



Rating
Hold

Asia
China

Industrials
Manufacturing

Company
XJ Electric Alert

Reuters 000400.SZ Bloomberg 000400 CS Exchange SHZ Ticker 000400

Date
23 August 2018

Results

Price at 22 Aug 2018 (CNY)	7.41
Price target - 12mth (CNY)	9.00
52-week range (CNY)	17.90 - 7.41
Shenzhen Index	1,521

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Stock data	
Market cap (CNYm)	7,472
Market cap (USDm)	1,091
Shares outstanding (m)	1,008.3
Major shareholders	–
Free float (%)	–
Avg daily value traded (USDm)	5.5

Source: Deutsche Bank

Key data			
FYE 12/31	2017A	2018E	2019E
Sales (CNYm)	10,331	9,262	10,136
Net Profit (CNYm)	614.0	580.0	655.6
DB EPS (CNY)	0.61	0.58	0.65
PER (x)	27.5	12.9	11.4
Yield (net) (%)	0.1	0.8	0.9

Source: Deutsche Bank

In-line 1H profit decline, await meaningful recovery evidence

XJ Electric's 1H core profit dropped 25% yoy, in line with our [expectation](#). 2Q profit decline narrowed to -15% from -47% in 1Q, but it was more driven by sales/admin cost savings while gross profit deterioration was actually even worse. Key leading indicators, e.g. order inflow, large-size project bidding and tender ASP, suggest a continued yoy weaker 2H earnings trajectory and only a moderate recovery from 2019, which very much hinges on DC project bidding results. We forecast its net profit to decline 6% this year and grow 13% next year, both c.30% below Bloomberg consensus. Maintaining Hold.

1H highlights and segment outlook

1H results continue to manifest the impact from deteriorating product portfolio, i.e. 68% yoy less high-margin DC order delivery. Consequently, total revenue dropped 18% and GPM contracted by 0.85ppt.

- **DC projects:** Management expects to recognize c.Rmb1bn revenue for UHV projects this year (Yu'e project and part of overseas project), meaning down 60% yoy. Next year's DC revenue recognition will be mostly Zhangbei project (c.Rmb800m) and others, which depend on 2H bidding results. In 2H, we expect one or two more DC tenders that XJ Electric could receive orders from: Wudongde ±800kV HVDC Flexible (under bidding; tender size relevant to XJ Electric is c.Rmb2bn) and Qinghai-Henan ±800kV DC. Note GPM of Zhangbei project is lower (est. 20-30%) vs. UHVDC project (40-50%) due to expensive externally-procured key components parts like IGBT.
- **Smart substation/distribution:** Revenue was down 7% on weak order intake in 2H17, while GPM recovered by 2.8ppt to 24%. 1H segment orders rose 25% yoy in 1H to c.Rmb2bn, out of which c.Rmb300m was signed under leasing model with provincial gridcos. Management is actively seeking more leasing-model projects as well as non-gridco projects, given not much growth expected in gridcos' centralized bidding.
- **Smart power supply:** Order intake jumped 160% to c.Rmb800m, driven by 100% growth in EV charging and an energy storage project signed with Zhenjiang gridco (c.Rmb200m). This is the first energy storage order that XJ Electric receives, indicating its capability of supplying full-set energy storage facilities. Management estimates its GPM to be c.15%. While smart power supply segment enjoys strong growth outlook, profitability remains a question given ASP continues to decline. Segment net margin was merely 2% in 1H.

Deutsche Bank AG/Hong Kong

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