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Report Review of July 2024
Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Utilities, Commodity& Shipping (Margaret Li),
Automobile & Air (Zhang Jing)

Utilities, Commodity& Shipping (Margaret Li)

This month I released reports of China Oilfield (2883.HK).

The company's revenue in the first quarter of 2024 was 10.15 billion yuan (RMB, the same as below), a year-on-year increase of 20.0%; the net profit attributable to shareholders of listed companies was 636 million yuan, a year-on-year increase of 57.3%, which mainly due to the fact that the company proactively deployed global regional markets in the upswing phase of the industry, continued to strengthen core competitiveness, and leveraged the advantages of a complete industrial chain to promote a year-on-year increase in the main workload and revenue of each segment during the period. EPS was 0.13 yuan/share, a year-on-year increase of 62.5%; weighted average net assets earnings ratio was 1.5%, a year-on-year increase of 0.5 percentage points.

China Oilfield expects capital expenditures in 2024 will be approximately RMB 7.4 billion, which will be mainly used for equipment investment and upgrading, technical equipment upgrading, technology research and development investment and base construction.

We predict that the company's revenue will be 48.52 billion yuan, 52.40 billion yuan, and 56.59 billion yuan in 2024-2026 respectively, with a compound annual growth rate of 8.7%, earnings per share EPS of 0.79/0.90/0.98 yuan, and BVPS of 9.3 yuan and 10.0 yuan and 10.7 yuan, corresponding to P/B of 0.67x/0.62x/0.58x. The impact of the off-lease drilling rig is a short-term factor, and the impact will decrease gradually in the future. The company's net profit attributable to shareholders increased by 57% year-on-year, and its profitability has increased. We are optimistic about the company's development in 2024 and give the company a P/B of 0.75 times in 2024, with a target price of HK\$7.51 and an "Accumulate" rating.

Automobile & Air (Zhang Jing)

In 2023, the Group recorded a revenue of RMB19.7 billion, up 23.2% yoy, net profit of RMB2,151 million attributable to the parent company, up 26.5% yoy; In FY2024Q1 the momentum for the Group's performance growth sustained, and the Group recorded a revenue of RMB5.69 billion, up 27.3% yoy and 2.5% qoq, in Q1 2024, as well as a net profit of RMB670 million attributable to the parent company, up 43.3% yoy and 17.3% qoq; According to the latest positive profit alert, the total revenue for FY2024H1 was 12.227 billion yuan, up 33.47% yoy; The net profit attributable to the parent company was 1.452 billion yuan, up 32.69% yoy; Correspondingly revenue for 24Q2 was 6.538 billion yuan, up 39.3% yoy and 14.9% qoq; The net profit attributable to the parent company was 806 million yuan, up 25.2% yoy and 24.9% qoq. Shipments and result continue to beat consensus growth. We reckon that the sales increase of downstream customers, product line expansion of the Group, and commissioning of new electronic products for various car models, such as pneumatic suspension, brake-by-wire and electronic adjustable steering column, drove the Group's performance to grow. A forward-looking layout has been made in new energy vehicles (NEVs). Especially, the Group's lightweight chassis and electronic business started to enter the harvesting period and contribute to business performance.

Thanks to the continuous practice of the Tier 0.5 business model, the Group's matching amount of single vehicles increased constantly to RMB30 thousand approximately. In terms of profitability, the net profit margin for the full year 2023 grew by 0.29 percentage points, from 10.62% in the same period of the previous year to 10.91%. By quarter, the net profit margin was 10.16% (down -0.51 ppts yoy), 13.75% (up 3.35 ppts yoy), 10.1% (down 1.5 ppts yoy) and 9.85% (down 0.2 ppts yoy), respectively, in Q1, Q2, Q3 and Q4 2023. In Q1 2024, the gross margin was 22.43%, up 0.58 ppts yoy, and the net profit margin was 11.39%, up 1.23 ppts yoy. Profitability may continue to improve as the scale effect will dilute R&D costs and capital expenditures because of mass production and sales growth of products in the coming days, and independent parts brands will produce more and more products for middle- and high-end new energy vehicles.

Deepening strategic cooperation with customers with the Tier 0.5 model was more acceptable to the market with the continuous advancement of the platformisation strategy of products. Sustained rapid growth of new orders was a guarantee for the Group's high-speed sustainable development in the future.

With the software, electrical control, motor and machinery technologies accumulated in the IBS project, the Group initiated robot actuator business. In January 2024, the Group announced its intent to build a production base of robot electric actuators with an investment of about RMB5 billion. The Group's production line with an annual capacity of 300 thousand sets of electric actuators was officially put into operation on January 8, the capacity of which will be improved to 100 million sets in the future. For the great potential for development of the robot industry, robot actuators may be the star product that boosts the Group's growth in the long run.

The market is concerned that Tesla's slowing growth will have a negative impact on the Group's performance, and we believe that the updates on the Group's overseas factories will help the Group earn orders from other overseas customers. Taking into account the dilution of conversion of follow-on offerings, we lower the EPS estimate for 2024 to RMB1.74 from RMB1.94. So, we revise the Company's target price to RMB 51.69 yuan, respectively 30/22 x P/E for 2024/2025, a "Buy" rating.

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
20240730	2883.HK	China Oilfield	ML	Accumulate	6.67	7.51	12.6%	6.89	3.30%	7.50	-8.13%
20240731	601689.CH	Tuopu Group	ZJ	BUY	33.97	51.69	52.16%	36.61	7.77%	36.59	0.05%

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 \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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