



Rating  
**Hold**

Asia  
China

Automobiles & Components

Company  
**Guoxuan High-Tech**

Reuters 002074.SZ    Bloomberg 002074 CS    Exchange SHZ    Ticker 002074

Date  
2 November 2018

Forecast Change

Price at 1 Nov 2018 (CNY)	12.63
Price target - 12mth (CNY)	13.30
52-week range (CNY)	31.53 - 10.53
HANG SENG INDEX	24,980

**Valuation & Risks**

Sharon Ding  
Research Analyst  
+852-2203-5716

Key changes			
TP	15.58 to 13.30	↓	-14.6%
Sales (FYE)	6,970 to 6,352	↓	-8.9%
Op prof margin (FYE)	-	↓	-0.3%
Net profit (FYE)	989.6 to 871.2	↓	-12.0%

Source: Deutsche Bank

## Third-largest battery player in China but yet to catch up in NMC; Hold

**New capacity on the way, but yet to see meaningful shipments of NMC battery; Hold**

Guoxuan High-Tech, the third-largest battery player in China, aims to double its capacity by 2020, and even to triple it starting in 2021. The company started with the LFP (lithium iron phosphate) battery, and it is now trying to ramp up the NMC (lithium nickel cobalt manganese oxide) battery business. However, meaningful progress is yet to be seen in the NMC battery, with Guoxuan having only 0.4% NMC market share by 9M18. We set our target price at 15x 2019E P/E, in line with the industry average. With 9% upside potential, we maintain our Hold view on Guoxuan. This report marks the transfer of coverage from James Kan to Sharon Ding.

**Weak 3Q due to lower shipments; keep an eye on NMC battery**

Guoxuan recorded RMB4.1bn revenue in 9M2018, achieving only 59% of our estimate, as a result of weak shipments due to the subsidy cut in the middle of this year. Gross margin in the first nine months also missed our expectation by 2ppt, a result of ASP pressure and lower volume. In terms of NMC battery, management mentioned there is no technical or customer issue, but it is awaiting massive commercial shipments. The company is yet to prove it can repeat its success in LFP battery.

**Cutting target price to RMB13.3 and maintaining Hold; risks**

Despite the company's aggressive capacity expansion plan, we are yet to see meaningful shipments in NMC battery. We lower our 2018 and 2019 earnings estimates by 12% and 10%, respectively, to factor in its weaker-than-expected shipments and ASP pressure. Our target price of RMB13.3 (down from RMB15.58) is based on a target multiple of 15x 2019E P/E, in line with the battery industry average; the lower TP reflects a shift from a 15.4x multiple and our lower estimates. We maintain our Hold rating. Risks include faster or slower capacity ramp-up and shipments.

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Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	4,757.9	4,838.1	6,352.0	8,599.2	10,408.6
EBITDA (CNYm)	1,367.6	923.0	1,400.2	1,768.9	2,218.4
Reported NPAT (CNYm)	1,030.9	838.0	871.2	1,011.3	1,261.3
Reported EPS FD (CNY)	1.18	0.74	0.77	0.89	1.11
DB EPS FD (CNY)	1.18	0.74	0.77	0.89	1.11
OLD DB EPS FD (CNY)	1.18	0.74	0.87	0.98	1.14
% Change	0.0%	0.0%	-12.0%	-9.6%	-2.8%
DB EPS growth (%)	76.4	-37.3	4.0	16.1	24.7
PER (x)	29.3	41.3	16.5	14.2	11.4
EV/EBITDA (x)	22.2	35.7	10.4	8.3	6.6
DPS (net) (CNY)	0.15	0.10	0.10	0.12	0.15
Yield (net) (%)	0.4	0.3	0.8	1.0	1.2

Source: Deutsche Bank estimates, company data

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## Capacity overview - aggressive expansion on the way

According to management, Guoxuan currently has around 10Gwh effective capacity, of which 70-80% is LFP capacity. Total capacity, including that under construction, is around 21Gwh and is expected to be ramped up in the next year or two. The company envisions another 10G in the pipeline, eventually bringing its capacity to 30Gwh by ~2021. Upcoming capacity will include both LFP and NMC, with the detailed split dependent on market conditions.

Figure 1: Guoxuan battery capacity breakdown

Battery factories		2013	2014	2015	2016	2017	2018E	2019E	2020E
Hefei original	LFP		150	150	150	150	150	150	150
Hefei 1st	LFP		100	100	100	100	100	100	100
Hefei 2nd	LFP			100	100	100	100	100	100
Hefei 3rd	LFP				250	300	350	350	350
Hefei 3rd	NMC 111/622				250	250	250	250	250
Hefei 4th	NMC 622						1050	1050	1050
Lujiang	LFP					300	300	300	300
Kunshan	LFP			150	150	150	0	0	0
Nanjing	LFP			300	300	300	300	300	300
Nanjing 2nd	LFP					330	350	350	350
Qingdao Laixi	NMC 622				250	300	300	900	1500
Qingdao Laixi 2nd	LFP						400	400	400
Tangshan	LFP						300	300	300
	LFP		250	800	1,050	1,730	2,350	2,350	2,350
	NMC		-	-	500	550	1,600	2,200	2,800
<b>Total (mnAh)</b>	<b>LFP+NMC</b>		<b>250</b>	<b>800</b>	<b>1,550</b>	<b>2,280</b>	<b>3,950</b>	<b>4,550</b>	<b>5,150</b>
	LFP		0.8	2.6	3.4	5.5	7.5	7.5	7.5
	NMC		-	-	1.9	2.0	5.9	8.1	10.4
<b>Total (Gwh)</b>	<b>LFP+NMC</b>		<b>0.8</b>	<b>2.6</b>	<b>5.2</b>	<b>7.6</b>	<b>13.4</b>	<b>15.7</b>	<b>17.9</b>

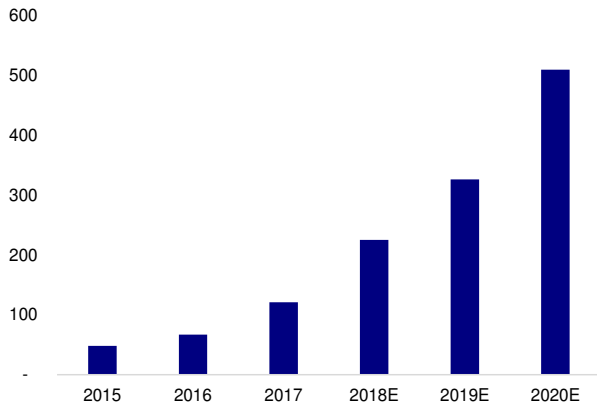
Source: Company info, Deutsche Bank estimate

Global EV capacity is expected to quadruple to about 500Gwh by 2020 compared to the end of 2017 (see report from our Korea team [here](#)). Guoxuan is among the battery players that are building capacity to capture the secular growth, and has demonstrated comparable margin to CATL, the No.1 player in China, thanks to Guoxuan's self-supplied cathode materials.

However, as per the company's schedule, we expect to see Guoxuan's capacity commencement mostly falling in the second half of each year, thus creating a larger gap between its estimated sales versus year-end capacity, compared to a smaller gap for CATL, as the latter's capacity commencement schedule is more evenly distributed throughout the year.

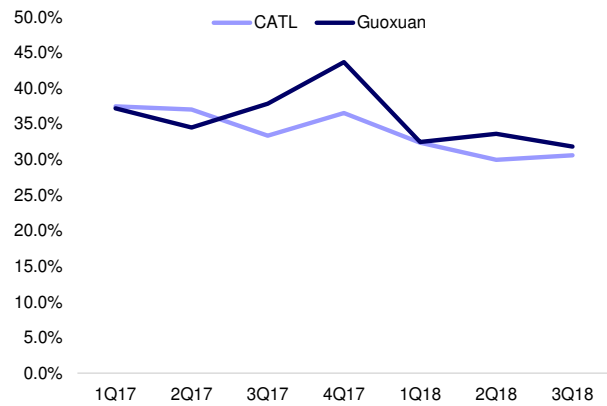


Figure 2: Global EV battery capacity announced



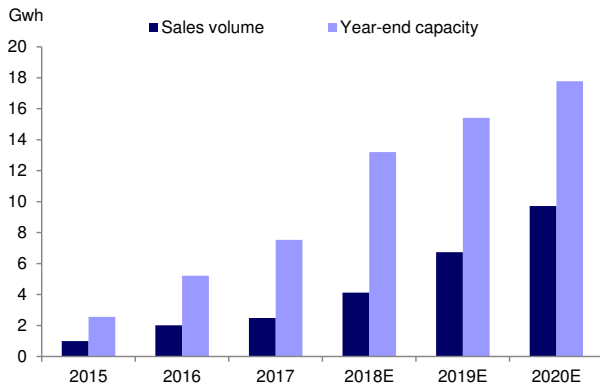
Source: Company data, Deutsche Bank estimate

Figure 3: GPM: Guoxuan vs. CATL



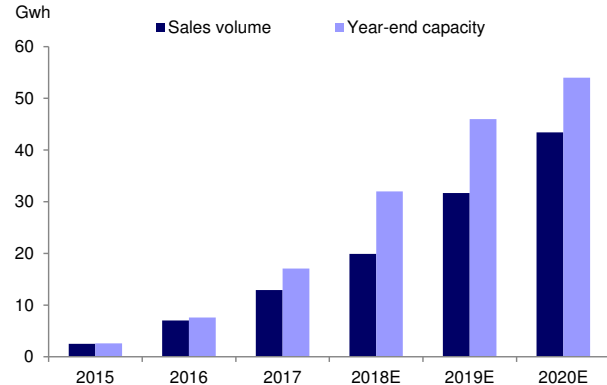
Source: Deutsche Bank, company info

Figure 4: Guoxuan year-end capacity vs. sales volume



Source: Deutsche Bank estimate, company info

Figure 5: CATL year-end capacity vs. sales volume



Source: Deutsche Bank estimate, company info

## Yet to see meaningful progress in NMC battery

According to Reali, Guoxuan's NMC installation market share reached only c.0.4% in the first nine months of this year. Meanwhile, management mentioned that installation market share is only part of the story because some of the company's sales volume is not included. It seems to us that Guoxuan is yet to have meaningful presence in NMC battery space.

According to the company, there is no issue with NMC production or clients, but it takes time to make commercial sales and it wants to ensure there are no safety issues.

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Figure 6: China NMC installation ranking (9M18)

Ranking	Company	Installation (Mwh)	Market share
1	CATL	6,848	41.4%
2	BYD	3,915	23.7%
3	Funeng	1,301	7.9%
4	Lishen	704	4.3%
5	BAK	696	4.2%
6	Wanxiang	326	2.0%
7	Jeve	311	1.9%
8	Coslight	284	1.7%
9	Zhihang	275	1.7%
10	First Battery	205	1.2%
	Guoxuan	71	0.4%

Source: RealLi, GGII, Deutsche Bank

Figure 7: China total EV battery installation ranking, incl. NMC, LFP, etc (9M18)

Ranking	Company	Installation (Mwh)	Market share
1	CATL	11,830	41.1%
2	BYD	6,910	24.0%
3	Guoxuan	1,380	4.8%
4	Funeng	1,300	4.5%
5	Lishen	1,100	3.8%
6	BAK	780	2.7%
7	EVE	610	2.1%
8	National Battery	410	1.4%
9	Wanxiang	390	1.4%
10	Penghui	330	1.1%

Source: GGII, Deutsche Bank

## Cutting target price to RMB13.3, and maintaining Hold

We lower our 2018 and 2019 earnings estimates by 12% and 10%, respectively, to factor in weaker-than-expected shipments and ASP pressure. Changes in key metrics are summarized below.

Figure 8: Key operating metrics summary

Battery operation		2014	2015	2016	2017	2018E	2019E	2020E
Sales volume								
New	Gwh	0.42	1.00	2.01	2.48	4.13	6.74	9.72
Old	Gwh	0.42	1.00	2.01	2.48	4.49	7.37	9.74
% change					0%	-8%	-8%	0%
ASP								
New	RMB/Ah	7.52	6.85	6.58	5.41	4.49	3.87	3.35
Old	RMB/Ah	7.52	6.85	6.58	5.41	4.56	3.96	3.38
% change					0%	-2%	-2%	-1%
COGS								
New	RMB/Ah	3.69	3.51	3.38	3.26	2.94	2.66	2.39
Old	RMB/Ah	3.69	3.51	3.38	3.26	2.94	2.68	2.37
% change					0%	0%	-1%	1%
Margin								
New	RMB/Ah	3.84	3.34	3.21	2.15	1.55	1.20	0.96
Old	RMB/Ah	3.84	3.34	3.21	2.15	1.62	1.27	1.01
% change					0%	-5%	-5%	-5%

Source: Deutsche Bank estimate, company info

Figure 9: Forecast change summary

	2018E			2019E			2020E		
	DBe New	DBe Old	Change	DBe New	DBe Old	Change	DBe New	DBe Old	Change
Revenue (RMB m)	6,352	6,970	-9%	8,599	9,480	-9%	10,409	10,547	-1%
OP (RMB m)	1,045	1,149	-9%	1,229	1,349	-9%	1,518	1,557	-3%
NP (RMB m)	871	990	-12%	1,011	1,118	-10%	1,261	1,297	-3%
EPS	0.77	0.87	-12%	0.89	0.98	-10%	1.11	1.14	-3%
ROE	10%	11%	-1%	11%	12%	-1%	12%	12%	0%

Source: Deutsche Bank estimate

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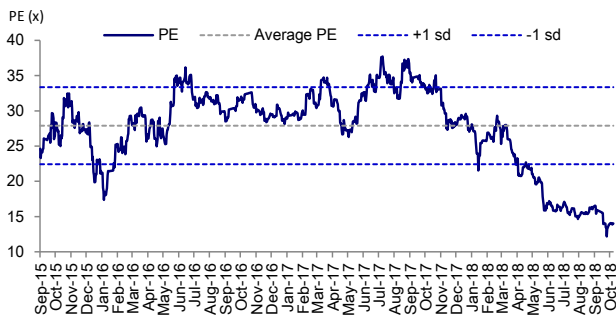
Figure 10: DBe vs. consensus

	2018E			2019E			2020E		
	DBe	Consensus	Dbe/Con.	DBe	Consensus	Dbe/Con.	DBe	Consensus	Dbe/Con.
Revenue	6,352	6,025	105%	8,599	7,872	109%	10,409	9,277	112%
Gross profit	2,143	2,012	106%	2,650	2,467	107%	2,978	2,744	109%
Operating income	1,045	838	125%	1,229	991	124%	1,518	1,159	131%
NPAT	871	862	101%	1,011	949	107%	1,261	1,049	120%

Source: Deutsche Bank estimate, Bloomberg Finance LP

Our target price of RMB13.3 is based on target multiple at 15x 2019E P/E, which is in line with the battery industry average. The company is currently trading at 16x/14x 2018/19 DBe EPS, and we believe the valuation is fair. We thus maintain Hold.

Figure 11: Guoxuan 12-month forward PE



Source: Deutsche Bank, Bloomberg Finance LP

Figure 12: Battery industry peers comps

Company	Ticker	Rating	Listing Curr	Price local (list curr)	Target Price	M. cap (US\$m)	PE (x)			PB (x)			EPS Growth % (rec)			ROE %			
							2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	
Guoxuan High-Tech	002074.SZ	Hold	CNY	12.2	13.3	1,983	15.9	13.7	11.0	1.5	1.4	1.3	4.0	16.1	24.7	10.1	10.7	12.1	
<b>Battery - A shares</b>																			
CATL	300750.SZ	Buy	CNY	74.5	79.0	23,442	46.1	33.9	26.2	4.8	4.2	3.6	13.2	35.8	29.5	12.1	13.3	14.9	
BYD-A	002594.SZ	Hold	CNY	46.8	38.9	18,089	35.0	30.5	26.8	2.2	2.1	1.9	(10.2)	14.7	13.6	6.4	7.0	7.4	
Sunwoda Electrical	300207.SZ	Buy	CNY	8.4	14.5	1,865	14.9	13.3	10.1	3.1	2.6	2.1	29.4	12.0	32.2	22.9	21.1	22.9	
EVE Energy	300014.SZ	CNY		12.1	1,485	20.5	15.9	12.9	3.0	2.5	2.2	25.7	29.1	23.3	14.2	16.0	17.0		
Camel group	601311.SS	CNY		9.6	1,170	13.2	11.0	8.8	1.4	1.2	1.1	32.5	19.8	25.6	10.7	11.5	12.6		
Desay-A	000049.SZ	CNY		27.2	800	15.2	12.3	10.5	3.2	2.6	2.0	24.8	23.6	16.8	23.6	22.1	21.2		
Guangzhou Great Power	300438.SZ	CNY		15.5	624	12.1	9.7	7.7	1.9	1.6	1.3	41.3	24.6	25.9	15.4	16.3	17.3		
<b>A share average</b>							<b>22.4</b>	<b>18.1</b>	<b>14.7</b>	<b>2.8</b>	<b>2.4</b>	<b>2.0</b>	<b>22.4</b>	<b>22.8</b>	<b>23.9</b>	<b>15.0</b>	<b>15.3</b>	<b>16.2</b>	
<b>Battery - Overseas</b>																			
Panasonic	6752.T	Hold	JPY	1,250	1,450	27,113	15.3	11.8	11.1	2.1	1.6	1.4	58.0	4.6	6.1	14.4	13.8	13.3	
LG Chem	051910.KS	Buy	KRW	347,000	400,000	21,449	15.0	12.4	11.0	1.4	1.3	1.2	(10.3)	21.3	12.6	10.0	11.1	11.3	
Samsung SDI	006400.KS	Buy	KRW	235,500	299,000	14,180	24.9	15.8	13.2	1.4	1.3	1.2	(0.9)	57.9	18.9	5.6	8.2	9.0	
SK Innovation	096770.KS	KRW		213,500	17,286		9.1	8.4	7.5	1.0	0.9	0.8	(1.9)	9.0	11.7	11.1	11.2	11.4	
<b>Overseas average</b>							<b>16.1</b>	<b>12.1</b>	<b>10.7</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>	<b>11.2</b>	<b>23.2</b>	<b>12.3</b>	<b>10.3</b>	<b>11.1</b>	<b>11.3</b>	
<b>Total Average</b>							<b>20.1</b>	<b>15.9</b>	<b>13.3</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>	<b>18.3</b>	<b>23.0</b>	<b>19.7</b>	<b>13.3</b>	<b>13.8</b>	<b>14.4</b>	

Source: Deutsche Bank, Bloomberg Finance LP

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# Investment thesis

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## Outlook

Guoxuan is the third-largest EV lithium battery player in China, with c.5% EV lithium battery market share in terms of installation by 3Q18. We believe Guoxuan's aggressive capacity expansion and competitive advantages should help it to grow market share and make it one of the beneficiaries of the Chinese government's target to put 5mn EV units on the road by end-2020. However, battery unit pricing decline and EV subsidy policy change may put pressure on its margin outlook. In addition, we are yet to see Guoxuan have meaningful entry into the NMC market. Hold.

## Valuation

As Guoxuan has listed on the A-share market through a reverse IPO in 2015, we believe its historical P/E band may not reflect its future outlook. We adopt a 2019E P/E multiple of 15x for the company, which we believe has factored in its growth trajectory and is in line with battery manufacturers' average.

## Risks

Key industry up/downside risks: 1) significant changes in the Chinese government's EV subsidy policy; 2) weaker/stronger-than-expected volume growth in the next three years; 3) quicker/slower-than-expected ASP drop or quicker/slower-than-expected cost cuts.

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Model updated: 01 November 2018

Running the numbers

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Reuters: 002074.SZ Bloomberg: 002074 CS

Hold

Price (1 Nov 18) CNY 12.63

Target Price CNY 13.30

52 Week range CNY 10.53 - 31.53

Market cap (m) CNYm 14,356  
USDm 2,059.3

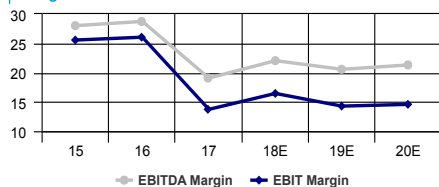
Company Profile

Guoxuan High-Tech Co., Ltd develops, manufactures and sells lithium battery materials and lithium batteries. Its major products are lithium battery cells and lithium battery packs for electrical automobiles.

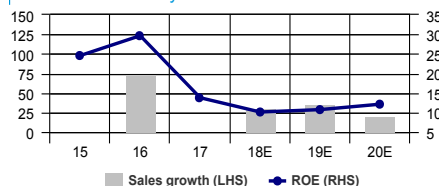
Price Performance



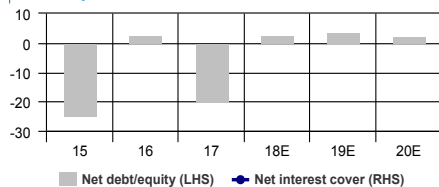
Margin Trends



Growth & Profitability



Solvency



Sharon Ding

+852 2203 5716

sharon.ding@db.com

Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	0.67	1.18	0.74	0.77	0.89	1.11
Reported EPS (CNY)	0.67	1.18	0.74	0.77	0.89	1.11
DPS (CNY)	0.15	0.15	0.10	0.10	0.12	0.15
BVPS (CNY)	3.4	4.5	7.2	7.9	8.7	9.6
Weighted average shares (m)	876	876	1,137	1,137	1,137	1,137
Average market cap (CNYm)	25,156	30,216	34,601	14,356	14,356	14,356
Enterprise value (CNYm)	24,419	30,343	32,982	14,617	14,755	14,642

Valuation Metrics

P/E (DB) (x)	43.0	29.3	41.3	16.5	14.2	11.4
P/E (Reported) (x)	43.0	29.3	41.3	16.5	14.2	11.4
P/BV (x)	10.78	6.90	3.07	1.60	1.46	1.31
FCF Yield (%)	nm	nm	nm	nm	nm	1.9
Dividend Yield (%)	0.5	0.4	0.3	0.8	1.0	1.2
EV/Sales (x)	8.9	6.4	6.8	2.3	1.7	1.4
EV/EBITDA (x)	31.7	22.2	35.7	10.4	8.3	6.6
EV/EBIT (x)	34.8	24.5	49.6	14.0	12.0	9.6

Income Statement (CNYm)

Sales revenue	2,745	4,758	4,838	6,352	8,599	10,409
Gross profit	1,220	2,202	1,843	2,143	2,650	2,978
EBITDA	769	1,368	923	1,400	1,769	2,218
Depreciation	67	128	258	355	540	700
Amortisation	0	0	0	0	0	0
EBIT	702	1,239	665	1,045	1,229	1,518
Net interest income/(expense)	0	0	0	0	0	0
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-22	-42	330	-29	-36	-31
Profit before tax	680	1,197	994	1,016	1,193	1,488
Income tax expense	93	165	154	142	179	223
Minorities	3	2	2	2	3	3
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	585	1,031	838	871	1,011	1,261
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	585	1,031	838	871	1,011	1,261

Cash Flow (CNYm)

Cash flow from operations	520	1,275	-100	932	1,217	1,120
Net Capex	-558	-1,307	-1,357	-2,514	-1,255	-850
Free cash flow	-38	-33	-1,457	-1,582	-39	270
Equity raised/(bought back)	1,493	205	3,536	0	0	0
Dividends paid	-37	-195	-223	-118	-137	-171
Net inc/(dec) in borrowings	-396	743	840	800	-600	-400
Other investing/financing cash flows	109	-176	-226	0	0	0
Net cash flow	1,132	544	2,471	-900	-776	0
Change in working capital	-193	40	-1,393	-110	-211	-759

Balance Sheet (CNYm)

Cash and other liquid assets	2,011	2,306	4,799	3,376	2,600	2,299
Tangible fixed assets	1,550	2,817	4,004	6,162	6,877	7,027
Goodwill/intangible assets	307	529	562	562	562	562
Associates/investments	0	0	0	0	0	0
Other assets	2,846	4,563	7,732	9,702	11,015	12,670
Total assets	6,713	10,215	17,097	19,802	21,054	22,558
Interest bearing debt	1,248	2,408	3,155	3,611	2,969	2,552
Other liabilities	2,424	3,846	5,687	7,181	8,197	9,025
Total liabilities	3,671	6,255	8,842	10,792	11,167	11,577
Shareholders' equity	3,016	3,936	8,230	8,983	9,858	10,948
Minorities	26	24	25	27	30	33
Total shareholders' equity	3,042	3,960	8,255	9,010	9,887	10,981
Net debt	-763	102	-1,644	235	369	254

Key Company Metrics

Sales growth (%)	nm	73.3	1.7	31.3	35.4	21.0
DB EPS growth (%)	na	76.4	-37.3	4.0	16.1	24.7
EBITDA Margin (%)	28.0	28.7	19.1	22.0	20.6	21.3
EBIT Margin (%)	25.6	26.0	13.7	16.5	14.3	14.6
Payout ratio (%)	22.5	12.8	13.6	13.6	13.6	13.6
ROE (%)	24.6	29.7	13.8	10.1	10.7	12.1
Capex/sales (%)	20.3	27.5	28.1	39.6	14.6	8.2
Capex/depreciation (x)	8.3	10.2	5.3	7.1	2.3	1.2
Net debt/equity (%)	-25.1	2.6	-19.9	2.6	3.7	2.3
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



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# Appendix 1

## Important Disclosures

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Guoxuan High-Tech	002074.SZ	12.17 (CNY) 31 Oct 2018	NA

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## Historical recommendations and target price. Guoxuan High-Tech (002074.SZ)

(as of 11/01/2018)



### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

1.	06/01/2016	Buy, Target Price Change CNY 40.40	James Kan	3.	08/31/2017	Hold, Target Price Change CNY 31.30	James Kan
2.	12/01/2016	Downgraded to Hold, Target Price Change CNY 32.70	James Kan	4.	07/03/2018	Hold, Target Price Change CNY 15.58	Neil Sun**



Equity Rating Key

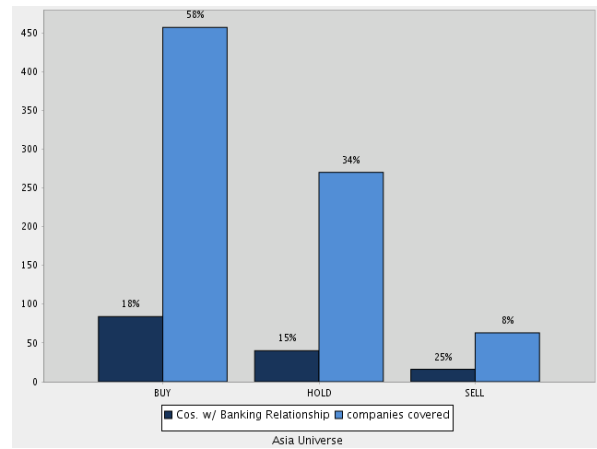
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield ) , we recommend that investors buy the stock.

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.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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Global Chief Operating Officer  
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