

Wanfeng Auto Wheel_(002085 CH)

The short-term impact of the pandemic does not change the long-term growth logic

China | Automobile part | Company Report

9 February 2022

Company Profile

After nearly 20 years of organic development and inorganic acquisitions, the Company has established a "dual engine" growth strategy driven by the application of lightweight metal materials in auto parts industry and the general aviation aircraft manufacturing industry, including six major business sectors, namely, 1) aluminum alloy wheels, 2), magnesium alloy automobile die castings, 3) high-strength steel stamping parts and other metal castings, 4) environmentally friendly dacromet coatings, and 5) general aviation aircraft. The Company is leading in many sub-industry fields.

Investment Summary

The Transmission Pressure of Raw Material Costs Is High, and Q2 and Q3 Results Are under Pressure

Due to the low base effect caused by the pandemic, Wanfeng Auto Wheel recorded an overall increase in production, sales volume and sales revenue for the automotive metal parts lightweight business. However, the Company's year-on-year cost increase was much higher than revenue growth due to the large year-on-year increase in the prices of main raw materials, the rising shipping prices due to the tight shipping schedule amid the pandemic, and the lag in the linked settlement of customers' sales prices and raw material prices, as well as the fact that some customers have not yet linked together. As a result, the overall profitability showed a downward trend. In the first three quarters of 2021, the Company's operating revenue increased to RMB8.52 billion, up 15.8% yoy. The total operating cost grew by 19.9% yoy. The net profit attributable to the parent company was RMB240 million, a sharp decrease of 42.6% yoy.

Gross Margin Has Declined Significantly and May Increase in Q4

The main raw materials of the Company's automotive metal parts lightweight business are aluminum ingots, magnesium ingots and steel. The sales prices of the Company and most of its customers will be linked according to the price fluctuations of the main raw materials. The prices are generally adjusted on a monthly, quarterly or semi-annual basis. In the first three quarters, the Company's gross margin fell to 16%, down 6 ppts yoy. It was the lowest point in the past ten years, corresponding to the ten-year high of international prices of bulk commodities including aluminum, magnesium and steel. The prices of such commodities in Q4 have dropped from the highs in Q3. It is expected that the Company's procurement costs will decrease accordingly. Meanwhile, the impact of the lag in price linkage settlement with downstream customers will also be weakened. The gross margin is expected to increase qoq..

The General Aviation Aircraft Localization Project Is Progressing Steadily, with Development Potential

In 2020, the Company acquired a 55% stake in Wanfeng Aircraft Industry Co., Ltd., the world's leading general aviation aircraft manufacturer. The Company officially entered the field of general aviation aircraft manufacturing, starting the dual-engine-driven business development model. In February and June 2021, the Company successfully introduced two major strategic investors, Qingdao City Construction Investment (Group) Limited, a state-owned company, and Aviation Development Fund Management Co., Ltd., a Beijing-based company. They hold 35% and 10% of the shares, respectively. In H1 2021, due to the overseas pandemic, the revenue recognition of some orders of the general aviation aircraft manufacturing business was delayed, which affected the results of this segment.

BUY (Maintain)

CMP CNY 4.91

(Closing price as at 7 February)

TARGET CNY 6 (+22.2%)

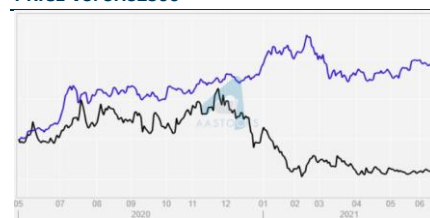
COMPANY DATA

O/S SHARES (MN) :	2072
MARKET CAP (CNY MN) :	12553
52 - WK HI/LO (CNY):	8.33/ 5.17

SHARE HOLDING PATTERN, %

Ms. Chen Ailian family	38.4
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PRICE VS. SHSZ300



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY 100mn	FY19	FY20	FY21E	FY22E
Net Sales	107	116	135	150
Net Profit	6	3	6	9
EPS, CNY	0.27	0.16	0.29	0.43
P/E, x	18.0	30.4	16.7	11.3
BVPS, CNY	2.58	2.52	2.71	2.94
P/BV, x	1.9	2.0	1.8	1.7
DPS (CNY)	0.30	0.12	0.20	0.27
Div. Yield (%)	6.1%	2.4%	4.1%	5.5%

Source: Company reports, Phillip Securities Est.

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The production of the Company's current domestic orders has been scheduled to start in 2023. The construction of new base and the introduction of new models are generally promoted as planned. The DA50 has completed TC certification. In Qingdao, the Company will invest in a project with an annual output of 220 Diamond aircraft (including 120 Diamond DA50 and 100 Diamond HK36). DA62 and DA62 MPP will be introduced in succession. We think that the domestic general aviation market is currently still in the early stage of development, with vast market space. The short-term impact of the overseas pandemic does not change the long-term growth logic of the general aviation segment.

Investment Thesis: Focus on the Follow-up Results Recovery

According to the latest financial data, we adjusted the EPS forecast for 2021, 2022 and 2023 to RMB0.16, RMB0.29 and RMB0.43, respectively (It was RMB0.37, RMB0.46, and RMB0.61, respectively) to reflect the impact of the rising raw material costs. We give the Company's target price to RMB 6, respectively 37.1/20.4/13.8 x P/E, 2.4/2.2/2.0 x P/B for 2021/2022/2023, a "BUY" rating. (Closing price as at 7 February)

Risk

Price war among peers
Raw material price increase
New business risk

Peer Comparison

Code	Name	Market Cap	PE			PB(MRQ)
			TTM	21E	22E	
002085.SZ	万丰奥威	121	31	31	20	2.4
002863.SZ	今飞凯达	29	41	--	--	1.5
002725.SZ	跃岭股份	26	-171	--	--	2.6
002182.SZ	云海金属	139	41	32	24	4.6
300428.SZ	立中集团	132	28	25	18	2.7
000768.SZ	中航西飞	910	98	91	73	5.8

Source: Wind, Phillip Securities Hong Kong Research

PB BAND



Source: Wind, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY19	FY20	FY21F	FY22F	FY23F
Valuation Ratios					
P/E (X), adj.	12.0	18.0	30.4	16.7	11.3
P/B (X)	1.3	1.9	2.0	1.8	1.7
Dividend payout ratio(%)	0.0%	109.8%	74.3%	68.1%	62.2%
Dividend Yield (%)	0.0%	6.1%	2.4%	4.1%	5.5%
Per share data (RMB)					
EPS, (Basic)	0.41	0.27	0.16	0.29	0.43
EPS, (Diluted)	0.41	0.27	0.16	0.29	0.43
DPS	0.00	0.30	0.12	0.20	0.27
BVPS	3.65	2.58	2.52	2.71	2.94
Growth & Margins (%)					
Growth					
Revenue	14.8%	-15.3%	8.1%	17.1%	10.7%
EBIT	3.4%	-16.1%	-24.7%	54.0%	38.8%
Net Income, adj.	-6.6%	-36.8%	-40.8%	81.6%	47.8%
Margins					
Gross margin	21.1%	19.7%	16.2%	17.3%	18.6%
EBIT margin	10.0%	10.0%	6.9%	9.1%	11.4%
Net Profit Margin	7.1%	5.3%	2.9%	4.5%	6.0%
Key Ratios					
ROE	11.2%	8.8%	14.2%	16.9%	19.9%
ROA	5.0%	3.4%	4.7%	5.6%	6.9%
Income Statement (RMB 100mn)					
Revenue	126	107	116	135	150
Gross profit	27	21	19	23	28
EBIT	13	11	8	12	17
Profit before tax	12	8	6	11	16
Tax	2	1	1	2	3
Profit for the period	10	8	5	9	13
Minority interests	1	2	2	3	4
Total capital share	2,187	2,072	2,072	2,072	2,072
Net profit	9.0	5.7	3.3	6.1	9.0

Source: PSR

(Closing price as at 7 February)

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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