

Tuopu Group (601689 CH)

Continued High Growth Ratio is Available

China | Automobile Part | Company Update

5 November 2021

Investment Summary

Company profile:

Tuopu Group is an industry leader in the field of automotive NVH that is capable of synchronous design with the original equipment manufacturer. 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.

FY20's Results Grew by Nearly 40% against the Trend, and Q1 FY21 Results Rose by 116% Continued High Growth with Nearly Doubled Results in the First Three Quarters

In the first three quarters of 2021, Tuopu Group recorded an operating revenue of RMB7,823 million, up 81.14% yoy; net profit attributable to the parent company of RMB753 million, up 94.44% yoy; net profit attributable to the parent company excluding non-recurring items of RMB731 million, up 103.47% yoy. The basic EPS was RMB0.69, a year-on-year growth of 86.49%. Specifically, in the third quarter, the Company reported a revenue of RMB2,906 million, up 65.44% yoy or 16.70% qoq; net profit attributable to the parent company of RMB294 million, up 71.26% yoy or 37.43% qoq.

Since this year, recovery in the global auto market has been hit by chip shortages. In this context, Tuopu Group bucked the trend with substantial growth that is significantly better than the industry level. The main reason is that the Company has actively expanded to the NEV lightweight chassis and automotive electronics over the years, and has gradually seen effect in its transformation. Besides, thanks to its forward-looking layout, it has received a great number of orders, with the localized Tesla project making significant contribution in order increment. Also, the rising sales in the supporting models of other core customers have brought rapid growth in operating results.

Improved Quarter-on-Quarter Gross Margin

In Q3, the Company's gross margin recorded was 21.12%, down 5 ppts from the reading for the previous year, mainly due to the dramatic increase in raw material prices and freight costs. This figure also represents a quarter-on-quarter increase of 1.29 ppts, mainly because the Company actively negotiated with downstream customers to transfer part of the rising costs, and began to achieve certain effect. The period expense rate in Q3 was 8.3%, a year-on-year drop of 5.7 ppts or a quarter-on-quarter drop of 0.4 ppts. Specifically, the ratio of expenses to sales went down by 3.5 ppts yoy, which was caused by the fact that transportation expense and storage expense were no longer included in sales expense under the new accounting standards; the R&D expense ratio dropped by 1.1 ppts. The final net profit margin was 10.25%, up 0.37 ppts yoy or 1.61 ppts qoq.

Further Growth Driven by Sales Volume of Downstream Automobile Enterprises and Tier0.5 Cooperation Mode

With its excellent vehicle synchronous R&D capability, strategic forward-looking layout, the Company fixed its partnership with downstream customers in advance and has begun to harvest orders.

Accumulate (Downgrade)

CMP CNY 51.6

(Closing price as at 3 November)

TARGET CNY 60 (+16%)

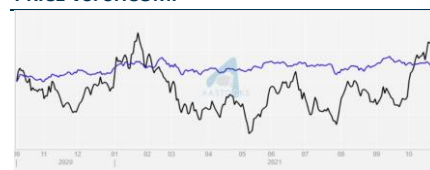
COMPANY DATA

O/S SHARES (MN) :	1102
MARKET CAP (CNY MN) :	56866
52 - WK HI/LO (CNY):	53.5/ 26.88

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	11627	14069	16345
Net Profit	628	1154	1571	2150
EPS, CNY	0.60	1.05	1.43	1.95
P/E, x	86.7	49.3	36.2	26.5
BVPS, CNY	7.38	9.71	10.84	12.39
P/BV, x	7.0	5.3	4.8	4.2
DPS (CNY)	0.17	0.30	0.42	0.59
Div. Yield (%)	0.3%	0.6%	0.8%	1.1%

Source: Company reports, Phillip Securities Est.

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In terms of lightweight chassis, the Company's aluminum alloy integrated vacuum cast chassis has been recognized by Ford, RIVIAN and other customers and mass production has started. The value of single vehicle in cooperation with RIVIAN has reached RMB11,000. As for thermal management system, the integrated heat pump assembly and electronic expansion valve, electronic water valve, electronic water pump developed by the Company have been recognized by customers, and the Company is expected to become the overall solution provider in new energy thermal management, with the overall value of single vehicle up to RMB6,000 to RMB9,000. With respect to intelligent driving control system, IBS products, as the two core executors of ADAS, are making efforts to match with intelligent steering system EPS, which are expected to be a new growth point for the Company in the future. Meanwhile, the Company has implemented the Tier0.5 business model by which it has gradually gained the recognition of intelligent electric vehicle enterprises. In this model, the Company can get more orders with more supporting products for single vehicle and higher sales amount.

Investment Thesis

In terms of valuation, taking into account the chip shortage and rising raw material price factors, we slightly lower the profit forecast for 2021, and lift the profit forecast for 2023 as we expect that the chip shortage will be completely resolved in 2023, corresponding to the EPS of 1.05/1.43/1.95 yuan in 2021/2022/2023. 1.43/1.95 (originally 1.17/1.43/1.92 yuan). 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 RMB 60 yuan, respectively 57/42/31 x P/E for 2021/2022/2023, a "Accumulate" rating. (Closing price as at 3 November)

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.	49.8	119.3	86.7	49.3	36.2	26.5
P/B (X)	5.2	7.4	7.0	5.3	4.8	4.2
Dividend payout ratio(%)	39.8%	43.9%	28.9%	28.7%	29.5%	30.2%
Dividend Yield (%)	0.8%	0.4%	0.3%	0.6%	0.8%	1.1%
Per share data (RMB)						
EPS, (Basic)	1.04	0.43	0.60	1.05	1.43	1.95
EPS, (Diluted)	1.04	0.43	0.60	1.05	1.43	1.95
DPS	0.41	0.19	0.17	0.30	0.42	0.59
BVPS	9.92	6.99	7.38	9.71	10.84	12.39
Growth & Margins (%)						
Growth						
Revenue	17.6%	-10.4%	21.5%	78.6%	21.0%	16.2%
EBIT	5.9%	-38.8%	40.3%	83.2%	36.9%	36.4%
Net Income, adj.	2.1%	-39.4%	37.7%	83.6%	36.2%	36.8%
Margins						
Gross margin	26.1%	25.4%	21.8%	22.1%	22.6%	24.5%
EBIT margin	14.6%	10.0%	11.5%	11.8%	13.4%	15.7%
Net Profit Margin	12.6%	8.5%	9.6%	9.9%	11.2%	13.2%
Key Ratios						
ROE	11.0%	5.1%	8.3%	12.3%	13.9%	16.8%
Income Statement (RMB mn)						
Revenue	5984	5359	6511	11627	14069	16345
Gross profit	1564	1359	1419	2572	3184	3998
EBIT	874	535	750	1375	1882	2566
Profit before tax	877	529	710	1345	1843	2522
Tax	122	69	80	188	267	366
Profit for the period	755	460	630	1157	1576	2156
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	1154	1571	2150

Source: PSR

(Closing price as at 3 November)

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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