9	1
002920.SZ	340	112	87	61	8
603305.SH	180	82	66	50	9
002085.SZ	147	22	15	14	2

Source: Wind, Phillip Securities Hong Kong Research

Forward PE PB trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Risk

Price war among peers
Raw material price increase
New business risk

Financials

FYE DEC	FY16	FY17	FY18	FY19	FY20F	FY21F
Valuation Ratios						
P/E (X), adj.	29.8	27.9	27.3	65.4	45.7	30.5
P/B (X)	5.5	3.2	2.9	4.0	3.8	3.4
Dividend payout ratio(%)	19.5%	60.7%	39.8%	43.9%	40.3%	34.5%
Dividend Yield (%)	0.7%	2.2%	1.5%	0.7%	0.9%	1.1%
Per share data (RMB)						
EPS, (Basic)	0.95	1.01	1.04	0.43	0.62	0.93
EPS, (Diluted)	0.95	1.01	1.04	0.43	0.62	0.93
DPS	0.19	0.62	0.41	0.19	0.25	0.32
BVPS	5.19	8.89	9.92	6.99	7.49	8.32
Growth & Margins (%)						
Growth						
Revenue	30.9%	29.3%	17.6%	-10.4%	22.4%	24.7%
EBIT	41.1%	22.5%	5.9%	-38.8%	45.8%	43.8%
Net Income, adj.	48.4%	19.9%	2.1%	-39.4%	43.3%	49.9%
Margins						
Gross margin	30.4%	28.2%	26.1%	25.4%	26.3%	27.2%
EBIT margin	17.1%	16.2%	14.6%	10.0%	11.9%	13.7%
Net Profit Margin	15.6%	14.5%	12.6%	8.5%	10.0%	12.0%
Key Ratios						
ROE	18.9%	14.4%	11.0%	5.1%	8.6%	11.8%
Income Statement (RMB mn)						
Revenue	3938	5090	5984	5359	6558	8180
Gross profit	1199	1435	1564	1359	1727	2225
EBIT	674	825	874	535	779	1121
Profit before tax	715	860	877	529	761	1153
Tax	99	119	122	69	104	167
Profit for the period	616	741	755	460	658	986
Minority interests	0	3	2	4	4	6
Total capital share	649	728	728	1055	1055	1055
Net profit	616	738	753	456	654	980

Source: PSR

(Closing price as at 3 July)

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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