



Rating
Buy

Asia
China

Automobiles & Components

Company
Joyson Electronics

Reuters 600699.SS Bloomberg 600699 CH Exchange SHH Ticker 600699

Date
28 October 2017

Forecast Change

Price at 26 Oct 2017 (CNY)	38.90
Price target - 12mth (CNY)	40.40
52-week range (CNY)	38.90 - 28.26
Shanghai Composite	3,408

3Q17 a small beat on cost discipline; new business gaining momentum

Mild profit growth with SG&A cost control offsetting weak margin

3Q17 revenue grew 9.3% YoY to RMB6.3bn. However, gross profit declined 20.5% YoY to RMB0.9bn in 3Q17 with 5.6ppt YoY gross margin deterioration due to increasing revenue contribution from lower margin segments such as BMS and ADAS (auto safety and interconnection system). Together with 1) 17.2% YoY drop in SG&A expenses (SG&A ratio declining to 11.1% of revenue in 3Q17 vs. 14.6% in 3Q16) and 2) one-off disposal gain of the remaining stake in industrial automation business, but partially offset by 43.1% YoY increase in finance cost, 3Q17 net profit increased by 71.1% YoY to RMB271.1m. On a 9M17 basis, Joyson's net profit of RMB886.7m was up 1.2x YoY and accounted for 78% of our previous full-year FY17 earnings forecasts and 75% of Bloomberg consensus. Therefore, we consider the results slightly above our expectation.

Deutsche Bank view - auto safety and ADAS gaining momentum

Joyson is on track to consolidate the KSS and PCC businesses acquired last year. According to the company, the two segments further recorded new contract wins for active safety products and interconnection system. We raise our FY17-19E revenue by 2.7-3.0% and net profit by 2.8-4.0% to reflect stronger revenue growth from new businesses and lower SG&A cost ratio, partly offset by lower gross margin assumptions. Maintain Buy on our optimistic view for the growth potential of KSS in active safety and ADAS market in China. Our TP is set at 30x FY18E P/E (from 27x, given the sector re-rating over the past few months), ~15% below its mid-cycle P/E of 36x. This is justified, in our view, since we expect the company to deliver a 37.5% EPS CAGR in FY16-19E. Key downside risks: 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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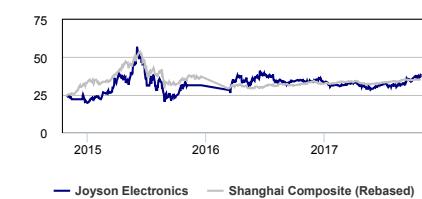
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Key changes

TP	35.20 to 40.40	↑	14.8%
Sales (FYE)	26,265 to 26,983	↑	2.7%
Op prof margin (FYE)	9.0 to 8.2	↓	-9.1%
Net profit (FYE)	1,136.2 to 1,167.7	↑	2.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	15.5	29.2	13.0
Shanghai Composite	1.9	4.9	9.3

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	8.8
Net debt/equity (%)	23.8
Book value/share (CNY)	14.46
Price/book (x)	2.7
Net interest cover (x)	5.2
Operating profit margin (%)	8.2

Source: Deutsche Bank

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Figure 1: Joyson Electronics - quarterly results summary

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Gross revenue (RMBm)	2,156.0	3,794.7	5,780.9	6,820.8	6,526.3	6,564.4	6,320.9
YoY (%)	16.3%	85.7%	172.8%	230.2%	202.7%	73.0%	9.3%
Gross profit (RMBm)	464.7	747.8	1,191.3	1,066.0	1,203.8	1,139.5	947.4
YoY (%)	27.3%	56.6%	134.3%	174.2%	159.1%	52.4%	-20.5%
Gross profit margin (%)	21.6%	19.7%	20.6%	15.6%	18.4%	17.4%	15.0%
SG&A as % of Revenue	13.2%	12.0%	14.6%	9.1%	11.6%	12.1%	11.1%
Net profit (RMBm)	120.7	124.2	158.5	50.3	207.9	407.7	271.1
YoY (%)	30.7%	29.3%	93.5%	-61.2%	72.2%	228.2%	71.1%
Net profit margin (%)	5.6%	3.3%	2.7%	0.7%	3.2%	6.2%	4.3%

Source: Company data, Deutsche Bank



Model updated: 27 October 2017

Running the numbers

Asia

China

Automobiles & Components

Joyson Electronics

Reuters: 600699.SS Bloomberg: 600699 CH

Buy

Price (26 Oct 17) CNY 38.90

Target Price CNY 40.40

52 Week range CNY 28.26 - 38.90

Market cap (m) CNYm 36,927
USDm 5,567.0

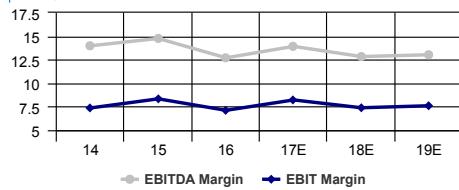
Company Profile

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



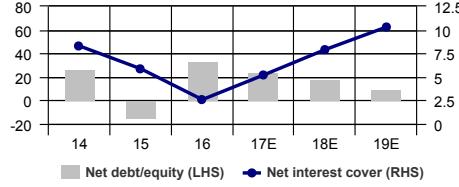
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.55	0.61	0.66	0.84	1.34	1.70
Reported EPS (CNY)	0.55	0.61	0.66	1.23	1.34	1.70
DPS (CNY)	0.11	0.00	0.20	0.49	0.54	0.68
BVPS (CNY)	3.8	5.5	13.4	14.5	15.8	17.5
Weighted average shares (m)	636	653	692	949	949	949
Average market cap (CNYm)	15,068	20,781	23,967	36,927	36,927	36,927
Enterprise value (CNYm)	15,779	20,330	29,518	41,761	41,715	41,079

Valuation Metrics

	2014	2015	2016	2017E	2018E	2019E
P/E (DB) (x)	43.4	52.0	52.8	46.3	28.9	22.8
P/E (Reported) (x)	43.4	52.0	52.8	31.6	28.9	22.8
P/BV (x)	5.11	5.68	2.47	2.69	2.46	2.22
FCF Yield (%)	nm	nm	nm	2.3	0.6	2.6
Dividend Yield (%)	0.5	0.0	0.6	1.3	1.4	1.8
EV/Sales (x)	2.2	2.5	1.6	1.5	1.2	1.0
EV/EBITDA (x)	15.9	17.0	12.5	11.1	9.7	7.9
EV/EBIT (x)	30.3	30.2	22.4	18.8	16.9	13.6

Income Statement (CNYm)

Sales revenue	7,077	8,083	18,552	26,983	33,399	39,769
Gross profit	1,843	2,259	4,507	6,111	7,957	9,455
EBITDA	990	1,193	2,357	3,757	4,287	5,181
Depreciation	303	338	684	1,001	1,182	1,398
Amortisation	165	181	353	536	638	759
EBIT	522	674	1,320	2,219	2,468	3,024
Net interest income(expense)	-63	-115	-510	-426	-312	-293
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	459	559	809	1,792	2,155	2,731
Income tax expense	109	142	134	305	366	464
Minorities	3	17	222	320	512	649
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	347	400	454	1,168	1,277	1,617
DB adjustments (including dilution)	0	0	0	-370	0	0
DB Net profit	347	400	454	798	1,277	1,617

Cash Flow (CNYm)

Cash flow from operations	738	585	674	2,675	2,218	3,134
Net Capex	-758	-853	-2,012	-1,812	-1,980	-2,171
Free cash flow	-21	-268	-1,338	864	238	963
Equity raised/bought back	1	1,147	8,250	0	0	0
Dividends paid	-59	-154	-528	-467	-511	-647
Net inc/(dec) in borrowings	1,076	2,520	11,518	0	0	0
Other investing/financing cash flows	-846	-2,925	-13,200	-5,180	12	149
Net cash flow	151	321	4,702	-4,783	-261	465
Change in working capital	-131	-400	-1,295	-1,382	-1,390	-1,290

Balance Sheet (CNYm)

Cash and other liquid assets	558	3,425	9,191	4,728	4,787	5,572
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	13,716	16,353	18,935
Total assets	6,259	11,409	37,233	35,099	37,636	40,697
Interest bearing debt	1,225	2,873	13,845	8,345	7,845	7,345
Other liabilities	2,564	4,560	9,543	11,569	12,815	14,107
Total liabilities	3,789	7,433	23,388	19,914	20,660	21,453
Shareholders' equity	2,420	3,794	12,703	13,724	15,002	16,622
Minorities	50	182	1,141	1,461	1,974	2,622
Total shareholders' equity	2,470	3,976	13,845	15,185	16,976	19,244
Net debt	667	-552	4,654	3,618	3,058	1,774

Key Company Metrics

Sales growth (%)	nm	14.2	129.5	45.4	23.8	19.1
DB EPS growth (%)	na	12.3	7.1	28.1	60.1	26.7
EBITDA Margin (%)	14.0	14.8	12.7	13.9	12.8	13.0
EBIT Margin (%)	7.4	8.3	7.1	8.2	7.4	7.6
Payout ratio (%)	20.2	0.0	30.5	40.0	40.0	40.0
ROE (%)	14.3	12.9	5.5	8.8	8.9	10.2
Capex/sales (%)	10.7	10.6	10.8	6.7	5.9	5.5
Capex/depreciation (x)	1.6	1.6	1.9	1.2	1.1	1.0
Net debt/equity (%)	27.0	-13.9	33.6	23.8	18.0	9.2
Net interest cover (x)	8.3	5.9	2.6	5.2	7.9	10.3

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	39.69 (CNY) 27 Oct 2017	NA

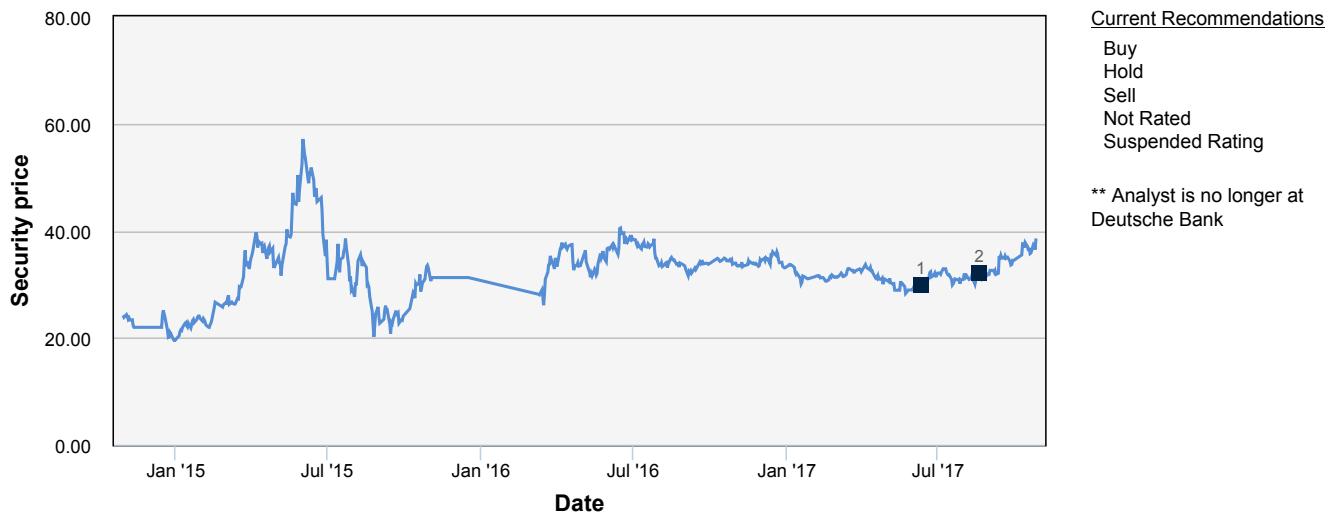
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Historical recommendations and target price. Joyson Electronics (600699.SS)

(as of 10/26/2017)



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

2. 08/20/2017 Buy, Target Price Change CNY 35,20 Fei Sun, CFA



Equity Rating Key

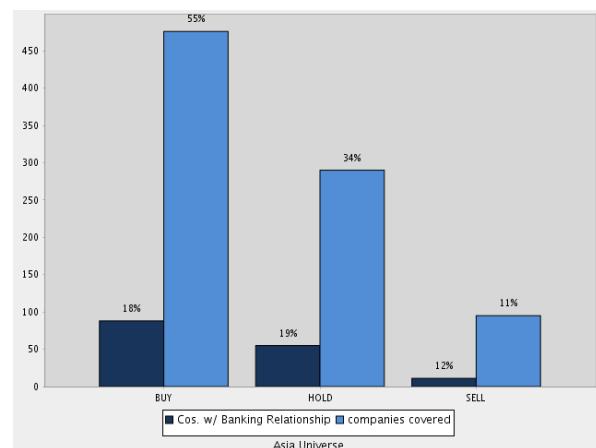
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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