



Zhuzhou Times New Material Technology

Significant FX exposure; earnings growth could come under pressure in 2016

Equities

China
Chemicals, Specialty

12-month rating **Neutral**

12m price target **Rmb15.00**
Prior: Rmb13.88

Price **Rmb14.78**

RIC: 600458.SS **BBG:** 600458 CH

Trading data and key metrics

52-wk range Rmb32.84-11.88

Market cap. Rmb11.9bn/US\$1.80bn

Shares o/s 803m (ORDA)

Free float 61%

Avg. daily volume ('000) 11,373

Avg. daily value (m) Rmb154.2

Common s/h equity (12/16E) Rmb4.81bn

P/BV (12/16E) 2.5x

Net debt / EBITDA (12/16E) 1.4x

EPS (UBS, diluted) (Rmb)

	From	To	% ch	Cons.
12/16E	0.27	0.25	-8	0.30
12/17E	0.35	0.34	-3	0.39
12/18E	0.47	0.47	NM	0.46

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We expect FX losses on euro-denominated loans to lower '16 net profit by 39%

Currently, 42% of the company's (TMT) revenue comes from overseas. In addition, it has €200m in euro-denominated loans. Overseas revenue and costs are only minimally impacted by FX movements, as both are settled in foreign currency. We believe FX moves will mainly affect TMT's net profit through its euro-denominated liabilities. Based on the UBS macro team's forecast of 8% depreciation in the RMB/EUR this year, we estimate that the company will record FX losses of about Rmb126m on its €200m in euro liabilities in 2016, cutting full-year net profit by ~39%.

Softer wind power market, but share increases could support revenue growth

With the surge in wind power installation now over, growth is set to fall in wind power market. UBS's utilities team estimates that cumulative installed wind power capacity in China will log a slower ~11% CAGR in 2015-20. We expect further consolidation in the wind turbine blade manufacturing space. Although TMT is a late entrant, its market share has been consistently rising. Also, TMT has continued to make breakthroughs in wind turbine blade R&D, boosting its competitiveness. We expect its market share to keep rising, providing some support to top-line growth. We forecast wind power product revenue of Rmb3bn/3.2bn/3.2bn in 2016/17/18, up 10%/6%/0% YoY.

BOGE: Integration continues, but notable GPM improvement unlikely in S-T

The gross margin of BOGE Rubber & Plastics (BOGE) is worse than peers' due to high labour costs. On top of that, TMT also entered into a number of employee welfare agreements when it acquired BOGE. BOGE contributes ~50% of the company's revenue but has a lower gross margin than the rail transit and wind power product businesses, resulting in a negative impact on overall gross margin. TMT is currently expanding BOGE's capacity in China. We expect overall gross margin to improve in 2016/17/18, though probably not to a significant degree.

Valuation: Slightly lifting PT to Rmb15; maintain Neutral rating

BVPS has risen sharply due to 2015's strong earnings beat and higher working capital following the private placement. Given recent CNY weakness against EUR, we factor in further FX losses in our 2016 earnings forecasts. Although we are trimming our 2016/17/18E EPS by 8%/4%/1%, we slightly raise our 2016E BVPS to Rmb6.0. Our new PT of Rmb15 is based on 2.5x 2016E P/BV (old PT based on 2.4x 2016E P/BV, Rmb5.78 BVPS). We are upbeat on TMT's long-term potential, but near-term breakthroughs look unlikely. We view current valuation as fair & maintain Neutral.

Highlights (Rmbm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	4,165	6,008	10,825	11,800	12,687	13,387	14,044	14,613
EBIT (UBS)	163	(22)	241	373	419	454	536	543
Net earnings (UBS)	122	72	256	198	275	375	448	455
EPS (UBS, diluted) (Rmb)	0.21	0.11	0.39	0.25	0.34	0.47	0.56	0.57
DPS (Rmb)	0.06	0.02	0.05	0.07	0.10	0.14	0.17	0.17
Net (debt) / cash	100	(1,683)	(626)	(811)	(623)	(1,182)	(1,173)	(1,131)

Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	3.9	-0.4	2.2	3.2	3.3	3.4	3.8	3.7
ROIC (EBIT) %	6.2	(0.6)	4.8	6.7	7.1	7.2	8.0	7.8
EV/EBITDA (core) x	28.3	36.2	25.0	22.2	20.1	18.7	16.2	16.1
P/E (UBS, diluted) x	53.2	93.4	51.5	60.0	43.1	31.6	26.5	26.1
Equity FCF (UBS) yield %	(7.0)	(2.2)	(3.1)	(2.1)	(0.6)	0.7	1.8	2.1
Net dividend yield %	0.5	0.2	0.3	0.5	0.7	0.9	1.1	1.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb14.78 on 15 Jun 2016 22:37 HKT

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This report has been prepared by UBS Securities Co. Limited. This is a summary of a Chinese research note published by UBS Securities Co Ltd on 16 June 2016. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8.** UBS does not seek to do business with companies covered in its research reports. As a result, investors should be aware that the firm may not be able to provide certain services to clients of its research reports. Investors should consider this report as only a single factor

PIVOTAL QUESTIONS

Q: Given its overseas revenue and euro debt exposure, could Rmb FX swings have a major impact on profit? Yes. Overseas revenue and costs are only minimally impacted by FX movements, as both are settled in foreign currency. We think FX moves will mainly affect TMT's net profit through its euro-denominated liabilities. Based on the UBS macro team's forecast of 8% depreciation in the RMB/EUR this year, we expect the company to record FX losses of ~Rmb126m on its €200m in euro liabilities in 2016, shaving ~39% off full-year net profit.

Q: Wind power business revenue grew 76% YoY in 2015 due to industry policies. Can growth continue in 2016 from such a high base? Yes, although it could slow markedly. With the surge in wind power installation now over, growth is set to fall in the wind power market. We expect further consolidation in the wind turbine blade manufacturing space, meaning that rising market share could support the company's revenue growth. We forecast wind power product revenue of Rmb3bn/3.2bn/3.2bn in 2016/17/18, up 10%/6%/0% YoY.

Q: TMT is working to integrate BOGE following the unit's 2014 acquisition from ZF. Could gross margin rise significantly in the next three years? Unlikely. BOGE's gross margin is lower than peers' due to high labour costs, and TMT also entered into a number of employee welfare agreements when it acquired BOGE. BOGE contributes ~50% of the company's revenue but has a lower gross margin than the rail transit and wind power product businesses, resulting in a negative impact on overall gross margin. TMT is currently expanding BOGE's capacity in China. We expect overall gross margin to improve in 2016/17/18, though probably not to a significant degree.

UBS VIEW

In the near term, top-line growth could be limited due to FX losses and slower growth in the wind power market. Meanwhile, high labour costs at BOGE are weighing on average gross margin. Over the long term, we expect the company to deliver double-digit growth in revenue and profit, driven by better integration of the BOGE unit and overseas breakthroughs. However, breakthroughs are unlikely in the short term. We believe the shares are fairly valued and maintain our Neutral rating.

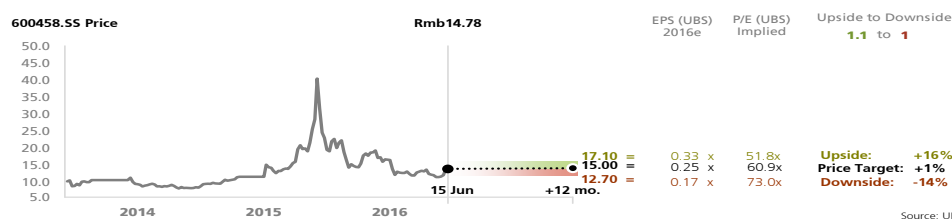
EVIDENCE

UBS's macro team expects the RMB/EUR to reach 7.7140/8.4000 in 2016/17. The company has Rmb203m in euro-denominated loans, making it fairly sensitive to FX movements. UBS's utilities team expects installed wind power capacity to reach 216GW by 2020, implying an 11% 2015-20 CAGR, down from 33% in 2010-15. The company has expanded its capacity in China by setting up subsidiaries in Wuxi and Zhuzhou under BOGE. BOGE's average gross margin is likely to improve as the revenue contribution from the Chinese market rises.

WHAT'S PRICED IN?

Our three-stage residual income model estimates that 19% of TMT's current share price can be attributed to the value of its current earnings stream, while 8% and 74% can be attributed to short-term and long-term growth, respectively. Considering short-term headwinds from FX swings and slower growth in wind power on the one hand, and the significant long-term potential of the automotive vibration reduction products business on the other, we view the market's valuation as fair.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers (2016E)	Rail transit rev growth	Wind power rev growth	Rubber/plastic rev growth	GPM	Admin expense ratio
Rmb17.1 upside	14.8%	12.3%	11.0%	17.8%	9.4%
Rmb15.0 PT	9.9%	10.0%	8.0%	17.5%	9.6%
Rmb12.7 downside	7.9%	5.3%	5.0%	17.2%	9.8%

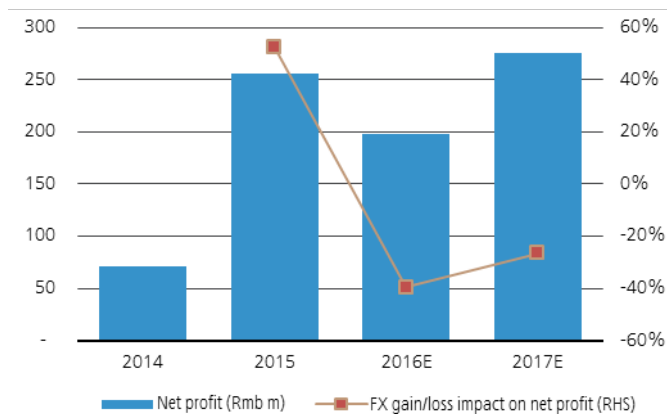
Source: UBS estimates

COMPANY DESCRIPTION

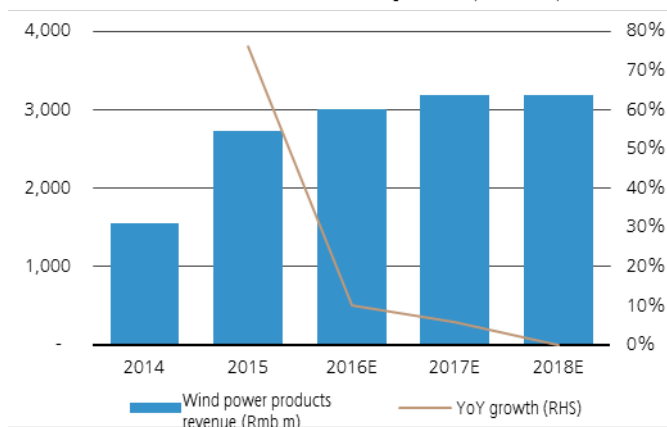
Following the restructuring of Zhuzhou Times Rubber & Plastic, Zhuzhou Times New Material Technology was formed in 1998 and was listed on the Shanghai Stock Exchange in 2002. It is principally engaged in the R&D, production, and sales of vibration and noise-reduction products, modified polymer composite material, and special coating and new insulation material. These are mainly used in rolling stock, wind power generation, automobile and special equipment.

OUR THESIS IN PICTURES

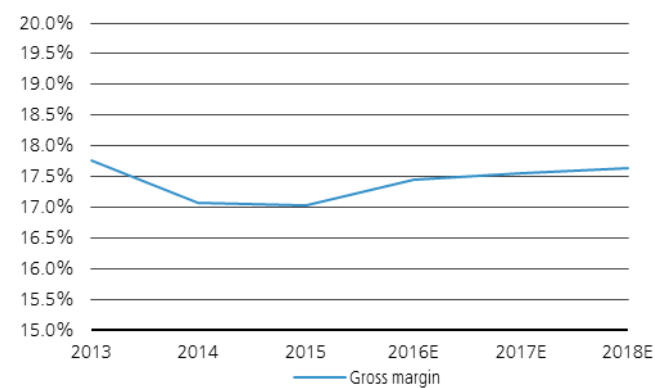
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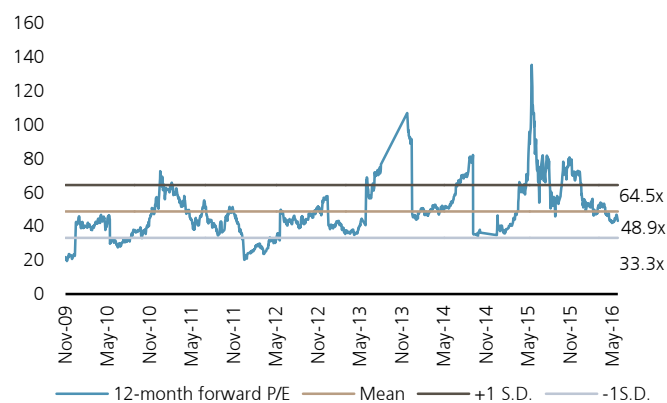
We expect TMT to record FX losses of ~Rmb126m on its €200m in euro-denominated liabilities in 2016, reducing full-year net profit by 39%.



Considering slowing growth in the wind power market, we think the company's wind power products business could post softer top-line growth in 2016-18.



TMT is expanding BOGE's capacity in China. We expect the company's overall gross margin to improve in 2016/17/18, though probably not to a significant degree.



Trading at 60x 2016E PE

Sources for exhibits above: Company data, UBS-S Research

Zhuzhou Times New Material Technology (600458.SS)

	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Income statement (Rmbm)										
Revenues	4,165	6,008	10,825	11,800	9.0	12,687	7.5	13,387	14,044	14,613
Gross profit	723	1,041	1,823	2,036	11.7	2,202	8.1	2,334	2,507	2,593
EBITDA (UBS)	246	208	575	571	-0.7	629	10.2	688	808	814
Depreciation & amortisation	(83)	(230)	(334)	(198)	-40.7	(210)	5.9	(234)	(271)	(271)
EBIT (UBS)	163	(22)	241	373	54.6	419	12.4	454	536	543
Associates & investment income	0	3	(1)	0	-	0	-	0	0	0
Other non-operating income	21	25	37	0	-	0	-	0	0	0
Net interest	(52)	65	(9)	(165)	NM	(130)	21.1	(60)	(66)	(65)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	131	71	269	208	-22.6	289	39.1	394	471	478
Tax	(8)	(3)	(11)	(9)	22.6	(12)	-39.1	(17)	(20)	(20)
Profit after tax	124	69	257	199	-22.6	277	39.1	378	451	458
Preference dividends and Minorities	(2)	3	(2)	(1)	22.6	(2)	-39.1	(3)	(3)	(3)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	122	72	256	198	-22.6	275	39.1	375	448	455
Net earnings (UBS)	122	72	256	198	-22.6	275	39.1	375	448	455
Tax rate (%)	5.8	3.7	4.2	4.2	0.0	4.2	0.0	4.2	4.2	4.2
Per share (Rmb)										
EPS (UBS, diluted)	0.21	0.11	0.39	0.25	-36.2	0.34	39.1	0.47	0.56	0.57
EPS (local GAAP, diluted)	0.21	0.11	0.39	0.25	-36.2	0.34	39.1	0.47	0.56	0.57
EPS (UBS, basic)	0.21	0.11	0.39	0.25	-36.2	0.34	39.1	0.47	0.56	0.57
Net DPS (Rmb)	0.06	0.02	0.05	0.07	47.8	0.10	39.1	0.14	0.17	0.17
Book value per share	4.64	4.48	5.82	5.99	3.0	6.81	13.8	6.55	6.95	7.34
Average shares (diluted)	589.38	661.42	661.42	802.80	21.4	802.80	0.0	802.80	802.80	802.80
Balance sheet (Rmbm)										
Cash and equivalents	596	853	2,487	1,654	-33.5	1,071	-35.3	511	520	563
Other current assets	3,188	5,074	5,942	6,151	3.5	6,610	7.5	6,972	7,301	7,600
Total current assets	3,784	5,926	8,429	7,805	-7.4	7,681	-1.6	7,484	7,821	8,163
Net tangible fixed assets	1,406	2,769	2,886	3,352	16.1	3,670	9.5	3,893	4,079	4,266
Net intangible fixed assets	281	1,337	1,272	1,253	-1.5	1,234	-1.5	1,216	1,199	1,182
Investments / other assets	146	411	497	85	-83.0	84	-0.1	84	84	84
Total assets	5,618	10,443	13,084	12,494	-4.5	12,670	1.4	12,678	13,184	13,695
Trade payables & other ST liabilities	1,900	3,642	3,960	4,007	1.2	4,290	7.1	4,503	4,693	4,882
Short term debt	407	322	972	200	-79.43	200	0.00	200	200	200
Total current liabilities	2,307	3,964	4,932	4,207	-14.7	4,490	6.7	4,703	4,893	5,082
Long term debt	89	2,213	2,140	2,266	5.9	1,494	-34.1	1,494	1,494	1,494
Other long term liabilities	92	1,238	1,272	1,142	-10.2	1,142	0.0	1,142	1,142	1,142
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	2,488	7,416	8,345	7,615	-8.7	7,126	-6.4	7,339	7,529	7,718
Common s/h equity	3,067	2,964	4,669	4,807	3.0	5,469	13.8	5,262	5,576	5,894
Minority interests	62	63	71	72	1.9	74	2.6	77	80	83
Total liabilities & equity	5,618	10,443	13,084	12,494	-4.5	12,670	1.4	12,678	13,184	13,695
Cash flow (Rmbm)										
Net income (before pref divs)	122	72	256	198	-22.6	275	39.1	375	448	455
Depreciation & amortisation	83	230	334	198	-40.7	210	5.9	234	271	271
Net change in working capital	(552)	(143)	(550)	(162)	70.5	(176)	-8.2	(150)	(139)	(110)
Other operating	177	136	232	175	-24.5	135	-22.7	66	71	71
Operating cash flow	(170)	294	271	409	50.8	444	8.8	525	652	687
Tangible capital expenditure	(301)	(439)	(679)	(653)	3.9	(513)	21.4	(443)	(443)	(443)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	412	-	0	-	0	0	0
Other investing	(90)	(7,059)	(478)	0	-	0	-	0	0	0
Investing cash flow	(391)	(7,498)	(1,158)	(241)	79.2	(513)	-113.2	(443)	(443)	(443)
Equity dividends paid	(40)	(13)	(40)	(59)	-47.8	(83)	-39.1	(112)	(134)	(137)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	(93)	(705)	1,989	(294)	-	(530)	-80.12	(60)	(66)	(65)
Change in debt & pref shares	904	0	0	(647)	-	97	-	(470)	0	0
Financing cash flow	772	(719)	1,948	(1,000)	-	(515)	48.5	(642)	(200)	(202)
Cash flow inc/(dec) in cash	210	(7,922)	1,062	(832)	-	(583)	29.9	(560)	9	43
FX / non cash items	(3)	8,179	572	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	208	257	1,634	(832)	-	(583)	29.9	(560)	9	43

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Zhuzhou Times New Material Technology (600458.SS)

	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Valuation (x)								
P/E (local GAAP, diluted)	53.2	NM	51.5	60.0	43.1	31.6	26.5	26.1
P/E (UBS, diluted)	53.2	93.4	51.5	60.0	43.1	31.6	26.5	26.1
P/CEPS	31.6	22.2	22.3	30.0	24.5	19.5	16.5	16.3
Equity FCF (UBS) yield %	(7.0)	(2.2)	(3.1)	(2.1)	(0.6)	0.7	1.8	2.1
Net dividend yield (%)	0.5	0.2	0.3	0.5	0.7	0.9	1.1	1.2
P/BV x	2.4	2.3	3.4	2.5	2.2	2.3	2.1	2.0
EV/revenues (core)	1.7	1.3	1.3	1.1	1.0	1.0	0.9	0.9
EV/EBITDA (core)	28.3	36.2	25.0	22.2	20.1	18.7	16.2	16.1
EV/EBIT (core)	NM	NM	NM	NM	NM	28.3	24.5	24.1
EV/OpFCF (core)	NM	NM	NM	NM	28.9	27.2	23.7	23.4
EV/op. invested capital	2.7	1.9	2.9	2.3	2.1	2.0	2.0	1.9
Enterprise value (Rmbm)								
Market cap.	6,743	6,685	13,168	11,865	11,865	11,865	11,865	11,865
Net debt (cash)	153	792	1,154	719	717	903	1,178	1,152
Buy out of minorities	55	63	67	72	73	75	78	81
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	6,950	7,539	14,389	12,656	12,656	12,843	13,121	13,099
Non core assets	(7)	(5)	(3)	(3)	(3)	(3)	(3)	(3)
Core enterprise value	6,943	7,534	14,386	12,652	12,652	12,840	13,118	13,095
Growth (%)								
Revenue	12.0	44.3	80.2	9.0	7.5	5.5	4.9	4.0
EBITDA (UBS)	-19.7	-15.3	176.5	-0.7	10.2	9.5	17.4	0.8
EBIT (UBS)	-27.1	-	-	54.6	12.4	8.3	18.2	1.3
EPS (UBS, diluted)	-32.4	-47.5	NM	-36.2	39.1	36.3	19.4	1.6
Net DPS	-40.0	-66.7	150.0	47.8	39.1	36.3	19.4	1.6
Margins & Profitability (%)								
Gross profit margin	17.4	17.3	16.8	17.3	17.4	17.4	17.9	17.7
EBITDA margin	5.9	3.5	5.3	4.8	5.0	5.1	5.8	5.6
EBIT margin	3.9	-0.4	2.2	3.2	3.3	3.4	3.8	3.7
Net earnings (UBS) margin	2.9	1.2	2.4	1.7	2.2	2.8	3.2	3.1
ROIC (EBIT)	6.2	(0.6)	4.8	6.7	7.1	7.2	8.0	7.8
ROIC post tax	5.9	NM	4.6	6.5	6.8	6.9	7.7	7.5
ROE (UBS)	5.0	2.4	6.7	4.2	5.4	7.0	8.3	7.9
Capital structure & Coverage (x)								
Net debt / EBITDA	(0.4)	8.1	1.1	1.4	1.0	1.7	1.5	1.4
Net debt / total equity %	(3.2)	55.6	13.2	16.6	11.2	22.1	20.7	18.9
Net debt / (net debt + total equity) %	(3.3)	35.7	11.7	14.3	10.1	18.1	17.2	15.9
Net debt/EV %	(1.4)	22.3	4.4	6.4	4.9	9.2	8.9	8.6
Capex / depreciation %	NM	191.2	NM	NM	NM	NM	174.3	174.3
Capex / revenue %	7.2	7.3	6.3	5.5	4.0	3.3	3.2	3.0
EBIT / net interest	3.1	0.3	28.3	2.3	3.2	7.6	8.2	8.3
Dividend cover (UBS)	3.4	5.4	7.7	3.3	3.3	3.3	3.3	3.3
Div. payout ratio (UBS) %	29.1	18.5	12.9	30.0	30.0	30.0	30.0	30.0
Revenues by division (Rmbm)								
Others	4,165	6,008	10,825	11,800	12,687	13,387	14,044	14,613
Total	4,165	6,008	10,825	11,800	12,687	13,387	14,044	14,613
EBIT (UBS) by division (Rmbm)								
Others	163	(22)	241	373	419	454	536	543
Total	163	(22)	241	373	419	454	536	543

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+1.5%
Forecast dividend yield	0.5%
Forecast stock return	+2.0%
Market return assumption	7.9%
Forecast excess return	-5.9%

Valuation Method and Risk Statement

Our price target is based on a target P/BV multiple.

Downside risks could come from: 1) slowing investment in the railway sector and declining auto demand; 2) uncertainty in the military product market; 3) changes in government policies for alternative energy; and 4) financial and integration risks due to intensified competition from domestic and foreign manufacturers and potential M&A.

Upside risks could come from: 1) China Railway launching tendering for EMUs; 2) the company setting up subsidiaries to improve capacity; 3) and the government increasing support for the new materials industry.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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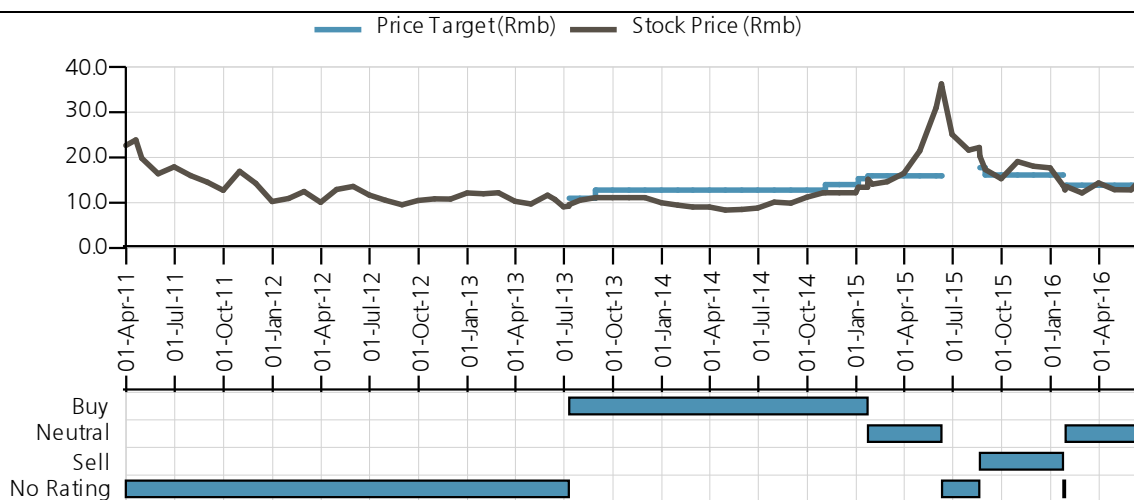
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Zhuzhou Times New Material Technology	600458.SS	Neutral	N/A	Rmb14.78	15 Jun 2016

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Zhuzhou Times New Material Technology (Rmb)



Source: UBS; as of 15 Jun 2016

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