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16 October 2019

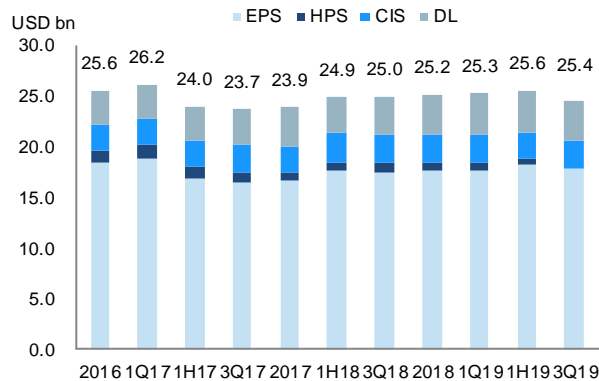
Nexteer 3Q19 Investor Briefing

耐世特2019年3季度投资者简报会

- **Backlog dropped in 3Q19, albeit just by a fraction.** Nexteer's (the "Company") backlog slightly decreased to US\$25.4 billion in 3Q19 from US\$25.6 billion in 1H19, which is less than 1%. The reason for the decline is the Company's self-voluntary reduction in backlog due to a weaker production forecast, particularly in China, according to the Company and IHS Markit. The management stressed that no program was lost from the reduction. In terms of composition, General Motors (GM) represents the largest composition at 34%, followed by Ford, FCA and BMW. The combined proportion of the four largest auto makers is 75%.
- **Expanding market share through business conquest.** Business conquest remains solid, in which the management revealed that for YTD 2019, about 2/3 of the business relates to business conquest. In 3Q19, there were 15 major programs launched, which include the A segment, to full-sized trucks, with Asia Pacific continuing to participate over 50% of the launches. Despite heading towards a historical number of program launches in 2019, along with new operations of the Dongfeng JV and the Morocco plant, the management is more pessimistic about the production level in 2H19 and going forward, expecting 2020 production level to be slightly down as well, and subject to volatility.
- **Production started in the Dongfeng JV.** The Company formed the JV in Mar. 2017 and production went live in August 2019, producing single pinion EPS for the CMP platform for PSA Group. The management mentioned that the JV is slightly different with the Chongqing JV; the Dongfeng JV will work start with global production.
- **Progressing well on ADAS.** The Company continued to focus on products with ADAS/AD technology functions, which should bring a competitive advantage. Within the patent backlog, over 7% of total patents granted were L3-L5 ADAS/AD functions, a significant jump from 3% in 2018. It also represents 22% of new patents granted in 2019.
- **Introducing the automatic emergency steering (AES).** This piece of new technology enhances safety functions of the vehicle, allowing the vehicle to detect obstacles and direct the steering system to avoid them. The Company released the protocol this year and it should be implemented in 2020. Moreover, it is expected that once safety rating agency, Euro NCAP, validates the technology, it should drive rapid adoption from OEMs and thus should become another revenue driver for the Company. The technology will continue to be more advanced upon integration with automatic emergency braking and when move to steer-by-wire.
- **United Auto Workers (UAW) has initiated a strike against GM North America Operations.** The strike started on the 16th Sep., and Nexteer has been impacted as well. GM is the largest revenue contributor for the Company, and about 86% of GM revenue is derived from the North America operations. Nexteer production for GM has also been halted upon the strike. Further, the Company laid off staff on GM component production as a cost cutting initiative.
- Short-term risk of Nexteer is significant with production disruption of the strike between GM and UAW, and also sales pressure coming from lower production level of OEMs. We continue to believe the Company as a leading component maker in the steering field with a very strong technology reserve on ADAS/AD enabling functions. The Company should benefit when adoption of higher level ADAS function EPS increases, as the field of selection will be greatly reduced. The Company is currently trading at 7.4x 12M forward PER, with almost 2 S.D. below the mean, which is close to the lowest valuation since listed. We believe that the pessimistic view has already largely been reflected in current price. **The Company has an "Accumulate" rating with TP of HK\$7.47, representing 8.1x 2019 PER and 6.9x 2020 PER.**

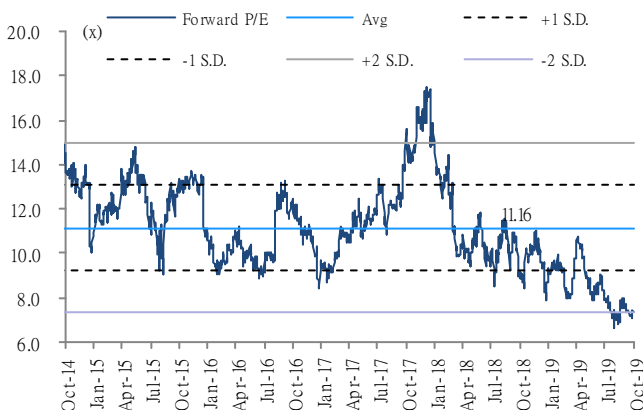
- **在手订单在 2019 年第 3 季度下跌，尽管幅度很小。**耐世特（“公司”）的在手订单从 2019 年上半年的 256 亿美元略微下降至 2019 年第 3 季度的 254 亿美元，其下跌幅度少于 1%。下降是自愿性减少，因耐世特和 IHS Markit 预测未来产量将会更疲弱。管理层强调，减少只是订单量但客户项目没有丢失。在订单组成方面，通用汽车占最大份额，为 34%，其次是福特、FCA 和宝马。四个最大客户合共占到 75%。
- **通过新争取的业务扩大市场份额。**新争取的业务保持稳定，管理层透露 2019 年至今约有 3 分之 2 业务是新争取的。2019 年第 3 季度共推出了 15 个主要项目，其中包括 A 级至全尺寸卡车，而亚太地区继续贡献超过 50% 新项目。尽管 2019 年推出的新项目将迈向历史新高以及东风合资企业和摩洛哥工厂新增投产，管理层对 2019 年下半年的生产水平以及未来的状况更为保守，预计 2020 年的生产水平也将略有下降，并可能会波动。
- **东风合资公司开始生产。**公司于 2017 年 3 月与东风汽车成立合资公司，并于今年的 8 月投入生产，首先为 PSA Group 的 CMP 平台生产单齿轮助力 EPS (SPEPS)。管理层提到与重庆合资公司略有不同，东风合资公司将先为全球生产。
- **在 ADAS 方面进展顺利。**公司继续专注于先进驾驶员辅助系统 (ADAS) 及自动驾驶 (AD) 功能的技术，因其将带来竞争优势。在专利的申请中，L3-L5 ADAS / AD 功能的授权专利总数超过 7%，与 2018 年的 3% 相比有显著增长。它还占 2019 年新授权专利的 22%。
- **引进自动紧急转向（“AES”）。**这项新技术增强了车辆的安全功能，使车辆能够检测障碍物并引导转向系统避开障碍物。公司将在今年发布测试版，并应在 2020 年推出。此外，一旦安全评级机构 Euro NCAP 验证该技术，则有望推动 OEM 的快速采用，从而成为公司的另一收入驱动力。与自动紧急制动 (automatic emergency braking) 以及线控转向 (steer-by-wire) 集成时，该技术将会有更佳的表现。
- **美国汽车工人联合会（“UAW”）对北美通用汽车举行罢工。**罢工于 9 月 16 日开始，耐世特也受到影响。通用汽车是公司最大的收入来源，通用汽车收入的约 86% 来自北美业务。罢工后，耐世特对通用汽车的零部件生产也停止了。此外，为了削减成本，公司也裁减通用汽车零部件生产线的员工。
- **耐世特的短期风险很大，这是因为美国汽车工人工会对通用汽车罢工中断生产，以及汽车制造商生产水平降低带来的销售压力。**我们仍然相信公司是转向领域的领先制造商，在 ADAS / AD 支持功能方面拥有非常强大的技术储备。当市场采用更高级别的 ADAS 功能的 EPS 时，公司将受益，因为该领域的供应商选择将大大减少。公司目前的未来 12 个月预测市盈率为 7.4 倍，差不多低于平均值 2 个标准差，接近上市以来最低水平。我们认为悲观的看法已经大致反映在当前价格中。**公司的评级为“收集”，目标价为 7.47 港元，相当于 8.1 倍 2019 年市盈率和 6.9 倍 2020 年市盈率。**

Figure-1: Backlog of Nexteer



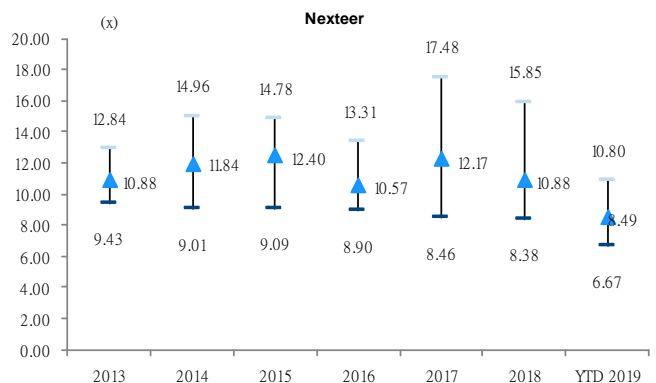
Source: the Company, Guotai Junan International.

Figure-2: PER of Nexteer



Source: Bloomberg, Guotai Junan International.

Figure-3: PER Range of Nexteer



Source: Bloomberg, Guotai Junan International.

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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