



Rating
Buy

Asia
China

Automobiles & Components

Company
Joyson Electronics

Reuters 600699.SS Bloomberg 600699 CH Exchange SHH Ticker 600699

Date
6 November 2017

Breaking News

Price at 2 Nov 2017 (CNY)	38.82
Price target - 12mth (CNY)	40.40
52-week range (CNY)	39.78 - 28.26
Shanghai Composite	3,383

Introducing strategic investor to KSS for business expansion and M&A

KSS capital increase from Joyson and strategic investor

Joyson announced after market close on 3 November that the company entered an agreement with an external investor, SDIC (State Development & Investment Corp.) Fund Management regarding the capital increase in Joyson's auto safety subsidiary KSS. Joyson and SDIC Fund will invest USD150m and USD250m, respectively, in KSS (for a total amount of USD400m) for auto safety business expansion, global M&As and working capital. Following the capital increase, Joyson's stake in KSS will decrease to 84.85% from 100% previously and SDIC Fund will take the rest 15.15% stake in KSS.

Joyson acquired KSS in June 2016 and the business recorded close to USD5bn new orders last year. According to the announcement, KSS reported RMB12.1bn revenue (+22.2% YoY) and RMB398.8m net profit (+77.1% YoY) in 2016.

Deutsche Bank view - overhang on acquisition funding removed

Earlier in June this year, Joyson announced that KSS had signed an MOU with Takata to buy Takata's non-PSAN business for not more than USD1.6bn, including USD350m in cash. We believe the USD400m capital increase will ease investors' concern on the funding source for Takata air bag business acquisition. Maintain Buy on our optimistic view for the growth potential of KSS in active safety and ADAS market in China. In 3Q17, Joyson said KSS recorded new contract wins for active safety products.

Our TP is set at 30x FY18E P/E (unchanged), ~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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Price/price relative



Performance (%)	1m	3m	12m
Absolute	9.4	23.9	15.9
Shanghai Composite	1.0	3.0	9.0

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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Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	8,082.5	18,552.4	26,982.9	33,398.8	39,768.6
EBITDA (CNYm)	1,193.3	2,356.7	3,756.5	4,287.1	5,181.3
Reported NPAT (CNYm)	399.9	453.7	1,167.7	1,276.8	1,617.5
Reported EPS FD (CNY)	0.61	0.66	1.23	1.34	1.70
DB EPS FD (CNY)	0.61	0.66	0.84	1.34	1.70
DB EPS growth (%)	12.3	7.1	28.1	60.1	26.7
PER (x)	52.0	52.8	46.2	28.9	22.8
EV/EBITDA (x)	17.0	12.5	11.1	9.7	7.9
DPS (net) (CNY)	0.00	0.20	0.49	0.54	0.68
Yield (net) (%)	0.0	0.6	1.3	1.4	1.8

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Joyson Electronics	600699.SS	38.84 (CNY) 3 Nov 2017	NA

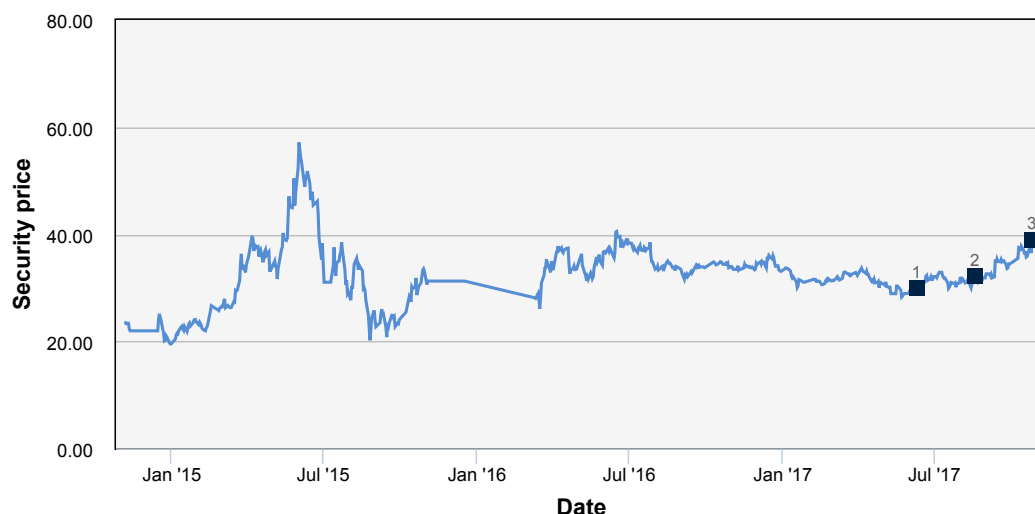
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Historical recommendations and target price. Joyson Electronics (600699.SS)

(as of 11/02/2017)



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	3.	10/27/2017	Buy, Target Price Change CNY 40,40 Fei Sun, CFA
2.	08/20/2017	Buy, Target Price Change CNY 35,20 Fei Sun, CFA			



Equity Rating Key

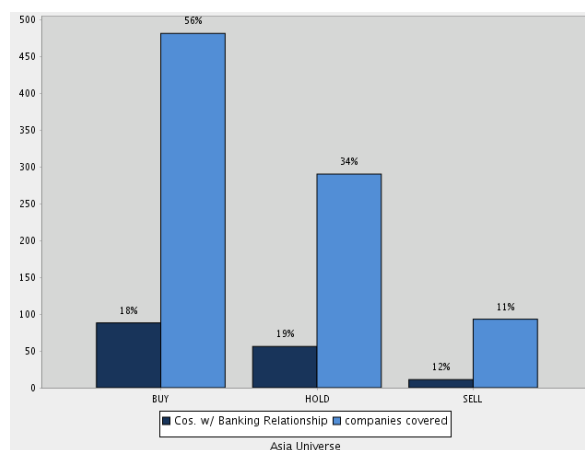
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