



## Lead Intelligent (300450.SZ): Revise up 2019E order from CATL, TP up by 7%; reiterate Buy rating

We visited Lead Intelligent's headquarters in Wuxi on December 13 and checked the latest order outlook by business segment with management:

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### For battery equipment:

- **CATL:** expanded 20-25 battery production lines in 2018 (we estimate this to equate to +20GWh of incremental capacity from Ningde Huxi factory, Liyang factory and CATL-SAIC JV). Lead Intelligent expects another 30 production lines. This is consistent with CATL's recent announcement on Nov 28 that it was applying for a bank loan facility of Rmb110bn for the Liyang factory's phase III expansion of up to 20GWh. **Accordingly, we revise up our 2019E equipment order estimates.**
- **Samsung SDI:** Yicai News reported that Samsung SDI will invest Rmb10.4bn to expand China battery capacity in Xi'an (or Tianjin). However, according to our Korea technology team, Samsung SDI management has commented that nothing has been decided officially. **As the plan is not finalized we do not include it in our base case assumption, but we present an order/EPS sensitivity analysis below (Exhibit 3) in order to gauge the potential upside for Lead Intelligent.**
- **Panasonic:** Its capacity expansion plan in China is dependent on Tesla's EV production volume ramp-up. Tesla's Shanghai factory is still at the early stage of construction, and we expect it will partly begin production from 2H2019.
- **LG:** From its Nanjing factory, with plans for 32GWh (22.3/4.2/5.6 GWh for EV/storage/consumer electronics batteries) capacity expansion by 2023, Lead Intelligent mainly supplies cylindrical battery winding equipment for consumer electronics.
- **Other non top-tier China local battery makers:** Lead Intelligent expects limited order contribution ahead from those customers mainly due to their low EV order visibility. Despite multiple headlines from new players, such as Wanxiang, announcing large battery capacity plans, Lead Intelligent seems to have become more cautious about the outlook in this space.

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- Funeng: is growing quickly and mainly producing pouch batteries. Lead Intelligent commented that they are developing stacking machines for pouch batteries and are actively talking to Funeng but have yet to see many orders.
- **Total solutions:** The first order was signed in July 2018, and the next order is expected to be in late 2018/early 2019, and we put it into 2019E.

**For non-battery equipment:**

- **Solar-PV equipment:** The business is expected to be largely stable, according to the management. Wuxi Lead has secured Rmb300-400mn in orders ytd and expects Rmb400-500mn in new orders in 2019E mainly from leading Solar PV players.
- **Consumer electronics testing equipment:** The management is optimistic about order breakthrough into next year from this new product (orders increasing to Rmb500mn from Rmb100mn in 2018). We assume a lower amount than guidance in our 2019E order assumption due to our cautious view on electronics capex.
- **Others:** The company launched several new businesses such as system integration of automated logistics and automobile production lines, by embedding its own MES system. The company has no specific target into 2019 but it admitted profitability should be lower from new business.

**We now forecast Rmb 6.2bn in orders in 2019E, revised up by 7% mainly driven by CATL**

In light of the above, we now forecast orders of Rmb5.0bn (flat yoy) in 2018E and Rmb 6.2bn in 2019E, revising the latter up by 7% from our previous estimate of Rmb5.8bn, mainly driven by CATL. This suggests a 23% yoy increase from 2018E and also indicates higher order/earnings quality, in our view, given a much higher contribution from global leading battery makers ahead.

Exhibit 1: Wuxi Lead order forecast breakdown table

	Capacity install base (Gwh)				Capacity expansion (Gwh)				Market share (%)				Orders (Rmb mn)			
	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2018E	2019E	2020E	
<b>EV battery winding equipment (domestic)</b>																
宁德时代 CATL	16	26	46	70	8.5	10.0	20.0	24.0	90%	90%	90%	90%	900	1,800	2,160	
SAIC-CATL JV	-	10	18	18	-	10.0	8.0	-	-	90%	90%	90%	900	720	-	
珠海银隆新能源 Yinlong	8	8	8	8	8.0	-	-	-	100%	100%	100%	100%	-	-	-	
天津力神 Lishen	10	10	10	10	8.0	-	-	-	80%	80%	80%	80%	-	-	-	
中航锂电 China Aviation Lithium Battery	5	5	5	5	3.5	-	-	-	100%	100%	100%	100%	-	-	-	
亿纬锂能 Eve Battery	7	7	7	7	2.0	-	-	-	80%	80%	80%	80%	-	-	-	
力信能源 eTrust Power	4	4	4	4	4.0	-	-	-	100%	100%	100%	100%	-	-	-	
比亚迪 BYD	18	24	34	40	-	6.0	10.0	6.0	0%	30%	50%	80%	180	500	480	
国轩高科 Guoxuan	6	13	13	13	-	7.0	-	-	0%	80%	80%	80%	560	-	-	
深圳比克动力 BAK	8	8	8	8	2.5	-	-	-	0%	0%	50%	80%	-	-	-	
Samsung SDI (Tianjin)	3	6	8	10	0.3	3.2	2.3	2.1	0%	10%	50%	50%	32	115	104	
LG Chem (Nanjing)	3	3	9	15	-	-	6.0	6.0	0%	0%	20%	20%	-	120	120	
Panasonic (Dalian)	-	10	10	10	-	9.5	-	-	-	10%	20%	20%	95	-	-	
<b>EV battery winding equipment (oversea)</b>																
Samsung SDI (Korea & Europe)	5	9	15	23	0.8	4.5	5.9	7.9	0%	10%	10%	10%	45	59	79	
LG Chem (Korea, US & Poland)	13	19	27	37	4.4	6.0	8.0	10.0	0%	0%	0%	0%	-	-	-	
Panasonic (Japan)	18	18	28	28	-	-	10.9	-	0%	0%	0%	0%	-	-	-	
Panasonic (Tesla US Nevada)	15	25	35	35	10.0	10.0	10.0	-	0%	10%	20%	20%	110	200	-	
CATL (Europe)	-	-	-	7	-	-	1.0	6.0	-	-	90%	90%	-	90	594	
<b>EV battery winding equipment replacement demand</b>																
<b>EV battery testing equipment (Titan)</b>																
<b>Battery total Solution (incl. coating equipment)</b>																
<b>Consumer electronics battery winding equipment</b>																
<b>Solar PV automatic equipment</b>																
<b>Consumer electronics testing equipment</b>																
<b>Energy storage battery equipment</b>																
<b>Total</b>													<b>5,022</b>	<b>6,179</b>	<b>7,095</b>	
yoy %													0%	23%	15%	

Overseas as % of total order	6%	9%	13%
Backlog (Rmb mn)	5,162	6,244	7,144
Revenue (Rmb mn)	3,860	5,097	6,195
yoy%	77%	32%	22%
GP margin	36.9%	39.0%	39.1%
Net profit (Rmb mn)	836	1,192	1,462
yoy%	55%	43%	23%
NP margin	21.7%	23.4%	23.6%
Capacity (Rmb mn)	4,500	6,000	

Source: Company data, Gao Hua Securities Research

## Pricing and margins outlook

Lead Intelligent commented that there does exist some pricing pressure from customers (such as CATL), but that the pressure can be partly reduced by its own product upgrade and function integration. The company said it can also pass on the pressure to components (PLC/servo) suppliers. Company management expects the gross margin for battery equipment to stay stable at around 40%.

Exhibit 2: Revenue/earnings forecast revision table

Lead Intelligent (300450.SZ) (Rmb mn)	New forecast			Prior forecast			Change %		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Revenue	3,860	5,097	6,195	3,860	5,094	5,959	0%	0%	4%
Gross profit	1,426	1,988	2,420	1,426	1,977	2,315	0%	1%	5%
EBIT	783	1,132	1,360	783	1,121	1,282	0%	1%	6%
Net profit	836	1,192	1,462	836	1,183	1,395	0%	1%	5%
Gross profit margin (%)	37%	39%	39%	37%	39%	39%	0pp	0.2pp	0.2pp
EBIT margin (%)	20%	22%	22%	20%	22%	22%	0pp	0.2pp	0.4pp
Net margin (%)	22%	23%	24%	22%	23%	23%	0pp	0.2pp	0.2pp

Source: Company data, Gao Hua Securities Research

## Potential 3.2%-8.1% order upside in 2019 and 2.7%-6.9% EPS upside in 2020 for Lead Intelligent if we assume 10GWh capacity expansion in 2019 and 2020 for Samsung SDI

As a scenario analysis, if we assume that Samsung SDI expands its China battery capacity by 10GWh each year in 2019/20 and that Lead Intelligent gets 20%-50% market share of Samsung SDI's additional winding equipment orders, this would increase Lead's 2019E new orders by 3.2%-8.1% and 2020E EPS by 2.7%-6.9%.

**Exhibit 3: 2019E order upside and 2020E EPS upside**

2019E order upside		Samsung SDI annual incremental capacity (GWh) in 2019E			2020E EPS upside		Samsung SDI annual incremental capacity (GWh) in 2019E		
		5	10	15			5	10	15
Lead intelligent annual market share in Samsung SDI by 2020E	10%	0.8%	1.6%	2.4%	Lead intelligent annual market share in Samsung SDI by 2020E	10%	0.7%	1.4%	2.1%
	20%	1.6%	3.2%	4.9%		20%	1.4%	2.7%	4.1%
	30%	2.4%	4.9%	7.3%		30%	2.1%	4.1%	6.2%
	50%	4.0%	8.1%	12.1%		50%	3.4%	6.9%	10.3%

Source: Company data, Gao Hua Securities Research

**Valuation:**

We increase our 2019E-2020E EPS by 1%-5% and our 12-month TP up by 7% to Rmb33.8, still based on a 2.5x 2019E EV/GCI vs CROCI/WACC sector cash return multiple (with 0% premium/discount). We maintain our Buy rating.

**Key risks:**

1. Significant pullback of EV development in China and globally: While our base case view calls for ongoing EV development and expansion in China and around the world, we highlight that the Chinese government's EV subsidy cut led to a sharp decline in Lead's share price in November 2017. Although the policy turned out to be better than expected with a smaller magnitude of subsidy cuts than feared, any further cuts could cause uncertainties regarding the future EV market and battery demand.
2. Technology disruption from all-solid state batteries, which do not need winding equipment. However, the earliest application of SS batteries in EVs appears unlikely until at least 2023, in our view.
3. Order cancellation and working capital pressure: We believe any orders placed by customers with lower creditworthiness could pose potential order cancellation risk and working capital pressure. We would be concerned if any of the company's non-top 3 battery customers were to face credit problems, which could result in accounts receivables provisions/order cancellations.

300450.SZ

12m Price Target: **Rmb33.80**Price: **Rmb29.87**Upside: **13.2%****Buy****GS Forecast**

Market cap: Rmb26.3bn / \$3.8bn  
 Enterprise value:  
 Rmb26.6bn / \$3.9bn  
 3m ADTV:  
 Rmb192.7mn / \$27.9mn  
 China  
 A-share Industrials  
 M&A Rank: 3

	12/17	12/18E	12/19E	12/20E
<b>Revenue (Rmb mn) New</b>	<b>2,176.9</b>	<b>3,860.0</b>	<b>5,096.6</b>	<b>6,195.1</b>
Revenue (Rmb mn) Old	2,176.9	3,860.0	5,094.0	5,958.9
EBITDA (Rmb mn)	524.6	833.6	1,199.2	1,437.1
<b>EPS (Rmb) New</b>	<b>0.61</b>	<b>0.95</b>	<b>1.36</b>	<b>1.66</b>
EPS (Rmb) Old	0.61	0.95	1.35	1.59
P/E (X)	44.9	31.4	22.0	18.0
P/B (X)	8.7	7.6	6.0	4.7
Dividend yield (%)	0.4	0.6	0.9	1.1
CROCI (%)	32.4	(8.0)	59.7	38.2
	<b>9/18</b>	<b>12/18E</b>	<b>3/19E</b>	<b>6/19E</b>
EPS (Rmb)	0.25	0.33	0.23	0.28

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 14 Dec 2018 close.

# Disclosure Appendix

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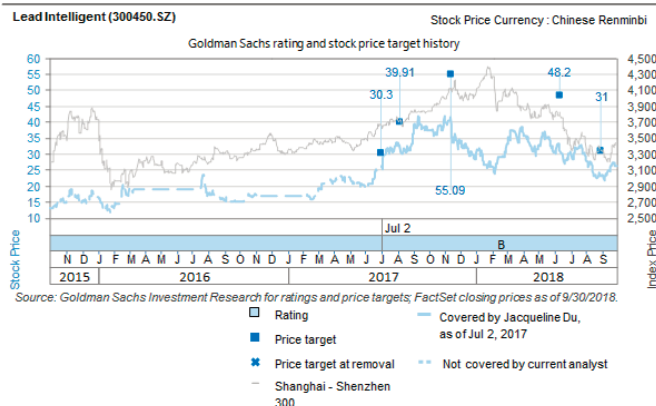
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