



Rating
Buy

Asia
China

Technology
Hardware & Equipment

Company
Hikvision Alert

Reuters 002415.SZ Bloomberg 002415.CH Exchange SHZ Ticker 002415

Date
26 September 2017

Company Update

Price at 26 Sep 2017 (CNY)	31.48
Price target - 12mth (CNY)	34.50
52-week range (CNY)	40.16 - 22.91
Shenzhen Index	2,054

James Chiu Birdy Lu
Research Analyst Research Analyst
(+886) 2 2192 2848 (+886) 2 2192 2822
james.chiu@db.com birdy.lu@db.com

10bn investment plan paves the way for future growth outlook

RMB10bn investment for the next four years

Hikvision's board of directors has decided to invest RMB10bn capex to build 4 R&D centers and 2 industrial bases in five cities in the next four years. We maintain BUY rating on Hikvision.

Building new R&D centers and production bases

The four R&D centers will cost RMB6.5bn and be deployed in the cities of Xi'an, Wuhan, Chengdu and Hangzhou. The construction period for each project will take ~ 40 months and be completed during 2H21-1H22. Combined with Hangzhou R&D center, its R&D network will cover the mid-western provinces in China and utilize the local science and education talents to further strengthen its R&D team. The two production bases will cost RMB4bn and be deployed in Chongqing and Wuhan. The completion of production bases will help Hikvision leverage local labor resources and increase capacity.

Focus on the R&D talents and increasing capacity

We expect these R&D centers to strengthen its core competence in video surveillance and develop the innovation businesses (such as industry automation and automotive applications) with new applications. The new production bases will increase capacity and vertical integration capability as the company grows in size. We expect upside to our current capex forecast but should be manageable given Hikvision's 2017E profits of RMB9.5bn and net cash position of RMB9.2bn at the end of 2Q17.

Valuation and risks

We believe the investment plan is in sync's management's strategy in securing its leadership in the video surveillance sector while diversifying into new growth segments. Our TP of RMB34.5 is based on 25x 2018E EPS, which is supported by 34%/36% ROE and 28%/33% earnings growth in 2017/2018, respectively. Risks: market share loss and weak demand.

Stock data

Market cap (CNYm)	288,191
Market cap (USDm)	43,564
Shares outstanding (m)	9,154.7
Major shareholders	-
Free float (%)	24
Avg daily value traded (USDm)	190.2

Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	31,924	40,986	52,357
Net Profit (CNYm)	7,422.3	9,481.4	12,619.2
DB EPS (CNY)	1.23	1.04	1.38
PER (x)	18.0	30.4	22.8
Yield (net) (%)	2.8	1.1	1.4

Source: Deutsche Bank

Figure 1: Hikvision's preliminary announcement for RMB10bn investment

Project Type	Name	Amount (RMB)	Area (000 m ²)	Construction period
R&D Center	Xi'an Technology Base	1.18bn	229.7	Sep 2018 - Feb 2022,
	Wuhan Technology Base	2.61bn	514.8	Apr 2018 - Jun 2021,
	Chengdu Technology Base	1.67bn	273.1	Sep 2018 - Feb 2022,
	Hangzhou Innovation Base	1.03bn	171.8	Mar 2018 - Dec 2021,
Production Base	Chongqing Technology Base	1.26bn	171.0	Sep 2017 -Dec 2019,
	Wuhan Intelligence Industrial Base	2.68bn	515.0	Apr 2018 - Jun 2021,

Source: Deutsche Bank, company data

Deutsche Bank AG/Hong Kong

Distributed on: 26/09/2017 13:54:32 GMT

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Deutsche Bank does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. FOR OTHER **IMPORTANT** DISCLOSURES PLEASE VISIT <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=002415.SZ> MCI (P) 083/04/2017.