5 October 2023

Report Review of September. 2023

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:
Air & Automobiles (Zhang Jing),
TMT, Semiconductors, Consumer, Healthcare (Eric Li)

Automobile & Air (ZhangJing)

This month I released initiation reports of Intron(1760.HK).

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.

Based on its engineering and R&D capabilities, the Company 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).

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.

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.

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.

According to the Company's 2022 result, benefiting from the rapid growth of China's overall NEV 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%.

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.

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.

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

TMT, Semiconductors, Consumer, Healthcare (Eric Li)

This month I released reports of Binhai Investment (2886.HK).

Binhai Investment Company Limited (Binhai) is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service and gas passing through service. The natural gas business of Binhai Investment and its subsidiaries is distributed in seven provinces and two cities across the country, with a total of 40 gas project companies. At present, the largest shareholder of Binhai Investment is Tianjin TEDA Investment Holding Company, holding 40.00% of Binhai's shares, and the second largest shareholder is Sinopec Great Wall Gas Investment Company, holding 29.99% of Binhai's shares.

In FY2022, total revenue of Binhai amounted to HK$6102 million (FY2021: HK$4843 million), representing an increase of 26.0% YoY. Profit attributable to equity owners of the Company was HK$326 million (FY2021: HK$400 million), representing a decrease of 18.5% YoY. Profit attributable to equity owners of the company excluding the net foreign exchange loss recognized (FY2022: net exchange loss of HK$84 million) in profit or loss amounted to HK$410 million, representing an increase of 9% YoY. The number of regular customers from the construction and installation of gas engineering works of the company increased by 106 thousand, down by 35% YoY, and the aggregate number of customers amounted to 2299 thousand. The recorded sales volume of piped natural gas was 2.03 billion cubic metres, up by 3% YoY, among which the sales volume of pipeline gas amounted for 1.44 billion cubic metres, up by 15% YoY, and achieved 0.59 billion cubic metres of natural gas pipeline transmission for the year, down by 17% YoY. Gross profit was HK$727 million (FY2021: HK$855 million) and the gross profit margin was 11.9% (FY2021: 17.7%). The decrease in gross profit margin was mainly due to the increase in purchase cost of natural gas.

In 1HFY2023, total revenue of Binhai amounted to HK$3119 million (1HFY2021: HK$3047 million), representing an increase of 2.4% YoY. As the high price of gas supply last year was extended to the 1Q of 2023, caused the cost increased, and the real estate industry continued to operate at a low level, which affected the performance of the connection business. During the period, the gross profit fell by 11.4% YoY to HK$384 million; the gross profit margin dropped to 12.3% (1HFY2022: 14.2%). The profit attributable to owners of the company was HK$166 million during the period, representing a decrease of 35.5% YoY. Such decrease was mainly because of the decrease of gross profit and the increase of finance costs. Basic EPS were HK$12.31 cents, representing a decrease of HK$6.78 cents for the corresponding period last year.

Since the beginning of the year, a lot of places in China have been promoting the improvement of the upstream and downstream price linkage mechanism for natural gas. Since June, the local development and reform commissions have successively introduced policies for residents to follow the price. As of August 2023, A total of 11 subsidiaries of the company in Hebei, Shandong and Jiangsu have completed price adjustments, ranging from RMB 0.16 to RMB 0.47, with an increase ranging from 5.7% to 19.2%. It is expected to have a certain boost to further repairing the gross difference in the 2H of 2023. The improvement of the price adjustment mechanism is conducive to the recovery and stability of natural gas price differentials, and it eases the procurement pressure of city fuel enterprises..

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
20230907	1760 HK	Intron	ZJ	Accumulate	3.5	4.15	18.57%	3.24	-7.43%	3.48	-6.90%
20230912	02886.HK	Binhai Investment	EL	BUY	1.5	2.2	46.70%	1.64	9.33%	1.52	7.89%

A stock is calculated by RMB yuan.
Source: Phillip Securities Research

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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PhillipCapital
Your Partner In Finance
Phillip Securities (Hong Kong) Ltd

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
Number 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites**:** www.phillip.com.hk

JAPAN
PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Heng Feng Road,
Green Tech Tower Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 60911155
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

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

AUSTRALIA
PhillipCapital Australia
Level 10, 330 Collins Street
Melbourne VIC 3000
Tel (+61) 3 8633 9803
Fax (+61) 3 8633 9899
Website: www.phillipcapital.com.au