

# CATL (300750 CH)

## Seasoned Offering and Production Expansion Boost Dynamic Growth; Make Progress to Advance the Strategic Layout

China | Automobile Components | Company Report

25 August 2020

### Investment Summary

#### 2019 Result was in Line with Expectations, and Market Share Increased Significantly

According to the latest financial report data, in 2019, CATL recorded a revenue of RMB45.79 billion, up by 54.6% yoy, which was beyond expectations. The net profit attributable to the parent company was RMB4.56 billion, up by 34.6% yoy, and net profit attributable to the parent company excluding non-recurring items was RMB3.92 billion, up by 25% yoy. The EPS was RMB2.09, with a dividend paid of RMB0.22 per share. The weighted average ROE was 12.8%, up by 1 ppts yoy.

Among them, revenues of RMB9.98 billion (+168%yoy), RMB10.28 billion (+82%yoy), RMB12.59 billion (+29%yoy) and RMB12.9 billion (+23% yoy) were recorded in the four quarters, respectively. And net profits of RMB1.05 billion (+153% yoy), RMB1.06 billion (+112% yoy), RMB1.36 billion (-7.2% yoy) and RMB1.1 billion (+0.87% yoy) were recorded in the four quarters, respectively. The main reason for the decline in profitability in Q4 was that more impairment provision was made in Q4 (RMB1 billion).

The Company's result was in line with expectations, mainly due to the increase in industry concentration, the expansion of the Company's market share, and the release of the production capacity resulting from the production line put into operation in the early stage. In 2019, the Company's power battery sales reached 40.96GWh (+92.2% yoy), the production volume reached 47.26GWh (+81.6%), and the year-end inventory was 10.53GWh (+89.7%). The capacity utilization rate was at a high level of 89%, and the production-sales ratio reached 87%. In the whole year, the Company recorded 32.3GWh of installed battery, up by 38.6% yoy, with a market share of 52%, up by 11 ppts yoy.

Meanwhile, the Company adopted extremely conservative accounting standards including accelerated depreciation and all expensing of R&D cost, and the unit price of battery dropped by nearly 20%. Although the unit cost of battery also dropped by about 10%, the gross margin of the Company's battery system decreased to 28.45%, down by 5.65 ppts yoy.

#### The Pandemic Impacted the Q1 Result, but will not Change the Long-term Trend

Due to the impact of the pandemic, in Q1 of 2020, CATL recorded a revenue of RMB9.031 billion, down by 9.53% yoy. The net profit was RMB0.742 billion, down by 29.14% yoy, and net profit excluding non-recurring items was RMB0.428 billion, down by 53.24% yoy..

In Q1 of 2020, due to the pandemic, the domestic sales volume of new energy vehicles dropped sharply. The installed capacity of power batteries was 5.7GWh, down by 53.8% yoy. The Company's installed capacity was 2.8GWh, down by 49% yoy, better than the industry average. The market share was down slightly to 49%, with LG Chem taking part of its share because of the popularity of the Tesla model3 in China. Meanwhile, insufficient capacity utilization caused by the pandemic impacted, to a certain extent, the gross margin, which fell to 25%, down by 3.6 ppts yoy.

CATL began to supply domestic Tesla from July, and as the domestic pandemic was first brought under control, industry supply and demand will gradually be improved. In November last year, BMW announced an additional order of EUR7.3 billion for the Company. In August this year, Mercedes-Benz announced that it will deepen its cooperation with the Company. CATL will become the head supplier of Mercedes-Benz's passenger vehicles. At present, CATL has the most extensive customer base among the peers, and the investment and construction of overseas factories will further open up overseas markets. With the successive launching of supporting models, the Company will gradually enter the order fulfilment period in the next few years.

### Accumulate (downgrade)

CMP CNY 192.23

(Closing price as at 21 Aug)

TARGET CNY 226 (+20%)

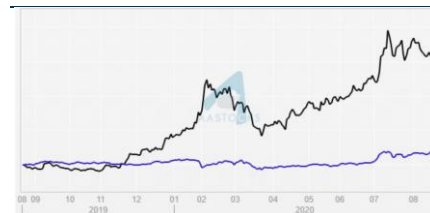
#### COMPANY DATA

O/S SHARES (MN) :	2329
MARKET CAP (CNY MN) :	447795
52 - WK HI/LO (CNY):	224.29/68.3

#### SHARE HOLDING PATTERN, %

Mr Zeng Yuqun	25.88
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#### PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY18	FY19	FY20E	FY21E
Net Sales	29611	45788	51936	75645
Net Profit	3387	4561	5135	7533
EPS, CNY	1.64	2.09	2.20	3.23
P/E, x	117.1	91.8	87.2	59.4
BVPS, CNY	15.01	17.27	19.03	21.67
P/BV, x	12.8	11.1	10.1	8.9
DPS (CNY)	0.14	0.22	0.33	0.53
Div. Yield (%)	0.1%	0.1%	0.2%	0.3%

Source: Company reports, Phillip Securities Est.

#### Research Analyst

ZhangJing (+ 86 21-51699400-103)

zhangjing@phillip.com.cn

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In July, the Company completed RMB19.7 billion of private placement, which was mainly used for the expansion of the Huxi Base Project (RMB4 billion), the Phase III of Jiangsu Times Power and Energy Storage Project (RMB5.5 billion), Phase I of Sichuan Base Project (RMB3 billion), R&D projects of electrochemical energy storage frontier technology reserves (RMB2 billion) and supplementary working capital (RMB5.2 billion). At present, the Company's battery production capacity is about 53GWh, and the capacity under construction is 22GWh. It is estimated that the Company's total production capacity will exceed 200GWh in 2023, and its leading position will be further consolidated.

In August, the Company issued an announcement stating that it intends to invest in high-quality listed companies in the upstream and downstream industry chain at home and abroad by means of securities investment, with an amount not exceeding RMB19.067 billion. We expect this will further strengthen the Company's collaboration with core equipment vendors, material vendors, and upstream and downstream core companies, ensure the supply of key resources, reduce costs, provide more opportunities for growth, and enhance the Company's global competitiveness.

### **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 2.2/3.23 of 2020/2021. And we accordingly gave the target price to RMB226, respectively 103/70x P/E for 2020/2021. "Accumulate" rating. (Closing price as at 21 Aug)

### **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	FY19	FY20F	FY21F
<b>Valuation Ratios</b>					
P/E (X), adj.	95.7	117.1	91.8	87.2	59.4
P/B (X)	15.2	12.8	11.1	10.1	8.9
Dividend Yield (%)	0.0%	0.1%	0.1%	0.2%	0.3%
<b>Per share data (RMB)</b>					
EPS, (Basic)	2.01	1.64	2.09	2.20	3.23
EPS, (Diluted)	2.01	1.64	2.09	2.20	3.23
DPS		0.14	0.22	0.33	0.53
BVPS	12.63	15.01	17.27	19.03	21.67
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	40.1%	48.1%	54.6%	13.4%	45.7%
EBIT	57.5%	-20.2%	28.0%	17.9%	52.0%
Net Income, adj.	41.9%	-12.7%	34.7%	12.6%	46.7%
<b>Margins</b>					
Gross margin	36.3%	32.8%	29.1%	27.5%	27.6%
EBIT margin	24.4%	13.1%	10.9%	11.3%	11.8%
Net Profit Margin	19.4%	11.4%	10.0%	9.9%	10.0%
<b>Key Ratios</b>					
ROE	19.3%	11.8%	13.0%	12.1%	15.9%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>19997</b>	<b>29611</b>	<b>45788</b>	<b>51936</b>	<b>75645</b>
<b>Gross profit</b>	<b>7257</b>	<b>9709</b>	<b>13305</b>	<b>14262</b>	<b>20855</b>
EBIT	4874	3889	4978	5867	8916
Profit before tax	4848	4205	5761	6500	9714
<b>Tax</b>	<b>654</b>	<b>469</b>	<b>748</b>	<b>731</b>	<b>1214</b>
Profit for the period	4194	3736	5013	5769	8500
Minority interests	316	349	452	634	967
Total capital share	1955	2195	2208	2329	2329
<b>Net profit</b>	<b>3878</b>	<b>3387</b>	<b>4561</b>	<b>5135</b>	<b>7533</b>

Source: PSR

(Closing price as at 21 Aug)

**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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**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)