

Xinquan (603179 CH)

Globalization layout continues to advance, capacity expansion add up growth pace

China | Automobile Components | Company Report

30 October 2024

Company profile:

Xinquan Co., Ltd., founded in 2001, offers a full range of interior and exterior trim assembly products for both commercial vehicles and passenger vehicles. With industry-leading process competence, cost control capability and technical strength, the Company is capable of simultaneous development with OEMs.

In 2023, Xinquan recorded a total income of RMB10.57 billion and a net profit of RMB810 million, up 52% and 70.24% yoy, respectively. Among principal products in particular, the operating income of the instrument plate assembly section contributed RMB6.98 billion to the operating income, the overhead filing cabinet assembly section contributed RMB130 million, the door panel assembly section, RMB1.75 billion, the interior accessories section, RMB370 million, the bumper assembly section, RMB90 million, and the exterior accessories section, RMB180 million, up 53.1%, 148.6, 37.1%, 40.7%, 112.6% and 202.0% yoy, respectively, leading to a gross margin of 22.02%, 12.26%, 16.43%, 19.79%, 31.33% and 5.26%, respectively.

Overseas merger and acquisition and high-quality asset of large shareholders constantly improve the overall product strength of the Company. Since the listing, the Company's result has maintained steady, rapid growth. Its revenue increased from RMB133 million in 2002 to RMB10.84 billion in 2018 with the annual compound growth rate of 31.6%. The net profit rate increased from RMB16 million to RMB1.29 billion, with the compound growth rate of 31.3%. The Company's profitability is relatively strong with the current gross profit margin of approximate 30%, net profit margin of 12%, ROE of 15% to 16% and asset-liability ratio of 37% only. The HVAC&R unit contributes most to gross profit and Aweco contributes the least due to relatively high production cost in Europe.

Investment Summary

With High-quality Clients in Hand, Xinquan Realized Rapid Business Development

Xinquan has realized mass production of trim products for key independent vehicle manufacturers, such as SAIC, Chang'an, Geely, GAC, BYD and Great Wall, since 2019, and in 2020, it became a supplier to Tesla, and started mass production of trim products for Tesla in 2021. In 2021, 2022 and 2023, the Company's operating income rose by 25.3%, 50.6% and 52.2% yoy to RMB4.61 billion, RMB6.95 billion and RMB10.57 billion, respectively, indicating its rapid business development. Tesla, Geely, Chery, Li and BYD were the Company's top five clients in 2023, contributing 22%, 19%, 16%, 9% and 5%, respectively, to the Company's operating income, which is expected to continue to grow at high rates in the future with the constant development of new energy vehicle manufacturers such as Tesla. In 2024H1, the Company recorded a total income of RMB6.1 billion, up 33% yoy, and a net profit of RMB411 million attributable to the parent company, up 34.75% yoy, the result of sales volume increases of the OEM clients and the lift share of the Company among the OEM clients. The China Association of Automobile Manufacturers reported that Chinese vehicle manufacturers produced 13.25 million vehicles in H1, up 9.3% yoy, among which, Geely and Chery, the Company's core clients, saw a rapid yoy growth of the sales volume, being 41% and 48%, respectively, and Li, the Company's new-force client, saw a yoy growth of 36%.

Accumulate (Initiation)

CMP CNY 50.9

(Closing price as at 28 October)

TARGET CNY 55.7 (+9.43%)

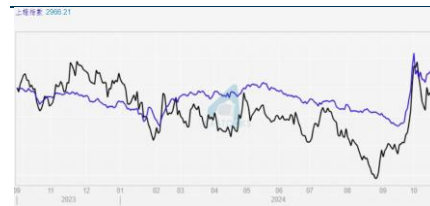
COMPANY DATA

| | |
|-----------------------|--------------|
| O/S SHARES (MN) : | 487 |
| MARKET CAP (CNY MN) : | 24804 |
| 52 - WK HI/LO (CNY): | 55.98/ 32.54 |

SHARE HOLDING PATTERN, %

| | |
|----------|------|
| Mr tang' | 37.2 |
|----------|------|

PRICE VS. SHCOMP



Source: Phillip Securities (HK) Research

KEY FINANCIALS

| CNY mn | FY23 | FY24E | FY25E | FY26E |
|----------------|-------|-------|-------|-------|
| Net Sales | 10572 | 13678 | 17421 | 21418 |
| Net Profit | 806 | 1098 | 1431 | 1780 |
| EPS, CNY | 1.65 | 2.25 | 2.94 | 3.65 |
| P/E, x | 30.8 | 22.6 | 17.3 | 13.9 |
| BVPS, CNY | 10.17 | 11.99 | 14.43 | 17.35 |
| P/BV, x | 5.0 | 4.2 | 3.5 | 2.9 |
| DPS (CNY) | 0.30 | 0.45 | 0.60 | 0.76 |
| Div. Yield (%) | 0.6% | 0.9% | 1.2% | 1.5% |

Source: Company reports, Phillip Securities Est.

Research Analyst

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Exterior Trim Business Gave Rise to Another Growth Pole

The Company has been planning exterior trim business for long although it focused on the interior trim sector before and exterior trim business contributed little to its operating income. It has become a fixed supplier of the exterior trim products of Chery and Li in recent years, and is going to realize the mass production of such products in 2024, which will be a turning point for the development of its exterior trim business. It is expected that in 2024, 2025 and 2026, the Company will see an operating income of RMB0.9 billion, RMB2.5 billion and RMB3.5 billion from its exterior trim business, significantly more than that in past years.

Globalization layout continues to advance, capacity expansion add up growth pace

In 2023, the Company's production capacity for large-scale product was 7.42 million sets, with a total output of 7.217 million sets (including 6.628 million sets of instrument panel assemblies); The production capacity of medium-sized products was 29.656 million sets, and the output is 29.832 million sets. The Company continues to expand capacity in Hefei, Anqing, Changzhou, Shanghai, Mexico and other places around the vehicle OEM factory. Currently, the capacity under construction for large and medium-sized products is 5.6 million sets, including 2.1 million sets of instrument panel assemblies, 1.2 million sets of door panels, 0.4 million sets of seat back panels, 0.5 million sets of car wheel arch decorative panels, 0.5 million sets of tailgate/fender assemblies, and 0.9 million sets of bumper assemblies and other supporting components. In 2023, the Company made an additional investment of 145 million US dollars in Mexico's Xinquan. It is expected that 0.8 million sets of instrument panel assemblies and 0.4 million sets of seat back panels will be put into production by the end of 2024, injecting new impetus into the result's growth. At the same time, the Company further invested 65 million euros to establish a subsidiary in Slovakia and 50 million US dollars (4 million US dollars in California and 46 million US dollars in Texas) to establish a subsidiary in the United States for R&D, manufacturing, and sales, and expansion into overseas markets.

The third phase of employee stock ownership plan is steadily advancing, binding core personnel to ensure the long-term development

In January 2024, the Company announced a repurchase plan of 80-120 million, intended to be used for implementing employee stock ownership plans or equity incentives. In April 2024, the Company announced the third phase of its employee stock ownership plan, which plans to provide no more than 400 million shares of stock for no more than 1100 employees, deeply binding core personnel to ensure the long-term development of the Company.

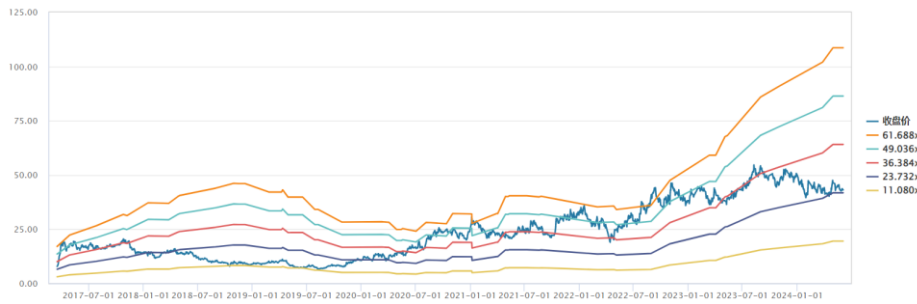
Investment Thesis

Xinquan is a promising domestic automotive interior and exterior decoration enterprise. With the continuous expansion of the clients base and production capacity, it is expected to maintain sustained growth. We are optimistic about the long-term development of the Company and expect EPS to be 2.25/2.94/3.65 yuan respectively for 2024/2025/2026, a yoy increase of 36.6%/30.3%/24.5%. We offer a target price of 55.7 yuan, respectively 24.7/19/15.2x P/E for 2024/2025/2026, and an "Accumulate" rating. (Closing price as at 28 October)

Risk

- Progress of new production line is below expectations
- Electric vehicle sales fall short of expectations
- Macroeconomic downturn affects product demand
- Sharply rising raw material prices or sharply falling product prices

Historical P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

Financials

| FYE DEC | FY21 | FY22 | FY23 | FY24F | FY25F | FY26F |
|----------------------------------|------------|------------|------------|-------------|-------------|-------------|
| Valuation Ratios | | | | | | |
| P/E (X), adj. | 67.9 | 52.5 | 30.8 | 22.6 | 17.3 | 13.9 |
| P/B (X) | 5.2 | 6.1 | 5.0 | 4.2 | 3.5 | 2.9 |
| Dividend payout ratio(%) | 40.0% | 30.9% | 18.2% | 20.0% | 20.4% | 20.8% |
| Dividend Yield (%) | 0.6% | 0.6% | 0.6% | 0.9% | 1.2% | 1.5% |
| Per share data (RMB) | | | | | | |
| EPS, (Basic) | 0.75 | 0.97 | 1.65 | 2.25 | 2.94 | 3.65 |
| EPS, (Diluted) | 0.75 | 0.97 | 1.65 | 2.25 | 2.94 | 3.65 |
| DPS | 0.30 | 0.30 | 0.30 | 0.45 | 0.60 | 0.76 |
| BVPS | 9.88 | 8.37 | 10.17 | 11.99 | 14.43 | 17.35 |
| Growth & Margins (%) | | | | | | |
| Growth | | | | | | |
| Revenue | 25.3% | 26.8% | 52.2% | 29.4% | 27.4% | 22.9% |
| EBIT | 2.0% | 38.4% | 71.6% | 41.8% | 27.4% | 20.6% |
| Net Income, adj. | 10.2% | 78.4% | 71.2% | 36.3% | 30.3% | 24.5% |
| Margins | | | | | | |
| Gross margin | 21.3% | 19.7% | 20.0% | 20.6% | 21.0% | 21.0% |
| EBIT margin | 7.4% | 7.7% | 8.7% | 9.6% | 9.6% | 9.4% |
| Net Profit Margin | 6.2% | 6.8% | 7.6% | 8.0% | 8.2% | 8.3% |
| Key Ratios | | | | | | |
| ROE | 7.9% | 12.1% | 17.8% | 20.3% | 22.2% | 23.0% |
| Income Statement (RMB mn) | | | | | | |
| Revenue | 4613 | 6947 | 10572 | 13678 | 17421 | 21418 |
| Gross profit | 983 | 1371 | 2120 | 2818 | 3658 | 4498 |
| EBIT | 339 | 537 | 922 | 1307 | 1665 | 2007 |
| Profit before tax | 302 | 524 | 914 | 1232 | 1599 | 1996 |
| Tax | 16 | 51 | 109 | 136 | 169 | 214 |
| Profit for the period | 286 | 473 | 805 | 1096 | 1429 | 1782 |
| Minority interests | 2 | 2 | 0 | -2 | -1 | 2 |
| Total capital share | 374.85 | 487.3 | 487.3 | 487.3 | 487.3 | 487.3 |
| Net profit | 284 | 471 | 806 | 1098 | 1431 | 1780 |

Source: PSR

(Closing price as at 28 October)

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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