

Tuopu Group (601689 CH)

High Growth Ratio for Result Continued

China | Automobile Part | Company Update

16 June 2023

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.

Investment Summary

Strong momentum Continued amid the Pandemic, with impressive growth ratio of 67% for 22H2

According to FY2022 Result report, Tuopu's total revenue for last year was 15.993 billion yuan RMB, a yoy increase of +39.52%. The quarterly revenue was 3.75/3.05/4.31/4.89 billion yuan, with a yoy increase of +54.3%/+22.4%/+48.3%/+34.3% respectively. In terms of net profit, it recorded a net profit attributable to the parent company of 1.7 billion yuan, a yoy increase of 67%, which is basically in line with our previous expectations. From a quarterly perspective, from Q1 to Q4 in 2022, net profit attributable to the parent company was RMB 386/322/501/491 million, with yoy growth rates of +56.8%/+50.7%/+70.6%/+86.2% respectively. The growth momentum mainly comes from the significant increase in sales of the core customers and the expansion of the Company's pipeline.

It is worth mentioning that the result in the second half of the year was impressive, with growth on a mom/yoy (+40%/+77.8%) reaching a new historical high. This was mainly due to factors such as strong customer sales, raw material prices falling, and continuous expansion of the pipeline.

From a segment perspective: The revenue from interior functional components reached 5.463 billion yuan, a yoy increase of +52.7%; The revenue from forging aluminum control arms reached 4.445 billion yuan, a yoy increase of +69.4%; Rubber shock absorption products reported revenue of 3.872 billion yuan, a yoy increase of 15.7%; The revenue of thermal management products reached 1.369 billion yuan, a yoy increase of +6.5%; Automotive electronics achieved revenue of 192 million yuan, a yoy increase of +4.9%. The annual sales Gross margin was 21.61%, +1.73 pct yoy; The net profit margin on sales was 10.62%, with a yoy increase of 1.74 pct. The profitability has steadily improved..

A forward-looking layout has been made in new energy vehicles (NEVs). Especially, Tuopu Group's lightweight chassis and electronic business entered the harvesting period in 2022 and began to contribute to business performance. The year 2022 witnessed the global delivery of 1.31 million units of NEVs by the Group's largest customer, Tesla, up 40% yoy. Tesla's output was 1.37 million units, up 47% yoy. Additionally, the annual sales of new customers--NIO, AITO, Li Auto, and BYD-- up 34%, 626%, 47%, and 153% yoy, respectively. The sales growth of both new and existing customers stimulated the Group's growth in revenue and profit. Meanwhile, thanks to the continuous practice of the Tier0.5 business model, the Group's matching amount of single vehicles increased constantly. The net profit margins in 2022Q1-Q4 were 9.56%, 9.65%, 10.98%, and 11.87%, respectively, indicating increasing profitability. The scale effect will hopefully promise continuous profitability growth.

Accumulate (Maintain)

CMP CNY 67.72

(Closing price as at 14 June)

TARGET CNY 73.5 (+8.5%)

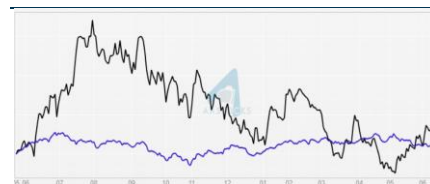
COMPANY DATA

O/S SHARES (MN) :	1102
MARKET CAP (CNY MN) :	74631
52 - WK HI/LO (CNY):	93/ 48.9

SHARE HOLDING PATTERN, %

Mr. Wu Jianshu	66.43
----------------	-------

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY21	FY22	FY23F	FY24F
Net Sales	11463	15993	21635	27892
Net Profit	1014	1700	2374	3272
EPS, CNY	0.92	1.54	2.15	2.97
P/E, x	73.6	43.9	31.4	22.8
BVPS, CNY	9.61	11.01	12.75	16.78
P/BV, x	7.0	6.2	5.3	4.0
DPS (CNY)	0.28	0.46	0.65	0.89
Div. Yield (%)	0.4%	0.7%	1.0%	1.3%

Source: Company reports, Phillip Securities Est.

Research Analyst

ZhangJing (+ 86 21 62116752)

zhangjing@phillip.com.cn

23Q1 saw steady growth, up 17%

In the first quarter of 2023, the Company recorded a revenue of 4.47 billion yuan, +19.3% yoy, and a net profit attributable to the parent company of 450 million yuan, a yoy increase of 16.7%. Gross margin improved +1.1 pct yoy, +2.0 pct qoq, recording 21.9%. The expense rate has slightly increased: the sales expense rate, administration expense rate, R&D rate, and financial expense rate are 1.16%, 2.68%, 4.76%, and 1.51% respectively, with a yoy increase of -0.20pct, +0.22pct, +0.70pct, and +1.46pct, respectively. The increase in R&D rate is due to the Company's continuous increase in R&D innovation and increased R&D investment; The increase in financial expense ratio is due to an increase in interest expenses and a decrease in exchange earnings.

Private Placement and Capacity Expansion Demonstrate Confidence in Future Order Growth

In order to adapt to the new energy and intelligent trends, expand capacity, and ensure the ability to take orders, the Group has recently released its private placement plan. It intends to raise no more than RMB4 billion by issuing shares no higher than 30% of the total share capital before the issue (i.e. no more than 330 million shares). The funds to be raised will mainly be invested in lightweight chassis, functional interior trims, heat management systems, and intelligent drive projects. The construction period will last 18-30 months. As at 2022Q3, the Group's capacity included 3 million chassis, 5 million functional interior trims, and 500 thousand heat management systems. Comparatively, the private placement plan will increase chassis, functional interior trims, and heat management systems by 6.1 million (+203%), 3.1 million (+62%), and 1.3 million (+260%), respectively. It is estimated that the plan will contribute annual revenue of RMB12.95 billion and net profit of RMB1.31 billion to the Group, after the designed capacity is reached. In short, private placement can strengthen the Group's capacity, long-term profitability, and comprehensive competitiveness. Previously, Tuopu Group raised RMB14.25 billion in total through private placement and the issue of convertible bonds in February 2021 and July 2022 to expand the lightweight chassis project. The ambitious capacity expansion plan demonstrates the Group's confidence in its future business development momentum and rapid order growth. In terms of overseas markets, the Group's plant in Poland has begun mass production and their counterparts in Mexico and the U.S. are being promoted, backing the global business expansion. Tuopu Group has been regarded, by FAW, Geely, Seres, HYCAN, and HiPhi, as their designated supplier of intelligent brake systems (IBS), electric power steering (EPS), air suspension, and heat management projects, according to the Group's announcements. As at the end of 2022, the Group obtained 16 new designated EPS projects (mass production expected to begin from 2022Q4 successively) and seven new designated air suspension projects (mass production expected to begin from 2023Q3 successively). Thanks to the scale effects brought by the fast increase in new customers and products, further profitability growth is promising.

Investment Thesis

The mid- and long-term development of the Group is secured by its deep bond with new energy customers (wherein the income from Tesla accounts for nearly half of the total revenue), constant implementations of new business orders, growing single-vehicle value, rapid capacity expansion, and increasing scale effects.

In terms of valuation, we expect the EPS to be 2.15/2.97 yuan in 2023/2024. 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 73.5 yuan, respectively 34/25 x P/E for 2023/2024, a "Accumulate" rating. (Closing price as at 14 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	FY20	FY21	FY22	FY23F	FY24F
Valuation Ratios					
P/E (X), adj.	113.7	73.6	43.9	31.4	22.8
P/B (X)	9.2	7.0	6.2	5.3	4.0
Dividend payout ratio(%)	28.9%	30.2%	30.0%	30.2%	30.0%
Dividend Yield (%)	0.3%	0.4%	0.7%	1.0%	1.3%
Per share data (RMB)					
EPS, (Basic)	0.60	0.92	1.54	2.15	2.97
EPS, (Diluted)	0.60	0.92	1.54	2.15	2.97
DPS	0.17	0.28	0.46	0.65	0.89
BVPS	7.38	9.61	11.01	12.75	16.78
Growth & Margins (%)					
Growth					
Revenue	21.5%	76.0%	39.5%	35.3%	28.9%
EBIT	40.3%	57.3%	66.6%	45.3%	36.4%
Net Income, adj.	37.7%	61.5%	67.6%	39.6%	37.8%
Margins					
Gross margin	21.8%	19.3%	21.0%	21.6%	22.1%
EBIT margin	11.5%	10.3%	12.3%	13.2%	14.0%
Net Profit Margin	9.6%	8.8%	10.6%	11.0%	11.7%
Key Ratios					
ROE	8.3%	10.8%	15.0%	17.5%	19.4%
Income Statement (RMB mn)					
Revenue	6511	11463	15993	21635	27892
Gross profit	1419	2208	3363	4677	6175
EBIT	750	1180	1966	2857	3896
Profit before tax	710	1146	1960	2792	3847
Tax	80	128	261	405	558
Profit for the period	630	1018	1699	2387	3289
Minority interests	1.9	3.4	-1.2	12.8	17.0
Total capital share	1055	1102	1102	1102	1102
Net profit	628	1014	1700	2374	3272

Source: PSR

(Closing price as at 14 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 \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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2023 Phillip Securities (Hong Kong) Limited

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

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

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

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

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

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

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

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

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

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

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

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