

Neway Valve (603699 CH)

Domestic industrial valves leader, with Thriving Sectors Driving Growth

China | Mechanical Equipment | Initiation Report

12 February 2025

Company profile

Neway Valve is a leading domestic provider of middle-to-high-end industrial valves, specializing in comprehensive industrial valve solutions for petroleum, chemical, natural gas, electricity and other energy sectors. Currently, beyond traditional petroleum and natural gas projects, the Company's products are rapidly expanding into LNG, fine chemical and nuclear power markets, and are utilized in clean energy development projects such as offshore wind power, hydrogen energy, geothermal energy, bioenergy, solar energy, and carbon capture initiatives.

Investment Summary

Steady Performance Growth with Sustained Profitability

From 2016 to 2023, the Company experienced continuous growth in both revenue and net profit. Revenue increased from RMB2.05 billion to RMB5.54 billion, representing a compound annual growth rate (CAGR) of 15.3%. Net profit attributable to the parent company grew from RMB220 million to RMB720 million, with a CAGR of 18.5%. From Q1 to Q3 2024, the Company achieved operating income of RMB4,455 million (up 5.09% year-on-year) and net profit attributable to the parent company of RMB828 million (up 40.69% year-on-year). The Company's products are closely tied to oil prices. In 2023 and the first three quarters of 2024, the global demand for energy infrastructure increased significantly, driving strong growth in the Company's offshore business, leading to notable improvements in orders, sales, etc. Additionally, steel prices remain in a downward trend, and the decline in raw material prices has contributed to a significant increase in the Company's gross margin. According to the monitoring statistics of China Iron and Steel Association, the average China Steel Price Index in the first three quarters of 2024 stood at 103.66 points, reflecting a year-on-year decrease of 7.67%. Meanwhile, the average import price of iron ore was USD111.6 per ton, marking a year-on-year decline of 0.8%. In the first three quarters of 2024, the Company recorded a gross margin of sales of 36.72% (up 5.78pct year-on-year). The growth rate of profit significantly outpaced that of revenue, demonstrating the Company's strong profitability.

Overseas Revenue Expected to Achieve High Growth Rate

The global valve industry offers a vast market potential with a fragmented competitive landscape, offering substantial opportunities for the growth of domestic manufacturers. As reported by Global Information, the global industrial valve market was valued at USD72.2 billion in 2023, and is expected to reach USD134.68 billion by 2032, with a CAGR of 7.17%. The global valve market is highly fragmented, with the industry leader CR9 holding only 13% of the total market share in 2022. The Company's global market share is approximately 1%, indicating significant room for growth. Owing to the deepening of "Belt and Road" cooperation and "Going Global" of domestic EPC general contractors, the Company's overseas revenue is expected to experience rapid growth.

Accumulate (Initiation)

CMP CNY 27.25

(Closing price as at 10 February)

TARGET CNY 30.5 (+11.9%)

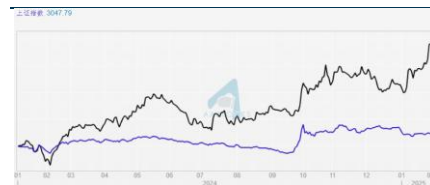
COMPANY DATA

O/S SHARES (MN) :	769
MARKET CAP (CNY MN) :	20946
52 - WK HI/LO (CNY):	28.75/ 13.38

SHARE HOLDING PATTERN, %

Wang Baoqin	16.23
Chen Zhangwen	16.23
Lu Bin	11.15
Xi Chao	11.15

PRICE VS. SHCOMP



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY23	FY24E	FY25E	FY26E
Net Sales	5544	6312	7377	8641
Net Profit	722	987	1233	1453
EPS, CNY	0.96	1.30	1.60	1.89
P/E, x	28.4	21.0	17.0	14.4
BVPS, CNY	4.92	5.48	6.34	7.61
P/BV, x	5.5	5.0	4.3	3.6
DPS (CNY)	0.52	0.72	0.82	0.90
Div. Yield (%)	1.9%	2.6%	3.0%	3.3%

Source: Company reports, Phillip Securities Est.

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Smooth Expansion across Multiple Downstream Industries, with Thriving Sectors Driving Growth

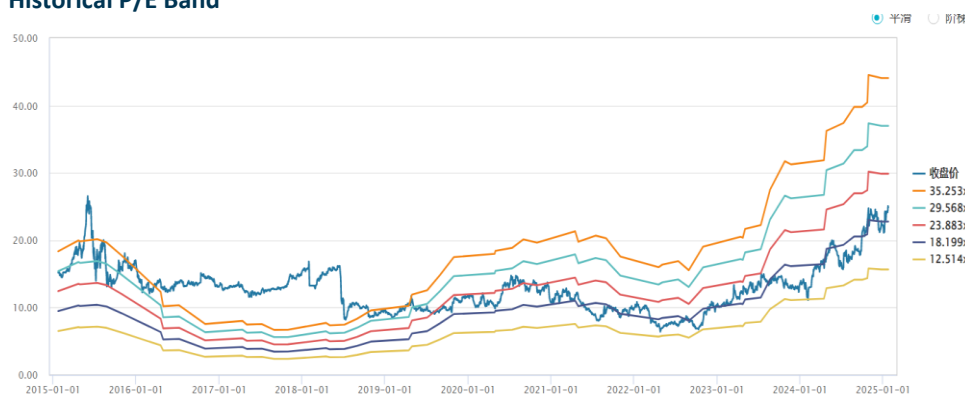
In recent years, industries such as oil and gas and nuclear power have experienced significant growth, with shipbuilding orders, capital expenditures on offshore oil and gas exploration, and LNG compression and transportation projects remaining at elevated levels, driving increased demand in the valve industry. The Company continues to expand its downstream presence, maintaining intensive strategic partnerships with global energy giants such as SHELL, TOTAL, PetroChina and Sinopec engaging in traditional oil and gas projects. At the same time, it is increasing its penetration into sectors such as natural gas, fine chemicals, marine engineering, power plans, long-distance pipelines, and new energy. In the first half of 2024, the Company successfully undertook several international FPSO projects and won domestic first-level certifications for packaged procurement of high-end nuclear power products such as gate valves, globe valves and check valves. The increases in the volume of new business and the market share are set to further drive the Company's performance growth.

Investment Thesis

As a leader in middle- and high-end industrial valves, the Company focuses on advancing technology and processes, continuously enhancing its R&D, production and supply capabilities across the upstream industrial chain. By fostering deep, mutual development with high-end users at home and abroad, the Company has established strong industry barriers, enabling it to benefit from both domestic import substitution with high-end products and the global industry boom, offering significant potential for growth. We are highly optimistic about the Company's development, as it demonstrates strong growth potential and robust industry barriers, positioning it to command a premium.

As for valuation, we expected diluted EPS of the Company to RMB 1.30/1.60/1.89 of 2024/2025/2026. And we accordingly gave the target price to RMB 30.5, respectively 19x P/E for 2025. "Accumulate" rating. (Closing price as at 10 February)

Historical P/E Band



Source: Wind, Company, Phillip Securities Hong Kong Research

Risk

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

Financials

FYE DEC	FY22	FY23	FY24F	FY25F	FY26F
Valuation Ratios					
P/E (X), adj.	44.0	28.4	21.0	17.0	14.4
P/B (X)	6.3	5.5	5.0	4.3	3.6
Dividend payout ratio(%)	58.1%	54.2%	55.5%	51.1%	47.6%
Dividend Yield (%)	1.3%	1.9%	2.6%	3.0%	3.3%
Per share data (RMB)					
EPS, (Basic)	0.62	0.96	1.30	1.60	1.89
EPS, (Diluted)	0.62	0.96	1.30	1.60	1.89
DPS	0.36	0.52	0.72	0.82	0.90
BVPS	4.34	4.92	5.48	6.34	7.61
Growth & Margins (%)					
Growth					
Revenue	2.5%	36.6%	13.8%	16.9%	17.1%
EBIT	9.7%	66.1%	51.0%	23.4%	18.3%
Net Income, adj.	23.4%	54.2%	36.8%	24.9%	17.8%
Margins					
Gross margin	29.7%	30.7%	35.3%	35.7%	35.7%
EBIT margin	11.6%	14.1%	18.8%	19.8%	20.0%
Net Profit Margin	11.5%	13.0%	15.6%	16.7%	16.8%
Key Ratios					
ROE	15.03%	20.73%	24.97%	27.14%	27.09%
Income Statement (RMB mn)					
Revenue	4059	5544	6312	7377	8641
Gross profit	1207	1702	2229	2630	3088
EBIT	472	784	1184	1462	1729
Profit before tax	551	849	1187	1487	1753
Tax	74	115	184	230	272
Profit for the period	476	734	1003	1256	1482
Minority interests	8	12	16	23	29
Total capital share	749	760	760	769	769
Net profit	468	722	987	1233	1453

Source: PSR

(Closing price as at 10 February)

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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