



首次评级 均胜电子 (600699.SS)

中性

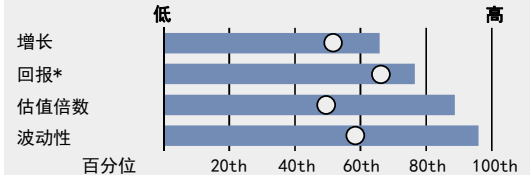
证券研究报告

为中国汽车电子行业先行者，增长前景已计入股价；首次评级中性(摘要)

投资观点

我们对宁波均胜电子股份有限公司的首次评级为中性。该公司是中国最大的汽车电子供应商之一。均胜电子已通过全球并购为自己描绘了转型蓝图：从传统的地区性汽车零部件供应商转型为业务涉足全球的高附加值汽车电子供应商。我们预计，2014-17年公司收入年均复合增长15%，推动净利润的年均复合增长率达到28%，这主要得益于全球资质提升和中国低成本制造业优势，从而推动其客户业务实力扩张以及毛利提高。我们对该股的首次评级为中性，因为我们的目标价格对应3%的下行空间。

投资摘要



* 回报 - 资本回报率 投资摘要指标的全面描述请参见本报告的信息披露部分。

主要增长动力

(1) 汽车电子产品、新能源动力系统和自动化产品带来**新增客户和订单**。我们预计2014-17年上述领域的年均复合增长率分别为16%/23%/35%，因为均胜电子可以借助强劲的全球业务实力来将自己涵盖甚广的产品引荐给全球汽车企业以及它们的中国业务部门。(2) 我们预计随着公司在华低成本产能的上线，**毛利将出现反弹**，推动2014-17年净利润的年均复合增长率达到28%。

风险

未来潜在的并购交易，来自汽车企业的订单改善/走弱，毛利的提高慢于预期。

估值

我们对于均胜电子的12个月目标价格为人民币22.0元，基于4.4倍的2015年预期P/B vs. 17.7%的2015-17年平均ROE计算得出。我们是根据中国科技硬件领域挑战者阵营(Contender)的P/B-ROE估值框架得出的这一估值倍数。

行业背景

我们认为汽车电子产品是物联网大潮下汽车电子领域的最大受益者。IHS预计到2020年，汽车电子市场的8年年均复合增长率约为12%，规模将达到2,750亿美元。

*全文翻译随后提供

所属投资名单

中性

行业评级：中性

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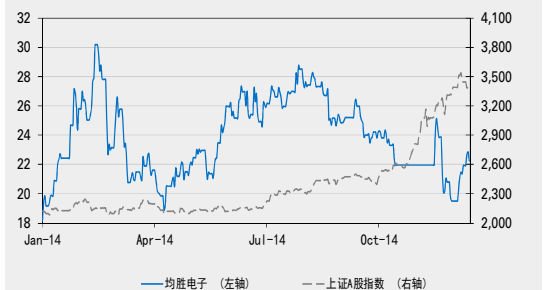
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主要数据

主要数据	当前
股价 (Rmb)	22.25
12个月目标价格 (Rmb)	22.00
市值 (Rmb mn / US\$ mn)	14,154.2 / 2,283.6
外资持股比例 (%)	--

	12/13	12/14E	12/15E	12/16E
每股盈利 (Rmb)	0.45	0.57	0.78	0.96
每股盈利增长 (%)	6.6	24.6	38.3	22.6
每股摊薄盈利 (Rmb)	0.45	0.57	0.78	0.96
每股基本盈利 (Rmb)	0.45	0.57	0.78	0.96
市盈率 (X)	28.0	39.3	28.4	23.2
市净率 (X)	3.5	5.3	4.5	3.8
EV/EBITDA (X)	9.7	15.3	13.1	11.4
股息收益率 (%)	0.0	0.0	0.0	0.0
净资产回报率 (%)	14.6	14.6	17.2	17.7
CROCI (%)	23.5	21.0	20.1	19.3

股价走势图



股价表现 (%)

	3个月	6个月	12个月
绝对	(11.0)	(18.3)	22.7
相对于上证A股指数	(34.9)	(47.7)	(22.9)

资料来源：公司数据、高盛研究预测、FactSet (股价为1/14/2015收盘价)

北京高华证券有限责任公司及其关联机构与其研究报告所分析的企业存在业务关系，并且继续寻求发展这些关系。因此，投资者应当考虑到本公司可能存在可能影响本报告客观性的利益冲突，不应视本报告为作出投资决策的唯一因素。有关分析师的申明和其他重要信息，见信息披露附录，或请与您的投资代表联系。

均胜电子：财务数据概要

损益表(Rmb mn)	12/13	12/14E	12/15E	12/16E	资产负债表(Rmb mn)	12/13	12/14E	12/15E	12/16E
主营业务收入	6,103.8	7,240.4	8,483.2	9,626.5	现金及等价物	561.0	582.3	696.1	942.2
主营业务成本	(4,938.9)	(5,857.9)	(6,815.1)	(7,693.6)	应收账款	953.0	1,130.4	1,324.4	1,502.9
销售、一般及管理费用	(699.6)	(851.0)	(984.6)	(1,101.6)	存货	845.9	1,003.3	1,167.3	1,317.7
研发费用	--	--	--	--	其它流动资产	83.1	83.1	83.1	83.1
其它营业收入/(支出)	0.0	0.0	0.0	0.0	流动资产	2,443.0	2,799.1	3,270.9	3,846.0
员工股票期权费用	--	--	--	--	固定资产净额	2,296.8	2,681.2	3,080.3	3,441.8
EBITDA	885.0	959.0	1,107.2	1,259.0	无形资产净额	908.4	746.6	600.6	483.2
折旧和摊销	(419.7)	(427.5)	(423.7)	(427.7)	长期投资	18.7	18.7	18.7	18.7
EBIT	465.3	531.6	683.5	831.3	其它长期资产	79.1	79.1	79.1	79.1
利息收入	0.0	0.0	0.0	0.0	资产合计	5,746.0	6,324.7	7,049.6	7,868.8
财务费用	(76.5)	(57.0)	(39.1)	(39.1)	应付账款	1,166.7	1,383.8	1,609.9	1,817.5
联营公司	0.0	0.0	0.0	0.0	短期贷款	813.3	813.3	813.3	813.3
其它	(3.2)	16.0	20.7	23.4	其它流动负债	374.0	374.0	374.0	374.0
税前利润	385.6	490.6	665.1	815.5	流动负债	2,354.0	2,571.1	2,797.2	3,004.7
所得税	(85.7)	(128.9)	(166.3)	(203.9)	长期贷款	218.9	218.9	218.9	218.9
少数股东损益	(11.0)	(1.4)	(0.7)	(0.7)	其它长期负债	833.8	833.8	833.8	833.8
优先股股息前净利润	289.0	360.2	498.2	611.0	长期负债	1,052.7	1,052.7	1,052.7	1,052.7
优先股息	0.0	0.0	0.0	0.0	负债合计	3,406.7	3,623.8	3,849.9	4,057.4
非经常性项目前净利润	289.0	360.2	498.2	611.0	优先股	0.0	0.0	0.0	0.0
税后非经常性损益	0.0	0.0	0.0	0.0	普通股权益	2,287.9	2,648.1	3,146.3	3,757.2
净利润	289.0	360.2	498.2	611.0	少数股东权益	51.4	52.8	53.5	54.1
每股基本盈利(非经常性项目前)(Rmb)	0.45	0.57	0.78	0.96	负债及股东权益合计	5,746.0	6,324.7	7,049.6	7,868.8
每股基本盈利(非经常性项目后)(Rmb)	0.45	0.57	0.78	0.96	每股净资产(Rmb)	3.60	4.16	4.95	5.91
每股摊薄盈利(非经常性项目后)(Rmb)	0.45	0.57	0.78	0.96					
不含员工股票期权费用的每股盈利(基本)	--	--	--	--	比率	12/13	12/14E	12/15E	12/16E
不含员工股票期权费用的每股盈利(摊薄)	--	--	--	--	CROCI (%)	23.5	21.0	20.1	19.3
每股股息(Rmb)	0.00	0.00	0.00	0.00	净资产回报率(%)	14.6	14.6	17.2	17.7
股息支付率(%)	0.0	0.0	0.0	0.0	总资产回报率(%)	5.3	6.0	7.4	8.2
自由现金流收益率(%)	0.9	0.1	0.8	1.7	平均运用资本回报率(%)	13.1	13.5	15.8	17.2
					存货周转天数	56.5	57.6	58.1	58.9
增长率和利润率(%)	12/13	12/14E	12/15E	12/16E	应收账款周转天数	51.7	52.5	52.8	53.6
主营业务收入增长率	13.9	18.6	17.2	13.5	应付账款周转天数	77.5	79.5	80.2	81.3
EBITDA增长率	19.8	8.4	15.4	13.7	净负债/股东权益(%)	20.1	16.7	10.5	2.4
EBIT增长率	27.2	14.2	28.6	21.6	EBIT利息保障倍数(X)	6.1	9.3	17.5	21.2
净利润增长率	39.7	24.6	38.3	22.6					
每股盈利增长	6.6	24.6	38.3	22.6	估值	12/13	12/14E	12/15E	12/16E
毛利率	19.1	19.1	19.7	20.1	基本市盈率(X)	28.0	39.3	28.4	23.2
EBITDA利润率	14.5	13.2	13.1	13.1	市净率(X)	3.5	5.3	4.5	3.8
EBIT利润率	7.6	7.3	8.1	8.6	EV/EBITDA(X)	9.7	15.3	13.1	11.4
					企业价值/总投资现金(X)	2.4	3.4	2.8	2.4
					股息收益率(%)	0.0	0.0	0.0	0.0
现金流量表(Rmb mn)	12/13	12/14E	12/15E	12/16E					
优先股股息前净利润	289.0	360.2	498.2	611.0	基本市盈率(X)	28.0	39.3	28.4	23.2
折旧及摊销	419.7	427.5	423.7	427.7	市净率(X)	3.5	5.3	4.5	3.8
少数股东权益	11.0	1.4	0.7	0.7	EV/EBITDA(X)	9.7	15.3	13.1	11.4
运营资本增减	(103.0)	(117.8)	(131.9)	(121.4)	企业价值/总投资现金(X)	2.4	3.4	2.8	2.4
其它	33.8	0.0	0.0	0.0	股息收益率(%)	0.0	0.0	0.0	0.0
经营活动产生的现金流	650.5	671.4	790.6	917.9					
资本开支	(578.6)	(650.1)	(676.8)	(671.8)					
收购	0.0	0.0	0.0	0.0					
剥离	3.8	0.0	0.0	0.0					
其它	44.4	0.0	0.0	0.0					
投资活动产生的现金流	(530.4)	(650.1)	(676.8)	(671.8)					
支付股息的现金(普通股和优先股)	0.0	0.0	0.0	0.0					
借款增减	(341.9)	0.0	0.0	0.0					
普通股发行(回购)	469.2	0.0	0.0	0.0					
其它	(231.8)	0.0	0.0	0.0					
筹资活动产生的现金流	(104.5)	0.0	0.0	0.0					
总现金流	15.6	21.3	113.8	246.1					

注：最后一个实际年度数据可能包括已公布和预测数据。
资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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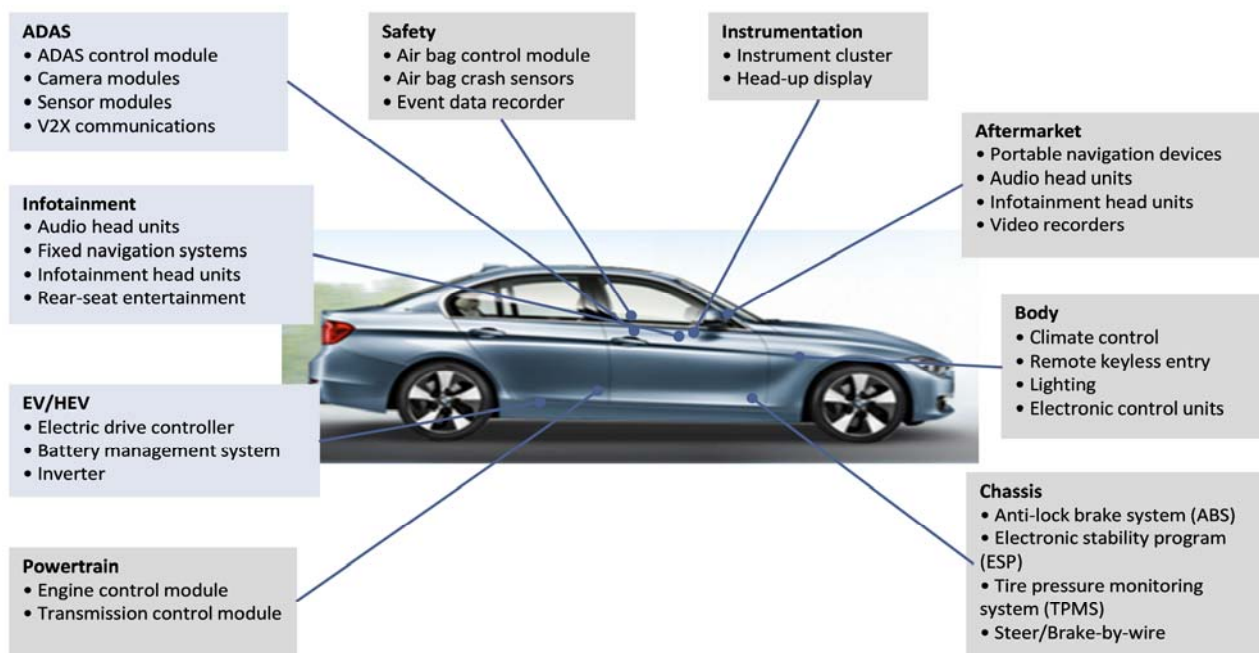
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The prices in the body of the report are as of the market close of January 12, 2015.

Exhibit 1: Auto electronics category definitions by Gartner



资料来源: Gartner, Joyson.

Executive summary: Internet of Things to re-shape auto parts

We expect the Internet of Things (IoT) will be the next mega-trend in technology. We also expect connected cars to be one of the key areas to adopt IoT, and that automotive electronics will be the biggest beneficiary in the auto parts sector.

In this report, we look at the different applications within auto electronics as they relate to IoT, and conclude 3 things will be the **key drivers of growth for auto electronics firms** in next decade:

- Advanced driver assistance systems (ADAS; essentially **automation**)
- **Infotainment**
- Electric/hybrid electric vehicles (EV/HEV; **new energy vehicles**)

Specifically, China is catching up in infotainment and body electronics, although it still lags on average in ADAS and EV/HEV which have higher entry barriers. We believe Chinese auto parts companies will play a more significant role than before in auto electronics space.

Among China auto electronics companies we believe Joyson stands out from both domestic and global peers for its high growth, which is driven by its unique matching of global qualification and China-based manufacturing.

Global acquisitions pave the way to auto electronics business

Joyson completed two global acquisitions to realize quick technology upgrades and gain access to high entry barrier business. It announced a third global acquisition plan on Dec. 16, 2014. We believe its clear strategy at the very beginning of its expansion, its global vision, and strong execution and experienced management team are key factors in its success in its global acquisition strategy so far.

The perfect match: Global qualification + China manufacturing base

We believe Joyson's combination of global qualification and China manufacturing base allows it to optimize Preh's (acquired in 2011) strong technology and Joyson's good cost control. We believe Joyson can strengthen its franchise with acquired overseas companies' existing client relationship, and copy their business models in China but at a lower cost.

Global positioning: strongest growth, cost leader

Although global auto electronics players are much larger than Joyson in terms of revenue, we expect Joyson to post 16% 2013-2016E revenue CAGR vs the global sector median of 6%. Moreover, we believe it will further improve its profitability as newly expanded capacity in China enjoys significantly lower cost and R&D expenses. Therefore, we expect net income to grow at 28% CAGR in 2013-2016E, vs. global sector median of 15%.

Valuation: 12-m P/B vs ROE-based target price of Rmb22.0; Neutral

We value Joyson using 4.4X 2015E P/B against 17.7% 2015E-17E average ROE, based on our China technology hardware "contender" sector-relative P/B vs. ROE regression line. Our 12-month target price of Rmb22.0 implies 3% potential downside. This implies 28.1X 2015E, 22.9X 2016E, and 18.6X 2017E P/E vs. current 29.0X 2015E P/E, and our Contender group's median of 31.1X2015E. We rate Joyson as Neutral on fair valuation.

Key risks

(1) Any potential M&A deals in the future may raise earnings estimates and even valuation significantly as the company has done before; (2) Orders from auto OEMs are critical to Joyson's earnings, and any changes to current orders and qualifications will bring Joyson upside or downside risks; (3) Slower-than-expected margin improvement on fiercer competition.

Exhibit 2: Global technology valuation comps table

Company name	Ticker	Rating	Market cap (\$ mn)	ADTV (3m, \$ mn)	Pricing currency	12-m TP	Current price	Upside/downside	P/E (X)		P/B (X)		ROE		FCF yield
									15E	16E	15E	16E	15E	16E	15E
Leader group															
Hangzhou Hikvision	002415.SZ	Buy	17,985	57.7	CNY	33.20	27.21	22%	17.7	13.9	5.9	4.6	38%	37%	1.8%
GoerTek Inc.	002241.SZ	Buy	7,240	69.8	CNY	34.10	28.06	22%	18.8	15.3	4.3	3.4	25%	25%	1.5%
Fiberhome Telecom Tech	600498.SS	Neutral	2,677	27.7	CNY	16.00	16.42	-3%	22.6	19.5	2.4	2.2	10%	10%	1.9%
Shenzhen O-Film Tech Co Ltd	002456.SZ	Neutral	3,492	59.9	CNY	20.40	19.09	7%	17.6	15.2	2.9	2.5	17%	17%	-0.1%
Zhejiang Dahua Technology Co., Ltd.	002236.SZ	Neutral	5,060	71.8	CNY	24.60	25.76	-5%	17.9	14.8	4.5	3.6	28%	27%	0.4%
								Average	18.9	15.7	4.0	3.3	24%	23%	1.1%
								Median	17.9	15.2	4.3	3.4	25%	25%	1.5%
Contender group															
Shenzhen Luxshare Precision Industry Co Ltd	002475.SZ	Buy*	4,416	20.6	CNY	42.00	31.89	32%	24.6	17.5	4.5	3.7	17%	20%	-0.6%
Sunsea Telecommunications	002313.SZ	Neutral	590	18.8	CNY	11.90	11.33	5%	98.4	55.1	1.8	1.8	2%	3%	-1.5%
Accelink Technologies	002281.SZ	Neutral	1,144	17.3	CNY	39.50	36.09	9%	31.1	24.6	3.4	3.1	11%	13%	0.2%
Zhejiang Crystal-Optech Co.	002273.SZ	Neutral	1,142	37.9	CNY	17.30	18.56	-7%	30.1	24.5	4.9	4.3	17%	19%	0.9%
Ningbo Joyson Electronic	600699.SS	Neutral	2,345	25.8	CNY	22.00	22.70	-3%	29.0	23.6	4.6	3.8	17%	17%	0.8%
Nationz Technologies	300077.SZ	Neutral	1,259	36.8	CNY	24.50	27.79	-12%	94.0	66.7	2.7	2.6	3%	4%	-1.4%
Shenzhen Tat Fook Technology	300134.SZ	Sell	2,393	42.4	CNY	30.20	37.82	-20%	31.6	27.0	4.9	4.3	16%	17%	1.6%
								Average	48.4	34.1	3.8	3.4	12%	13%	0.0%
								Median	31.1	24.6	4.5	3.7	16%	17%	0.2%
Global auto parts peers															
Weifu High-Technology Group (B)	200581.SZ	Buy*	3,945	1.5	HKD	39.82	29.99	33%	11.2	8.9	1.9	1.6	18%	19%	-1.5%
Continental	CONG.DE	Buy	43,145	0.5	EUR	193.00	183.10	5%	12.7	11.6	2.8	2.4	24%	23%	5.2%
Delphi Automotive PLC	DLPH	Buy	20,200	133.3	USD	83.00	67.65	23%	11.7	10.5	5.0	3.8	42%	36%	6.9%
BorgWarner Inc.	BWA	Buy	11,681	90.2	USD	66.00	51.44	28%	13.5	11.5	2.7	2.3	21%	21%	5.6%
Denso	6902.T	Neutral	36,737	99.7	JPY	5400.00	5402.00	0%	14.4	13.3	1.4	1.3	10%	10%	6.6%
Magna International, Inc.	MGA	Neutral	21,751	58.2	USD	115.00	102.99	12%	9.7	8.6	2.3	2.0	24%	24%	7.7%
Lear Corp.	LEA	Neutral	7,711	70.9	USD	113.00	96.42	17%	9.6	8.7	2.1	1.7	23%	22%	6.6%
Autoliv Inc.	ALV	Neutral	9,530	55.4	USD	100.00	102.65	-3%	15.4	12.6	3.0	2.9	18%	23%	4.8%
Valeo	VLOF.PA	Sell	10,307	42.0	EUR	97.00	111.95	-13%	13.6	12.6	2.7	2.4	21%	19%	4.0%
TRW Automotive Holdings Corp.	TRW	Not Rated	11,439	123.2	USD	NA	102.96	NA	12.5	11.3	2.3	2.1	18%	18%	5.4%
								Average	12.3	10.7	2.7	2.3	22%	22%	5.2%
								Median	12.2	11.0	2.5	2.1	22%	22%	6.1%

* Denotes stock is on the regional Conviction list.

资料来源: Datastream, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Automotive electronics gaining momentum from Internet of Things

As discussed in our global IoT report, *Internet of Things – Volume 1: Making S-E-N-S-E of the next mega-trend, June 25, 2014*, we believe connected cars will be one of the five key verticals of adoption. We expect the penetration of connected cars to expand gradually in the near future from current 2% of total car shipments in 2014 to less than 20% in 2017. We expect the penetration will speed up from 2017, reaching close to 60% globally by the end of 2020. With our forecast for 3% CAGR for the automobile market itself in 2013-2020, there is potentially rapid growth of connected cars globally (Exhibit 3).

Automotive electronics will be the biggest beneficiary of IoT mega-trend in automobile market, in our view. We expect average content per vehicle for automotive electronics to increase significantly in next five years, thanks to rapid adoption of IoT in cars. According to Gartner, the average content per vehicle is expected to rise to US\$360 in 2018E from US\$310 in 2013 (Exhibit 4).

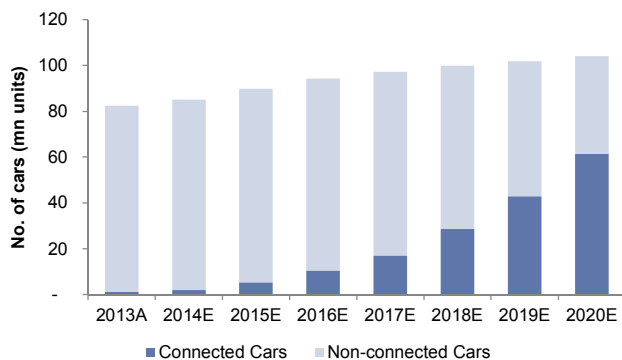
Comparing auto electronics to the whole automobile markets, we see the highest growth in auto tech parts, with 3.0X GDP multiplier (subsector growth vs GDP growth) in the Big 3 Developed markets and 4.5X GDP multiplier in emerging markets, while the average GDP multipliers for the Big 3 Developed markets and emerging markets at 1.6X and 2.4X respectively (Exhibit 5).

IHS expects the electrical/electronics market to expand gradually to make up 23% of the total auto parts market in 2020 from 15% in 2012. It also expects the overall auto parts market size to grow to US\$275bn in 2020, with 12% CAGR 2012-2020 (Exhibit 6).

We dig deeper into automobile market, and see three key beneficiary segments in automotive electronics: automation, infotainment and cleaner emissions.

Exhibit 3: Global penetration to reach 60% in 2020 (at 77% CAGR 2013-2020E)

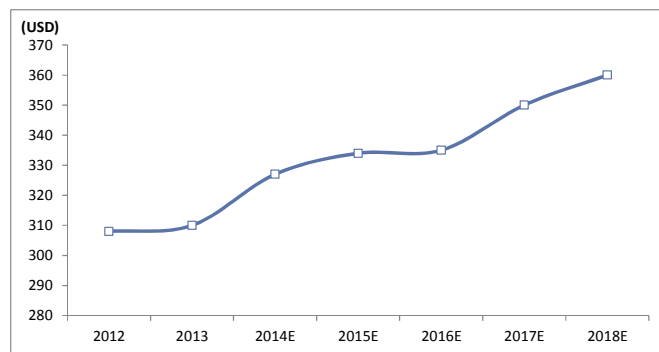
Connected cars penetration



资料来源: Gartner (March 2014), Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 4: Electronic component per vehicle starting to pick up in 2014

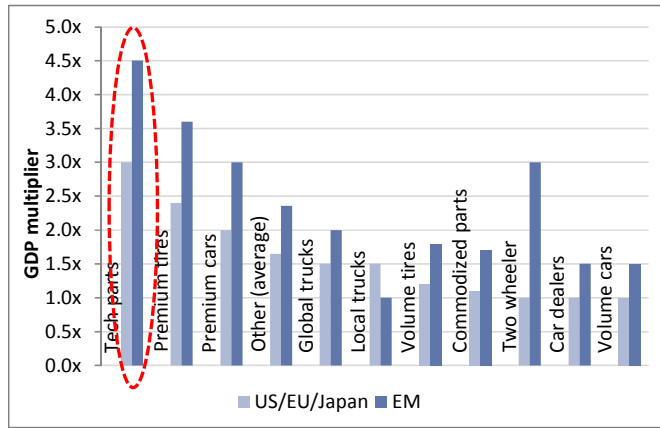
Electronic component per vehicle



资料来源: Gartner (April 2014).

Exhibit 5: Technology parts to enjoy strong structural trend growth

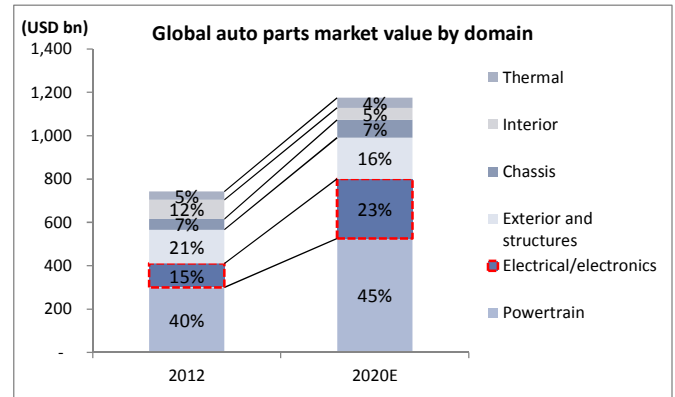
GDP multiplier inputs in GS Auto analysis framework



资料来源: Goldman Sachs Global Investment Research.

Exhibit 6: Auto electronics market is expected to grow fastest, accounting for 23% of total market value in 2020

Global auto parts market value by domain



资料来源: IHS, Roland Berger, Gao Hua Securities Research.

Three key drivers for automotive electronics

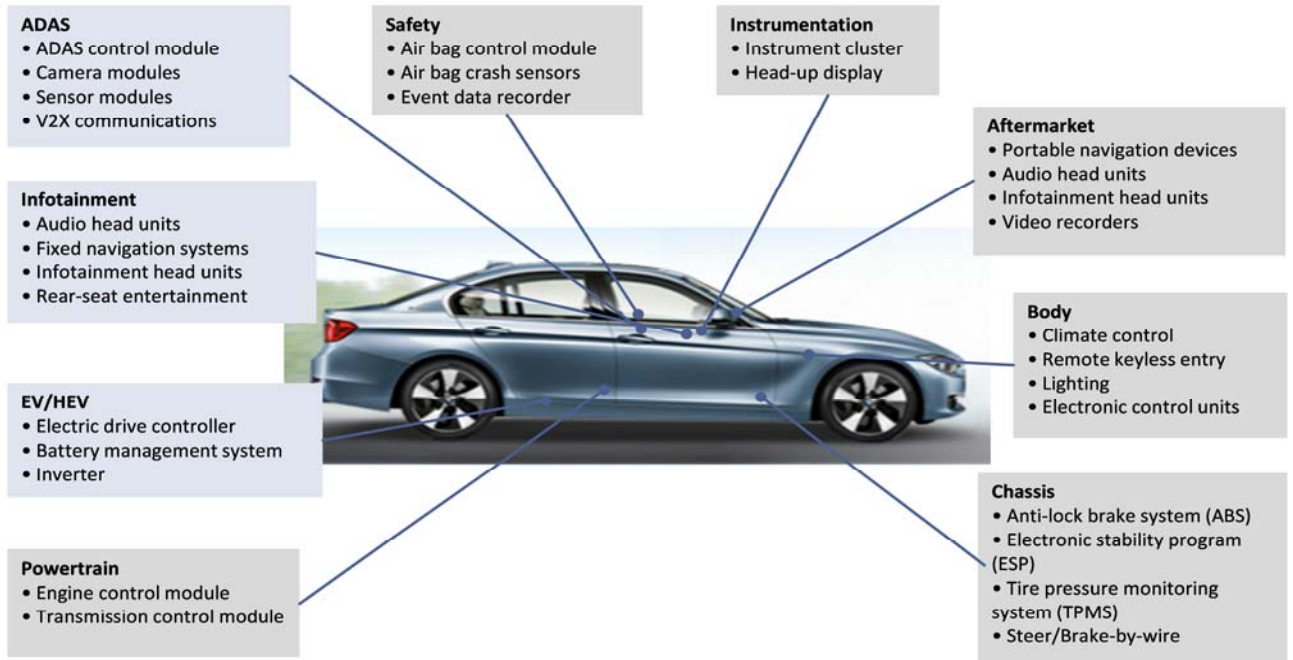
To better analyze the opportunities in the automotive electronic market, Gartner breaks the market into 9 segments according to different functions and the visibility of the new high-growth markets. Exhibit 7 presents these segments and their typical modules accordingly.

With the mega-trend of IoT in the automobile market, increasing attention to safety, and growing demand for new energy vehicles with increasing concerns over air pollution, we believe advanced driver assistance systems (ADAS), infotainment and electric vehicles/hybrid electric vehicles (EV/HEV) will be the top three drivers for auto electronics.

According to Gartner (June 2014) (Exhibit 8), ADAS devices are expected to grow fastest at 17.1% CAGR 2013-2018, with market size accretion of US\$5.5bn. EV/HEV devices are expected to grow at 10.2% CAGR 2013-2018E, with market size increasing by US\$3.0bn. Infotainment devices are expected to grow a bit slower at 8.3% CAGR 2013-2018E, although showing the biggest market size accretion of US\$8.0bn among the three due to a higher base in 2013.

Gartner expects market size accretion in these three segments to drive their share of the total electrical auto parts market to 44% (ADAS 15%; Infotainment 21%; EV/HEV 8%, Exhibit 9). Chassis and body segments also take a large portion of 18%/15% respectively on larger current market sizes, but we expect their market will grow at a slower pace due to the already-high degree of electronics components in these parts. With ADAS, telematics/infotainment, and EV/HEV are still at the introduction/growth stage of their life-cycle, Gartner expects they will enjoy high growth in next 5 years.

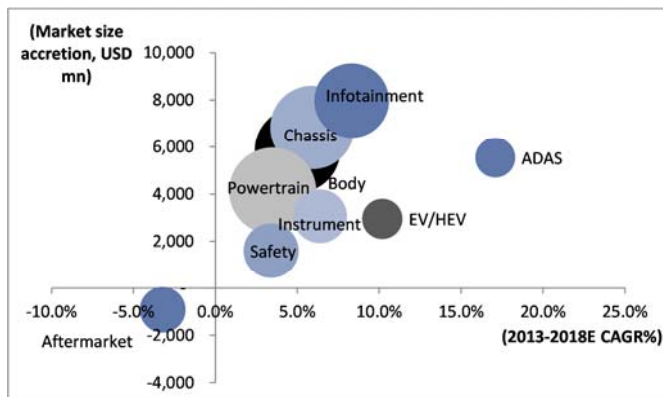
Exhibit 7: Auto electronics category definition by Gartner



资料来源: Gartner, Joyson.

Exhibit 8: ADAS, EV/HEV, and infotainment are expected to grow fastest...

Market size accretion and growth by auto application, 2013-2018E

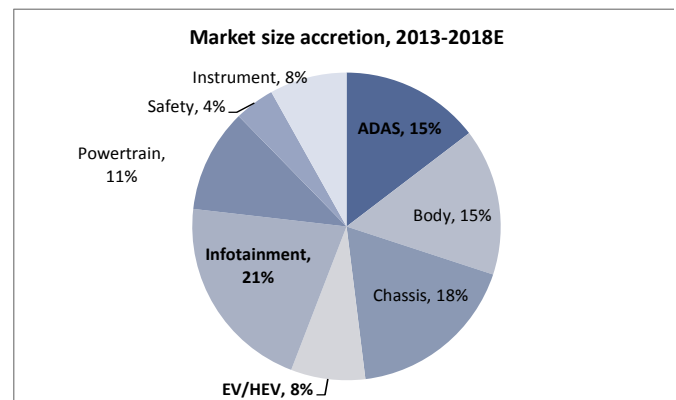


Note: Bubble size represents market size in 2013.

资料来源: Gartner (June 2014).

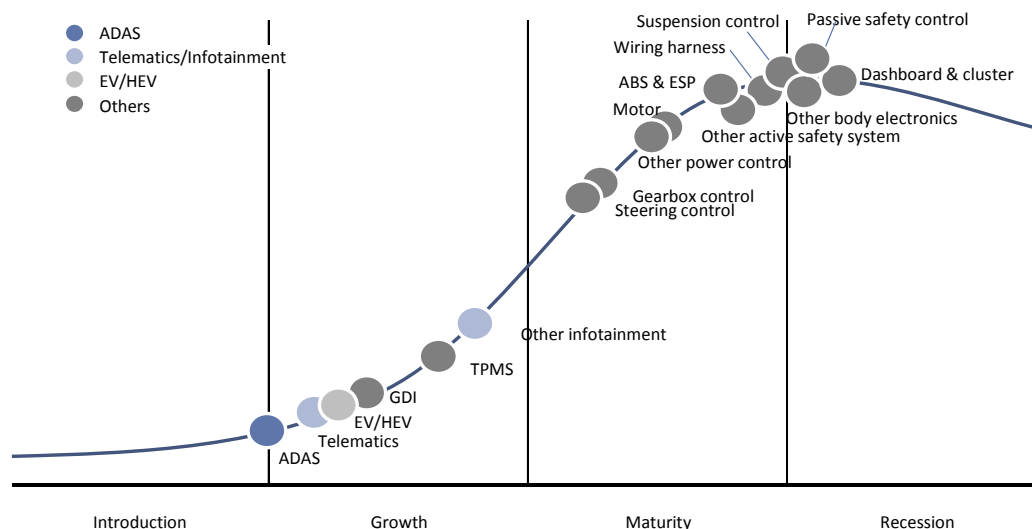
Exhibit 9: ... and also have the highest market size accretion

Market size accretion by auto application, 2013-2018E



资料来源: Gartner (June 2014).

Exhibit 10: ADAS, telematics (infotainment), and EV/HEV are still at an early stage
Life cycles of auto electronics segments



资料来源: Data from Deloitte; Graphical representation by Gao Hua Securities Research.

ADAS: in the early stage of smart-driving; regulation is key

ADAS are control functions designed to automate or adapt vehicle systems for better and easier driving. While the market is excited by the potential future of fully self-driving cars (indeed, Google is testing limited self-driving automation), advanced driver assistance systems (ADAS), as the early stage of smart-driving, is much closer to mass commercial adoption. ADAS technology can be based on a number of different technologies: sensors, multiple vision/camera, radar, LIDAR (light detecting and ranging), vehicle-to-vehicle (DSRC: dedicated short-range communications), and vehicle-to-infrastructure (GPS) systems.

Nowadays, more and more ADAS functions, such as adaptive cruise control (ACC), lane departure warning (LDW), and forward collision warning (FCW), have been included in high-end luxury models or as part of a premium optional package.

We believe **regulation will be the key direct driver to promote ADAS** and to amplify its safety benefits. For example, US NHTSA (National Highway Traffic Safety Administration) issued a rule on March 31, 2014 requiring rear visibility technology in all new vehicles under 10,000 pounds by May 2018. We believe other regions will gradually roll out similar rules regarding ADAS requirements.

Exhibit 11 shows the key suppliers globally, their products, and the respective OEMs that apply those products/functions. We think most global auto parts suppliers are dedicated to ADAS development and most global auto OEMs are applying ADAS in their most updated models as key differentiating features in light of the fierce competition globally and regulation requirements in respective regions.

Gartner expects 13% of automobiles will be equipped with some form of ADAS by 2018, up from 5% in 2013. Our Europe team expects robust growth in the front-facing ADAS camera market, at a 42% CAGR out to 2020, driven by penetration gains as a result of car ratings regimes (*Mobilitye N.V.: Disruptive tech, strong positioning, autonomous roadmap; Neutral, August 26, 2014*).

Exhibit 11: ADAS is still dominated by global giants

Key suppliers and their products in ADAS space

Company	Function	OEM customer
Autoliv	<ul style="list-style-type: none"> • Adaptive cruise control • Queue assist • Forward collision warning • Blind spot detection • Cross traffic assist • Lane departure warning • Road sign detection • Light source recognition • Pedestrian detection • Night vision 	Audi, BMW
Bosch	<ul style="list-style-type: none"> • Driver drowsiness detection • Predictive emergency braking system • Lane assist systems (lane departure warning, lane keeping support, lane change assist) • Rear cross traffic alert • Construction zone assist • Predictive pedestrian protection 	Alfa Romeo, Audi, BMW, Citroen, Daimler, Fiat, Jaguar, Land Rover, Nissan, Peugeot, Porsche, Renault, Toyota
Continental	<ul style="list-style-type: none"> • Adaptive cruise control • Blind spot detection • Rear cross traffic alert • Emergency brake assist • Intelligent headlamp control • Lane departure warning • Traffic sign recognition • Surround view 	Audi, BMW, Citroen, Daimler, Ford, Honda, Mazda, VW, PSA, Porsche, Renault, Suzuki, Toyota
Denso	<ul style="list-style-type: none"> • Adaptive cruise control system • Lane keeping assist system • Driving status monitoring system • Intersection movement assist system • Pre-crash safety system 	Toyota
Delphi	<ul style="list-style-type: none"> • Adaptive cruise control • Collision mitigation system • Electronically scanning radar • Parking guidance system • Rear and side detection system • Lane departure warning 	Ford, Jaguar, Land Rover
Hella	<ul style="list-style-type: none"> • Lane change assist • Rear active safety • Rear cross traffic alert • Distance warning sensor 	Opel
TRW	<ul style="list-style-type: none"> • Adaptive cruise control • Forward collision warning • Lateral support (lane departure warning, lane keeping assist, lane change assist) • Automatic emergency braking • Pre-crash safety system 	BMW, Ford, Lancia, Opel, Renault, VW
Valeo	<ul style="list-style-type: none"> • Lane change assist • LaneGuide (lane keeping assist, lane departure warning) • Cross traffic alert • 360VUE (multi-camera surround view system) • Park4U (self-parking) 	Citroen, Renault

Source: Company data.

Infotainment/Telematics: connecting vehicles to anything

Telematics enable the connectivity of V2X (vehicle-to-vehicle, vehicle-to-infrastructure, and vehicle-to-anything communications) via GPS technology and cellular network (3G/4G networks). Therefore, applications in the following categories can be offered to drivers (Exhibit 12):

(1) Emergency assistance and safety, by providing emergency assistance and sending vital information such as speed and location automatically in case of an accident, tracking stolen vehicles, and active safety systems or ADAS to improve driving safety. Road and driver safety is one of the prime reasons for introducing connectivity in cars, stimulated by various regulatory mandates in different countries.

(2) Vehicle diagnostics, through which the vehicle can be monitored on a real-time basis, potential issues can be detected and fixed, thereby providing efficient overall driving.

(3) Mobility solutions, enabling remote unlock/start, usage-based insurance (UBI) with access to real-time driver behavior data, monitoring shared vehicles and managing fleet more effectively.

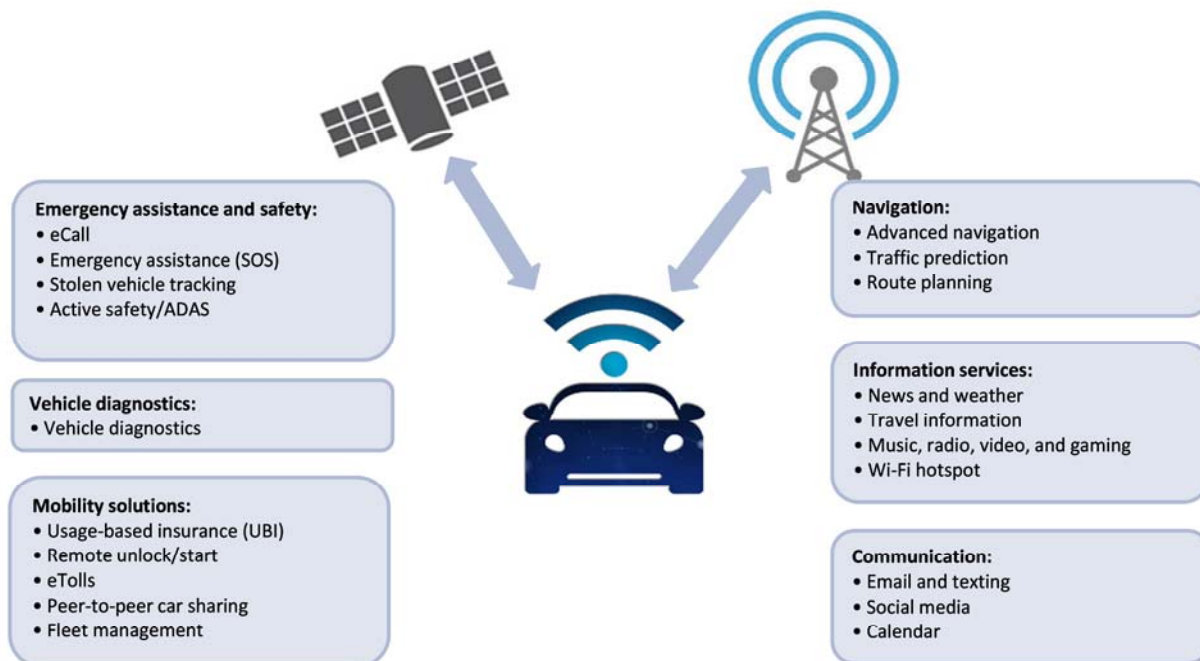
(4) Navigation, providing GPS-based navigation, traffic prediction and route planning.

(5) Information and entertainment, with location-based news and weather update, travel information, and entertainment features such as music, radio, video and gaming.

(6) Communications, providing email and texting services, access to social media and personal calendar.

Most car manufactures have offered telematics/infotainment services as standard or as a premium option on a wider range of models (Exhibit 13).

Exhibit 12: Infotainment functions and applications



资料来源: Gao Hua Securities Research.

Exhibit 13: Most auto OEMs are providing infotainment systems now

Key suppliers for telematics systems

Brands	System	Functionality
Solution provider		
Airbiquity	Choreo	Works with auto OEMs to integrate mobile technologies into cars and deploy automotive telematics, providing solutions for connected car programs, including connectivity & integration, fleet management, content delivery, end user management, call center management and business intelligence. Nissan, Ford, Fiat Chrysler and Renault are its clients.
Apple	Carplay	Offers seamless connectivity between iPhones and car infotainment system. It allows drivers to access smartphone via the car's navigation screen and dashboard while ensuring safe driving. Available on select models for Ferrari, Honda, Hyundai, Mercedes-Benz, Volvo. To be available in more models.
OEM		
Audi	Audi Connect	Available on high-end models. Provides services for navigation, travel assistance, entertainment and wifi connection.
BMW	ConnectedDrive	Started service in 1999. Provides services for safety, navigation, travel assistance, entertainment and application access and downloads.
Chrysler	Uconnect	Started service in 2012 on high-end models. Provides features of entertainment, phone, navigation, voice command and wifi connection.
Daimler	Comand Online	New generation navigation system, providing real-time and HD traffic data with accuracy of 100 meters, and dynamic route calculation.
Fiat	Uconnect	Available on Fiat Group's models, including Fiat, Maserati, Ferrari, Alfa Romeo, and Lancia. Provides features of entertainment, phone, navigation, voice command and wifi connection.
Ford	Sync	Started service in 2007 on high-end Ford models. Now available on lower-priced models. Provides a series of features and services for safety, navigation, entertainment, phone, voice command and wifi connection.
GM	OnStar	Started service in 1995. GM offers OnStar on all models including low-end. Provides services for safety, security, navigation, remote control, and diagnostics.
Honda	HondaLink/AcuraLine	Provides services for navigation, traffic information and travel assistance.
Hyundai	BlueLink	Provides services for safety, diagnostics, remote control, navigation and travel assistance.
Kia	UVO	Provides services for diagnostics, emergency assistance, driving security and navigation.
Mercedes-Benz	mbrace2	Available on high-end models. Provides services for safety and security, diagnostics and remote control, navigation and travel assistance.
Peugeot	Mirror Screen	MirrorLink based solution offers seamless connectivity between a smartphone and the car infotainment system. It allows drivers to access smartphone via the car's navigation screen and dashboard while ensuring safe driving.
Renault	R-Link	Provides connection of vehicle, smartphone and the cloud. Apps download. Available on ZOE, New Clio, Captur and the Scenic range. Will be integrated in all future Renault models.
Toyota	SafetyConnect/Enform	Provides services for safety, security, remote control, navigation, mobile applications access, and travel assistance.
Tesla		Provides navigation, communications, diagnostics, and entertainment.
Volkswagen	Hughes Telematics	Offers Hughes Telematics, a comprehensive suite of features and services for safety, convenience and diagnostics.

资料来源: Company data.

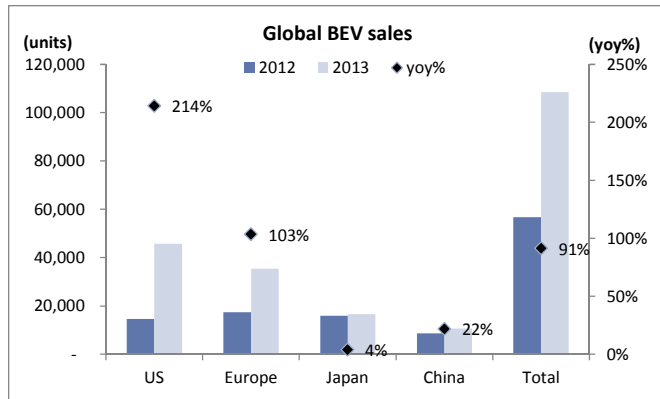
EV/HEV: Going green

With rising fuel prices and stricter emission regulations, alternative-fuel powertrain technology and improvements to the conventional internal combustion engine (ICE) are attracting more attention. Electric vehicles (EVs), hybrid electric vehicles (HEV) and plug-in HEV (PHEV) have grown in popularity (Exhibit 14, 15). Exhibit 16 shows cumulative sales targets for 9 out of the 15 Electric Vehicles Initiative (EVI) members that have official targets.

We have seen most OEMs launch new EV/HEV models continuously and Chinese players either already have EV/HEV planned in coming years or believe that car electrification will be

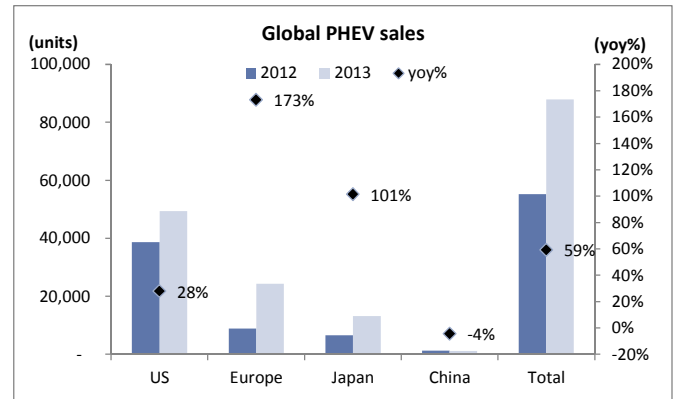
unavoidable in future to meet China's fuel consumption standards. Among the top battery electric vehicles (BEV) OEMs, Nissan's Leaf and Tesla's Model S dominated the market in 2013. We see more models from other OEMs coming onto the market and taking market share (Exhibit 17). Plug-in HEV (PHEV) market has more balanced competition with GM, Toyota, Mitsubishi, Volvo and Ford all with products in place, while Chinese players, such as BYD, are still at their startup stage (Exhibit 18).

Exhibit 14: US and Europe lead in BEV sales
Global BEV sales by country



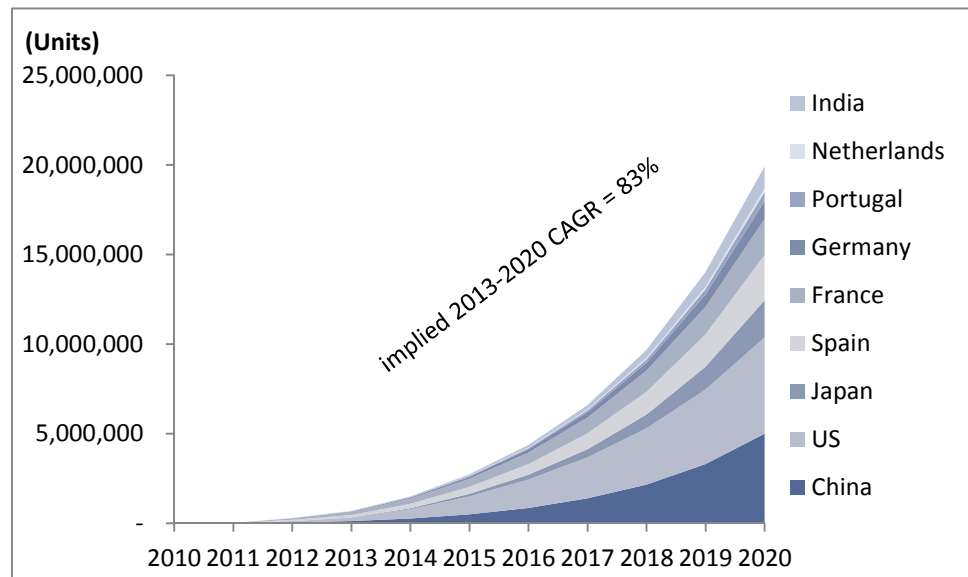
资料来源: EVI, MarkLines Database, Digitimes.

Exhibit 15: Japan leads in PHEV sales
Global PHEV sales by country



资料来源: EVI, MarkLines Database, Digitimes.

Exhibit 16: Plenty of countries have set high long-term targets for EV stock
EV stock target by 2020

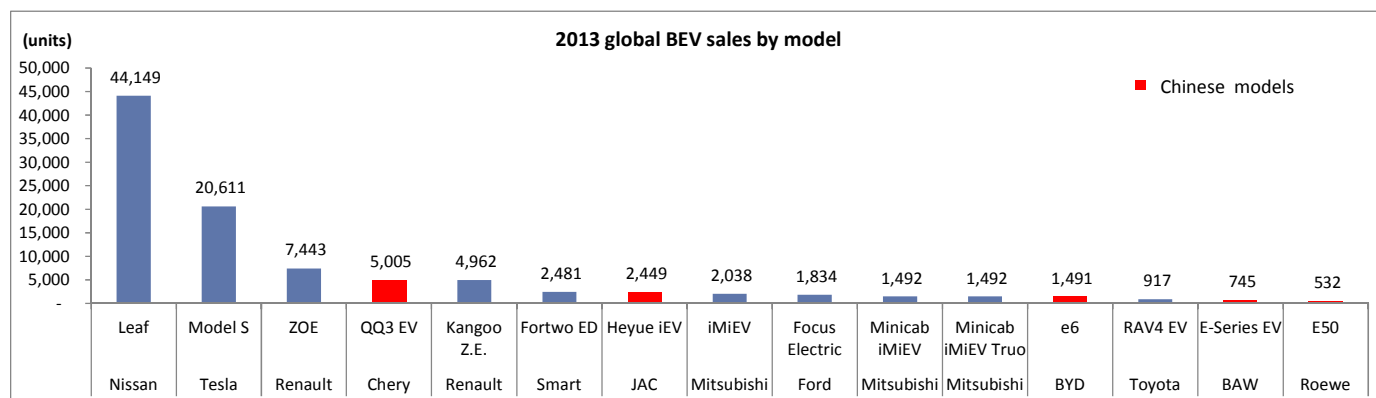


Note: A 20% compound annual growth rate is assumed for countries without a specific sales target (i.e., only a stock target) or with targets that end before 2020.

资料来源: Electric Vehicles Initiative, Gao Hua Securities Research.

Exhibit 17: Chinese BEV brand sales are relative small compared to global models

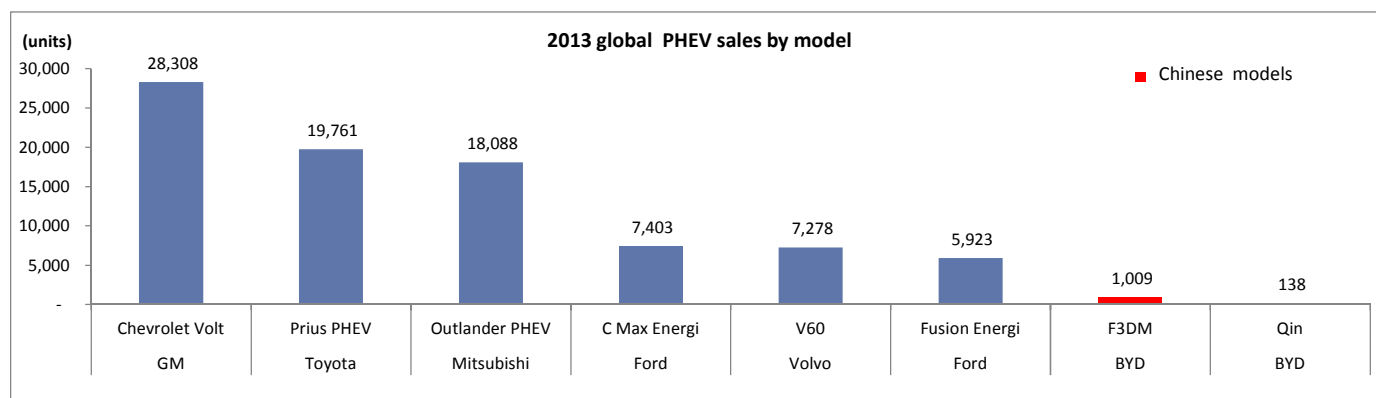
2013 global BEV sales by model



资料来源: Digitimes.

Exhibit 18: ... the same in PHEV

2013 global PHEV sales by model



资料来源: Digitimes.

China firms catch up in infotainment; still lag in ADAS and EV/HEV

As we discuss above, the promising future of ADAS, infotainment and EV/HEV markets have drawn much attention from the industry globally. Auto suppliers, OEMs and even non-traditional auto companies, like Google, Apple, Tencent, Baidu, etc., are crowding into the market globally. If we focus on Chinese companies' involvement, we see Chinese players are catching up in infotainment, but still lagging in ADAS and EV/HEV. We believe this is mainly due to three reasons.

Higher entry barriers for ADAS and EV/HEV

We believe there are higher entry barriers for ADAS and EV/HEV on technology, safety concerns, functionality, regulation and cost. We analyze the three sub-segments using six criteria from technology to cost (Exhibit 19).

(1) Technology maturity. As shown in Exhibit 10, we believe infotainment/telematics technology is more mature than ADAS and EV/HEV. Almost all functionalities of infotainment/telematics have either already existed for a relatively longer time (such as GPS) or are available in other areas (for example; information, entertainment and communication are already applied in smartphones). They are more like the application of existing technologies in a new area. On the other hand, the technologies applied in ADAS and EV/HEV are newly developed and at an earlier stage of their evolution. As Chinese producers are less competitive in R&D with less innovation experience historically, we believe they will lag in new technology development and application.

(2) Technology intensity. We believe ADAS and EV/HEV involve more cross-sector collaboration, which make them more complex for Chinese producers to develop and follow, while infotainment focuses on telematics (wireless telecommunication). As we discuss above, ADAS can be based on various technologies: sensor technology, optical technology, radar, LIDAR, telematics and computing technology. EV/HEV involves mechanics, electrochemistry, electronics, etc.

(3) Safety concern. Infotainment is less safety related. And while ADAS and EV/HEV play important roles in driving safety and due to the current low technology maturity of these two fields, we believe consumers and auto OEMs are more cautious during their purchase/procurement, leaving little room for small or new companies in the market.

(4) Regulatory dependence. We think adoption of EV/HEV is most dependent on regulation requirements as current technology cannot make EV/HEV as competitive as traditional vehicles on driving experience, and sales are mainly motivated by government subsidies, followed by ADAS and then infotainment/telematics.

(5) Driver comfort. Both infotainment and ADAS can improve drivers' comfort by providing more entertainment and information in the vehicle, and making driving easier in certain circumstances. However, EV/HEV focuses less on driver comfort at this early stage, as current technology still has a long way to go on battery life, durability and powertrain adjustment from ICE (internal combustion engine) to an electric motor. To some extent, it requires to compromise comfort for energy saving.

(6) Cost. According to our channel checks with some electric drive producers and battery management producers in China, electric drive motors for passenger cars are normally priced at Rmb10,000-30,000 per unit (suppliers' delivery price), and active balancing battery management system (BMS) are normally priced at Rmb20,000-30,000 per unit. For ADAS, technology development has lowered its cost. For example, Mobileye (MBLY, covered by Alexander Duval) sells its Mobileye-560 at \$849, with features of forward collision warning, pedestrian collision warning, lane departure warning, speed limit indication, headway monitoring and warning, and intelligent beam control. In contrast, infotainment/telematics systems are priced at a lower price at around Rmb1,000-3,000.

Taking the six criteria into account, we believe infotainment/telematics has the lowest entry barrier for technology adoption and will be the easiest route for Chinese producers to enter the industry.

Exhibit 19: Infotainment has the lowest entry barriers

Entry barrier analysis for three segments

	Technology maturity		Technology intensity		Safety related		Regulatory dependence		Driver comfort		Cost	
	Low	High	High	Low	High	Low	High	Low	Low	High	High	Low
Infotainment/telematics												
ADAS												
EV/HEV												

Note: Fully shaded bar implies the lowest barriers for adoption.

资料来源: Gao Hua Securities Research.

Players with overseas background to stand out

Although we see great opportunity for Chinese player in auto electronics industry, especially in ADAS, infotainment and EV/HEV, we believe the high entry barriers for these markets will leave limited access for a few Chinese players who have strong R&D capability, advanced technology, industry-leading cost control and great operation execution.

We have analyzed the technology capabilities of the major auto electronics players in the industry in China and found that very few Chinese producers have the core technology in these three areas. Those who do currently have solid R&D and strong product pipelines have normally developed their auto electronics business in two ways:

- 1) M&A: Traditional auto parts companies can acquire overseas good-quality auto electronics companies to obtain access to high-entry barrier technologies. For example, Joyson Group fully acquired Preh Group, an auto electronics supplier in Germany, in June 2011 and injected it into the listed company in Dec 2012 (we will discuss this later). Ningbo Huaxiang (002048.SZ, Not Covered) also acquired 30% of Helbako GmbH, also an auto electronics supplier in Germany, giving it access to Helbako's advanced technology in auto electronics parts.
- 2) JV: Chinese companies can also found Joint Ventures with global leaders. For example, Datang Telecom established a JV with NXP Semiconductors (NXP, covered by James Covello) for its technology in BMS (battery management system). Dongfeng Electronics (600081.SS, Not Covered) also gained its exposure to Infotainment and body electronics by establishing JV with Visteon Corporation (VC, Not Covered).

Exhibit 20: Some Chinese components/software names are positioned to capture the trend

Chinese companies' exposure to three segments

Company	ADAS	Infotainment	EV/HEV	Chassis	Body	Note
Asia-Pacific Mechanical (002284.SZ)				S		
Datang Telecom (600198.SS)		W	W			Established JV with NXP.
Dongfeng Electronic (600081.SS)		M		W	M	40% stake in JV with Visteon.
Faratronic (600563.SS)			W			
FAWAY Automobile Components (600742.SS)					W	
Jianghai Capacitor (002484.SZ)			W			
Joyson (600699.SS)		M	W		S	Acquired Preh Group.
Ningbo Huaxiang (002048.SZ)		W			M	Acquired 30% of Helbako GmbH.
Ningbo Yunsheng (600366.SS)			W			
Sunny (2382.HK)	W				W	
Truly (0732.HK)		W				
Yunyi Electric (300304.SZ)					M	
Zhongda New Material (600074.SS)	W					
Software						
Hoperun Software (300339.SZ)		W				
Navinfo (002405.SZ)		S				
Neusoft (600718.SS)	W	W				Cooperates with Freescale.
Qiming Information (002232.SZ)		W	W		W	
Tianze Information (300209.SZ)		W				
Xingyu Automotive Lighting (601799.SS)					W	

*Refers to amount of exposure or level of dominance in those segments: W= weak (<10%), M= median (10%~20%), S= strong (>20%).

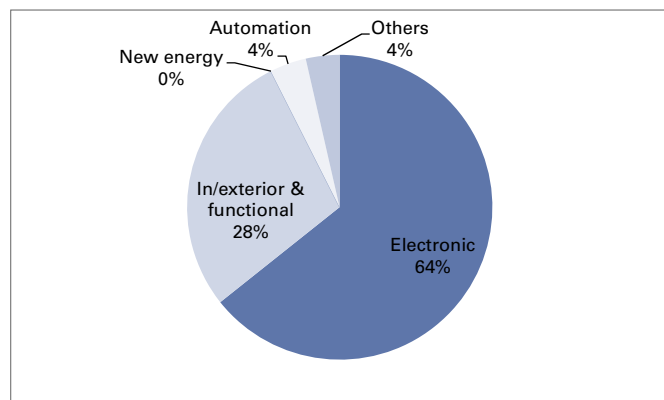
资料来源: Company data, Gao Hua Securities Research.

Joyson offers a blueprint for transformation

We believe Joyson offers a blueprint for how China auto electronic parts companies can transform from traditional auto parts supplier to a high value-adding and strong-technology auto electronics supplier. Joyson now has a large exposure to auto electronics (64%) and automation (4%) in terms of sales after its acquisition of Preh Group in 2011. Preh Group is a Germany based auto electronics supplier to top global auto OEMs and automation system providers. Particularly, Joyson gained access to high-growth HMI (human-machine interaction) and EV BMS markets through the acquisition, which is very rare opportunity for Chinese players.

Exhibit 21: Joyson has a large exposure to auto elec and automation

Joyson's revenue breakdown by segment, 2013



资料来源: Company data.

Exhibit 22: ... with access to high-growth HMI and EV markets

BMS and HMI clients

Product	OEM	Model	Note
BMS	BMW	i3, i8	Including CSC and BMU
HMI	BMW	iDrive	
	Porsche		
	Audi	MMI (A4, A8)	

Note: CSC: cell supervisory circuit; BMU: battery management unit.

资料来源: Company data.

Exhibit 23: Joyson has a broad product mix

Key products summary

Electronics		Automation	New energy powertrain system	Interior, exterior & functional	
Climate control 	Electronics control units (excluding BMS) 	PIA one-piece flow assembly line 	Intake system 	Windscreen washer system 	External door handle 
Driver controls - Central control system 	Sensor systems 			Vehicle air management system 	Fuel tank door 
- Center stacks 			BMS 	Mirror system 	
- Multifunction switches 				Front grille 	

资料来源: Company data.

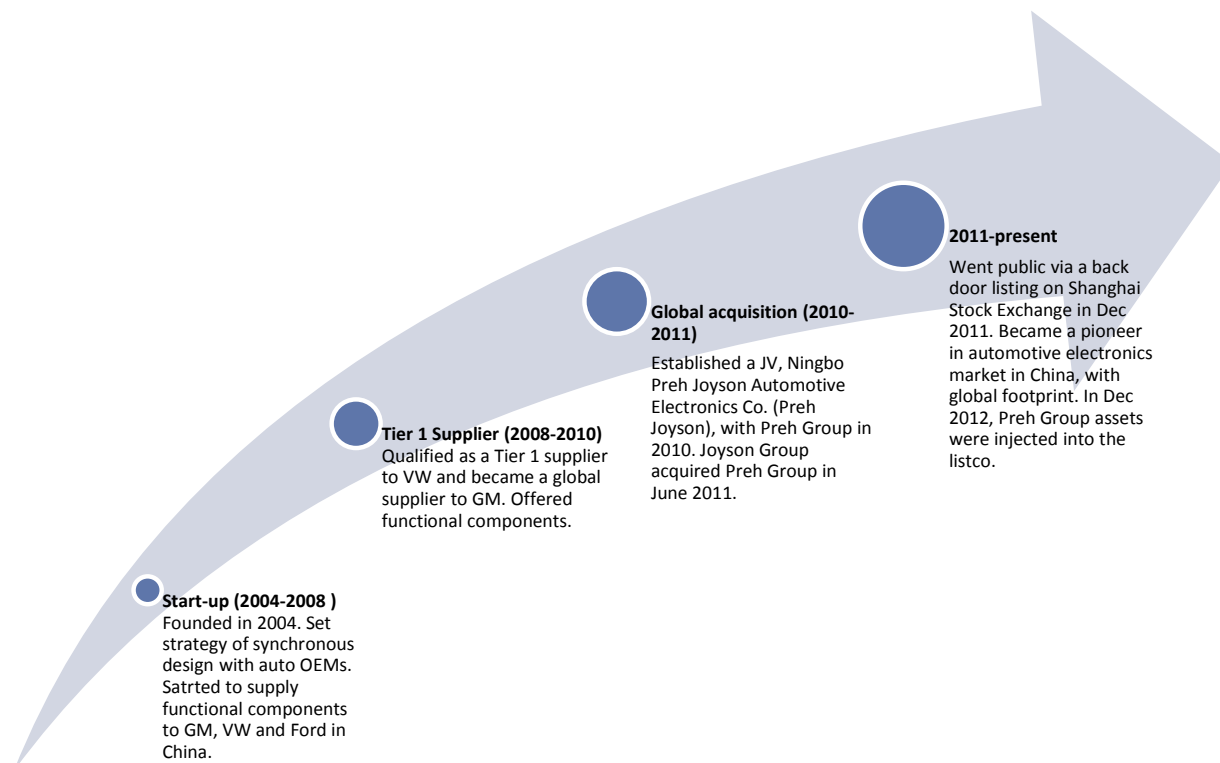
Global acquisitions paved the way to auto electronics business

Before the acquisition of Germany's Preh Group in 2011, Joyson used to be a traditional auto parts supplier producing interior and exterior decoration and functional parts. The company initiated its acquisition strategy in 2009 and completed its first domestic acquisition of Shanghai Huade. Joyson Group, completed its first overseas acquisition, of Preh Group in 2011 and injected the asset into the listco in Dec 2012.

Earlier this year, Joyson acquired another German company, IMA Automation Amberg GmbH, which focuses on automation research and development, production for the top multinationals in auto, electronics, healthcare and consumers (Exhibit 24, 25).

Exhibit 24: The acquisition of Preh Group helped Joyson gain access to the auto electronics business

Joyson's milestones



资料来源: Company data, Gao Hua Securities Research.

Exhibit 25: Summary of Joyson's recent M&A deals

Time	Target company	Total value (EUR mn)	12-m trailing P/E - target	12-m trailing P/E - Joyson	Main business
2012-12-26	Preh Holding and Preh GmbH	243	16.0X	20.2X	Auto electronics and automation production. Key clients are top global auto OEMs.
2014-6-19	IMA Automation	14	10.7X	54.8X	Automation R&D, production for top MNCs in auto, electronics, healthcare and consumers.
2014-12-16	Quin GmbH (in process)	91	17.7X	53.2X	High-end steering column control system and interior supplier for high-end German cars (eg. Benz, BMW, and Audi).

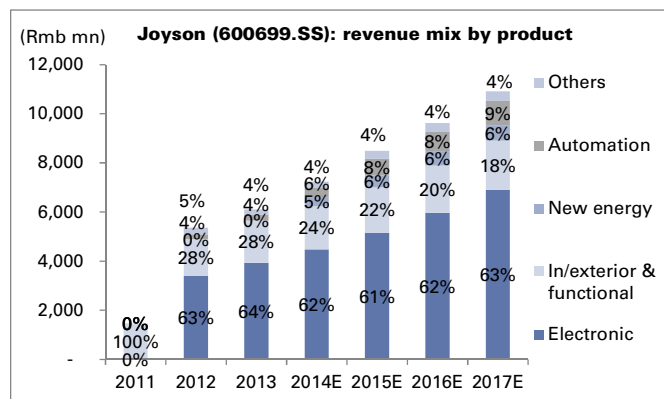
资料来源: Company data, Gao Hua Securities Research.

After the two global acquisitions, Joyson gained a large exposure to pure auto electronics and automation. Its auto electronics segment contributed Rmb3,388mn in 2012, accounting for 63% of its total revenue. Its automation segment contributed Rmb188mn in 2012, accounting for 4% of total revenue and we expect it to grow 70%/70%/20%/20% in 2014E-17E post the IMA acquisition (Exhibit 26).

On the other hand, global acquisition also helped it expand its exposure to overseas market. Its overseas revenue grew to 76% of total revenue in 2012 from 22% in 2011 (Exhibit 27).

Exhibit 26: Joyson gained a large exposure to pure automotive electronics and automation after the acquisition of Preh Global in 2011

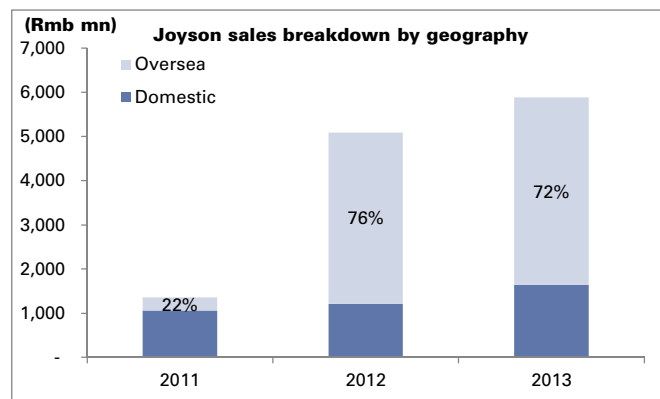
Joyson's revenue mix by product



资料来源: Company data, Gao Hua Securities Research.

Exhibit 27: Joyson's exposure to overseas market expanded significantly post Preh consolidation in 2012

Joyson's revenue breakdown by geography



资料来源: Company data.

We believe there are several key factors for Joyson to become the leader in global acquisitions among China auto parts peers.

- Clear strategy:** Joyson has a very clear strategy to go out and buy good assets at an early stage. It had kept in touch with Preh Group for 10 years before they reached their acquisition agreement. Joyson has a good track record of formulating and pursuing a clear and effective strategy. For example, it was early to adopt synchronous design to keep in step with its customers since its foundation in 2004, focusing on global OEMs rather than Chinese OEMs since 2008, and has been active in acquiring new technologies via acquisitions since 2009.
- Global vision:** Compared to its domestic peers, Joyson's global vision helps it find good targets earlier than others. Joyson has good relationships with global players, thanks to its global vision, and its focus on quality and responsiveness to customer needs. This facilitated efficient communication and understanding between Joyson and Preh, smoothing the way for their long-term partnership.
- Strong execution and experienced management team:** Joyson has an experienced management team with strong execution. Jianfeng Wang, Chairman and General Manager, was formerly General Manager of TRW (Ningbo) Electronic Components & Fasteners Co., Ltd.

The stock resumed trading on Dec. 16, 2014, after being in trading suspension since Nov 13, 2014 due to a potential M&A plan. On Dec. 16, 2014, Joyson announced its private placement plan of 53mn ordinary shares to fund about Rmb1128mn for: (1) the agreed, but not finalised acquisition of Quin GmbH, a Germany headquartered interior and steering column control system supplier for high-end German cars (e.g., Benz, BMW, and Audi); (2) automation business expansion in China; (3) working capital. The transaction is still pending shareholder and regulatory (CSRC, Federal Cartel Office (Germany), Federal Ministry for Economic Affairs and Energy (Germany)) approvals and we have not factored it into our estimates (Exhibit 28). The new share issuance is equivalent to 8% of Joyson's current shares.

Our analysis, based on announced historical data and guidance, guidance shows 20% earnings accretion for 9M2014 if the deal is completed. Quin's revenue of Rmb778mn in

9M2014 is equivalent to 15% of Joyson's over the same period, while Quin's net income accounts for 30% of Joyson's, indicating higher margins for Quin.

Joyson is also planning to **add 60-65 production lines** for its automation business in China. If we assume construction starts at the beginning of 2015, capacity would ramp up in the middle of 2016 based on company guidance of a construction period of 18 months. According to company guidance, the new lines will contribute Rmb80mn/230mn revenue in 2016E/17E, 1%/2% of our revenue estimates for in 2016/2017, and Rmb13mn/37mn net income, 2%/5% of our Joyson's net income estimates. We have not factored these new lines into our estimates.

In addition to direct earning accretion, we see strategic merit in the acquisition as: (1) Quin would complement Joyson's existing business and also bring franchise synergy to benefit Joyson's current product line; (2) the domestic automation business expansion can leverage technology and client franchise from overseas subsidiaries.

Exhibit 28: Summary for recently announced private placement plan

(Rmb mn)						Assuming construction starting in the beginning of 2015				
	Shares (mn)	Quin	2012	2013	9M2014	Automation expansion	2015E	2016E	2017E	2018E
Private placement	53	Revenue	762	815	778	Revenue		80	230	300
% of Joyson	8%	Joyson, GHe	5,358	6,104	5,132	Joyson, GHe		9,627	10,916	
Joyson, current	636	% of Joyson	14%	13%	15%	% of Joyson		1%	2%	
		Net income	44	39	67	Net income		13	37	48
Capital to raise	11,284	Joyson, GHe	207	289	226	Joyson, GHe		611	752	
		% of Joyson	21%	13%	30%	% of Joyson		2%	5%	

资料来源: Company data, Gao Hua Securities Research.

A perfect match: Global qualification + China manufacture

We believe Joyson's current combination of global qualification and China manufacturing should allow it to optimize Preh's strong technology and Joyson's good cost control.

Global qualification: leveraging Preh's strong technology and overseas franchise

Preh Group's long history back to 1919 (auto electronics business started in 1988) means it has gained trust and built solid relationships with top global OEMs. Exhibit 29 shows Joyson has global qualifications from many top OEMs (BMW, Audi, VW, GM, Ford, Porsche, etc.) for its key products.

It is a supplier of BMS for BMW's Active E and the exclusive BMS supplier for I Series (EV). BMS is the key component for the EV battery system and has high technology entry barriers as high-end EVs have high requirements for battery durability, service life, efficiency, cost and safety. We believe Joyson's strong R&D capability and quality control should allow it to gain more contracts in future.

Joyson's HMI (human-machine interaction) system brings new ideas in driving to make it simpler and safer. Its center console products, like BMW's iDrive and Audi's MMI control system, make the driving control more visible and easier.

We expect Joyson can introduce its products to more global customers and furthermore penetrate these global OEMs' China branches, leveraging Preh's good franchise and client relationship.

Exhibit 29: Joyson has a strong global footprint with global qualifications for its key products

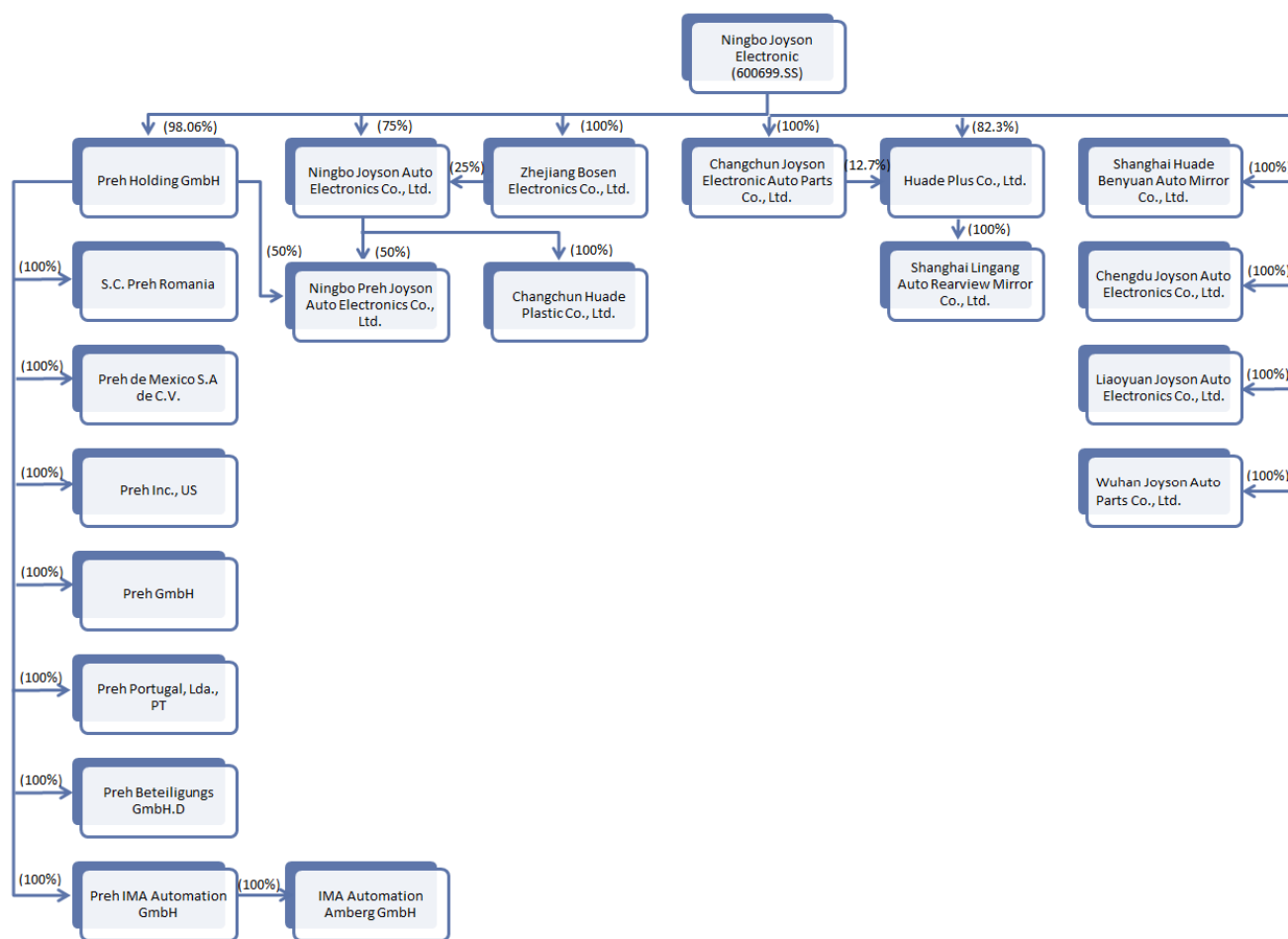
Joyson's product qualifications

Product	2013 sales mix	2014 sales mix	Key clients
Electronic components	64%	66%	Global: BMW, Audi, VW, GM, Ford, Porsche Domestic: domestic OEMs
BMS	0%	not material	Global: BMW i3, i8 model
Interior & exterior components and others	18%	15%	Global: BMW, Audi, VW, GM, Ford, Porsche Domestic: domestic OEMs
Functional components	14%	14%	Global: BMW, Audi, VW, GM, Renault Domestic: VW, BMW
Automation	4%	6%	Global: Siemens, TRW, ZF Friedrichshafen AG, Brose, Ixetic, Takata, SDIMOLAN, LEAR Domestic: subsidiaries of Siemens, TRW, ZF Friedrichshafen AG

资料来源: Company data, Gao Hua Securities Research.

Exhibit 30: Joyson has strong footprint both domestically and overseas

Corporate structure as of 1H2014



资料来源: Company data.

China manufacturing operations: higher profitability on low cost in China

Since the acquisitions and restructuring Joyson has built strong presence both domestically and overseas. It has production plants and branches in Germany, Romania, Mexico, the US, Portugal and China (Ningbo, Shanghai, Changchun, Chengdu, Liaoyuan and Wuhan) (Exhibit 30). Joyson established new subsidiaries, Ningbo Preh Joyson Auto Electronics Co., Ltd. and Ningbo Joyson Preh Automation Co., Ltd. These subs are leveraging the auto electronics and automation technologies of Preh and IMA and target to serve domestic customers as well as multinationals' China branches.

Joyson enjoys lower cost than most global peers due to its production in China.

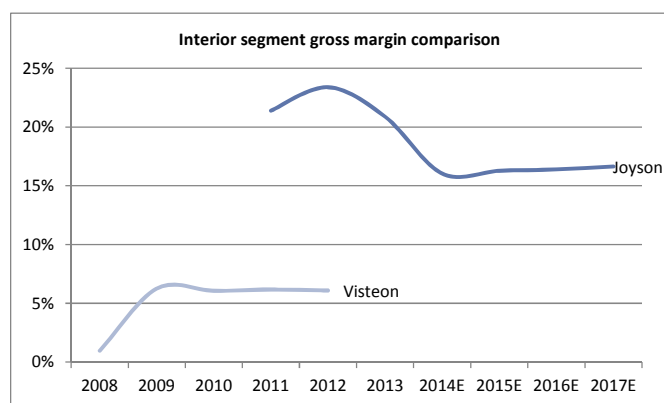
Comparing profitability of the key producers in auto electronics area, we have found Joyson enjoys much higher margin for its traditional exterior/interior segments than global peers (Exhibit 31, 32). We also find that Joyson has a higher gross margin from an overall perspective (Exhibit 33).

We believe the gross margin for auto electronics will improve as more manufacturing of high-margin auto electronics and automation will take place in China (at lower cost). We believe the domestic GM decline in 1H2014 is mainly due to fiercer competition in domestic interior/exterior market. Joyson has already acknowledged this and shifted its business focus to auto electronics spaces that have higher entry barrier. Hence, we expect Joyson to have a cost advantage over global peers from its China manufacturing base and the overall gross margin to recover to pre-acquisition level on the back of good global synergies.

Joyson also has a much lower R&D ratio than global peers (Exhibit 34) due to its lower labor cost. We believe it can maintain a rather low R&D ratio level as it has obtained some key technologies through M&A, although we believe R&D ratio will increase as it invests more in high-end products.

Exhibit 31: Joyson has higher GM than Visteon in interior segment

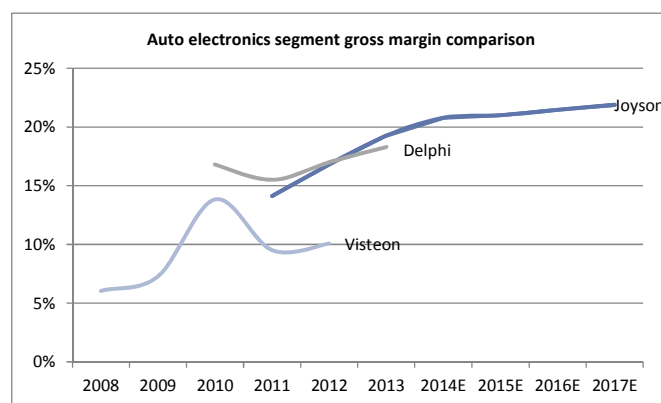
Interior segment gross margin comparison



资料来源: Company data, Gao Hua Securities Research.

Exhibit 32: ... also has higher GM in auto electronics

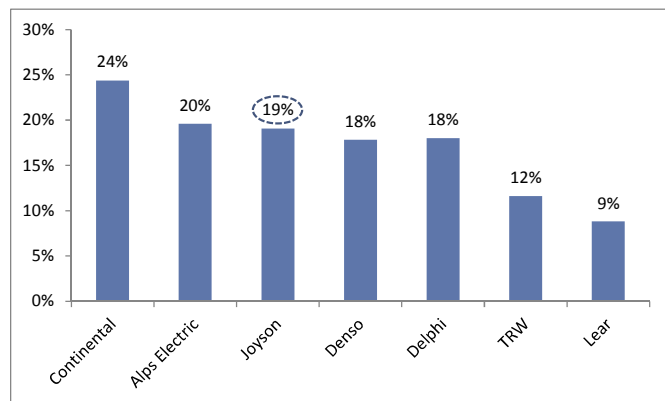
Auto electronics segment gross margin comparison



资料来源: Company data, Gao Hua Securities Research.

Exhibit 33: Joyson has higher gross margin than most global peers

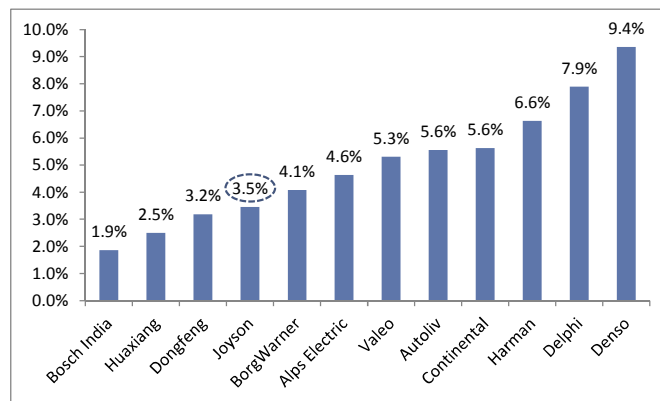
Gross margin comparison, 2014E



资料来源: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 34: Joyson has lower R&D expenses than global peers

R&D ratio comparison, 2013



资料来源: Company data.

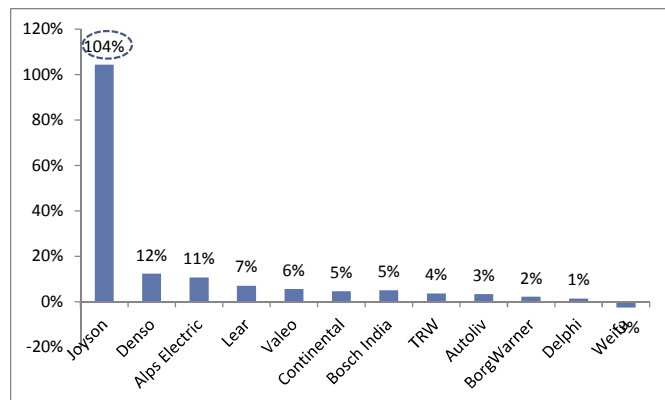
Global positioning: strongest growth, cost leader

Joyson has the highest revenue growth in 2009-2013 among global auto parts peers. With its global qualifications, we expect Joyson’s revenue to grow solidly at 16% 2013-2016E CAGR, higher than most global peers (Exhibit 35, 36).

On the other hand, we expect the gross margins will increase gradually as acquisition synergies kick in and its China JVs attract more orders. We expect net income to grow at 28% 2013-2016E CAGR, also higher than most global peers (Exhibit 37).

Exhibit 35: Joyson has the highest revenue growth in 2009-2013...

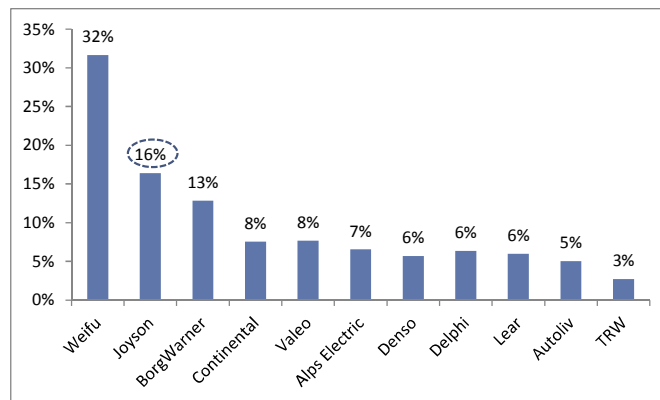
2009-2013 revenue CAGR



资料来源: Company data.

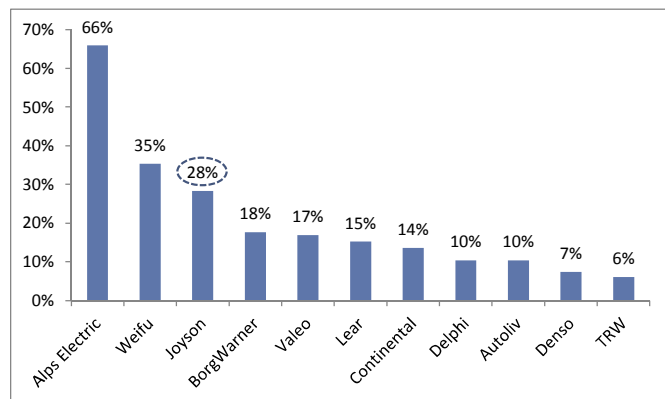
Exhibit 36: ... and we expect the trend to continue

2013-2016E revenue CAGR



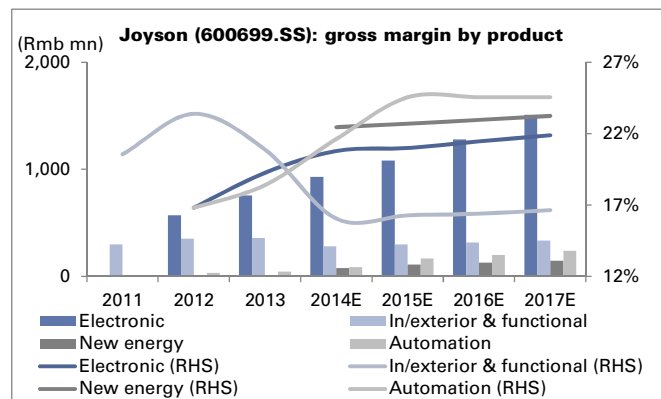
资料来源: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 37: Joyson also has higher net income growth than most global peers
2013-2016E net income CAGR



资料来源: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

Exhibit 38: We expect margin improvements for all products
Joyson's gross margins by product



资料来源: Company data, Gao Hua Securities Research.

Financials: secular growth and improving margins

We forecast Joyson's revenue and net income to grow at a CAGR of 15%/28%, respectively, in 2014E-17E, based on the following key assumptions:

- Secular revenue growth** from synergies from global qualifications and its China manufacturing base. We expect increasing orders for JVs in China with Preh's strong global franchise and advanced technologies, especially for auto electronics (16% 2014E-17E CAGR), new energy powertrain system (BMS and turbocharger) (23% 2014E-17E CAGR), and automation (35% 2014E-17E CAGR);
- Improving margins** on better cost control and lower labor cost in China. We expect gross margins to improve by 1.1pp/0.6pp/0.8pp/2.9pp for auto electronics, in/exterior & functional, new energy powertrain system, and automation respectively over 2014E to 2017E. We expect limited gross margin improvement for interior/exterior due to fiercer competition in China and expect it to remain below 17% throughout 2017E;
- We expect **increasing R&D expenses** as the company expands into more tech-focused auto electronics and automation, yet post a decreasing overall SG&A ratio, thanks to improving operating leverage;
- We expect **free cash flow to grow** in 2015E-17E after working capital expansion and capex addition in 2014E. We think this is positive for the company's future strategy execution of more M&A once suitable targets are identified (Exhibit 42).

Our revenue estimates are 1%/3%/4% below Wind consensus for 2014E-16E respectively and net profit estimates are 8%/5%/12% below Wind consensus on more conservative gross margin and SG&A ratio assumptions.

Exhibit 39: We expect revenue and net income to grow at a CAGR of 15%/28%, respectively, in 2014E-17E

Joyson income statement

P&L summary (Rmb mn)	2011	2012	2013	2014E	2015E	2016E	2017E	9M13	9M14
Revenue	1,462	5,358	6,104	7,240	8,483	9,627	10,916	4,369	5,132
% change yoy		266%	14%	19%	17%	13%	13%		17%
Cost of goods sold	(1,162)	(4,411)	(4,939)	(5,858)	(6,815)	(7,694)	(8,675)	(3,539)	(4,175)
Gross profit	300	947	1,165	1,383	1,668	1,933	2,241	831	957
Gross margin	21%	18%	19%	19%	20%	20%	21%	19%	19%
Other income	-	-	-	-	-	-	-	-	-
Operating expenses	(73)	(581)	(700)	(851)	(985)	(1,102)	(1,224)	(508)	(621)
R&D as % of revenue	0%	2%	3%	4%	4%	4%	4%		
SG&A as % of revenue	5%	11%	11%	12%	12%	11%	11%	12%	12%
Operating profit	227	366	465	532	683	831	1,017	322	336
Operating profit margin	16%	7%	8%	7%	8%	9%	9%	7%	7%
Non-operating income/(expense)	(13)	(54)	(80)	(41)	(18)	(16)	(13)	(58)	(25)
Income before tax	214	312	386	491	665	815	1,004	264	312
Income tax and MI	(62)	(105)	(97)	(130)	(167)	(205)	(252)	(76)	(85)
Effective tax rate	17%	20%	22%	26%	25%	25%	25%	25%	27%
Net income	152	207	289	360	498	611	752	188	226
% change yoy		36%	40%	25%	38%	23%	23%		20%
Net profit margin	10%	4%	5%	5%	6%	6%	7%	4%	4%

资料来源: Company data, Gao Hua Securities Research.

Exhibit 40: Segments summary (Rmb mn)

	2011	2012	2013	2014E	2015E	2016E	2017E
Revenue	1,462	5,358	6,104	7,240	8,483	9,627	10,916
Electronic	-	3,388	3,925	4,475	5,154	5,956	6,896
In/exterior & functional	1,462	1,514	1,724	1,758	1,846	1,929	2,006
New energy	-	-	-	343	486	561	634
Automation	-	188	236	401	681	818	981
Others	-	268	219	263	315	363	399
Breakdown %							
Electronic	0%	63%	64%	62%	61%	62%	63%
In/exterior & functional	100%	28%	28%	24%	22%	20%	18%
New energy	0%	0%	0%	5%	6%	6%	6%
Automation	0%	4%	4%	6%	8%	8%	9%
Others	0%	5%	4%	4%	4%	4%	4%
yoy growth %		266%	14%	19%	17%	13%	13%
Electronic (RHS)			16%	14%	15%	16%	16%
In/exterior & functional (RHS)		4%	14%	2%	5%	4%	4%
New energy (RHS)					42%	15%	13%
Automation (RHS)			25%	70%	70%	20%	20%
Others (RHS)			-18%	20%	20%	15%	10%
Gross margin							
Electronic (RHS)		16.8%	19.3%	20.8%	21.0%	21.5%	21.9%
In/exterior & functional (RHS)	20.5%	23.4%	20.9%	16.0%	16.3%	16.4%	16.6%
New energy (RHS)				22.5%	22.7%	23.0%	23.2%
Automation (RHS)		16.8%	18.4%	21.6%	24.5%	24.5%	24.5%
Others (RHS)		-3.0%	2.6%	2.5%	2.5%	2.5%	2.5%
Gross profit							
Electronic	-	569	756	930	1,082	1,278	1,509
In/exterior & functional	300	354	360	282	300	316	334
New energy	-	-	-	77	110	129	147
Automation	-	32	43	87	167	201	241
Others	-	-8	6	7	8	9	10
Breakdown %							
Electronic	0%	60%	65%	67%	65%	66%	67%
In/exterior & functional	100%	37%	31%	20%	18%	16%	15%
New energy	0%	0%	0%	6%	7%	7%	7%
Automation	0%	3%	4%	6%	10%	10%	11%
Others	0%	-1%	0%	0%	0%	0%	0%

资料来源: Company data, Gao Hua Securities Research.

Exhibit 41: Our net income estimates are lower than Wind consensus on more conservative gross margin and SG&A assumptions

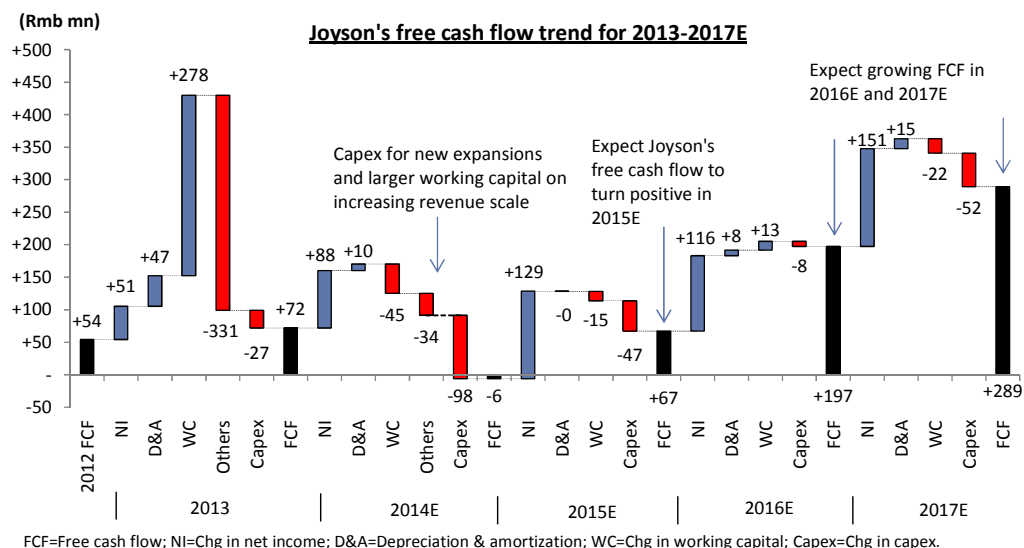
GHe vs. consensus, 2014E-16E (Rmb mn, except per share data)

	GH estimates				Consensus			Variance		
	2014E	2015E	2016E	2017E	2014E	2015E	2016E	2014E	2015E	2016E
Revenue	7,240	8,483	9,627	10,916	7,336	8,719	10,030	(1%)	(3%)	(4%)
EBIT	532	683	831	1,017	601	809	1,062	(12%)	(16%)	(22%)
Net income	360	498	611	752	391	526	693	(8%)	(5%)	(12%)
EPS	0.57	0.78	0.96	1.18	0.61	0.83	1.09	(8%)	(5%)	(12%)

资料来源: Wind, company data, Gao Hua Securities Research.

Exhibit 42: We expect free cash flow to be strong in 2016E

Joyson's cash flow analysis



资料来源: Company data, Gao Hua Securities Research.

Valuation: 12-m P/B vs ROE-based target price of Rmb22.0, Neutral

We derive our 12-month target price based on sector-relative P/B vs. ROE methodology. We place Joyson in our Contenders group due to its high TAM growth, relatively small market share and considerable new market opportunity. For details, see *China Technology: New valuation framework offers better alpha; three rating changes*; Jan. 14, 2015.

Our backtesting of the Contender group shows that P/B vs. ROE generates alpha (94% over 2010-2014) at the same level as a P/E method (98%), and higher than other methods. EV/EBITDA alpha is also high at 81%, but more volatile from year to year, and does not capture any growth differentiation. The other methods are either low in alpha or R-squared. Therefore, we choose P/B vs. ROE for the Contender group, for good alpha and consistency with the Leader group (Exhibit 43).

We value Joyson at 4.4X 2015E P/B against 17.7% 2015E-17E average ROE, based on Contender sector-relative P/B vs. ROE regression line (Exhibit 44). Our 12-month target price of Rmb22.0 implies 3% potential downside. This implies 28.1X 2015E, 22.9X 2016E, and 18.6X 2017E P/E vs. current 29.0X 2015E P/E, and Contender group median of 31.1X 2015E P/E.

The stock is trading at 29X 2015E P/E, while its historical average P/E is 25.3X on 12-month forward P/E since listing and 32.0X on 12-month forward P/E since May 2013, when the auto electronics theme was recognized by the market as Tesla (TSLA, covered by Patrick Archambault) reported its first profit. We note that Joyson's stock performance has become closely correlated (89.6%) to Tesla's since May 2013 as the market paid more attention to Joyson's BMS business, which is used for EV/HEV (Exhibit 50). We rate Joyson as Neutral, given 3% downside potential.

Exhibit 43: P/B vs. ROE generates high alpha for the Contender group

Backtesting alpha table for the Contender group

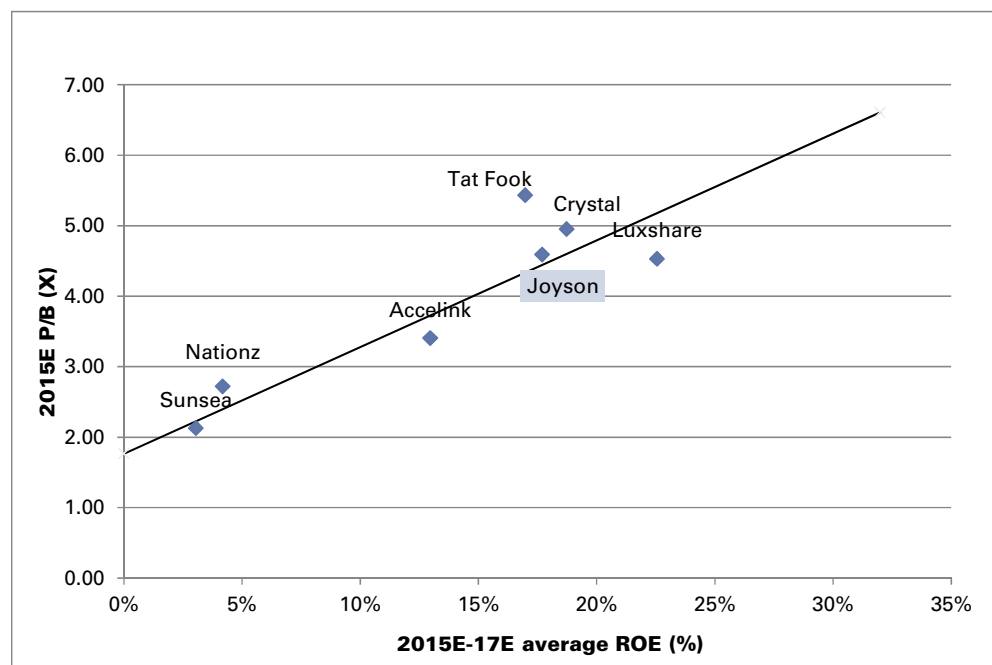
Annual alpha (2010-2014)	P/E	P/E vs. EPS growth	EV/EBITDA	P/B vs. ROE	EV/GCI vs. CROCI/WACC
Long portfolio	54%	36%	53%	51%	26%
Short portfolio	33%	7%	19%	33%	26%
Long + short portfolio	98%	50%	81%	94%	65%
R-squared	52%	44%	61%	45%	23%

Long portfolio alpha	2010	2011	2012	2013	2014
P/E	61%	48%	37%	17%	107%
P/E vs. EPS growth	72%	44%	-26%	1%	87%
EV/EBITDA	53%	37%	11%	1%	165%
P/B vs. ROE	61%	30%	37%	17%	107%
EV/GCI vs. CROCI/WACC	23%	40%	-25%	-7%	100%

资料来源: Gao Hua Securities Research.

Exhibit 44: We rate Joyson Neutral

2015E P/B vs. 2015E-17E average ROE of hardware contender group



Basis for selection of our China technology 'hardware contender' group is: high TAM growth, relatively small market share and considerable new market opportunity. For details see: *China Technology: New valuation framework offers better alpha; three rating changes*; January 14, 2015

资料来源: Company data, Gao Hua Securities Research.

Exhibit 45: Joyson has a sustainable 1-2 Quartile ROE profile in the Contender group

ROE and quartiling for the Contender group, 2008-2017E

ROE		2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	
Accelink	002281.SZ	32%	17%	13%	10%	12%	10%	10%	11%	13%	14%	1st quartile
Nationz	300077.SZ	32%	76%	12%	4%	2%	0%	1%	3%	4%	6%	2nd quartile
Tat Fook	300134.SZ	55%	64%	18%	8%	-9%	3%	24%	16%	17%	18%	3rd quartile
Sunsea	002313.SZ	21%	14%	11%	15%	11%	3%	0%	2%	3%	4%	4th quartile
Crystal	002273.SZ	20%	14%	21%	17%	15%	11%	14%	17%	19%	20%	
Luxshare	002475.SZ	30%	28%	12%	15%	14%	16%	18%	20%	23%	24%	
Joyson	600699.SS	-52%	0%	0%	54%	18%	15%	15%	17%	18%	18%	

资料来源: Company data, Gao Hua Securities Research.

Exhibit 46: Joyson has a sustainable 1-2 Quartile CROCI profile in the Contender group

CROCI and quartiling for the Contender group, 2008-2017E

Adjusted CROCI		2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	
Accelink	002281.SZ	60%	21%	14%	12%	31%	12%	17%	17%	18%	18%	1st quartile
Nationz	300077.SZ	55%	99%	12%	5%	2%	2%	3%	4%	5%	7%	2nd quartile
Tat Fook	300134.SZ	17%	101%	22%	6%	-10%	18%	31%	23%	22%	20%	3rd quartile
Sunsea	002313.SZ	26%	19%	12%	20%	24%	8%	8%	9%	9%	9%	4th quartile
Crystal	002273.SZ	25%	20%	26%	24%	21%	18%	21%	22%	22%	22%	
Luxshare	002475.SZ	30%	38%	13%	42%	16%	21%	21%	22%	24%	24%	
Joyson	600699.SS	6%	1%	0%	102%	51%	24%	21%	20%	19%	19%	

资料来源: Company data, Gao Hua Securities Research.

Exhibit 47: We derive our 12-month target price of Rmb22.0 based on sector-relative P/B vs ROE methodology

Contender group target price derivation

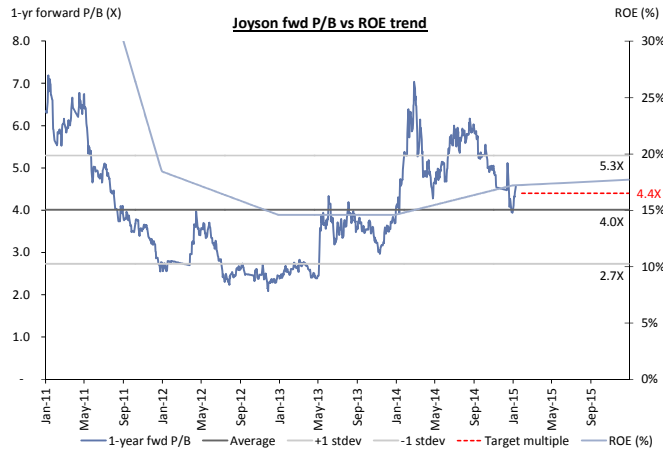
Ticker	Name	New Rating	Old Rating	2015E BVPS	15-17E avg ROE	Target 2015E P/B	Valratio premium/discount	P/B vs ROE TP	New upside/downside
002475.SZ	Luxshare	Buy*	NA	7.04	22.6%	5.18	15%	42.00	32%
002281.SZ	Accelink	Neutral	Neutral	10.60	13.0%	3.73	0%	39.50	9%
002313.SZ	Sunsea	Neutral	Neutral	6.26	3.1%	2.23	-15%	11.90	5%
600699.SS	Joyson	Neutral	NA	4.95	17.7%	4.44	0%	22.00	-3%
002273.SZ	Crystal	Neutral	Neutral	3.75	18.7%	4.60	0%	17.30	-7%
300077.SZ	Nationz	Neutral	Neutral	10.22	4.2%	2.40	0%	24.50	-12%
300134.SZ	Tat Fook	Sell	Sell	7.73	17.0%	4.34	-10%	30.20	-20%

* Denotes stock is on the regional Conviction list.

For more detail on our target price methodology, please see: *China Technology: New valuation framework offers better alpha; three rating changes*; January 15, 2015

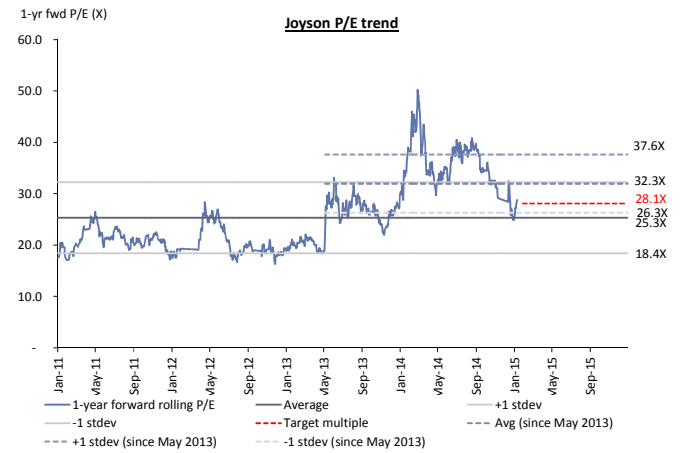
资料来源: Company data, Datastream, Gao Hua Securities Research.

Exhibit 48: Our TP is based on 4.4X 2015E P/B against slightly improving 2015E-17E average ROE
12m forward P/B vs. ROE



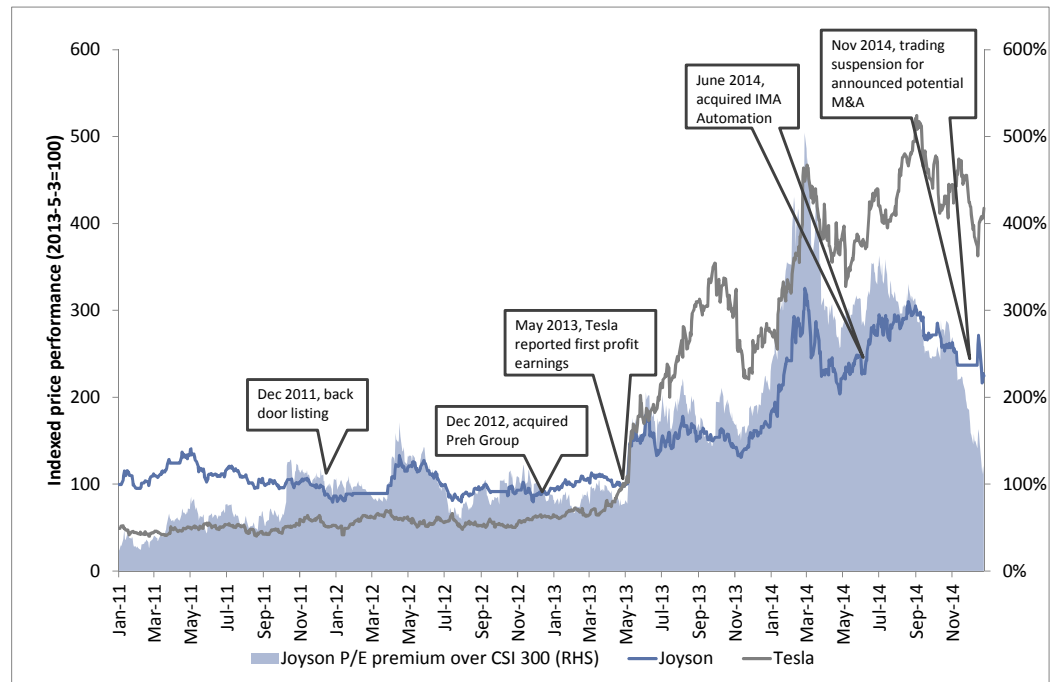
资料来源: Company data, Datastream, Gao Hua Securities Research.

Exhibit 49: Our TP implies 12-m forward P/E of 28.1X, slightly below historical average (since Tesla theme) of 32.3X
12m forward P/E



资料来源: Company data, Datastream, Gao Hua Securities Research.

Exhibit 50: Joyson has traded at a significant premium vs CSI 300 historically and particularly so since Tesla reported first profit earnings in May 2013
Stock price performance



资料来源: Company data, Datastream, Gao Hua Securities Research.

Risks to our view and price target

The key upside risk is any potential M&A deals in the future may raise earnings estimates and even valuation significantly as has occurred with the company before. We have seen more M&A transactions in the industry as Chinese companies are keen to gain advanced technologies by acquiring overseas high-tech auto parts companies. Joyson has done a series of M&A and has succeeded in bedding these down without issues. Management also laid out their strategy of looking out for further M&A opportunity.

Orders from auto OEMs are critical to Joyson's earnings, and any changes to current orders and qualifications will bring Joyson upside or downside risks. Joyson's JVs in China are in talks with domestic potential customers on auto electronics and automation contracts, and Joyson is also in talks with some auto OEMs on new BMS contract. We believe any material updates may leave our estimates exposed to upside or downside risks.

Another key downside risk is slower-than-expected margin improvement. We believe it takes time for global synergies to take place. Our estimates are based on 1.1pp/0.6pp/0.8pp/2.9pp improvements for auto electronics, in/exterior & functional, new energy powertrain system, and automation respectively during 2014E to 2017E. As auto electronics and automation segments are mainly overseas and the domestic JVs are still ramping up, any delays in business expansion in the domestic market will limit margin improvement. As the interior/exterior segment is facing fiercer competition, Joyson also faces downside risk of margin erosion in this space.

Company profile

Ningbo Joyson Electronic, established in 2004, headquartered in Ningbo, Zhejiang, China, went public through a reverse merger on the Shanghai Stock Exchange in Dec 2011. It supplies body electronics parts, interior & exterior components and functional components (like turbochargers) to global auto OEMs such as Audi, VW, GM, etc., and also offers assembly & production automation solutions to other global auto parts producers like TRW, Siemens, etc.. Furthermore, it is the sole battery management system (BMS) supplier for BMW new EV models.

The company acquired Preh Group, a top Germany auto electronic supplier for global OEMs, in June 2011. Through the acquisition, Joyson became a global supplier of auto electronics to global top OEMs. It now has branches in Germany, Portugal, Mexico, Romania, the US and China.

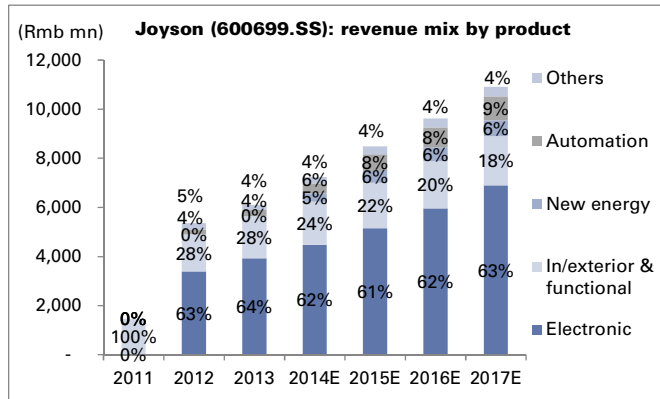
With strong R&D and effective operation execution in auto electronics space, Joyson has sticky relationship with global top OEMs like Audi, VW, GM, etc.. Being the sole BMS supplier to BMW is a good example for its advanced technology in the industry. With the global footprint and strong R&D of Preh Group overseas and the competitive cost structure of its domestic manufacturing operations, Joyson can enjoy a lot of synergy in both overseas and domestic market.

Management aims to strengthen its domestic research capability in more advanced spaces such as EV, and to leverage Preh's technology to improve domestic production lines. Furthermore, management also plans to increase Preh's procurement of electronic components and other raw materials from China to reduce cost and increase merger synergies with Joyson, with the help of Joyson's established presence and industry knowledge in China.

The chairman, Mr. Jianfeng Wang, has 52.5% stake in Ningbo Joyson Investment Group (Joyson Group), which holds 62.92% of Joyson's shares outstanding.

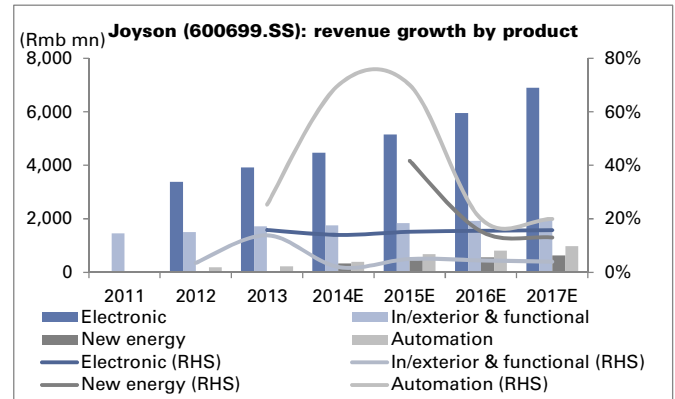
Mr. Wang, was former General Manager of TRW (Ningbo) Electronic Components & Fasteners Co., Ltd.

Exhibit 51: Auto electronics, new energy and automation to expand in next four years
Joyson's revenue mix by product



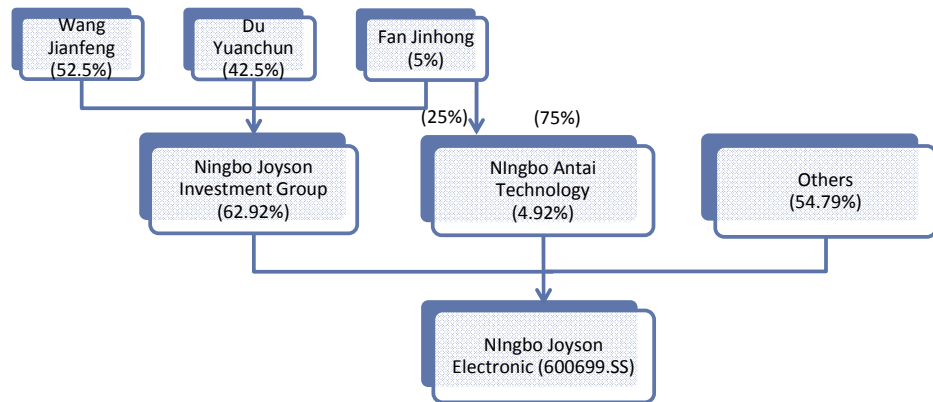
资料来源: Company data, Gao Hua Securities Research.

Exhibit 52: Auto electronics to grow solidly, while automation and new energy jump from a lower base
Joyson's revenue growth by product



资料来源: Company data, Gao Hua Securities Research.

Exhibit 53: Chairman Mr. Jianfeng Wang holds 62.92% of Joyson's shares
Joyson shareholders structure, 3Q2014



资料来源: Company data.

信息披露附录

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每项指标的准确计算方式可能随着财务年度、行业和所属地区的不同而有所变化，但标准方法如下：

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信息披露

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