

Intron Technology (1760 HK)

Riding on the Trend of 'New Four Modernizations' of Auto Sector

China | Automobile parts | Company Initiation

7 September 2023

Investment Summary

Intron Technology is a fast-growing automotive electronics solutions provider in China, focusing on providing solutions for new energy vehicles, body control, safety and powertrain systems, as well as automated & connected vehicles and cloud server related electronics solutions. The Company has advantageous technologies and market position among domestic suppliers. Benefiting from the rapid growth of China's overall new energy vehicle market, the Company's gross revenue in 2022 increased to RMB4.8 billion, a sharp rise of 52%. The net profit saw a substantial rise of 105%, reaching RMB410 million. The net profit margin grew from 6.3% in 2021 to 8.5%. In the future, benefiting from the accelerated expansion of the new energy vehicle solutions business and the automated & connected vehicles solutions business, it is expected that the Company's results will continue to maintain rapid growth in the next two years.

Company Profile

Intron Technology is a fast-growing automotive electronics solutions provider in China, focusing on providing solutions targeting critical automotive electronic components applied in new energy vehicles, body control, safety and powertrain systems. Founded in 2001, the Company filed for an IPO on the HKEX in 2018, and completed the follow-on offering in 2021. Based on the market prospects, the Company has strategically built a solutions portfolio in line with the trend of the automotive industry. Since 2009, the Company has expanded its business focus from traditional automotive electronics applications (body control, safety and powertrain systems) to new energy vehicle solutions business. In 2015, it entered the field of emerging applications such as intelligent vehicles.

Business Model:

The Company utilizes its engineering and R&D capabilities, purchases advanced semiconductor devices, and applies its software or algorithms to provide customers with solutions, including BMS, VCU and MCU, as well as autonomous driving domain controllers, intelligent gateways, lidar, and high-precision sensor modules. In terms of pricing, the Company uniformly adopts the cost-plus pricing, which can effectively pass on raw material price fluctuations to customers. Therefore, the gross profit margin can be stabilized at more than 20% (except for the gross profit margin of slightly less than 20% in 2020 and 2021 due to the pandemic).

Competitive in Automotive Electronics Software:

As early as 2005, Intron Technology established a strategic partnership with Infineon. Through deep binding of Infineon, the Company established a mutually beneficial cooperation relationship with Infineon: Intron Technology is the largest distributor of Infineon's automotive segment in Greater China, and Infineon is the largest supplier of Intron Technology. The Company's purchases from Infineon account for more than 80% of its total purchases.

In 2020, Intron Technology entered into strategic cooperation with Horizon Robotics for the first time. Since 2021, the two parties have cooperated to launch the automotive-grade AI chip - Journey 5, and completed two solutions based on Journey 5.

Accumulate (Initial)

CMP HKD 3.5

(Closing price as at 5 September)

TARGET HKD 4.15 (+18.6%)

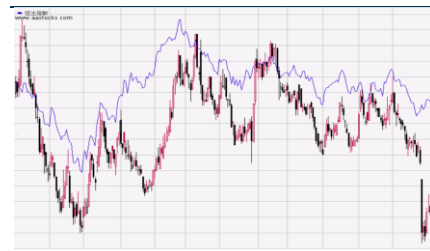
COMPANY DATA

O/S SHARES (MN) :	1087
MARKET CAP (HKD MN) :	3804
52 - WK HI/LO (HKD):	6.27/3.04

SHARE HOLDING PATTERN, %

Magnate Era Ltd	48.4
Treasure Map Ventures Ltd	6.91
Heroic Mind Limited	6.91

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY21	FY22	FY23E	FY24E
Net Sales	3176	4830	6721	9757
Net Profit	201	415	461	791
EPS, CNY	0.19	0.38	0.42	0.73
P/E, x	15.4	8.2	7.6	4.4
BVPS, CNY	1.61	1.97	2.16	2.48
P/BV, x	1.8	1.6	1.5	1.3
DPS (HKD)	0.06	0.12	0.13	0.22
Div. Yield (%)	1.7%	3.4%	3.7%	6.3%

Source: Company reports, Phillip Securities Est.

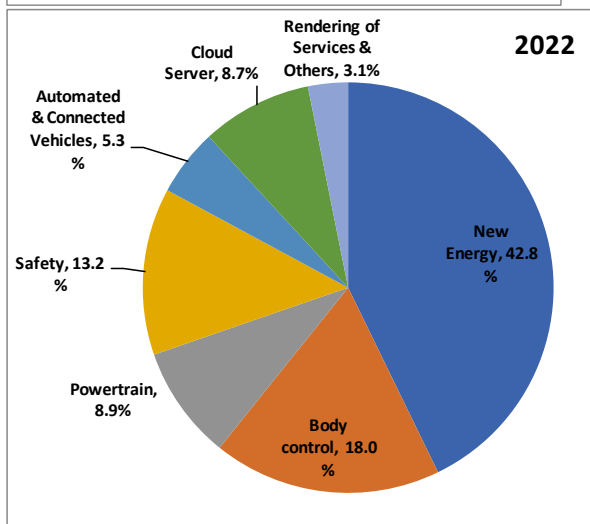
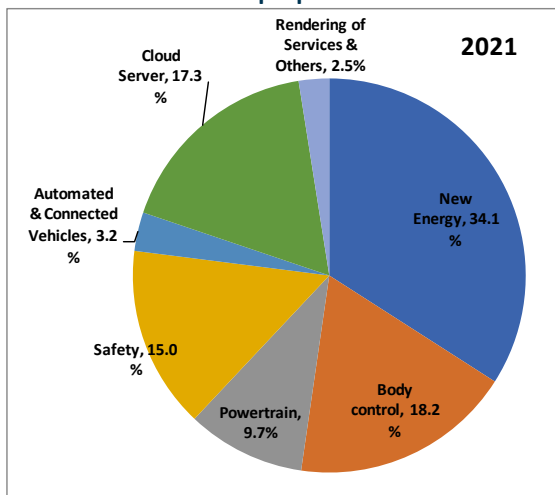
Research Analyst

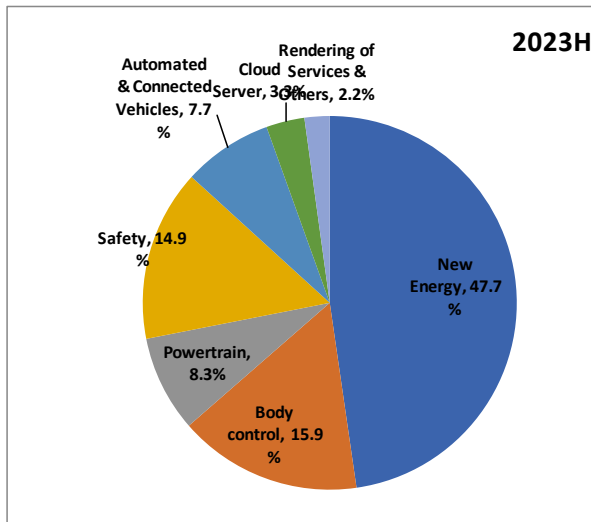
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Characterized by rapid iteration of industry technologies, the Company has always insisted on building a technology moat through R&D investment, so as to develop rapid iteration capabilities. The company has a large number of technology R&D personnel and software engineers. As at the end of 2022, the number of R&D personnel increased by 31% to 916, accounting for 67% of the total employees. R&D expenses increased by 61% yoy, and its proportion in the gross revenue climbed by 0.4 ppts to 6.9%. The number of patents and software copyrights also continued to grow, with a total of 235 patents and 187 software copyrights as at the end of 2022, up 64 and 45, respectively over the previous year.

Main Product revenue proportion breakdown





Source: Company, Phillip Securities Hong Kong Research

Continuous Breakthroughs in Technologies and Customers, and Rapid Sales Growth:

Due to the overall growth of China's automotive industry, the increasingly stringent regulatory requirements (such as mandatory installation of automotive safety features), and the increasing consumer demand for automotive electronic components and functions, as well as the Company's successful business model, Intron Technology recorded strong growth during the track record period. From 2015 to 2022, the Company's gross revenue increased from RMB732 million to RMB4.83 billion, with a 7-year CAGR of 31%. The net profit attributable to the owners of the parent company rose from RMB87 million to RMB415 million, with a CAGR of 25%. Specifically, the new energy vehicle solutions business and the cloud server related electronics solutions business have become the main growth driver of the Company's business. The 7-year CAGR of both revenues was 52% and 51%, respectively, and their proportion in the gross revenue has also increased from 15% and 3%, respectively in 2015 to 43% and 9%, respectively.

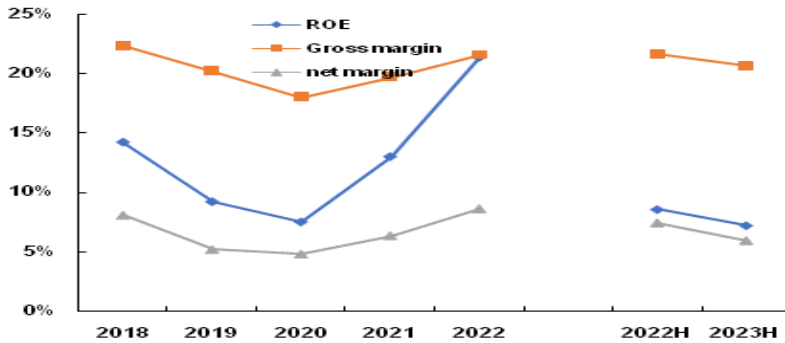
The Company's major customers cover customer clusters in the automotive and industrial fields, including well-known OEMs such as BYD, BAIC and Changan Auto, as well as industrial customers such as Inspur, Wuhan Huazhong Numerical Control and Horizon Robotics. With a scattered customer structure, the Company has strong bargaining power with downstream manufacturers. Through the professional R&D and solutions design, the Company has effectively reduced the technology threshold of small and medium-sized automobile manufacturers. As at the end of 2022, the Company has had more than 1 thousand customers.

Eye-catching FY2022 Result, while FY2023H Result Affected by factors such as production expansion

According to the Company's 2022 performance report, benefiting from the rapid growth of China's overall new energy vehicle market, the Company's gross revenue increased to RMB4.8 billion, a sharp rise of 52%. On a closer look at business, the yoy growth rate of new energy vehicle solutions, body control, safety systems, powertrain systems, intelligent driving, automated & connected vehicles solutions, cloud server related electronics solutions, and service business was +91%, +50%, +34%, +40%, +151%, -24% and +92%, respectively, accounting for 43%, 18%, 13%, 9%, 5% and 9% of the gross revenue. The decline in the cloud server related electronics solutions business was mainly affected by the early demand overdraft in the server market during the pandemic. Benefiting from economies of scale and exchange rate, the Company's gross profit margin increased from 19.7% in 2021 to 21.5%. The overall expense ratio decreased significantly due to the expansion of revenue. The

operational efficiency was improved. The net profit saw a substantial rise of 105%, reaching RMB410 million. The net profit margin grew from 6.3% in 2021 to 8.5%.

Gross Margin & Net Profit Margin



Source: Company, Phillip Securities Hong Kong Research

In the first half of 2023, the Company's total revenue increased by approximately 27% yoy to 2.626 billion yuan, mainly due to a significant increase of 58% in new energy vehicle revenue, accounting for 47.7% of the total revenue. In addition, the body system sector remained roughly unchanged yoy, while the safety system, power system, and intelligent driving connected business recorded impressive growth of 43%, 41%, and 118%, respectively. The cloud server business continues to shrink, with revenue significantly decreasing by 71% yoy.

The gross profit margin decreased by 1 percentage point yoy to 20.6%, mainly due to the favorable exchange direction in 2022H1, resulting in a higher base. In addition, due to the Company's increased R&D investment in the first half of the year to ensure its ability to undertake orders, the proportion of revenue increased from 1.9 percentage points to 8.9% compared to the same period last year. During the period, the profit attributable to shareholders was RMB 150 million, a slight increase of 1% yoy. The net profit attributable to shareholders ratio was 5.9%, a decrease of 1.5 percentage points yoy. If the additional increase in R&D investment is not included, the operating profit margin will actually increase slightly by 0.5% compared to 2022H1. The Management pointed out that the peak period of R&D investment in the first half of the year has passed, and in the future, it will return to the normal revenue proportion level of around 7%. The expense ratio level is expected to improve in the second half of the year. We believe that the Company's current strategy of increasing R&D investment and competing for more market share may put pressure on profit margins in the short term, but it provides a foundation for long-term competitive and sustainable development.

New Energy Vehicle Solutions Business and Automated & Connected Vehicles Solutions Business Are the Highlights of Future Results

Looking ahead, the Company is confident that new energy vehicles will continue to maintain rapid growth. It is expected that China's sales volume of new energy vehicles will exceed 9,000 thousand units in 2023. In the new competitive environment, OEMs pay more attention to the transformation from a tower-like vertical supply chain to a ring-like flat supply chain, and tier-0.5 suppliers and integrated service providers with comprehensive capabilities will have more opportunities, which will greatly drive the long-term growth of the Company's new energy vehicle solutions business and automated & connected vehicles solutions business. The Company's software platform, on the one hand, focuses on solving common functional components, and on the other hand, focuses on the compatibility of crossover processor platform and the support for cross-application system functions. At present, the Company has completed the deployment on Infineon, Horizon Robotics and SemiDrive platforms and is applying it to the project

development of autonomous driving, automated & connected vehicles and some regional controller products, which is expected to further increase the market penetration.

Valuation

The Company has clear capabilities for product integration and technology iterations. In the future, it will benefit from the accelerated expansion of the new energy vehicle solutions business and the automated & connected vehicles solutions business, with resilient results.

We forecast EPS for 2023/2024 to 0.42/0.73 yuan RMB. We believe that it is reasonable to give the Company a valuation of 9/5.2x P/E for 2023/2024, equivalent to target price of HK\$ 4.15 and Accumulate rating. (Closing price as at 5 September)

Forward valuation trend



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY20	FY21	FY22	FY23F	FY24F
Valuation Ratios					
P/E (X), adj.	32.2	15.4	8.2	7.6	4.4
P/B (X)	2.4	1.8	1.6	1.5	1.3
Dividend Yield (%)	0.8%	1.7%	3.4%	3.7%	6.3%
Per share data (RMB)					
EPS, (Basic)	0.09	0.19	0.38	0.42	0.73
EPS, (Diluted)	0.09	0.18	0.38	0.42	0.72
DPS(HKD)	0.03	0.06	0.12	0.13	0.22
BVPS	1.25	1.61	1.97	2.16	2.48
Growth & Margins (%)					
Growth					
Revenue	-13.7%	59.4%	52.1%	39.2%	45.2%
EBIT	-27.7%	103.5%	107.9%	12.3%	65.5%
Net Income, adj.	-20.2%	111.6%	106.8%	11.2%	71.5%
Margins					
Gross margin	18.0%	19.7%	21.5%	20.3%	20.4%
EBIT margin	5.9%	7.6%	10.3%	8.3%	9.5%
Net Profit Margin	4.8%	6.3%	8.6%	6.9%	8.1%
Key Ratios					
ROE	18.0%	19.7%	21.5%	20.3%	20.4%
Income Statement (RMB mn)					
Revenue	1993	3176	4830	6721	9757
Gross profit	358	625	1041	1362	1992
EBIT	118	240	499	561	928
Profit before tax	98	217	455	502	856
Tax	3	17	44	45	73
Profit for the period	95	200	411	457	784
Minority interests	0	-0.4	-3.86	-4.5	-7.6
Total capital share	1036	1080	1086	1088	1088
Net profit	95	201	415	461	791

Source: PSR

(Closing price as at 5 September)

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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