



Rating
Buy

Asia
China

Automobiles & Components

Company
Joyson Electronics

Reuters 600699.SS Bloomberg 600699 CH Exchange SHH Ticker 600699

Date
21 August 2017

Forecast Change

Price at 18 Aug 2017 (CNY)	31.76
Price target - 12mth (CNY)	35.20
52-week range (CNY)	36.03 - 28.26
Shanghai Composite	3,269

1H17 beat on one-off; core profit dragged down by rising costs

Stronger revenue offset weaker margins

1H17 revenue expanded 1.2x YoY to RMB13.1bn, driven by RMB8.5bn contribution from full-period KSS/PCC consolidation (65% of revenue) but partly offset by 7.3% YoY drop in HMI segment due to sales decline at one major OEM customer. Meanwhile, gross profit grew 93.3% YoY to RMB2.3bn in 1H17 with 2.5ppt YoY gross margin deterioration. The margin contraction was mainly due to 1.8ppt YoY margin dip from HMI and 0.6ppt drop from KSS. Together with 1.1x YoY jump in SG&A expenses and 53.0% YoY increase in finance cost, but partially offset by RMB320.3m one-off disposal gain (before-tax) of industrial automation business, 1H17 net profit increased by 1.5x YoY to RMB615.6m (62% of FY17 DBe and 53% of consensus). Excluding after-tax disposal gain of RMB220m, 1H17 core net profit grew 61.5% YoY to RMB395.6m, with 1.1ppt deterioration in core net margin.

On a quarterly basis, 2Q17 revenue was flattish QoQ (+73.0% YoY). Gross margin deteriorated 1.1ppt QoQ (2.3ppt YoY) to 17.4%. 2Q17 net profit increased by 96.1% QoQ (2.3x YoY) to RMB407.7m.

Deutsche Bank view - consolidation of KSS on track; maintaining Buy

With the sequential recovery in gross margin of auto safety segment (1H17 17.5% vs. 2H16 14.7%), Joyson is on track to consolidate KSS albeit at a slower-than-expected pace. The segment recorded USD1.3bn new contract wins in 1H17, including USD130m for active safety. Maintain Buy on our optimistic view on the growth potential of KSS in active safety and ADAS, a market in China that we estimate could grow to c.USD11bn by 2020.

We raise our FY17-19E revenue by 1.4-8.9% to reflect stronger revenue growth and FY17E net profit by 13.8% to include the one-off gain from disposal of industrial automation business. Our FY18-19E net profit estimates are revised up by only 0.8-3.4% to factor in lower margins. We expect Joyson to deliver 27.7% FY16-19 revenue CAGR, driven mainly by KSS acquisition. Our TP is set at 27x FY18E P/E (unchanged), 25% below its mid-cycle P/E of 36x. This is justified, in our view, since we expect the company to deliver a 36% EPS CAGR in FY16-19. Key downside risks include 1) weaker-than-expected auto sales; 2) failure to consolidate KSS/TS or improve profitability; 3) future capital raising to fund potential acquisitions.

Valuation & Risks

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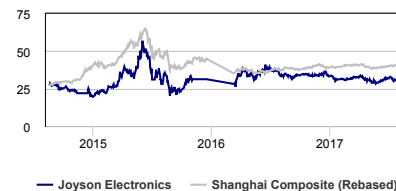
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Key changes

TP	35.00 to 35.20	↑	0.6%
Sales (FYE)	25,908 to 26,265	↑	1.4%
Op prof margin (FYE)	8.8 to 9.0	↑	2.9%
Net profit (FYE)	998.9 to 1,136.2	↑	13.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.6	5.5	-8.0
Shanghai Composite	2.6	5.8	5.3

Source: Deutsche Bank



Figure 1: Joyson Electronics - 1H17 results review

(RMBm)	1H17	1H16	YoY	2H16	HoH
Revenue	13,090.7	5,950.7	120.0%	12,601.7	3.9%
Human machine interaction (HMI)	2,407.1	2,596.6	-7.3%	2,505.3	-3.9%
Interconnection system (TS/PCC)*	1,806.7	626.0	188.6%	1,622.2	11.4%
Auto safety system (KSS)*	6,735.3	860.1	683.1%	6,409.7	5.1%
Functional parts	1,193.8	1,137.9	4.9%	1,308.4	-8.8%
BMS	293.7	244.5	20.1%	198.3	48.1%
Industrial automation	448.0	341.9	31.0%	415.3	7.9%
Others	206.0	143.7	43.3%	142.5	44.5%
Cost of sales	-10,747.4	-4,738.2	126.8%	-10,344.3	3.9%
Gross (loss)/profit	2,343.3	1,212.5	93.3%	2,257.4	3.8%
Gross profit margin (%)	17.9%	20.4%		17.9%	
Human machine interaction (HMI)	21.6%	23.4%		25.8%	
Interconnection system (TS/PCC)*	9.4%	8.3%		13.3%	
Auto safety system (KSS)*	17.5%	18.1%		14.7%	
Functional parts	25.5%	22.8%		25.9%	
BMS	19.8%	19.6%		14.7%	
Industrial automation	24.6%	24.5%		22.8%	
Selling and distribution expenses	-228.0	-191.9	18.8%	-276.2	-17.4%
Administrative expenses	-1,319.9	-547.3	141.2%	-1,189.7	10.9%
Operating profit	795.4	473.4	68.0%	791.5	0.5%
Finance cost	-242.8	-158.7	53.0%	-58.7	313.9%
Other income/expenses	410.8	50.2	718.6%	4.4	n.m.
Income tax	-168.0	-91.4	83.8%	-62.9	167.2%
Minority interest	-179.8	-28.5	530.0%	-42.0	328.0%
Net profit	615.6	245.0	151.3%	208.9	194.7%
Net profit margin (%)	4.7%	4.1%		1.7%	
Core net profit**	395.6	245.0	61.5%	208.9	
Core net profit margin (%)	3.0%	4.1%		1.7%	
Key P&L ratio	1H17	1H16	YoY	2H16	HoH
Gross profit margin	17.9%	20.4%	-2.5%	17.9%	0.0%
Selling and distribution expenses as % of revenue	1.7%	3.2%	-1.5%	2.2%	-0.4%
Administrative expenses as % of revenue	10.1%	9.2%	0.9%	9.4%	0.6%
Operating profit margin	6.1%	8.0%	-1.9%	6.3%	-0.2%
Non-controlling interest as % of profit for the year	22.6%	10.4%	12.2%	16.7%	5.9%
Net profit margin	4.7%	4.1%	0.6%	1.7%	3.0%

*PCC/KS was consolidated in P&L since May-2016; KSS was consolidated since Jun-2016.

** Core net profit excludes one-off disposal gain (c.RMB220m after-tax) of industrial automation business in Jun-2016.

Source: Company data, Deutsche Bank



Model updated: 19 August 2017

Running the numbers

Asia
China
Automobiles & Components

Joyson Electronics

Reuters: 600699.SS Bloomberg: 600699 CH

Buy

Price (18 Aug 17) CNY 31.76

Target Price CNY 35.20

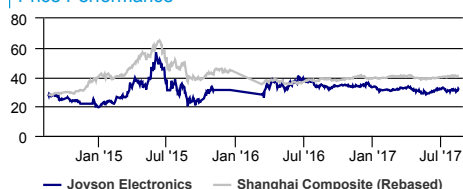
52 Week range CNY 28.26 - 36.03

Market cap (m) CNYm 30,149
USDm 4,512.6

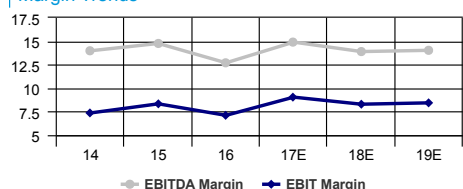
Company Profile

Ningbo Joyson Electronic Corp. is engaged principally in the research, manufacturing, production and distribution of automobile parts and components. Through its subsidiaries, the company mainly offers engine air inflow boosters, automobile body electronic controlling systems, automobile rearview mirrors, molds, plastic products, and automobile accessories, among others. The company distributes its products in both the domestic

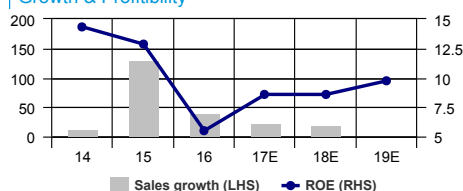
Price Performance



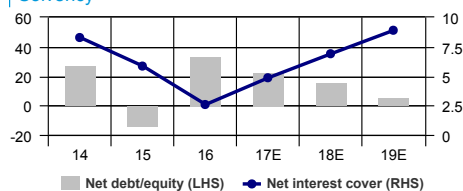
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.55	0.61	0.66	0.81	1.31	1.64
Reported EPS (CNY)	0.55	0.61	0.66	1.20	1.31	1.64
DPS (CNY)	0.11	0.00	0.20	0.48	0.52	0.66
BVPS (CNY)	3.8	5.5	13.4	14.5	15.9	17.7
Weighted average shares (m)	636	653	692	949	949	949
Average market cap (CNYm)	15,068	20,781	23,967	30,149	30,149	30,149
Enterprise value (CNYm)	15,779	20,330	29,518	34,844	34,688	33,933

Valuation Metrics

P/E (DB) (x)	43.4	52.0	52.8	39.3	24.3	19.4
P/E (Reported) (x)	43.4	52.0	52.8	26.5	24.3	19.4
P/BV (x)	5.11	5.68	2.47	2.19	2.00	1.79
FCF Yield (%)	nm	nm	nm	3.3	1.1	3.5
Dividend Yield (%)	0.5	0.0	0.6	1.5	1.6	2.1
EV/Sales (x)	2.2	2.5	1.6	1.3	1.1	0.9
EV/EBITDA (x)	15.9	17.0	12.5	8.9	7.7	6.3
EV/EBIT (x)	30.3	30.2	22.4	14.7	12.9	10.4

Income Statement (CNYm)

Sales revenue	7,077	8,083	18,552	26,265	32,485	38,601
Gross profit	1,843	2,259	4,507	6,365	8,255	9,830
EBITDA	990	1,193	2,357	3,915	4,515	5,417
Depreciation	303	338	684	1,001	1,182	1,398
Amortisation	165	181	353	536	638	759
EBIT	522	674	1,320	2,377	2,696	3,259
Net interest income/(expense)	-63	-115	-510	-489	-390	-366
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	459	559	809	1,888	2,306	2,893
Income tax expense	109	142	134	378	461	579
Minorities	3	17	222	374	605	760
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	347	400	454	1,136	1,239	1,555
DB adjustments (including dilution)	0	0	0	-370	0	0
DB Net profit	347	400	454	766	1,239	1,555

Cash Flow (CNYm)

Cash flow from operations	738	585	674	2,803	2,312	3,229
Net Capex	-758	-853	-2,012	-1,812	-1,980	-2,171
Free cash flow	-21	-268	-1,338	991	331	1,058
Equity raised/(bought back)	1	1,147	8,250	0	0	0
Dividends paid	-59	-154	-528	-454	-496	-622
Net inc/(dec) in borrowings	1,076	2,520	11,518	0	0	0
Other investing/financing cash flows	-846	-2,925	-13,200	-5,126	105	260
Net cash flow	151	321	4,702	-4,589	-59	695
Change in working capital	-131	-400	-1,295	-1,278	-1,352	-1,243

Balance Sheet (CNYm)

Cash and other liquid assets	558	3,425	9,191	4,922	5,183	6,198
Tangible fixed assets	2,439	2,921	6,650	6,457	6,155	5,714
Goodwill/intangible assets	752	1,152	9,807	9,953	10,096	10,231
Associates/investments	5	81	245	245	245	245
Other assets	2,506	3,830	11,340	13,332	15,869	18,320
Total assets	6,259	11,409	37,233	34,910	37,548	40,708
Interest bearing debt	1,225	2,873	13,845	8,345	7,845	7,345
Other liabilities	2,564	4,560	9,543	11,289	12,473	13,680
Total liabilities	3,789	7,433	23,388	19,634	20,318	21,026
Shareholders' equity	2,420	3,794	12,703	13,760	15,108	16,801
Minorities	50	182	1,141	1,516	2,121	2,881
Total shareholders' equity	2,470	3,976	13,845	15,276	17,229	19,682
Net debt	667	-552	4,654	3,423	2,662	1,147

Key Company Metrics

Sales growth (%)	nm	14.2	129.5	41.6	23.7	18.8
DB EPS growth (%)	na	12.3	7.1	23.0	61.7	25.5
EBITDA Margin (%)	14.0	14.8	12.7	14.9	13.9	14.0
EBIT Margin (%)	7.4	8.3	7.1	9.0	8.3	8.4
Payout ratio (%)	20.2	0.0	30.5	40.0	40.0	40.0
ROE (%)	14.3	12.9	5.5	8.6	8.6	9.7
Capex/sales (%)	10.7	10.6	10.8	6.9	6.1	5.6
Capex/depreciation (x)	1.6	1.6	1.9	1.2	1.1	1.0
Net debt/equity (%)	27.0	-13.9	33.6	22.4	15.5	5.8
Net interest cover (x)	8.3	5.9	2.6	4.9	6.9	8.9

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Joyson Electronics	600699.SS	31.76 (CNY) 18 Aug 2017	NA

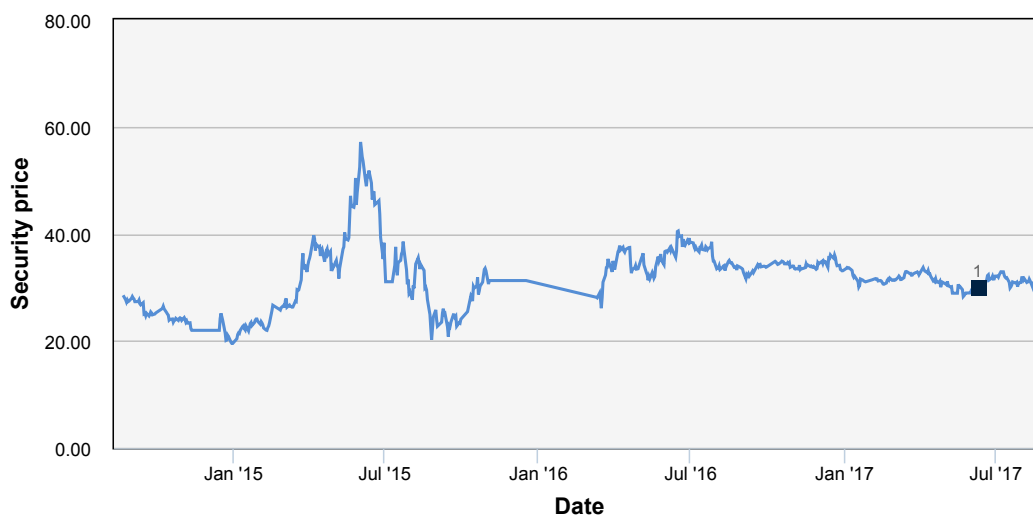
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Historical recommendations and target price. Joyson Electronics (600699.SS)

(as of 08/18/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1. 06/11/2017 Buy, Target Price Change CNY 35,00 Fei Sun, CFA



Equity Rating Key

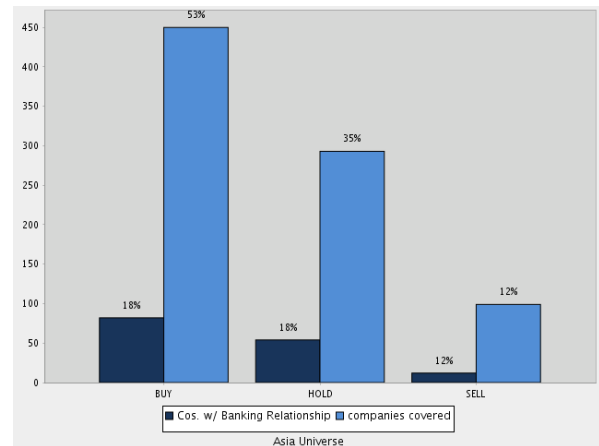
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships





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