

## Company Report: Nexteer (01316 HK)

公司报告: 耐世特 (01316 HK)

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# Short-Term Pressure Remains, Downgrade to "Accumulate"

短期压力持续, 下调至“收集”

- **Nexteer's 1H19 net profit was down 34.3% yoy to USD131.1 million, below market and our expectation.** The significant decrease was due to decrease in both sales and gross margin. Sales decreased by 10.5%, dragged by Asia Pacific region (-27.0% yoy) as China market was weak. North America sales decreased 5.1% yoy due to loss of revenue from GM platform changes but alleviated by overall stronger sales of SUV and full-sized trucks. Gross margin decreased 2.3 ppts to 15.8% on tougher price pressure and rising raw materials cost.
- **Other highlights in 1H19:** 1) Backlog increased to USD25.6 billion. Backlog continued to grow since 3Q17. EPS comprised 71% of total backlog, more than current revenue mix; 2) Nexteer has opened two new factories, one in Liuzhou, China and one in Kenitra, Morocco. Both factories will further enhance the Company's production and engineering capability to better serve regional customers.
- **We have reduced our shareholders' net profit forecast by 23.7%/ 17.2%/ 8.2% in 2019 to 2021, respectively.** We have reduced our expectations on revenue and gross margin.
- **We have revised downwards our TP to HK\$7.47 on lower earnings forecast and valuation, and reduce investment rating to "Accumulate".** Our TP represents 8.1x 2019 PER and 6.9x 2020 PER. The Company is trading at a historical low valuation. With forward 12M PER of 6.7x, we believe there is trading opportunity at this valuation. Our valuation is below 1 S.D. of historical mean, which we believe is appropriate.
- **耐世特 2019 年上半年净利润同比下降 34.3%至 131.1 百万美元, 低于市场和我们的预期。** 净利润显著下降是由于销售和毛利率的下跌。由于中国市场疲软, 亚太地区的销售下降 (同比下降 27.0%) 而拖累整体销售同比下降 10.5%。北美销售同比下降 5.1%, 是由于通用汽车平台变化带来的收入损失, 但得益于 SUV 和全尺寸卡车的整体销售较好而有所缓解。由于更严峻的价格压力和原材料成本上涨, 毛利率下降 2.3 个百分点至 15.8%。
- **2019 年上半年其他亮点:** 1) 2019 年上半年的在手订单增加到 256 亿美元。自 2017 年第 3 季度以来, 在手订单持续增加。其中电力主力转向 (EPS) 占到 71%, 高于当前的收入占比; 2) 耐世特在中国柳州和摩洛哥盖尼特拉开设两家新工厂。两家工厂将进一步提高公司的生产和工程能力, 更好地服务于地区客户。
- **我们分别下调 2019 年至 2021 年的股东利润预期 23.7%/ 17.2%/ 8.2%。** 我们已降低了对收入和毛利率的预期。
- **由于盈利预测和估值下调, 我们已下调目标价至 7.47 港元, 并下调投资评级至“收集”。** 我们的目标价对应 8.1 倍 2019 年市盈率和 6.9 倍 2020 年市盈率。公司目前的估值处于历史低位, 12 个月的预测市盈率为 6.7 倍, 并且我们相信处于相对底部的估值存在交易机会。我们的估值低于历史平均水平 1 个标准差, 我们认为这是合理的。

Rating:

**Accumulate**

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

**HK\$7.47**

Revised from 原目标价:

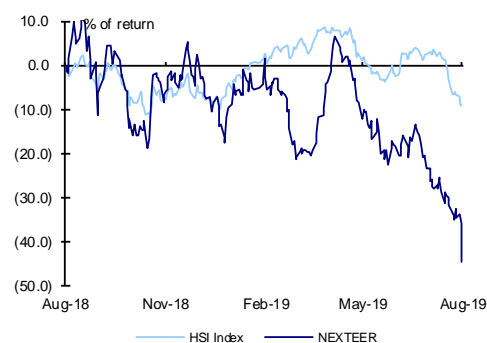
HK\$13.00

Share price 股价:

HK\$6.500

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(27.5)	(38.3)	(45.8)
Rel. % to HS Index 相对恒指变动 %	(16.4)	(28.3)	(37.0)
Avg. Share price(HK\$) 平均股价 (港元)	8.1	9.1	10.5

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2017A	3,878	352	0.141	19.5	5.9	0.560	1.5	0.028	3.4	28.6
2018A	3,912	380	0.152	7.8	5.5	0.667	1.2	0.031	3.7	24.7
2019F	3,733	293	0.117	(23.0)	7.1	0.761	1.1	0.024	2.9	16.4
2020F	3,970	344	0.137	17.1	6.0	0.870	1.0	0.028	3.4	16.8
2021F	4,278	422	0.168	22.6	4.9	1.005	0.8	0.034	4.1	18.0
Shares in issue (m) 总股数 (m)	2,505.7				Major shareholder 大股东				PCM Holding 67.2%	
Market cap. (HK\$ m) 市值 (HK\$ m)	16,287.1				Free float(%) 自由流通比率(%)				32.8	
3 month average vol. 3 个月平均成交股数('000)	3,679.2				FY19 Net gearing (%) FY19 净负债/股东资金 (%)				Net cash	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	13.420 / 6.420				FY19 Est. NAV (HK\$) FY19 每股估值 (港元)				9.1	

Source: the Company, Guotai Junan International.

See the last page for disclaimer

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## 1H19 RESULTS REVIEW

**Nexteer's (the "Company") 1H19 net profit was down 34.3% yoy to USD131.1 million, below market and our expectation.**

The decline is mainly affected by the decreased in sales and gross margins, and loss of revenue due to platform changes of GM in North America. Key highlights of 1H19 are as follows:

- Revenue decreased 10.5% yoy to USD1,832.3 million. The decline is due to overall weak auto production in key markets and currency headwind as USD strengthened against EUR and RMB during the period.
- By product, sales of electric power steering ("EPS") systems decreased 10.3% yoy, making up 66.7% of total revenue in 1H19 (1H18: 64.6%). Hydraulic power steering ("HPS") decreased by 20.7% yoy, representing only 14.7% of total revenue, and was the second revenue driver. Columns and intermediate shafts ("CIS") decreased by 16.4% yoy due to loss of revenue from a customer vehicle platform transition.
- In terms of geographical segments, all segment record yoy decrease. North America was down by 5.1% yoy, and was still far better than other region. We believe the better sales in SUV and pick-up trucks in North America alleviated the sales decline. Meanwhile, EMEA & SA region was down 11.7% yoy. Similarly, Asia Pacific region decreased by 27.0% yoy, and was the worst performing region as dragged by China, which down by 30.5% yoy.
- Net finance cost decreased significantly by 63.6% yoy to USD2.3 million from USD6.4 million in 1H19 due to strong interest income.
- Gross profit declined 21.8% yoy, in which gross margin decreased by 2.3 ppts yoy to 15.8%. The decrease was caused by more competitive pricing and the increase of raw materials cost such as steel and aluminum due to 1) rising commodity price and 2) tariffs impact.
- Solid balance sheet noted as net cash position maintain and generated USD45 million free cash flow in 1H19.
- Similar to prior interim period, no dividend declare for the period.

**Table-1: Summary of 1H19 Results of Nexteer**

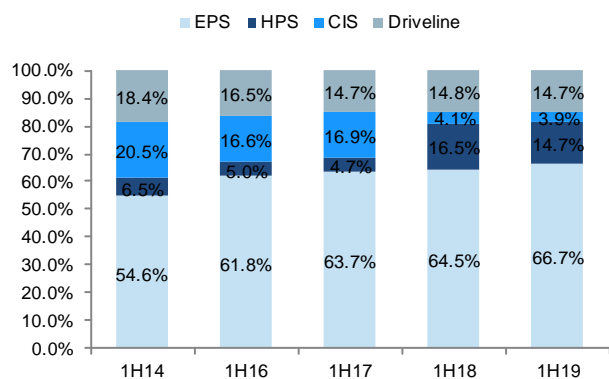
	1H19	1H18	YoY	2H18	HoH
<b>USD mn, except per share item</b>					
Revenue	1,832.3	2,047.0	-10.5%	1,865.2	-1.8%
Cost of sales	(1,543.4)	(1,677.4)	-8.0%	(1,559.4)	-1.0%
Gross profit	288.9	369.6	-21.8%	305.8	-5.5%
Engineering and product development costs	(65.4)	(59.5)	9.9%	(63.5)	3.0%
Selling and distribution expenses	(9.4)	(9.8)	-4.0%	(9.7)	-2.6%
Administrative expenses	(57.6)	(62.7)	-8.0%	(61.1)	-5.7%
Other gains (losses), net	3.1	2.2	43.9%	12.7	-75.2%
Operating profit	159.6	239.8	-33.4%	184.2	-13.4%
Finance costs, net	(2.3)	(6.4)	-63.6%	(2.9)	-18.4%
Share of income of a joint venture	(2.2)	(2.0)	13.8%	(2.4)	-6.7%
Profit before income tax	155.0	231.4	-33.0%	179.0	-13.4%
Income tax expense	(22.8)	(29.1)	-21.8%	3.0	-848.6%
Profit for the year / period	132.3	202.3	-34.6%	182.0	-27.3%
Equity holders of the Company	131.1	199.6	-34.3%	180.1	-27.2%
Non-controlling interests	1.2	2.7	-57.1%	2.0	-39.8%
Basic EPS (US\$)	0.052	0.080	-34.3%	0.072	-27.2%
Dividend, per share (US\$)	0	0	n.a.	0	n.a.

Source: the Company, Guotai Junan International.

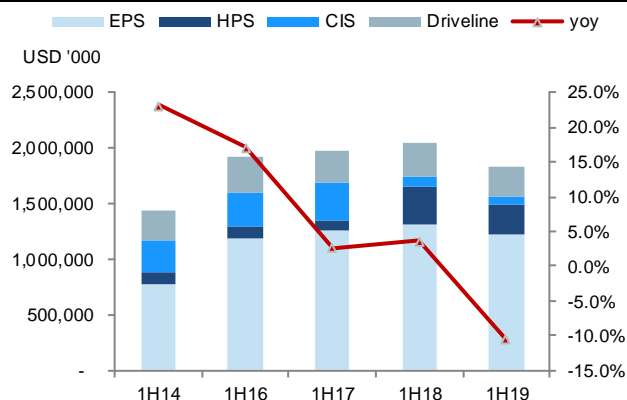
**Table-2: Key Operating Data**

	1H19	1H18	YoY	2H18	HoH
<b>Ratios</b>					
Gross margin	15.8%	18.1%	ppts (2.29)	16.4%	ppts (0.63)
Operating margin	8.7%	11.7%	(3.00)	9.9%	(1.17)
Net margin	7.2%	9.9%	(2.66)	9.8%	(2.54)
Effective tax rate	14.7%	12.6%	2.11	-1.7%	16.37
Selling and distribution expense	0.5%	0.5%	0.03	0.5%	(0.00)
Admin expense	3.1%	3.1%	0.08	3.3%	(0.13)

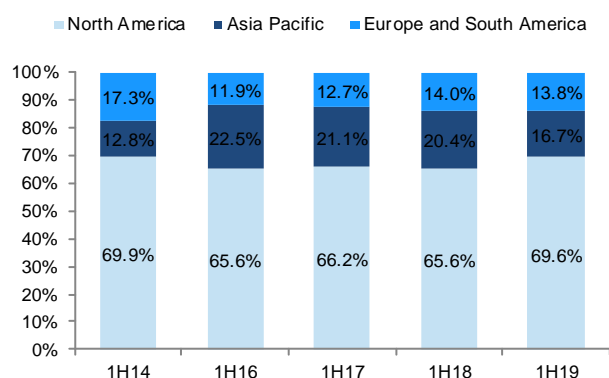
Source: the Company, Guotai Junan International.

**Figure-1: Nexteer's Revenue Mix by Product**


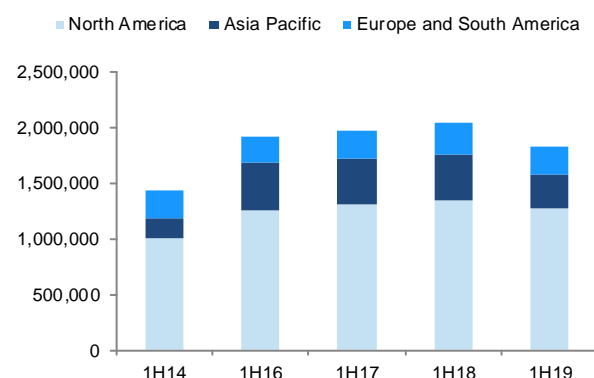
Source: the Company, Guotai Junan International.

**Figure-2: Nexteer's Revenue by Product**


Source: the Company, Guotai Junan International.

**Figure-3: Nexteer's Revenue Mix by Region**


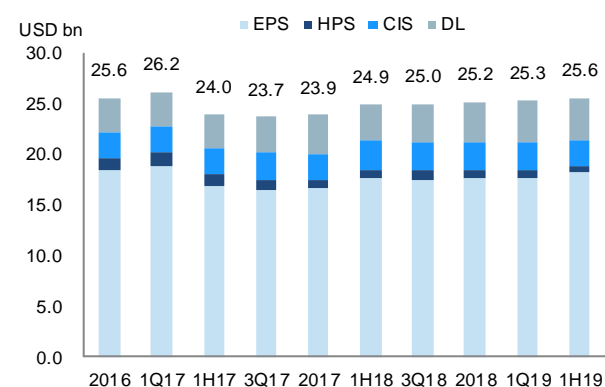
Source: the Company, Guotai Junan International.

**Figure-4: Nexteer's Revenue by Region**


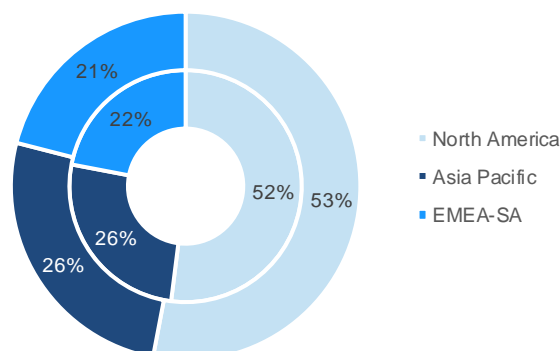
Source: the Company, Guotai Junan International.

## SUSTAINABLE GROWTH FROM STRONG BACKLOG

**Backlog grew stronger in all areas.** In 1H19, the Company's backlog grew to USD25.6 billion, and get back to the level in 2016 and close to the level before GM sold Opel Vauxhall in 1Q17. In terms of product, EPS comprised 71% (vs. 66.7% for 1H19 revenue) in the current backlog, indicating that EPS will continue to grow strong in the future as the Company's major revenue contributor. Meanwhile, we should expect more revenue to be derived from Asia Pacific and EMEA & SA region as we see their mix in backlog continue to surge. The management also highlighted that new business conquest comprise more than half of the new bookings, meaning expanding market shares in the futures. In 1H19, more research and product development cost (include capitalized portion) are spent to ensure product competitiveness. These again reveal that the Company is well-positioned for the next technological upgrade in EPS. We expect high availability EPS to continue to attract customers and underpin long-term growth for Nexteer.

**Figure-5: Nexteer's Backlog by Product**


Source: the Company, Guotai Junan International.

**Figure-6: Nexteer's Backlog by Region**

 Source: the Company, Guotai Junan International.  
 Note: Outer ring: 1H19; inner ring: 2018

## STRATEGIC INVESTMENT FUELING GROWTH

**Expanding global footprints with flexibility.** The Company opened two factories in 2Q19, one in Liuzhou, China, and one in Kenitra, Morocco. The two locations show the Company strategic direction in the future, as both region are expected to be the next growth drivers for Nexteer. As presented by the management, revenue generated by the Morocco plant is expected to be insignificant in 2019, but quickly ramp up in 2020 and should reach USD200 million by 2021. On the other hand, the Liuzhou plant has started production in Jun. 2019, and will mainly serve key customers such as SGMW, Dongfeng Liuzhi, BYD and Dongfeng Renault. New plants are equipped with laboratory, testing tracks, performance analysis center etc, which would increase regional engineering capabilities. The improvement in such capabilities would allow the Company to better serve regional needs and more flexible in response to customer demand.

**Figure-7: Nexteer's Strategic Global Footprint Expansion**



Source: the Company.

## EARNINGS REVISION

**We reduced our shareholders' net profit forecast by 23.7%/ 17.2%/ 8.2% in 2019 to 2021, respectively.** We have mainly reduced our expectation on revenue and gross margin.

**Revenue:** We forecast revenue to drop by 4.6% yoy in 2019, meaning an improvement HoH as we expect overall production level would improve in the second half on seasonality and more product launches. As expected, this year should have more programme launch of about 50. It is expected to have 39 launches in the second half, more than a typical full year figure. We would expect mild growth in 2020 and 2021.

**GP margin:** We reduced gross margin by 1.3 pts and 0.6 pts in 2019 and 2020, respectively, as we expect price pressure remain strong in the next two years, but will gradually improve from effective cost initiatives and operational efficiency. W The decrease in margin in the 2019 and 2020 but increase margin by 0.5 pts in 2021. As noted that driveline transformation process should come into fruition in 2021, and we expect efficiency to further enhance in that year.

**Engineering and product development:** We increased engineering and product development per revenue ratio by 0.2 pts. As we were noted that such expense will normally rise due to conquest of new business, and it tends to lead revenue by 2-3 years. So we expect such expense to grow slightly faster than revenue in our forecast period.

**Table-3: Major Financial Data and Forecast Changes**

	New			Old			Changes		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
<b>Financials (USD mn)</b>									
Revenue	3,733	3,970	4,278	4,153	4,418	4,763	(10.1%)	(10.2%)	(10.2%)
Gross profit	613	684	782	736	786	848	(16.8%)	(12.9%)	(7.7%)
Operating income	362	413	492	465	492	533	(22.2%)	(16.0%)	(7.7%)
Shareholders' profit	293	344	422	384	416	460	(23.7%)	(17.2%)	(8.2%)
Gross margin	16.4%	17.2%	18.3%	17.70%	17.80%	17.80%	(1.3)ppt	(0.6)ppt	0.5 ppt
Operating margin	9.7%	10.4%	11.5%	11.20%	11.10%	11.20%	(1.5)ppt	(0.7)ppt	0.3 ppt
Net margin	7.9%	8.8%	10.0%	9.40%	9.50%	9.80%	(1.5)ppt	(0.7)ppt	0.2 ppt
Basics EPS (USD)	0.117	0.137	0.168	0.153	0.166	0.184	(23.5%)	(17.2%)	(8.4%)

Source: the Company, Guotai Junan International.

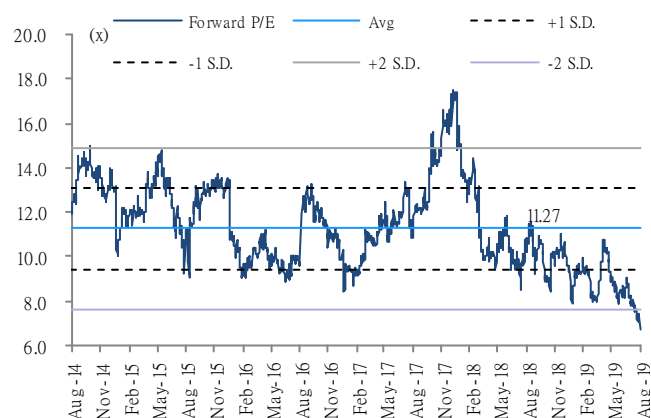
**Table-4: Summary of Financial Forecasts**

	2017	2018	2019F	2020F	2021F
Sales revenue (USD mn)	3,878	3,912	3,733	3,970	4,278
yoy	0.9%	0.9%	-4.6%	6.3%	7.8%
Gross profit	674	675	613	684	782
yoy	1.9%	0.2%	-9.3%	11.7%	14.3%
Operating profit	428.2	424.1	361.7	413.5	492.1
yoy	3.1%	-1.0%	-14.7%	14.3%	19.0%
EBITDA	597.4	618.8	565.5	632.0	731.8
yoy	3.3%	3.6%	-7.5%	11.7%	15.8%
Shareholders' profit	352	380	293	344	422
yoy	19.4%	7.9%	-22.8%	17.5%	22.5%
Gross profit margin	17.4%	17.3%	16.4%	17.2%	18.3%
Operating margin	11.0%	10.8%	9.7%	10.4%	11.5%
EBITDA margin	15.4%	15.8%	15.1%	15.9%	17.1%
Effective tax rate	12.1%	6.3%	13.1%	11.8%	10.1%
Net profit margin	9.2%	9.8%	7.9%	8.8%	10.0%

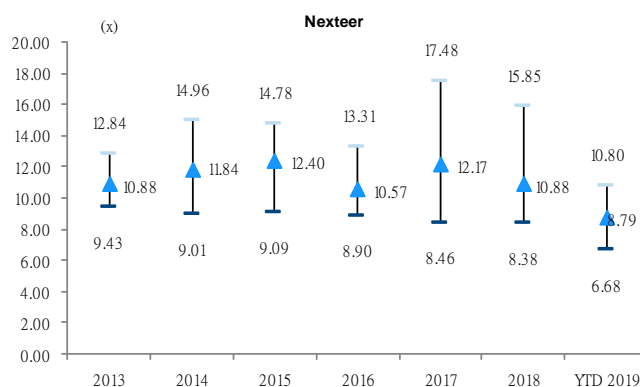
Source: the Company, Guotai Junan International.

## VALUATION

Nexteer has been under pressure due to environmental challenges such as weak auto production, particularly in key customers in China, and currency headwind. Despite that, overall strategy in focusing on core competencies, diversifications and globalization through conquest business continued to carry out as a way to secure future growth. We expect short-to-medium term maintain challenging for Nexteer as negative factors continue suppress revenue and margin growth. **We have revised downwards our TP to HK\$7.47 on lower earnings forecast and valuation, and reduce investment rating to "Accumulate". Our TP represents 8.1x 2019 PER, 6.9x 2020 PER.** The company is trading at historical low valuation, with forward 12M PER of 6.7x, we believe there is trading opportunity at this valuation. Our valuation is 1 S.D. below historical mean, we believe it is appropriate.

**Figure-8: PER of Nexteer**


Source: Bloomberg, Guotai Junan International.

**Figure-9: PER Range of Nexteer**


Source: Bloomberg, Guotai Junan International.



**Table-5: Peers comparison**

Company	Stock Code	Currency	Last price	PE				PB				ROE(%)		D/Y(%)		EV/EBITDA	
				18A	19F	20F	21F	18A	19F	20F	21F	19F	19F	19F	19F	19F	19F
Wuling Motors Ho	305 HK	HKD	0.30	7.3	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Minth Group Ltd	425 HK	HKD	19.30	11.2	10.5	9.0	7.9	1.5	1.4	1.3	1.2	13.4	3.8	6.5			
Fdg Evehicles	729 HK	HKD	0.02	n.a.	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xinyi Glass	868 HK	HKD	7.49	7.1	7.3	6.6	5.9	1.6	1.4	1.3	1.1	20.6	6.9	6.7			
Fuyao Glass In-H	3606 HK	HKD	20.30	10.4	12.3	10.9	9.9	2.2	2.0	1.9	1.8	17.5	5.4	8.9			
Zhejiang Shiba-H	1057 HK	HKD	0.94	86.2	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xinchen China Po	1148 HK	HKD	0.31	32.7	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shuanghua Hldgs	1241 HK	HKD	0.23	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nexteer	1316 HK	HKD	6.50	5.5	6.7	6.1	6.0	1.2	1.1	0.9	0.8	17.9	3.0	2.8			
Xin Point Holdin	1571 HK	HKD	1.19	2.6	2.5	2.2	2.0	0.5	0.4	0.4	0.3	17.5	11.3	n.a.			
Xingda Intl	1899 HK	HKD	2.02	9.6	6.8	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xiezhong Interna	3663 HK	HKD	1.89	n.a.	15.1	11.9	8.8	1.7	1.5	1.4	1.4	10.4	1.8	n.a.			
Huazhong In-V	6830 HK	HKD	1.17	12.6	n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				18.5	8.8	7.8	6.7	1.0	1.3	1.2	1.1	16.2	5.4	6.3			
Weighted Average				11.0	9.6	8.5	7.6	1.7	1.6	1.4	1.3	16.6	4.9	6.7			
Anhui Zhongdi-A	000887 CH	CNY	8.67	9.4	8.7	7.6	6.8	1.3	1.1	1.0	0.9	12.4	3.5	n.a.			
Jiangnan Mould-A	000700 CH	CNY	3.30	275.0	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Songz Automobi-A	002454 CH	CNY	4.52	16.0	6.0	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wanxiang Qian-A	000559 CH	CNY	5.29	20.2	20.3	18.9	17.1	2.8	n.a.	n.a.	n.a.	12.0	n.a.	n.a.	n.a.	n.a.	n.a.
Avic Electrome-A	002013 CH	CNY	6.35	27.6	23.2	19.5	17.0	2.5	2.3	2.0	1.8	9.9	0.4	13.3			
Lingyun Indust-A	600480 CH	CNY	7.43	12.4	12.9	9.7	7.6	0.8	0.8	0.7	0.7	6.9	n.a.	n.a.	n.a.	n.a.	n.a.
Ningbo Huaxian-A	002048 CH	CNY	9.61	8.2	7.3	6.4	5.4	0.7	0.7	0.6	0.6	9.1	1.6	n.a.			
Wanfeng Auto -A	002085 CH	CNY	7.00	15.9	n.a.	n.a.	n.a.	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhejiang Yinlu-A	002126 CH	CNY	6.86	15.6	13.6	11.7	10.0	1.5	1.4	1.2	1.1	10.0	0.5	n.a.			
Zhejiang Asia -A	002284 CH	CNY	4.64	464.0	42.2	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Xingmin Intel-A	002355 CH	CNY	6.33	n.a.	37.2	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ciwen Media Co L	002343 CH	CNY	6.89	n.a.	6.6	8.4	11.0	2.2	2.0	1.8	1.8	16.4	0.9	n.a.			
Changchun Fawa-A	600742 CH	CNY	10.91	10.4	9.3	7.5	6.4	1.1	1.1	1.0	0.9	12.3	n.a.	n.a.	n.a.	n.a.	n.a.
Huayu Autom-A	600741 CH	CNY	21.90	8.6	9.4	8.8	8.2	1.5	1.4	1.3	1.2	15.2	5.0	5.7			
Dongfeng Elect-A	600081 CH	CNY	9.44	20.1	19.3	n.a.	n.a.	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Greatoo Intellig	002031 CH	CNY	1.83	73.8	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhejiang Wanli-A	002434 CH	CNY	6.00	23.1	9.0	11.0	8.8	1.3	1.3	1.3	1.0	8.9	28.2	n.a.			
Xuchang Yuando-A	002406 CH	CNY	5.30	11.0	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhejiang Jingu-A	002488 CH	CNY	6.77	40.4	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				59.1	16.1	11.0	9.8	1.5	1.3	1.2	1.1	11.3	5.7	9.5			
Weighted Average				26.7	11.8	8.9	8.0	1.7	1.0	0.9	0.9	10.0	3.3	3.6			
Denso Corp	6902 JP	JPY	4,357.00	10.6	13.3	11.2	10.3	0.9	0.9	0.9	0.9	8.1	3.2	4.7			
Keihin Corp	7251 JP	JPY	1,360.00	5.6	6.4	8.6	7.2	0.5	0.5	0.5	0.5	7.9	3.3	2.0			
Aisin Seiki Co	7259 JP	JPY	3,040.00	6.2	7.4	8.4	7.3	0.6	0.6	0.6	0.6	8.3	4.9	3.6			
Toyota Industrie	6201 JP	JPY	5,560.00	10.3	11.3	10.8	10.2	0.7	0.7	0.7	0.6	5.9	2.7	11.2			
Nok	7240 JP	JPY	1,427.00	7.0	72.2	11.5	9.6	0.5	0.6	0.5	0.5	2.2	3.5	3.1			
Stanley Elec Co	6923 JP	JPY	2,568.00	11.8	10.4	11.1	10.2	1.2	1.1	1.1	1.0	11.2	1.9	3.9			
Bridgestone Corp	5108 JP	JPY	4,022.00	10.4	10.0	9.6	8.9	1.3	1.2	1.1	1.0	12.2	4.0	5.1			
Sumitomo Rubber	5110 JP	JPY	1,172.00	8.5	9.1	8.8	8.3	0.7	0.6	0.6	0.6	7.3	4.7	4.8			
Toyota Boshoku	3116 JP	JPY	1,389.00	5.8	9.4	8.2	7.7	0.9	0.9	0.9	0.8	10.1	4.0	2.2			
Yokohama Rubber	5101 JP	JPY	1,986.00	8.9	7.3	7.5	7.0	0.9	0.8	0.7	0.7	11.2	3.2	5.8			
Jtekt Corp	6473 JP	JPY	1,131.00	7.8	15.7	10.7	9.4	0.7	0.7	0.7	0.7	7.8	3.9	4.5			
Nsk Ltd	6471 JP	JPY	816.00	6.2	7.6	11.1	9.9	0.8	0.8	0.8	0.7	10.3	4.9	4.4			
Hanon Systems	018880 KS	KRW	11,500.00	22.1	19.0	15.1	13.7	3.0	2.7	2.5	2.3	15.2	2.9	9.5			
Hankook Technolo	000240 KS	KRW	14,450.00	6.4	6.6	6.1	5.4	0.4	0.4	0.4	0.4	6.3	2.2	4.6			
Kumho Tire Co In	073240 KS	KRW	4,190.00	n.a.	n.a.	n.a.	n.a.	0.9	0.9	1.0	1.0	(8.1)	0.0	14.0			
Hyundai Mobis	012330 KS	KRW	240,000.00	12.0	9.5	8.4	7.7	0.7	0.7	0.7	0.6	7.7	1.8	5.3			
Mando Corp	204320 KS	KRW	33,300.00	14.8	13.7	10.4	8.9	1.1	1.1	1.0	0.9	7.9	1.9	5.8			
Tong Yang Ind	1319 TT	TWD	43.10	13.2	12.0	10.7	10.3	1.2	1.2	1.1	1.0	9.5	4.7	6.3			
Cheng Shin	2105 TT	TWD	40.15	36.8	27.1	20.7	17.8	1.6	1.6	1.5	1.6	6.2	3.0	7.7			
Amer Axle & Mfg	AXL US	USD	7.59	n.a.	3.4	3.3	3.0	0.6	0.5	0.4	0.4	16.6	0.0	3.7			
Meritor Inc	MTOR US	USD	18.86	14.1	5.1	5.5	5.3	5.6	3.2	2.4	1.7	73.1	0.0	4.5			
Borgwarner Inc	BWA US	USD	33.24	7.4	8.6	8.0	6.9	1.6	1.5	1.3	1.3	17.6	2.0	5.0			
Johnson Controls	JCI US	USD	42.87	18.3	22.0	16.5	14.2	1.9	1.7	1.6	1.6	8.4	2.5	11.9			
Lear Corp	LEA US	USD	113.81	6.6	7.5	6.8	6.0	1.7	1.6	1.5	1.2	21.5	2.5	4.1			
Stoneridge Inc	SRI US	USD	30.65	16.1	18.9	14.9	13.0	3.1	2.8	2.5	n.a.	15.6	n.a.	n.a.			
Tenneco Inc-A	TEN US	USD	9.97	10.7	2.4	2.1	2.0	0.3	0.4	0.4	0.3	18.2	6.3	4.2			
Goodyear Tire	GT US	USD	11.92	4.1	7.4	5.3	4.6	0.6	0.6	0.5	0.5	7.1	5.5	4.8			
Cooper Tire & Ru	CTB US	USD	24.47	16.1	15.4	9.1	n.a.	1.0	1.0	0.9	n.a.	6.4	1.7	4.2			
Gentex Corp	GNTX US	USD	27.31	16.7	16.3	15.4	13.9	3.8	3.7	3.4	n.a.	23.0	1.7	n.a.			
General Motors C	GM US	USD	39.01	7.0	5.8	6.0	5.8	1.4	1.2	1.1	0.9	22.7	3.9	3.0			
Valeo Sa	FR FP	EUR	26.15	11.4	12.7	9.0	7.1	1.4	1.3	1.2	1.1	10.1	4.3	4.1			
Brembo Spa	BRE IM	EUR	8.36	11.5	12.1	11.1	11.0	2.3	2.1	1.8	1.6	17.8	2.7	6.1			
Faurecia	EO FP	EUR	37.73	7.4	7.3	6.6	5.9	1.4	1.4	1.2	1.0	18.1	3.5	3.3			
Autoliv Inc	ALV US	USD	67.99	31.0	11.2	9.5	8.2	3.1	2.5	2.1	1.9	24.8	3.6	6.5			
Continental Ag	CON GY	EUR	110.02	7.6	10.2	8.4	7.5	1.2	1.2	1.1	1.0	11.1	3.8	4.6			
Michelin	ML FP	EUR	94.36	10.1	8.6	7.9	7.4	1.4	1.3	1.2	1.1	15.3	4.3	4.6			
Simple Average				11.8	12.7	9.6	8.6	1.4	1.3	1.2	1.0	13.2	3.1	5.4			
Weighted Average				11.1	11.6	9.8	8.8	1.4	1.3	1.2	1.0	13.4	3.3	5.5			
Global Simple Average				29.8	12.5	9.4	8.4	1.3	1.3	1.2	1.1	13.6	4.7	7.0			
Global Weighted Average				16.2	15.5	13.0	11.7	1.8	1.6	1.5	1.3	16.9	4.1	7.4			

Source: the Company, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (USD m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	3,878	3,912	3,733	3,970	4,278
Cost of sales	(3,204)	(3,237)	(3,120)	(3,285)	(3,495)
Gross profit	674	675	613	684	782
Engineering and product development costs	(124)	(123)	(127)	(135)	(145)
Selling and distribution expenses	(16)	(19)	(17)	(19)	(20)
Administrative expenses	(111)	(124)	(112)	(122)	(130)
Other gains (losses), net	4	15	5	5	5
Operating Profit	428	424	362	413	492
Share of results of joint ventures	(2)	(4)	(3)	(4)	(3)
Finance costs, net	(21)	(9)	(17)	(15)	(14)
Profit Before Tax	405	410	341	395	475
Income Tax	(49)	(26)	(45)	(47)	(48)
profit After Tax	356	384	297	348	427
Non-controlling Interest	(4)	(5)	(4)	(4)	(5)
Shareholders' Profit / Loss	352	380	293	344	422
Basic EPS	0.141	0.152	0.117	0.137	0.168
Dividend per share (USD)	0.028	0.031	0.024	0.028	0.034

Cash Flow Statement					
Year end 31 Dec (USD m)	2017A	2018A	2019F	2020F	2021F
EBT	405	410	341	395	475
Depreciation and amortization	158	170	181	195	216
Finance cost, net	25	17	26	24	24
Changes in working capital	54	49	23	(10)	(20)
Share of results of JV and associates	2	4	3	4	3
Change of other operating Items	14	7	2	2	2
Income taxes paid	(33)	(44)	(10)	(32)	(33)
Cash from Operating Activities	625	613	567	579	668
Net investments in PPE	(234)	(156)	(206)	(237)	(273)
Net change of intangible assets	(115)	(145)	(121)	(128)	(138)
Net change of restricted cash	(6)	7	(2)	(1)	1
Net investments in Asso. and JV	(2)	(10)	0	0	0
Cash from Investing Activities	(357)	(304)	(329)	(366)	(410)
Net change of LT bank loan	(76)	(112)	(77)	(78)	(78)
Issuance of shares	0	0	0	0	0
Dividend paid	(60)	(70)	(78)	(59)	(70)
Others	(33)	(30)	(24)	(22)	(22)
Cash from Financing Activities	(169)	(212)	(179)	(159)	(170)
Net Changes in Cash	99	97	59	54	89
Other adjustment	18	(23)	0	0	0
Cash at Beg of Year	484	601	675	733	787
Cash at End of Year	601	675	733	787	876

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (USD m)	2017A	2018A	2019F	2020F	2021F
Property, plant and equipment	884	933	1,020	1,126	1,253
Right-of-use assets	0	0	64	64	64
Land use rights	2	4	0	0	0
Intangible assets	495	562	589	627	669
Deferred income tax assets	7	9	17	18	22
Other receivables and prepayments	20	25	20	22	23
Investment in a joint venture	11	17	14	10	7
Total Non-current Assets	1,418	1,549	1,723	1,868	2,038
Inventories	241	234	228	238	257
Trade receivables	611	529	561	587	638
Other receivables and prepayments	102	125	100	111	117
Restricted bank deposits	7	0	2	3	2
Cash & Cash Equivalents	601	675	733	787	876
Total Current Assets	1,561	1,562	1,625	1,726	1,890
Total Assets	2,979	3,112	3,347	3,593	3,928
Trade payables	582	553	542	566	611
Other payables and accruals	138	140	141	152	160
Borrowings	77	66	66	66	66
Current income tax liabilities	15	16	8	9	10
Others	56	45	63	49	46
Total Current Liabilities	868	821	820	842	893
Borrowings	414	316	269	191	113
Deferred income tax liabilities	68	88	115	137	151
Provisions	85	78	88	88	88
Deferred revenue	82	76	84	85	89
Other payables and accruals	22	23	23	25	25
Total Non-current Liabilities	670	581	580	525	467
Total Liabilities	1,539	1,402	1,400	1,367	1,360
Total Shareholders' Equity	1,402	1,672	1,906	2,180	2,517
Minority Interest	38	38	42	46	51
Total Equity	1,441	1,710	1,947	2,226	2,568
BPS(USD)	0.560	0.667	0.761	0.870	1.005

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Profitability					
Gross profit margin (%)	17.4	17.3	16.4	17.2	18.3
EBITDAR (%)	15.4	15.6	15.1	15.9	17.1
EBIT Margin (%)	11.0	10.8	9.7	10.4	11.5
Net profit margin (%)	9.2	9.8	7.9	8.8	10.0
ROE (%)	28.6	24.7	16.4	16.8	18.0
ROA (%)	15.1	13.9	11.2	11.9	13.1
Growth					
Revenue growth (%)	0.9	0.9	-4.6	6.3	7.8
EPS (%)	19.2	7.8	(22.8)	17.5	22.6
BPS (%)	32.2	19.1	14.0	14.4	15.4
Liquidity and solvency					
Gearing ratio (%)	net cash	net cash	net cash	net cash	net cash
Interest cover ratio	20.1	45.7	21.1	28.1	35.7
Cash ratio	0.7	0.8	0.9	0.9	1.0
Quick ratio	1.4	1.5	1.6	1.6	1.7
Current ratio	1.8	1.9	2.0	2.1	2.1
Efficiency					
Inventory turnover	41	38	39	39	39
Days receivable	56	53	55	54	54
Days payable	96	91	93	92	93

14 August 2019

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Company Report

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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