

# Shuanghuan Driveline (002472 CH)

## Pursues Long-term Growth with New Energy and Robotics Business

China | Automobile Components | Company Report

8 November 2024

### Company profile: Domestic Leader in Automobile Gears

Shuanghuan Driveline specializes in the manufacturing of gear transmission products, with the gear business accounting for about 80% of the Company's total business. The Company has gradually shifted from traditional gear products to high-precision gears and parts. Its main products span gear products (gears for passenger vehicles, commercial vehicles, engineering machinery, motorcycles and electric tools), reducers and other products, which are mainly applied in the electric drive systems, gearboxes and axles of vehicles, as well as electric tools, rail transit, wind power, industrial robots and other sectors. The Company operates five production bases in Zhejiang, Jiangsu, Chongqing, Dalian and other places.

Founded in 1980, the Company has over 40 years of professional production and manufacturing experience. Relying on such experience, the Company has established close collaborative relationships with numerous customers at home and abroad, connected to the supply chain systems of leading enterprises in various segmentations, and formed a customer base consisting of various industry giants.

In terms of passenger vehicles, the Company has connected with a number of leading enterprises in the automotive industrial chain, including OEMs and transmission parts suppliers, such as world-leading electric vehicle manufacturers, Toyota, Volkswagen, BYD, GAC, GM, Ford, NIO, ZF, Nidec, Schaeffler, Inovance and BorgWarner. The Company boasts a market share of over 70% in terms of gears for domestic high-power new energy vehicles. In terms of commercial vehicles, the Company has established cooperative relationships with ZF, Cummins, Eaton, Yuchai and other core parts companies over the years. In terms of engineering machinery, the Company boasts such representative customers as Caterpillar and John Deere.

## Investment Summary

### Rapid Revenue Growth

According to its 2024H semi report released, the Company reported an revenue of RMB 4.322 billion, up 17.3% yoy; the net profit attributable to the parent company stood at RMB 473 million, up 28.3% yoy; and the net profit attributable to the parent company excluding non-recurring items was RMB 453 million, up 32.85% yoy. The gross profit margin has increased from 22.24% in 2023 to 22.75% in 2024H1, indicating a continuous improvement in profitability.

On a closer look at the segment revenue, the Company saw steady growth in gears for automatic gearboxes of Intelligent execution mechanism and new energy vehicles. In 2024H1, the Company recorded a revenue of RMB 2.36 billion, RMB 0.46 billion, RMB 0.32 billion, RMB 0.26 billion and RMB0.28 billion for gears in passenger vehicles (up 28.5% yoy), commercial vehicles (up 3.8% yoy), engineering machinery (down 8.3% yoy), reducers (down 18.5% yoy) and Intelligent execution mechanism (up 82.2% yoy), respectively. The revenue from gears for power tools and motorcycles went up by 0.2% and 14.5% to RMB 0.07 billion and RMB0.05 billion, respectively. The gear business generated 75% of the Company's revenue. In addition, revenue from steel sales increased by 10% yoy to RMB0.5313 billion, accounting for 12.3% of the total revenue.

## Neutral (Initiation)

CMP CNY 30.76

(Closing price as at 6 November)

TARGET CNY 32.1 (+4.36%)

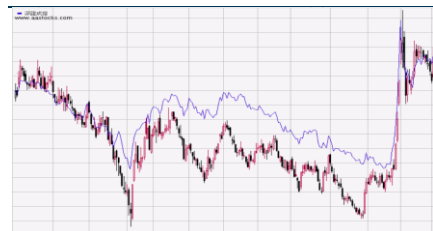
### COMPANY DATA

O/S SHARES (MN) :	847
MARKET CAP (CNY MN) :	26060
52 - WK HI/LO (CNY):	32.27/ 18

### SHARE HOLDING PATTERN, %

Mr Yip	19.3
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### PRICE VS. SHCOMP



Source: Aastocks, Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY23	FY24E	FY25E	FY26E
Net Sales	8074	9815	11874	13992
Net Profit	817	1043	1305	1615
EPS, CNY	0.97	1.22	1.53	1.89
P/E, x	31.7	25.2	20.1	16.3
BVPS, CNY	9.33	10.36	11.75	13.30
P/BV, x	3.3	3.0	2.6	2.3
DPS (CNY)	0.12	0.17	0.22	0.27
Div. Yield (%)	0.4%	0.6%	0.7%	0.9%

Source: Company reports, Phillip Securities Est.

### Research Analyst

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In terms of gross margin, the gross margin of gears for passenger vehicles, commercial vehicles and engineering machinery stood at 23.4%, 26.25% and 28.9%, respectively, up 3.1pcts, 1.4pcts and 5.1pcts yoy. According to CAAM, in 2024H1 domestic passenger vehicles reported a production volume of 11,886 thousand units and a sales volume of 11,979 thousand units, up 5.4% and 6.3% yoy, respectively; commercial vehicles reported a production volume of 2,005 thousand units and a sales volume of 2,068 thousand units, up 2% and 4.9% yoy, respectively; new energy vehicles reported a production volume of 4,929 thousand units and a sales volume of 4,944 thousand units, up 30.1% and 32% yoy, respectively. With advantages in customer structure, technology and production capacity, the Company significantly outperformed its peers in terms of growth in passenger vehicles and new energy vehicles.

As for expense ratio, the Company's sales, administrative, R&D and financial expense ratios were 0.949% (up 0.003 ppts yoy), 3.504% (down 0.445ppts yoy), 4.755% (up 0.235 ppts yoy) and 0.387% (up 0.091 ppts yoy), which were attributable to its ongoing measures for cost reduction and efficiency improvement as well as economies of scale. In the years to come, the Company will continue efforts to replace human labour with machines, including intelligent manufacturing systems and big data systems, so as to reduce costs and improve efficiency.

The third quarter performance report for 2024 released by the Company shows that the revenue reached RMB 2.42 billion yuan (up 10.7% yoy), net profit attributable to shareholders arrive RMB 265 million yuan (up 20% yoy), and gross profit margin came to 23.96% (up 2.26 ppts). The profitability continues to strengthen.

In terms of gears for new energy vehicles, which enjoy high market attention, the Company reached a production capacity of five million units of transmission gear shafts for new energy vehicles at the end of 2023. The capacity utilization rate was high. Moreover, in 2023 the Company decided to establish a production base for gear transmission parts for new energy vehicles in Hungary. The construction will begin in 2024, and the Company will gradually release capacity based on existing orders and its production capacity in 2024 and 2025. In 2024H1, the Company recorded an overseas sales revenue of about RMB 0.62 billion, accounting for 14.3% (0.6ppts higher than 2023) of the total revenue, showing considerable room for improvement. As far as we are concerned, accelerated global capacity will lay cornerstone for the Company's global expansion.

### Seeking Further Expansion and Building a Diversified Product System

Considering the dynamics of the automotive industry as well as the future development trends and competition of the gear industry, the Company has established the concentric diversification development strategy. Specifically, the Company focuses on high-precision gear transmission, seizes the opportunities brought by the booming new energy vehicle market and shift from manual gearboxes to automatic gearboxes and new energy transmission systems of commercial vehicles, and vigorously expands business in such areas as robot joints and people's livelihood. First, in terms of gears for Intelligent execution mechanism, in 2023 the Company relied on its holding subsidiary Huanqu Technology, the robust design capabilities of its sub-subsidiary Santohno Intelligent Transmission Co., Ltd. and the operation and manufacturing capabilities of its parent company to actively invest in the R&D of injection molding, related composite material gears and small assemblies. It successively increased its market share in smart home, vehicle-mounted components and other fields, especially in the sweeper industry, which is expected to contribute to the Company's stable and sustained performance growth in the future.

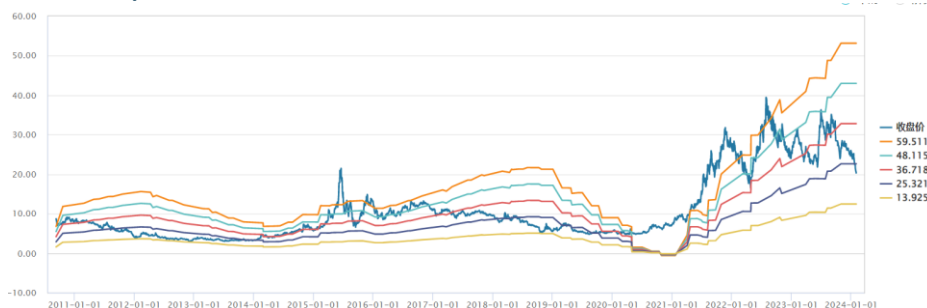
Second, in terms of robotic reducer, the Company's subsidiary Fine-Motion Tech has, relying on its R&D and batch delivery capabilities in precision robotic reducers, continuously increased its market share in the domestic RV reducer market. Moreover, it has successfully supplied harmonic reducers.

## Investment Thesis

Shuanghuan Driveline is a pacesetter in the domestic automotive gear industry and robotic RV reducer industry. By leveraging its advantages in capacity, management, R&D and customer base, the Company has seized the opportunities for upgrading brought by gear outsourcing and high industry barriers as a result of the booming new energy vehicle industry. Looking forward, the Company is expected to continuously benefit from the boom of new energy passenger vehicles, expansion of the industrial chains of automatic gearboxes of commercial vehicles, and rapid development of robotic reducers and gears for daily use.

As for valuation, we expected diluted EPS of the Company to RMB1.22/1.53/1.89 of 2024/2025/2026. And we accordingly gave the target price to RMB32.1, respectively 26.3/21/17x P/E for 2024/2025/2026. "Neutral" rating. (Closing price as at 6 November)

### Historical P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

### 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

## Financials

FYE DEC	FY21	FY22	FY23	FY24F	FY25F	FY26F
<b>Valuation Ratios</b>						
P/E (X), adj.	66.9	42.1	31.7	25.2	20.1	16.3
P/B (X)	4.9	3.6	3.3	3.0	2.6	2.3
Dividend payout ratio(%)	13.0%	11.0%	12.4%	13.9%	14.4%	14.3%
Dividend Yield (%)	0.2%	0.3%	0.4%	0.6%	0.7%	0.9%
<b>Per share data (RMB)</b>						
EPS, (Basic)	0.46	0.73	0.97	1.22	1.53	1.89
EPS, (Diluted)	0.46	0.73	0.97	1.22	1.53	1.89
DPS	0.06	0.08	0.12	0.17	0.22	0.27
BVPS	6.27	8.64	9.33	10.36	11.75	13.30
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	47.1%	26.8%	18.1%	21.6%	21.0%	17.8%
EBIT	107.8%	38.4%	41.1%	27.6%	23.4%	20.2%
Net Income, adj.	534.6%	78.4%	40.3%	27.8%	25.1%	23.7%
<b>Margins</b>						
Gross margin	19.5%	21.1%	22.2%	22.6%	22.9%	23.5%
EBIT margin	9.3%	10.1%	12.1%	12.7%	13.0%	13.2%
Net Profit Margin	6.1%	8.5%	10.1%	10.6%	11.0%	11.5%
<b>Key Ratios</b>						
ROE	8.0%	9.8%	10.8%	12.4%	13.8%	15.1%
<b>Income Statement (RMB mn)</b>						
<b>Revenue</b>	<b>5391</b>	<b>6838</b>	<b>8074</b>	<b>9815</b>	<b>11874</b>	<b>13992</b>
<b>Gross profit</b>	<b>1053</b>	<b>1441</b>	<b>1796</b>	<b>2218</b>	<b>2719</b>	<b>3281</b>
EBIT	502	694	979	1250	1542	1853
Profit before tax	379	619	933	1196	1495	1864
<b>Tax</b>	<b>25</b>	<b>33</b>	<b>99</b>	<b>126</b>	<b>150</b>	<b>187</b>
Profit for the period	354	586	834	1070	1345	1677
Minority interests	28	4	18	27	40	62
Total capital share	778	850	853	847	847	847
<b>Net profit</b>	<b>326</b>	<b>582</b>	<b>817</b>	<b>1043</b>	<b>1305</b>	<b>1615</b>

Source: PSR

(Closing price as at 6 November)

**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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