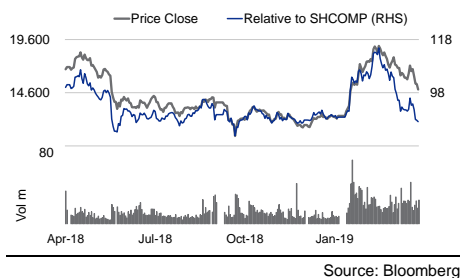


China
SELL

Consensus ratings*: Buy 12 Hold 3 Sell 4

Current price:	Rmb14.90
Target price:	Rmb11.00
Previous target:	Rmb11.00
Up/downside:	-26.2%
CGS-CIMB / Consensus:	na
Reuters:	
Bloomberg:	002074 CH
Market cap:	US\$2,510m
	Rmb16,936m
Average daily turnover:	US\$54.6m
	Rmb367.0m
Current shares o/s:	1,137m
Free float:	52.1%
*Source: Bloomberg	



Price performance	1M	3M	12M
Absolute (%)	-16.2	19.3	-19.9
Relative (%)	-18.9	-0.8	-20.1

Major shareholders	% held
Zhuhai Guoxuan	24.8
Li Zhen	11.9
Foshan Electrical & Light	4.0

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Guoxuan High-Tech

2018 results delayed – Management cut earlier profit estimates by more than 30%

- Guoxuan High-Tech made two announcements on 24 April, indicating 1) a >30% cut in previous 2018 earnings guidance, and 2) a delay in its 2018 and Q1 2019 results release from 26 to 30 April.
- The earnings guidance cut and the delay in the results release reinforces our cautious view on Guoxuan High-Tech's earnings growth recovery outlook for 2019–2020.
- We will revise our numbers after it releases more detailed results on 30 April. We currently have a **SELL** rating on Guoxuan High-Tech. As a smaller player, the Company should have more difficulty surviving under future competition with domestic leaders like CATL, as well as foreign competitors. We think a poor earnings growth recovery outlook will put its share price under pressure in 2019.

Surprising cut to 2018 earnings

Guoxuan High-Tech made two announcements on 24 April, indicating 1) a >30% cut in previous 2018 earnings guidance, and 2) a delay in its 2018 and Q1 2019 results release from 26 to 30 April. The downward revision in its 2018 earnings guidance reflects 1) its more conservative recognition of revenue and costs incurred with counterparties like Ankai Bus, and 2) additional asset impairment made on doubtful accounts receivable. The revised guidance includes a 16.8% cut in its 2018 revenue guidance and a 31.9% cut in its 2018 net profit guidance (Fig 1). The downward revision in its 2018 earnings guidance suggests there will be downside revision to consensus earnings estimates for the Company in 2018–2020E. We will adjust our earnings forecast for the Company for 2019–2020E after it releases its 2018 and Q1 2019 results on 30 April.

Disappointing results confirmed our negative view

The earnings guidance cut reinforces our cautious view on Guoxuan High-Tech's earnings growth recovery outlook for 2019–2020. Even with additional capacity increases, the Company had difficulty achieving its earnings growth recovery in 2018 against market expectations. With further subsidy cuts, we expect China's NEV demand growth visibility to remain low in 2019–2020. Even with a positive demand growth, the subsidy cuts will put further pressure on ASP and margins. Guoxuan High-Tech doesn't have the same technology and cost competitiveness as domestic leader CATL, which puts it in a dangerous position when facing more intensified competition resulting from the massive government subsidy cut. With a downward revision in its 2018 earnings, we think its 2019 earnings growth visibility will also worsen.

Smaller players to face more competitive difficulties

As we highlighted in our initiation report published on 17 April, Guoxuan High-Tech is a smaller player compared to industry leaders like CATL and other Japanese and Korean companies. Its products are concentrated in the lower end of the NEV battery industry. As a 2nd tier industry player, the Company should face more challenges meeting demand from major OEMs for technology development and cost reductions. Without any firm bonds with major OEMs, we expect Guoxuan High-Tech to lose market share in China and to have greater difficulty growing into a global player in the long term.

Maintain SELL

We have a SELL rating on Guoxuan High-Tech with a target price (TP) of Rmb11.00. Our TP is based on a target 2019E PER multiple of 13x (1.3x PEG). The poor earnings growth recovery outlook should put its share price under pressure in 2019. We will adjust our TP after we revise our numbers after the release of its 2018 and Q1 2019 results.

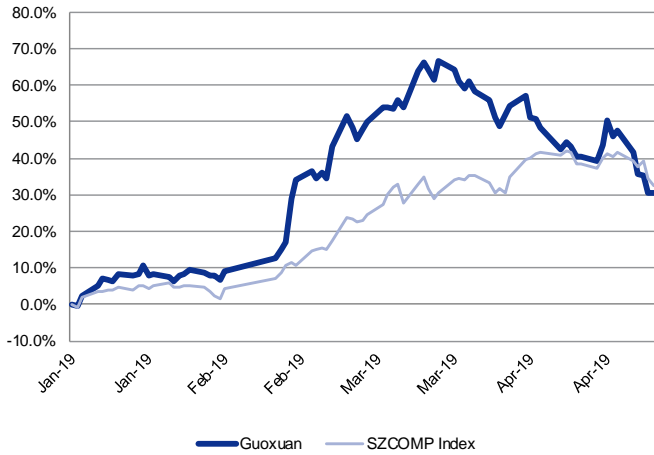
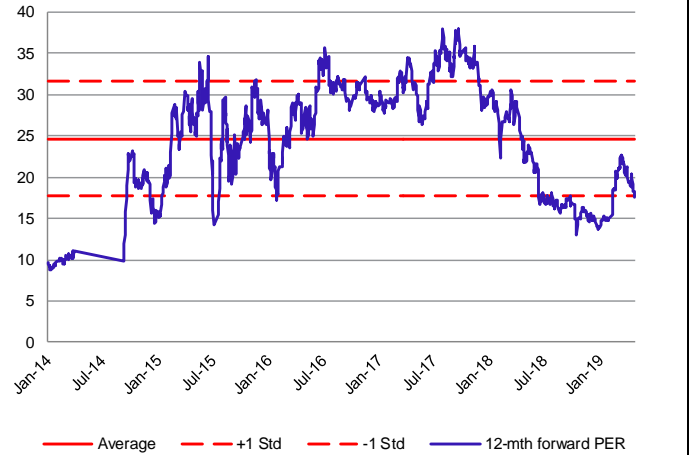
Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (Rmbm)	4,758	4,838	6,103	7,988	9,929
Operating EBITDA (Rmbm)	1,388	1,312	1,296	1,478	1,636
Net Profit (Rmbm)	1,031	838	844	936	1,016
Core EPS (Rmb)	1.19	0.95	0.74	0.82	0.89
Core EPS Growth	48.8%	(20.2%)	(21.8%)	10.9%	8.6%
FD Core P/E (x)	12.67	17.90	20.06	18.09	16.66
DPS (Rmb)	0.15	0.10	0.09	0.10	0.11
Dividend Yield	1.01%	0.67%	0.60%	0.66%	0.72%
EV/EBITDA (x)	8.60	8.06	12.52	11.61	11.25
P/FCFE (x)	73.44	NA	NA	NA	NA
Net Gearing	(25.4%)	(31.5%)	(8.2%)	2.1%	13.5%
P/BV (x)	3.32	2.06	1.89	1.73	1.58
ROE	29.7%	13.8%	9.8%	10.0%	9.9%
% Change In Core EPS Estimates				1.01	1.02
CGIS/consensus EPS (x)					

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: 2018E earnings guidance new vs. old

Items	Original guidance	Revised guidance	% difference	% YoY (revised)
Sales	6,146	5,114	-16.8%	5.7%
EBIT	973	664	-31.8%	-34.3%
Net profit to common shareholder	852	580	-31.9%	-30.8%
EPS Adj	0.75	0.51	-32.0%	-46.3%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 1: Guoxuan High-Tech share price performance CYTD

Figure 2: Guoxuan High-Tech 12-mth forward PER band


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- BUY : share price will increase by >20% within 12 months in absolute terms
- SELL : share price will decrease by >20% within 12 months in absolute terms
- HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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