



# 公司最新消息

## 均胜电子 (600699.SS)

中性

证券研究报告

### 无人驾驶的受益者，可利用交叉销售机会 (摘要)

#### 最新事件

我们看到，中国的汽车零部件供应商均胜电子采取以合理估值收购海外特殊零部件企业并将之扭亏为盈的战略，正在转型成为一家全球性企业。我们预计近期收购的 Key Safety Systems (KSS)和 TechniSat Digital (TS)业务将带动规模扩张和利润率改善，2017-2020 年收入/盈利年均复合增速将达到 19%/40%。均胜电子还有望受益于装备水平升级、无人驾驶和行业整合（尤其是在安全零部件领域）的行业趋势。但鉴于增长潜力相对较高（2017-2020 年预期盈利年均复合增速为 40%而同业为 7%），该股估值已充分，当前股价对应 9.5 倍的 2018 年预期 EV/EBITDA（全球同业均值为 6.7 倍）。因此，我们恢复覆盖均胜电子给予中性评级，12 个月目标价格人民币 31.27 元相对 4 月 10 日收盘价存在 4% 的下行空间。

#### 潜在影响

**1) 规模增长：**我们预计均胜电子现有业务和新收购产品类别之间的交叉销售协同效应将会加大，进而将带动收入快速增长（2017-2020 年预期增速为 19%）。

**2) 利润率扩张：**均胜新收购的安全零部件和车联系统业务在被收购时勉强盈亏平衡。我们认为通过降低杠杆、优化成本、加大研发力度和提高运营效率来实现改善的空间充裕。

#### 估值

为反映均胜电子的中期增长前景，我们基于全球系统集成商 2017 年预期均值，采用 7.0 倍的 2020 年预期 EV/EBITDA 目标，然后将隐含的股本估值以 9% 的股权成本贴现，得出 12 个月目标价格。

#### 主要风险

将被收购业务扭亏为盈的执行状况好于/差于预期；交叉销售的协同效应高于/低于预期；成本优化好于/差于预期；收购活动令价值增厚；竞争加剧。

\* 全文翻译随后提供

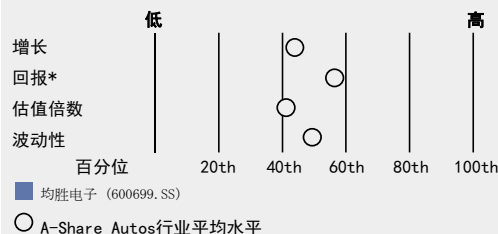
#### 所属投资名单

中性

#### 行业评级：中性

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#### 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。

#### 主要数据

主要数据	当前
股价 (Rmb)	32.72
12个月目标价格 (Rmb)	31.27
市值 (Rmb mn / US\$ mn)	31,060.7 / 4,502.3
外资持股比例 (%)	--

	12/15	12/16E	12/17E	12/18E
每股盈利 (Rmb) 新	0.60	0.88	1.23	1.92
每股盈利调整幅度 (%)	--	--	--	--
每股盈利增长 (%)	10.6	46.0	40.1	55.4
每股摊薄盈利 (Rmb) 新	0.58	0.85	1.23	1.92
市盈率 (X)	52.8	37.1	26.5	17.1
市净率 (X)	5.8	5.2	2.3	2.0
EV/EBITDA (X)	18.3	16.5	11.9	9.4
股息收益率 (%)	0.0	0.0	0.0	0.0
净资产回报率 (%)	12.9	14.3	12.9	12.4
CROCI (%)	16.5	18.0	10.5	11.5

#### 股价走势图



股价表现 (%)	3个月	6个月	12个月
绝对	(1.2)	(6.1)	(11.4)
相对于沪深300指数	(5.3)	(11.7)	(19.5)

资料来源：公司数据、高盛研究预测、FactSet（股价为4/10/2017收盘价）

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## 均胜电子：财务数据概要

损益表(Rmb mn)	12/15	12/16E	12/17E	12/18E	资产负债表(Rmb mn)	12/15	12/16E	12/17E	12/18E
主营业务收入	8,082.5	18,189.2	29,980.7	35,351.5	现金及等价物	3,424.6	975.5	1,125.9	1,182.5
主营业务成本	(6,332.9)	(14,446.1)	(23,876.1)	(27,983.1)	应收账款	1,416.5	4,983.3	6,571.1	7,748.3
销售、一般及管理费用	(794.2)	(2,637.7)	(4,077.9)	(4,631.6)	存货	1,167.4	2,663.0	4,401.3	5,158.4
研发费用	(377.9)	--	--	--	其它流动资产	976.7	976.7	976.7	976.7
其它营业收入/(支出)	0.0	0.0	0.0	0.0	<b>流动资产</b>	<b>6,985.2</b>	<b>9,598.6</b>	<b>13,075.1</b>	<b>15,065.9</b>
<b>EBITDA</b>	<b>1,113.3</b>	<b>2,208.5</b>	<b>3,259.4</b>	<b>4,110.3</b>	固定资产净额	2,921.3	7,386.6	8,526.1	9,697.0
折旧及摊销	(535.7)	(1,103.2)	(1,232.7)	(1,373.6)	无形资产净额	1,270.9	10,847.5	10,424.0	10,000.6
<b>EBIT</b>	<b>577.6</b>	<b>1,105.3</b>	<b>2,026.8</b>	<b>2,736.7</b>	长期投资	90.6	170.6	170.6	170.6
利息收入	6.5	6.5	6.5	6.5	其它长期资产	141.4	141.4	141.4	141.4
财务费用	(121.5)	(410.3)	(547.5)	(392.3)	<b>资产合计</b>	<b>11,409.4</b>	<b>28,144.7</b>	<b>32,337.2</b>	<b>35,075.6</b>
联营公司	0.0	0.0	0.0	0.0	应付账款	1,327.9	3,562.1	5,233.1	6,133.3
其它	96.5	100.0	100.0	100.0	短期贷款	1,899.6	5,399.6	2,899.6	2,899.6
<b>税前利润</b>	<b>558.9</b>	<b>801.5</b>	<b>1,585.7</b>	<b>2,450.9</b>	其它流动负债	2,346.3	2,346.3	2,346.3	2,346.3
所得税	(141.8)	(200.4)	(396.4)	(612.7)	<b>流动负债</b>	<b>5,573.8</b>	<b>11,308.0</b>	<b>10,479.1</b>	<b>11,379.2</b>
少数股东损益	(17.3)	(17.3)	(17.3)	(17.3)	长期贷款	573.7	10,073.7	5,673.7	5,673.7
<b>优先股股息前净利润</b>	<b>399.9</b>	<b>583.8</b>	<b>1,172.0</b>	<b>1,820.9</b>	其它长期负债	1,285.4	2,185.4	2,185.4	2,185.4
优先股息	0.0	0.0	0.0	0.0	长期负债	1,859.2	12,259.2	7,859.2	7,859.2
<b>非经常性项目前净利润</b>	<b>399.9</b>	<b>583.8</b>	<b>1,172.0</b>	<b>1,820.9</b>	<b>负债合计</b>	<b>7,433.0</b>	<b>23,567.2</b>	<b>18,338.2</b>	<b>19,238.4</b>
税后非经常性损益	0.0	0.0	0.0	0.0	<b>优先股</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>净利润</b>	<b>399.9</b>	<b>583.8</b>	<b>1,172.0</b>	<b>1,820.9</b>	<b>普通股权益</b>	<b>3,794.2</b>	<b>4,378.1</b>	<b>13,782.2</b>	<b>15,603.1</b>
每股基本盈利(非经常性项目前)(Rmb)	0.60	0.88	1.23	1.92	少数股东权益	182.2	199.5	216.8	234.1
每股基本盈利(非经常性项目后)(Rmb)	0.60	0.88	1.23	1.92	<b>负债及股东权益合计</b>	<b>11,409.4</b>	<b>28,144.7</b>	<b>32,337.2</b>	<b>35,075.6</b>
每股摊薄盈利(非经常性项目后)(Rmb)	0.58	0.85	1.23	1.92	<b>每股净资产(Rmb)</b>	<b>5.50</b>	<b>6.35</b>	<b>14.52</b>	<b>16.44</b>
每股股息(Rmb)	0.00	0.00	0.00	0.00					
股息支付率(%)	0.0	0.0	0.0	0.0					
自由现金流收益率(%)	(1.3)	(7.7)	(3.8)	0.2					
<b>增长率和利润率(%)</b>	<b>12/15</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>比率</b>	<b>12/15</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
主营业务收入增长率	14.2	125.0	64.8	17.9	CROCI (%)	16.5	18.0	10.5	11.5
EBITDA增长率	14.6	98.4	47.6	26.1	净资产回报率(%)	12.9	14.3	12.9	12.4
EBIT增长率	16.1	91.4	83.4	35.0	总资产回报率(%)	4.5	3.0	3.9	5.4
净利润增长率	15.3	46.0	100.7	55.4	平均运用资本回报率(%)	16.3	8.2	7.9	9.5
每股盈利增长	10.6	46.0	40.1	55.4	存货周转天数	58.9	48.4	54.0	62.3
毛利率	21.6	20.6	20.4	20.8	应收账款周转天数	59.4	64.2	70.3	73.9
EBITDA利润率	13.8	12.1	10.9	11.6	应付账款周转天数	74.9	61.8	67.2	74.1
EBIT利润率	7.1	6.1	6.8	7.7	净负债/股东权益(%)	(23.9)	316.7	53.2	46.7
					EBIT利息保障倍数(X)	5.0	2.7	3.7	7.1
<b>现金流量表(Rmb mn)</b>	<b>12/15</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>	<b>估值</b>	<b>12/15</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
优先股股息前净利润	399.9	583.8	1,172.0	1,820.9	基本市盈率(X)	52.8	37.1	26.5	17.1
折旧及摊销	535.7	1,103.2	1,232.7	1,373.6	市净率(X)	5.8	5.2	2.3	2.0
少数股东权益	17.3	17.3	17.3	17.3	EV/EBITDA(X)	18.3	16.5	11.9	9.4
运营资本增减	(432.0)	(2,828.3)	(1,655.0)	(1,034.1)	企业价值/总投资现金(X)	2.9	1.4	1.3	1.2
其它	64.2	900.0	0.0	0.0	股息收益率(%)	0.0	0.0	0.0	0.0
<b>经营活动产生的现金流</b>	<b>585.2</b>	<b>(223.9)</b>	<b>766.9</b>	<b>2,177.7</b>					
资本开支	(852.7)	(1,455.1)	(1,948.7)	(2,121.1)					
收购	0.0	(3,690.0)	0.0	0.0					
剥离	13.8	0.0	0.0	0.0					
其它	(1,007.4)	(10,080.0)	0.0	0.0					
<b>投资活动产生的现金流</b>	<b>(1,846.3)</b>	<b>(15,225.1)</b>	<b>(1,948.7)</b>	<b>(2,121.1)</b>					
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	3,170.7	13,000.0	(6,900.0)	0.0					
普通股发行(回购)	1,147.4	0.0	8,232.2	0.0					
其它	(190.4)	0.0	0.0	0.0					
<b>筹资活动产生的现金流</b>	<b>4,127.7</b>	<b>13,000.0</b>	<b>1,332.2</b>	<b>0.0</b>					
<b>总现金流</b>	<b>2,866.5</b>	<b>(2,449.0)</b>	<b>150.4</b>	<b>56.6</b>					

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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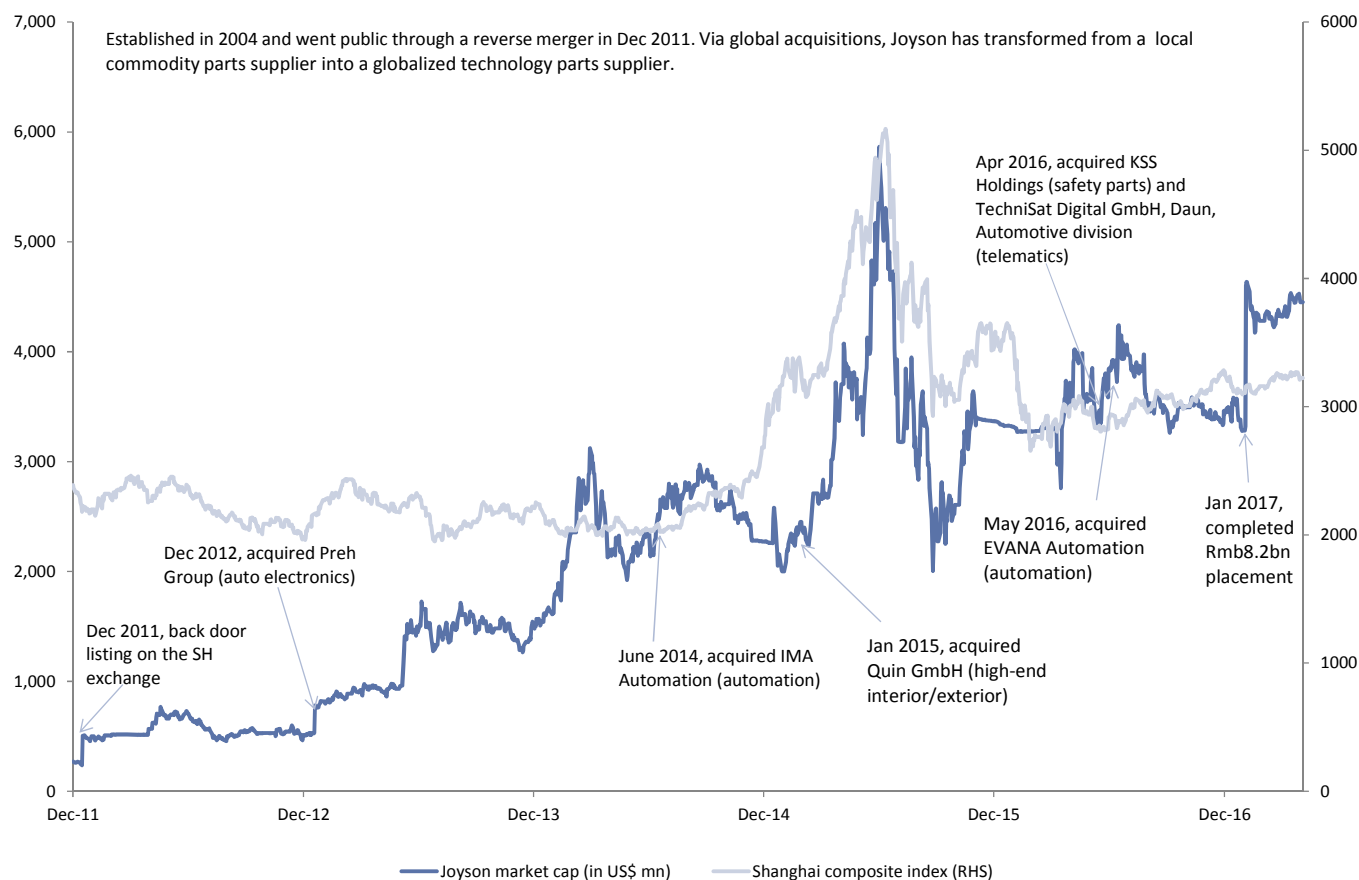
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The prices in this report are as of the market close of April 7, 2017, unless stated otherwise.

Effective immediately, Yuqian Ding has assumed primary coverage of Ningbo Joyson (600699.SS).

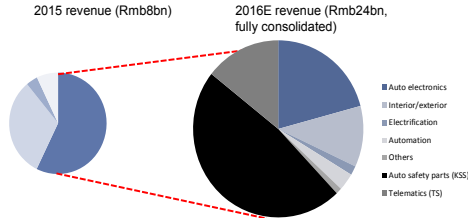
### Exhibit 1: Joyson has made a series of acquisitions over the last few years



Source: Company data, Gao Hua Securities Research.

# Our thesis in five charts

**Exhibit 1: Joyson is transforming into a global aggregator**  
Joyson by division summary (2016E pro forma consolidated base)



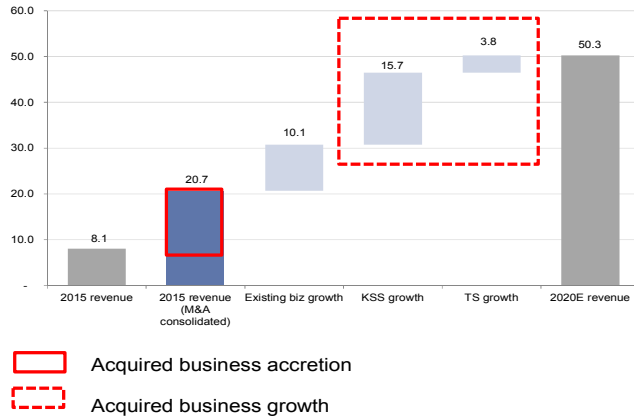
Source: Company data, Gao Hua Securities Research.

**Exhibit 2: Joyson by division mix and 2015-20E CAGR**  
Joyson by division summary (2015 is pro forma base)

Division	Revenue (in Rmb mn)		Revenue mix		CAGR
	2015	2020E	2015	2020E	
Safety parts	9,891	25,550	48%	51%	21%
Auto electronics	4,470	9,967	22%	20%	17%
Connectivity parts	2,708	6,539	13%	13%	19%
Interior/exterior	2,489	3,721	12%	7%	8%
NEV electronics/control	298	2,112	1%	4%	48%
Automation	557	2,067	3%	4%	30%

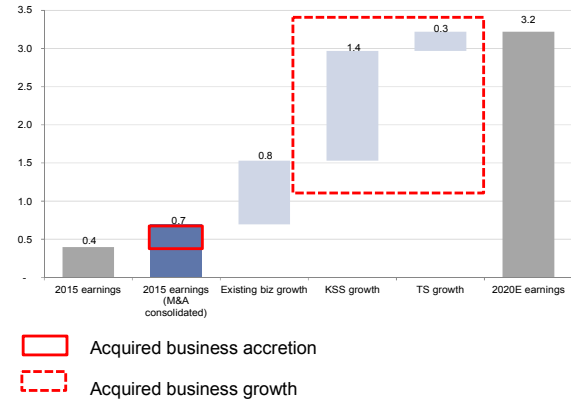
Source: Company data, Gao Hua Securities Research.

**Exhibit 3: We expect revenue CAGR of 19% in 2015-2025E**  
(from pro forma consolidated base)...



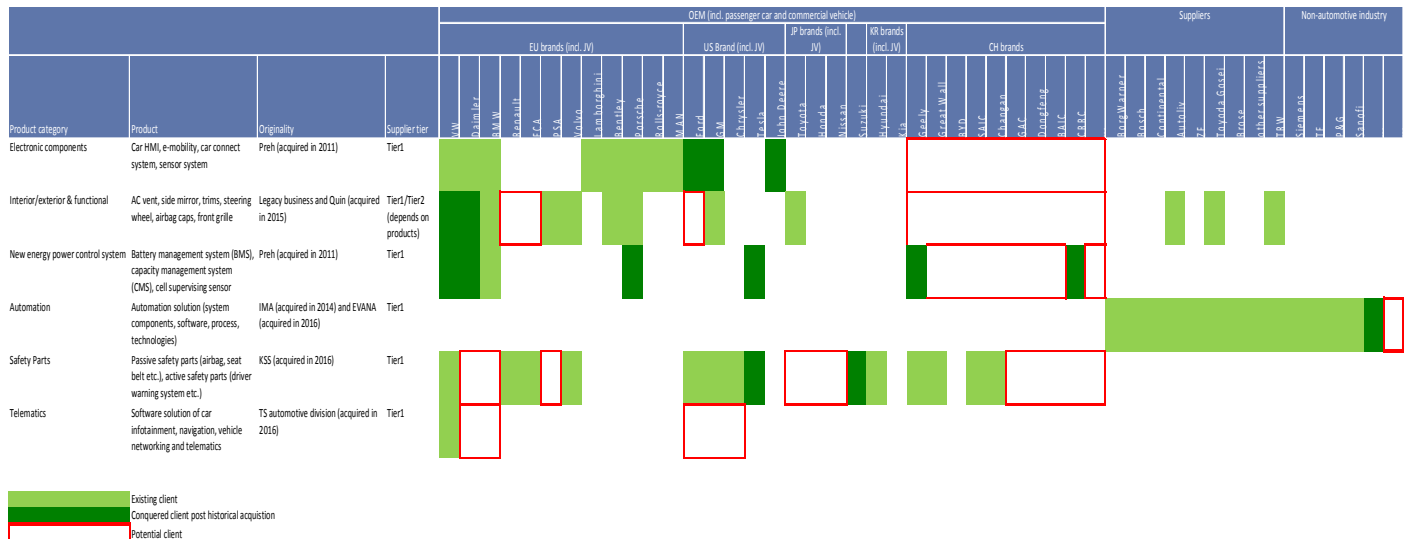
Source: Company data, Gao Hua Securities Research.

**Exhibit 4: ...and earnings CAGR of 36% (from pro forma consolidated base)...**



Source: Company data, Gao Hua Securities Research.

**Exhibit 5: Joyson's product and client base mapping**



Source: Company data, Gao Hua Securities Research.

## A global supplier aggregator with a history of acquisitions

Joyson is an auto technology parts supplier from Ningbo, Zhejiang province, China. It has developed a comprehensive product portfolio of auto electronics, safety parts, connectivity parts, interior/exterior parts and automation solutions on the back of a series of global acquisitions. The company has a track record of acquiring good quality but stressed global assets and turning them around by cross-selling to a more diversified client base while optimizing sourcing/cost structure.

We see Joyson transforming into a global player aided by its strategy of acquiring unique auto parts companies at low valuations and turning them around. With more than 70% of its revenues coming from overseas and a comprehensive technology parts portfolio, we see Joyson as a supplier aggregator comparable to global peers such as Delphi, Continental, Denso, Autoliv and BorgWarner. We resume coverage on Joyson with a 12m target price of Rmb31.27. We rate the shares Neutral with 5% downside to our target price.

Joyson has made a string of acquisitions since 2011, thereby emerging as a global supplier aggregator (Exhibit 1 and 6).

In 2011, Joyson bought a German auto electronic supplier (Preh), which contributed to 59% of revenue in 2015. If executed well, the acquisitions of KSS and TS could boost Joyson's earnings to the next level. On a pro forma consolidated base, we expect 2016E revenue to triple from FY2015 on the back of these acquisitions. We expect the acquired business to support the bulk of growth in 2017-2020E, which we discuss in more detail in the following sections.

### Exhibit 6: A technology parts supplier aggregator with a history of global acquisitions

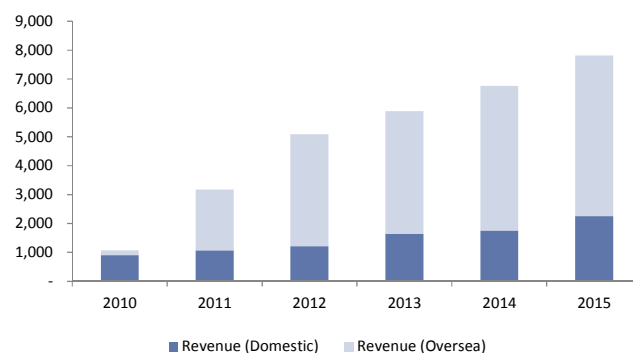
Acquisition summary

Date	Historical acquisition	Segment
2016	Automation department acquired EVANA Automation from Phillips Service Industries Inc.	Automation
2016	Acquired KSS	Safety parts
2016	Auto electronics department acquired TechniSat Digital GmbH, Daun's telematics parts business	Connectivity parts
2015	Auto electronics department acquired 10% stake in Vcyber	Auto electronics - telematics service
2015	Interior & exterior department acquired Quin GmbH	Interior parts
2011	Acquired Preh	Auto electronics parts

Source: Company data.

### Exhibit 7: Majority of Joyson's revenues come from overseas

Revenue breakdown, in Rmb mn

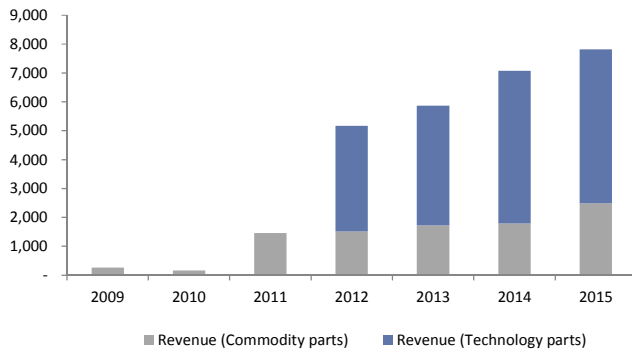


Source: Company data.

The majority of Joyson's product portfolio comprises of technology parts. Safety, electronics, and connectivity parts are segments with high entry barriers but secular growth opportunities on increase/upgrade of content per vehicle.

**Exhibit 8: High technology parts exposure suggesting high entry barrier**

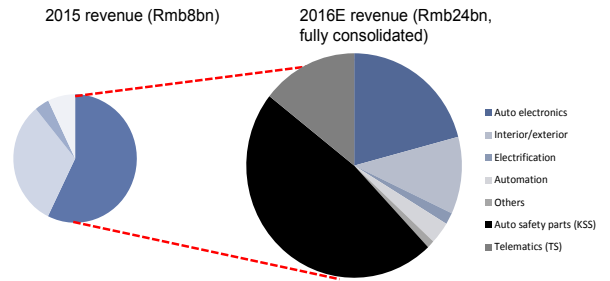
Revenue breakdown by type, in Rmb mn



Source: Company data.

**Exhibit 9: 2016E revenue triple of 2015 on recent acquisitions**

Revenue and its mix in 2015 vs. 2016E



Source: Company data.

**Exhibit 10: Joyson currently has 6 product divisions**

Product summary

Electronic parts	Function parts (Interior/exterior)	NEV parts	Automation	Safety parts	Connectivity parts
Climate control	Intake system	BMS	Robots&solution	Airbag	Infotainment system solution
Drive control	Steering wheel			Seat belt	
Sensor system	Front grille			Steering wheel	
ECU	Mirror system			Autonomous technologies	
	AC system			Driver warning	

Acquired in 2016

Source: Company data

## Industry context: Content increase/upgrade and consolidation

Cars have been not just getting faster, but also getting lighter, greener, safer and smarter. We see three trends in the supplier space remain intact: 1) Auto component makers should benefit from secular content increase mainly driven by emission upgrade, light weighting, auto electrification, etc.; 2) the rapid penetration of ADAS/AV in the auto industry will likely drive additional content opportunities for suppliers. We estimate the shift will expand today's \$3bn ADAS market to a \$96bn ADAS/AV market by 2025; 3) we see globalization in the component industry as a result of growth diversification (different regions might have different growth patterns), industrial consolidation (improving economy scale) and OEMs' platform strategy (which favors global suppliers).

We expect the majority of Joyson's business portfolio to benefit from increase/upgrade of content per vehicle and industry consolidation. See below summary:

### Exhibit 11: Divisional thematic opportunity

Joyson by division

Division	Revenue (in Rmb mn)		Revenue mix		CAGR	Thematic opportunity summary
	2015	2020E	2015	2020E		
Safety parts	9,891	25,550	48%	51%	21%	Consolidation, ADAS/AV, content increase/upgrade
Auto electronics	4,470	9,967	22%	20%	17%	Content increase/upgrade
Connectivity parts	2,708	6,539	13%	13%	19%	Content increase/upgrade, ADAS/AV
Interior/exterior	2,489	3,721	12%	7%	8%	Premierization
NEV electronics/control	298	2,112	1%	4%	48%	Electrification
Automation	557	2,067	3%	4%	30%	Automation

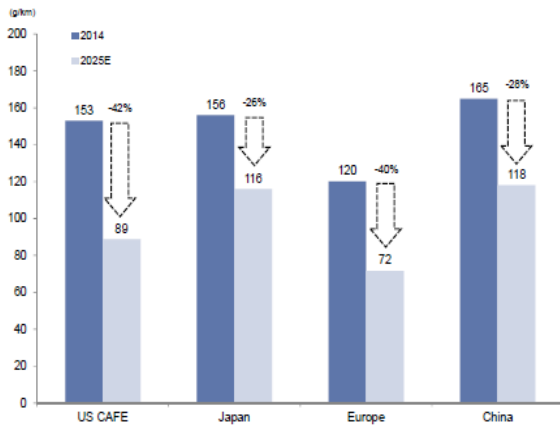
Source: Gao Hua Securities Research.

### 1. Poised for secular content increase

Structurally, we see suppliers well positioned to benefit from the mega trends of fuel consumption upgrade, light weighting, and electrification. The key growth drivers are increasing content demand per vehicle, market share gains for globalized suppliers and a shift in value-added innovative content towards suppliers. In addition to strong structural growth, technology-parts suppliers enjoy relatively strong pricing power and high industry concentration; select commodity-parts suppliers can offset the relatively higher pricing pressure with increasing consolidation and economies of scale.

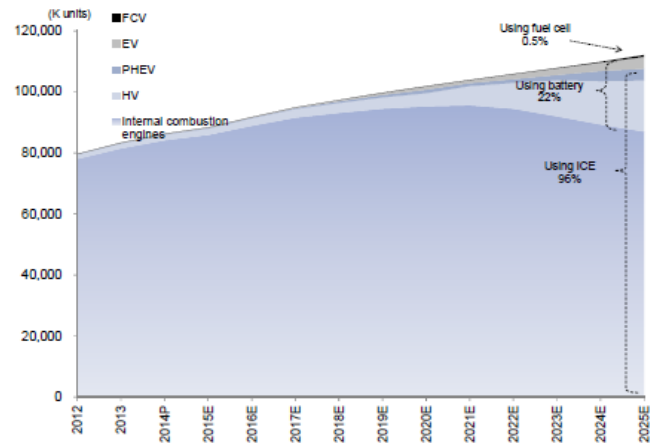
We expect Joyson's safety parts, auto electronics parts as well as connectivity parts divisions to benefit from the trend on increasing safety, comfort features and electrification.

**Exhibit 12: CO2 regulations becoming tighter**  
CO2 emission regulations



Source: Japan Automobile Manufacturers Association (JAMA), US Department of Energy (DOE), Goldman Sachs Global Investment Research.

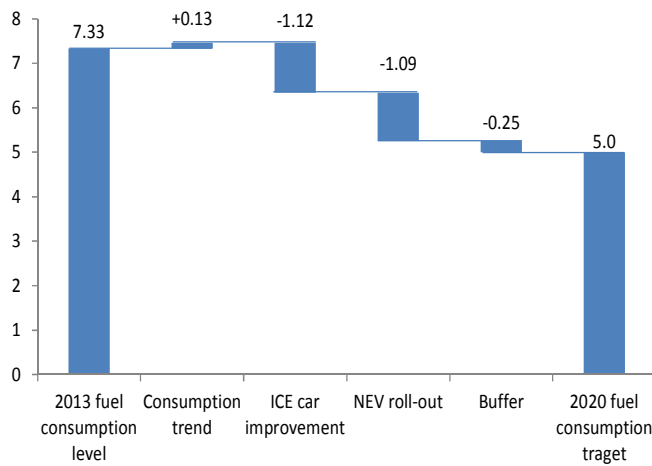
**Exhibit 13: Electrification set to continue**  
Powertrain mix of new cars



Source: IHS, Goldman Sachs Global Investment Research.

**Exhibit 14: China ICE (Internal Combustion Engine) improvement and NEV (New Energy Vehicle) growth on stricter CO2 requirements**

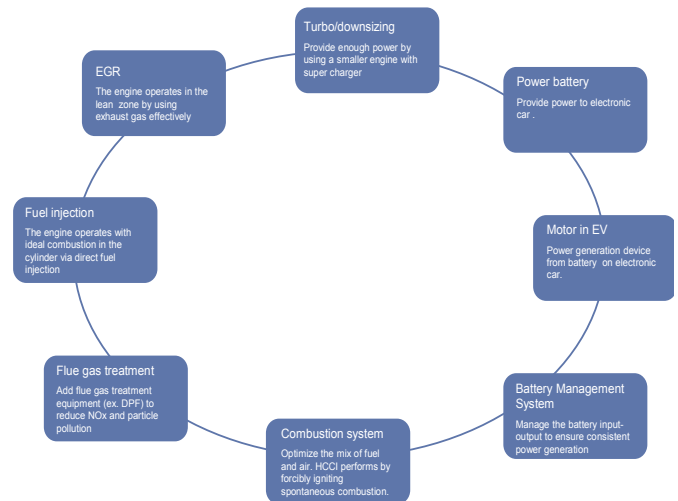
Walkthrough from actual fuel consumption to 2020 target, liter/100km



Source: MIIT, Gao Hua Securities Research.

**Exhibit 15: There are many options available to improve engines**

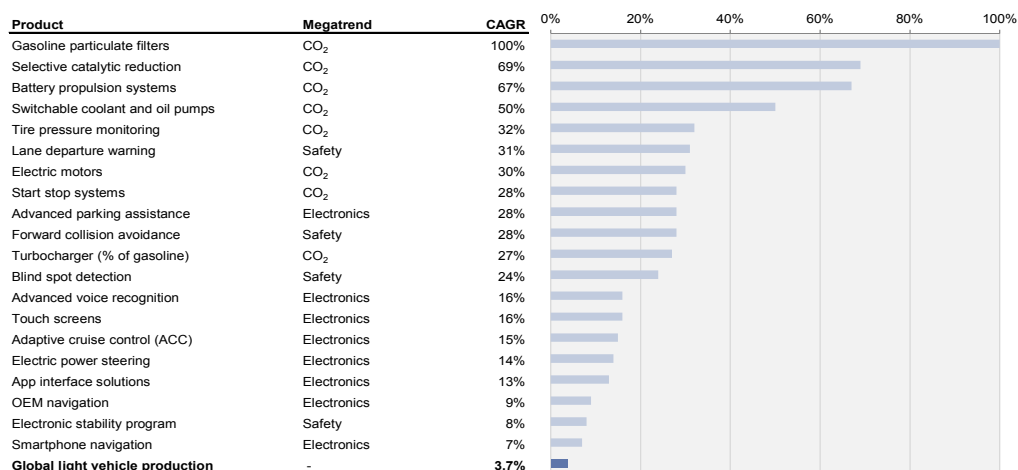
Technologies for improving engine efficiency



Source: Company data, Goldman Sachs Global Investment Research.



**Exhibit 16: Fastest growing automotive technologies are in emissions control**  
Expected market CAGR (2010-20E) by supplier product area

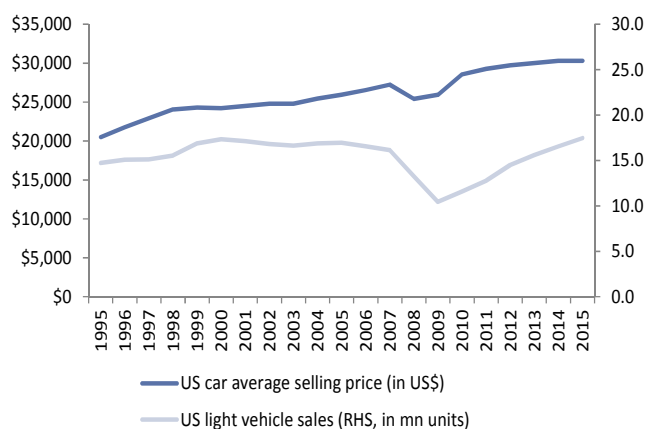


Source: Frost & Sullivan, Goldman Sachs Global Investment Research.

Over the past 20 years, we see US vehicle ASP has been secularly increasing while volume has been quite cyclical. Part of the reason of the ASP increase may be the mix shift to light trucks and the increasing leasing penetration, and part of the reason may be the equipment level/content increase over time such as power train upgrade, compliant content, electronic controls etc. We also note that content competition has been accelerating in China. As shown in Exhibit 18, a 125K Geely SUV is as loaded as a Mercedes, which is more than 3X its price. Moving into 2017, we may see competition intensifying on weakening supply-demand dynamics, which could lead to pricing pressure but be positive for suppliers' content growth as OEMs are more motivated to load more content into their products to increase differentiation and add value vs. competition.

**Exhibit 17: US car ASP is secularly increasing while volume is cyclical**

Average selling price in US\$



Source: Autodata, Havers analytics, Goldman Sachs Global Investment Research.

**Exhibit 18: Competition drives content to catch up in China**

Comparison of select equipment between Geely Boyue SUV and Mercedes Benz models

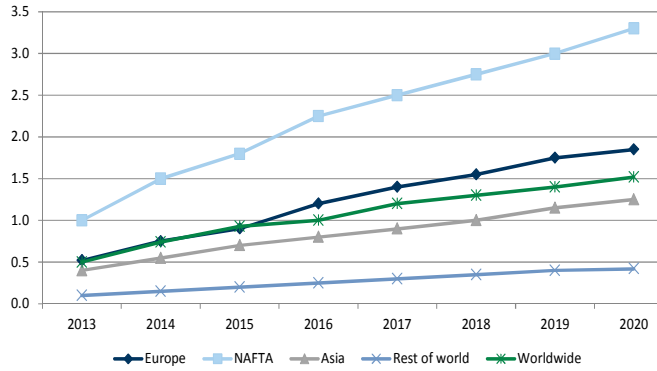
Equipment	Geely NL-3 (Boyue)	Mercedes GLC	Mercedes C class
Electronic Parking Brake Systems	√	√	√
Electronic Stability Program	√	√	√
Lane Departure Warning Systems	√	√	√
Adaptive Cruise Control	√	√	√
Panoramic Camera	√	√	√
GPS Navigator	√	√	√
Park Assist Vision Systems	x	√	√
Blind Spot Monitoring Systems	x	√	√
Panoramic Sunroof	√	√	√

Source: Autohome.com.

China in general is still at the early phase of the penetration curve of content upgrade, thus presenting higher content growth opportunities. We believe a company with strong China market

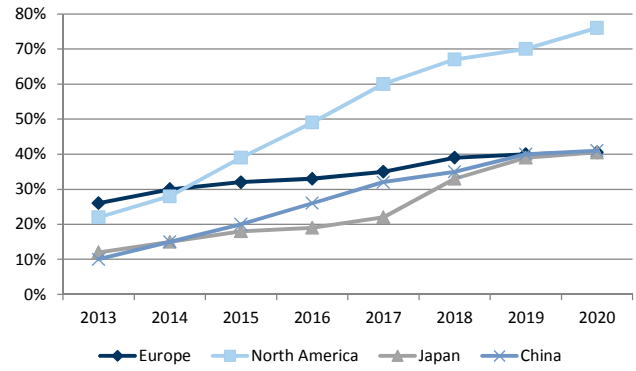
exposure/connection like Joyson is likely to capture higher growth opportunities than less focused global peers.

**Exhibit 19: Increasing penetration of auto electronics**  
Sensor per car



Source: Continental.

**Exhibit 20: Increasing penetration of better engine tech**  
Installation rate of gasoline direct injection



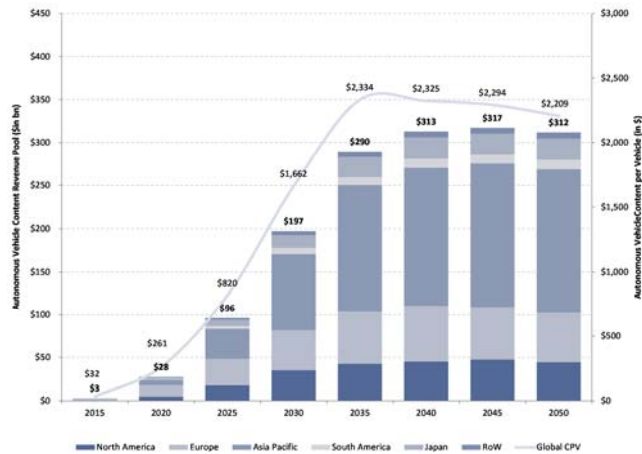
Source: Continental.

## 2. ADAS/AV driving structural content upgrade

In our paper, *Cars 2025: Vol. 3: Monetizing the rise of Autonomous Vehicle*, dated September 17, 2015, we estimate that globally ADAS/AV represents a US\$100bn parts market by 2025E driven by six enablers: hardware, software, V2V/V2I (Vehicle to Vehicle and Vehicle to Infrastructure), a favorable regulatory framework, consumer acceptance, and cyber security.

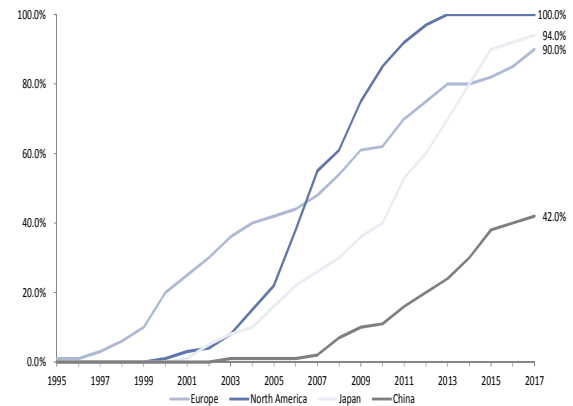
**Exhibit 21: We forecast 42% CAGR in ADAS/AV related revenue in 2015-25E**

Global ADAS/AV content revenue pool by region and content per vehicle



Source: Goldman Sachs Global Investment Research.

**Exhibit 22: China is underpenetrated, e.g. ESC adoption**  
Adoption of Electronic Stability Control (ESC) for new vehicles by geography



Source: Continental, Goldman Sachs Global Investment Research.

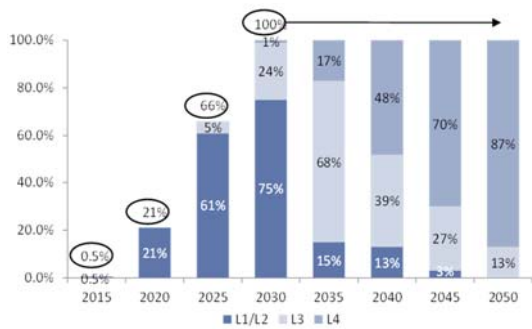
As China safety regulations are 3-5 years behind developed markets (Exhibit 22 shows the development of Electronic Stability Control as an example), we forecast the rollout of ADAS/AV in China will also be slower than the global market. Hence, we expect the ADAS/AV component market will grow by 56.1% CAGR in the next 10 years in China with substantial market

opportunities for auto component makers. We see that key component makers will benefit most from the trend. Please refer to *Cars 2025: Vol 4: Disruption in China's new car market: Challenges and opportunities*, February 29, 2016 for details.

We expect Joyson's safety parts and connectivity parts divisions to benefit from this trend of increasing autonomy in vehicles.

**Exhibit 23: We see L4 autonomous driving to rise in China from 2030**

China light vehicle sales penetration forecast

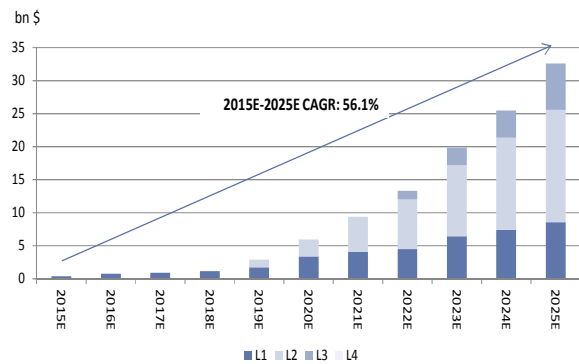


Note: L1-L4 measure different levels of autonomy according to NHTSA (L4 has the highest level of automation).

Source: Goldman Sachs Global Investment Research.

**Exhibit 24: We expect 56% CAGR in ADAS/AV related revenue in 2015-25E**

ADAS/AV related revenue forecast by level of autonomy, China (US\$ bn)



Source: Goldman Sachs Global Investment Research

Exhibit 25: We map Joyson's exposure to ADAS/AV content

System	Description	\$ Content per Vehicle				Select Aggregators	Select Software/Value add hardware Providers	Select Semiconductors/Other Providers	Select China play			
		L1	L2	L3	L4							
<b>Cameras</b>	Core vision system for object recognition, traffic sign and signal recognition, and path detection. Available in mono, stereo and trifocal configurations	\$150	\$200	\$300	\$255	-Conti -Denso -Delphi -Magna	-TRW -Valeo -Autoliv	-Mobileye -Bosch -Toshiba -Conti	-Sony -Melexis -ON (Aptina) -STMicro -Freescale -Renesas	-ADI -Linear Tech -Maxim -NXP -Rohm -TE -TI	-Fujitsu -Microchip -Atmel -JAE -Hirose -Amphenol	-Joyson (via KSS) -Forward Innovation -Suzhou INVO -Sunny Optical -Protruly -O-Film -Minth
<b>Radar</b>	Long range forward radar systems typically used to provide range, angle, and doppler velocity. Works well at night and in poor weather	\$125	\$375	\$400	\$300	-Conti -Delphi -Denso -Valeo	-Bosch -TRW -Autoliv	-In-house by aggregators	-TI -NXP -ADI	-Linear Tech -Maxim -ON -Renesas	-Freescale -STM -Rohm	-WUS Printed Circuit
<b>LIDAR</b>	Laser based scanning device that creates 3D images of surrounding objects with a 360 degree field of view	\$0	\$0	\$800	\$900	-Bosch -Delphi -Conti	-Denso -Valeo	-Quanergy -Velodyne -Ibeo -LeddarTech -Trilumina	-Xilinx -Altera -STMicro -Freescale -Renesas	-Bosch -Fujitsu -Microchip -Atmel -InvenSense	-TI -ADI -Freescale	
<b>Embedded controls</b>	Domain controllers / ECUs used to tie together multiple electronic sub-systems, enhancing communication of these "domains"	\$130	\$125	\$200	\$200	-Delphi -Magna	-Conti -TRW	-Nvidia -Intel -Electrobit				
<b>Actuation</b>	Largely more robust ESP, Electronic braking, and throttle and shifter as well as redundancies	\$16	\$16	\$76	\$86	-TRW -Bosch	-ADVICS -Conti					-Nexteer -Asia-pacific Mechanical & Electronic -Tuopu
<b>Electrical &amp; Electronic Architecture</b>	Increased electrical connection and distribution content between systems with more redundancies and fault tolerances built in	\$71	\$98	\$112	\$120	-Delphi -Leoni -Lear	-Yazaki -Sumitomo	-TE -Nippon	-Broadcom -Linear Tech -Freescale	-TI -Amphenol -Sensata	-NXP	-Joyson (via Preh) -Deren -DF Electronic -Shenglu
<b>V2X</b>	Provides vehicle to vehicle and vehicle to infrastructure communication using a dedicated DSRC module	\$0	\$0	\$350	\$300	-Delphi -Denso	-Bosch -Conti	-Cohda -Qualcomm -Autotalks	-Broadcom -NXP -Qualcomm	-Sharp -Sony -STMicro		-Joyson (Via TS) -Huawei -Datang -Viti -Soling
<b>HMI</b>	The "Human Machine Interface" monitors driver status, signals mode changes, and provides biometric identification. Includes eye tracking cameras, illumination, advanced algorithms and hardware	\$0	\$100	\$200	\$200	-Conti -Delphi -Valeo	-Bosch -Denso	-Lemoptix -Luxoft -Tobii -Seeing Machines	-Nvidia -Intel			-Joyson (integrated capability) -Iflytek
<b>Mapping</b>	High definition mapping services (includes sparse vs dense recording approaches)	\$0	\$175	\$200	\$225			-TomTom -HERE (formerly Nokia Maps) -Alphabet				-Navinfo -AutoNavi -Baidu
<b>Embedded modem</b>	Offers on-board connectivity functions through the 3G/4G LTE network	\$0	\$10	\$10	\$10			-Qualcomm -Intel				
<b>Security software</b>	Ensuring the integrity of on-board communications and software through firewall, and anomaly detection, signal identification among other approaches	\$0	\$50	\$100	\$225			-TowerSec -Argus -Security Innovation -Arlou -Encrypt				
<b>Passive Components</b>	Other components used in autonomous vehicles such as those used in wireless, radio, and capacitor systems	\$9	\$11	\$16	\$25			-Murata -Nippon ceramic				-Joyson (via KSS)
<b>Total System Cost</b>		<b>\$370</b>	<b>\$1,160</b>	<b>\$2,764</b>	<b>\$2,846</b>							

Source: Goldman Sachs Global Investment Research, Gao Hua Securities Research.

### 3. Supplier consolidation driving better scale and profitability

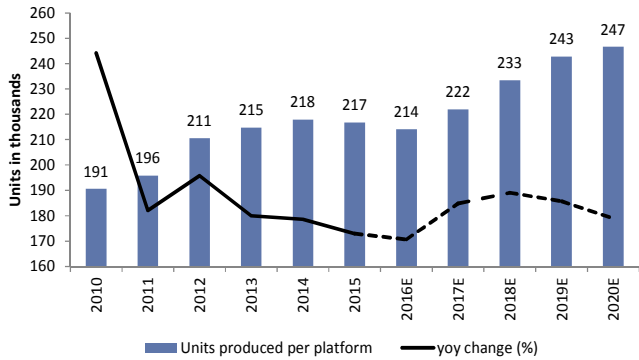
The increasing cost to automobile manufacturers of meeting regulatory obligations is forcing them to devise strategies to reduce costs elsewhere, with economies of scale being the foremost among these:

- **Offsetting regulatory headwinds using relevant economies of scale:** 'Relevant scale' refers to the use of engineering methods employing shared vehicle 'platforms' and 'modular architectures' (as opposed to simply growing volumes). In this way, manufacturers are able to increase the level of engineering commonality among multiple vehicles. The cost of developing a large-scale automotive platform to a manufacturer can reach US\$1bn. The largest OEMs (e.g. Toyota, VW) are able to spread this cost over per platform production volumes of ~0.5 to 1mn units annually, thereby reducing costs.
- **OEMs' global platform strategy (modularization) drives higher volume scale per platform:** Manufacturers with strength in modularization are best equipped to share fixed investment spend across multiple product lines, improving their cost position while not compromising on the diversity of the product line up. As shown in Exhibit 26, modularization/global platform strategy drives higher volume per platform.
- **Suppliers driven to increase scale and consolidation:** With greater economies of scale comes increased commonality of parts. With orders for components from suppliers being placed in ever-larger quantities and with increased commonality, we believe consolidation and economy of scale are essential to offset the cost pressure from OEMs. As shown in Exhibit 27, we see higher return on higher consolidation. Commodity-parts suppliers are relatively less concentrated than technology-parts suppliers, as shown in Exhibit 28, implying more room for consolidation. For auto markets in China and the rest of the world (Exhibit 29), local OEMs captured less than 50% of the market in 2013. The market structure is diversified in regard to production volume mix by nationality of OEMs in the US and China with European, Japanese and Korean OEMs all having a significant presence. Nevertheless, market structures in Europe, Japan and Korea are different with local OEMs dominating the market. Given that almost all major global OEMs have local manufacturing facilities in China, and diversified China suppliers have gained recognition and endorsement from OEMs in China, we believe local customers' relationships in China could pave the way for global expansion/ consolidation. These foreign OEMs' joint ventures in China are effectively potential customers globally, and some China suppliers are already qualified suppliers in their list.

Joyson has a proven track record of driving better scale in acquired and incumbent business divisions. We expect the momentum to continue with increasing scale and sourcing overlap between business lines.

**Exhibit 26: Global platform strategy drives higher volume per platform**

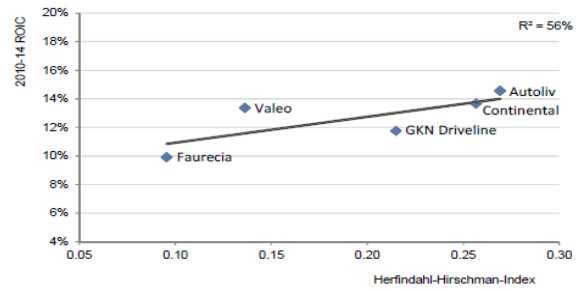
Units produced per platform



Source: IHS, Gao Hua Securities Research

**Exhibit 27: Supplier consolidation could unlock further value**

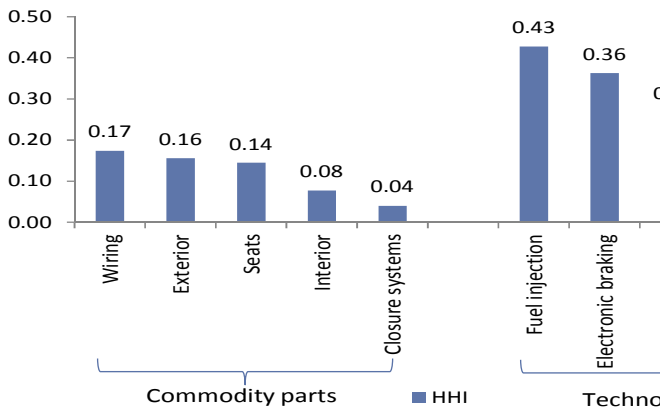
EU supplier studies suggest consolidation drives better return



Source: IHS, Company data, Gao Hua Securities Research

**Exhibit 28: Commodity parts less concentrated, more room for consolidation**

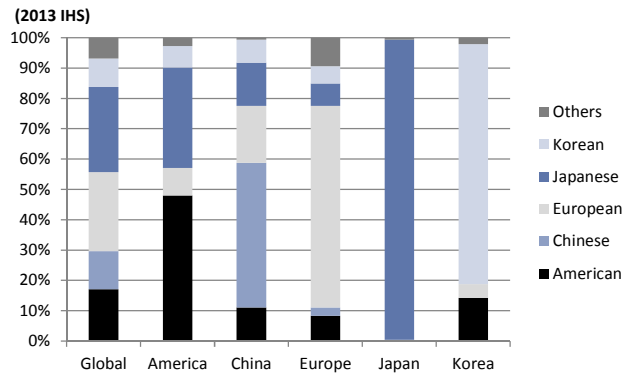
HHI is Herfindahl-Hirschman Index, an indicator of industry consolidation



Source: IHS, Company data, Gao Hua Securities Research

**Exhibit 29: "China advantage" – diversified OEM mix**

OEM distribution by nationality



Source: IHS.

## Potential turnaround of acquired businesses a key earnings driver

---

We see Joyson emerging as a global supplier aggregator with the acquisition of safety parts supplier, KSS, and connectivity parts supplier, TS, in 2016. We estimate 2016E revenue (on pro forma consolidated base) at Rmb24bn, 3X FY15's Rmb8 bn.

KSS and TS have been struggling with break-even/low margin and negative earnings, respectively, as a result of sub-scale volume/revenue, high leverage, single client focus and limited Asia Pacific focus (esp. China). Joyson has a solid track record of turning around stressed businesses by expanding volume/scale and boosting profitability, driven by China market leverage, client portfolio expansion, cost optimization and efficiency improvement.

We see the turnaround of KSS and TS as the key revenue/earnings growth driver in 2017-2020E.

We see two major opportunities for revenue/earnings expansion:

### 1. Better scale on cross-selling across product categories

With Joyson's solid product credentials and independence as a supplier, we see ample cross-selling opportunities between different product divisions, especially, its acquired and incumbent businesses (Exhibit 30). Since the acquired business is now part of Joyson group, it would be easier for the company to tap clients who are new to them but already Joyson group's client in other business line. It also makes sense from OEM procurement/sourcing perspective. Validation of a new supplier and its products is usually quite a lengthy process. However, we believe it will be relatively easier for a certified supplier (Joyson Group) to get more content validated. For example, the acquired connectivity parts business has limited clients and has relatively sub-scale volume/revenue vs. peers. Therefore, we believe Joyson will help them expand client base and drive higher volume/scale.

Among global OEM clients, we see European and American OEMs and their JVs in China as key given Joyson's strong presence in existing business lines. The Japanese and Korean OEMs might be a bit more challenging to penetrate as Japanese/Korean OEMs and suppliers are generally bound by "Keiretsu" (a type of informal business group comprising a set of companies with interlocking business relationships and shareholdings). With reference to Exhibits 31-32, EU/US/China take 54% global market share in sales volume and EU/US/China production takes 70% of global production. We see ample opportunities for Joyson to expand further. With reference to Exhibit 33, China contributes to a substantial portion of global car makers, which could help increase Chinese suppliers' bargaining power. Chinese brands have outgrown international brands in China from 2005 to 2016 and expanded market share from 29% in 2005 to 40% in 2016. We see emerging Chinese brands as the key focus for Joyson given its willingness to push more/upgraded content and fast growing volume potential.

Exhibit 30: Joyson’s product and client base mapping

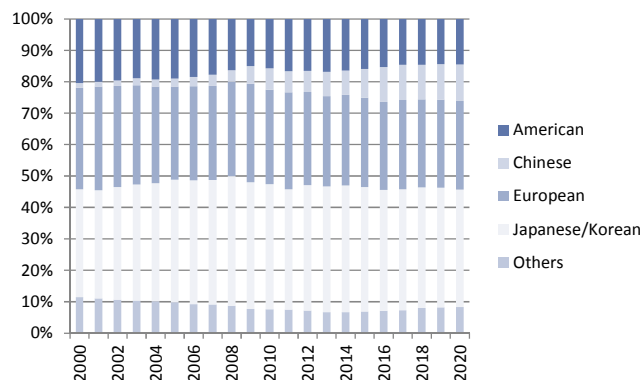
				OEM (incl. passenger car and commercial vehicle)																		Suppliers						Non-automotive industry																						
				EU brands (incl. JV)									US Brand (incl. JV)			JP brands (incl. JV)		KR brands (incl. JV)		CH brands																														
Product category	Product	Originality	Supplier tier	VW	Daimler	B.M.W.	Renault	FCA	PSA	Volvo	Lamborghini	Bentley	Porsche	Bolloré-Voyce	M.A.N.	Ford	GM	Chrysler	Tesla	John Deere	Toyota	Honda	Nissan	Suzuki	Hyundai	Kia	Geely	Great Wall	BYD	SAIC	Changan	SAIC	Dongfeng	BALIC	CRRC	BorgWarner	Bosch	Continental	Autoliv	ZF	Yokada Gosei	Other suppliers	TEW	Siemens	TF	Q&G	Sanfeli			
Electronic components	Car HMI, e-mobility, car connect system, sensor system	Preh (acquired in 2011)	Tier1	Existing	Existing	Existing	Potential	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential	Potential			
Interior/exterior & functional	AC vent, side mirror, trims, steering wheel, airbag caps, front grille	Legacy business and Quin (acquired in 2015)	Tier1/Tier2 (depends on products)	Existing	Existing	Potential	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	
New energy power control system	Battery management system (BMS), capacity management system (CMS), cell supervising sensor	Preh (acquired in 2011)	Tier1	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	
Automation	Automation solution (system components, software, process, technologies)	IMA (acquired in 2014) and EVANA (acquired in 2016)	Tier1	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing
Safety Parts	Passive safety parts (airbag, seat belt etc.), active safety parts (driver warning system etc.)	KSS (acquired in 2016)	Tier1	Existing	Potential	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	
Telematics	Software solution of car infotainment, navigation, vehicle networking and telematics	TS automotive division (acquired in 2016)	Tier1	Existing	Potential	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	Existing	

Source: Company data, Gao Hua Securities Research



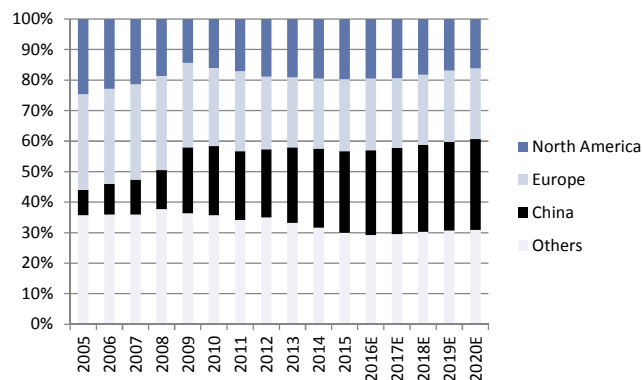


**Exhibit 31: EU/US/China brands take 54% global share**  
Global market share by brand nationality



Source: IHS.

**Exhibit 32: EU/US/China contribute c.70% of global production**  
Global production volume mix



Source: IHS.

**Exhibit 33: China's contribution is now a substantial portion of global car makers' profit pool**  
2016E, in thousand units

2016E	BMW	Mercedes	VW	PSA	Renault	FCA	Faurecia	Hella	Valeo	Autoliv	Continental
<b>Net income</b>											
Group net income	6,342	9,214	8,684	1,714	3,409	2,046	512	377	874	572	2,954
Tax rate	33%	32%	25%	33%	-	-	31%	25%	18%	33%	28%
China consolidated net income	1,968	1,973	1,879	-	-	-	184	55	200	109	433
China equity income	502	516	3,151	-	-	-	0	0	0	0	0
<b>China net income</b>	<b>2,471</b>	<b>2,489</b>	<b>5,030</b>	<b>557</b>	<b>200</b>	<b>86</b>	<b>184</b>	<b>55</b>	<b>200</b>	<b>109</b>	<b>433</b>
as % Group net income	39%	27%	58%	33%	6%	4%	36%	15%	23%	19%	15%

Source: Goldman Sachs Global Investment Research.

Joyson favorably positioned with ample room to grow

Unlike OEMs, whose end market comprises of consumers with relatively less understanding of the product, suppliers have to deal with a more challenging end market, i.e., OEMs.

- **Well placed to penetrate OEM supply chain**

It's not easy to become OEMs' tier 1 supplier. It takes about 12-18 months of certification/validation to become a qualified supplier on solid product/technology credentials as well as global co-design/manufacturing capabilities. We believe it will be easier for KSS and TS to expand their client base given Joyson group's existing client base. It's easier to push more content to OEMs from an existing supplier than new content from a new supplier.

- **Likely to benefit from OEMs' diversified sourcing strategy**

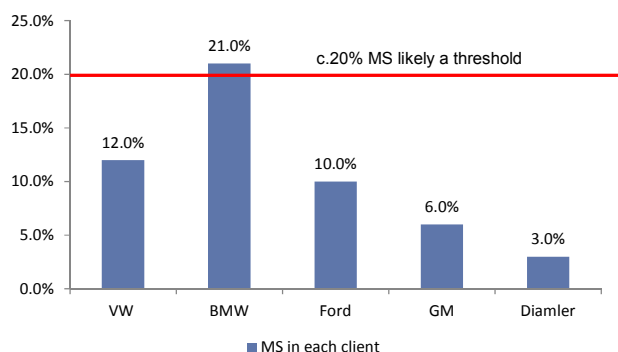
OEMs normally have several suppliers for a certain component for supply chain security purpose. There may be a potential cap for a supplier with leading market share unless the competitive landscape is quite bifurcated between the No.1 and remaining players. It's generally more favorable for suppliers like Joyson with solid products, relatively lower market share and intention/capabilities to expand.

We see ample room to expand in three major revenue divisions:

- Auto electronics division** (Exhibit 34): We see an individual client market share of 20% as a meaningful threshold for potential supply chain security concerns. With Joyson’s average market share per client at around 10%, we see room to expand even within its existing client base.
- Connectivity parts division** (Exhibit 35): This business has only one client, VW. It accounts for more than 30% of VW’s telematics system sourcing. We expect client base diversification within Joyson group’s client base going forward and see other European clients becoming a primary focus for Joyson given its strong European OEM presence in other business lines.
- Safety parts division** (Exhibit 36): KSS is positioned as a relatively small player in this segment. We believe it’s relatively low per client market share places the business at a favorable position to win more orders in the future. Moreover, the recall of airbags by the sector’s second largest player (Takata) has created a structural growth opportunity for existing players. We believe smaller player might benefit more given increasing sourcing diversification needs from OEMs post the Takata recall.

**Exhibit 34: We expect auto electronics’ division to expand further within its existing client base**

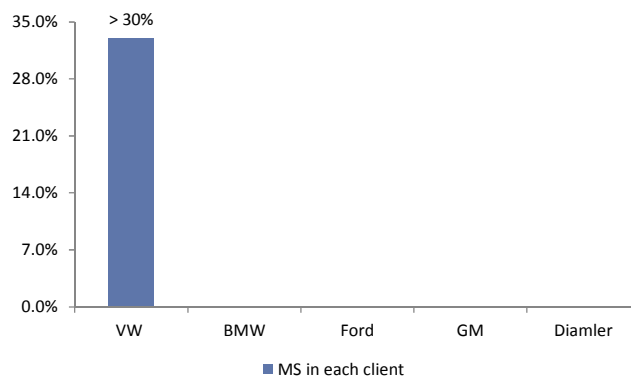
Joyson’s electronics product market share in each client



Source: Company data, Gao Hua Securities Research.

**Exhibit 35: We expect connectivity parts’ division to penetrate other European clients**

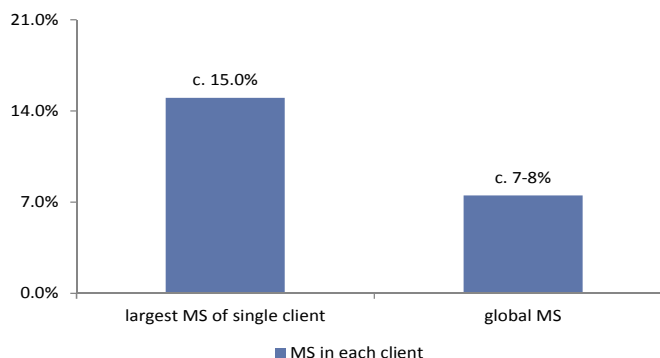
Joyson’s electronics product market share in each client



Source: Company data, Gao Hua Securities Research.

**Exhibit 36: Safety parts division: Expanding share in each client globally and in China**

Joyson’s electronics product market share in each client



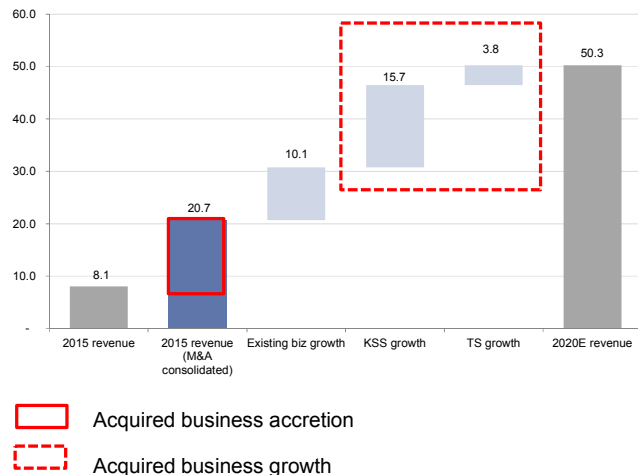
Source: Company data, Gao Hua Securities Research.

To conclude, we see the acquired safety parts (KSS) and connectivity parts (TS) businesses as major growth sources, and given the relatively large margin expansion opportunities, we see these two divisions as the major earnings growth drivers.

We expect existing business divisions, such as auto electronics, to sustain strong growth on content increase and upgrade per vehicle.

**Exhibit 37: We see 19% 2015-2025E revenue CAGR (from pro forma consolidated base)**

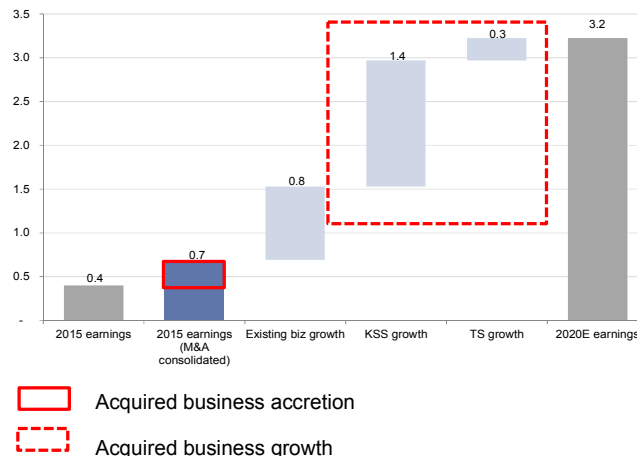
Revenue walk, in Rmb bn



Source: Company data, Gao Hua Securities Research.

**Exhibit 38: We see 36% 2015-2025E earnings CAGR (from pro forma consolidated base)**

Earnings walk, in Rmb bn



Source: Company data, Gao Hua Securities Research.

## 2. Margin expansion on lower leverage, cost optimization, better R&D and operational efficiency

We expect Joyson to bring the acquired business to a healthy growth track on the back of the following measures:

- Lower leverage on group endorsement/support:** We expect Joyson to reduce its financial cost burden by direct funding and debt restructuring. It's generally quite challenging for a stressed business to survive in a competitive market. Suppliers usually have to make R&D/capex investments before revenue/earnings delivery. The ability to commit/invest ahead is critical for backlog/order book wins. A poor financial condition limits a company's capability to commit necessary R&D/capex investments to secure future growth. Stressed businesses often play "defense/conservative" given their resource constraints and profit-making pressure, making them less competitive vs. peers and thereby resulting in backlog loss/fewer growth opportunities. Lower growth likely leads to sub-scale volume/revenue scale, amplifying the struggle. We believe Joyson can drive the acquired businesses to play "offense/active" on the back of its financial strength.
- Lower sourcing costs on better scale:** With expanding business portfolio, we see increasing opportunities for cost optimization via joint sourcing and leveraging of Joyson's emerging market sourcing resources. For example, Rutronik is Joyson's auto electronics division's second largest supplier and connectivity parts' fifth largest supplier. We expect Joyson's sourcing costs from Rutronik to reduce given the increasing scale and bargaining power from the combined scale of the two divisions.
- Increasing operational/R&D efficiency:** The acquired safety parts/connectivity parts business and Joyson's incumbent auto electronics business not only have overlap in

sourcing, but also in development and innovation. We believe the joint R&D force could achieve critical mass in electronic and software capabilities to enable continuous innovation and improving efficiency. Joyson has proven know-how of increasing acquired business' operation efficiency by a series of measures, such as, supply chain localization in China and reduction of scrappage rate. Hence, we expect Joyson to continue to drive better operational efficiency with recent acquisitions.

- Thinking strategically, not financially:** KSS was previously owned by private equity firms and the operational focus might have been on near-term financial return as a result. Given long development cycles and high entry barriers, suppliers often have to invest heavily in advance and suffer near-term financial pressure before harvesting returns years later. When screening suppliers, OEMs may have concerns about co-investment capability/intention of suppliers owned by private equity firms. Therefore, the ownership change from private equity to Joyson for KSS could shift the operational mentality from near-term financial focus to a more strategical focus, suggesting more chances of order wins.

**We see margin upside for KSS and TS**

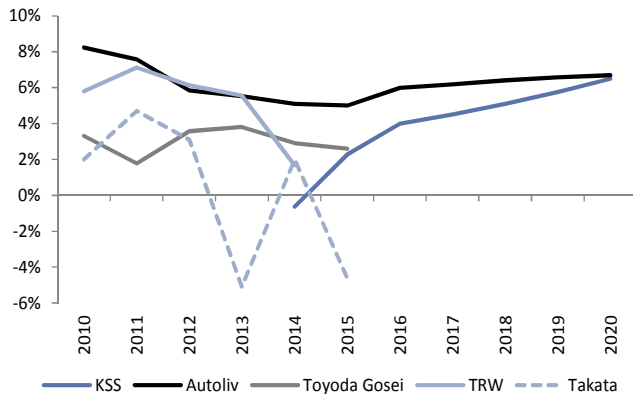
It's challenging to do an apple-to-apple comparison between suppliers. We try to select supplier peers who have similar product coverage. However, the scale/product portfolio might vary significantly between the selected peers still.

Delphi and Denso are mega aggregators, so comparable businesses make only a small portion of their revenues.

Within safety parts, we expect KSS to catch up with the industry leader Autoliv by 2020E on increasing scale and improving margin. Autoliv is a safety parts pure play and the closest benchmark for Joyson's safety parts division in our view.

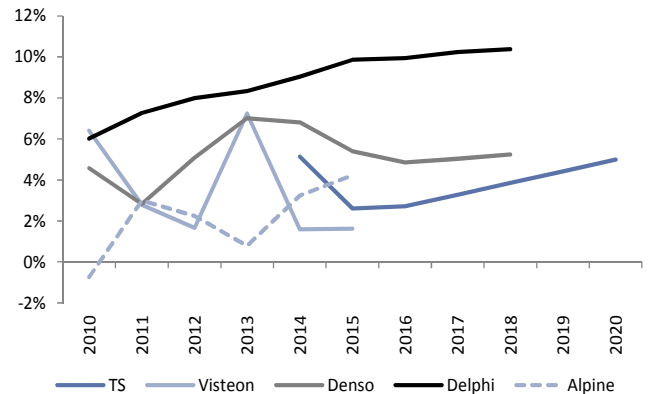
Within connectivity parts, we expect TS to catch up with peer Alpine by 2020E on client base diversification. Alpine has 70% revenue coming from connectivity parts and the most relevant peer for Joyson's connectivity parts division (TS).

**Exhibit 39: We expect KSS' margin to catch up with segment peers**  
Peers' NPM in %



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

**Exhibit 40: We expect TS' margin to catch up with peers**  
Peers' NPM in %



Source: Company data, Goldman Sachs Global Investment Research, Gao Hua Securities Research.

## We see safety parts (KSS) as a major growth driver

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KSS is a US safety parts maker established in 1916. The company went public in 1992, and was bought by private equity firms following its bankruptcy in 1999. It has expanded globally in the last two decades. Before Joyson's takeover, it was at the verge of breakeven with average net profit margin at 0.8% in 2014-2015.

We expect existing safety parts (airbag) players to benefit not only from market growth (driven by higher penetration in EM and more types of airbags installed on vehicles), but also from share gain opportunities due to Takata's recall. Given the increasing supplier chain security concerns and need for diversification, we see smaller players such as KSS (now Joyson's safety parts division) better placed vs. peers. We believe KSS' favorable cost base will help increase operational leverage on better scale in the future. We expect this division to be the major revenue/earnings driver in 2017-2020E. While we expect TechniSat (TS) to also drive earnings, KSS is more critical as it estimate it will contribute to 51% of revenues in 2017-2020E vs. TS's 13%.

### Global safety parts industry to grow at 7% per annum

We expect safety parts (airbag) to grow at c. 7% yoy globally in 2015-2020E driven by higher penetration in EM and more types of airbags installed on vehicles. For more analysis on the sector, please see *Toyoda Gosei: Airbags set to inflate earnings growth over next 5 yrs; initiate at Buy*, February 24, 2016.

### Takata recall an opportunity for remaining airbag players

In 2013, a series of deaths and injuries associated with defective Takata airbag inflators led to a massive recall by Takata. The recall escalated in 2014-2016 and is likely to lead to potential segment consolidation.

We see existing safety parts (airbag) player might benefit from not only market growth but also share gain opportunities from Takata's recall. Given increasing supplier chain security concerns and the need of diversification, we see smaller players such as KSS (now Joyson's safety parts division) likely to benefit more vs. peers. Its favorable cost base might also help to increasing operation leverage on better scale in the future. We expect this division to be the major revenue/earnings driver during 2017E-2020E.

Safety parts (Airbag) is a high entry barrier technology parts segment with only a few qualified players. As shown in Exhibit 46, in 2014, there were five global players together accounting for more than 90% of the market.

The February 4, 2017 morning Nikkei and Reuters online edition reported that Key Safety Systems (KSS, now Joyson's safety parts division) has been selected as the rehabilitation sponsor for Takata. According to a January 19 morning Nikkei article, Takata sponsor candidates had been narrowed down to two companies: Autoliv and KSS. The article also reported that Daicel had joined private-equity firm Bain Capital and KSS in making a proposal to help Takata.

Given the uncertainty, we haven't incorporated any such deal into our estimates, but we will keep a close watch on the progress.

We expect Takata's recall to create market share opportunities for remaining peers: Autoliv, TRW (now part of ZF), Toyota Gosei and KSS. KSS is well positioned among peers due to the following factors:

- **Independence as a supplier**

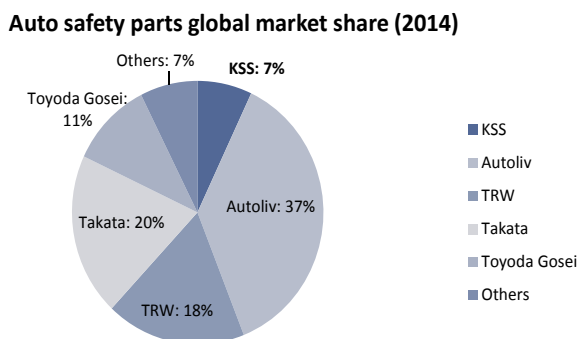
Due to supply chain security concerns, OEMs generally prefer independent suppliers, which do not belong to or are affiliated with any other OEMs. We believe an independent supplier such as KSS might be more favored by OEMs vs. less independent peers such as Toyoda Gosei, which is a Toyota-affiliated auto parts maker that generates 60% of its sales from Toyota.

- **OEM security perspective**

OEMs prefer supplier diversification from a security perspective to avoid overly strong supplier bargaining power and potential default. Although Autoliv is the segment leader with close to 40% market share, its dominant market position could trigger supplier chain security concerns from OEMs. Given a relatively smaller market share, we believe KSS can potentially expand its market share without triggering such concerns any time soon.

**Exhibit 41: Safety parts is a concentrated market with high entry barrier**

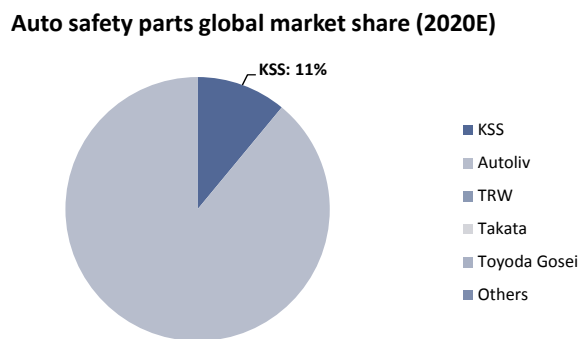
Safety parts global market, 2014



Source: Company data.

**Exhibit 42: We expect KSS to benefit from Takata's recall**

Safety parts global market, 2014



Source: Company data, Gao Hua Securities Research.

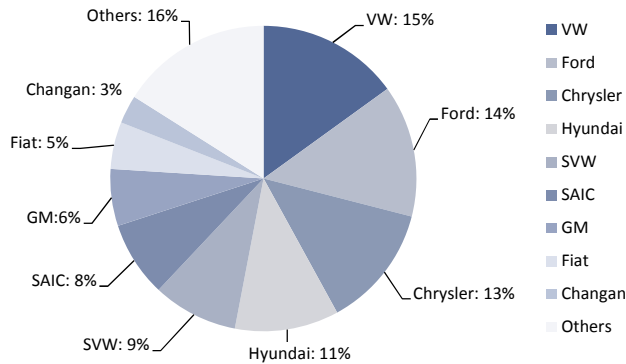
### **KSS well positioned with diversified client base and geo exposure**

Although airbag is a high entry barrier segment, the existing technology is quite matured. The core competitive advantages include backlog opportunities, favorable cost base as well as high growth market focus.

#### **1. Diversified client base and Asia focus provide ample backlog expansion potential**

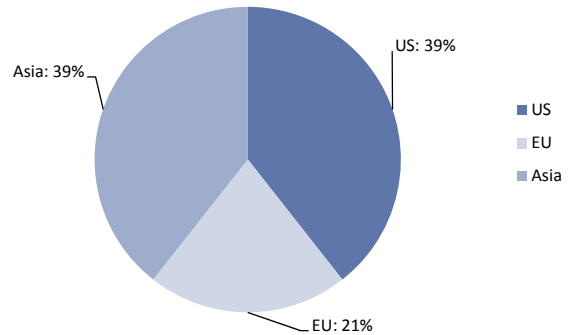
As shown in Exhibits 43-44, KSS is poised to expand its backlog given its diversified client base and geographic exposure. We believe a diversified client base will help capitalize segment growth from not only market/penetration growth, but also with the second largest player facing difficulties. KSS also has balanced geographic exposure with an increasing Asia focus with Joyson's takeover. Given the relatively low penetration of airbag in developed markets, Asia presents strong market potential vs. other regions in our view.

**Exhibit 43: Diversified client base**  
Client breakdown, 2015



Source: Company data.

**Exhibit 44: Mainly US/Asia/EU exposed**  
Geographic exposure breakdown, 2015

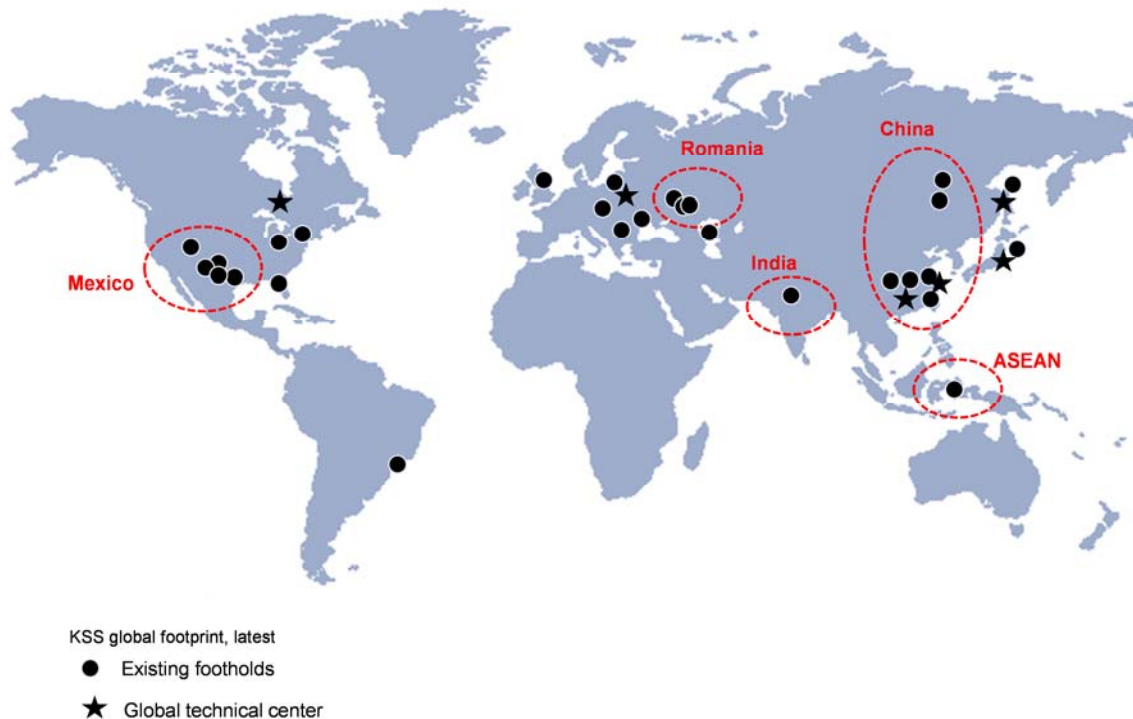


Source: Company data.

**2. Favorable EM cost base may help drive margin on increasing scale**

We see EM manufacturing footprint as a major advantage in terms of costs. As mapped in Exhibit 45, KSS already has a favorable manufacturing footprint in China, Mexico and East Europe. Around 80% of Joyson’s safety parts division’s (KSS) employees are in low cost countries. Additionally, KSS and Joyson’s auto electronics divisions have 20-30% overlap in sourcing, which could drive cost reductions over time.

**Exhibit 45: KSS has a global manufacturing footprint with favorable EM production focus**



Source: Company data.

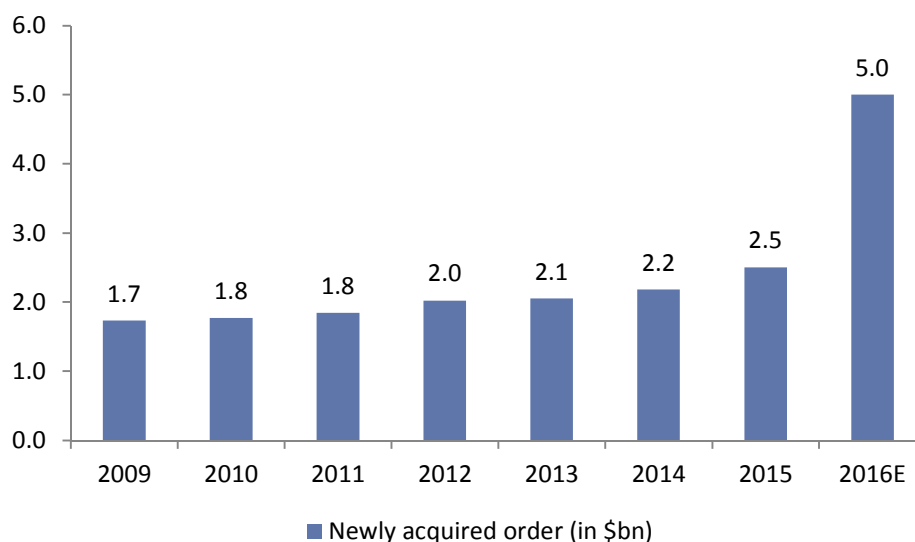
### 3. Strong backlog momentum

KSS' backlog expansion momentum accelerated in 2016 after Joyson took over. We estimate US\$5bn new backlog wins in 2016E, more than 2X the average of US\$2bn new backlog win during 2009-2015. We see this as a strong sign of enhanced commercial capability post Joyson's endorsement. We expect KSS' strong backlog expansion momentum to sustain and build into the mid-term. Nevertheless, it normally takes 24-36 months of development and standard operating procedure (SOP) with OEMs to realize the backlog. We might see FY16 booked backlog gradually flowing through to earnings from end-2018E.

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#### Exhibit 46: Order book momentum traction strong in FY16

Backlog booking by year, in US\$ bn




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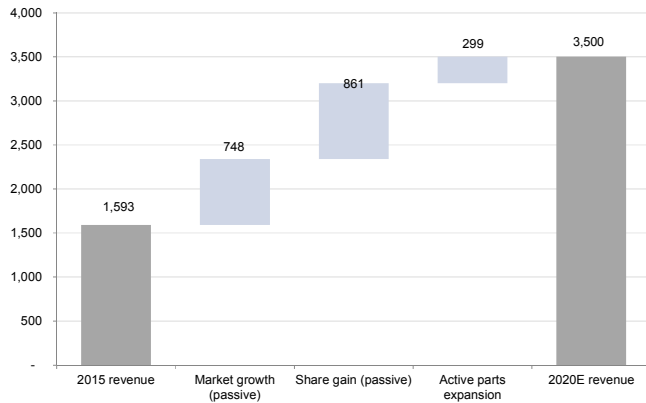
Source: Company data, Gao Hua Securities Research.

### We expect revenue and margin expansion for safety parts (KSS)

To conclude, we estimate KSS to boost revenue and earnings at 19%/40% CAGR in 2017-2020E, capitalizing on segment opportunities and its increasing operational leverage on the back of a favorable cost base.

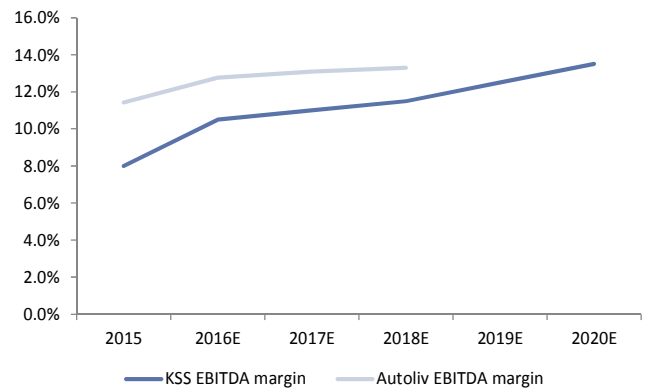


**Exhibit 47: We expect 2020 revenue to double on share gain and increasing active exposure**  
KSS revenue walk



Source: Company data, Gao Hua Securities Research

**Exhibit 48: We expect EBITDA margin to expand on improving operational efficiency**  
KSS margin vs. Autoliv



Source: Company data, Gao Hua Securities Research

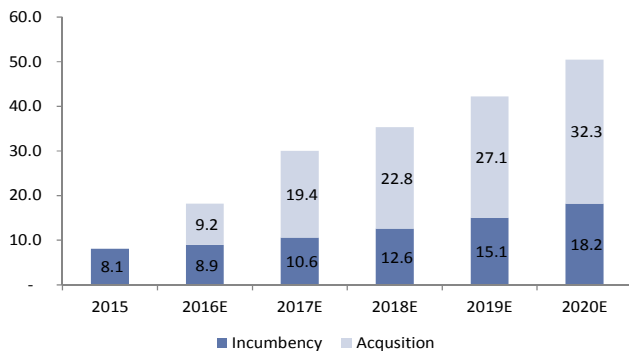
### KSS/TS likely to drive growth, but pressure near-term return

As discussed previously, the auto industry requires heavy investment on capex before returns can be harvested. We believe it could take 4-5 years for KSS' growth story to play out. For Joyson, we see the acquired businesses (KSS and TS) as major revenue and earnings drivers in 2015-2020E, but execution could be challenging with a bumpy road ahead.

While Joyson's equity placement (Rmb8.2bn after expenses) in Jan 2017 lowered leverage, margin and return on equity will likely be diluted in 2016E-17E before reaccelerating from 2018E, in our view.

**Exhibit 49: We expect recent M&A to fuel growth in 2017-2020E**

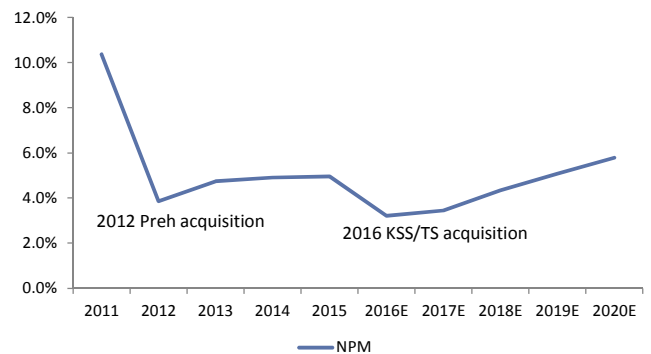
Revenue: incumbency vs. acquisition



Source: Company data, Gao Hua Securities Research.

**Exhibit 50: Margin expansion on better economy of scale and cost optimization**

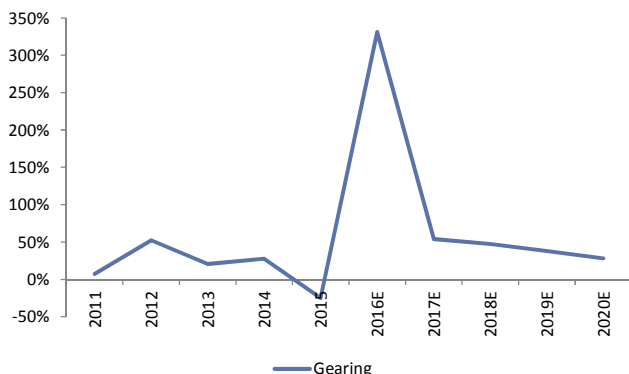
NPM



Source: Company data, Gao Hua Securities Research.

**Exhibit 51: Gearing spiked in 2016 due to acquisition**

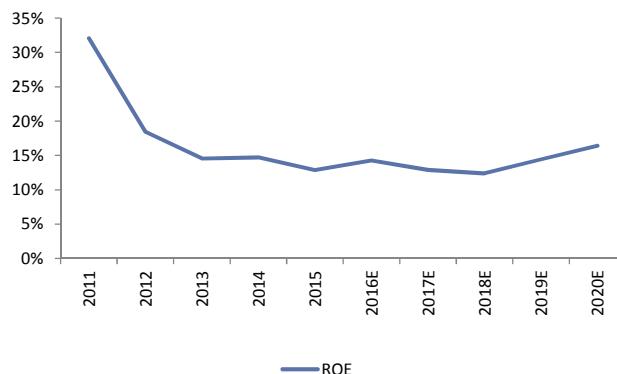
Gearing ratio



Source: Company data, Gao Hua Securities Research.

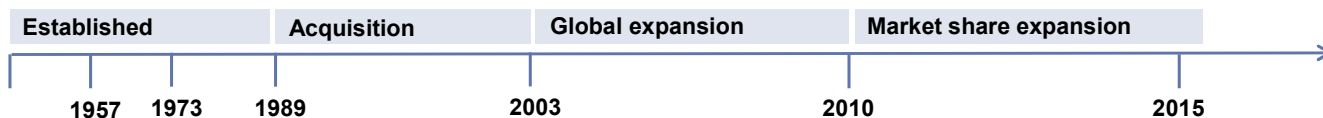
**Exhibit 52: Placement releases balance sheet pressure but dilutes return**

ROE



Source: Company data, Gao Hua Securities Research.

**Exhibit 53: KSS company history**



**Established (1916-1989):**

in 1916, the business started as Ford Model T steering wheel production; then gradually expanded into seatbelt and airbag production

**Acquisition (1989-2003):**

in 1992, the company IPO'd and bought 11 companies; bankrupted and went private in 1999

**Global expansion (2003-2010):**

it started joint venture operations as well as tech center in China and India

**Market share expansion (2010- present):**

opened new plants in China, Macedonia, Mexico, Romania; developed business in Brazil, France, Italy, Korea and Thailand; enter active safety market (collaboration with Mobileye, acquired Image Next); it recorded six consecutive year of new biz wins

**Current global manufacturing footprint**

**32** facilities in **14** countries on **4** continents; **12,000** employees (80% in low cost countries) **5** main technical centers in US, EU and Asia

Source: Company data.

## Valuation: Discounted 2020E EV/EBITDA; 5% downside

We see Joyson emerging as a global supplier aggregator on the back of its acquisitions. As a result, we frame Joyson's valuation framework under a global context. We believe EV/EBITDA is appropriate to value Joyson as it takes into account the difference in its debt structure vs. peers. Given our investment case is built on a mid-term turnaround story, we see 2020E as a critical year. We apply our target multiple to 2020E EBITDA and discount back the implied valuation to derive our 12-month target price.

### We use discounted 2020E EV/EBITDA to value Joyson

With more than 70% of Joyson's revenues coming from overseas, and a comprehensive technology parts portfolio, we see Joyson as a global supplier aggregator comparable to global peers such as Delphi, Continental, Denso, Autoliv and BorgWarner. We select global peers from benchmarking based on business portfolio similarity and technology parts aggregator positioning (Exhibit 54). Although Alphine has business overlap with Joyson in connectivity parts, it's a pure play rather than an aggregator and therefore we don't include it in Joyson's valuation peer group.

We use discounted 2020E EV/EBITDA method to value Joyson to capture its high revenue/earnings growth till 2020E (40% earnings CAGR in 2017E-20E vs. 7% for peers). Our 12m target price of Rmb31.27 implies 5% downside.

Joyson shares are currently trading at 19.4X/17.2X/12.9X 2017E/18E/19E PE, higher than global peers' average of 14.3X/12.7X/11.1X on stronger growth profile, but cheaper than A-share peers' average of 28X/25X 2017E/18E.

#### Exhibit 54: We select benchmarking global peers on business portfolio

Revenue mix, Joyson and some peers

Business division	2020E	current	current	current	current
	Joyson	Autoliv	Delphi	Alphine	Conti
Connectivity parts	13%	n.a	18%	81%	n.a
Safety parts	51%	100%		n.a	22%
Auto electronics	24%	n.a	n.a	n.a	13%
Interior/exterior	7%	n.a	n.a	n.a	20%
Automation and others	5%	n.a	n.a	n.a	n.a
Audio product	n.a	n.a	n.a	19%	n.a
Electrical/Electronic Architecture	n.a	n.a	55%	n.a	n.a
Powertrain Systems	n.a	n.a	27%	n.a	18%
Tires	n.a	n.a	n.a	n.a	26%

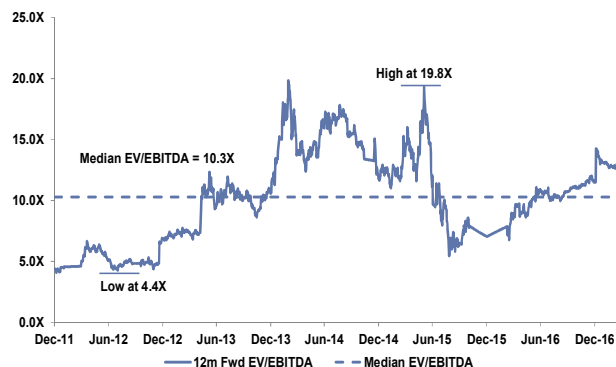
Source: Company data, Gao Hua Securities Research.



### Joyson trades as a premium to global peers

Joyson is currently trading at 12.7X 12m fwd EV/EBITDA vs. its 5-year historical median of 10.3X and low/high of 4.4X/19.8X (Exhibit 57). Joyson’s global peers are currently trading at an average of 6.9X 12m fwd EV/EBITDA vs. its historical median of 7.2X and low/high of 3.9X/10.1X (Exhibit 58). We believe this reflects Joyson’s higher earnings growth profile vs. global peers and is in line with its historical premium of 40% to global peers.

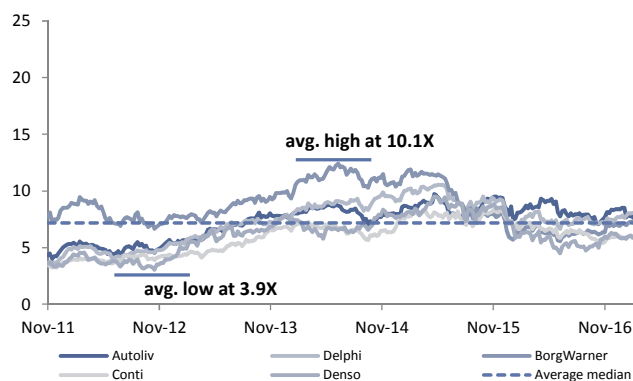
**Exhibit 57: Joyson is trading at 12.7X 12m fwd EV/EBITDA vs. historical median at 10.3X**  
12m fwd EV/EBITDA



\*EBITDA is on consolidated pro forma base

Source: Datastream, company data, Gao Hua Securities Research.

**Exhibit 58: Global peers are, on average, trading at historical median of 7.2X**  
12m fwd EV/EBITDA



Source: Datastream, company data, Gao Hua Securities Research.

### Scenario analysis suggest 46%/163% upside on different valuation benchmarks

If we use Joyson’s own trading history as benchmark, i.e., use Joyson’s historical median 12m fwd EV/EBITDA multiple as exit 2020E multiple, our implied valuation would be 46% above current price. If we value Joyson based on A share supplier peers, i.e., use 26 A share supplier peers’ average 2017E EV/EBITDA as exit 2020E multiple for Joyson, our implied valuation would be 163% above current price.

**Exhibit 59: Scenario analysis suggests positive variance vs. current price if we benchmark Joyson with its own trading median or A share supplier peers**

2020E EV/EBITDA valuation benchmark	Global technology parts aggregator peers	Joyson own historical median	A share supplier peers (2017E)
	Autoliv	Joyson	Wanfeng
	Delphi		Tuopu
	BorgWarner		Yatai
	Conti		Xinyu
	Denso		...
Target multiple	7.0X	10.3X	17.7X
Implied valuation per share	31.27	48.33	86.80
Implied upside/downside	-5%	46%	163%

Source: Datastream, Gao Hua Securities Research.

## Risks: Execution, technology, M&A, competition, forex

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### Execution risk on turnaround of acquired businesses

Empirical evidence indicates M&A is a rather expensive way of innovation/growth with high chances of overestimating synergies given execution difficulties/obstacles along the process.

Joyson has built the bulk of its business portfolio via acquisitions. Our mid-term investment thesis largely hinges on its success in achieving better scale and profitability for acquired businesses. Although Joyson is favorably positioned to capture growth and boost margin, we still see risks on execution. Lower execution quality or longer-than-expected time to achieve key milestones (such as backlog, margin etc.) could result in lower earnings growth and lower valuation. We see commercial clearance, backlog momentum, business update communication, and quarterly earnings delivery as key indicators.

### Ability to keep pace with technology upgrades

We believe having the technological capabilities to upgrade current content to meet additional requirements for smarter, greener, lighter and safer vehicles is critical for future growth/margins. Joyson has actively engaged in technology upgrade given its continuous commitment to ADAS. Furthermore, given its stated openness to M&A, we see its current product portfolio as well positioned to navigate any industry challenges. Nevertheless, with increasing complexity of new products, there could be potential technology bottlenecks or failures. We closely monitor and evaluate Joyson's progress in new technology, such as, development of a commercially viable solution for next generation human machine interface, active safety products etc.

### M&A could provide a further boost

Our earnings forecasts do not incorporate any further acquisitions in 2017-2020E. Given its historical track record of turning around acquired business, we see potential for future value-accretive M&A.

### Aggressive pricing by peers

Takata's recall presents a growth opportunity for the remaining airbag players, which is rare in such a high entry barrier segment. We see chances of competition intensifying with peers adopting aggressive pricing strategies to secure more market share. We believe this could weigh on KSS's backlog conquest and margin improvement progress. While we expect some price cuts in the near term, they are unlikely to be dramatic given the uncertainty of Takata settlement and OEMs' supply chain security concerns, but we closely watch any potential changes to strategy.

### Forex

Given Joyson's comprehensive revenue/production/sourcing footprint across the globe, we see potential FX risks. While there is not enough disclosure to estimate the potential impact, we keep a close watch here.

## Appendix: History, shareholder structure, track record

### Company history: A series of acquisitions

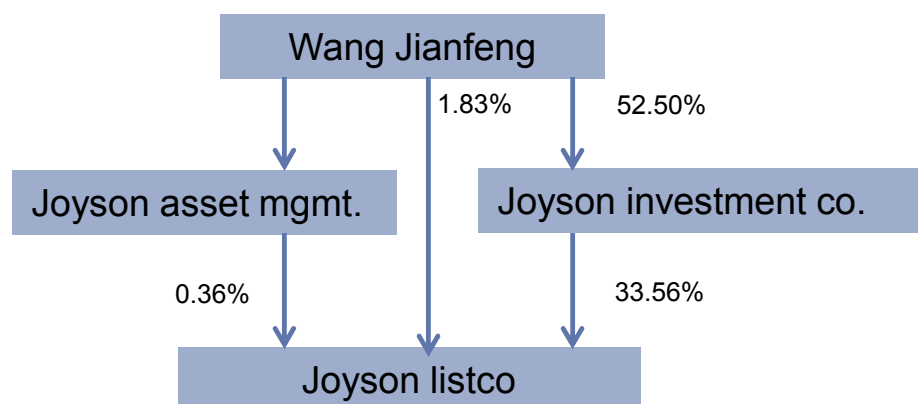
Joyson was established in 2004 with headquarters in Ningbo, Zhejiang, China. It went public through a reverse merger on the Shanghai Stock Exchange in Dec 2011. The company originally produced interior and exterior components for automobiles. Joyson embarked on a series of global acquisitions in 2012-2016 (see Exhibit 1), thereby emerging into a global supplier aggregator with a comprehensive product portfolio of auto electronics parts (via Preh acquisition in 2011), safety parts (via KSS acquisition in 2016) and connectivity parts (via TS acquisition in 2016).

### Shareholder structure: Joyson is a privately owned business

The chairman, Mr. Jianfeng Wang, holds c.36% of Joyson's voting rights and. Mr. Wang was previously the General Manager of TRW (Ningbo) Electronic Components & Fasteners Co., Ltd and has strong experience in the auto supply chain. Given the entrepreneurial ownership structure, strong track record (of auto electronics business, i.e. Preh), and financial strength, Joyson appears more focused on long-term strategy rather than near-term financial performance.

#### Exhibit 60: Joyson's largest shareholder is its Chairman, Mr. Wang

Chairman's holding structure



Source: Company data.

### Proven track record with Preh acquisition

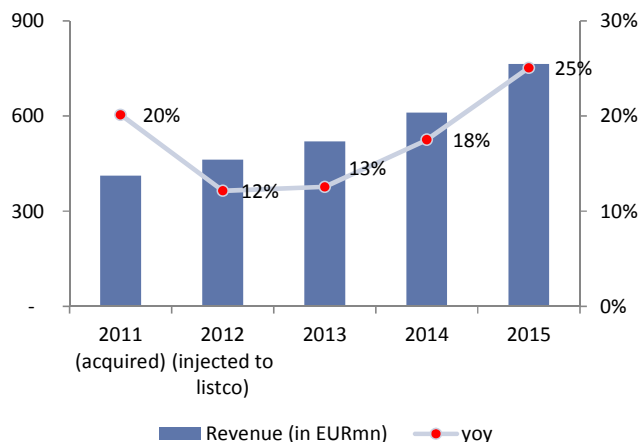
Joyson acquired Preh in 2011. Over the past five years, Joyson has managed to grow Preh's revenues/gross earnings by 27%/34%. We attribute this success to the below measures, which we believe can be replicated with its recent acquisitions (KSS and TS).

- **Improve R&D/production efficiency** by organizational restructuring and moving production to more cost efficient locations.
- **Reduction of sourcing costs** by optimization sourcing channels. Preh used to have most of its sourcing base in Europe before being acquired. Joyson helped Preh restructure its sourcing channel and establish an efficient vendor base in China given Joyson's China connection and knowledge.
- **Diversification of client base** by helping Preh connect with Joyson's clients and increase scale by cross-selling to a broader client base.

- Maximize the China market leverage** by setting up Preh China and expanding into the fast-growing China supply chain.

**Exhibit 61: Preh revenues expanded at 18% CAGR during 2012-2015**

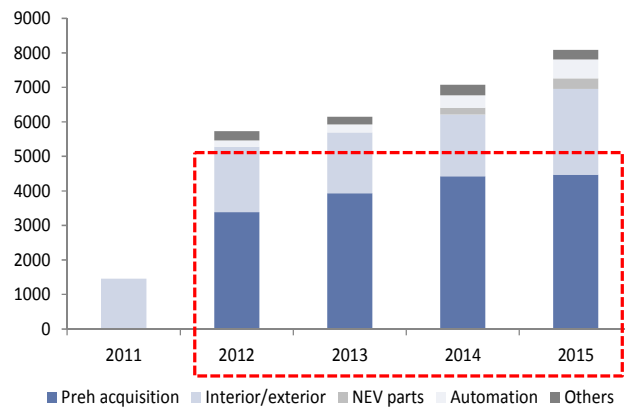
Revenue in EUR mn



Source: Company data.

**Exhibit 62: Preh has been the key revenue driver for Joyson during 2012-2015**

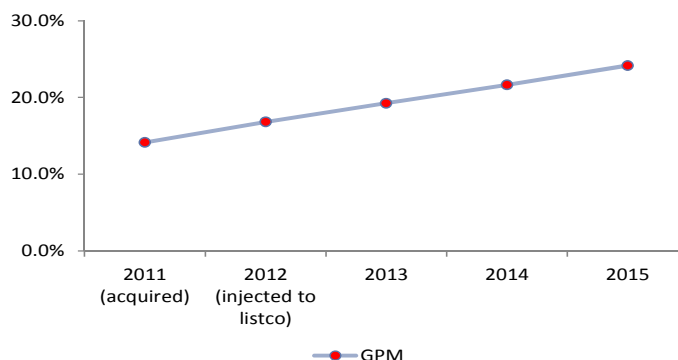
Joyson revenue breakdown, in Rmb mn



Source: Company data.

**Exhibit 63: Preh GPM improved by 7.4% during 2012-2015**

Preh's GPM, 2011-2015



Source: Company data.

**Joyson's historical acquisition multiples below its own trading range**

We found that Joyson's historical acquisition multiples are generally below its own trading range. Although the acquisition multiples are higher than developed market supplier peers' trading range, they are lower than emerging market supplier peers' trading range. We believe the valuation/multiple differences are largely a reflection of varying growth profiles with emerging markets presenting higher revenue growth opportunities for suppliers given higher car volume growth and lower content per vehicle level.



**Exhibit 64: Joyson's historical acquisition multiples are below its own trading range**

Date	Acquisition name	Product category	Total value (in Rmb mn)	Joyson					
				FY1 PE	FY1 PB	FY1 EV/EBITDA	FY1 PE	FY1 PB	FY1 EV/EBITDA
2012	Preh	Auto electronics	1,943	14.3	4.1	10.4	17.3	3.5	4.7
2014	IMA	Automation	119	14.6	2.5	8.8	43.4	5.4	15.8
2014	Quin	Interior/exterior	689	8.8	2.9	9.9	40.2	4.4	14.5
2016	KSS	Safety parts	5,977	13.1	6.8	9.1	30.5	4.7	9.7
2016	TS	Telematics	1,282	13.9	1.8	9.6	30.5	4.7	9.7
	Average			12.9	3.6	9.5	32.4	4.6	10.9
	Global peers avg. (DM)						14.6	1.9	6.3
	Global peers avg. (EM)						29.6	5.6	12.7
	Global peers avg.						22.7	3.9	7.9

Note: FY1 is the first estimation year post acquisition. FX is adjusted as per company disclosed rates; if no disclosure, we then use the historical average rates of that particular year.

Source: Company data, Gao Hua Securities Research.

**Joyson's summary financials****Exhibit 65: Joyson P&L summary**

In Rmb mn

Income statements	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
<b>Total sales/revenues</b>	154	1,462	5,358	6,104	7,077	8,083	18,189	29,981	35,351	42,007	50,259
yoy %	(40%)	848%	266%	14%	16%	14%	125%	65%	18%	19%	20%
COGS	(165)	(1,162)	(4,411)	(4,939)	(5,692)	(6,333)	(14,446)	(23,876)	(27,983)	(33,050)	(39,301)
Others											
<b>Total COGS</b>	(165)	(1,162)	(4,411)	(4,939)	(5,692)	(6,333)	(14,446)	(23,876)	(27,983)	(33,050)	(39,301)
<b>Gross profit</b>	(11)	300	947	1,165	1,385	1,750	3,743	6,105	7,368	8,957	10,958
yoy %	735%	(2,845%)	215%	23%	19%	26%	114%	63%	21%	22%	22%
SG&A	(32)	(73)	(581)	(700)	(887)	(1,172)	(2,638)	(4,078)	(4,632)	(5,420)	(6,384)
Other operating income/(expense)	-	-	-	-	-	-	-	-	-	-	-
Total operating expense	(32)	(73)	(581)	(700)	(887)	(1,172)	(2,638)	(4,078)	(4,632)	(5,420)	(6,384)
<b>EBITDA</b>	(29)	270	739	885	972	1,113	2,209	3,259	4,110	5,050	6,254
yoy %	620%	(1,040%)	174%	20%	10%	15%	98%	48%	26%	23%	24%
Depreciation	(12)	(37)	(244)	(271)	(303)	(338)	(680)	(809)	(950)	(1,090)	(1,257)
Amortization	(2)	(6)	(128)	(149)	(172)	(198)	(423)	(423)	(423)	(423)	(423)
<b>EBIT (operating profit)</b>	(42)	227	366	465	497	578	1,105	2,027	2,737	3,537	4,574
yoy %	11%	(635%)	61%	27%	7%	16%	91%	83%	35%	29%	29%
Interest income	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(22)	(17)	(59)	(76)	(63)	(115)	(404)	(541)	(386)	(377)	(354)
Net interest income/expense	(22)	(17)	(59)	(76)	(63)	(115)	(404)	(541)	(386)	(377)	(354)
Profit/loss on disposal of assets (pre-tax)	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gain/(loss)	-	-	-	-	-	-	-	-	-	-	-
Net income from associates	-	-	-	-	-	-	-	-	-	-	-
Share of results in jointly controlled entities	-	-	-	-	-	-	-	-	-	-	-
Other non-operating income/expense	177	4	4	(3)	24	96	100	100	100	100	100
<b>Non-operating income/(loss)</b>	155	(13)	(54)	(80)	(39)	(19)	(304)	(441)	(286)	(277)	(254)
<b>Pre-tax profit (income before tax)</b>	112	214	312	386	459	559	802	1,586	2,451	3,260	4,320
yoy %	(132%)	91%	46%	24%	19%	22%	43%	98%	55%	33%	33%
Income taxes	-	(37)	(63)	(86)	(109)	(142)	(200)	(396)	(613)	(815)	(1,080)
Minority interest	-	(25)	(42)	(11)	(3)	(17)	(17)	(17)	(17)	(17)	(17)
Preferred dividends	-	-	-	-	-	-	-	-	-	-	-
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-
<b>Net income</b>	112	152	207	289	347	400	584	1,172	1,821	2,428	3,223
yoy %	(132%)	35%	36%	40%	20%	15%	46%	101%	55%	33%	33%
<b>EPS - basic</b>	0.37	0.26	0.47	0.46	0.55	0.60	0.88	1.70	1.92	2.56	3.39
EPS - fully diluted	0.17	0.39	0.36	0.45	0.55	0.58	0.85	1.70	1.92	2.56	3.39
<b>EPS - fully diluted with newest shares</b>	0.16	0.22	0.30	0.42	0.50	0.58	0.85	1.70	2.64	3.52	4.67
Common dividends declared	-	-	-	-	-	-	-	-	-	-	-
Dividends per share	-	-	-	-	-	-	-	-	-	-	-
Weighted avg. adj. shares outstanding (mn)	305	594	439	622	636	663	663	689	949	949	949
Fully diluted shares outstanding (mn)	661	392	579	636	636	689	689	689	949	949	949
Period end shares outstanding (mn)	661	392	579	636	636	689	689	949	949	949	949

Source: Company data, Gao Hua Securities Research.

**Exhibit 66: Joyson's balance sheet summary**

In Rmb mn

Balance sheets	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
	490%	7%	52%	21%	28%	-25%	331%	54%	47%	38%	28%
Cash and equivalents	170	157	519	561	556	3,425	976	1,126	1,183	1,358	1,574
Net receivables	183	411	776	953	1,216	1,416	4,983	6,571	7,748	9,207	11,016
Inventory/stocks	182	161	682	846	878	1,167	2,663	4,401	5,158	6,092	7,245
Other current assets	174	50	73	83	137	977	977	977	977	977	977
<b>Current assets</b>	<b>709</b>	<b>780</b>	<b>2,051</b>	<b>2,443</b>	<b>2,789</b>	<b>6,985</b>	<b>9,599</b>	<b>13,075</b>	<b>15,066</b>	<b>17,634</b>	<b>20,812</b>
Gross PP&E/Fixed assets	1,331	676	3,679	4,018	4,271	5,087	10,232	12,181	14,302	16,402	18,915
Less accumulated depreciation	-	(198)	(1,521)	(1,721)	(1,833)	(2,165)	(2,845)	(3,654)	(4,605)	(5,694)	(6,951)
<b>Net PP&amp;E/Fixed assets</b>	<b>1,331</b>	<b>478</b>	<b>2,158</b>	<b>2,297</b>	<b>2,439</b>	<b>2,921</b>	<b>7,387</b>	<b>8,526</b>	<b>9,697</b>	<b>10,708</b>	<b>11,964</b>
Gross intangibles	680	100	1,243	1,402	1,523	2,026	12,026	12,026	12,026	12,026	12,026
Accumulated amortization	-	(14)	(345)	(493)	(596)	(755)	(1,179)	(1,602)	(2,026)	(2,449)	(2,872)
<b>Net intangibles</b>	<b>680</b>	<b>86</b>	<b>897</b>	<b>908</b>	<b>927</b>	<b>1,271</b>	<b>10,847</b>	<b>10,424</b>	<b>10,001</b>	<b>9,577</b>	<b>9,154</b>
Total investments	202	24	15	19	16	91	171	171	171	171	171
Other long-term assets	4	2	45	79	90	141	141	141	141	141	141
<b>Total assets</b>	<b>2,927</b>	<b>1,369</b>	<b>5,166</b>	<b>5,746</b>	<b>6,259</b>	<b>11,409</b>	<b>28,145</b>	<b>32,337</b>	<b>35,076</b>	<b>38,231</b>	<b>42,241</b>
Accounts payable	213	424	929	1,167	1,270	1,328	3,562	5,233	6,133	7,244	8,614
Short-term debt and current portion of long-term debt	847	199	1,174	813	897	1,900	5,400	2,900	2,900	2,500	1,900
Other current liabilities	151	54	321	374	455	2,346	2,346	2,346	2,346	2,346	2,346
<b>Current liabilities</b>	<b>1,210</b>	<b>676</b>	<b>2,425</b>	<b>2,354</b>	<b>2,622</b>	<b>5,574</b>	<b>11,308</b>	<b>10,479</b>	<b>11,379</b>	<b>12,090</b>	<b>12,860</b>
Long-term debt	1,182	-	223	219	326	574	10,074	5,674	5,674	5,674	5,674
Other long-term liabilities/creditors	-	25	718	834	839	1,285	2,185	2,185	2,185	2,185	2,185
<b>Total long-term liabilities</b>	<b>1,182</b>	<b>25</b>	<b>941</b>	<b>1,053</b>	<b>1,167</b>	<b>1,859</b>	<b>12,259</b>	<b>7,859</b>	<b>7,859</b>	<b>7,859</b>	<b>7,859</b>
<b>Total liabilities</b>	<b>2,392</b>	<b>702</b>	<b>3,366</b>	<b>3,407</b>	<b>3,789</b>	<b>7,433</b>	<b>23,567</b>	<b>18,338</b>	<b>19,238</b>	<b>19,949</b>	<b>20,719</b>
Preferred shares	-	-	-	-	-	-	-	-	-	-	-
Common stock (includes par value, capital surplus, and treas)	939	428	1,474	1,798	1,874	2,998	2,998	11,230	11,230	11,230	11,230
Treasury stock	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	(560)	138	361	638	975	1,302	1,886	3,058	4,878	7,306	10,529
Other common equity	-	-	(158)	(149)	(429)	(505)	(505)	(505)	(505)	(505)	(505)
<b>Total common equity</b>	<b>379</b>	<b>565</b>	<b>1,677</b>	<b>2,288</b>	<b>2,420</b>	<b>3,794</b>	<b>4,378</b>	<b>13,782</b>	<b>15,603</b>	<b>18,031</b>	<b>21,253</b>
Minority interest (balance sheet)	155	102	124	51	50	182	199	217	234	251	269
<b>Total shareholders funds/equity</b>	<b>535</b>	<b>667</b>	<b>1,801</b>	<b>2,339</b>	<b>2,470</b>	<b>3,976</b>	<b>4,578</b>	<b>13,999</b>	<b>15,837</b>	<b>18,282</b>	<b>21,522</b>
<b>Total liabilities and equity</b>	<b>2,927</b>	<b>1,369</b>	<b>5,166</b>	<b>5,746</b>	<b>6,259</b>	<b>11,409</b>	<b>28,145</b>	<b>32,337</b>	<b>35,076</b>	<b>38,231</b>	<b>42,241</b>

Increasing intangible on goodwill due to acquisition

Lower gearing vs. 2016 as placement come through

Cash drain on acquisition funding

Increasing tangible on acquisition

Increasing debt to bridge acquisition

Placement to fund M&amp;A activities

ST/LT debt to be lower vs. 2016 on placement (completed on Jan 2017)

Source: Company data, Gao Hua Securities Research.

**Exhibit 67: Joyson's cash flow summary**

In Rmb mn

Cash flow statements	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
<b>Income pre-preferred share dividends</b>	112	152	207	289	347	400	584	1,172	1,821	2,428	3,223
Minority interest add-back	-	25	42	11	3	17	17	17	17	17	17
Depreciation and amortization add-back	14	43	373	420	474	536	1,103	1,233	1,374	1,513	1,680
Net income from associates and jointly controlled entities	-	-	-	-	-	-	-	-	-	-	-
Net loss/(gain) on asset sales	-	-	-	-	-	-	-	-	-	-	-
<b>(Increase)/decrease in working capital :</b>	(72)	4	(381)	(103)	(192)	(432)	(2,828)	(1,655)	(1,034)	(1,282)	(1,591)
Accounts receivable	(128)	(228)	(365)	(177)	(263)	(200)	(3,567)	(1,588)	(1,177)	(1,459)	(1,809)
Inventory	(133)	21	(521)	(164)	(32)	(290)	(1,496)	(1,738)	(757)	(934)	(1,152)
Accounts payable	189	211	505	237	103	58	2,234	1,671	900	1,111	1,370
Other operating cash flow items	(151)	(15)	364	34	105	64	900	-	-	-	-
<b>Cash flow from operations</b>	<b>(97)</b>	<b>209</b>	<b>605</b>	<b>650</b>	<b>738</b>	<b>585</b>	<b>(224)</b>	<b>767</b>	<b>2,178</b>	<b>2,676</b>	<b>3,329</b>
Capital expenditure	(1)	(95)	(551)	(579)	(758)	(853)	(1,455)	(1,949)	(2,121)	(2,100)	(2,513)
(Acquisitions)/divestitures	36	0	12	4	16	14	(3,690)	-	-	-	-
Investments	61	(74)	5	34	(100)	(79)	(80)	-	-	-	-
Other investment cash flow items	-	-	(10)	10	(2)	(929)	(10,000)	-	-	-	-
<b>Cash flow from investing</b>	<b>95</b>	<b>(169)</b>	<b>(544)</b>	<b>(530)</b>	<b>(844)</b>	<b>(1,846)</b>	<b>(15,225)</b>	<b>(1,949)</b>	<b>(2,121)</b>	<b>(2,100)</b>	<b>(2,513)</b>
Dividends paid (common and preferred)	-	-	-	-	-	-	-	-	-	-	-
Share repurchase/issue (change in common stock)	-	1	-	469	1	1,147	-	8,232	-	-	-
Increase/(decrease) in short-term debt	(218)	(14)	761	(342)	207	1,078	3,500	(2,500)	(466)	(600)	(600)
Increase/(decrease) in long-term debt	-	-	-	-	-	2,093	9,500	(4,400)	-	-	-
Increase/(decrease) in preferred shares	-	-	-	-	-	-	-	-	-	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-
Other financing cash flow items	381	(39)	(462)	(207)	(90)	(171)	-	-	-	-	-
<b>Cash flow from financing</b>	<b>163</b>	<b>(52)</b>	<b>299</b>	<b>(79)</b>	<b>118</b>	<b>4,147</b>	<b>13,000</b>	<b>1,332</b>	<b>-</b>	<b>(400)</b>	<b>(600)</b>
<b>Effect of foreign exchange rate changes</b>	<b>-</b>	<b>(1)</b>	<b>2</b>	<b>1</b>	<b>(15)</b>	<b>(19)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total cash flow</b>	<b>161</b>	<b>(13)</b>	<b>362</b>	<b>42</b>	<b>(3)</b>	<b>2,867</b>	<b>(2,449)</b>	<b>150</b>	<b>57</b>	<b>176</b>	<b>216</b>

Acquisition

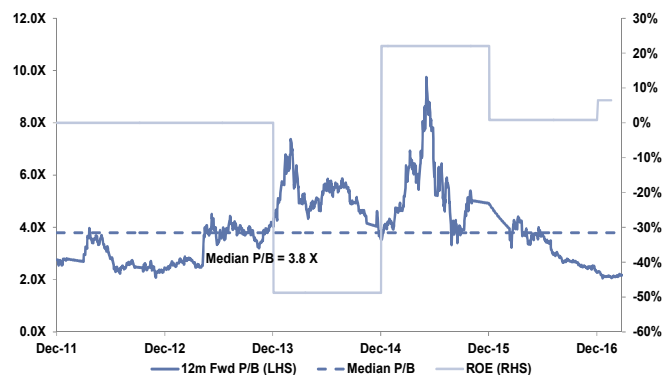
Placement to fund acquisition

ST/LT debt to decrease on placement  
Placement to fund acquisition

Source: Company data, Gao Hua Securities Research.

**Exhibit 68: Joyson is currently trading at 2.2X 12m fwd PB vs. median at 3.8X**

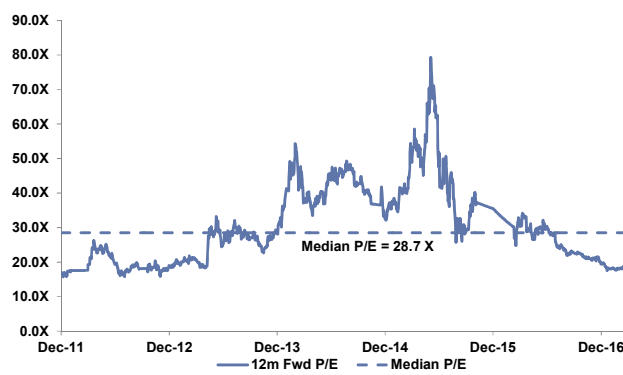
12m fwd PB vs. ROE



Source: Datastream, company data, Gao Hua Securities Research.

**Exhibit 69: Joyson is currently trading at 18.4X 12m fwd PE vs. median at 28.7X**

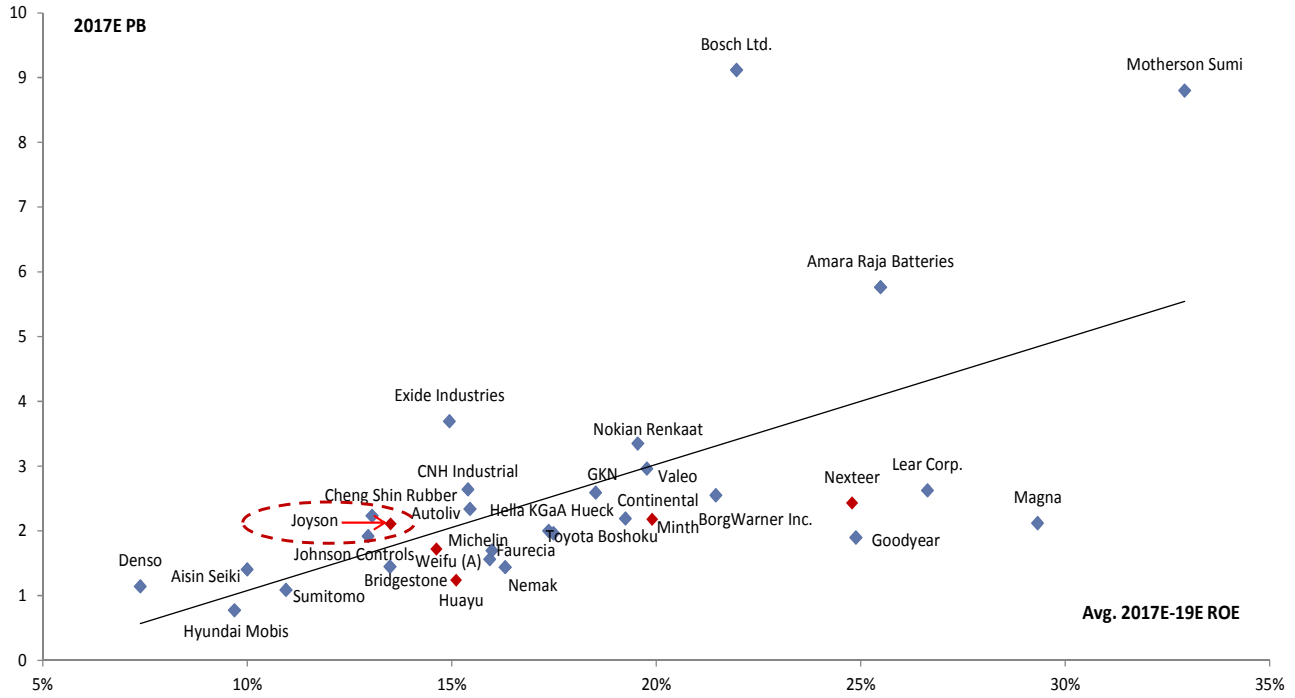
12MF foresight PE



Source: Datastream, company data, Gao Hua Securities Research.

**Exhibit 70: Josyon is trading at a premium to GS covered suppliers...**

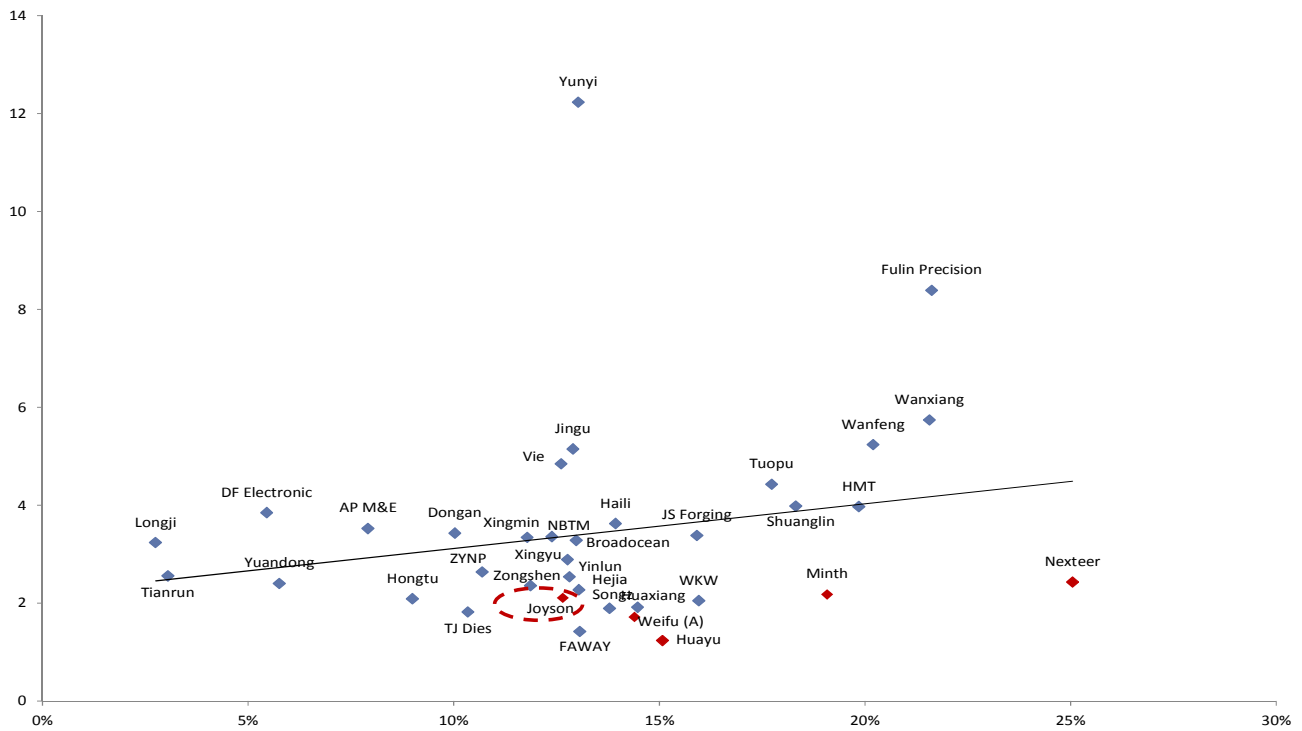
2017E PB vs. avg. 2017-19E ROE



Source: Quantum, Goldman Global Investment Research, Gao Hua Securities Research.

**Exhibit 71: ... but at a discount to A-share listed suppliers**

2017E PB vs. avg. 2017-19E ROE



Source: WIND, Goldman Global Investment Research, Gao Hua Securities Research.

**Related Research**

*Nexteer: Steering autonomously, dated March 27, 2017*

*China: Automobile: Parts: Limited impact of near-term volume growth/pricing headwinds on suppliers; Buy Weifu, dated November 11, 2016*

*Nexteer: Steering toward increase/upgrade in product content; initiate at Buy, dated May18, 2016*

*Toyoda Gosei: Airbags set to inflate earnings growth over next 5 yrs; initiate at Buy, dated February 24, 2016*

*Global: Automobiles: Monetizing the rise of Autonomous Vehicles: It's the Technology, not the Cars: Buy the Suppliers, dated September 19, 2015*

*Upward mobility: The rise of global autos; competitive positioning in a growing, evolving auto industry, dated May 1, 2014*

*Motherson Sumi Systems: Rising global auto parts leader, investing in execution; initiate at Buy, dated Oct 15, 2013*

## 信息披露附录

### 申明

我们，丁好倩、杨一朋，在此申明，本报告所表述的所有观点准确反映了我们对上述公司或其证券的个人看法。此外，我们的薪金的任何部分不曾与，不与，也将不会与本报告中的具体推荐意见或观点直接或间接相关。

### 投资摘要

投资摘要部分通过将一只股票的主要指标与其行业和市场相比较来评价该股的投资环境。所描述的四个主要指标包括增长、回报、估值倍数和波动性。增长、回报和估值倍数都是运用多种方法综合计算而成，以确定该股在地区研究行业内所处的百分位排名。

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：

**增长**是下一年预测与当前年度预测的综合比较，如每股盈利、EBITDA 和收入等。**回报**是各项资本回报指标一年预测的加总，如 CROCI、平均运用资本回报率及净资产回报率。**估值倍数**根据一年预期估值比率综合计算，如市盈率、股息收益率、EV/FCF、EV/EBITDA、EV/DACF、市净率。**波动性**根据 12 个月的历史波动性计算并经股息调整。

### Quantum

Quantum 是提供具体财务报表数据历史、预测和比率的高盛专有数据库，它可以用于对单一公司的深入分析，或在不同行业和市场公司之间进行比较。

### GS SUSTAIN

GS SUSTAIN 是侧重于长期做多建议的相对稳定的全球投资策略。GS SUSTAIN 关注名单涵盖了我们认为相对于全球同业具有持续竞争优势和出色的资本回报、因而有望在长期内表现出色的行业领军企业。我们对领军企业的筛选基于对以下三方面的量化分析：现金投资的现金回报、行业地位和管理水平（公司管理层对行业面临的环境、社会和企业治理方面管理的有效性）。

### 信息披露

#### 相关的股票研究范围

丁好倩：A 股汽车、中国汽车。杨一朋：A 股汽车、中国汽车。

A 股汽车：江淮汽车、长安汽车 A、一汽轿车、福耀玻璃(A)、长城汽车(A)、华域汽车、均胜电子、上汽集团、潍柴动力(A)、威孚高科 A。

中国汽车：宝信、华晨汽车、比亚迪、和谐汽车、东风集团、福耀玻璃(H)、吉利汽车、长城汽车(H)、广汽集团、敏实集团、耐世特、中国重汽、潍柴动力(H)、正通汽车、中升集团。

#### 与公司有关的法定披露

以下信息披露了高盛高华证券有限责任公司（“高盛高华”）与北京高华证券有限责任公司（“高华证券”）投资研究部所研究的并在本研究报告中提及的公司之间的关系。

高盛高华在今后 3 个月中预计将从下述公司获得或寻求获得投资银行服务报酬：均胜电子 (Rmb32.72)

高盛高华在过去 12 个月中与下述公司存在投资银行客户关系：均胜电子 (Rmb32.72)

#### 公司评级、研究行业及评级和相关定义

**买入、中性、卖出**：分析师建议将评为买入或卖出的股票纳入地区投资名单。一只股票在投资名单中评为买入或卖出由其相对于所属研究行业的总体潜在回报决定。任何未获得买入或卖出评级且拥有活跃评级（即不属于暂停评级、暂无评级、暂停研究或没有研究的股票）的股票均被视为中性评级。每个地区投资评估委员会会根据 25-35% 的股票评级为买入、10-15% 的股票评级为卖出的全球指导原则来管理该地区的投资名单；但是，在某一特定分析师所覆盖行业中买入和卖出评级的分布可能根据地区投资评估委员会的决定而有所不同。此外，每个地区投资评估委员会管理着地区强力买入或卖出名单，该名单以总体潜在回报规模和/或实现回报的可能性为主要依据确立各自研究范围内的投资建议。将股票加入或移出此类强力买入或卖出名单并不意味着分析师对这些股票的投资评级发生了改变。

**总体潜在回报**：代表当前股价低于或高于一定时间范围内预测目标价格的幅度，包括所有已付或预期股息。分析师被要求对研究范围内的所有股票给出目标价格。总体潜在回报、目标价格及相关时间范围在每份加入投资名单或重申维持在投资名单的研究报告中都有注明。

**研究行业及评级**：每个行业研究的所有股票名单可登陆 <http://www.gs.com/research/hedge.html> 通过主要分析师、股票和行业进行查询。分析师给出下列评级中的其中一项代表其根据行业历史基本面及 / 或估值对研究对象的未来前景的看法。**具吸引力(A)**：未来 12 个月内投资前景优于研究范围的历史基本面及 / 或估值。**中性(N)**：未来 12 个月内投资前景相对研究范围的历史基本面及 / 或估值持平。**谨慎(C)**：未来 12 个月内投资前景劣于研究范围的历史基本面及 / 或估值。

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