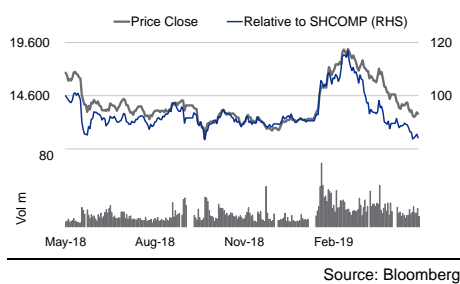


**China**
**SELL**

Consensus ratings\*: Buy 13 Hold 4 Sell 4

Current price:	Rmb12.91
Target price:	Rmb7.80
Previous target:	Rmb11.00
Up/downside:	-39.6%
CGS-CIMB / Consensus:	N/A
Reuters:	
Bloomberg:	002074 CH
Market cap:	US\$2,127m
	Rmb14,674m
Average daily turnover:	US\$48.0m
	Rmb320.8m
Current shares o/s:	1,137m
Free float:	52.1%
*Source: Bloomberg	



<b>Price performance</b>	1M	3M	12M
Absolute (%)	-13.4	-23.4	-23
Relative (%)	-7.7	-22.3	-15.8

<b>Major shareholders</b>	% held
Zhuhai Guoxuan	24.8
Li Zhen	11.9
Foshan Electrical & Light	4.0

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# Guoxuan High-Tech

## Remain cautious

- We update our earnings forecast for Guoxuan High-Tech in 2019–2020.
- Guoxuan High-Tech's earnings miss in 2018 was in line with our cautious view on the Company's core power battery business growth outlook. Earnings growth recovered in Q1 2019, but margin contraction remained a major concern for its earnings growth recovery potential in 2019–2020E.
- We think further government subsidy cuts will put more pressure on China's power battery demand growth in 2019–2020. In addition, as a smaller player, it should face more pressure on its ASP and margins. Accordingly, we cut our earnings forecast for the Company for 2019–2020E by 20–30%.
- We maintain our **SELL rating** on Guoxuan High-Tech and cut our target price (TP) by 29% to Rmb7.80 (13x 2019E PER). Our TP is derived from our lower earnings forecast for the Company in 2019–2020E.

### 2018 results a big miss; Q1 2019 earnings growth recovered but margin contraction remains a big concern

Guoxuan's total revenue in 2018 grew only 6.0% YoY, 16.6% below its revenue guidance. With bigger margin contraction and additional asset impairment for doubtful accounts receivable, its net profit continued to fall 30.8% YoY in 2018 to RMB580m, >30% below its 2018 earnings guidance. Its revenue growth in Q1 2019 accelerated to 65.3% YoY, driven mainly by its core NEV battery segment, as OEMs are pushing NEV sales before the new subsidy policy takes effect on 26 June. But its gross profit margin contracted by 2.8ppt YoY to 30.0% in Q1 2019. There were some SG&A cost savings. But rising financing costs and a higher effective tax rate led to net profit growth of only 25.2% YoY in Q1 2019.

### Low earnings growth visibility due to NEV demand growth uncertainty and margin pressure from further ASP cuts

With further subsidy cuts, we expect China's NEV demand growth visibility to remain low in 2019–2020. Although NEV battery sales volume in Q1 2019 grew 182.6% YoY in China, this was mainly due to OEMs boosting sales before the new subsidy policy takes effect. In addition, the subsidy cuts will put further pressure on ASP and margins for power battery producers. Guoxuan High-Tech doesn't have the same technology and cost competitiveness as domestic leader CATL, which puts it in a more dangerous position when facing intensified competition resulting from the massive government subsidy cut. Therefore, we cut our revenue forecast for the Company in 2019E by 14.2% and maintain our revenue forecast for the Company in 2020E. Considering further downward pressure on margins, we cut our earnings forecast for the Company in 2019 and 2020E by 33.7% and 24.4%, respectively. Overall, we expect its earnings to grow 6.9% and 23.8% YoY in 2019 and 2020E, respectively.

### Rising accounts receivable a red flag

Accounts receivables at the end of 2018 represented 123% of its total revenue in 2018 vs. 91% at the end of 2017 and 57% at the end of 2016. Accounts receivable turnover days also lengthened to 382 days in 2018 from 268 days in 2017 and 175 days in 2016. Operating cash flow remained negative in 2016 and 2017. Operating cash outflow rose from Rmb100m in 2017 to Rmb1,559m in 2018. Although operating cash flow in Q1 2019 showed signs of improvement, the full-year operating cash flow situation still remains wait-and-see.

### Maintain SELL

We maintain **SELL** on Guoxuan High-Tech, and cut our target price (TP) from Rmb11.00 to Rmb7.80, based on the same target 2019E PER multiple of 13x. The TP cut is derived mainly from our lower earnings estimates for 2019–2020.

<b>Financial Summary</b>	<b>Dec-16A</b>	<b>Dec-17A</b>	<b>Dec-18A</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Revenue (Rmbm)	4,758	4,838	5,127	6,850	9,968
Operating EBITDA (Rmbm)	1,388	1,312	1,098	1,342	1,571
Net Profit (Rmbm)	1,031	838	580	621	769
Core EPS (Rmb)	1.19	0.95	0.51	0.55	0.68
Core EPS Growth	48.8%	(20.2%)	(46.3%)	6.9%	23.8%
FD Core P/E (x)	10.98	15.51	25.29	23.64	19.09
DPS (Rmb)	0.15	0.10	0.10	0.10	0.10
Dividend Yield	1.16%	0.77%	0.77%	0.77%	0.77%
EV/EBITDA (x)	7.35	6.72	14.57	12.74	11.48
P/FCFE (x)	63.63	NA	NA	NA	NA
Net Gearing	(25.4%)	(31.5%)	15.1%	26.3%	34.2%
P/BV (x)	2.88	1.78	1.72	1.62	1.51
ROE	29.7%	13.8%	6.9%	7.1%	8.2%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)				0.72	0.82

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 1: Guoxuan's 2018 and 1Q19 results overview**

Rmb m	2018	2017	% YoY	1Q19	1Q18	% YoY
<b>Revenue</b>	<b>5,127</b>	<b>4,838</b>	<b>6.0%</b>	<b>1,752</b>	<b>1,060</b>	<b>65.3%</b>
COGS	-3,631	-2,945	23.3%	-1,226	-711	72.3%
<b>GP</b>	<b>1,496</b>	<b>1,893</b>	<b>-21.0%</b>	<b>526</b>	<b>348</b>	<b>51.1%</b>
GPM	29.2%	39.1%	-9.9%	30.0%	32.9%	-2.8%
SG&A	-1,014	-1,031	-1.7%	-226	-233	-2.6%
Other gains and losses	262	189	38.4%	-23	70	NA
<b>OP</b>	<b>745</b>	<b>1,052</b>	<b>-29.2%</b>	<b>277</b>	<b>186</b>	<b>48.7%</b>
OPM	14.5%	21.7%	-7.2%	15.8%	17.6%	-1.8%
Financing cost	-108	-48	NA	-51	-13	NA
Profit contribution from associates	9	-9	NA	-1	-3	NA
<b>PBT</b>	<b>646</b>	<b>994</b>	<b>-35.0%</b>	<b>225</b>	<b>170</b>	<b>31.8%</b>
Tax	-64	-154	NA	-23	-9	NA
Effective tax rate	9.9%	15.5%	-5.5%	10.2%	5.6%	4.7%
<b>PAT</b>	<b>582</b>	<b>840</b>	<b>-30.8%</b>	<b>201</b>	<b>161</b>	<b>25.3%</b>
NPM	11.3%	17.4%	-6.0%	11.5%	15.2%	-3.7%
Minority interest	-1	-2	NA	0	0	NA
<b>Profit to common shareholder</b>	<b>580</b>	<b>838</b>	<b>-30.8%</b>	<b>202</b>	<b>161</b>	<b>25.2%</b>

SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 2: Earnings estimates: CGIS new vs. old and consensus estimates**

2018 (Rmb m)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS	6,103	980	1,296	844	0.74	0.74
Result	5,127	745	1,098	580	0.51	0.51
Consensus	5,970	806	1,271	840	0.76	0.75
Diff%						
Result vs. consensus	-14.1%	-7.6%	-13.6%	-30.9%	-32.9%	-32.2%
Result vs. CGIS	-16.0%	-24.0%	-15.3%	-31.2%	-31.3%	-31.3%
2019E (Rmb m)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS Old	7,988	1,135	1,478	936	0.82	0.82
CGIS New	6,850	908	1,342	621	0.55	0.55
Consensus	8,315	684	1,351	815	0.74	0.75
Diff%						
CGIS New vs. Consensus	-17.6%	32.8%	-0.7%	-23.9%	-26.6%	-27.1%
CGIS New vs. CGIS Old	-14.2%	-20.0%	-9.2%	-33.7%	-33.7%	-33.7%
2020E (Rmb m)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS Old	9,929	1,253	1,636	1,016	0.89	0.89
CGIS New	9,968	1,118	1,571	769	0.68	0.68
Consensus	10,269	764	1,573	913	0.80	0.82
Diff%						
CGIS New vs. Consensus	-2.9%	46.3%	-0.1%	-15.8%	-15.9%	-17.0%
CGIS New vs. CGIS Old	0.4%	-10.7%	-4.0%	-24.4%	-24.4%	-24.4%

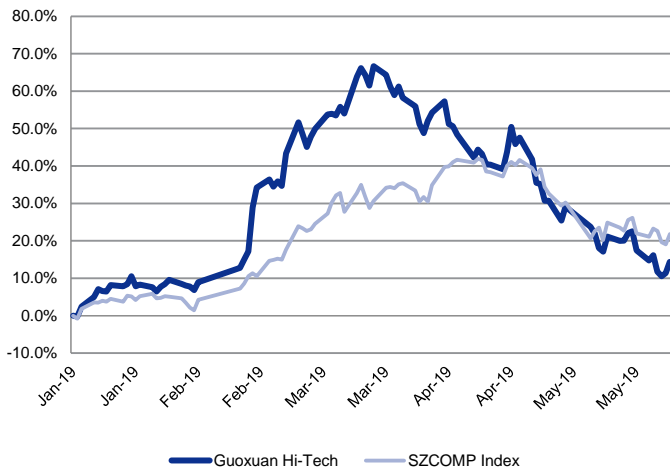
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Figure 3: Key revenue segment assumptions**

Rmb m	2015	2016	2017	2018	2019E	2020E
NEV battery	2,135	4,075	4,061	4,560	6,347	9,538
Power transmission and distribution equipment	552	611	584	431	380	319
Other business	59	72	193	136	122	110
<b>Total revenue</b>	<b>2,745</b>	<b>4,758</b>	<b>4,838</b>	<b>5,127</b>	<b>6,850</b>	<b>9,968</b>
% YoY						
NEV battery	114.8%	90.8%	-0.3%	12.3%	39.2%	50.3%
Power transmission and distribution equipment	na	10.8%	-4.4%	-26.2%	-11.8%	-16.0%
Other business	187.9%	23.0%	167.7%	-29.6%	-10.0%	-10.0%
<b>Total revenue</b>	<b>170.7%</b>	<b>73.3%</b>	<b>1.7%</b>	<b>6.0%</b>	<b>33.6%</b>	<b>45.5%</b>
% of total						
NEV battery	78%	86%	84%	89%	93%	96%
Power transmission and distribution equipment	20%	13%	12%	8%	6%	3%
Other business	2%	2%	4%	3%	2%	1%
<b>Total revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

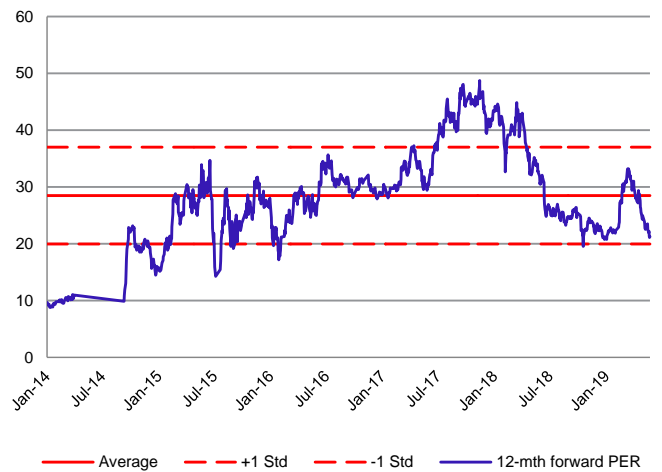
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: Guoxuan High-Tech's share price performance CYTD

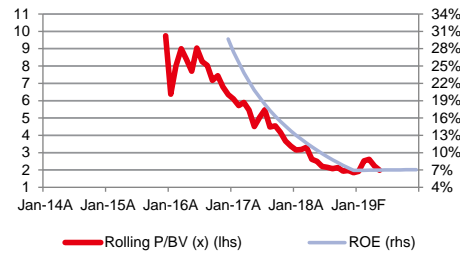
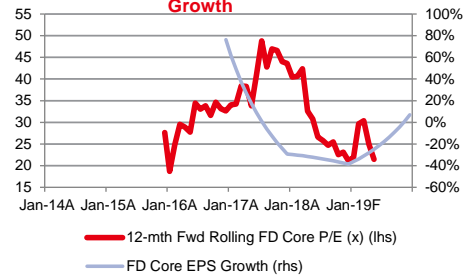


SOURCES: CGIS RESEARCH, BLOOMBERG

Figure 5: Guoxuan High-Tech's 12-mth forward PER band



SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(Rmbm)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
<b>Total Net Revenues</b>	<b>4,758</b>	<b>4,838</b>	<b>5,127</b>	<b>6,850</b>	<b>9,968</b>
<b>Gross Profit</b>	<b>2,233</b>	<b>1,893</b>	<b>1,496</b>	<b>1,986</b>	<b>2,800</b>
<b>Operating EBITDA</b>	<b>1,388</b>	<b>1,312</b>	<b>1,098</b>	<b>1,342</b>	<b>1,571</b>
Depreciation And Amortisation	(148)	(261)	(354)	(434)	(453)
<b>Operating EBIT</b>	<b>1,240</b>	<b>1,052</b>	<b>745</b>	<b>908</b>	<b>1,118</b>
Financial Income/(Expense)	(41)	(38)	(111)	(228)	(274)
Pretax Income/(Loss) from Assoc.	(1)	(9)	9	9	9
Non-Operating Income/(Expense)	(1)	(10)	3	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>1,197</b>	<b>994</b>	<b>646</b>	<b>689</b>	<b>853</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>1,197</b>	<b>994</b>	<b>646</b>	<b>689</b>	<b>853</b>
Taxation	(165)	(154)	(64)	(69)	(85)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,033</b>	<b>840</b>	<b>582</b>	<b>621</b>	<b>769</b>
Minority Interests	(2)	(2)	(1)	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,031</b>	<b>838</b>	<b>580</b>	<b>621</b>	<b>769</b>
Recurring Net Profit	1,031	838	580	621	769
<b>Fully Diluted Recurring Net Profit</b>	<b>1,031</b>	<b>838</b>	<b>580</b>	<b>621</b>	<b>769</b>

**Cash Flow**

(Rmbm)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
<b>EBITDA</b>	<b>1,388</b>	<b>1,312</b>	<b>1,098</b>	<b>1,342</b>	<b>1,571</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	40	(1,393)	(2,683)	(1,078)	(1,096)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(82)	66	217	(17)	(43)
Other Operating Cashflow					
Net Interest (Paid)/Received	(71)	(85)	(191)	(280)	(316)
Tax Paid					
<b>Cashflow From Operations</b>	<b>1,275</b>	<b>(100)</b>	<b>(1,559)</b>	<b>(33)</b>	<b>117</b>
Capex	(1,307)	(1,357)	(1,926)	(944)	(944)
Disposals Of FAs/subsidiaries	58	0	310	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(590)	(339)	(129)	0	0
<b>Cash Flow From Investing</b>	<b>(1,840)</b>	<b>(1,696)</b>	<b>(1,745)</b>	<b>(944)</b>	<b>(944)</b>
Debt Raised/(repaid)	743	840	2,185	508	631
Proceeds From Issue Of Shares	205	3,536	0	0	0
Shares Repurchased					
Dividends Paid	(195)	(223)	(279)	(114)	(114)
Preferred Dividends					
Other Financing Cashflow	150	120	(798)	0	0
<b>Cash Flow From Financing</b>	<b>903</b>	<b>4,274</b>	<b>1,108</b>	<b>394</b>	<b>517</b>
Total Cash Generated	338	2,478	(2,196)	(582)	(310)
<b>Free Cashflow To Equity</b>	<b>178</b>	<b>(955)</b>	<b>(1,119)</b>	<b>(468)</b>	<b>(196)</b>
<b>Free Cashflow To Firm</b>	<b>(494)</b>	<b>(1,711)</b>	<b>(3,113)</b>	<b>(697)</b>	<b>(511)</b>

SOURCES: CGIS RESEARCH, COMPANY DATA

**BY THE NUMBERS... cont'd**

**Balance Sheet**

(Rmbm)	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Total Cash And Equivalents	2,306	4,799	3,092	2,510	2,200
Total Debtors	2,751	4,452	6,404	7,580	10,451
Inventories	630	1,515	2,277	2,665	3,732
Total Other Current Assets	220	421	623	623	623
<b>Total Current Assets</b>	<b>5,908</b>	<b>11,187</b>	<b>12,396</b>	<b>13,378</b>	<b>17,005</b>
Fixed Assets	2,722	3,638	5,165	5,552	5,924
Total Investments	34	306	495	504	513
Intangible Assets	529	562	664	787	905
Total Other Non-Current Assets	1,022	1,403	1,867	1,867	1,867
<b>Total Non-current Assets</b>	<b>4,307</b>	<b>5,910</b>	<b>8,191</b>	<b>8,710</b>	<b>9,209</b>
Short-term Debt	627	849	2,230	2,500	2,836
Current Portion of Long-Term Debt	219	416	195	195	195
Total Creditors	3,207	4,701	6,063	6,549	9,390
Other Current Liabilities	260	251	193	193	193
<b>Total Current Liabilities</b>	<b>4,314</b>	<b>6,217</b>	<b>8,681</b>	<b>9,438</b>	<b>12,614</b>
Total Long-term Debt	454	935	1,959	2,197	2,492
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,058	1,146	1,001	1,001	1,001
<b>Total Non-current Liabilities</b>	<b>1,512</b>	<b>2,080</b>	<b>2,960</b>	<b>3,198</b>	<b>3,493</b>
Total Provisions	429	544	396	396	396
<b>Total Liabilities</b>	<b>6,255</b>	<b>8,842</b>	<b>12,037</b>	<b>13,031</b>	<b>16,503</b>
Shareholders' Equity	3,936	8,230	8,526	9,033	9,688
Minority Interests	24	25	24	24	24
<b>Total Equity</b>	<b>3,960</b>	<b>8,255</b>	<b>8,550</b>	<b>9,057</b>	<b>9,712</b>

**Key Ratios**

	Dec-16A	Dec-17A	Dec-18A	Dec-19F	Dec-20F
Revenue Growth	73.3%	1.7%	6.0%	33.6%	45.5%
Operating EBITDA Growth	80.2%	(5.4%)	(16.3%)	22.2%	17.1%
Operating EBITDA Margin	29.2%	27.1%	21.4%	19.6%	15.8%
Net Cash Per Share (Rmb)	1.15	2.29	(1.14)	(2.10)	(2.92)
BVPS (Rmb)	4.48	7.24	7.50	7.95	8.52
Gross Interest Cover	17.46	12.40	3.90	3.25	3.54
Effective Tax Rate	13.7%	15.5%	9.9%	9.9%	9.9%
Net Dividend Payout Ratio	12.8%	13.6%	19.3%	18.3%	14.8%
Accounts Receivables Days	175.1	268.3	381.9	368.7	328.3
Inventory Days	81.1	132.9	190.6	185.4	163.3
Accounts Payables Days	284.6	361.2	446.1	431.8	378.7
ROIC (%)	39.3%	17.9%	7.9%	6.3%	6.8%
ROCE (%)	28.7%	14.0%	7.1%	7.1%	8.0%
Return On Average Assets	12.6%	6.4%	3.5%	3.7%	4.0%

SOURCES: CGIS RESEARCH, COMPANY DATA

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**Explanation on Equity Ratings**

- 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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