


Rating
Hold

Asia
China

Resources
Metals & Mining

Company
Guoxuan High-Tech

Reuters 002074.SZ Bloomberg 002074 CS Exchange SHZ Ticker 002074

Date
31 August 2017

Forecast Change

Price at 30 Aug 2017 (CNY)	29.82
Price target - 12mth (CNY)	31.30
52-week range (CNY)	37.17 - 26.00
HANG SENG INDEX	28,095

A mixed picture of future growth and near term margin pressure; Hold

Optimistic on the long term outlook despite short term hiccup

Guoxuan High-tech delivered flat YoY sales revenue and -17% YoY NPAT drop in 1H17, which was attributed to 1) uninspiring downstream battery demand, led by EV policy change, 2) batteries contract ASP decline, and 3) upstream raw material price hike. Extrapolated from the company's 9M17 bottomline guidance, we believe that margin pressure will likely remain for the coming quarter. In the long run, Guoxuan is planning to strengthen its market-leading position to deliver high quality product with scale, and we think the company will still be the beneficiary of the rising EV tide in China. In our view, the current share price has largely factored in the expected strong growth in the future; maintain Hold.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	2,745.5	4,757.9	7,699.3	11,624.4	16,889.7
EBITDA (CNYm)	769.4	1,367.6	1,662.7	2,064.0	3,365.8
EBIT(CNYm)	702	1,239	1,353	1,578	2,703
Reported EPS FD(CNY)	0.67	1.18	1.13	1.37	2.32
Reported NPAT (CNYm)	584.6	1,030.9	1,120.7	1,363.4	2,297.3
DB EPS growth (%)	-40.1	76.4	-3.9	21.6	68.5
DB EPS FD(CNY)	0.67	1.18	1.13	1.37	2.32
OLD DB EPS FD(CNY)	0.67	1.14	1.28	1.57	-
% Change	0.0%	2.8%	-12.0%	-12.2%	-
PER (x)	43.0	29.3	26.4	21.7	12.9
EV/EBITDA (x)	31.7	22.2	14.0	12.6	7.9
DPS (net) (CNY)	0.15	0.15	0.14	0.18	0.30
Yield (net) (%)	0.5	0.4	0.5	0.6	1.0

Source: Deutsche Bank estimates, company data

Valuation & Risks

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Key changes

TP	32.70 to 31.30	↓	-4.3%
Sales (FYE)	7,870 to 7,699	↓	-2.2%
Op prof margin (FYE)	19.9 to 17.6	↓	-11.5%
Net profit (FYE)	1,273.0 to 1,120.7	↓	-12.0%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-14.6	14.7	-17.9
HANG SENG INDEX	4.1	9.3	22.1

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	17.6
Net debt/equity (%)	-32.9
Book value/share (CNY)	8.86
Price/book (x)	3.4
Net interest cover (x)	-
Operating profit margin (%)	17.6

Source: Deutsche Bank



1H17 results at the low end of guidance

Guoxuan announced 1H17 results on Aug 30, 2017. The company's total revenue stayed roughly flat YoY at RMB2.4bn, mainly due to lukewarm downstream demand from EV bus. In the meantime, NPAT arrived at RMB445mn (down -17% YoY) in 1H17, representing 36% of FY17 DBe and 43% of market consensus. The reported bottomline was at the low end of the company guidance of RMB435m – RMB535m (-18.5% YoY to 0.3% YoY), mainly on account of raw material price hike coupled with declining NMC batteries contract ASP.

2017 subsidy scheme putting pressure on battery producers

While the current subsidy scheme favors high quality battery producers in the long term with capacity acting as the major entry barrier, we believe the short term impact to the battery industry is inevitable. As a result of EV policy change, China registered c.269k units of EV in 7M17, or merely 38.5% of market expectation of 700k units in 2017. Guoxuan, a high quality battery producer, has booked GPM of 35.7% in 1H17, -11.6ppt YoY decline and lower than company's guidance of a largely stable GPM. The company also released 9M17 NPAT guidance of RMB635m – 695m (-13.9% YoY to -5.7% YoY), implying no sign of a significant turnaround in the near term.

Future growth priced in; maintain Hold on margin uncertainty

We cut our 2017DBe EPS by 12% to factor in 16.5% YoY ASP decline in 2017, while we have already built in conservative volume assumptions. Though near term disappointment, Guoxuan will still be a key beneficiary of longer term high EV growth in China. We maintain Hold rating for Guoxuan on a mix of future high growth and near term margin pressure. Our target PEx multiple remains at 25x and set the TP at average EPS of 2017/2018DBe to factor in the further growth in 2018. Guoxuan's new TP is thus set at RMB31.3, 4.3% downgrade from our original TP. Major risks include higher-than-expected China EV volume sales and more-resilient-than-expected ASP trend.



Investment Thesis

Outlook

Guoxuan is the fourth-largest EV lithium battery player in China, with c. 10% EV lithium battery market share in terms of sales in 2016. We believe Guoxuan's aggressive capacity expansion and competitive advantages should help it to grow market share significantly and make it a major beneficiary of the Chinese government's target to put 5mn EV units on the road by end-2020. However, subsidy scheme change and new EV policy may put pressure on its margin outlook. Hold.

Valuation

As Guoxuan has just listed on the A-share market through a reverse IPO, we believe its historical P/E band may not reflect its high growth and ROE, as the previous assets of the shell company witnessed limited growth in the past several years. We maintain a P/E of 25x for the company, inline with adjusted industry average (excluding the outliers), and we roll forward to average of 2017/2018E EPS after factoring in the 1H17 results.

Risks

Key Industry up/downside risks: 1) Significant changes in the Chinese government's new energy subsidy policy 2) Weaker/stronger-than-expected volume growth in the next three years 3) Quicker/slower-than-expected ASP drop or slower-than-expected cost cuts Key company downside risk: 1) Quicker/slower-than-expected ramp-up processing of Hefei third phase and Laixi factories.



Appendix 1

Important Disclosures

*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Guoxuan High-Tech	002074.SZ	29.82 (CNY) 30 Aug 2017	NA

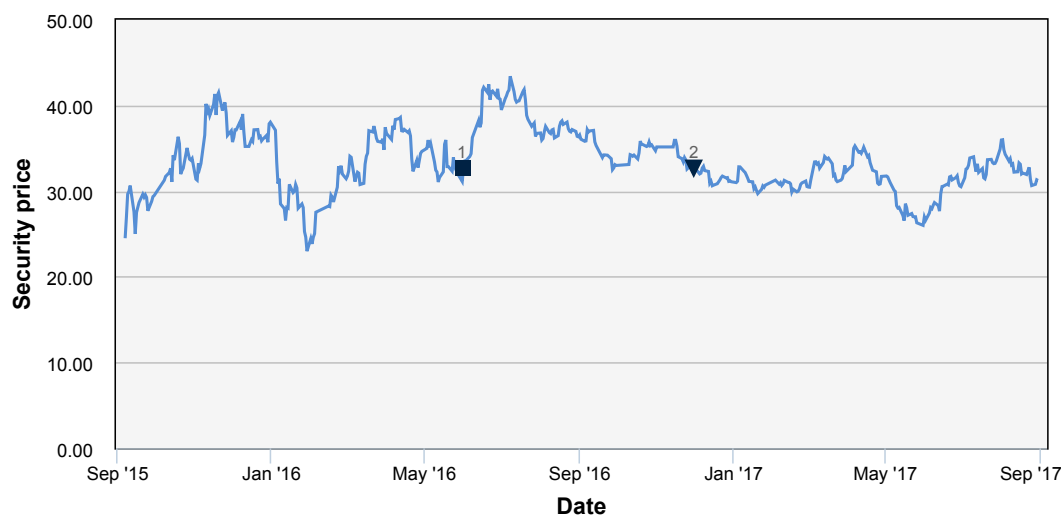
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Historical recommendations and target price. Guoxuan High-Tech (002074.SZ)

(as of 08/30/2017)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1. 06/01/2016	Buy, Target Price Change CNY 40,40 James Kan	2. 12/01/2016	Downgraded to Hold, Target Price Change CNY 32,70 James Kan
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Equity Rating Key

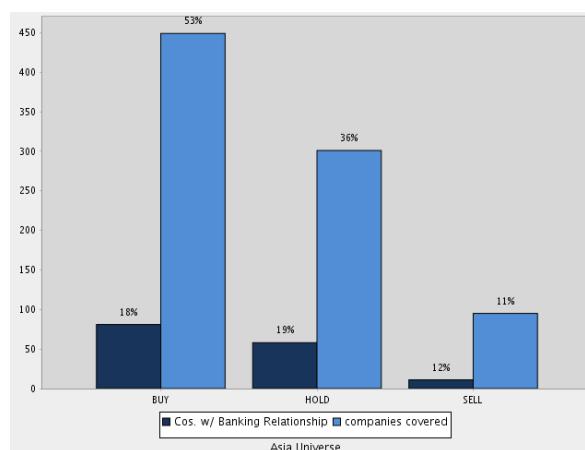
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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