

Tuopu Group (601689 CH)

Downstream OEM Clients' Momentum and the Tier-0.5 Strategy Open up Future Room for Growth

China | Automobile Part | Company Update

9 June 2021

Investment Summary

FY20's Results Grew by Nearly 40% against the Trend, and Q1 FY21 Results Rose by 116%

In 2020, Tuopu Group reported operating revenue of RMB6.51 billion, up by 21.5% yoy; net profit attributable to the parent company was RMB630 million, up by 37.7% yoy; earnings per share was RMB0.60. Dividend per share was RMB0.172, with a dividend payout ratio of 28.7%. Although the industry was hit by the COVID-19 pandemic in H1 of 2020, the Company's revenue grew against the trend and was significantly better than the industry average. This is mainly because the Company has been actively engaged in the field of lightweight chassis for new energy vehicles and automotive electronics in recent years. The transformation effect has gradually appeared. The increment brought by Tesla's localization project made an obvious contribution, and the transition period in the same period last year brought a relatively low base. Specifically, the revenue of shock absorbers, interiors, chassis, and automotive electronics increased by 9.3%, 34.8%, 27.0%, and 39.6%, respectively to RMB2.56 billion, RMB2.22 billion, RMB1.33 billion, and RMB180 million, respectively. In the first quarter of 2021, benefiting from the strong industry rebound and the continued sales volume of Tesla models, Tuopu Group reported operating revenue of RMB2,426 million, up by 100.8% yoy. Net profit attributable to the parent company was RMB246 million, up by 116.4% yoy. The net profit was in the upper limit of the interval of the Company's previous result forecast (RMB220 million to RMB260 million).

Gross Margin Fluctuated Due to Accounting Standard Adjustments and Rising Raw Material Prices

In 2020, the Company recorded a 22.7% gross margin, down by 3.6 pts yoy. The gross margin declined by 3.14 pts, mainly due to the fact that under the new accounting standards, RMB197 million of transportation and storage expenses related to sales of goods was included in operating costs. Without consideration of such factor, the actual gross margin dropped by 0.58 pts to 25.7%.

In the first quarter of 2021, the Company's gross margin was 21.9%, down by 5.4 pts yoy. In addition to the changes in accounting standards, we estimate that part of the reason was the increase in raw material prices in the first quarter. We expect that as new production capacity continues to climb, the gross margin will improve yoy.

In the same way, the period expense ratios in 2020 and the first quarter of 2021 decreased by 3.96 pts and 7.3 pts yoy, respectively, due to 1) accounting factors and 2) high revenue growth, which led to the dilution of the expense ratio. In the end, the Company's net profit margin rose by 1.1 pts and 0.81 pts, respectively yoy.

Downstream OEM Clients' Momentum and the Tier-0.5 Strategy Open up Room for Growth

In recent years, on the basis of the original business of shock absorbers and interior functional parts, the Company has proactively arranged the module of the lightweight chassis system and the automotive electronics business as the future "2+3" strategic development projects, in order to adapt to the trend of electrification, intellectualization and lightweight of vehicles.

BUY (Upgrade)

CMP CNY 37

(Closing price as at 7 June)

TARGET CNY 46.1 (+24.6%)

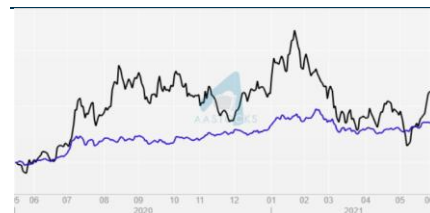
COMPANY DATA

O/S SHARES (MN) :	1102
MARKET CAP (CNY MN) :	40776
52 - WK HI/LO (CNY):	52.61/ 23.3

SHARE HOLDING PATTERN, %

Mr. Wu Jianshu	66.43
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY20	FY21F	FY22F	FY23F
Net Sales	6511	12019	14065	16227
Net Profit	628	1286	1572	2117
EPS, CNY	0.60	1.17	1.43	1.92
P/E, x	62.1	31.7	25.9	19.3
BVPS, CNY	7.38	9.89	10.98	12.48
P/BV, x	5.0	3.7	3.4	3.0
DPS (CNY)	0.17	0.35	0.42	0.59
Div. Yield (%)	0.5%	0.9%	1.1%	1.6%

Source: Company reports, Phillip Securities Est.

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Relying on its excellent vehicle synchronisation R&D capabilities, strategic forward-looking arrangement and other comprehensive factors, as well as early binding of strong downstream customers, the Company has begun to enter the order harvesting period and continued to steadily expand its market share. The Tier 0.5 strategy pioneered by the Company has achieved demonstrative success. The matching amount of single vehicles was relatively high. New orders have increased significantly compared with previous years, which provides guarantee for the Company's rapid and sustainable development in the future.

To meet the demand for orders, the Company accelerated the construction of Xiangtan base, Ningbo Hangzhou Bay New Area base Phase II and Phase III, and Ningbo Yinzhou District production base. In 2021, the Company will complete the construction of 1,500 mu of factory under construction and start the planning of the next 1,500 mu of industrial park.

In addition, in 2020, the Company's business was extended to the new energy vehicle thermal management relying on the technical homology of electronic control and related precision manufacturing capabilities in the IBS process of the automotive electronics business in the previous period. At present, the Company has successfully developed products such as heat pump air conditioners, electronic expansion valves, electronic water valves, electronic water pumps, and gas-liquid separators. In the future, the Company is expected to become an overall solution provider in the new energy vehicle thermal management. The overall matching value of single vehicles is as high as RMB6,000 to RMB 9,000. We expect that the Company will continue to benefit from the trend towards electrification and intellectualization of vehicles and enter a stage of rapid growth.

Investment Thesis

We revised the estimate that the company's net profit in 2021/2022/2023 will reach RMB 1286/1572/2117 million, respectively, with the corresponding EPS being RMB 1.17/1.43/1.92. 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 RMB46.1, respectively 40/32/24 x P/E, 4.7/4.2/3.7 x P/B for 2021/2022/2023, a "BUY" rating. (Closing price as at 7 June)

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	FY18	FY19	FY20	FY21F	FY22F	FY23F
Valuation Ratios						
P/E (X), adj.	35.7	85.6	62.1	31.7	25.9	19.3
P/B (X)	3.7	5.3	5.0	3.7	3.4	3.0
Dividend payout ratio(%)	39.8%	43.9%	28.9%	30.0%	29.4%	30.7%
Dividend Yield (%)	1.1%	0.5%	0.5%	0.9%	1.1%	1.6%
Per share data (RMB)						
EPS, (Basic)	1.04	0.43	0.60	1.17	1.43	1.92
EPS, (Diluted)	1.04	0.43	0.60	1.17	1.43	1.92
DPS	0.41	0.19	0.17	0.35	0.42	0.59
BVPS	9.92	6.99	7.38	9.89	10.98	12.48
Growth & Margins (%)						
Growth						
Revenue	17.6%	-10.4%	21.5%	84.6%	17.0%	15.4%
EBIT	5.9%	-38.8%	40.3%	103.8%	23.1%	34.2%
Net Income, adj.	2.1%	-39.4%	37.7%	104.7%	22.2%	34.7%
Margins						
Gross margin	26.1%	25.4%	21.8%	23.4%	24.2%	26.3%
EBIT margin	14.6%	10.0%	11.5%	12.7%	13.4%	15.6%
Net Profit Margin	12.6%	8.5%	9.6%	10.7%	11.2%	13.0%
Key Ratios						
ROE	11.0%	5.1%	8.3%	13.5%	13.7%	16.4%
Income Statement (RMB mn)						
Revenue	5984	5359	6511	12019	14065	16227
Gross profit	1564	1359	1419	2815	3408	4268
EBIT	874	535	750	1529	1883	2527
Profit before tax	877	529	710	1500	1844	2483
Tax	122	69	80	210	267	360
Profit for the period	755	460	630	1290	1576	2123
Minority interests	2	4	1.9	3.4	4.5	6.5
Total capital share	728	1055	1055	1102	1102	1102
Net profit	753	456	628	1286	1572	2117

Source: PSR

(Closing price as at 7 June)

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 ± 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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