



Flash Note: Nexteer (01316 HK)

Toliver Ma 马守彰
(852) 2509 5317

快讯: 耐世特 (01316 HK)

toliver.ma@gtjas.com.hk

16 October 2018

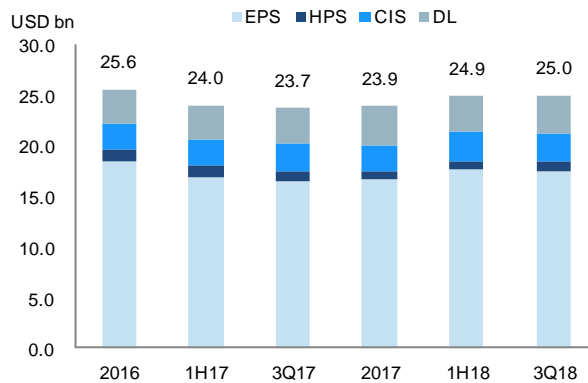
Nexteer 3Q18 Investor Briefing

耐世特2018年3季度投资者简报会

- **Backlog continued to improve in 3Q18, albeit just by a fraction.** Nexteer's (the "Company") backlog slightly increased to USD 25 billion in 3Q18 from USD 24.9 billion in 1H18, with the improvement coming from driveline products. The amount of backlog has still not resumed the 2016 level, however, it is just short by USD 0.6 billion. The management stressed that most businesses are still pursuing backlog targets, which is still subject to OEM product timetables. Overall, we are still expecting more backlog to be booked in 4Q18.
- **Expanding market share through conquest business.** The management also mentioned that Nexteer secured new business through conquest business since the conversion cycle from HPS to EPS took place, moving them from sixth to third in terms of market share. The CEO highlighted that Nexteer again has come to a point where new generation EPS is gaining traction in the market, replacing their competitors as the next generation EPS provider for new customers. The Company highlighted that new conquest business reached 48% during 1-3Q18, close to 50% seen in the previous EPS conversion cycle.
- **Weakness in auto sales not holding back Nexteer for now.** Despite an overall weakness in auto sales, particularly in China, the management noticed strong production in North America in 3Q18, which mostly came from the General Motors and FCA platforms. Meanwhile, Europe joined China with weaker production amount due to seasonal effects. However, the management highlighted their concerns on weaknesses in China regarding some of their key customers. The management of the Company is monitoring the situation closely. Overall, the management believes that due to strong mix in the North America region (1H18 sales mix: 65.6%), revenue should be higher yoy in 3Q18.
- **Four new EPS customers in 3Q18, including BYD, GAC, Renault (also with Dongfeng Renault) and Geely.** These customers are originally driveline customers and will become EPS customers, which will also be applied in their respective EV platform. This has resonated the fact that the Company is winning new EPS business.
- **Progressing well on ADAS.** The management reported that they have continued to improve the technical ability of their ADAS enabled products by adding more product content. Moreover, Nexteer's partnership with academia to study safety and performance at different levels of technological automation.
- **Trade concerns between the US and China.** The management reaffirmed that the current trade tension between the US and China has had a rather insignificant impact so far, as Nexteer's product are produced locally to service regional markets. Nonetheless, the management is preparing for more impact in 2019 if trade tension continues, and has already opened discussions with suppliers and customers. On the other hand, the management sees positives from the new trade deal of the United States-Mexico-Canada Agreement (USMCA). However, changes are likely to be initiated by OEMs instead of suppliers. The deal has been agreed in principle but is still subject to approval from congress and legislation, which will not be effective until 2020.
- We recap our investment thesis as 1) a positive fundamental outlook - we see Nexteer's competitive EPS continue to translate into sustainable revenue growth; 2) strong balance sheet - the Company's net cash position with growing free cash flow enhances its defense in times of market turbulence; and 3) ample technological reserve - the Company is at the forefront of ADAS technology for steering. The Company is currently trading at 8.8x 12M forward PER, with almost 2 S.D. below the mean. We believe this is an attractive opportunity to accumulate. **The Company has a "Buy" rating, with TP of HK\$16.37, representing 13.7x 2018 PER and 12.0x 2019 PER.**

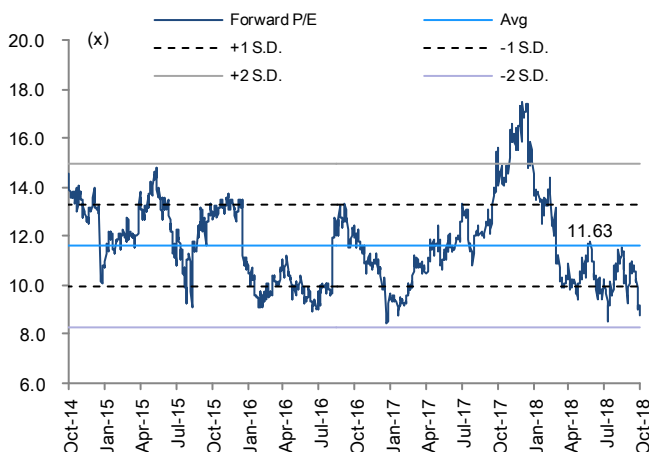
- **在手订单在第3季度继续改善，尽管只稍微增长。**在手订单从2018年上半年的249亿美元略微上升至2018年第3季度的250亿美元，其中改进来自driveline产品。在手订单仍然没有恢复到2016年的水平，但是只是欠约6亿美元。管理层强调，大多数业务的竞投仍在进行中，并且还在等候OEM产品的时间表。总体而言，仍然预计将在2018年第4季度计入更多订单。
- **通过新争取的业务扩大市场份额。**管理层还提到，自从HPS到EPS的转换周期以来，耐世特（“公司”）通过新争取的业务获得了新业务，使市场份额从第六攀升至第三。首席执行官强调，耐世特再次来到拐点，其新一代EPS在市场正在获得牵引力，并正在取代其竞争对手成为新客户的下一代EPS供应商。公司强调，在2018年首3季度，新争取的业务占比为48%，接近前一个EPS转换周期的50%。
- **汽车销售疲软暂时没有拖累耐世特。**尽管汽车销售整体疲软，特别是在中国，但管理层注意到北美第三季度的产量强劲，主要来自通用汽车和FCA平台。与此同时，由于季节性影响，欧洲与中国的产量较低。然而，管理层强调他们对在中国市场的主要客户担忧，并密切关注这一情况。总体而言，管理层认为，由于北美地区的强大占比(2018年上半年销售占比: 65.6%)，收入应在2018年第3季度同比增长。
- **2018年第3季度新增4家EPS客户，包括比亚迪、广汽、雷诺（以及东风雷诺）和吉利。**这些客户最初是driveline的客户，并将成为EPS客户，这些客户也将被应用于各自的电动汽车平台。这些都呼应公司正在赢得新的EPS业务。
- **在ADAS方面进展顺利。**管理层称他们不断提高其产品的ADAS技术能力，并增加了更多产品内容。此外，耐世特还与学术界合作，研究不同自动化水平的安全性和性能。
- **中美贸易问题。**管理层重申，目前中美贸易紧张局势的影响相当小，因为耐世特的产品是在本土化生产，以服务区域市场。尽管如此，如果贸易紧张局势持续，管理层也预计在2019年看到更广泛的影响，并且已经与供应商和客户保持讨论。另一方面，管理层看到美国-墨西哥-加拿大协议（“USMCA”）新贸易协议的积极因素。但是，主动权在于OEM而不是供应商。该协议原则上已达成一致，但仍需经国会和立法批准，该协议将不早于2020年生效。
- **我们的投资逻辑为：**1) 基本面展望正面 - 我们认为耐世特具竞争力的EPS将继续转化为可持续的收入增长；2) 强劲的资产负债表 - 公司处于净现金状态，且自由现金流不断增加，在市场动荡时可提升公司防御能力；及3) 充足的技术储备 - 公司处于ADAS转向技术的最前沿。公司目前的未来12个月预测市盈率为8.8倍，差不多低于平均值2个标准差。我们相信这是一个有吸引力的收集机会。公司的评级为“买入”，目标价为16.37港元，相当于13.7倍2018年市盈率和12.0倍2019年市盈率。

Figure-1: Backlog of Nexteer



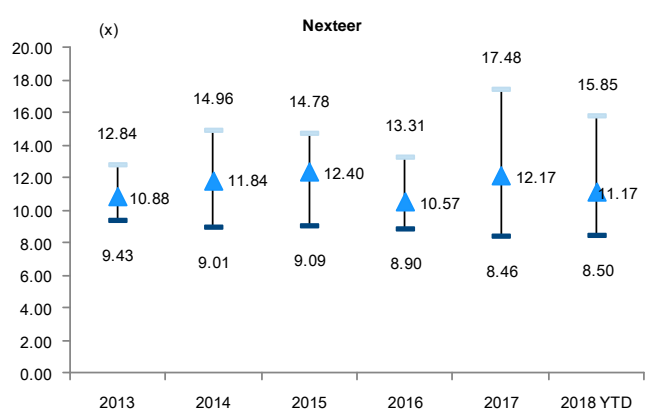
Source: the Company, Guotai Junan International.

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.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), VALUE A SHARE (03095 HK), CAM SCSMALLCAP (03157 HK), MR CSI300 ETF-R (CNY) (83127 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk