

CAERI (601965 CH)

Forward-looking Layout Boosts Future Results

China | Automobile | Company Update

30 July 2021

Investment Summary

Earnings Increased by Nearly 20% Last Year, and Results Hit a Record High in Q1

CAERI recorded operating revenue of RMB3.42 billion in 2020, up by 24.1% yoy. The net profit attributable to the parent company was RMB560 million, up by 19.6% yoy, and the net profit attributable to the parent company excluding non-recurring items reached RMB490 million, up by 15.2% yoy. Earnings per share was RMB0.57. DPS was RMB0.3, with the dividend payout ratio of c 53%.

The main reasons for the increase in operating revenue are as follows. First, due to the upgrade and conversion of emission standards, the vehicles and engines of the China VI emission standard were collectively declared. The destocking of parallel imported cars of the China V emission standard was accelerated. The inspection business volume increased. The revenue from technical services and equipment business increased to RMB1.8 billion, up by 21.9% yoy. Second, under the opportunity of new infrastructure construction, the demand for construction vehicles and sanitation vehicles increased. The Company's revenue from special purpose vehicles and refitting business grew to RMB1.39 billion, up by 26.9% yoy. Third, the product mix of the rail transit parts business was upgraded, driving the segment revenue to climb to RMB85 million, up by 56.70% yoy.

Last year, the operating costs increased by 23.4% yoy. The main reasons are as follows. On the other hand, the costs rose correspondingly with the increase in revenue. On the other hand, the depreciation costs grew because the costs of the wind tunnel center and the test track project of intelligent networked vehicles were transferred to fixed assets. In 2020, the Company's overall gross margin and net profit margin stood at 30.7% and 17.1%, respectively, up by 0.4 ppts and 0.1 ppts yoy, respectively. The profitability has steadily improved.

The profit hit a record high in the first quarter of 2021. The revenue, the net profit attributable to the parent company, and the net profit attributable to the parent company excluding non-recurring items amounted to RMB840 million, RMB120 million, and RMB110 million, respectively, representing a year-on-year increase of 70.8%, 90.8%, and 90.9%, respectively. Compared with the same period in 2019, the growth rates were 67.6%, 25%, and 26%, respectively.

The main reasons for the large year-on-year growth in results are as follows. First, affected by the pandemic, the base was low in the same period last year. Second, the overall situation of the industry was improving. The macro policy support was strengthened. The market demand for construction vehicles, commercial vehicles, and new energy vehicles was strong. The Company's capacity release drove an obvious improvement in the business volume. Specifically, technical services and equipment business recorded revenue of RMB396 million, up by 48.23% yoy; equipment manufacturing business reported revenue of RMB444 million, up by 97.78% yoy. Due to the increase in the business volume of high value-added products and services, profit grew synchronously with the expansion of business scale. In the first quarter of 2021, the gross margin was 28.2%, down by 1.2 ppts yoy. It was mainly due to the increase in depreciation costs because the costs of the wind tunnel center and the test track project of intelligent networked vehicles were transferred to fixed assets. In 2021, the Company's operating objectives are to achieve operating revenue of RMB3.8 billion and total profit of RMB710 million, a year-on-year increase of 11% and 6%, respectively.

Accumulate (Maintain)

CMP CNY 16.78

(Closing price as at 28 July)

TARGET CNY 19.05 (+13.5%)

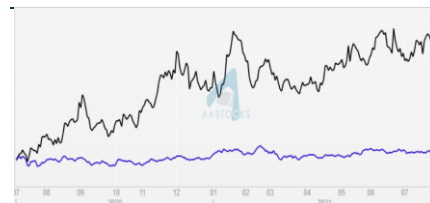
COMPANY DATA

O/S SHARES (MN) :	989
MARKET CAP (CNY MN) :	16607
52 - WK HI/LO (CNY):	19.41/10.48

SHARE HOLDING PATTERN, %

China General Technology (Group)	51.75
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PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY20	FY21E	FY22E	FY23E
Net Sales	3418	3817	4384	4913
Net Profit	558	658	819	964
EPS, CNY	0.57	0.67	0.83	0.97
P/E, x	29.3	25.2	20.3	17.2
BVPS, CNY	5.10	5.49	6.06	6.68
P/BV, x	3.3	3.1	2.8	2.5
DPS (CNY)	0.30	0.34	0.42	0.50
Div. Yield (%)	1.8%	2.0%	2.5%	3.0%

Source: Company reports, Phillip Securities Est.

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Forward-looking Layout of Intelligent Networked Electric Vehicles Boosts Future Results

The Company has established a new energy vehicle center, a center for intelligent networked vehicles, and a data center, and cooperated with technology companies such as Huawei, Qihoo 360, and Bolaa. The level of technologicalisation has continuously improved. The Company's new automotive wind tunnel center has been fully put into operation. The construction of the first national-level hydrogen energy quality inspection center is underway, and it is expected to be put into operation in 2022. The North China Center completed the strategic planning of inspection business, and built the capabilities of technology R&D, and test and evaluation of new energy vehicles and intelligent networked vehicles. Currently, it has launched special voluntary certification projects such as smart healthy cockpit certification and low wind resistance vehicles, as well as the electric drive certification rules for new energy vehicles. The East China Center promoted the integration of the integrated development of Suzhou and Yuhuan, and transformed and upgraded the parts inspection capabilities. The South China Center acquired non-road qualification authorization, striving to develop business in the new field. The Company focused on the exploitation of new infrastructure construction, and developed integrated roadside perception systems, and cloud control data platform products. It has preliminarily completed the strategic layout of some cities and the construction of demonstration roads in the national-level IoV pilot zone, and further improved the strategic layout and resource integration..

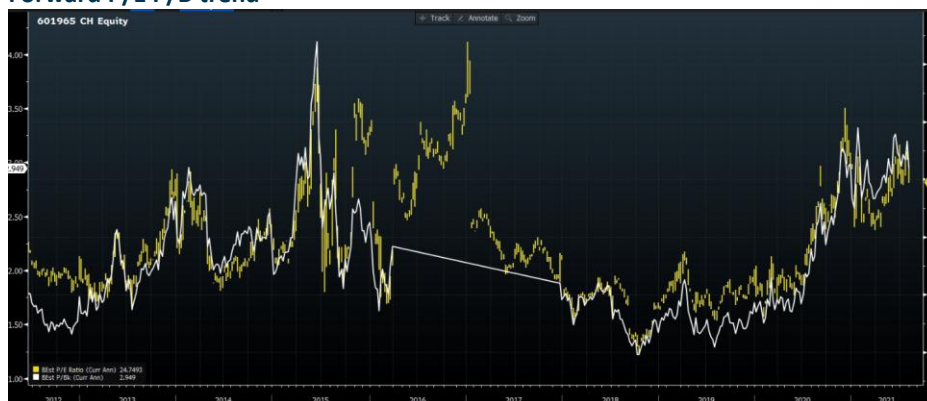
In the future perspective of the slowdown development and competition in existing market of automotive industry, and the rapid development of new energy vehicles and intelligent applications, the factory will accelerate the launch of new intelligent networked models which are more competitive. This will lead the rapid growth of China's automotive technology service industry. The Company's high added-value business is expected to usher in rapid growth.

Investment Thesis

CAERIs state-owned enterprises reform has been continuously advanced. After the launch of the share incentive plan, the incentive mechanism and the degree of marketisation will be significantly improved, such as the forward-looking layout of the intelligent networked electric vehicles.

Considering the high monopoly barrier of the counter-cyclical automotive technology service business of the company, as well as the turning point of result brought by the operation of the new capacity, we give target price of RMB 19.05 yuan, respectively 28.6/23/19.5x P/E of our expected EPS for 2021/2022/2023 and an "Accumulate" rating. (Closing price as at 28 July)

Forward P/E P/B trend



Source: Bloomberg, Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY19	FY20	FY21F	FY22F	FY23F
Valuation Ratios					
P/E (X), adj.	34.9	29.3	25.2	20.3	17.2
P/B (X)	3.5	3.3	3.1	2.8	2.5
Dividend Yield (%)	1.5%	1.8%	2.0%	2.5%	3.0%
Per share data (RMB)					
EPS, (Basic)	0.48	0.57	0.67	0.83	0.97
EPS, (Diluted)	0.48	0.57	0.67	0.83	0.97
DPS	0.25	0.30	0.34	0.42	0.50
BVPS	4.84	5.10	5.49	6.06	6.68
Growth & Margins (%)					
Growth					
Revenue	-0.1%	24.1%	11.7%	14.9%	12.1%
EBIT	15.4%	17.8%	18.1%	20.5%	18.9%
Net Income, adj.	15.7%	19.7%	17.8%	24.5%	17.7%
Margins					
Gross margin	29.5%	29.7%	29.9%	30.3%	31.1%
EBIT margin	16.2%	15.4%	16.3%	17.1%	18.2%
Net Profit Margin	16.9%	16.3%	17.2%	18.7%	19.6%
Key Ratios					
ROE	10.2%	11.5%	12.6%	14.3%	15.3%
Income Statement (RMB mn)					
Revenue	2755	3418	3817	4384	4913
Gross profit	812	1014	1141	1328	1525
EBIT	447	527	622	750	892
Profit before tax	550	671	796	991	1173
Tax	82	87	108	135	163
Profit for the period	468	585	688	856	1010
Minority interests	1	26	30	37	46
Total capital share	970	989	989	989	989
Net profit	467	558	658	819	964

Source: PSR

(Closing price as at 28 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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